# The influence of regional revenue and expenditure budget and the quality of financial reporting on corruption cases in regional government

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## Abstract

To overcome the negative impacts of corruption, many countries implement fiscal decentralization and regional autonomy, including Indonesia. Through fiscal decentralization, local governments are given the right to collect local own-source revenue and determine the budget value and the obligation to prepare financial reports. This study aims to test the effectiveness of the implementation of fiscal decentralization in overcoming the problem of corruption by testing these three aspects. The sample of this study consisted of 34 provincial governments in Indonesia with a period of 2018-2022 for the independent variable and 2019-2023 for the dependent variable. The test was carried out using binary logistic regression data analysis techniques using SPSS. The results of the hypothesis test show that local own-source revenue has a positive effect on corruption cases, capital expenditure does not affect corruption cases, and the financial reporting quality has a negative effect on corruption cases. This study concludes that local governments with large local own-source have a high risk of corruption cases. To overcome this, it is necessary to implement adequate internal control and risk-based internal audit as well as a commitment to present quality financial reports.

Keywords: Corruption, revenue and expenditure budget, local own-source revenue, financial reporting quality, fiscal decentralization.

## INTRODUCTION

Corruption is a classic problem in governance whose level of occurrence varies between countries (V. K. Sari & Rahardjo, 2019). Corruption robs the budget that should be used for the benefit of the people to belong to certain individuals or groups, thereby reducing the quality and quantity of public services. It has been proven to adversely affect the country's economy, ranging from economic slowdown, weakening the level of gross domestic product per capita, sluggish investment activity, and price instability. In the long run, corrupt governments not only affect the common people by increasing inequality and poverty, but also affect the welfare of all people due to the poor provision of basic needs such as health and education (Ratmono et al., 2021).

The Indonesian public views corruption as the fraud that causes the most harm. This is evidenced by the 2019 Indonesian Fraud Survey by ACFE Indonesia, which reported that 69.9% of respondents stated that the fraud that caused the most losses in Indonesia was corruption. Furthermore, 64.4% of respondents stated that corruption is the most prevalent fraud in Indonesia (Association of Certified Fraud Examiners Indonesia, 2019).

To overcome the problem of corruption, governments in many countries carry out public sector reforms called New Public Management (NPM) which consists of fiscal decentralization, the application of accrual-based accounting, and independent audits (Ratmono & Darsono, 2022). Indonesia has implemented fiscal decentralization since the enactment of Law No. 5/1974 on the Principles of Government in the Regions. The regulation was revoked by several subsequent regulations, namely Law Number 22 of 1999 concerning Regional Government, Law Number 32 of 2004, and Law Number 23 of 2014 concerning Regional Government.

The fiscal decentralization policy established by the State can be seen through Law Number 23 of 2014. Based on Article 285 of Law No. 23/2014, the State grants local governments the right to

receive revenue consisting of Local Original Revenue, transfer revenue, and other legitimate local revenues. Through local own-source revenue, local governments are authorized to collect and receive local taxes, local levies, the results of the management of separated local assets, and other legitimate local revenues. The state also authorizes local governments to determine local expenditures with priorities to fund mandatory government affairs as stipulated in Article 298 of Law Number 23 Year 2014. After realizing the budget, local governments are required to present financial reports in accordance with government accounting standards. This obligation is stipulated in Article 320 of Law Number 23 Year 2014.

The practice of regional autonomy and fiscal decentralization in Indonesia needs to be evaluated as to how effective it is in eradicating corruption. Transparency International published the 2023 Corruption Perception Index (CPI) which gives Indonesia a score of 34. The Corruption Perception Index score has a range of 0 to 100 with a score of 0 indicating a highly corrupt country and 100 indicating a corruption-free country. The score reinforces the downward trend since the highest score obtained by Indonesia in 2019 with a score of 40. The score shows that Indonesia faces a more serious corruption problem than the average country in the world because Indonesia's CPI score is less than the average global CPI score of 43 points.

Further investigation by looking at the KPK's recapitulation data on the number of corruption crimes by agency, shows that corruption crimes mostly occur in local government agencies. Local governments, which consist of provincial governments and the district/city government was reportedly involved in 797 corruption offenses from 2004-2023. This figure is the highest compared to other institutions, namely the DPR RI, Ministries/Institutions, BUMN/BUMD, and Commissions. Corruption in local government accounts for 52.71% of corruption in Indonesia. The high rate of corruption in local governments shows that the objectives of regional autonomy and fiscal decentralization have not been fully realized.

District governments were reportedly involved in 797 corruption offenses from 2004-2023. This figure is the highest compared to other institutions, namely the House of Representatives, Ministries/Institutions, BUMN/BUMD, and Commissions. Corruption in local government accounts for 52.71% of total corruption in Indonesia. The high rate of corruption in local governments shows that the objectives of regional autonomy and fiscal decentralization have not been fully realized.

Various studies have been developed to analyze how fiscal decentralization policies relate to corruption in local governments. It starts with local own-source revenue, which differs in value in each region depending on the economic potential of the region. This results in differences in the level of regional ability to fund their spending needs. For this phenomenon, there are differences in research results to explain how the relationship between local revenue and corruption. Maria et al., (2021) found that the higher the regional independence with the indicator of the ratio of Regional Original Revenue to Total Revenue, the higher the probability of corruption in the local government. However, research developed by D. N. Sari and Darmastuti (2023) found that local revenue has a negative effect on internal control weaknesses. Internal control weaknesses according to the KPMG Fraud Survey are the main cause of fraud cases.

Through the policy of regional autonomy and fiscal decentralization, local governments are given the authority to regulate and determine expenditure posture. Local government expenditures can be classified as expenditures that increase fixed assets, namely capital expenditures and non-capital expenditures that do not increase fixed assets. The two classes have different characteristics, which in order to oversee the realization of capital expenditures, the public requires certain technical expertise according to the fixed assets procured by the local government. Research has been developed to analyze the relationship of these expenditure postures to corruption. D. N. Sari and Darmastuti (2023) found that capital expenditure has no significant effect on internal control weaknesses. Meanwhile, research by Wicaksono & Prabowo (2022) shows that capital expenditure has a positive and significant effect on corruption.

To account for the realization of its budget, local governments are mandated to present financial reports. Financial reports are a means for the public to oversee the implementation of local government. However, due to the limitations possessed by the community, it is necessary to conduct

an examination of the financial statements to test the quality of the financial statements so that the public can avoid errors that can affect their user decisions. The research that has been done shows different results. Ratmono and Darsono (2022) found that the quality of financial reports has a negative impact on the level of corruption in local governments. Meanwhile, Kurniawati and Pratama (2021) found that audit opinion as an indicator of the quality of financial statements has no effect on the level of corruption.

The differences in the results of these studies in analyzing the factors that influence the phenomenon of corruption cases in Indonesia, which occur in many local governments, are the background for the author to conduct this research. In addition, previous studies still analyze separately between the budget and the quality of financial reporting on corruption. Another novelty in this study is that the data on corruption cases uses data from the Corruption Crime Investigation by the KPK. This data is more adequate in detecting corruption in a local government. Corruption investigation data is taken in the period one year after the independent data, namely budget posture and audit opinion, because it takes into account the findings of ACFE (2024) that the detection of corruption cases takes 13 months from the time of occurrence.

## LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

### Literature Review and Hypothesis Development

Research on corruption can be explained through agency (principal-agent) theory (V. K. Sari & Rahardjo, 2019). Jensen and Meckling (1976) explain the agency relationship as a two-party contract, namely between the principal and the agent. The principal enters into an engagement with the agent to perform services on behalf of the principal accompanied by the delegation of decision-making authority from the principal to the agent. In general, it is difficult for the principal to ensure that the agent will make optimal decisions according to the principal's view because the cost required by the principal to supervise the agent is very high. Meanwhile, agents also have personal interests that will hinder the realization of the principal's interests. The existence of this space opens up opportunities for agents to commit fraudulent practices that lead to acts of corruption. At the same time, the agent is offered by a third party an amount of reward to perform actions that are the opposite of what the principal asks for. If the agent accepts the third party's offer, corruption occurs which will harm the principal.

Agency problems occur in local governments with the agent being the elected executive and the principal being the people as voters (Zimmerman, 1977). Executives at the local government level are authorized to make fiscal decisions by the principal, namely the people in the area to carry out actions or activities needed to fulfill the wishes of the principal, namely the people or their legislative representatives (Ratmono et al., 2021). This authority makes the executive have discretion or freedom of action. Therefore, the activities carried out by the executive cannot always be observed by the people (as principals), giving rise to information asymmetry. Assuming that both parties will maximize their interests, it can be predicted that the executive will not always behave in the interests of the principal (Jensen & Meckling, 1976).

One of the agency problems that may occur in local governments is the asymmetry of information related to the use of local finances, which can lead to corruption by agents, namely local governments and harm principals, namely the public. Decentralization means the delegation of powers and duties from the central government to local governments to organize and govern.

The delegation given by the central government to local governments is expected to be able to explore and utilize all regional potential so that it can be utilized for the benefit of the wider community (Ratmono et al., 2021). This delegation includes granting authority to local governments in exploring sources of income. The greater the Regional Original Revenue that the local government is able to manage, the greater the information asymmetry that occurs between the local government and the community so that the greater the opportunity for irregularities.

Research conducted by Maria et al., (2021) found that regional independence as measured by the amount of local revenue has a positive effect on corruption. These results mean that the more independent the local government, the greater the probability of corruption in the local government.

This is supported by research by Ratmono et al., (2021) with the result that fiscal decentralization has a positive effect on the level of corruption. Fiscal decentralization from the revenue side in this study is proxied by the amount of Regional Original Revenue. Similar findings were also revealed in Shon & Cho's, (2019) study with the result that corruption in state governments in the United States increased in a more decentralized structure. Decentralization in this study also uses the indicator of Local Revenue. Therefore, this study proposes the first hypothesis as follows.

**H1.** Local own-source revenue has a positive effect on corruption cases in local government.

Based on agency theory, with the community as the principal and the local government as the agent, the local government has more information about capital expenditure projects than the community. This asymmetric information gives local officials the opportunity to commit corruption, for example by inflating project costs or choosing work implementers because of bribery, gratification, proximity, or other reasons that give rise to unhealthy competition (Rahmasari & Setiawan, 2021).

The effectiveness of public supervision of capital expenditure is very important in reducing the risk of corruption. However, due to the non-routine nature of capital expenditure, large transaction amounts, and complex types of work that require technical expertise to carry out supervision, this means that the public cannot carry out supervision effectively. This exacerbates the principal-agent problem, where the agent, namely the local government, has the potential to act not in accordance with the interests of the principal, namely the community. Therefore, according to agency theory, large capital expenditures have a positive effect on corruption cases.

This theory is supported by research by Wicaksono and Prabowo (2022) which found that regional capital expenditure had a positive effect on corruption in regional government in Central Java Province. Rahmasari and Setiawan (2021) also empirically prove that capital expenditure has a positive effect on fraud. This was also confirmed by Kartika (2020) who found that provinces with high capital expenditure ratios were more susceptible to procurement corruption. Therefore, this study proposes the first hypothesis as follows.

**H2.** Capital expenditure has a positive effect on corruption cases in local government.

Regional governments as agents, in planning their programs, make budgets and upon the realization of these budgets publish financial reports as a form of accountability to the people or people's representatives as principals. To reduce information asymmetry, the financial reports must be of high quality, namely presented fairly, in accordance with Government Accounting Standards, and with sufficient disclosure. With good reporting, misuse of finances and assets by executives can be reduced because the people can carry out good supervision because they get financial report information that does not contain asymmetric information. Therefore, according to agency theory, good quality financial reports have a negative effect on corruption cases.

Research conducted by Ratmono and Darsono (2022) shows that the quality of financial reports has a negative effect on the level of corruption in local government. This means that with poor quality financial reports, the level of local government corruption is high. The results are similar with research by Adiputra et al., (2018) which found that the quality of financial reports with audit opinion indicators had a positive effect on regional government transparency in Indonesia. Changwony and Paterson (2019) also prove in their research that quality accounting practices increase the effectiveness of fiscal decentralization in reducing corruption. Therefore, this study proposes the third hypothesis as follows.

**H3.** The financial reporting quality has a negative effect on corruption cases in local government.

The relationship between the variables studied in this research is explained through the research framework as shown in Figure 1 below.
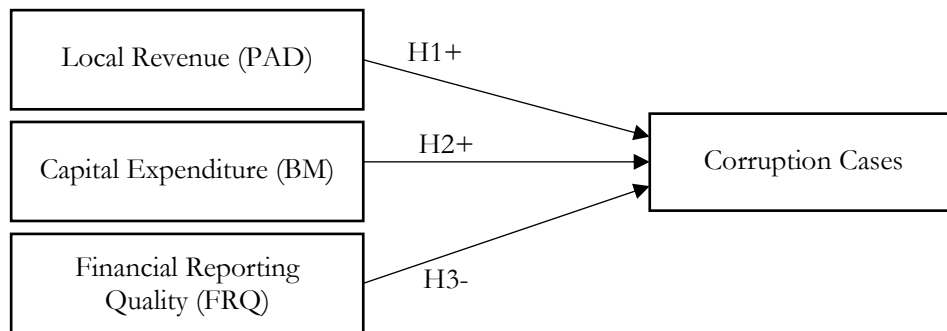
**Figure 1.** Resesarch Framework

## METHODS

This research uses a quantitative approach. The population in this study were 34 provincial governments in Indonesia. Sampling in this study used a saturated sampling technique, that is, all members of the population were sampled.

The dependent variable for corruption cases observed in this research is corruption cases that occurred within the provincial government at the investigation stage in 2019-2023. Meanwhile, the variable data that influences it, namely the APBD and the financial reporting quality, was taken in the 2018-2022 period. This takes into account the findings of research conducted by ACFE with the report title Occupational Fraud 2024: A Report to The Nations. The research found that fraudulent acts take time to be detected, with a period of 12 to 18 months. In particular, acts of corruption take 13 months before they are detected (ACFE, 2024). Therefore, data on investigations into criminal acts of corruption are taken one year after the fiscal year.

### Corruption Cases

Corruption is an act of intentionally abusing one's position or authority in government to get personal gain (Kurniawati & Pratama, 2021). Corruption cases are measured by the existence of a Corruption Eradication Committee (KPK) Investigation Order for a local government. This data was selected with the justification that the agency that issued the data was given the authority to handle large and strategic corruption cases, a measurable time lag since the corruption case occurred, and certainty that there were strong indications of criminal acts of corruption.

The data that has been collected is processed into binary data, namely a value of 1 for local governments where there are employees or State Officials in their environment who are suspects in investigative activities and a value of 0 for regional governments where there are no employees or State Officials in their environment who are suspects in investigative activities.

### Local Own-source Revenue

Local own-source revenue is revenue collected and received by the regional government based on regional regulations in accordance with statutory provisions with the aim of collecting funds to meet the needs of the regional government in implementing its programs (BPS, 2023). The independent variable Original Regional Income is operationalized with the indicator for the realization of Original Regional Income in the 2018 to 2022 Fiscal Year. This indicator then converted into natural logarithm form so that there is no high variability high.

### Capital Expenditure

Capital expenditure is expenditure in order to acquire fixed assets or other assets with a benefit value of more than one budget period (BPS, 2023). Capital expenditure includes, among other things, capital expenditure for the acquisition of land, buildings and structures, equipment, intangible assets. The variable is operationalized with the indicator for the realization of capital expenditure in the 2018 to 2022 Fiscal Year. This indicator is then converted into natural logarithm.

**Financial Reporting Quality**

Financial reporting quality is the conformity of regional government financial reports to government accounting standards and the absence of material misstatements (Ratmono & Darsono, 2022). The independent variable quality of financial reports is operationalized with the opinion of the Financial Audit Agency (BPK) on the Regional Government Financial Reports (LKPD) for Fiscal Years 2018 to 2022. The data that has been collected is processed into binary data, a value of 1 for the provincial government with an opinion on the LKPD that is unqualified and a value of 0 for the provincial government with an opinion on the LKPD that is not unqualified.

Data for local own-source revenue and capital expenditure indicators were obtained from three publications published by the Central Statistics Agency are
1. Provincial Government Financial Statistics 2018-2021,
2. Provincial Government Financial Statistics 2021-2022, and
3. Provincial Government Financial Statistics 2022-2023.
This publication was obtained via the bps.go.id page as of October 27 2024.

The indicator data for financial reporting quality is obtained from the Audit Results Summary (IHPS) Semester I of 2023 published by the Financial Audit Agency Republic of Indonesia. The IHPS publication was obtained via the bpk.go.id page as of 25 October 2024.

The indicator data for corruption cases was obtained from five publications published by the Corruption Eradication Commission are
1. 2023 Investigation Activity Implementation Report,
2. Report on the Implementation of Activities of the Deputy for Enforcement December 2022,
3. 2021 Investigation,
4. 2020 Investigation, and
5. 2019 Investigation.
Investigation publications were obtained via the kpk.go.id page as of May 11, 2024.

The publication presents investigative activities carried out in the current year consisting of cases remaining from the previous year (carry over) and cases from the current year. Investigations into carry over cases do not include observed data because the length of investigation varies so it is not fair to describe corruption cases in a provincial government.

This research uses the binary logistic regression analysis method as a data analysis technique. This approach was chosen because the dependent variable in this study is data with a dichotomous nature which is operationalized with binary values (0 and 1). According to Ghozali (2021), logistic regression analysis does not require independent variables to meet the normality assumption test requirements. The analysis technique is carried out in stages: model suitability test (Hosmer and Lemeshow's Goodness of Fit), Overall Model Fit test, Nagelkerke R Square test, and partial hypothesis test using the Wald test. Hypothesis testing in this study uses the following equation.

$$\text{Ln}\left[\frac{P}{1-P}\right] = b0 + b1.\text{PAD} + b2.\text{BM} + b3.\text{FRQ} + \varepsilon$$

Information:

$\text{Ln}\left[\frac{P}{1-P}\right]$        : probability of corruption cases
b0                   : constant
b1, b2, b3      : regression coefficient
PAD            : local own-source revenue
BM              : capital expenditure
FRQ           : finansial reporting quality
ε                 : residual eror

**RESULTS AND DISCUSSION**

The description of the data collected in this study is presented through the results of descriptive statistical analysis, including minimum, maximum, average, and standard deviation values as in Table 1.

**Table 1.** Descriptive Statistic

|      | N   | Minimum | Maximum | Mean    | Std. Deviation |
|------|-----|---------|---------|---------|----------------|
| PAD  | 170 | 19.52   | 24.55   | 21.5428 | 1.16126        |
| BM   | 170 | 18.99   | 23.37   | 20.7159 | .69080         |
| FRQ  | 170 | 0       | 1       | .97     | .169           |
| K    | 170 | 0       | 1       | .11     | .316           |

Source: Data Processing Results Using SPSS 27, 2024

Based on the results of descriptive statistical testing in Table 1, the number of data observed in all variables was 170 consisting of 34 provincial governments for 5 years, in the 2018-2022 Fiscal Year for the independent variable and the 2019-2023 Fiscal Year for the dependent variable. The results of descriptive statistical testing show that 97% of LKPD for the 2018-2022 Fiscal Year in 34 provincial governments received an unqualified opinion. Meanwhile, investigations into corruption in provincial governments during 2019-2023 occurred at 11%.

The Hosmer and Lemeshow test listed in Table 2 produces a chi-square value of 9.031 with a significance level of 0.340. The significance value is more than 0.05 so that H0 is accepted and H1 is rejected. So, it can be concluded that there is no significant difference between the model and the observed data so that the model formed fits the data and can be used to predict the effect of local own-source revenue, capital expenditure, and the financial reports quality on corruption cases.

**Table 2.** Hosmer and Leweshow Test

| Step | Chi-square | df | Sig. |
|------|------------|-----|------|
| 1    | 9.031      | 8   | .340 |

Source: Data Processing Results Using SPSS 27, 2024

The results of the Overall Model Fit test as presented in Table 3 show that the initial -2 Log Likelihood (-2LL) value of 119.064 is greater than the final -2LL value of 96.665. The initial -2LL value that is greater than the final -2LL indicates that the addition of independent variables to the model is able to improve the model so that the model fits the data used.

**Table 3.** Overall Model Fit Test

| -2 *Log Likelihood* (*block number* = 0) | 119,064 |
|------------------------------------------|---------|
| -2 *Log Likelihood* (*block number* = 1) | 96,665  |

Source: Data Processing Results Using SPSS 27, 2024

The results of the Nagelkerke R Square test listed in Table 4 show a determination coefficient of 0.245. This shows that the independent variables of local revenue, capital expenditure, and quality of financial reports can explain the dependent variable, namely corruption cases, by 24.5%. While the remaining 75.5% is a contribution from other factors not observed in this study.

**Table 4.** Nagelkerke R Square Tesr

| Step | -2 Log likelihood | Cox & Snell R Square | Nagelkerke R Square |
|------|-------------------|----------------------|---------------------|
| 1    | 96.665            | .123                 | .245                |

Source: Data Processing Results Using SPSS 27, 2024

The results of the partial hypothesis test by the Wald Test are presented in Table 5 as follows.

**Table 5.** Wald Test

| | | b | S.E. | Wald | df | Sig. | Exp(B) |
|---|---|---|---|---|---|---|---|
| Step 1a | PAD | 1.102 | .406 | 7.368 | 1 | .007 | 3.009 |
| | BM | -.549 | .630 | .759 | 1 | .384 | .577 |
| | FRQ | -3.665 | 1.112 | 10.863 | 1 | .001 | .026 |
| | Constant | -11.355 | 7.781 | 2.130 | 1 | .144 | .000 |

Source: Data Processing Results Using SPSS 27, 2024

Based on the test results that have been carried out in Table 5, the following binary logistic regression model is obtained.

$$\text{Ln}\left[\frac{P}{1-P}\right] = -11.355 + 1.102\text{PAD} - 0.549\text{BM} - 3.665\text{FRQ} + \varepsilon$$

Based on this equation, the constant value of -11.355 can be interpreted that corruption cases have a value of -11.355 if the independent variables, namely local own-source revenue, capital expenditure, and quality of financial reports have constant values. The results of partial testing of independent variables against dependents are explained as follows.

**The Influence of Local Own-Source Revenue on the Probability of Corruption Cases**
Based on the partial hypothesis test using the Wald Test, a significance value of 0.007 was obtained. The significance value is less than the significance level (α) of 0.05, which means that the variable of local revenue partially has a significant influence on corruption cases. The coefficient of the local revenue variable shows a positive value of 1.102 indicating that local revenue has a positive effect on corruption cases. Therefore, it can be concluded that **H1 is accepted, local revenue has a significant positive effect on corruption cases**.

The higher the PAD value, the higher the probability of corruption cases in the local government. These results are in accordance with agency theory, which states that the more local revenue received by the local government, the greater the budget managed. This results in an even greater asymmetric information that is more widely known by the local government than the public, thus opening up opportunities for local governments to commit irregularities.

The results of this test are in line with research conducted by Maria et al. (2021) and Ratmono et al. (2021). The results of this test are not in line with research by Wicaksono and Prabowo (2022) which concluded that local revenue has no effect on corruption which is operationalized with data on corruption cases of first-level court decisions in each region. This could be the cause of the difference in research results.

**The Influence of Capital Expenditure on the Probability of Corruption Cases**
Based on the partial hypothesis test using the Wald Test, a significance value of 0.384 was obtained. The significance value is more than the significance level (α) of 0.05, which means that the capital expenditure variable partially has no effect on corruption cases. Therefore, it can be concluded that **H2 is rejected, capital expenditure has no effect on corruption cases.**

Therefore, it can be concluded that the size of the capital expenditure value in a local government does not affect the probability of corruption cases in the local government. The results of this test can be explained through agency theory which states that the asymmetric information that is more owned by the agent makes the principal unable to supervise the agent so that the agent cannot meet the needs of the principal. In relation to capital expenditure, although capital expenditure requires specific technical expertise such as engineering science for construction capital expenditure so that not all people can carry out inspections, but with adequate internal control, the risk of frauds can be overcome. For example, construction capital expenditure has good internal control if the supervisory function carried out by the supervisory consultant is carried out professionally, with integrity, and independently. Non-construction capital expenditure has good internal control if the separation of functions between the party in need, the party providing, and the party paying runs well.

Each expenditure has a different risk value and a different type of control. Arens et al., (2020) explained that the risk of material misstatement is the risk of material misstatement in the financial statements due to fraud or error. To mitigate the risk of material misstatement, adequate control is needed. Control weaknesses occur if the design and implementation or operation of controls do not allow company personnel to prevent or detect misstatements in a timely manner in carrying out their assigned functions.

The implementation of an internal control system in governance is a mandate of Government Regulation of the Republic of Indonesia Number 60 of 2008 concerning the Government Internal Control System. The regulation regulates how internal control in government including control activities includes separation of functions, authorization of important transactions and events, and restrictions on access and accountability to resources and their recording. With the implementation of adequate internal control, it is hoped that the risk of frauds can be mitigated.

The results of the test were confirmed by the data. Data on the realization of PAD and capital expenditures are sorted from the lowest to the highest per budget year and divided into four equal parts. It was found that in the five provincial governments involved in corruption cases, the realization of capital expenditures was not at the same quartile level but at a lower level than local own-source revenue level. This shows that even provincial governments with low capital expenditures can be involved in corruption cases.

The test results in this study are in line with the research conducted by Sari and Darmastuti (2023). The results of this test do not support the research by Wicaksono and Prabowo (2022) which concluded that capital expenditure had a positive effect on corruption which was operationalized with data on corruption cases in first-instance court decisions in each region. The study did not explain whether the observation of court decisions was limited to employees and State Administrators in the relevant regional government environment or all cases handled in the courts in the region. This could be the cause of the difference in research results.

**The Influence of Financial Reporting Quality on the Probability of Corruption Cases**
Based on the partial hypothesis test using the Wald Test, a significance value of 0.001 was obtained. The significance value is less than the significance level ($\alpha$) of 0.05, which means that the variable of financial reporting quality partially has a significant effect on corruption cases. The coefficient of the financial reporting quality variable shows a negative value of 3.665 indicating that the quality of financial reports has a negative effect on corruption cases. Therefore, it can be concluded that **H3 is accepted, the quality of financial reports has a significant negative effect on corruption cases.**

Local governments with good quality financial reports have a low probability of corruption cases occurring, while local governments with poor quality financial reports have a high probability of corruption cases occurring. This conclusion is in accordance with the concept in agency theory that in order to reduce the asymmetric information in financial reports as a form of accountability of the local government, the report must be of good quality based on the audit of the Audit Board. Good financial reports are presented fairly, in accordance with Government Accounting Standards, and sufficient disclosure. So that with good reporting, the probability of misuse of finances or assets by executives can be reduced.

The results of this test are in line with research by Ratmono and Darsono (2022) and Wicaksono and Prabowo (2022). The test results are not in line with research by Kurniawati and Pratama (2021) which concluded that audit opinion has no effect on the level of corruption with the indicator of public complaints to the KPK. This could be the cause of differences in research results.

**CONCLUSION**

Based on the results of the binary logistic regression analysis of reliable data collection, the following conclusions were obtained. The value of local own-source revenue has a positive effect on the probability of corruption cases in local governments. This supports the concept in agency theory that the larger the local government budget whose main source comes from local revenue, the greater the

level of asymmetric information between the local government and the people, so the greater the fraud opportunity.

The value of capital expenditure does not affect the probability of corruption cases in local governments. This supports the concept in agency theory that the risk of fraud lies in the level of asymmetric information between the agent and the principal. Each type of expenditure has a certain risk of fraud and can be overcome with adequate internal control to reduce the asymmetric information that can open up opportunities for frauds. Therefore, the potential for frauds does not lie in the allocation of a certain expenditure value but in the level of risk and effectiveness of internal control over the expenditure.

The financial reporting quality has a negative effect on the probability of corruption cases in local governments. This supports the concept in agency theory that in order to carry out supervision properly, the community as the principal must obtain information in financial reports that is free from asymmetric information. Therefore, local government financial reports must be of good quality so that there is no asymmetric information in the financial reports which are a form of financial accountability by the agent, namely the local government to the principal, namely the community.

This study has implications for related agencies to strengthen human resources and budgets in the Government Internal Supervisory Apparatus (APIP) of local governments, especially in local governments with high local own-source revenue values so that they can conduct internal audits with integrity, professionalism, and independence. Second, conduct risk assessment and implement adequate internal controls. Third, improve the financial reporting system to be fast, reliable, adequate, and can be easily audited internally.

The limitation of this study is that the corruption data is only on investigations conducted by the KPK, not including data from other law enforcement officers, namely the Prosecutor's Office and the Police. It is hoped that further research can analyze data from these law enforcement officers.

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