

Regional Financial Independence and Audit Opinion Quality Effects on Capital Expenditure in Papua

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Abstract

Purpose: This study examines the effect of regional financial performance, proxied by regional financial independence, and financial report quality, proxied by the audit opinion of Indonesia's Supreme Audit Agency or *Badan Pemeriksa Keuangan* (BPK), on capital expenditure among regencies and cities in Papua Province, individually and jointly.

Research Methodology: The study used secondary panel data covering 8 regencies and 1 city in Papua Province over the 2019-2024 period, drawn from BPK audit reports on regional government financial statements, yielding 54 observations. Data were analyzed with panel data regression, selected among the common effect, fixed effect, and random effect specifications through the Chow, Hausman, and Lagrange Multiplier tests, followed by classical assumption testing and hypothesis testing using EViews.

Results: Regional financial independence had a negative and significant effect on capital expenditure, financial report quality had a positive but not significant effect, and the two variables jointly did not have a significant effect, explaining only a small share of the variation in capital expenditure.

Conclusions: Rising fiscal independence in Papua's regencies and cities has not translated into higher capital spending, a pattern consistent with agency-theory concerns about how additional own-source revenue is used.

Limitations: The two-variable model, the nine-region sample, and the six-year window limit the explanatory power and generalizability of the findings.

Contributions: The study extends agency theory to a fiscally distinctive Papuan setting and identifies capital expenditure determinants that warrant further investigation beyond financial independence and audit opinion.

Keywords: *Audit Opinion, Capital Expenditure, Fiscal Independence, Panel Data Regression, Regional Financial Performance*

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1. Introduction

Government Regulation Number 12 of 2019 on Regional Financial Management defines regional finance as all rights and obligations of a region that can be valued in monetary terms, together with everything the region owns in connection with those rights and obligations. Regional financial

management must be carried out in an orderly, efficient, economical, effective, transparent, and accountable manner, with due regard for fairness, compliance, and benefit to the community, and in line with prevailing regulations. Regional autonomy, as mandated by Law Number 1 of 2022 on Fiscal Relations between the Central and Regional Governments, is expected to raise the efficiency and effectiveness of regional government administration. One consequence of regional autonomy is that regional governments carry greater responsibility for regional development and public service delivery, including the provision of adequate roads and health and education facilities, all financed through the capital expenditure budget. Capital expenditure is regional government spending whose benefit extends beyond a single budget year and adds to regional assets or wealth and because it is grounded in regional needs it deserves closer government attention ([Andani, 2022](#)).

Improved public services and community welfare become achievable when a regional government directs a larger share of its revenue toward capital expenditure for public services ([Andriyani, Darmayanti, & Sari, 2020](#)). At the same time, high-quality financial statements are an essential instrument for measuring the accountability of regional financial management. A financial statement is of high quality when the information it presents is complete and meets the needs of its users. Regional governments are free to manage their finances independently, but their financial reporting must follow the Government Accounting Standards mandated by Government Regulation Number 71 of 2010 on Government Accounting Standards. Low-quality financial statements can foster public distrust, create the impression of irregularity, and render the information presented unusable for decision making ([Firmansyah, Arfiansyah, & Yuniar, 2022](#)).

Regional financial independence reflects a regional government's capacity to finance its own governance, development, and public service activities. A higher level of regional independence implies a lower level of dependence on external assistance, which in theory should be followed by a rise in capital expenditure allocation. Empirical studies, however, report mixed results. [Indiyanti and Rahyuda \(2018\)](#) in Bali Province and [Darmastuti, Susilowati, and Tannar \(2022\)](#) in East Java found that regional financial independence has a significant positive effect on capital expenditure allocation. In contrast, [Purwati and Firmansyah \(2024\)](#) in Lampung, [Arif and Arza \(2018\)](#) in West Sumatera, [Praza \(2016\)](#) in Jambi found that regional financial independence has no effect on capital expenditure.

Financial report quality, proxied by the audit opinion of Indonesia Supreme Audit Agency or *Badan Pemeriksa Keuangan* (BPK), also shows a complex relationship with capital expenditure. [Purwati and Firmansyah \(2024\)](#) and [Rahmadhanty and Firmansyah \(2025\)](#) found that financial report quality can strengthen the effect of other variables on capital expenditure. [Suandani and Astawa \(2021\)](#) in Bali found that audit opinion has a positive effect on financial performance, while [Nurhalimah and Wicaksono \(2024\)](#) in West Java found the opposite, a negative effect. Several other studies test the reverse relationship. [Wijayanti and Kartikasari \(2025\)](#) in Central Java and [Yudhanto and Rahmawati \(2025\)](#) across Indonesia found that capital expenditure has a significant positive effect on financial reporting quality.

The main factor thought to shape the size of capital expenditure is regional financial performance. The level of regional independence, for instance, reflects the extent to which a regency or city can finance its development needs from locally generated revenue. In practice, regencies and cities in Papua Province remain heavily dependent on transfer funds from the central government. This low level of regional independence narrows the fiscal space available to regional governments, so that capital expenditure allocation falls short of its potential.

On the financial reporting side, the audit opinions issued on regency and city financial statements in Papua Province show an improving but uneven trend. Some regions, such as Jayapura Regency, Jayapura City, and Biak Numfor Regency, have consistently maintained an unqualified or locally *Wajar Tanpa Pengecualian* (WTP) opinion, while others, such as Sarmi Regency, Kepulauan Yapen Regency, and Mamberamo Raya Regency, still receive a qualified or locally *Wajar Dengan Pengecualian* (WDP) opinion, and Waropen Regency has received a disclaimer or locally *Tidak*

Memberikan Pendapat (TMP) opinion. Persistent problems in financial reporting quality across Papua Province include delayed submission of financial statements, non-compliance with government accounting standards, and weaknesses in the internal control system.

Meanwhile, realized capital expenditure, comprising land, equipment and machinery, buildings, roads and irrigation and networks, and other fixed assets, shows a fluctuating pattern across regencies and cities in Papua, with the average ratio of capital expenditure to total regional expenditure still below 30%, contributing to below-national-average infrastructure and public service quality, reflected in road conditions, the number of community health centers, and the share of classrooms in good condition.

Given the gap between the theoretical expectation of a positive effect of regional independence on capital expenditure, the inconsistency of existing empirical findings, the distinctive fiscal characteristics of Papua Province, where high transfer dependence coexists with low regional independence, and the absence of research that specifically tests these two variables in Papua regencies and cities, further investigation is warranted. This study accordingly analyzes the effect of regional financial performance, in the form of regional independence, and financial report quality, in the form of BPK audit opinion, on capital expenditure among regencies and cities in Papua Province, individually and jointly, over the 2019-2024 period. The findings are intended to enrich the public economics and fiscal decentralization literature, help close the research gap concerning Papua Province specifically, and offer an empirical test of agency theory in the relationship between regional government, as agent, and the community, as principal, in regional financial management, while also informing regional governments on how to raise regional independence, financial reporting quality, and capital expenditure allocation.

2. Literature Review and Hypothesis/es Development

2.1 Regional Finance and Fiscal Decentralization Theory

Regional finance encompasses all rights and obligations of a regional government that can be valued in monetary terms, together with all regional assets connected with those rights and obligations, as regulated under Government Regulation Number 12 of 2019. Within the discipline of public finance, regional finance concerns the mechanisms through which a regional government raises, manages, and uses financial resources to carry out governance functions and deliver public services. [Halim \(2007\)](#) states that regional finance covers all rights and obligations measurable in money, together with all monetary and physical assets connected with those rights and obligations, and orderly and responsible management is the primary condition for a regional government to reach its planned development goals.

Regional finance carries three principal functions drawn from the Musgrave framework, namely allocation, distribution, and stabilization ([Karsam & Budiandru, 2023](#)). The allocation function is realized through the provision of public goods and services, the distribution function through the pursuit of equitable community welfare, and the stabilization function through the regional government's role in maintaining local economic stability. Regional finance therefore reflects not only a region's fiscal capacity but also its level of independence, fiscal ability, and quality of governance, so that effective budget management must be oriented toward the public interest and carried out in line with the principles of good governance.

Fiscal decentralization is a form of decentralization carried out through the transfer of financial authority from the central government to regional governments ([Jin & Rider, 2022](#)). It is the process of distributing budgetary resources from a higher to a lower level of government to support governmental functions and public services in line with the scope of authority delegated, giving regional governments the authority to manage regional financial resources, including the authority to raise revenue, allocate expenditure, and manage regional financing independently. In Indonesia, fiscal decentralization is accompanied by intergovernmental transfers consisting of revenue-sharing funds, general allocation funds, and special allocation funds, a consequence of the inseparability between the governmental functions assigned to a region and the management of regional finance, following the

principle that money follows function. Fiscal decentralization aims to strengthen regional fiscal capacity and narrow the fiscal gap between the central and regional governments, improve the transparency, accountability, and timeliness of transfer fund allocation and disbursement, raise the quality of local public services, and support national fiscal sustainability, consistent with recent evidence on how fiscal decentralization and regional fiscal capacity shape regional development outcomes across Indonesian provinces ([Syahrimi et al., 2025](#); [Agusriandi et al., 2023](#); [Sakti et al., 2024](#)).

2.2 Regional Budgeting, Regional Expenditure, and Capital Expenditure

The Regional Revenue and Expenditure Budget or in Indonesian *Anggaran Pendapatan dan Belanja Daerah* (APBD) is a regional government's annual financial plan, discussed and jointly approved by the regional government and the Regional House of Representatives or *Dewan Perwakilan Rakyat Daerah* (DPRD), and enacted through regional regulation, comprising regional revenue, regional expenditure, and financing. [Mardianis, Afrizal, and Enggar \(2017\)](#) argues that regional financial management must be effective, efficient, transparent, accountable, orderly, fair, proper, and compliant with prevailing regulations. The APBD carries an authorization function as the basis for executing revenue and expenditure, a planning function guiding management in planning activities, a supervisory function assessing whether governmental activities conform to established provisions, an allocation function that creates employment and improves economic efficiency, a distribution function that attends to fairness and propriety, and a stabilization function that preserves fundamental balance in the regional economy ([Halim, 2007](#); [Mahmudi, 2016](#)).

Regional expenditure covers all outlays made by a regional government to carry out governmental functions and deliver public services within a single budget year, as reflected in the APBD, and is final in nature rather than a financial investment. Regional expenditure is grouped into operating expenditure, for routine governmental activities such as personnel spending, goods and services, grants, and social assistance; capital expenditure, for the acquisition of tangible fixed assets or other assets with a benefit exceeding one accounting period, such as infrastructure and public facilities; unexpected expenditure, allocated for emergency needs such as natural disasters or other crises; and transfer expenditure, in the form of transfers to villages or third parties as regulated ([Ichsan, & Zurrahmi, 2022](#); [Ayala, Herrero, & Martinez-Vazquez, 2021](#)).

Capital expenditure is one important component of the APBD, functioning to provide public facilities and infrastructure. It is budget spending directed at acquiring tangible fixed assets or other assets with a benefit exceeding one accounting period, covering land, equipment and machinery, buildings, infrastructure such as roads, irrigation, and networks, and other tangible assets, limited to the acquisition value or purchase price of the asset until it is ready for use. Capital expenditure is therefore not merely a short-term outlay but a regional investment that contributes to better public service quality and long-term economic growth. Under Government Regulation Number 71 of 2010 on Government Accounting Standards, capital expenditure is divided into land, equipment and machinery, buildings, roads-irrigation-and-networks, and other physical assets categories. Capital expenditure is thus not only an indicator of regional fiscal capacity but also a development policy instrument that shapes public service quality, development equity, and regional economic competitiveness, a role documented in recent studies of capital expenditure's contribution to regional economic outcomes ([Harry, Zein, Muhtarom, Mulyadi, & Septiani, 2024](#); [Susiani, & Hanifa, 2026](#)).

2.3 Regional Financial Performance and Capital Expenditure

Regional financial performance measures the extent to which a regional government manages its financial resources effectively, efficiently, transparently, and accountably to support development and public service delivery. [Darmawati, Mediawati, and Rasyid \(2024\)](#) states that regional financial performance describes the level of achievement in regional financial matters, measured through indicators set out in a policy or regulation over a single budget period. Evaluating regional financial performance matters because the APBD functions not only as a budgeting instrument but as a means of assessing the achievement of fiscal and development goals.

Measuring regional financial performance serves several functions ([Mahmudi, 2016](#)): as a tool for assessing the success or failure of activities relative to established programs and policies, as a means of public accountability for regional financial management, and as a basis for future performance improvement. According to [Mahmudi \(2016\)](#), regional financial performance can be examined through financial ratio analysis, including independence, effectiveness, efficiency, and growth ratios, which together provide a comprehensive picture of a region's fiscal capacity. [Hendaris \(2025\)](#) add that regional financial performance assesses not only fiscal capacity but also accountability and transparency in budget management, giving it a dual function as both a fiscal capacity indicator and a form of accountability to the community.

Regional financial independence measures the extent to which a regional government can finance governmental, development, and public service activities using its own financial resources, particularly locally generated revenue. A larger share of locally generated revenue in the APBD signifies greater regional fiscal independence. Following [Hendaris \(2025\)](#) classification, regional financial independence is categorized as very low or instructive between 0% and 25%, low or consultative between 25% and 50%, moderate or participative between 50% and 75%, and high or delegative between 75% and 100%.

Theoretically, strong regional financial performance should encourage greater capital expenditure allocation because a region has greater fiscal capacity to finance development investment ([Mahmudi, 2016](#)). The flypaper effect phenomenon, however, shows that a rise in central government transfer funds tends to be absorbed more by operating expenditure than by capital expenditure, reducing the effectiveness of capital expenditure allocation ([Kuswandi, Nuraini, & Hartono, 2023](#)). At the same time, heavy regional dependence on the central government shapes regional spending patterns, since transfer revenue carries specific-use criteria, for instance physical special allocation funds earmarked for capital expenditure, general allocation funds used for personnel and operating spending, and special autonomy funds usable according to regional priorities. Because of these use criteria, regions still dependent on transfer funds have limited room to allocate their spending, so that low regional independence does not automatically translate into higher capital expenditure. Regions with high independence tend to have wider fiscal space to allocate capital expenditure according to local priorities and needs, while regions with low independence remain heavily dependent on transfer funds, narrowing their fiscal space and typically lowering capital expenditure allocation because most regional revenue is absorbed by operating and personnel spending ([Lewis, 2023](#)).

2.4 Financial Report Quality and Capital Expenditure

Financial report quality describes the extent to which a financial statement is prepared in line with the principles of accountability, transparency, and compliance with government accounting standards. One measure of financial report quality is the opinion issued by BPK. An unqualified (WTP) opinion indicates that the financial statement is presented reliably and in accordance with standards, providing a sound basis for more effective and efficient fiscal decision making, including capital expenditure planning ([Madakarah & Makaliwe, 2023](#)).

Obtaining a WTP opinion from BPK is not only an indicator of financial report quality but also one of the main requirements for a region to receive Regional Incentive Funds or locally *Dana Insentif Daerah* (DID). Under Regulation of the Minister of Finance Number 91 of 2024 on the Management of Fiscal Incentive Funds for Regional Performance Achievement, DID is state-budget funding awarded to regions as recognition for achievement in regional financial management, general government services, and basic public services. Regions that obtain a WTP opinion and meet other criteria can receive a DID allocation of varying size, which can then be used to finance development programs, including higher capital expenditure allocation. A WTP opinion is therefore both an accountability indicator and a direct contributor to a region's fiscal capacity for financing infrastructure and public service development through capital expenditure ([Marselina & Herianti, 2022](#)).

Good financial report quality is expected to raise a regional government's credibility in budget management, strengthen governance, and open healthier fiscal space for higher capital expenditure. In practice, however, a BPK opinion does not fully guarantee that capital expenditure is managed optimally, because budget use also depends heavily on regional government policy. Study in Lampung Province found that financial report quality could not influence the effect of regional independence or PAD effectiveness on capital expenditure, but did influence the effect of regional dependence on capital expenditure, suggesting that financial report quality plays a more prominent role in regions still dependent on central government transfer funds, and that the relationship between financial report quality and capital expenditure remains shaped by other factors, particularly the level of fiscal dependence and regional financial performance relative to the central government. Evidence from studies on internal control and audit quality likewise shows that these accountability mechanisms shape reporting quality in ways that are contingent on a region's institutional context ([Abbas, Pakpahan, Murwaningsari, & Mayangsari, 2022](#); [Ibrahim, & Digdowiseiso, 2023](#)).

2.5 Prior Research

Reviewing prior research is important for describing how the topic under study has developed. By examining earlier findings, a researcher can understand the approaches used, obtain a benchmark for comparison, and identify the gaps that remain open for further inquiry. [Purwati and Firmansyah \(2024\)](#), studying Lampung Province, found that regional financial independence has no significant effect on capital expenditure, while financial report quality strengthens the effect of regional dependence on capital expenditure. [Azis and A'yun \(2024\)](#), studying 28 regencies and 1 city in Papua Province over 2014-2019 using panel data, found that the regional independence ratio has no significant effect on capital expenditure, while the general allocation fund and the fiscal decentralization degree ratio have a significant effect.

[Indiyanti and Rahyuda \(2018\)](#), studying all regencies and cities in Bali Province over 2012-2016, found that regional financial independence has a significant positive effect on capital expenditure, while PAD effectiveness has no significant effect. [Arif and Arza \(2018\)](#), studying regencies and cities in West Sumatra over 2013-2017, found that regional financial efficiency and expenditure compatibility have a significant effect on capital expenditure allocation, while regional financial independence and PAD effectiveness have no effect. [Andani \(2022\)](#), studying 15 regencies and cities in Lampung Province over 2016-2020, found that the regional financial efficiency ratio and PAD growth ratio have a significant positive effect on capital expenditure, while the PAD effectiveness ratio and regional financial independence ratio have no effect. [Darmastuti, Susilowati, and Tannar \(2022\)](#), studying regencies and cities in East Java Province, found that the financial efficiency ratio and regional independence have a significant effect on capital expenditure, while PAD effectiveness has no significant effect.

[Khafif and Romandhon \(2022\)](#), studying regencies and cities in Bali Province over 2016-2019, found that regional financial independence has a significant negative effect on capital expenditure, regional financial dependence also has a significant negative effect, while the remaining budget surplus (SiLPA) has a positive effect. [Praza \(2016\)](#), studying 9 regencies and 2 cities in Jambi Province over 2010-2013 using panel data, found that the fiscal decentralization degree ratio has a significant positive effect on capital expenditure, while the financial dependence ratio, financial independence ratio, and PAD effectiveness ratio have no significant effect. [Auliani, Achmad, and Parmadi \(2024\)](#), studying regencies and cities in Jambi Province, found that the fiscal decentralization ratio and regional financial independence ratio have no effect on capital expenditure, while PAD effectiveness has a significant negative effect. [Zelmiyanti \(2016\)](#), studying 10 provincial governments in Indonesia over 2006-2010, found that regional independence has a significant negative effect on capital expenditure, the PAD effectiveness ratio and SiLPA have no effect, and PAD growth has a significant negative effect on capital expenditure.

Turning to financial report quality, [Nurhalimah and Wicaksono \(2024\)](#), studying regional governments in West Java, found that BPK audit opinion has a negative effect on regional government financial performance, capital expenditure has a positive effect on financial performance, and a WTP opinion

does not automatically guarantee higher capital expenditure. [Suandani and Astawa \(2021\)](#), studying regencies and cities in Bali Province over 2015-2019, found that audit opinion, capital expenditure, PAD, the general allocation fund, and the special allocation fund all have a positive effect on regional government financial performance. [Rahmadhanty and Firmansyah \(2025\)](#), studying regencies and cities in South Sumatra Province over 2007-2021, found that regional independence and dependence on the central government negatively affect financial performance, while high financial report quality, an unqualified opinion, strengthens the positive effect of independence and dependence on financial performance.

[Firmansyah, Yuniar, and Arfiansyah \(2022\)](#), studying regencies and cities across Indonesia over 2016-2019, found that financial information transparency and regional government size have a positive effect on financial report quality, while capital expenditure and financial health have no effect. [Wijayanti and Kartikasari \(2025\)](#), studying regional governments in Central Java Province, found that capital expenditure has a significant positive effect on financial reporting quality, while fiscal independence has no significant effect. [Puspita \(2025\)](#), studying regencies and cities in Java and Maluku, found that regional government capital expenditure has a positive effect on financial report quality, and regional government size also has a positive effect. [Yudhanto and Rahmawati \(2025\)](#), studying 466 regional governments in Indonesia, found that capital expenditure has a significant positive effect on financial reporting quality, and regional government status moderates that relationship. [Aurelia et al. \(2024\)](#), studying regional governments on Sumatra Island, found that a lower capital expenditure ratio is associated with higher financial reporting quality (a WTP opinion), and that regional government size and head-of-region characteristics affect financial report quality.

2.6 Conceptual Framework

Capital expenditure is a crucial component of the APBD because it finances the acquisition of fixed assets and infrastructure development that benefits the community over the long term. Rising capital expenditure is expected to spur regional economic growth, strengthen public services, and improve community welfare, which makes the factors shaping the size of capital expenditure allocation an important subject of inquiry.

Regional financial performance functions as a primary factor shaping a region's capacity to create fiscal space for capital expenditure. Regional independence describes a regional government's ability to finance development through locally generated revenue without heavy dependence on central government transfer funds; the higher the level of independence, the greater a region's capacity to raise capital expenditure allocation. A further factor is regional financial report quality, commonly measured through BPK opinion. Attaining a WTP opinion signals that regional financial management satisfies the principles of accountability, transparency, and conformity with government accounting standards, and good financial report quality is expected to raise a regional government's credibility in managing the APBD, thereby encouraging a more effective allocation of the budget toward capital expenditure. The conceptual framework of this study accordingly proposes that capital expenditure allocation by a regional government is shaped by regional financial performance, in the form of regional independence, and financial report quality.

2.7 Hypotheses Development

A hypothesis is an initial conjecture about the problem formulation whose truth must be tested empirically, drawn from theory and prior research to guide the study and typically expressed as a statement about the relationship between variables. Theoretically, stronger regional financial performance should widen fiscal space for capital expenditure, and this expectation finds support in [Indiyanti and Rahyuda \(2018\)](#) and [Darmastuti, Susilowati, and Tannar \(2022\)](#), who found a significant positive effect of regional independence on capital expenditure, although [Purwati and Firmansyah \(2024\)](#), [Andani \(2022\)](#), [Zelmiyanti \(2016\)](#), [Khafif and Romandhon \(2022\)](#), and [Praza \(2016\)](#) even found a significant negative effect, reflecting a phenomenon consistent with agency theory in which a regional government, as agent, may not automatically direct additional own-source revenue toward capital expenditure that benefits the community as principal. Given this mixed empirical record, and the distinctive fiscal characteristics of Papua Province, the first hypothesis is formulated as follows.

H_1 : Regional financial performance (regional independence) has an effect on capital expenditure in regencies and cities in Papua Province

Financial report quality, proxied by BPK audit opinion, is expected in theory to raise a regional government's credibility and thereby encourage a more effective allocation of the budget toward capital expenditure, a channel supported by [Suandani and Astawa \(2021\)](#) and [Rahmadhanty and Firmansyah \(2025\)](#), although [Purwati and Firmansyah \(2024\)](#) found that financial report quality could not influence the effect of independence or PAD effectiveness on capital expenditure, and [Nurhalimah and Wicaksono \(2024\)](#) found audit opinion to have a negative rather than positive bearing on financial performance. Accordingly, the second hypothesis is stated as follows.

H_2 : Financial report quality (BPK audit opinion) has an effect on capital expenditure in regencies and cities in Papua Province

If regional financial performance and financial report quality each shape a regional government's capacity and credibility to allocate its budget, their combined effect on capital expenditure should, in principle, be jointly significant, and this joint effect is tested directly by the third hypothesis.

H_3 : Regional financial performance (regional independence) and financial report quality (BPK audit opinion) jointly have an effect on capital expenditure in regencies and cities in Papua Province

3. Research Methodology

3.1 Research Location and Period

This research was conducted across all regencies and cities in Papua Province. This location was chosen because capital expenditure in the province remains relatively low compared with operating expenditure, making it worthwhile to analyze what factors shape it. Papua Province also carries distinctive fiscal characteristics, particularly in regional financial performance and financial report quality, making it a relevant object of study. The research was planned to run from November 2025 to May 2026, and the object of analysis comprised 8 regencies and 1 city: Biak Numfor Regency, Jayapura Regency, Keerom Regency, Kepulauan Yapen Regency, Mamberamo Raya Regency, Sarmi Regency, Supiori Regency, Waropen Regency, and Jayapura City, observed over the 2019-2024 period.

3.2 Data Types and Sources

This study used secondary data obtained from third parties or official documents, without direct data collection by the researcher. Secondary data were chosen because this study relies on published regional government financial information. The data sources comprised regional budget data on realized capital expenditure, sourced from BPK audit reports on regency and city financial statements in Papua Province for 2019-2024, regional financial performance data, specifically regional independence, computed from the same BPK audit reports, BPK opinion data as the measure of regional financial report quality, likewise drawn from official BPK audit report documents, publications from the Central Statistics Agency (BPS) on regency and city profiles in Papua Dalam Angka to support general regional information, and supporting literature obtained from library and internet sources ([Pandiangan, Aina, & Supraja, 2026](#)).

3.3 Data Collection Method

This study used secondary data obtained from third parties or official documents, without direct data collection by the researcher. Secondary data were chosen because this study relies on published regional government financial information. The data sources comprised regional budget data on realized capital expenditure, sourced from BPK audit reports on regency and city financial statements in Papua Province for 2019-2024, regional financial performance data, specifically regional independence, computed from the same BPK audit reports, BPK opinion data as the measure of regional financial report quality, likewise drawn from official BPK audit report documents, publications from the Central Statistics Agency or *Badan Pusat Statistik* (BPS) on regency and city

profiles in Papua Dalam Angka to support general regional information, and supporting literature obtained from library and internet sources ([Rahmawati et al., 2022](#)).

3.4 Analytical Method

The analytical method applied in this study was panel data regression, a technique combining time series data, from the 2019-2024 period, with cross-sectional data, from regencies and cities in Papua Province. Panel data regression was chosen because it more effectively captures changes over time together with cross-regional differences, yielding more accurate estimates than a model based on time series or cross-sectional data alone ([Gujarati & Porter, 2012](#)). Panel data regression also allows partial and simultaneous hypothesis testing, making it possible to identify which independent variables significantly affect the dependent variable. The estimated equation follows the general form of panel data regression:

$$BM = \alpha + \beta_1(KmD) + \beta_2(KLKD) + \epsilon \quad (1)$$

Formula 1 show, where BM is the capital expenditure ratio (%), α is the constant coefficient, β_1 and β_2 are the regression coefficients of the independent variables, KmD is regional independence, measured as the ratio of locally generated revenue to total regional revenue (%), KLKD is regional financial report quality, coded 1 for a WTP opinion and 0 otherwise, and ϵ is the error term.

3.5 Descriptive Statistical Analysis

Descriptive analysis was used to provide a general picture of the characteristics of the data used in this study, for both the dependent and independent variables. The results are presented through statistical measures such as the mean, standard deviation, maximum value, minimum value, and frequency distribution of the data ([Ghozali, 2018](#)).

3.6 Panel Model Estimation Approaches

Panel data analysis relies on three principal approaches for estimating the regression model. The Common Effect Model (CEM) assumes that all observation units behave identically, without regard to differences in characteristics across regencies or across time, and is estimated using Ordinary Least Squares (OLS). The Fixed Effect Model (FEM) assumes time-invariant differences in characteristics across regencies, so that each regency carries a different intercept, and is estimated using the Least Squares Dummy Variable (LSDV) approach to control for unobserved heterogeneity. The Random Effect Model (REM) treats cross-regional differences in characteristics as random and uncorrelated with the independent variables, and is estimated using Generalized Least Squares (GLS), considered more efficient when the random-effects assumption holds ([Baltagi, 2021](#)).

3.7 Panel Regression Model Selection

Before estimation, the most appropriate panel regression model was chosen through a series of tests. The Chow test determines whether the Fixed Effect Model or the Common (Pooled) Effect Model is more appropriate, based on the probability value for the cross-section F and chi-square statistics; if the cross-section chi-square probability exceeds 0.05, the null hypothesis is accepted and the Common Effect Model is considered more appropriate, whereas if the null hypothesis is rejected, the Fixed Effect Model is considered more appropriate and the analysis proceeds to the Hausman test. The hypotheses tested are that the null hypothesis corresponds to the Common Effect Model or pooled ordinary least squares, and the alternative hypothesis corresponds to the Fixed Effect Model.

The Hausman test determines whether the Fixed Effect Model or the Random Effect Model is more appropriate, based on the probability value for the cross-section random statistic; if this probability exceeds 0.05, the null hypothesis is accepted and the Random Effect Model is considered more appropriate, whereas if the null hypothesis is rejected, the Fixed Effect Model is considered more appropriate. The null hypothesis corresponds to the Random Effect Model and the alternative hypothesis to the Fixed Effect Model ([Auliani, Achmad, & Parmadi, 2024](#)).

The Lagrange Multiplier (Breusch-Pagan) test is applied when the Chow test favors the Common Effect Model and the Hausman test favors the Random Effect Model; if both tests instead consistently favor the Fixed Effect Model, the LM test is not needed. This test evaluates whether the Random Effect Model is more appropriate than the Common Effect Model, with the null hypothesis corresponding to the Common Effect Model and the alternative hypothesis to the Random Effect Model. If the Breusch-Pagan probability value is below 0.05, the null hypothesis is rejected and the Random Effect Model is considered more appropriate ([Andani, 2022](#)).

3.8 Classical Assumption Testing

Classical assumption testing was carried out to confirm that the regression model satisfies the Best Linear Unbiased Estimator (BLUE) criteria, ensuring that the resulting estimates are unbiased, consistent, and usable for hypothesis testing ([Ghozali, 2018](#)). Normality testing assesses whether the residuals in the regression model follow a normal distribution, a condition essential for the validity of the t-test and F-test, examined using the Jarque-Bera test or a normal probability plot; a Jarque-Bera significance value above 0.05 indicates normally distributed residuals. Multicollinearity testing identifies correlation among the independent variables in the regression model, which should ideally be absent, examined using the Variance Inflation Factor (VIF) and correlation coefficients, with the absence of multicollinearity indicated by a VIF below 10 and a tolerance value above 0.10 ([Ghozali, 2018](#)).

Autocorrelation testing determines whether a relationship exists between the residuals of one period and those of another; in panel data, autocorrelation often arises from the time-series dimension, and the Durbin-Watson test or the Breusch-Godfrey test can be used to identify it, with the absence of a residual correlation pattern across periods indicating a model free of autocorrelation. Heteroscedasticity testing examines whether the variance of the residuals differs across observations; a sound regression model should satisfy the homoscedasticity assumption of uniform residual variance, examined in panel data using the Breusch-Pagan test or the White test, with a significance value above 0.05 indicating the absence of a heteroscedasticity problem ([Widodo, 2021](#)).

3.9 Hypothesis Testing

Hypothesis testing in panel data regression was carried out to determine the extent to which the independent variables affect the dependent variable, using three approaches. The simultaneous significance test (F-test) examines whether the independent variables in the panel data regression model jointly affect the dependent variable, at a 5% significance level ($\alpha = 0.05$); if the calculated F-value is smaller than the F-table value, the null hypothesis is accepted and the alternative rejected, meaning the independent variables do not jointly have a significant effect on capital expenditure, whereas if the calculated F-value exceeds the F-table value, the null hypothesis is rejected and the alternative accepted, meaning the independent variables jointly have a significant effect on capital expenditure ([Ghozali, 2018](#)).

The partial significance test (t-test) examines whether an independent variable in the panel data regression model individually affects the dependent variable, at a 5% significance level ($\alpha = 0.05$); if the calculated t-value exceeds the t-table value, the null hypothesis is rejected and the alternative accepted, indicating a significant effect of that independent variable on capital expenditure, whereas if the calculated t-value is smaller than the t-table value, the null hypothesis is accepted and the alternative rejected, indicating no significant effect. This test can also be assessed through the probability value (p-value): a p-value below 0.05 indicates a significant effect, while a p-value above 0.05 indicates no significant effect ([Gujarati & Porter, 2012](#)). The coefficient of determination (R-squared) test measures the extent to which the independent variables explain variation in the dependent variable; R-squared ranges from zero to one, and a value closer to one indicates that a larger share of the variation in capital expenditure is explained by factors such as regional independence and financial report quality, while a low R-squared indicates that the model has limited explanatory power for capital expenditure variation.

3.10 Operational Definitions

Regional independence is a regional government's capacity to meet its fiscal needs independently (Halim, 2007), measured as the ratio between locally generated revenue and total regional revenue (Halim, 2007); a higher value denotes lower dependence on central government transfer funds, and the unit of measurement is a ratio or percentage.

Regional financial report quality reflects the degree of fair presentation in the financial statements produced by a regional government, based on the examination of the Supreme Audit Agency, measured using a categorical variable based on BPK's opinion on the regional government financial statement. Under Regulation of the Minister of Finance Number 91 of 2024, an unqualified (WTP) opinion reflects better financial report quality, and only a WTP opinion qualifies a region for a Regional Incentive Fund from the central government. Following the categorical coding approach described by Gujarati (2012), a value of 1 is assigned when a region obtains a WTP opinion from BPK, and a value of 0 is assigned when a region obtains an opinion other than WTP, namely a qualified opinion (WDP), an adverse opinion (TW), or a disclaimer of opinion (TMP).

Capital expenditure reflects a regional government's budget allocation for the acquisition or improvement of fixed assets that provide a long-term benefit, measured as the ratio between realized total capital expenditure and total regional expenditure (Mahmudi, 2016). This ratio indicates the share of the budget allocated to physical development needs and regional asset investment, and the unit of measurement is a ratio or percentage.

4. Results and Discussions

4.1 Descriptive Statistics

Table 1. Descriptive statistical analysis

Statistic	BM (Capital Expenditure)	KmD (Regional Independence)	KLKD (Financial Report Quality)
Mean	0.167143	0.047157	0.611111
Maximum	0.304029	0.208144	1
Minimum	0.084270	0.003621	0
Std. Deviation	0.048362	0.054982	0.492076
Observations	54	54	54

Table 1 show the descriptive statistical testing was carried out to describe the number of observations, minimum value, maximum value, mean, and standard deviation of each research variable. The results, covering 9 regencies and cities over the 2019-2024 period, yielded 54 observations, comprising 9 cross-sectional units and 6 time-series periods. The mean value of the capital expenditure (BM) variable over the study period was 0.167143, with a highest value of 0.304029 and a lowest value of 0.084270. The mean value of the regional independence (KmD) variable over the study period was 0.047157, with a highest value of 0.208144 and a lowest value of 0.003621. The mean value of the financial report quality (KLKD) variable over the study period was 0.611111, with a highest value of 1 and a lowest value of 0.

4.2 Panel Regression Model Selection

Model selection depends on the assumptions adopted by the researcher and adherence to the correct principles of statistical data processing, so that the results can be statistically justified. The most appropriate model among the random effect, fixed effect, and common effect specifications was determined through three estimation techniques applied in sequence.

4.2.1 Chow Test

Table 2. Chow test results

Effects Test	Probability
Cross-section F	0.0459
Cross-section Chi-square	0.0174

Table 2 show after obtaining results from the common effect model and the fixed effect model, the Chow test was applied. Under this approach, a probability value greater than alpha (5%) favors the common effect model, while a probability value smaller than alpha (5%) favors the fixed effect model. The Cross-section Chi-square probability value of 0.0174 is below 0.05, so the null hypothesis is rejected, meaning the fixed effect model is the selected specification for the equation, and is more appropriate than the common effect model at this stage.

4.2.2 Hausman Test

Table 3. Hausman test results

Effects Test	Probability
Cross-section random	0.1201

Table 3 show the cross-section random probability value greater than alpha (5%) favors the random effect model, while a value smaller than alpha (5%) favors the fixed effect model. The cross-section random probability value of 0.1201 exceeds 0.05, so the null hypothesis is accepted, meaning the random effect model is the more appropriate specification at this stage.

4.2.3 Lagrange Multiplier (LM) Test

Table 4. Lagrange Multiplier (LM) test results

Effects Test	Probability
Breusch-Pagan	0.4499

Table 4 show a Breusch-Pagan probability value greater than alpha (5%) favors the common effect model, while a value smaller than alpha (5%) favors the random effect model. The Breusch-Pagan probability value of 0.4499 exceeds 0.05, so the null hypothesis is accepted, meaning the common effect model is the more appropriate specification compared with the random effect model.

4.2.4 Best Regression Model

Table 5. Best regression model selection results

Test	Selected Model
Chow Test	FEM
Hausman Test	REM
Lagrange Multiplier (LM) Test	CEM
Best Regression Model	CEM

Combining the results of the Chow test, the Hausman test, and the Lagrange Multiplier test, the best regression model for this study is summarized in Table 5. Based on this sequence of tests, the researcher adopted the common effect model as the best model for this study.

4.3 Classical Assumption Testing

4.3.1 Normality Test

This test examines whether the regression model has a normal distribution, using the Jarque-Bera test. The test produced a Jarque-Bera value of 1.635167 with a probability value of 0.441497. Because this probability value exceeds the 0.05 significance level, the null hypothesis is accepted, so the residuals in the regression model are concluded to be normally distributed, and the normality assumption of the panel data regression model is satisfied.

4.3.2 Multicollinearity Test

Table 6. Multicollinearity test results

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.000109	2.660804	NA
KmD	0.018027	2.277831	1.301996
KLKD	0.000225	3.347989	1.301996

This test examines whether a strong linear relationship exists among the independent variables in the regression model, using the Variance Inflation Factor (VIF) and correlation coefficients. The Centered VIF value for KmD is 1.301996 and for KLKD is 1.301996, both below 10, so no multicollinearity problem exists among the independent variables in the regression model, and the multicollinearity assumption is satisfied, with the results shown in Table 6.

4.3.3 Autocorrelation Test

This test examines whether a correlation exists between period t and the preceding period ($t-1$). In regression analysis, the effect of the independent variables on the dependent variable is more clearly observed when no correlation exists between an observation and the preceding one, and a sound regression model is one that is free of autocorrelation. This study used the Durbin-Watson test to detect autocorrelation, and the result showed a Durbin-Watson statistic (d) of 1.996266. With a 5% significance level, a sample size (n) of 54, and 2 independent variables (k), the Durbin-Watson table gives dL equal to 1.4851 and dU equal to 1.6383. Since dL is smaller than dU , which is smaller than d , that is, 1.4851 is smaller than 1.6383, which is smaller than 1.996266, no positive autocorrelation is present, and since d is smaller than 4 minus dU , that is, 1.996266 is smaller than 2.3617, no negative autocorrelation is present.

4.3.4 Heteroscedasticity Test

Table 7. Heteroscedasticity test results

Test	Hypothesis	Probability
Panel Cross-Section Heteroscedasticity LR Test	Homoscedastic	0.8993
Panel Period Heteroscedasticity LR Test	Homoscedastic	0.9984

This test examines whether the variance of the error term is constant (homoscedastic) or variable (heteroscedastic); if heteroscedasticity is present, the OLS estimator is no longer the Best Linear Unbiased Estimator (BLUE). The probability value for the Panel Cross-Section Heteroscedasticity LR Test is 0.8993, and for the Panel Period Heteroscedasticity LR Test is 0.9984. Both values exceed 0.05, so the residuals in the regression model are concluded to be homoscedastic, meaning the error variance is constant, and the heteroscedasticity assumption of the panel data regression model is satisfied. The results are shown in Table 7.

4.4 Multiple Linear Regression Test Results

Table 8. Multiple linear regression test results

Variables	Coefficient	t-Statistic	Probability
C (Constant)	0.166325	15.90848	0.0000
KmD (Regional Independence)	-0.285104	-2.123428	0.0386
KLKD (Financial Report Quality)	0.023338	1.555653	0.1260

Table 8 show the multiple linear regression analysis was used to determine the effect of the independent variables, regional financial performance (regional independence) and regional financial report quality, on the dependent variable, capital expenditure. The regression model used follows the general form of the panel data regression equation proposed by [Gujarati and Porter \(2012\)](#): $BM = \alpha + \beta_1(KmD) + \beta_2(KLKD) + \epsilon$, where BM is the capital expenditure ratio (%), α is the constant coefficient, β_1 and β_2 are the regression coefficients of the independent variables, KmD is regional independence (the ratio of locally generated revenue to total revenue, %), $KLKD$ is regional financial report quality ($WTP = 1$, other than $WTP = 0$), and ϵ is the error term.

Panel data processing using EViews produced the multiple linear regression model from the Common Effect Model (CEM). Based on Table 8 and following the general form of the panel data regression equation ([Gujarati & Porter, 2012](#)), the estimated multiple linear regression equation is as follows.

$$BM = 0.166325 + (-0.285104)KmD + 0.023338KLKD \quad (2)$$

Formula 2 interpreted the constant (alpha) of 0.166325 carries a positive sign, indicating that if KmD and KLKD are held constant, the value of capital expenditure is 0.166325. The regression coefficient of regional independence (KmD) is 0.285104 with a negative sign, indicating that if regional independence rises by one unit while the other independent variable is held constant, capital expenditure falls by 0.285104. The regression coefficient of financial report quality (KLKD) is 0.023338 with a positive sign, indicating that if financial report quality rises by one unit while the other independent variable is held constant, capital expenditure rises by 0.023338.

4.5 Hypothesis Test Results

4.5.1 Significance Test (t-test)

The t-test was applied to determine the partial effect of each independent variable, regional financial performance (regional independence) and regional financial report quality, on the dependent variable, capital expenditure. The calculated t-value for regional independence is -0.285104 with a probability value of 0.0386, which is below 0.05, so regional independence has a significant negative effect on capital expenditure among regencies and cities in Papua Province during 2019-2024. The calculated t-value for financial report quality is 1.555653 with a probability value of 0.1260, which exceeds 0.05, so financial report quality has a positive but not significant effect, meaning it does not significantly affect capital expenditure among regencies and cities in Papua Province during 2019-2024.

4.5.2 Simultaneous Test (F-test)

The F-test was applied to determine the joint effect of all independent variables on the dependent variable, that is, the joint effect of regional financial performance (regional independence) and regional financial report quality on capital expenditure. The calculated F-value is 2.439406 with a probability value of 0.097328, which exceeds 0.05, indicating that regional independence and financial report quality do not jointly have a significant effect on capital expenditure among regencies and cities in Papua Province during 2019-2024.

4.5.3 Coefficient of Determination (R-squared) Test

The coefficient of determination measures the proportion or percentage of total variation in the dependent variable that the regression model can explain, indicating how much of the variation in capital expenditure is accounted for by regional independence and financial report quality. The test produced an R-squared value of 0.087311, or 8.7311%, indicating that the independent variables, regional independence and financial report quality, together explain 8.7311% of the variation in capital expenditure among regencies and cities in Papua Province during 2019-2024, while the remaining 91.2689% is explained by other variables outside this research model.

4.6 Discussion

4.6.1 Effect of Regional Financial Performance on Capital Expenditure

The test results confirm the first hypothesis, since regional independence is shown to have a negative and significant effect on capital expenditure. Viewed through the coefficient value, this negative effect means that as regional independence rises, capital expenditure falls, indicating that a stronger regional financial performance in terms of independence is, in this sample, followed by a decline in capital expenditure allocation rather than the rise that theory would predict.

This finding can be explained through agency theory. [Halim \(2007\)](#) explains that in the context of regional government, the regional government as agent tends to prioritize its own interest or that of a particular group over the interest of the community as principal. A regional government with higher independence through rising locally generated revenue does not necessarily allocate that additional revenue to capital expenditure that benefits the public. Instead, a regional government tends to use rising locally generated revenue to finance operating expenditure and personnel expenditure that carry more personal benefit, rather than allocating it to productive, long-term capital expenditure. This

pattern is consistent with the moral hazard phenomenon commonly observed in regional government, in which the agent, the regional government, uses surplus revenue for its own interest without due regard for the interest of the principal, the community.

Empirically, this finding is consistent with [Zelmiyanti \(2016\)](#), who found that regional independence has a significant negative effect on capital expenditure across provinces in Indonesia, concluding that rising regional financial independence is not followed by rising capital expenditure allocation because regional governments prefer to use their revenue for routine spending. This result is also supported by [Praza \(2016\)](#), who found that the regional financial independence ratio has a significant negative effect on capital expenditure allocation in regencies and cities in Jambi Province. [Indiyanti and Rahyuda \(2018\)](#), by contrast, found that regional independence has a significant positive effect on capital expenditure in Bali Province, a different result from what is found in Papua Province, which still carries a very low level of independence. This divergence arises because most regional revenue among regencies and cities in Papua Province remains heavily dependent on central government transfer funds, so regional governments have not yet developed adequate fiscal capacity to allocate capital expenditure optimally.

4.6.2 Effect of Financial Report Quality on Capital Expenditure

The test results do not support the second hypothesis, since financial report quality is shown to have a positive but not significant effect on capital expenditure. Viewed through the coefficient value, this positive effect means that as financial report quality rises, capital expenditure also rises, but the test results show that this effect is not statistically significant. Theoretically, good financial report quality, marked by a WTP opinion from BPK, should reflect transparency and accountability in regional financial management. The regional government as agent carries a responsibility to present quality financial statements to the community as principal. This finding, however, indicates that financial report quality has not yet become a determining factor in capital expenditure allocation. Several explanations are plausible. First, BPK's audit opinion emphasizes the fairness of financial statement presentation rather than the performance or effectiveness of regional spending. Second, good financial report quality is not necessarily followed by optimal capital expenditure planning and execution. Third, as suggested in the research of [Mardianis, Afrizal, and Enggar \(2017\)](#), an audit opinion is insufficient on its own to explain its relationship with regional government financial performance, because a BPK audit is an examination of compliance and fair presentation of financial statements, not an examination of performance.

This finding is consistent with [Heriningsih \(2013\)](#), who found that the performance of regional government administrators does not differ significantly between regencies and cities that hold a WTP opinion and those that hold an opinion other than WTP. Good financial report quality has therefore not yet been able to drive higher capital expenditure allocation, because other factors remain more dominant in shaping capital expenditure policy.

4.6.3 Joint Effect of Regional Financial Performance and Financial Report Quality on Capital Expenditure

The test results do not support the third hypothesis, since regional independence and financial report quality are shown not to jointly have a significant effect on capital expenditure. The simultaneous test (F-test) produced a calculated F-value of 2.439406 with a probability of 0.097328, exceeding 0.05. In addition, the coefficient of determination (R-squared) of 0.087311, or 8.73%, indicates that the ability of the independent variables to explain variation in capital expenditure is very limited, while the remaining 91.27% is explained by variables outside the model.

This finding indicates that capital expenditure allocation among regencies and cities in Papua Province is shaped more by other factors, such as the general allocation fund, the special allocation fund, the revenue-sharing fund, economic growth, and central government fiscal policy. Within an agency-theory framework, the regional government as agent tends to follow direction from the central government as principal in allocating its budget, particularly because of heavy dependence on transfer funds. This finding is also consistent with [Mustikarini and Fitriasaki \(2012\)](#), who found that regional

government characteristics and BPK audit findings do not fully explain regional government performance. The low coefficient of determination indicates that this research model is not yet strong enough to explain variation in capital expenditure, so additional, more relevant variables are needed, such as the balancing fund, the remaining budget surplus (SiLPA), PAD effectiveness, and other variables.

5. Conclusions

5.1 Conclusion

Based on the analysis and discussion presented above, several conclusions can be drawn. The significance value for the regional independence variable is 0.0386, below 0.05, indicating that regional financial performance has a negative and significant effect on capital expenditure among regencies and cities in Papua Province during 2019-2024. The significance value for the financial report quality variable is 0.1260, above 0.05, indicating that financial report quality has a positive but not significant effect on capital expenditure among regencies and cities in Papua Province during 2019-2024. Jointly, the significance value from the F-test is 0.097328, above 0.05, indicating that regional financial performance and financial report quality together do not have a significant effect on capital expenditure among regencies and cities in Papua Province during 2019-2024. The coefficient of determination (R-squared) of 0.087311, or 8.7311%, shows that the independent variables, regional financial performance and financial report quality, together explain only 8.7311% of the variation in capital expenditure, while the remaining 91.2689% is explained by other variables outside the model, indicating that other factors, such as the general allocation fund, the balancing fund, economic growth, and central government fiscal policy, play a more dominant role in shaping capital expenditure allocation.

5.2 Research Limitations

This study is limited in several respects. The model included only two independent variables, regional independence and financial report quality, so the low explanatory power reported above likely reflects the omission of other relevant determinants of capital expenditure, such as the general allocation fund, the special allocation fund, the revenue-sharing fund, the remaining budget surplus, and PAD effectiveness. The sample was confined to 8 regencies and 1 city in Papua Province, a relatively small cross-section that limits the statistical power of the panel estimation and constrains generalization to other provinces with different fiscal characteristics. The six-year observation window, 2019-2024, while adequate for capturing recent trends, remains short relative to the multi-year budget cycles that shape capital investment decisions, and the study relies on secondary data drawn from BPK audit reports, which measure financial report quality only through the audit opinion category rather than through a more granular assessment of reporting quality.

5.3 Suggestions and Directions for Future Study

Future research would benefit from expanding the model to include additional independent variables that are plausible determinants of capital expenditure, such as the general allocation fund, the special allocation fund, the revenue-sharing fund, the remaining budget surplus, and PAD effectiveness, together with control variables such as economic growth and population size, so that the model's explanatory power can be improved. Future studies could also extend the observation period and broaden the geographic scope to regencies and cities in other provinces, so that the results carry a wider degree of generalization and provide stronger empirical evidence. Further inquiry into the mechanisms underlying the negative relationship between regional independence and capital expenditure, for instance through a closer examination of expenditure composition within regional budgets, would also help clarify whether the pattern observed here reflects a persistent policy choice or a transitional feature of Papua's fiscal development.

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Author Contributions

PAD contributed to the conceptualization, research design, methodology, data collection, data analysis, and preparation of the initial manuscript draft. ERM contributed to the development of the theoretical framework, validation of research methods, interpretation of findings, and critical revision of the manuscript. YH contributed to literature review, manuscript editing, supervision, and final approval of the published version. All authors have read and approved the final version of the manuscript.

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