
Establishing Regional Fiscal Autonomy Through Improving the Quality of Financial Reports and Human Resource Competence: Empirical Evidence from Indonesia

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Abstract:

This study reveals testing in budget management and apparatus resources through the quality of financial reports and the quality of human resources that affect the level of regional Autonomy. The study uses a quantitative approach through data collection from 542 local governments in Indonesia during the 2021-2022 period, with a total of 1,084 observations analyzed using multiple linear regression with STATA-17 software. The test results reveal that, specifically, the quality of financial reports and the Human Development Index as a representation of human resource quality have a positive and significant relationship in shaping regional fiscal Autonomy. This indicates that increasing the transparency and accountability of financial reports and strengthening human resource capacity will strengthen the ability of local governments to finance development independently without excessive dependence on central transfers. Local governments with good financial report quality, as evidenced by fair audit results without exceptions and supported by competent human resources, are better able to optimize local revenue, manage expenditures efficiently, and improve community welfare. This study emphasizes the importance of improving the competence of officials and applying the principle of accountability in the preparation of financial reports as key strategies for strengthening fiscal Autonomy and supporting the achievement of sustainable regional development.

Keywords: *Government Apparatus Capacity, Local Government Financial Reports, Public Sector, Regional Fiscal Autonomy*

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1. Introduction

Since the implementation of fiscal decentralization in 2001, Indonesia has entered a new era of regional financial management by giving regions the authority to explore and manage their own sources of revenue through Local Own-Source Revenue (PAD). Regional Autonomy has become the main indicator of the success of autonomy,

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namely when regional financing comes from PAD (Wiryawan & Otchia, 2022; Ginting et al., 2019). Through Law No. 23 of 2014 and Law No. 33 of 2004, regions were given the freedom to manage their finances and development according to local needs. However, the level of fiscal Autonomy is still low; data from the Ministry of Finance shows that the ratio of PAD to local revenue only increased from 24% in 2014 to 29% in 2023. This indicates that fiscal autonomy is not yet optimal, as most districts/cities still depend on the General Allocation Fund (DAU) and the Special Allocation Fund (DAK) to finance public services. Based on budget realization data contained in regional financial reports, the level of dependence of local governments on the central government is still very high. Total transfers to the regions reached around Rp 723,838.76 billion, with a realization of Rp 713,757.06 billion or around 98.61% of the total budget. This percentage illustrates that most regional spending comes from central government transfers and is almost entirely absorbed in budget implementation. The high proportion of central transfer funds compared to the capacity of Local Own-Source Revenue (PAD) illustrates that fiscal independence is still limited.

The quality of Local Government Financial Reports (LKPD) is one of the main factors affecting the level of regional Autonomy. LKPDs prepared in accordance with Government Accounting Standards (SAP) serve not only as a tool for accountability, but also as a basis for making appropriate decisions in the management of regional revenue and expenditure. The opinion of the Supreme Audit Agency (BPK) is often used as a benchmark for the quality of LKPD; regions with an Unqualified Opinion (WTP) indicate a good internal control system and compliance with regulations (Fazlurahman et al., 2021). However, there are still many government financial reports that do not comply with regulations and contain irregularities, thereby reducing public trust and negatively impacting policy quality (Fazlurahman et al., 2021). In local government financial reports, both the executive and legislative branches have an interest in ensuring that local government financial reports provide adequate explanations regarding compliance with regulations, performance information, financial condition information, and planning and budgeting information (Fazlurahman et al., 2021). Previous research of (Kartika & Amalia, 2018) states that human resources have a significant influence on the quality of financial reports. Several previous studies have also attempted to identify factors that influence the quality of financial reports. In good regional financial management, there must be qualified and competent human resources in terms of expertise.

The quality of human resources (HR) is an important aspect of regional financial management. According to (Ginting et al., 2019) and (Zein et al., 2024), the preparation of accurate financial reports, effective budget management, and optimization of local revenue require competent, professional officials who are adaptable to changes in regulations and technology. Low HR quality, such as a lack of accounting background, weak financial analysis skills, and resistance to digital systems, is a major obstacle to public financial reform. The interaction between the quality of financial reports and the quality of human resources has a significant effect on regional Autonomy, both directly and indirectly (Helmy & Silviana, 2024). Regions with accountable financial reports and competent human resources are better

able to identify PAD potential, innovate in revenue, and manage spending efficiently. Good quality financial reports reflect transparency and accountability in the use of public funds. Previous studies have shown that the quality of human resources has a positive effect on the quality of local government financial reports, disclosure (Ummah, 2019) and (Abidin et al., 2018) stating that the quality of human resources has a positive effect on the quality of local government financial reports.

Local governments, as public agents, have a responsibility to prepare transparent and reliable financial reports as a form of accountability to the public, which also strengthens public legitimacy and trust. Meanwhile, human resource competence is considered a valuable, rare, and difficult-to-replicate strategic resource that can improve the effectiveness of financial management and the quality of local government financial reporting. Therefore, the combination of strong financial accountability and competent human resources is expected to be a key factor in promoting sustainable improvement in regional fiscal Autonomy in Indonesia. This study is novel in that it examines regional fiscal Autonomy by integrating two key variables, namely the quality of local government financial reports (LKPD) and human resource (HR) competence, into a comprehensive analytical framework. Unlike previous studies (Jurnal & Mea, 2025), which generally examine the influence of these variables separately, this study emphasizes the simultaneous interaction between the two in influencing the level of regional Autonomy. The quality of LKPD is measured through the opinion of the BPK audit results, which reflect the accountability and transparency of regional financial management, while the quality of HR includes aspects of competence, professionalism, and adaptability to technology-based financial information systems. Another novelty lies in the contextual approach after two decades of fiscal decentralization in Indonesia, where the level of regional dependence on central government transfers remains high.

Based on the research gap and the high level of fiscal dependence in several regions in Indonesia, this study attempts to broaden the understanding of fiscal autonomy by focusing on the influence of financial report quality and human resource (HR) competence as the main factors in realizing regional fiscal independence. Unlike previous studies, which mostly only highlighted fiscal capacity or regional dependence on transfer funds from the central government (Syahputra, 2022), (T. Dana et al., 2023). This study also contributes theoretically to the literature on public sector accounting and regional financial management, as well as providing evidence-based strategic input for policymakers in designing appropriate interventions to strengthen regional financial governance.

2. Theoretical Background

Accountability Theory: Accountability theory implies that the government, as a public agency, must report on the use of public funds in order to maintain legitimacy and trust, as well as ensure moral and administrative accountability. This theory is based on the understanding that every entity entrusted with managing public resources, such as local governments, has a moral and administrative obligation to be

accountable for its performance to stakeholders, including the central government, supervisory agencies, and the general public. In the context of local government, accountability is reflected through the submission of quality financial reports that cover the aspects of relevance, reliability, clarity, and timeliness. Based on accountability theory, it can be assumed that there is a positive relationship between the quality of financial reports and regional Autonomy (Putri, 2024). Local governments with high accountability tend to manage their finances wisely and focus on fiscal sustainability, which ultimately has an impact on increasing the region's ability to independently finance development and public services. Therefore, accountability theory is a relevant theoretical basis for explaining how the quality of financial reports can affect a region's level of Autonomy (Wahyu & Zulma, 2023) (Mutoharoh & Ifada, 2023). The accountability of local government financial reporting is very important in the process of regional financial management. The form of regional financial accountability is manifested in financial reports that have been audited by an independent party, namely the Supreme Audit Agency (BPK), which is tasked with auditing the fairness of financial reports and providing audit opinions to determine the level of accountability of regional financial reporting (Apriana & Suryanto, 2010). Other researchers have found that the level of Autonomy and performance has a positive effect on financial reporting accountability (Azhari & Muhtarom, 2024). Independent regions will always strive to improve accountability in order to gain public trust as regional financial managers, which can take the form of efforts to develop the region by carrying out activities that directly benefit the community (Oktaviani & Sari, 2020).

Resource Based View Theory: The Resource-Based View (RBV) theory explains that an organization's success in achieving superior performance is highly dependent on its ability to manage its internal resources. In the context of the title "Quality of Human Resources for Regional Autonomy," this theory explains that regions with high-quality, skilled, knowledgeable, and innovative human resources (HR) will be better able to manage their regional potential effectively. The quality of human resources is a key asset in designing policies, developing the regional economy, and providing efficient public services. Thus, improving the quality of human resources will directly contribute to increasing the capacity of regions to be self-sufficient, reducing dependence on the central government, and creating sustainable development. This theory emphasizes that investment in human resource development not only has an impact on individuals, but also on the Autonomy and competitiveness of the region as a whole. Good quality resources can increase productivity and efficiency, which in turn contribute to an increase in a region's own-source revenue (PAD). The quality of human resources has a positive and significant direct and indirect effect on regional tax revenue targets (Karmawati, 2022) and (Adha & Usman, 2020). PAD as a source of regional income serves to fund empowerment programs that improve the quality of life of the community. Adequate PAD can strengthen the capacity of local governments in implementing policies based on improving the quality of human resources (Maha Yoga, 2024).

The Quality of Financial Reports on Regional Autonomy: The quality of financial reports reflects the ability of regional governments to present relevant, reliable, and transparent information in accordance with Government Accounting Standards (PP No. 71 of 2010). This relationship is causal, whereby competent human resources are able to compile accountable financial reports, design adaptive tax policies, and improve the effectiveness of local revenue management (Halim & Kusufi, 2018). The higher the quality of financial reports, the greater the likelihood of local revenue management. Research (Faizah et al., 2024) confirms that regions with good financial reporting quality tend to have higher levels of fiscal Autonomy. This is in line with the findings (Brueckner et al., 2023) which state that communities with high HDI have better purchasing power and fiscal awareness, which strengthens the regional revenue base in a sustainable manner. Previous research findings, such as (Dwi Pradnyani & Sri Harta Mimba, 2020), reinforce this argument by showing that transparency and accountability in financial reporting have a significant relationship with regional fiscal Autonomy. Therefore, theoretically and empirically, the higher the quality of regional financial reports as reflected in the BPK audit opinion, the higher the level of fiscal Autonomy achieved. The first hypothesis in this study is [H_1 : The quality of financial reports has a positive and significant effect on regional Autonomy].

Human Resource Competence Influences Regional Autonomy: High human resource competence enables local governments to manage finances effectively, improve fiscal efficiency, and identify local economic potential. An increase in the Human Development Index (HDI) in a region indicates that its residents have better capacity and competency in creating economic value, encouraging local innovation, and actively participating in development (Hamdani & Mayshelly, 2023). Research by (Harahap et al., 2024), (Siburian et al., 2021) and (P. Dana et al., 2024) shows that a high HDI is positively correlated with regional fiscal capacity. This analysis confirms that human development is not merely a social goal, but also an economic foundation for fiscal Autonomy. Based on the findings of previous studies, it can be concluded that improving the quality of human resources will strengthen fiscal Autonomy through the optimization of regional potential management. The second hypothesis in this study is [H_2 : The quality of human resources has a positive and significant effect on regional Autonomy].

3. Methodology

Data. This study uses a quantitative method with a multiple linear regression approach. The data was obtained from 542 local governments covering provincial/district/city governments in Indonesia in the 2021 and 2022 periods. over a period of two years from 2021 to 2022, resulting in 1,084 observations. All data was sourced from the Indonesian government.

Table 1 . Operationalization of Variables and Data Sources

	Operationalization of Variabel	Data Source
fiscalmandiri _{it}	Fiscal autonomy is measured using natural logarithms	BPK Financial Performance and Budget Realization Reports
finqopini _{it}	The quality of financial reports is measured through the BPK's opinion on local government financial reports. WTP = 4, WDP = 3, TW = 2, TMP = 1	BPK Audit Reports, Local Government Websites
IPMit	The quality of human resources is measured through education levels, health, and expenditure	Central Statistics Agency, Regional Civil Service Agency

Source: Researcher (2025)

Empirical Model and Variable Operationalization. This study uses a panel data regression model with STATA-17 data sets. Data on financial statement quality is obtained from financial statements prepared and audited by the Supreme Audit Agency (BPK), with a focus on information transparency and compliance with established accounting standards. Meanwhile, data on human resource quality was obtained from the education level, training, and competence of local government officials managed by the State Civil Service Agency (BKN) as well as data related to the Human Development Index (HDI) from the Central Statistics Agency (BPS). These human resource quality indicators play an important role in regional budget management and in increasing regional capacity in planning and implementing development programs. The empirical model in this study was designed to systematically test the relationship between financial statement quality (X1) and human resource quality (X2) on regional autonomy (Y). Mathematically, this relationship is formulated in a multiple linear regression model as follows:

$$\text{fiscalmandiri}_{it} = \beta_0 + \beta_1 \text{finqini}_{it} + \beta_2 \text{ipm}_{it} + \dots \dots \dots \varepsilon_{it} \quad (1)$$

$$\text{IPMit}_{it} = \beta_0 + (\beta_1 \text{Kes}_{it} \times \beta_2 \text{Pend}_{it} \times \beta_3 \text{Pend}_{it})^{1/3} + \dots \dots \dots \varepsilon_{it} \quad (2)$$

This study consists of two separate regression equations. Equation (1) is a linear model that tests the factors affecting the dependent variable Fiscalmandiit. The Fiscalmandiit variable in period t and entity i represents the fiscal Autonomy or fiscal capacity of an entity (e.g., autonomous region) to finance its own expenditures. This variable is influenced by the constant β_0 , the linear equation of the Inflationit variable (β_1), and the IPMit variable (β_2). The Inflationit variable is the inflation rate in period t and entity i, which reflects price stability, while IPMit is the Human Development Index in the same period, which measures development achievements in the health, education, and decent living standards sectors. Parameters β_1 and β_2 are regression coefficients that indicate the magnitude and direction of the influence of each independent variable on Fiscalmandiit, and ε_{it} is the error term.

Meanwhile, Equation (2) is a model that defines the IPMit variable itself, which appears to use a geometric index (cube root) approach that is common in HDI calculations. This IPMit variable is formed by the constant β_0 and is influenced by the multiplication of three component variables, each of which has been multiplied by a

specific weight or parameter (β_1 , β_2 , β_3), before then being cubed. The three main components are Kesit, which likely refers to the Health Dimension (e.g., life expectancy), Pendit, which refers to the Education Dimension (e.g., average length of schooling), and Pengit, which refers to the Decent Living Standards or Income Dimension (e.g., per capita expenditure or GNI). The parameters β_1 , β_2 , and β_3 in this context function as weights or scaling factors that convert raw dimensions into dimension indices, before being multiplied and cubed, and ϵ_{it} is the error term.

Table 2. Lagrange Multiple

Random Effect – GLS Regression	Number of obs = 1.084
Grup Variabel: Year	Number of group = 2
R-squared:	Obs per group:
Within=0.3029	Min= 542
Between=1.0000	Avg= 542.0
Overall=0.3031	Max= 542
	Wald chi2(4)= 470.26
Corr(u _i ,x) = 0 (assumed)	Prob > chi2 = 0.0000

Source: STATA-17 (Processed, 2025)

4. Empirical Findings/Result

Descriptive Statistics. Table 3, shows the results of Descriptive Statistics Variables, we can see a summary of data from three main variables in this study: Fiscalmandiri, Finqopini, and IPM. All variables have the same number of observations (Obs), namely 1,084, which indicates that the data analyzed is complete for all variables.

Table 3. Descriptive Statistics of Variables

Variabel	Obs	Mean	Std. Dev	Min	Max
Fiscalmandiriit	1,084	14.88	12.70	0.21	74.06
Finqopiniit	1,084	3.75	0.81	0	4
IPMit	1,084	70.21	6.26	32.84	87.69

Number of Observation= 1,084

Variable Operationalization on Table 1.

Source: STATA-17 (Processed, 2025)

Fiscal autonomy is a variable with an average value (Mean) of 14.88, which means that, in general, the average level of fiscal autonomy in this research sample is around 14.88. The standard deviation (Std. Dev) is quite large, at 12.70, indicating wide variation between data points; some areas have very high fiscal Autonomy, while others have very low fiscal autonomy. The minimum value (Min) of 0.21 and the maximum value (Max) of 74.06 further confirm this extreme variation. Furthermore, Finqopini has an average value (Mean) of 3.75. This value is relatively close to its maximum value, which is 4, and has a small standard deviation (Std. Dev) of only 0.81. This shows that the data for this variable tends to be clustered around the average value, with little variation. The minimum value is 0, and the maximum value is 4. Finally, the Human Development Index (HDI) has an average value (Mean) of 70.21.

This value indicates that the average level of human development in this research sample is in the fairly good category. The standard deviation (Std. Dev) is 6.26, which means that the HDI data does not stray too far from the average. The range of values, from a minimum of 32.84 to a maximum of 87.69, shows that although there is variation, most of the HDI data is within a stable range.

Table 4. Variable Correlation Analysis

	Fiscalmandiriit	Finqopiniit	IPMit
Fiscalmandiriit	1.0000		
Finqopiniit	0.1252 0.0000	1.0000	
IPMit	0.5451 0.0000	0.0878 0.0038	1.0000

Source: STATA-17 (Processed, 2025)

Table 4. Based on the correlation analysis results in the table above, it can be seen that there is a relationship between the variables of fiscal Autonomy (fiscalmandiriit), Audit Opinion (finqopiniit), and Human Development Index (IPMit). The relationship between Fiscal Autonomy (fiscalmandiriit) and Audit Opinion (finqopiniit). The correlation coefficient value is 0.1252. This figure is relatively small and close to zero, indicating that the relationship between these two variables is very weak. In addition, the p-value (the number below the correlation coefficient, which is 0.0000) is very small, even below 0.05. This means that the relationship is statistically significant, but because the coefficient is small, the effect is practically insignificant. In other words, changes in fiscal Autonomy do not significantly affect financial opinion, and vice versa.

Review of the relationship between Fiscal Autonomy (fiscalmandiriit) and the Human Development Index (IPMit) The correlation coefficient value is 0.5451. This figure is quite far from zero, indicating that there is a fairly strong relationship between fiscal Autonomy and HDI. This positive correlation means that if the fiscal Autonomy of a region increases, the Human Development Index also tends to increase. This can happen because regions with high fiscal Autonomy have more resources to allocate to sectors that support the HDI, such as education and health. The p-value is also 0.0000, confirming that this relationship is statistically significant.

Correlation between Audit Opinion (finqopiniit) and Human Development Index (IPMit). The correlation coefficient shows a value of 0.0878. This value is very small, which means that the relationship between financial opinion and HDI is very weak and close to zero. Although the p-value of 0.0038 (below 0.05) indicates a statistically significant relationship, the magnitude of the effect is practically insignificant. Thus, the quality of financial opinions has no substantial relationship with the Human Development Index level in a region.

Hypothesis Testing Result

Table 5. Hypothesis Testing Results

fiscalmandiri it = $\beta_0 + \beta_1 \text{finqini it} + \beta_2 \text{ipm it} + \dots \dots \dots \epsilon \text{ it (1)}$		
IPM it = $\beta_0 + (\beta_1 \text{Kes it} \times \beta_2 \text{Pend it} \times \beta_3 \text{Pend it})^{1/3} + \dots \dots \dots \epsilon \text{ it (2)}$		
Variabel	Expected Sign	fiscalmandiriit
Consit		-66.302 0.000
finqopiniit	H1 : (+)	1.214 0.002
IPMit	H2 : (+)	1.091 0.000
Prob> f		0.000
Adj R_Square		0.301
Obs		1.084

Explanation of Variable Operationalization in Table 1 1

*** = P-Value Significant at 1%

Source: STATA-17 (Processed, 2025)

The analysis results show that the finqopiniit variable has a positive and significant effect on fiscalmandiriit. The coefficient is 1.214 with a p-value of 0.002, which means that the effect is significant at the 1% level. In accordance with the proposed hypothesis (H1), this indicates that the higher the finqopiniit of a region, the more likely the fiscalmandiriit of that region will increase.

The IPMit (Human Development Index) variable shows interesting results. The coefficient value of the IPMit variable is 1.091, which is also positive and significant with a p-value of 0.000. This shows, as hypothesized in H2, that a higher Human Development Index (HDI) reflects better quality of life and human resources, which is positively correlated with the fiscal autonomy of a region.

The regression model built has an Adjusted R-Square value of 0.301, which means that approximately 30.1% of the variation in fiscalmandiriit can be explained by the independent variables in this model. The remainder (approximately 69.9%) is explained by other factors not included in the model. This value indicates that the model is quite good at predicting, although there are still many other variables that can affect fiscalmandiriit.

5. Discussion

The results of the study indicate that the quality of financial reports has a positive and significant effect on the fiscal autonomy of regions. This effect arises because high-quality financial reports reflect a high level of accountability, transparency, and regulatory compliance. This is in line with the results of a study (Rosadi & Okfitasari, 2019) which shows that the BPK Audit Opinion has a positive effect on PAD. This finding supports the first hypothesis (H1), which states that the higher the quality of financial reports, as indicated by a favorable audit opinion such as WTP (Unqualified Opinion), the greater the fiscal autonomy of a region. Thus, the public accountability

mechanism acts as a causal bridge linking the quality of financial reporting with an increase in Local Own-Source Revenue (PAD). This reveals that audit results with a good audit opinion can encourage fiscal autonomy, create governance that is trusted by the public, and enable accurate data-based fiscal decision-making.

Furthermore, the results of the analysis for the second hypothesis (H2) show that human resource competence (measured by the Human Development Index/HDI) has a significant effect on regional fiscal autonomy. This is in line with the results of a study (Harahap et al., 2024) which states that there is a significant influence between the Human Development Index (HDI) and regional fiscal autonomy. A positive coefficient of 1.091 with a highly significant p-value (0.000) supports this hypothesis. These results are in line with the Resource-Based View (RBV), which places human resources as a scarce and valuable strategic resource that directly affects the capacity of regions to generate independent income. This can occur because regions with strong fiscal autonomy have greater resources to allocate to sectors that support HDI improvement, such as education, health, and spending.

These two findings complement each other and show that fiscal autonomy is not only the result of administrative improvements, but also a consequence of a combination of accountable financial management and superior human capital. Regions with credible financial reports and competent officials will be able to allocate resources efficiently, minimize budget leakage, and strengthen public trust. However, the Adjusted R² value of 0.301 indicates that approximately 69.9% of the variation in fiscal autonomy is still influenced by other factors such as institutional capacity, fiscal innovation, and central transfer policies. This shows that increasing fiscal autonomy requires a multidimensional approach not only in terms of reporting accountability and human resource competence, but also in terms of institutional aspects and public participation in budget oversight.

6. Conclusions

Based on the results of the research conducted, it can be concluded that the quality of financial reports and the quality of human resources have a positive and significant influence on the level of fiscal Autonomy of regions in Indonesia. Regions that are able to compile financial reports in a transparent and accountable manner and obtain an Unqualified Opinion (WTP) have proven to have more independent fiscal capacity. Similarly, an increase in the Human Development Index (HDI) as a representation of human resource quality contributes significantly to the ability of regions to explore local economic potential, optimize local revenue (PAD), and manage finances efficiently. These findings are in line with accountability theory, which emphasizes the importance of public accountability, as well as Resource-Based View (RBV) theory, which views human resource competencies as strategic resources that can strengthen the performance and fiscal Autonomy of local governments.

The implications of this study confirm that improving the quality of financial reports and human resource competencies are two crucial aspects in strengthening regional fiscal capacity. Local governments need to strengthen transparent financial reporting systems, improve internal oversight, and promote professionalism and ethics among

civil servants. In addition, capacity building for officials through education, training, and mastery of financial information technology needs to be intensified so that regional financial management is more efficient and adaptive to changes in the fiscal environment. The results of this study also provide recommendations for the central government and supervisory agencies to strengthen the synergy of regional fiscal performance guidance and evaluation policies in order to accelerate the realization of sustainable fiscal Autonomy.

Although it provides significant empirical contributions, this study has limitations in terms of scope and variables used. The data analyzed only covers the 2021–2022 period and uses financial statement quality and HDI as representations of human resource quality, thus not fully describing the complexity of factors that influence regional fiscal Autonomy. Therefore, further research is recommended to expand the scope of the observation period and add other variables such as institutional capacity, fiscal innovation, financial system digitization, and community participation in budget oversight. Thus, future research results are expected to provide a more comprehensive and in-depth understanding of the determinants of regional fiscal Autonomy in Indonesia.

Therefore, further research is recommended to expand the scope of the observation period and add other variables such as institutional capacity, the level of fiscal innovation, the digitization of financial systems, and community participation in budget oversight. Thus, future research results are expected to provide a more comprehensive and in-depth understanding of the determinants of regional fiscal independence in Indonesia.

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