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When Clean Audit Opinions Fail to Signal Integrity: Explaining the Governance Paradox of Corruption among Indonesian Local Governments

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Abstract
Purpose – This study examines why unqualified audit opinions (WTP) do not necessarily indicate the absence of corruption in Indonesian local governments by investigating the institutional factors underlying this governance paradox.
Design/Methodology/Approach – A quantitative approach was employed using balanced panel data from 114 Indonesian local governments during 2019–2022, yielding 342 local government-year observations. Fixed-effects binary logistic regression was applied. Corruption was measured using cases prosecuted by the Corruption Eradication Commission (KPK), while the explanatory variables included Internal Government Supervisory Apparatus (APIP) capability, auditor rotation, accounting human resource capacity, and capital expenditure intensity.
Findings – The results show that stronger APIP capability, more frequent auditor rotation, and higher accounting human resource capacity significantly reduce corruption risk among local governments receiving unqualified audit opinions. Conversely, greater capital expenditure intensity increases the likelihood of corruption. These findings suggest that audit opinions alone are insufficient indicators of governmental integrity without effective internal oversight and institutional capacity.
Theoretical Contribution/Originality – This study extends Audit Expectation Gap Theory by integrating Agency Theory and Institutional Theory to explain how institutional conditions create a governance paradox in which high audit quality does not necessarily translate into substantive accountability.
Policy Implications – Strengthening internal audit capability, auditor independence, accounting competency, and oversight of capital expenditure is essential to improving public sector integrity.
Limitations – Corruption is measured using detected cases only. Future studies should employ alternative corruption proxies and broader governance indicators.

Keywords: Unqualified Audit Opinion, Corruption, Local Government, Public Sector Auditing, Governance Paradox, Indonesia.

Introduction

The coexistence of unqualified audit opinions and corruption cases represents one of the most persistent governance challenges in Indonesia's public sector. Over the last decade, the Audit Board of the Republic of Indonesia (BPK) has consistently awarded Unqualified Audit

Opinions (Wajar Tanpa Pengecualian/WTP) to a growing number of local governments, reflecting substantial improvements in financial reporting compliance and public financial management. According to BPK (2024), more than 90 percent of Indonesian local governments received WTP opinions, indicating a high level of conformity with governmental accounting standards and audit requirements. Despite this achievement, corruption cases involving regional heads and local government officials continue to emerge. Data released by the Corruption Eradication Commission (KPK) reveal that numerous local governments receiving WTP opinions were subsequently involved in corruption investigations, prosecutions, or anti-corruption enforcement operations. This apparent contradiction raises important questions regarding the extent to which audit opinions can serve as reliable indicators of governmental integrity and accountability.

An unqualified audit opinion, as defined in the State Financial Audit Standards (SPKN), indicates that financial statements are fairly presented, in all material respects, in accordance with applicable accounting standards. However, such an opinion does not constitute evidence that an organization is free from fraud, corruption, or unethical conduct. The primary objective of a financial statement audit is to assess the fairness of financial reporting rather than to provide absolute assurance regarding the absence of corruption. Nevertheless, public discourse frequently extends the meaning of WTP opinions beyond their technical audit function and treats them as symbols of integrity, transparency, and good governance. This transformation of an accounting opinion into a broader legitimacy signal creates what this study refers to as a governance paradox: local governments may simultaneously achieve high levels of formal financial accountability while remaining vulnerable to corruption practices.

The relationship between audit quality, accountability, and corruption has attracted increasing attention in the public sector auditing literature. Prior studies suggest that audit outcomes are influenced not only by technical audit procedures but also by institutional conditions, governance structures, internal control effectiveness, and stakeholder expectations (Arens et al., 2017; Power, 1997; Svanidze & Butt, 2022). In Indonesia, several studies have documented the coexistence of WTP opinions and corruption cases, highlighting the limitations of audit opinions as standalone indicators of integrity (Faristina, 2011; Najahningrum, 2013; Setyaningrum et al., 2017). However, most existing studies focus primarily on documenting the phenomenon rather than explaining the institutional and governance factors that weaken the relationship between audit opinions and corruption outcomes. Consequently, empirical evidence regarding why corruption persists among recipients of unqualified audit opinions remains limited.

Despite growing attention to the relationship between audit opinions and corruption in the public sector, several important gaps remain unresolved. First, prior studies have primarily examined whether audit opinions are associated with corruption outcomes, yet limited attention has been devoted to identifying the institutional factors that weaken the ability of unqualified audit opinions to signal the absence of corruption (Faristina, 2011; Najahningrum, 2013; Setyaningrum et al., 2017). Second, existing studies generally treat audit opinions as direct indicators of accountability without adequately explaining why corruption may persist even when local governments receive favorable audit assessments. Third, the literature remains theoretically fragmented, with most studies relying on a single perspective, such as Agency Theory or audit quality arguments, while providing limited integration of institutional conditions and audit expectation gaps. Consequently, there is still insufficient understanding of the mechanisms through which formal audit achievements fail to translate into substantive governance integrity. Addressing these gaps is important because audit opinions continue to be widely interpreted by policymakers and the public as indicators of clean and corruption-free governance.

A further gap concerns the theoretical interpretation of this phenomenon. While Agency Theory explains information asymmetry and monitoring problems, Institutional Theory emphasizes the role of formal structures and legitimacy in shaping organizational behavior. Meanwhile, Audit Expectation Gap Theory highlights discrepancies between public expectations and the actual objectives and limitations of auditing. Existing studies rarely integrate these perspectives into a unified framework capable of explaining why favorable audit opinions coexist with corruption cases. Consequently, the governance paradox remains conceptually underdeveloped and insufficiently tested in empirical settings.

Accordingly, this study investigates the effects of Internal Government Supervisory Apparatus (APIP) quality, auditor rotation, accounting human resource capacity, and capital expenditure intensity on corruption risk among local governments receiving unqualified audit opinions. By focusing exclusively on WTP recipients, this study moves beyond the traditional question of whether audit opinions are associated with corruption and instead examines why corruption may persist despite favorable audit outcomes. Using panel data from 114 Indonesian local governments during the 2019–2022 period and employing fixed-effects binary logistic regression, this study investigates the institutional conditions that shape corruption risk despite favorable audit outcomes.

This study offers three primary contributions. First, it develops a governance paradox framework that extends Audit Expectation Gap Theory by explaining why audit opinions may fail to function as effective signals of governmental integrity under certain institutional conditions. Second, it integrates Agency Theory, Institutional Theory, and Audit Expectation Gap Theory into a unified explanatory model for understanding corruption risk among WTP recipients. Third, by utilizing multi-year panel data and controlling for unobserved heterogeneity across local governments, the study provides more robust empirical evidence than prior cross-sectional studies that dominate the existing literature.

The findings are expected to contribute to the public sector auditing, governance, and anti-corruption literature by demonstrating that formal audit quality alone is insufficient to guarantee substantive accountability. More importantly, the study provides policy insights for strengthening internal oversight mechanisms, improving audit effectiveness, enhancing governmental accountability, and reducing corruption risk within Indonesian local governments.

Literature Review and Hypothesis Development

Theoretical Framework

This study is grounded in three complementary theoretical perspectives: Agency Theory, Institutional Theory, and Audit Expectation Gap Theory. Together, these theories provide a comprehensive explanation of why unqualified audit opinions may coexist with corruption practices in local governments.

Agency Theory (Jensen & Meckling, 1976) explains the relationship between local governments as agents and citizens as principals. In public sector settings, information asymmetry is inevitable because government officials possess substantially greater access to fiscal and administrative information than external stakeholders. External audits are therefore intended to reduce information asymmetry by providing assurance regarding the fairness of financial reporting. Within this framework, an unqualified audit opinion serves as a monitoring signal that should reduce uncertainty regarding government accountability. However, Agency Theory also suggests that monitoring mechanisms are not always effective in constraining opportunistic behavior. When internal controls are weak, oversight mechanisms are ineffective, or information manipulation becomes more sophisticated, corruption may persist despite favorable audit outcomes.

Institutional Theory offers a complementary explanation by emphasizing the role of legitimacy and organizational conformity (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Local governments operate under strong coercive, normative, and mimetic pressures that encourage compliance with externally imposed standards. As a result, achieving an unqualified audit opinion may become an institutional objective in itself, leading organizations to prioritize formal compliance rather than substantive accountability. This phenomenon reflects what Meyer and Rowan (1977) describe as decoupling, where formal structures are adopted to gain legitimacy while underlying practices remain unchanged. Consequently, local governments may successfully achieve favorable audit outcomes without necessarily reducing corruption risks.

Audit Expectation Gap Theory further strengthens the theoretical framework by explaining discrepancies between what auditors are expected to accomplish and what auditing standards actually require (Liggio, 1974; Porter, 1993). Public stakeholders frequently assume that an unqualified audit opinion guarantees the absence of corruption, fraud, or misconduct. In reality, financial statement audits are designed to evaluate the fairness of financial reporting rather than to detect every instance of corruption. This mismatch between public expectations and audit objectives contributes to a governance paradox in which audit success is interpreted as evidence of integrity even when corruption risks remain present.

The integration of these three theories forms the foundation of the governance paradox framework proposed in this study. Agency Theory explains monitoring limitations, Institutional Theory explains the pursuit of legitimacy through formal compliance, and Audit Expectation Gap Theory explains why stakeholders may overestimate the meaning of audit opinions. Together, these perspectives suggest that the relationship between unqualified audit opinions and corruption is conditional rather than deterministic and depends on institutional, organizational, and governance factors.

International studies generally suggest that high-quality auditing contributes to accountability and corruption prevention; however, the relationship is not always straightforward. Research has shown that audit effectiveness depends on institutional quality, auditor independence, internal control systems, and governance arrangements rather than audit outcomes alone (Power, 1997; Knechel & Sharma, 2012; Svanidze & Butt, 2022). Recent studies further argue that public sector audits create value and strengthen accountability only when supported by effective governance arrangements, institutional capacity, and internal oversight mechanisms (Cordery & Hay, 2019; Hay & Cordery, 2021; Ferry et al., 2023). These findings suggest that unqualified audit opinions should be interpreted within their broader governance context rather than as standalone indicators of governmental integrity.

In Indonesia, previous studies have reported mixed evidence regarding the relationship between audit opinions and corruption. Setyaningrum et al. (2017) found that favorable audit opinions do not necessarily reflect superior fiscal performance. Faristina (2011) documented corruption cases involving local governments that had received unqualified audit opinions, while Najahningrum (2013) highlighted the importance of internal control effectiveness in reducing governance irregularities. Although these studies provide valuable insights, most focus on describing the coexistence of audit opinions and corruption rather than identifying the institutional mechanisms that explain why corruption persists among WTP recipients.

Furthermore, previous studies have largely examined audit quality, internal control, or corruption independently. Limited research has integrated Agency Theory, Institutional Theory, and Audit Expectation Gap Theory to explain the governance paradox surrounding audit opinions and corruption. Unlike prior studies that primarily apply these theories separately, this study integrates the three perspectives into a governance paradox framework, explaining that the relationship between unqualified audit opinions and corruption is conditional upon institutional quality, internal supervisory capacity, and governance effectiveness. This integrated perspective extends the public sector auditing literature by conceptualizing audit opinions as governance signals whose credibility depends on the broader institutional environment rather than audit outcomes alone**.** This study seeks to address that gap by examining the institutional conditions under which unqualified audit opinions fail to function as effective signals of governmental integrity.

APIP Quality and Corruption Risk

Internal Government Supervisory Apparatus (APIP) plays a central role in strengthening internal control systems and preventing irregularities within local governments. From an agency perspective, APIP functions as an internal monitoring mechanism that reduces information asymmetry and constrains opportunistic behavior. Effective internal oversight increases the probability that corruption schemes will be detected before causing significant fiscal losses.

Previous studies have consistently shown that stronger internal audit capability contributes to improved accountability and lower corruption risk in public organizations (Cohen et al., 2008; Eulerich et al., 2022). Within the governance paradox framework, APIP quality becomes particularly important because favorable audit opinions may not adequately reflect actual governance conditions when internal monitoring remains weak. Therefore, weak APIP capability is expected to increase corruption risk even among local governments receiving unqualified audit opinions.

Recent public sector governance studies also emphasize that strong internal audit capability enhances accountability and strengthens corruption prevention by improving risk management and internal control effectiveness (Cordery & Hay, 2019).
H1: Lower APIP quality increases the probability of corruption among local governments receiving unqualified audit opinions.

Auditor Rotation and Corruption Risk

Auditor independence is a fundamental prerequisite for audit effectiveness. One mechanism designed to preserve independence is auditor rotation. Agency Theory suggests that prolonged auditor-client relationships may generate familiarity threats that reduce professional skepticism and weaken the auditor's ability to identify irregularities (DeAngelo, 1981).

However, the literature presents conflicting evidence regarding auditor rotation. On one hand, auditor rotation may strengthen independence by reducing excessive familiarity with audited entities. On the other hand, newly assigned auditors may possess limited entity-specific knowledge, potentially reducing audit effectiveness during the early stages of engagement (Francis & Yu, 2009). Consequently, the relationship between auditor rotation and corruption detection remains theoretically ambiguous.

In the context of Indonesian local governments, where budgeting processes and procurement activities often span multiple fiscal periods, excessive auditor tenure may create opportunities for informal relationships and reduced audit rigor. Therefore, insufficient auditor rotation is expected to weaken corruption detection capabilities.
H2: Lower levels of auditor rotation increase the probability of corruption among local governments receiving unqualified audit opinions.

Accounting Human Resource Capacity and Corruption Risk

The quality of financial reporting depends not only on external auditing but also on the internal capacity of government personnel responsible for financial management and accounting processes. Accounting human resource capacity reflects the ability of public officials to prepare reliable financial statements, maintain adequate documentation, and comply with accounting regulations.

Previous studies indicate that stronger accounting competency improves reporting quality, strengthens internal controls, and reduces opportunities for mismanagement (Cohen et al., 2008; Coates & Srinivasan, 2014). Conversely, limited accounting expertise may create procedural weaknesses that can be exploited for corrupt purposes.

Within the governance paradox framework, weak accounting capacity may contribute to corruption even when local governments receive favorable audit opinions because deficiencies in financial management systems may remain hidden behind formally compliant reporting practices.
H3: Lower accounting human resource capacity is positively associated with corruption among local governments receiving unqualified audit opinions.

Capital Expenditure Intensity and Corruption Risk

Capital expenditure has long been recognized as one of the most corruption-prone areas of public financial management. Infrastructure projects often involve large contract values, technical complexity, and significant information asymmetry between governments and contractors, creating opportunities for collusion, bid manipulation, and rent-seeking behavior (Olken, 2007).

Empirical evidence from Indonesia suggests that procurement and infrastructure spending represent major sources of corruption risk within local governments (KPK, 2020). Although external audits may improve transparency, many procurement-related irregularities remain difficult to detect through conventional financial statement audits.

Consequently, local governments with higher capital expenditure intensity are expected to face greater corruption risks, even when they receive unqualified audit opinions. This argument reinforces the governance paradox perspective by demonstrating that favorable audit outcomes do not necessarily eliminate corruption opportunities embedded within high-risk expenditure structures.
H4: Capital expenditure intensity is positively associated with corruption among local governments receiving unqualified audit opinions.

Research Method

Research Design and Data Sources

This study employs a quantitative research design with a causal-explanatory approach to investigate the governance factors associated with corruption among local governments receiving unqualified audit opinions. A balanced panel dataset was utilized to combine cross-sectional and longitudinal variations, enabling the analysis to control for unobserved time-invariant heterogeneity across local governments and improve the robustness of coefficient estimates (Wooldridge, 2010).

Data were collected from four primary sources. First, audit opinion data and financial audit information were obtained from the Audit Reports (Laporan Hasil Pemeriksaan/LHP) issued by the Audit Board of the Republic of Indonesia (BPK). Second, data on the capability level of Internal Government Supervisory Apparatus (APIP) were obtained from reports published by the Ministry of Home Affairs and relevant supervisory institutions. Third, corruption data were collected from official records of corruption cases investigated or prosecuted by the Corruption Eradication Commission (KPK). To ensure consistency across datasets, a record linkage procedure was conducted by matching local government names, administrative codes, and fiscal-year information obtained from BPK reports, KPK case databases, and Ministry of Finance records. Fourth, budget realization data were obtained from the Ministry of Finance.

Although KPK data provide the most reliable and publicly verifiable corruption records in Indonesia, they may not fully capture all corruption incidents because many cases remain undetected, unreported, or are handled by other law enforcement agencies. Therefore, the corruption variable should be interpreted as a proxy for detected corruption rather than the total incidence of corruption.

Population and Sample

The population consisted of all district and municipal governments in Indonesia that received Unqualified Audit Opinions (WTP) during the 2019–2022 period. The study deliberately focuses on WTP recipients because the objective is not to examine whether audit opinions are associated with corruption, but rather to explain why corruption may still occur despite favorable audit outcomes. This sampling strategy is consistent with the governance paradox framework developed in this study.

Purposive sampling was employed using the following criteria: (1) local governments received an unqualified audit opinion for at least three years during the observation period; (2) complete information regarding APIP quality, accounting human resource capacity, and budget realization was available; and (3) the local government did not experience administrative restructuring, expansion, or merger during the study period.

Based on these criteria, 114 local governments were selected. The final sample generated 342 local government-year observations. Eleven local governments were excluded due to incomplete data availability. While the focus on WTP recipients may limit the generalizability of the findings to all local governments, it enables a more precise examination of the governance paradox that motivates this study.

Operational Definition and Measurement of Variables

The operational definitions and measurements of all variables are presented in Table 1. The dependent variable is corruption, measured using corruption cases involving local governments that were investigated or prosecuted by the Corruption Eradication Commission (KPK). The independent variables include APIP quality, auditor rotation, accounting human resource capacity, and capital expenditure intensity. Control variables were also incorporated to reduce omitted variable bias and improve model estimation.

Table 1. Operational Definitions and Measurement of Variables

Variable	Definition	Measurement	Data Source
CORRUPTION (Dependent)	Corruption cases handled by the Corruption Eradication Commission (KPK) involving the respective local government entity	Binary variable: 1 = corruption case exists in the current year or year *t+1*; 0 = no corruption case	KPK Case Database
APIP (Independent)	Quality of the Government Internal Supervisory Apparatus (APIP)	APIP capability score (1–5) based on the Internal Audit Capability Model (IACM): 1 = Initial, 5 = Optimizing	Ministry of Home Affairs APIP Reports
ROTATION (Independent)	Frequency of audit team rotation by the Audit Board of Indonesia (BPK)	Number of changes in the BPK audit team leader within four years; categorized as: frequent (≥2 times) = 1, infrequent (<2 times) = 0	BPK Audit Reports and Internal BPK Information
HR CAPACITY (Independent)	Capacity of local government accounting personnel	Ratio of employees with accounting/finance educational backgrounds to the total number of employees in the local finance office (%)	Budget Realization Reports and Regional Personnel Agency (BKD) Profiles
CAPITAL EXPENDITURE (Independent)	Intensity of capital expenditure relative to total expenditure	Ratio of realized capital expenditure to total realized regional budget expenditure (APBD) (%)	Directorate General of Fiscal Balance (DJPK), Ministry of Finance

Model Specification and Data Analysis

Given that the dependent variable is binary (corruption occurrence versus no corruption occurrence), this study employs fixed-effects logistic regression. Unlike conventional linear panel regression models, fixed-effects logistic regression estimates the probability of an event occurring while controlling for unobserved characteristics that remain constant within each local government over time. This approach is particularly appropriate for corruption studies because institutional characteristics, political environments, and governance cultures may differ substantially across local governments and may not be directly observable.

To mitigate potential reverse causality concerns, all independent variables were lagged by one year. In addition, multicollinearity diagnostics were conducted prior to estimation. As an additional robustness procedure, alternative model specifications using clustered standard errors were estimated to assess the stability of the findings.

The empirical model is specified as follows:

CORR_{it} = \alpha + \beta_1 APIP_{it-1} + \beta_2 ROT_{it-1} + \beta_3 HR_{it-1} + \beta_4 CAPEX_{it-1} + \varepsilon_{it}

where (CORR) represents corruption occurrence, (APIP) denotes APIP quality, (ROT) represents auditor rotation, (HR) indicates accounting human resource capacity, and (CAPEX) reflects capital expenditure intensity.

Results

Descriptive Statistics

Table 2 presents the descriptive statistics for all variables included in the analysis. The distribution of the variables provides an overview of the sample characteristics and the variability of the data prior to conducting the regression analysis.

Table 2. Descriptive Statistics (n = 342 Local Government-Year Observations)

Variable	N	Mean	Std. Dev.	Min	Max	Skewness
CORRUPTION (Binary)	342	0.21	0.41	0	1	1.43
APIP (Capability Score 1–5)	342	2.87	0.74	1	5	0.31
AUDITOR ROTATION (Binary)	342	0.38	0.49	0	1	0.48
ACCOUNTING HR CAPACITY (%)	342	34.6	12.8	8.4	71.2	0.19
CAPITAL EXPENDITURE INTENSITY (%)	342	22.4	8.7	4.1	51.3	0.67

Of the 342 observations, 21 percent were associated with corruption cases, indicating that corruption remains a significant concern despite all sampled local governments having received unqualified audit opinions (WTP). This finding provides preliminary evidence that favorable audit opinions do not necessarily imply the absence of corruption. The average APIP capability score of 2.87 suggests that most local governments operated at the Infrastructure level (Level

3) or below, indicating considerable room for improvement in internal supervisory capacity. The mean proportion of accounting personnel was 34.6 percent, implying that financial management functions in many local governments were still supported substantially by employees without formal accounting or finance backgrounds. Meanwhile, capital expenditure intensity averaged 22.4 percent of total expenditure, with a relatively wide range from 4.1 percent to 51.3 percent, reflecting substantial variation in spending priorities and development programs across local governments.

Model Diagnostic Tests

Prior to estimating the main model, several diagnostic procedures were conducted to ensure the reliability and validity of the statistical inferences. Multicollinearity was assessed using the Variance Inflation Factor (VIF). The VIF values for all independent variables ranged from 1.23 to 2.14, well below the commonly accepted threshold of 10, indicating that multicollinearity was not a concern in the dataset.

To determine the appropriate panel specification, a Hausman test was performed to compare the fixed-effects and random-effects estimators. The test produced a chi-square statistic of 28.70 with a p-value below 0.001, supporting the use of the fixed-effects model as the more consistent and appropriate specification.

Model fit was further evaluated using the Hosmer–Lemeshow goodness-of-fit test. The resulting chi-square value of 6.42 with a p-value of 0.601 suggests that the model adequately fits the observed data. In addition, the Area Under the Receiver Operating Characteristic Curve (AUC) was 0.847, indicating a strong ability of the model to distinguish between local governments associated with corruption cases and those without corruption cases.

Hypothesis Testing Results

The results of the fixed-effects binary logistic regression are reported in Table 3. The table presents the estimated unstandardized coefficients, cluster-robust standard errors to account for potential serial correlation within panel observations, odds ratios, and corresponding significance levels. These estimates provide evidence regarding the direction and magnitude of the relationships between APIP capability, auditor rotation, accounting human resource capacity, capital expenditure intensity, and the likelihood of corruption among local governments receiving unqualified audit opinions.

APIP capability (H1) exhibits a negative and highly significant association with corruption risk ($\beta = -0.712$, $p < 0.001$, OR = 0.491). The odds ratio indicates that a one-level increase in APIP capability is associated with an approximately 50.9% reduction in the likelihood of corruption, holding other factors constant. This finding supports H1 and suggests that stronger internal supervisory capacity is an important governance mechanism for reducing corruption risk among local governments that have received unqualified audit opinions. The result also highlights the importance of internal control systems in ensuring that formal audit achievements are accompanied by substantive accountability outcomes.

Auditor rotation (H2) is negatively and significantly associated with corruption ($\beta = -0.548$, $p = 0.012$, OR = 0.578). Local governments experiencing more frequent changes in audit team leadership appear less likely to be involved in corruption cases than those with relatively stable audit assignments. Therefore, H2 is supported. This finding is consistent with the argument that periodic rotation may help preserve auditor independence by reducing familiarity threats and strengthening professional skepticism during the audit process.

Table 3. Fixed-Effects Binary Logistic Regression Results

Variable	Coefficient (β)	Std. Error	Odds Ratio	p-value	Interpretation
Constant	3.841	0.621	—	0.000**	—
APIP Capability	-0.712	0.184	0.491	0.000**	H1 supported: higher APIP capability is associated with lower corruption risk
Auditor Rotation	-0.548	0.217	0.578	0.012*	H2 supported: less frequent auditor rotation is associated with higher corruption risk
Accounting HR Capacity	-0.034	0.011	0.967	0.003**	H3 supported: lower accounting human resource capacity is associated with higher corruption risk
Capital Expenditure Intensity	0.047	0.018	1.048	0.009**	H4 supported: higher capital expenditure intensity is associated with greater corruption risk

*p<0.05, **p<0.01; Nagelkerke $R^2 = 0.573$; AUC = 0.847; Uji Hosmer-Lemeshow: $\chi^2(8) = 6.42$, p = 0.601

Accounting human resource capacity (H3) also demonstrates a significant negative relationship with corruption (β = −0.034, p = 0.003, OR = 0.967). Although the coefficient appears modest, the variable is measured as a percentage. Consequently, a ten-percentage-point increase in the proportion of accounting-qualified personnel is associated with a meaningful decline in corruption risk. This result suggests that the availability of competent accounting personnel contributes to stronger financial management practices, improved compliance, and more effective internal controls within local governments. Accordingly, H3 is supported.

Capital expenditure intensity (H4) shows a positive and statistically significant association with corruption (β = 0.047, p = 0.009, OR = 1.048). The estimated odds ratio indicates that local governments allocating a larger share of their budgets to capital expenditure face a higher probability of corruption. A ten-percentage-point increase in capital expenditure intensity is associated with a substantial increase in corruption risk. This finding supports H4 and is consistent with the view that procurement and infrastructure projects involve greater discretion, higher contract values, and more complex transactions, thereby creating additional opportunities for corrupt practices. The result suggests that capital expenditure management remains a critical area for strengthening governance and corruption prevention efforts.

Discussion

The findings provide empirical evidence that the receipt of an Unqualified Audit Opinion (WTP) does not necessarily indicate a lower probability of corruption within local governments. Although all sampled entities received favorable audit opinions, approximately 21 percent of observations were associated with corruption cases. This finding supports the governance paradox perspective proposed in this study and reinforces the argument that financial statement audits primarily assess compliance with accounting standards rather than the overall integrity of public administration.

The negative and significant effect of APIP capability indicates that stronger internal oversight reduces corruption risk among local governments receiving WTP opinions. Specifically, a one-level increase in APIP capability is associated with a substantial reduction in the likelihood of corruption. This finding is consistent with previous studies emphasizing the role of internal audit effectiveness in strengthening accountability and preventing misconduct in public organizations (Cohen et al., 2008; Eulerich et al., 2022). From an Agency Theory perspective, APIP serves as an internal monitoring mechanism that reduces information asymmetry and constrains opportunistic behavior by public officials. The result also supports Institutional Theory, suggesting that formal audit achievements are more likely to reflect substantive accountability when supported by strong internal governance structures. This finding is also consistent with recent public sector auditing research, which highlights that audit institutions generate greater public value and accountability when supported by effective internal governance and supervisory mechanisms rather than relying solely on external audit outcomes (Cordery & Hay, 2019).

Importantly, APIP emerged as the strongest explanatory factor in the model. This finding suggests that the governance paradox is less attributable to deficiencies in external audit procedures and more closely related to weaknesses in internal control environments. Similar evidence has been reported in several public-sector governance studies showing that external audits are considerably more effective when supported by robust internal monitoring systems. Therefore, the effectiveness of WTP opinions as accountability signals appears conditional upon the institutional quality of internal supervision mechanisms.

The results also show that more frequent auditor rotation is associated with lower corruption risk. This finding supports the argument that prolonged auditor–auditee relationships may create familiarity threats that reduce professional skepticism. The result is consistent with DeAngelo (1981), who argues that auditor independence is fundamental to audit quality. However, the finding should be interpreted cautiously because prior studies report mixed evidence regarding auditor rotation. While frequent rotation may strengthen independence, excessive rotation can also reduce entity-specific knowledge and weaken audit effectiveness during transition periods (Francis & Yu, 2009). Consequently, the present findings do not imply that more rotation is always preferable; rather, they suggest that maintaining auditor independence remains important in local government audits.

The significant negative association between accounting human resource capacity and corruption further highlights the importance of organizational competence in supporting accountability. Local governments with a larger proportion of accounting and finance professionals appear less vulnerable to corruption. This finding aligns with prior evidence suggesting that competent financial personnel improve reporting quality, strengthen internal controls, and reduce opportunities for financial manipulation (Coates & Srinivasan, 2014). From an institutional perspective, technical competence enables local governments to move beyond symbolic compliance and develop governance practices that are more substantively aligned with accountability objectives. This finding is also consistent with recent public sector auditing literature, which emphasizes that competent accounting professionals strengthen financial governance and public accountability by improving reporting quality, supporting compliance with public financial management standards, and enhancing the credibility of audit outcomes (Hay & Cordery, 2021).

Capital expenditure intensity exhibits a positive and significant relationship with corruption. This result is consistent with studies identifying procurement and infrastructure spending as areas particularly vulnerable to corruption due to high contract values, technical complexity, and information asymmetry (Olken, 2007). Even among local governments that received WTP opinions, higher concentrations of capital expenditure were associated with greater corruption risk. This finding suggests that financial statement audits may have limited capacity to detect irregularities embedded within procurement processes, particularly when such activities are formally documented in accordance with accounting standards.

Several alternative explanations should also be considered. First, local political dynamics may influence corruption risk independently of audit quality. Political competition, electoral incentives, and patronage networks may create opportunities for corruption that are not fully captured by audit outcomes or governance indicators. Second, corruption cases included in this study are limited to those detected and prosecuted by the Corruption Eradication Commission (KPK). Consequently, the results should be interpreted as explaining variation in detected corruption rather than total corruption incidence. Third, because the sample is restricted to WTP recipients, the findings explain differences within relatively high-performing local governments and should not be generalized automatically to all local government entities.

Overall, the findings contribute to the public-sector auditing literature by demonstrating that the relationship between audit opinions and corruption is conditional rather than deterministic. Beyond confirming previous empirical evidence, this study develops a governance paradox framework that integrates Agency Theory, Institutional Theory, and Audit Expectation Gap Theory into a unified explanation of why favorable audit opinions may coexist with corruption. The findings indicate that WTP opinions should be understood as governance signals whose credibility depends on institutional quality, internal supervisory capacity, and organizational competence rather than as standalone indicators of governmental integrity. This perspective extends Audit Expectation Gap Theory by suggesting that the gap reflects not only differences between public expectations and audit objectives but also governance conditions that determine whether formal audit achievements translate into substantive accountability.

Conclusion

This study examines why corruption may persist among Indonesian local governments that have received Unqualified Audit Opinions (WTP), a phenomenon referred to as the governance paradox in public sector accountability. Using panel data from 114 local governments during 2019–2022 and applying fixed-effects binary logistic regression, the findings indicate that stronger APIP capability, more frequent auditor rotation, and higher accounting human resource capacity are associated with lower corruption risk. In contrast, greater capital expenditure intensity is associated with a higher likelihood of corruption.

The findings suggest that favorable audit opinions should not be interpreted as standalone indicators of governmental integrity. Instead, the effectiveness of audit opinions as accountability signals depends on the broader institutional environment, particularly the quality of internal supervision, auditor independence, organizational competence, and the governance of high-risk expenditure programs. These results support the view that formal audit compliance and substantive accountability are related but distinct dimensions of public sector governance.

From a theoretical perspective, this study contributes to the literature by integrating Agency Theory, Institutional Theory, and Audit Expectation Gap Theory to explain why audit outcomes may not always correspond to corruption outcomes. Rather than suggesting a direct failure of the audit process, the findings indicate that institutional conditions influence the extent to which audit opinions can function as credible signals of integrity. Accordingly, the study provides additional evidence that the relationship between audit quality and corruption is conditional and shaped by governance capacity.

The findings also offer several practical implications. Given the strong association between APIP capability and lower corruption risk, efforts to strengthen internal supervisory capacity should remain a priority for local governments and the Ministry of Home Affairs. The significant role of auditor rotation highlights the importance of maintaining auditor independence through appropriate rotation policies and knowledge-transfer mechanisms. Furthermore, increasing the proportion of accounting-qualified personnel may improve financial governance and reduce corruption vulnerabilities. Finally, the positive relationship between capital expenditure intensity and corruption suggests that procurement and infrastructure programs require enhanced monitoring and risk-based oversight.

Several limitations should be acknowledged. First, corruption is measured using cases investigated or prosecuted by the Corruption Eradication Commission (KPK), which may not fully capture undisclosed or undetected corruption activities. Second, the analysis focuses exclusively on local governments receiving WTP opinions, limiting the generalizability of the findings to entities with other audit opinions. Third, although lagged independent variables and fixed-effects estimation help mitigate endogeneity concerns, causal interpretations should be made cautiously. Future research may employ alternative corruption proxies, incorporate political and governance variables, and conduct comparative analyses across different audit opinion categories to further validate and extend these findings.

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Data Availability Statement

The data underlying this study were obtained from publicly accessible sources, including the Audit Board of the Republic of Indonesia (BPK) portal, the Corruption Eradication Commission (KPK) database, and the Directorate General of Fiscal Balance (DJPK), Ministry of Finance. The compiled dataset used in this study is available from the corresponding author upon reasonable request.

Conflicts of Interest

The authors declare that there are no conflicts of interest regarding the publication of this article. The research was conducted independently and did not receive financial support from any public, commercial, or non-profit organization.

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