

Enhancing Financial Reporting Quality Through Good Governance and Fiscal Capacity: Evidence from West Java

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ABSTRACT

The quality of local government financial statements is a critical indicator of public accountability and the reliability of information for decision-making. This study examines the factors influencing the issuance of unqualified audit opinions on local government financial statements in West Java Province for the period 2019–2023. Using a binary logistic regression model with random effects on panel data from 27 regencies/cities for five years (135 observations), this study examines the effects of budget capacity, bureaucratic reform, audit recommendation follow-up, and public information disclosure on audit opinions. The estimation results show that budget capacity and public information disclosure have a significantly negative relationship with unqualified opinions, while bureaucratic reform has a significantly positive effect. The follow-up of audit recommendations is not statistically significant. These findings imply that strategies to improve audit opinion quality should prioritize bureaucratic reform and institutional governance strengthening. Fiscal capacity and information transparency must be strategically managed to anticipate excessive audit complexity. This study provides empirical evidence that governance quality, rather than financial resources, plays a more decisive role in determining the quality of local government financial reporting.

Keywords: audit opinion, budget capacity, bureaucratic reform, local government financial statements, public information disclosure

INTRODUCTION

Local government financial statements are the primary instrument of public accountability as well as the basis for evidence-based policy making. Through these reports, local governments account for the management of public funds to citizens and other stakeholders, in line with the Government Accounting Standards (SAP) stipulated in Government Regulation No. 71 of 2010 (Mardiasmo, 2021; Nurdiono et al., 2016). SAP emphasizes that financial information must be relevant, reliable, understandable, and comparable to effectively support decision-making. Within this framework, the Audit Board of the Republic of Indonesia plays a key role by auditing local government financial statements and issuing audit opinions that serve as central indicators of financial management quality and compliance with Accounting Standards and other regulations (Adinata et al., 2023).

The quality of local government financial statements is reflected, among others, in the qualitative characteristics set out in Accounting Standards, reliability, relevance, understandability, and comparability, as well as in the audit opinion issued by the Audit Board of the Republic of Indonesia (Mardiasmo, 2021). An unqualified opinion is generally viewed as a signal that financial statements are fairly presented in accordance with accounting standards and free from material misstatement, thereby meeting the criteria of reliability and relevance (Maharani & Arofah, 2021).

West Java Province occupies a strategic position due to its large population and significant

contribution to the national economy. West Java has 27 cities and regencies (kabupaten/kota). While most achieved WTP opinions from BPK audits over 2019-2023, several fell short of pure unqualified status. The pattern of financial statement opinions from local governments shows fluctuation over the 2019-2023 period, with some unable to maintain consistent unqualified opinions (WTP) year-to-year 25 cities/regencies in 2019, 27 in 2020, 25 in 2021, 22 in 2022, and 25 in 2023 (Badan Pemeriksa Keuangan Republik Indonesia, 2024)

Within this broader discussion, budget capacity emerges as a relevant yet relatively under-explored determinant of financial reporting quality. Local governments with greater fiscal capacity are more likely to have sufficient resources to build robust financial information systems and enhance staff competencies, factors that have been shown to contribute positively to public sector financial reporting quality in both national and international empirical work (Rahma et al., 2025; Yudhanto & Rahmawati, 2025). At the same time, higher budget capacity is typically accompanied by greater complexity in financial management, including a larger number of programs and activities, more diverse asset portfolios, and a higher volume of transactions (Setyaningrum & Agustina, 2020; Sumardjoko, 2019).

Bureaucratic reform is another crucial pillar for improving financial statements quality. Bureaucratic reform indices or scores have a positive effect on the quality of local government financial statements, both directly and through strengthening local innovation and more transparent and accountable governance practices (Yasa et al., 2021). Analyses of audit data show that the status of recommendation follow-up whether they have been fully implemented or not, is associated with improvements in financial statement quality and changes in audit opinions (Nurdiono et al., 2016; Umar et al., 2019). Public information disclosure and transparency of local government finances are also widely recognized as key determinants of reporting quality and financial statements' opinions. Financial transparency creates a mechanism of social control that enables citizens, legislatures, the media, and other stakeholders to monitor the use of public funds.

Despite a growing on financial statement quality and audit opinions in Indonesia, several important research gaps remain. Many studies focus on a limited set of factors such as accounting systems, human resource competence, or internal control without offering a comprehensive picture of how budget capacity, bureaucratic reform, follow-up on audit recommendations, and public information disclosure jointly shape financial statements opinions (Firmansyah et al., 2022; Rahma et al., 2025; Yudhanto & Rahmawati, 2025). Empirical research that specifically examines the determinants of financial statements' opinions at the city/regency level within a single large province such as West Java, using recent data (2019–2023), is still relatively scarce, even though variations in institutional and fiscal characteristics across local governments within one province can provide rich insights for policy (Febriantoko, 2024; Safitri et al., 2025)

This study is expected to contribute to the development of governmental accounting and public sector auditing literature by enriching empirical evidence on the determinants of financial statements' opinions in Indonesia.

LITERATURE REVIEW

This study is grounded in the view of local governments as agents who manage public resources on behalf of citizens as principals, consistent with agency theory (Jensen & Meckling, 1976). Information asymmetry between government and society creates room for opportunistic behavior, so high-quality financial reporting, compliance with Government Accounting Standards, and independent audits by the Audit Board of the Republic of Indonesia become key mechanisms to reduce agency problems and strengthen accountability (Mardiasmo, 2021; Nurdiono et al., 2016).

Normative accounting theory explains how public sector reporting should be conducted, emphasizing adherence to principles such as relevance, faithful representation, and comparability through the adoption of accrual-based Accounting Standard in Indonesia (Nurfaidah & Novita, 2022). This study positions Agency Theory as the primary foundation for understanding the relationship between local governments and the public. The Resource-Based View and New Public Management explain the internal factors that agents need in order to fulfill their obligations. Meanwhile, Compliance Theory and Transparency Theory emphasize pressures arising from regulatory compliance and public oversight to ensure that the quality of financial reporting remains

safeguarded. Integrating these five perspectives provides a comprehensive picture of how governance and resource capacity collectively shape audit opinions in West Java.

From a resource-based view, higher budget capacity provides local governments with the financial resources needed to invest in accounting information systems, competent human resources, and robust internal controls that support compliance with government accounting standards and timely, accurate reporting (Barney, 1991). Empirical research on Indonesian local governments shows that financial strength and government size are positively related to financial reporting quality or the probability of obtaining favorable audit outcomes, because better-resourced entities are more capable of meeting technical and administrative requirements attached to accounting standard implementation and audits (Agustina & Setyaningrum, 2019; Firmansyah et al., 2022). At the same time, greater fiscal capacity tends to increase organizational and reporting complexity, which may lead to delays and errors if not supported by adequate governance structures.

H1: Budget capacity significantly influences the audit opinion.

New Public Management and agency theory imply that reformed, performance-oriented bureaucracies with strong internal control systems and professional human resources are better able to implement accounting standards and produce reliable financial reports (Hood, 1991). In Indonesia, improvements in bureaucratic governance, such as clearer division of responsibilities, strengthened internal control, and process rationalization, are associated with higher financial reporting quality and greater probability of receiving unqualified opinions (Widyastuti, 2022; Yasa et al., 2021).

H2: Bureaucratic reform significantly influences audit opinions.

Compliance theory argues that organizations are more likely to adhere to rules when they perceive credible enforcement and meaningful consequences for non-compliance, such as sanctions or reputational losses (Milgram, 1963). In the local government context, systematic and timely follow-up on audit recommendations signals a serious commitment to correcting identified weaknesses in internal control and financial management. International and national studies find that the extent of follow-up on audit recommendations is positively related to the quality of local government financial statements, as measured by their qualitative characteristics and audit outcomes (Agustina & Setyaningrum, 2019).

H3: Follow-up on audit recommendations significantly influences the audit opinion.

Transparency theory and agency theory emphasize that public disclosure reduces information asymmetry, strengthens external monitoring, and enhances accountability in public financial management (Fenster, 2015). When local governments openly disclose financial and budgetary information through websites, online PPID portals, and publicly accessible reports citizens, legislators, civil society, and the media can more effectively scrutinize performance, detect irregularities, and evaluate compliance with SAP and other regulations. Higher levels of financial transparency and disclosure are associated with better financial reporting quality and governance outcomes, including improved audit opinions and stronger perceptions of accountability (Firmansyah et al., 2022; Haustein & C. Lorson, 2023).

H4: Public information disclosure significantly influences audit opinions.

Government Size is included as a control variable to account for the organizational complexity and resource capacity of local governments. Proxied by the natural logarithm of total assets, this variable ensures that the model accounts for the inherent differences in fiscal scale between regions, as larger entities often face greater public demand and administrative challenges (Suprianto & Salim, 2024)

METHOD

This study employs a quantitative confirmatory research design with an explanatory orientation, focusing on identifying the determinants of audit opinions. This study investigates the relationship between governance and fiscal factors and a dichotomous dependent variable while controlling for unit-specific heterogeneity across West Java's local governments. (Ghozali, 2018). The quantitative approach is appropriate because the research seeks to measure the extent to which budget capacity, bureaucratic reform, follow-up on audit recommendations, and public information disclosure influence the likelihood of local governments obtaining unqualified audit opinions on their financial

statements. (Creswell & Creswell, 2017; Reza et al., 2021).

The study focuses on all cities and regencies in West Java Province, Indonesia, over five years from 2019 to 2023. Cross-sectional and panel data are combined to create a balanced panel structure with 27 local governments observed across 5 years, yielding 135 total observations after accounting for data completeness requirements. The population comprises all 27 cities and regencies in West Java Province, Indonesia. West Java was selected as the study location because it is one of Indonesia's most economically significant provinces and exhibits substantial variation in fiscal capacity, governance structure, and financial reporting quality characteristics essential for testing the theoretical relationships proposed in this study.

Due to the practical constraints of data availability, the final sample includes all 27 local governments for which complete data exists across the five-year period 2019–2023. This creates a balanced panel of 135 observations (27 units × 5 years). No further sampling was necessary because the entire population of West Java local governments is the target of analysis, and balancing the panel improves statistical efficiency. The 2019–2023 period was selected to ensure sufficient post-government accounting standard implementation observations, coverage of both normal and pandemic-disrupted fiscal periods.

Table 1. Variable Measurement

Variables	Indicators/Measurement	Sources
Audit Opinion (Y)	1=Unqualified Opinion 0=Qualified/Adverse/ Disclaimer Opinion	The Audit Board of Indonesia Report
Budget Capacity (X1)	Total Expenditure in APBD (in Billion)	Ministry of Finance Website
Bureaucratic Reform (X2)	Bureaucratic Reform Index (AA=7, A=6, BB=5, B=4, CC=3, C=2, and D=1)	Ministry of Administrative and Bureaucratic Reform Report
Recommendation Follow-Up (X3)	% Fully Implemented / Total Issued Recommendation	The Audit Board of Indonesia Report
Information Disclosure (X4)	Public Information Disclosure Index (0–100)	Regional Information Commission Report
Government Size (Z1 – Control)	(Ln) of Total Assets	Ministry of Finance Website

Source: Processed by Author, 2026

The temporal alignment of the variables in this study follows the operational cycle of public sector auditing in Indonesia. The Audit Opinion (Y), Budget Capacity (X1), Bureaucratic Reform (X2), and Information Disclosure (X4) are measured for the same fiscal year (t) to capture the governance environment and fiscal conditions during which the financial activities occurred. In contrast, the Recommendation Follow-Up (X3) reflects the implementation of corrective actions during year t, which are primarily directed toward findings from the previous year's audit report (LKPD t-1).

Binary logistic regression is the primary analytical technique, selected because the dependent variable (audit opinion) is dichotomous and the theoretical interest lies in predicting the probability of obtaining an unqualified opinion, conditional on the independent variables (Ghozali, 2018; Hilbe, 2016; Hosmer & Lemeshow, 2000)

The logistic regression model is specified as follows:

$$\text{logit}(P_i) = \ln \left(\frac{P_i}{1 - P_i} \right) = \beta_0 + \beta_1 X1_{it} + \beta_2 X2_{it} + \beta_3 X3_{it} + \beta_4 X4_{it} + \gamma_1 Z_1 + \mu_i + \epsilon_{it}$$

The estimated coefficients are transformed to odds ratios (OR), which quantify the proportional change in odds of obtaining unqualified opinions for a unit increase in each independent variable:

$$\text{OR} = e^{\beta_j}$$

The choice between Fixed Effects (FE) and Random Effects (RE) panel logistic models is

determined using a Hausman test, which compares the consistency and efficiency of the two estimators (Baltagi, 2021; Sofiyat et al., 2023)

The Hosmer and Lemeshow (HL) test evaluates whether the fitted logistic regression model adequately explains the observed data by comparing observed and expected event frequencies across deciles of predicted probability (Hosmer & Lemeshow, 2000). The Likelihood Ratio Test assesses whether the full model with all independent variables is significantly better than the null model by comparing the log-likelihood values of both.

The Wald test evaluates the statistical significance of individual coefficient estimates, testing whether each predictor independently contributes to the model's explanatory power after accounting for other variables (Hosmer & Lemeshow, 2000). The logistic regression coefficients represent the log-odds change associated with a one-unit increase in the independent variable, holding other variables constant. Because log-odds are difficult to interpret intuitively, coefficients are exponentiated to obtain odds ratios (OR), which are more intuitive.

To strengthen the proposed causal mechanism regarding COVID-19, this study incorporates a Pandemic-Adjusted Model and applies an orthogonalization procedure to mitigate potential multicollinearity arising from interaction terms.

RESULTS

Descriptive statistics reveal the distribution and variability of key variables employed in this investigation.

Table 2. Descriptive Statistic Result

Variable	Mean	Median	Maximum	Minimum	Std.Dev.	Skewness
Audit Opinion (Y)	0.92	1.00	1.00	0.00	0.27	-3.06
Budget Capacity (X1)	3,489.13	3,284.60	9,192.81	748.20	1,804.56	0.81
Bureaucratic Reform Index (X2)	3.93	4.00	6.00	3.00	0.84	0.67
Follow-up Audit Recommendation (X3)	62.84	67.50	100.00	2.90	23.60	-0.62
Information Disclosure Index (X4)	63.03	62.00	99.68	22.8	22.02	-0.06
Government Size (Z1)	29.36	29.21	31.60	27.72	0.79	0.75

Source: E-Views 13 output, 2026

The dependent variable audit opinion on local government financial statements averaged 0.92, indicating 92% of observations received unqualified opinions while 8% received qualified, adverse, or disclaimer opinions. Budget capacity ranged from IDR 748.20 billion to IDR 9,192.81 billion with positive skewness, indicating most jurisdictions cluster in lower-to-mid ranges while few resource-rich outliers reflect heterogeneity in fiscal resources across West Java. The Bureaucratic Reform Index averaged 3.93 with positive skewness, indicating moderate institutional reform progress. Follow-up on audit recommendations averaged 62.84% with negative skewness, revealing moderate-to-high implementation clustering despite substantial heterogeneity in institutional capacity. Public information disclosure averaged 63.03 with near-zero skewness, indicating symmetric distribution and moderate-to-good transparency practices overall, though considerable variation persists across jurisdictions. The variable Government Size exhibits a high degree of stability with a mean of 29.36, while its positive skewness of 0.75 indicates a distribution that is slightly leaned toward lower values with a few higher outliers.

To determine the optimal specification for binary logistic regression with panel data, a Hausman test was conducted to adjudicate between Fixed Effects Model (FEM) and Random Effects Model (REM) estimators.

Table 3. Hausman Test Result

Variable	Coefficients	
	FEM	REM
Budget Capacity (X1)	-0.0001	-0.0004
Bureaucratic Reform Index (X2)	1.4205	1.4599
Follow-up Audit Recommendation (X3)	0.0002	0.0129
Information Disclosure Index (X4)	-0.0903	-0.0481
Government Size (Z1)	-0.2697	-0.6644
χ^2	2.35	
Prob> χ^2 (P-Value)	0.7982	

Source: E-Views 13 output, 2026

The Random Effects Model (REM) is statistically justified for this study based on the Hausman Test results ($\chi^2= 2.35$, P-Value = 0.7982), which fail to reject the null hypothesis. This result confirms that the unobserved local government-specific effects are uncorrelated with the independent variables.

Table 4. Binary Logit Random Effect Model (REM) Result

Item	Value
LR Statistic	12.34
Prob(LR Statistic)	0.03
Obs with Dep=0	11
Obs with Dep=1	124
Total Obs	135

Source: E-Views 13 output, 2026

The full logistic model demonstrates statistically significant joint explanatory power. The Likelihood Ratio (LR) statistic equals 12.34 ($p = 0.03$), decisively rejecting the null hypothesis that all independent variables jointly equal zero. This result confirms that the four predictor variables collectively exert a statistically significant influence on the probability of achieving an unqualified audit opinion.

Table 5. Hosmer and Lemeshow's Goodness of Fit Test Result

No	Quantile of Risk		Dep=0		Dep=1		Total Obs	H-L Value
	Low	High	Actual	Expect	Actual	Expect		
1	0.5958	0.7821	6	3.78083	7	9.21917	13	1.83674
2	0.7848	0.8453	1	2.57582	13	11.4242	14	1.18141
3	0.8476	0.9093	0	1.48542	13	11.5146	13	1.67704
4	0.9098	0.9341	1	1.04809	13	12.9519	14	0.00239
5	0.9349	0.9513	0	0.69588	13	12.3041	13	0.73524
6	0.9521	0.9653	1	0.54820	13	13.4518	14	0.38753
7	0.9667	0.9764	1	0.36110	12	12.6389	13	1.16273
8	0.9766	0.9847	0	0.28474	14	13.7153	14	0.29065
9	0.9862	0.9921	1	0.14203	12	12.8580	13	5.24006
10	0.9922	0.9982	0	0.07790	14	13.9221	14	0.07833
Total			11	11	124	124	135	12.5921
H-L Statistic			12.5921		Prob. X ² (H-L Statistic)		0.12	
Andrews Statistic			60.1100		Prob. X ² (Andrews Statistic)		0.00	

Source: E-Views 13 output, 2026

The Hosmer-Lemeshow test (H-L = 12.5921; p = 0.12) affirms that the model is well-calibrated, with predicted probabilities aligning reasonably with observed proportions. However, a significant Andrews statistic (p = 0.00) indicates potential specification sensitivity, likely triggered by the extreme imbalance in the dependent variable, where 91.85% of observations are clustered in the unqualified category. To ensure the validity and reliability of the conclusions despite this sensitivity, a robustness check was performed.

Table 6. Expectation-Prediction-Evaluation Test Result

	Estimated Equation			Constant Probability		
	Dep=0	Dep=1	Total	Dep=0	Dep=1	Total
P(Dep=1)≤C	2	0	2	0	0	0
P(Dep=1)>C	9	124	133	11	124	135
Total	11	124	135	11	124	135
Correct	2	124	126	0	124	124
% Correct	18.18	100	93.33	0	100	91.85
% Incorrect	81.82	0	6.67	100	0	8.15
Total Gain*	18.18	0	1.48			
Percent Gain**	18.18	NA	18.18			

Source: E-Views 13 output, 2026

The model's ability to accurately classify observations is gauged using the Expectation-Prediction-Evaluation (EPE) framework. The overall accuracy of 93.33% reflects strong performance in discriminating probable unqualified achievers.

To address the potential bias arising from the unbalanced distribution of the dependent variable (91.85% Unqualified vs. 8.15% Non-Unqualified), this study performed a robustness check using Firth's Penalized Likelihood Logistic Regression.

Table 7. Wald Test Result and Robustness Check

Variable	REM Coefficient	REM P-Value	Odds Ratio	Firth Coefficient	Firth P-Value	Result Status
Constanta	20.7683	0.49	-	18.785	0.456	Consistent
Budget Capacity (X1)	-0.0004	0.03	0.9996	-0.0003	0.044	Robust
Bureaucratic Reform (X2)	1.4599	0.03	4.3055	1.1222	0.047	Robust
Follow-up Audit Rec. (X3)	0.0129	0.44	1.0130	0.0122	0.420	Consistent
Information Disclosure (X4)	-0.0481	0.03	0.9530	-0.0414	0.049	Robust
Government Size (Z1)	-0.6644	0.55	0.5146	-0.5989	0.523	Consistent

Source: E-Views 13 output, 2026

The results of the Firth Logit model are consistent with the primary Random Effects Model. This consistency confirms that the counter-intuitive findings are statistically robust and not an artifact of the standard logit estimation bias.

The logistic regression model is specified as follows:

$$\ln\left(\frac{p}{1-p}\right) = 20.7683 - 0.0004X_1 + 1.4599X_2 + 0.0129X_3 - 0.0481X_4 - 0.6644Z_1$$

Where:

X₁ = Budget Capacity

X₂ = Bureaucratic Reform Index

X₃ = Follow-Up on Audit Recommendations

X_4 = Public Information Disclosure

Z_1 = Government Size

To further validate the proposed causal mechanism and evaluate the stability of the determinants during a systemic shock, the following table presents a comparative analysis between the baseline estimation and the pandemic-adjusted model

Table 8. Comparison of Baseline and Pandemic Models

Variable	Baseline Model (REM)		Pandemic Adjusted	
	Coefficient	Prob.	Coefficient	Prob.
Budget Capacity (X1)	-0.0004	0.03	-0.0002	0.00
Bureaucratic Reform Index (X2)	1.4599	0.03	2.7336	0.04
Follow-up Audit Recommendation (X3)	0.0129	0.44	2.7172	0.53
Information Disclosure Index (X4)	-0.0481	0.03	-2.0000	0.01
Government Size (Z1)	-0.6644	0.55	-0.3242	0.57

Source: E-Views 13 output, 2026

DISCUSSIONS

Model diagnostics confirm strong specification and predictive validity. The budget capacity variable demonstrated a significant negative relationship with the probability of achieving an unqualified audit opinion (coefficient: -0.0004; $p = 0.03$). The negative sign contradicts expectations derived from resource-based theory but aligns with recent empirical evidence documenting the complexity costs inherent in managing larger fiscal budgets (Chen et al., 2024; Nurdiono et al., 2016). The Pandemic-Adjusted Model reveals that the negative impact of budget capacity on audit opinions became significantly more pronounced, with the significance level reaching $p=0.00$. This indicates that the fiscal complexity of managing large budgets during a systemic crisis exacerbated documentation gaps, as large-scale expenditures in domains like health.

This finding reflects several underlying mechanisms documented in recent literature. First, larger budgets typically necessitate more complex accounting structures and involve diverse fund sources (general revenue, intergovernmental transfers, special allocations), increasing opportunities for classification errors, reconciliation failures, and documentation gaps (Hasaelvana et al., 2025). Second, amplified budgetary scale increases the magnitude of audit sample sizes, raising the probability of detecting immaterial errors that nonetheless constitute audit findings. Third, substantial expenditures in complex domains (public infrastructure, health systems, education systems) present inherent control challenges due to transaction complexity, extended project timelines, and stakeholder coordination requirements (Chen et al., 2024; Saleh & Rahadian, 2023).

The finding is particularly pronounced for capital expenditures and sectoral spending. Bekasi Regency and Bogor Regency, which rank among the highest in budget capacity within the province, have historically experienced unqualified opinion in years coinciding with large infrastructure allocations. Conversely, Pangandaran Regency, characterized by constrained fiscal capacity (IDR748.20 billion annually), achieved consecutive unqualified opinions despite limited resources, suggesting that fiscal simplicity itself confers audit advantages. With larger budgets, compliance with various regulations becomes increasingly challenging. Non-compliance, such as overpayments for work sourced from goods and services expenditures and capital expenditures, can adversely affect audit opinions (Nurdiono et al., 2016; Saleh & Rahadian, 2023).

The bureaucratic reform index variable demonstrated a statistically significant positive coefficient of 1.4599 ($p = 0.03$), indicating that advancement in bureaucratic reform implementation substantially improves the likelihood of financial reporting certification. The corresponding odds ratio of 4.3055 conveys that a one-level improvement in the reform index multiplies the odds of achieving unqualified opinion status by approximately 4.3 times. Bureaucratic reform remains a resilient and significantly positive determinant even under the pressures of the pandemic ($p=0.04$), validating its role as a fundamental pillar of reporting quality

This finding corroborates good governance theory predictions and validates the premise that systematic institutional reform encompassing organizational structure rationalization, process standardization, integrity culture development, and technology adoption creates operational conditions conducive to high-quality financial (Hosana et al., 2022). Local governments classified at the highest reform levels (A/6) demonstrate substantially greater consistency in achieving unqualified opinions across multi-year periods.

Bureaucratic reform typically emphasizes the elimination of organizational redundancy and clarification of functional specialization, reducing the likelihood of task overlaps that generate control gaps or documentation confusion (Susiawati et al., 2025). Reform initiatives institutionalize ethical frameworks and professional conduct expectations, motivating personnel to execute accounting responsibilities with heightened precision (Pratiwi et al., 2022). The strong positive effect aligns with findings from Widyastuti (2022) on good governance impact on audit outcomes and demonstrating governance quality effects on financial reporting. Notably, several regencies classified at the A/6 reform level (Bandung City, Depok City, Cimahi City, Bandung Regency) have achieved sustained unqualified opinion outcomes across the entire observation period.

This counterintuitive finding reflects several explanatory factors anchored in audit practice realities. First, audit opinions represent conclusions regarding the overall fairness of financial statement presentation, not simple aggregations of corrective action rates. Material weaknesses receive proportionally greater audit emphasis than immaterial errors, implying that substantial progress on trivial recommendations may yield negligible opinion influence. The distinction between compliance and substantive improvement is critical here, as administrative completion of recommendations does not automatically translate to meaningful control enhancement (Pramiudi, 2024; Sabella & Mutmainah, 2022). Second, implementation delays inherent in bureaucratic processes mean that recommendations issued in year t may not be fully addressed until year $t+2$ or $t+3$. Recent research by Fidiana & Retnani (2023) and Yanti & Ardlillah (2024) emphasize this temporal disconnection between follow-up completion and opinion outcomes, particularly in complex organizational contexts where implementation requires coordinated inter-departmental actions. The implementation of audit recommendations consistently showed no significant effect in the pandemic-adjusted results, maintaining the trend observed in the baseline model.

The public information openness variable exhibited a statistically significant negative coefficient of -0.0481 ($p = 0.03$), indicating that higher transparency metrics paradoxically associate with reduced probability of unqualified audit opinions. This finding diverges from prior empirical studies documenting positive associations between transparency and financial reporting quality (Firmansyah et al., 2022) and invites careful contextual interpretation. The negative relationship between public information disclosure and audit outcomes intensified in the pandemic-adjusted model ($p = 0.01$). The negative relationship likely reflects pandemic-era disruptions documented during the 2020-2022 observation window. COVID-19 induced operational constraints severely compromised conventional audit methodologies. Auditors, unable to conduct in-person physical inspections and document verifications, experienced substantial difficulties in obtaining adequate audit evidence regarding asset existence, account reconciliations, and transaction authorization (Awisianti & Susilo, 2023; Fidiana & Retnani, 2023). Regencies that published transparent information through online portals and digital disclosures inadvertently exposed audit evidence gaps arising from remote audit limitations rather than underlying financial reporting deficiencies (Yuniarta et al., 2024).

The temporal coincidence with pandemic-era constraints and the reversal from Firmansyah et al. (2022) findings based on 2016-2019 data supports this mechanistic interpretation. Remote audit procedures, as documented by Awisianti & Susilo (2023) and Yuniarta et al. (2024), created systematic audit evidence gaps unrelated to actual financial management quality. The negative information openness effect contradicts Firmansyah et al. (2022) and contemporary good governance principles emphasizing transparency benefits. However, the finding aligns with circumstantial evidence regarding pandemic-era audit complications.

CONCLUSION

This study examines West Java's 27 city and regency governments over 2019–2023 and

demonstrates that bureaucratic reform constitutes the primary determinant of financial reporting quality as reflected in unqualified audit opinions. Systematic institutional modernization encompassing organizational restructuring, process standardization, and digital integration validates New Public Management theory by creating material improvements in Government Accounting Standards compliance. Budget capacity exhibits a counterintuitive negative relationship, refining Resource-Based View theory by revealing that optimal effectiveness emerges at intermediate complexity levels rather than maximum fiscal capacity. Follow-up on audit recommendations showed no significant effect and establishing that substantive control improvement requires addressing root causes and preventing recurrence. Information disclosure demonstrated unexpected negative association, attributable to pandemic-era audit evidence constraints during 2020–2022 that created systematic gaps unrelated to underlying financial management quality. Collectively, institutional governance evolution exerts more powerful influence on financial reporting quality than resource availability alone.

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