

# Capital Expenditure, Audit Opinion and Fiscal Autonomy under Fiscal Decentralization: Evidence from Indonesian Provinces

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## ABSTRACT

Despite the expansion of fiscal decentralization in Indonesia, provincial governments remain structurally dependent on central government transfers, raising concerns about the substantive achievement of fiscal autonomy. However, prior research largely conflates compliance-based accountability indicators with development-oriented fiscal mechanisms, leaving underexplored how capital expenditure and audit opinion differentially shape fiscal independence. This study aims to examine the distinct roles of capital expenditure and audit opinion in explaining provincial fiscal autonomy under an agency theory framework. Using secondary data from 34 Indonesian provinces over the period 2021–2023 (102 observations) and employing multiple linear regression analysis, this paper tests the effects of development-oriented fiscal allocation and compliance-based monitoring on the fiscal independence ratio. The findings indicate that capital expenditure has a positive and significant effect on fiscal autonomy, suggesting that discretionary investment in infrastructure and public assets enhances long-term revenue capacity. In contrast, audit opinion exhibits a significant but negative association, indicating that compliance with reporting standards does not necessarily translate into stronger fiscal independence. These results highlight the conceptual distinction between monitoring mechanisms and fiscal discretion in decentralized systems. This study contributes to public sector accounting and fiscal decentralization literature by clarifying that accountability compliance and development-oriented fiscal decisions operate through different mechanisms in shaping regional financial performance. Practically, the findings inform policymakers to integrate audit-based evaluations with strategic capital allocation in advancing sustainable fiscal autonomy.

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## 1. Introduction

Fiscal decentralization in Indonesia is designed to strengthen regional self-reliance through the delegation of financial management and development authority. It essentially grants regions more autonomy in managing their own budgets and development activities (Amin et al., 2023; Liu, Abd Ghani, et al., 2025; Liu, Ghani, et al., 2025; Serhiy et al., 2025). Fiscal decentralization transfers functional responsibilities and financial authority to local governments, granting discretion to use

revenues for development priorities (Abdullah et al., 2022; Brahimi et al., 2025; Frroku & Brahimi, 2025). However, in the midst of this expansion of autonomy, most local governments still show a high dependence on central government transfers (Herianti & Marundha, 2024; Li & Yao, 2024), so the goal of fiscal independence has not been fully achieved.

True financial independence remains elusive for many areas because they have not yet mastered the art of income optimization. Limited access to profitable local revenue sources prevents regions from optimizing income and achieving independence (Akadun, 2024). True financial independence in financial decentralization is challenging due to the need for optimal income and expenditure management (Vasylieva et al., 2018). According to the Directorate General of Fiscal Balance's performance report (DJPK, 2023) the majority of regions still depend significantly on transfers from the federal government (Yimenu, 2024), while their capacity to enhance locally generated revenue (PAD) has not reached an optimal level. This condition demonstrates the need for a comprehensive evaluation of how regional budgets (APBD) are utilized as instruments of development.

Differences in fiscal capacity across provinces can also be observed through the development of the Fiscal Capacity Theil Index published by DJPK in 2023. The index shows a downward trend from 0.232 in 2020 to 0.148 in 2023, indicating a decline in fiscal disparities among regions (DJPK Kemenkeu, 2023).



**Figure 1.** Trends in Interregional Fiscal Inequality Index, 2017–2023  
 Source: DJPK Kemenkeu, 2023

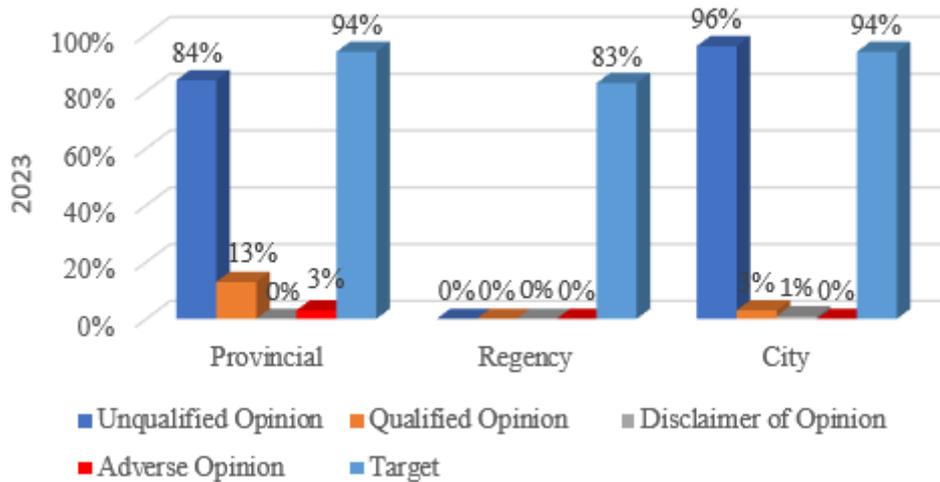
This trend highlights a conceptual tension in Indonesia's fiscal decentralization, where a more even distribution of fiscal support does not necessarily indicate stronger regional fiscal autonomy (Assanova & Korpysa, 2025). However, the reduction in disparities cannot be interpreted as an improvement in regional fiscal autonomy, as the equalization may simply reflect the continued dependence of many provinces on transfers from the central government. Therefore, assessing regional fiscal capacity requires a focus on fiscal autonomy, defined as the extent to which regional governments can finance development needs without relying on central government transfers. In this context, indicators capturing effective fiscal autonomy offer a more informative assessment than measures solely based on the equalization of fiscal capacity across jurisdictions (Mauri, 2024).

Furthermore, the composition of regional budgets (APBD) has also become an important point of attention, particularly the proportion of capital expenditure allocated to financing public asset development and local infrastructure. Andhini et al., (2023) explain that investing in infrastructure can boost regional revenue and public service quality, which in turn strengthens fiscal capacity in the long run. Insufficient capital expenditure constrains fiscal autonomy by limiting regions' ability to improve public services and generate future economic growth (Wiryawan & Otchia, 2022).

The fiscal autonomy ratio is an important metric for regional financial management since it shows how dependent each area is on federal funding (Awani & Hariani, 2021). Financial indicators have a performative function because they can shape resource allocation decisions, making their

selection critical and methodologically accountable. Although, some regions have experienced improvements in generating locally sourced revenue, their fiscal capacity remains constrained due to uneven revenue distribution. There is the need of reassessing how capital expenditure contributes to strengthening fiscal independence as a component of regional financial performance (Zein et al., 2024).

The quality of financial performance must be assessed by auditing. The audit opinion serves as an indicator of accountability and compliance in government financial reporting, although it does not directly determine the realization of revenues or expenditures (Zamzami & Rakhman, 2023). Nevertheless, differences in audit opinions may signal variations in reporting quality that could influence the interpretation of performance outcomes, including fiscal autonomy. In addition, the quality of financial reporting among regionals continues to vary considerably. These differences can be observed through the variation in audit opinions issued by BPK, as reflected in the following data.



**Figure 2.** Achievement of Local Government Audit Opinions in 2023 Compared to the 2020–2024 RPJMN Targets  
 Source: IHPS 1, 2024

Figure 2. shows how the audit views of BPK on the LKPD for 2023 were distributed. As of this writing, provincial Unqualified Opinions have fallen short of the goals established by the National Medium-Term Development Plan, whereas regency and city governments have already exceeded their respective targets (BPK, 2024). This condition indicates that accountability in provincial financial reporting is still inconsistent, highlighting ongoing challenges that require greater attention in evaluating regional financial performance (Mediaty et al., 2025). The variation in audit opinions also has the potential to distort performance assessment across regions. Therefore, this study incorporates audit opinion as a variable to ensure that differences in financial performance reflect genuine variations in fiscal capacity and autonomy rather than reporting quality discrepancies. However, incorporating audit opinion into performance assessment also raises a conceptual question regarding how compliance-based indicators should be interpreted relative to development-oriented fiscal outcomes.

In public sector accounting literature, improvements in financial reporting accountability are often implicitly associated with enhanced financial performance. However, this perspective does not always clearly distinguish between administrative compliance mechanisms and development-oriented fiscal mechanisms. Audit opinions primarily represent compliance with accounting standards and reporting regulations, whereas capital expenditure reflects strategic fiscal decisions oriented toward long-term development and capacity building. The lack of an explicit distinction between these two mechanisms may result in an incomplete assessment of regional financial performance, particularly with respect to fiscal independence in decentralized government systems.

Meanwhile, capital expenditure plays a strategic role and thus warrants further examination, given its influence on asset development, infrastructure quality, and future revenue potential. Prior research seldom treats audit opinion as a separate variable and is often time-or region-bound. A more comprehensive study is required to account for the dynamics of APBD

management in 2021 and 2023, which mirror the persistent difficulties in enhancing fiscal autonomy.

By focusing on the fiscal independence ratio, this study aims to assess the financial performance of provincial governments in Indonesia by explicitly distinguishing the role of capital expenditure as a development-oriented fiscal instrument and audit opinion as a compliance-based indicator of financial reporting quality during the period 2021-2023. By explicitly framing this distinction, the study extends prior literature that has largely examined these variables separately, and responds to the need for a more conceptually grounded assessment of how accountability compliance and developmental fiscal capacity interact under fiscal decentralization. By doing so, this study seeks to provide a more nuanced understanding of how accountability and fiscal decision making jointly shape regional fiscal capacity under fiscal decentralization.

### **Agency Theory**

Agency Theory conceptualizes the relationship between society and government as a contractual arrangement in which society acts as the principal and government entities serve as agents responsible for delivering public services in line with public interests (Jensen & Meckling, 2014). Within public administration, regional governments operate as agents entrusted with managing public budgets and implementing development programs autonomously, while remaining accountable to both society and the central government. This delegation inherently creates information asymmetry and potential conflicts of interest, as agents typically possess superior knowledge regarding financial management, which may reduce transparency in financial reporting (J. Angelina et al., 2024). To address these risks, principals depend on monitoring mechanisms to evaluate how effectively agents manage public resources.

In this study, the fiscal independence ratio functions as a primary indicator of agent performance by capturing the capacity of regional governments to finance activities without reliance on central government transfers. Capital expenditure represents a discretionary fiscal decision through which agents invest in infrastructure and long-term development to strengthen future revenue capacity. Audit opinion, in contrast, serves as a compliance-based monitoring mechanism that assesses adherence to accounting standards and reporting regulations. While a favorable audit opinion enhances accountability and transparency, it does not necessarily guarantee development-oriented fiscal allocation. This distinction explains why capital expenditure is more closely associated with sustainable fiscal autonomy than audit opinion within the agency framework.

### **Regional Financial Performance**

Regional financial performance reflects the capacity of regional governments to manage fiscal resources efficiently, effectively, and accountably, as demonstrated through the achievement of revenue targets and prudent expenditure control in financial reports. Financial indicators play a performative role because they shape budgetary priorities and resource allocation decisions, making their selection analytically important and methodologically defensible (Bracci et al., 2015). Budget management success can be evaluated through financial outcomes that indicate how well governments translate fiscal planning into measurable results. Financial reports also serve as accountability instruments that reveal how public funds are utilized and whether fiscal responsibilities are fulfilled. Financial indicators further enable assessment of the balance between regional revenue and expenditure, providing insight into fiscal sustainability. In this study, regional financial performance is measured using the fiscal independence ratio, which captures the extent to which local governments rely on central government transfers. This ratio is calculated by comparing locally generated revenue (PAD) with transfer revenue, where a higher value indicates stronger fiscal capacity, greater public participation in development financing, and more autonomous and sustainable regional financial management.

### **Hypotheses Development**

#### **H1: Capital expenditure has a positive effect on regional financial performance.**

Capital expenditure represents government spending on long-term assets and infrastructure with extended economic benefits, making it a key instrument for promoting regional development. When allocated and managed productively, capital expenditure strengthens regional financial performance by enhancing fiscal independence and reducing reliance on central government transfers (Malau & Simarmata, 2020). Adequate infrastructure and public facilities stimulate economic activity, expand regional revenue-generating capacity, and improve public service

delivery. Capital expenditure also supports long-term growth by increasing both economic output and administrative effectiveness. Empirical evidence largely supports this perspective, as capital expenditure has been shown to improve regional financial performance through better asset provision and service quality.

Several studies document a positive relationship between capital expenditure and regional financial performance. Increased capital spending enhances financial outcomes by strengthening infrastructure and public services (Asnidar & Hardi, 2019). However, the literature also reports inconsistent findings. Some studies find no significant relationship or even a negative effect of capital expenditure on fiscal independence. These mixed results indicate that the impact of capital expenditure depends on how fiscal authority is exercised. From an agency theory perspective, capital expenditure reflects discretionary budgetary decisions through which regional governments translate delegated authority into development outcomes, thereby linking fiscal decentralization to regional financial performance. Capital expenditure functions as a key policy instrument within the agency framework through which agency relationships shape regional financial performance, particularly fiscal independence

H1: Capital expenditure has a positive effect on regional financial performance

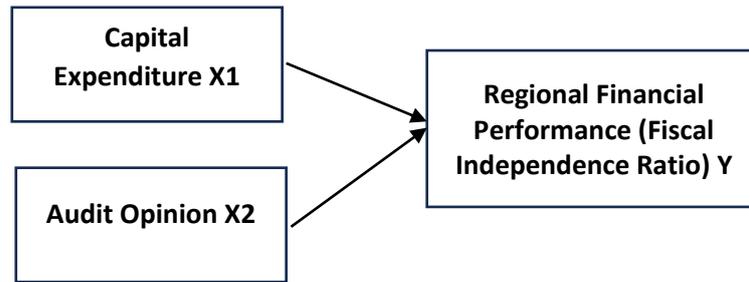
## **H2: Audit Opinion and Regional Financial Performance**

Audit opinions, as outlined in Auditing Standard No. 700, consist of several categories: unqualified, qualified, unqualified, adverse, and disclaimer of opinion (Maffei et al., 2020; Nguyen & Trinh, 2020; Stewart & Tan, 2017). The credibility of an audit opinion relies heavily on the confidence of financial statement users, making the consistency of auditors' judgments essential. In the public sector context, an audit opinion serves as an assessment of how effectively regional governments manage their budgets in implementing programs and delivering public services (Sutopo et al., 2017). It also functions as a basis for regional governments to evaluate and improve their performance (Angelina et al., 2024). A more favorable audit opinion reflects stronger governance quality, while an unfavorable opinion signals a higher likelihood of weak performance. Similarly, (Hudaya et al., 2015) note that incomplete financial information is associated with performance deficiencies and transparency in reporting enables the public to better assess organizational actions.

From an agency theory perspective, auditing plays a critical role in mitigating information asymmetry between principals and agents in the public sector. Agency theory explains that the existence of audit functions arises from the need to monitor how delegated authority is exercised and to limit opportunistic behavior in public financial management. Within this framework, audit opinion serves as an institutional mechanism that evaluates compliance with accounting standards and reporting regulations, thereby strengthening accountability and transparency in government financial reporting (Zakaria, 2023), rather than directly reflecting fiscal capacity.

In support of these claims, (Wijayanti & Suryandari, 2020) discover that the BPK Institution's audit opinion affects financial performance due to the fact that the public uses it to assess the caliber of local financial management. In line with this, Parwanto & Harto (2017), found that audit opinions had a positive impact on the financial performance of regional governments. This lends credence to agency theory, which holds that audit opinions serve as an external monitoring tool to hold government entities accountable in their capacity as agents. However, agency-based monitoring focuses primarily on reporting compliance and transparency, which may not fully capture a government's ability to generate independent revenue or strengthen fiscal autonomy. Nevertheless, the literature's empirical results are still not consistent. Audit opinions have little to no impact on the financial performance of governments and may even have the opposite effect. Audit opinions do not partially influence financial performance in regions. These conflicting results highlight the need for more study to explain the consistency of the effect of audit opinions on financial performance, which has not yet been conclusively established.

H2: Audit Opinion has a positive effect on regional financial performance



**Figure 3.** Conceptual Framework

## 2. Methods

This research uses a quantitative technique to look at how audit opinions and capital expenditures affected the financial performance of Indonesian province governments from 2021 to 2023. The provincial government serves as the unit of analysis.

Primary sources for all of the data included in this research include the following: the Audit Board of Indonesia's (BPK RI) audit opinion papers, the Audit Performance Summary (IHPS), and the Budget Realization Reports (APBD). The fiscal independence ratio is the dependent variable. One of the independent variables is audit opinion, which is coded as 1 for a Unqualified Opinion and 0 for other sorts of views. Another is capital expenditure, which is assessed using the total realized capital expenditure and converted using the natural logarithm (Ln). Table 1 displays the specific criteria used for selecting the sample.

**Table 1.** The Research Sampling Criteria

No.	Criteria	Amount
1	Province in Indonesia	38
2	Provinces that do not report APBD realization reports	-4
3	Number of Samples (n)	-34
4	Research Years (t)	3
5	Number of Research Samples (n × t)	102

Source: Data Processed, 2025

Multiple linear regression in IBM SPSS Statistics 25 was used to analyze the data. To make sure the regression model was statistically sound before running it, we ran certain standard assumption tests. Insights into the contributions of capital spending and audit opinion to the financial performance of provincial governments are provided by the empirical findings.

The multiple regression model used in this study is formulated as follows:

$$Y = \alpha + b_1X_1 + b_2X_2 + e$$

Description:

Y = Financial Performance

$\alpha$  = Constant  $b_1, b_2$  = Regression coefficients

$X_1$  = Capital Expenditure

$X_2$  = Audit Opinion

e = Error term

## 3. Results

### Descriptive Statistics of Variables

An overarching summary of the features of the data used in this investigation is offered by descriptive statistical analysis. Researchers may learn about data distribution and trends using this technique, which looks at lowest, maximum, mean, and standard deviation numbers. Before moving on to more advanced inferential analysis, it is crucial to understand the beginning state of each variable, and this knowledge is crucial for that. As you can see from Table 4, all of the study variables have descriptive statistics summarized.

**Table 2.** Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Regional Financial Performance	102	0.07	2.79	0.8938	0.63234
Capital Expenditure	102	25.9	29.8	27.669	0.7142
Audit Opinion	102	0	1	0.97	0.17
Valid N	102				

Source: Output SPSS 25

Descriptive statistics provides a high-level overview of the characteristics of the data used in this study. This method examines the minimum, maximum, mean, and standard deviation figures; it may teach researchers about data distribution and patterns. Understanding the initial state of each variable is essential prior to advancing to more complex inferential analysis. Table 2 displays the aggregated descriptive statistics for all of the research variables.

### Multiple Linear Regression Analysis

**Table 3.** Results of The Multiple Linear Regression Test

Model	Unstandardized Coefficients		Standardized Coefficients		t	Sig.	R (partial)	Decision
	B	Std.Error	Beta					
1 (Constant)	-13.363	1.951			-6.848	0		
Capital Expenditure	0.516	0.071	0.583		7.319	0	0.593	Accepted
Audit Opinion	-0.664	0.297	-0.178		-2.238	0.027	-0.219	Accepted

Source: Output SPSS 25

Based on the results of the multiple linear regression analysis, the research model produces the following regression equation:

$$Y = \alpha + b_1X_1 + b_2X_2 + e$$

$$Y = -13.363 + 0.516X_1 - 0.664X_2$$

As shown in Table 3, the multiple regression equation in this study can be expressed as:

$$\text{Regional Government Financial} = -13.363 + 0.516BM - 0.664OP$$

At a state of zero or no change in Capital Expenditure ( $X_1$ ) and Audit Opinion ( $X_2$ ), the baseline value of regional financial performance is -13.363, as shown by the constant number. This indicates that provincial governments' financial performance is severely lacking in the absence of assistance from capital expenditure and audit opinions.

Investing in fixed assets boosts local economies, as shown by the positive coefficient of 0.516. Assuming all other factors stay the same, the region's financial performance is predicted to rise by 0.516 units for every 1 unit increase in capital spending. This suggests that regional financial performance is often improved when capital expenditures, such those for building infrastructure or purchasing public assets, are increased. The purpose of capital spending is to provide public benefits over the long term, and this discovery is in line with that mission.

The coefficient of audit opinion is -0.664, indicating that audit opinion has a negative effect on regional financial performance in this model. This means that regions receiving an unqualified opinion actually show financial performance scores that are 0.664 points lower than regions without unqualified, assuming other variables remain constant. Thus, audit opinion in this study does not function as a factor that strengthens financial performance. The negative coefficient suggests that regions with a unqualified opinion have lower financial performance scores compared to non-unqualified regions; however, this condition may be influenced by the characteristics of the financial performance ratio used and does not necessarily imply that audit opinion is detrimental to governance quality.

### **t-Test Results for Capital Expenditure**

Results from the t-test in Table 6 reveal that the capital expenditure variable has a significance level of 0.000, which is significantly lower than the 0.05 level. Regional financial performance improves with an increase in capital expenditure, according to the positive t-statistic of 7.319. The statistical evidence that variations in financial performance are influenced by capital spending is strengthened by a bigger t-value.

Even after controlling for other factors, capital spending still shows a relatively significant partial association with financial success, as shown by the partial correlation value ( $r$ -partial) of 0.593. (Asnidar & Hardi, 2019) found that public service quality and fiscal capability are both enhanced when capital expenditures are appropriately allocated. Our results are in line with theirs. This study's findings are corroborated by those of Maharani et al. (2025) who similarly discovered that capital spending significantly affects regional financial performance. Thus, we accept and find empirical evidence for the first hypothesis (H1), which asserts that capital spending positively impacts financial performance.

The study found that regional governments often devote a significant amount of their budgets to physical development. The substantial impact of capital spending on financial performance is both reasonable and in line with budgetary realities, given the relatively high average. This indicates that regional governments place a great deal of emphasis on infrastructure development and public asset investment. The findings of the t-test reveal that the audit opinion variable significantly impacts regional financial performance, as shown by its t-statistic of -2.238 and significance value of 0.027 ( $p < 0.05$ ). Audit opinion does impact financial performance, hence the null hypothesis is accepted. (Pamungkas et al., 2018) also discovered that audit opinion strongly affects regional financial performance, but that the impact is often negative. So, our results are in line with theirs. Regional financial performance is substantially impacted by the quality of audit procedures and BPK's audit results (Migang & Zahro, 2019), A negative coefficient does not always mean that performance is negatively affected by an unqualified assessment. The negative sign only represents categorical positioning disparities across audit opinion groups; it does not represent any inherent bias in the variable coding (1 = unqualified and 0 = non-unqualified). Despite the existence of a link, the partial correlation value of -0.219 indicates that the effect of audit opinion on financial performance is quite minor when compared to the other model variables. This suggests that audit opinion changes are not the only factor influencing financial performance variance, but they are still a significant one.

The majority of regional governments often get an unqualified assessment, as shown by the study's mean audit opinion value of 0.97. It seems that most regional governments have followed government accounting rules when it comes to the quality of their financial statement presentation. If this were to happen, it may lead to more openness and responsibility, which might boost the economy in the area. These findings contribute to public sector agency theory by highlighting the different implications of monitoring mechanisms and fiscal discretion for regional financial performance. Audit opinion strengthens reporting credibility by reducing information asymmetry between principals and agents, yet it does not necessarily enhance a region's ability to finance development independently. Capital expenditure, by contrast, reflects how fiscal authority is exercised through development-oriented investment decisions that shape infrastructure quality and future revenue capacity. This distinction refines the public sector accounting literature by demonstrating that accountability indicators alone are insufficient to explain fiscal independence. In the context of fiscal decentralization, sustainable fiscal capacity depends not only on effective monitoring but also on how regional governments use their discretionary authority in allocating development resources.

## **4. Discussion**

### **Capital expenditure has a positive and significant effect on regional financial performance**

The results of the first hypothesis test indicate that capital expenditure has a positive and significant effect on regional financial performance, as measured by the fiscal independence ratio. This finding confirms that capital expenditure functions as a development-oriented fiscal instrument that strengthens regional financial capacity through long-term investment in

infrastructure and public assets. Productive capital spending enables regional governments to improve public service quality and stimulate local economic activity, which in turn expands the local revenue base and reduces dependence on central government transfers (Asnidar & Hardi, 2019). From an agency theory perspective, capital expenditure reflects how regional governments exercise delegated fiscal authority to achieve development outcomes expected by the principal, namely the public and the central government. The significant positive coefficient suggests that regions allocating greater resources to capital investment are more capable of translating fiscal decentralization into effective financial autonomy. This result is consistent with prior studies that emphasize the strategic role of capital expenditure in enhancing regional fiscal capacity and long-term financial sustainability (Andhini et al., 2023; Zein et al., 2024).

### **Audit Opinion and Regional Financial Performance**

The second hypothesis test reveals that audit opinion has a significant but negative effect on regional financial performance. This finding challenges the conventional assumption in public sector accounting literature that better audit opinions are necessarily associated with improved financial performance (Parwanto & Harto, 2017). In this study, audit opinion is conceptualized as a compliance-based indicator that reflects adherence to accounting standards and reporting regulations rather than the region's ability to generate independent revenue. Agency theory explains that auditing serves primarily as a monitoring mechanism to reduce information asymmetry between principals and agents, but it does not directly influence how fiscal resources are allocated for development purposes (Adams, 1994). The dominance of unqualified audit opinions among provincial governments, as reflected in the high mean value of the audit opinion variable, further limits its explanatory power in distinguishing variations in fiscal independence. Consequently, the negative relationship observed does not imply weaker governance but highlights the limited relevance of audit opinion as a proxy for fiscal capacity within a decentralized fiscal system.

The contrasting effects of capital expenditure and audit opinion underscore the importance of distinguishing between compliance-based accountability mechanisms and development-oriented fiscal decisions when assessing regional financial performance. Capital expenditure directly shapes infrastructure quality, economic capacity, and future revenue potential, whereas audit opinion primarily signals reporting conformity and procedural accountability (Zamzami & Rakhman, 2023; Mediaty et al., 2025). These findings extend the public sector accounting literature by demonstrating that high-quality financial reporting does not automatically translate into stronger fiscal independence, particularly in regions that remain structurally dependent on intergovernmental transfers (Akadun, 2024; Mauri, 2024). The study implies that policymakers and evaluators should integrate development-oriented fiscal indicators with compliance measures to achieve a more accurate and policy-relevant assessment of regional financial performance and fiscal autonomy.

### **5. Conclusion**

This study addresses the persistent challenge of achieving substantive fiscal autonomy under Indonesia's fiscal decentralization framework. The findings show that capital expenditure strengthens provincial fiscal independence, while audit opinion exhibits a significant but negative association with the fiscal independence ratio. These results indicate that development-oriented fiscal allocation and compliance-based monitoring operate through different institutional mechanisms. Provinces that allocate greater resources to long-term assets and infrastructure demonstrate stronger capacity to finance development without excessive reliance on central transfers. In contrast, provinces that obtain unqualified audit opinions do not automatically achieve higher fiscal autonomy, because audit outcomes primarily reflect reporting conformity rather than revenue-generating capacity.

Theoretically, this study extends agency theory by clarifying the distinct roles of discretionary fiscal decision-making and external monitoring in shaping regional financial performance. The analysis demonstrates that monitoring mechanisms reduce information asymmetry but do not directly enhance fiscal sustainability. The study challenges the implicit assumption in public sector accounting that improved audit opinions necessarily signal stronger fiscal performance. The results

highlight that fiscal autonomy depends more on strategic resource allocation than on procedural compliance. This conceptual distinction refines the evaluation of decentralization outcomes and strengthens the analytical separation between accountability quality and development capacity.

Practically, the findings encourage provincial governments to prioritize productive capital expenditure that aligns with regional economic potential and revenue expansion strategies. Policymakers should integrate audit-based accountability assessments with development-oriented fiscal indicators when evaluating regional performance. Central government institutions should avoid equating compliance achievements with fiscal independence outcomes. This study implies that the fiscal independence ratio captures only one dimension of performance and that other fiscal and institutional variables may influence autonomy. Future research should examine longer observation periods and incorporate additional governance and revenue diversification indicators to deepen understanding of sustainable fiscal capacity under decentralization.

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