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Unqualified Audit Opinion and Corruption Practices in Indonesia's Public Sector: A Governance Paradox

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Abstract:

Research aims:

The phenomenon of granting Unqualified Audit Opinions (WTP) to government entities that are subsequently found to have engaged in corrupt practices raises fundamental questions regarding the quality of public sector auditing in Indonesia. This study aims to identify the factors that undermine the predictive validity of WTP opinions with respect to the financial integrity of local governments.

Design/Methodology/Approach:

A quantitative research design employing a causal-verification approach was adopted, utilizing panel data comprising 342 observations from 114 local governments in Indonesia over the period 2019–2022, analyzed using binary logistic regression.

Research findings:

The quality of the Government Internal Supervisory Apparatus (APIP), auditor rotation, and the capacity of accounting human resources significantly influence the relationship between WTP opinions and corruption levels. WTP opinions do not inherently reflect the absence of irregularities when internal oversight is weak.

Theoretical contribution/Originality:

This study introduces a governance paradox framework within the context of Indonesian public sector auditing, by integratively bridging agency theory, institutional theory, and the audit expectation gap.

Practitioner/Policy implication:

The findings advocate for the reform of BPK audit standards, the strengthening of APIP, and the recalibration of public perception regarding the meaning of WTP opinions.

Research limitation/Implication:

The study relies on secondary data with corruption proxies limited to cases detected by the KPK; future research should incorporate complaint data and perception surveys.

Keywords: unqualified audit opinion, public sector corruption, audit quality, BPK, government governance.

Introduction

The contradiction between clean audit opinions and the persistence of corruption has become a recurring issue in Indonesia's public sector accountability system. On one hand, the Supreme Audit Board (Badan Pemeriksa Keuangan/BPK) consistently grants Unqualified Audit Opinions (Wajar Tanpa Pengecualian/WTP) to a large proportion of local governments each year, reflecting formal compliance with government accounting standards and audit requirements. On the other hand, corruption investigations conducted by the Corruption

Eradication Commission (Komisi Pemberantasan Korupsi/KPK) continue to reveal that many WTP-recipient entities are simultaneously involved in procurement fraud, budget manipulation, and abuse of authority. These conditions suggest that the attainment of WTP opinions does not automatically reflect stronger fiscal integrity or better public accountability practices.

Recent data from the KPK indicate that corruption cases involving local governments remain concentrated in budget management and procurement activities, despite the increasing trend of WTP achievement across Indonesian regions. This condition creates a critical policy concern because WTP opinions are frequently interpreted by political actors, the public, and the media as indicators of clean governance. In practice, however, audit opinions are limited to assessing the fairness of financial statement presentation and are not designed to provide absolute assurance regarding the absence of corruption. Consequently, a serious disconnect emerges between the technical meaning of audit opinions and their socio-political interpretation within public governance.

The WTP opinion, according to the Government Financial Audit Standards (Standar Pemeriksaan Keuangan Negara/SPKN), reflects the auditor's conclusion that financial statements are presented fairly in all material respects in accordance with applicable accounting standards. However, financial reporting fairness differs conceptually from corruption-free governance because financial audits primarily focus on material misstatements rather than hidden collusive practices, procurement manipulation, or abuse of discretion. This distinction is important because the public and many regional governments frequently position WTP as a symbol of institutional integrity rather than as a technical audit conclusion. As a result, WTP opinions are frequently used as symbols of political legitimacy and administrative success, even though the actual scope of external auditing remains limited.

Empirical studies have increasingly discussed the complex relationship between audit quality, public sector accountability, and corruption. International studies demonstrate that institutional oversight quality, auditor independence, and governance capacity significantly affect the effectiveness of public sector auditing in preventing irregularities (Svanidze & Butt, 2022; Garcia-Blandon et al., 2021; Cordery & Hay, 2021; Eulerich et al., 2020). Recent studies after 2020 further emphasize that audit effectiveness in the public sector is highly contingent upon internal control maturity, institutional transparency, and the interaction between internal and external oversight mechanisms (Alzeban, 2020; Ahyaruddin & Akbar, 2022; Lapsley et al., 2023). In the Indonesian context, prior studies documented the coexistence of WTP opinions and corruption cases, indicating that clean audit opinions do not always correspond with stronger fiscal integrity (Setyaningrum et al., 2017; Najahningrum, 2013). However, most previous studies remain descriptive, fragmented, and focused primarily on financial reporting quality rather than systematically examining why corruption persists among entities receiving the highest audit opinion.

Despite the growing discussion regarding audit opinions and corruption in Indonesia, empirical studies still provide limited explanation regarding why corruption continues to occur in local governments that consistently obtain WTP opinions. Existing studies generally focus only on audit quality, internal control, or corruption independently, without integrating these dimensions into a single governance framework. (Cordery & Hay, 2021; Garcia-Blandon et al.,

2021). Previous studies generally examined audit opinions, internal control, or corruption separately, while limited research has simultaneously analyzed the interaction between internal oversight quality, auditor rotation, accounting human resource capacity, and expenditure structure within WTP-recipient entities. In addition, prior Indonesian studies predominantly relied on cross-sectional approaches, limiting their ability to capture temporal variations and institutional dynamics across local governments.

This study attempts to address these limitations through several approaches that distinguish it from prior research. First, the study develops a governance paradox framework that integrates agency theory, institutional theory, and the audit expectation gap to explain why formally clean audit outcomes may coexist with corruption practices. Second, unlike prior studies that emphasize financial reporting quality alone, this research empirically evaluates how APIP quality, auditor rotation, accounting HR capacity, and capital expenditure density jointly shape corruption risk within WTP-recipient governments. Third, the study employs balanced panel data from 114 local governments during 2019–2022 using fixed-effect binary logistic regression, enabling stronger control over unobserved heterogeneity and improving the robustness of causal inference.

Using panel data from 114 local governments during the 2019–2022 period, this study examines the influence of the quality of the Government Internal Supervisory Apparatus (Aparat Pengawasan Intern Pemerintah/APIP), BPK auditor rotation, accounting human resource capacity, and capital expenditure density on the probability of corruption occurring in WTP-recipient entities. The study focuses exclusively on local governments receiving WTP opinions because the paradox becomes analytically meaningful only when corruption occurs within entities formally recognized as having high-quality financial accountability. Through a binary logistic regression approach with fixed effects, this study seeks not only to identify statistically significant determinants of corruption risk, but also to explain the institutional mechanisms underlying the governance paradox.

This study provides three main contributions to the public sector accounting literature (Porter, 1993; Power, 1997). Theoretically, this research extends the audit expectation gap concept into the broader domain of governance paradoxes in public sector accountability by demonstrating that audit credibility depends on institutional oversight ecosystems rather than audit opinions alone. Empirically, the study provides panel-based evidence regarding corruption determinants within WTP-recipient entities, an area that remains underexplored in Indonesian public sector accounting research. Practically, the findings provide policy implications for strengthening APIP capability, improving auditor rotation mechanisms, refining corruption-sensitive audit procedures, and reconstructing public understanding regarding the substantive meaning of WTP opinions.

Literature Review and Hypothesis Development

Theoretical Framework

This study is grounded in three interrelated theoretical perspectives, namely agency theory, institutional theory, and the audit expectation gap concept. The integration of these perspectives is necessary because the coexistence of WTP opinions and corruption cannot be sufficiently explained using a single theoretical approach.

Agency theory explains the relationship between local governments as agents and the public as principals (Jensen & Meckling, 1976). In the public sector context, information asymmetry arises because government institutions control broader access to fiscal information than citizens and oversight stakeholders. External audits therefore function as monitoring mechanisms intended to reduce asymmetry and strengthen accountability. However, audit opinions may lose their signaling effectiveness when institutional oversight systems fail to detect irregularities concealed within formally compliant financial reporting practices. Under these conditions, corruption may continue despite the issuance of clean audit opinions.

Institutional theory complements this explanation by emphasizing legitimacy pressures faced by public organizations (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Local governments often experience coercive and normative pressures to obtain WTP opinions because these opinions are politically associated with successful governance and administrative credibility. Consequently, some governments may prioritize symbolic conformity with audit requirements rather than substantive improvements in transparency and governance quality. Meyer and Rowan (1977) described this condition as ceremonial conformity, where organizations adopt formal procedures primarily to maintain legitimacy before external audiences.

The audit expectation gap concept further explains the paradox from the perspective of public perception (Porter, 1993; Liggio, 1974). Audit standards require auditors to assess whether financial statements are fairly presented in all material respects. Nevertheless, many stakeholders interpret WTP opinions as evidence that corruption does not exist within government institutions. This difference between audit objectives and public expectations creates an expectation gap that contributes to declining public trust when corruption cases emerge in entities previously receiving clean audit opinions.

Recent public sector audit studies also indicate that audit effectiveness is strongly influenced by governance quality, internal control effectiveness, and institutional oversight capacity rather than external audit mechanisms alone (Cordery & Hay, 2022; Hay & Cordery, 2018). Therefore, the relationship between WTP opinions and corruption should be understood as conditional and institutionally embedded rather than deterministic.

WTP Opinion and Corruption in the Public Sector

The relationship between audit opinions and corruption remains widely debated in public sector accounting research. Several studies show that audit quality contributes to fiscal accountability, although its effectiveness depends heavily on institutional conditions and governance capacity (Hay & Cordery, 2018). Research in emerging economies further demonstrates that formal compliance with accounting standards does not always correspond with lower corruption risk because corruption frequently occurs through procurement manipulation and discretionary budget practices that are difficult to identify through conventional financial audits.

In Indonesia, empirical evidence regarding WTP opinions and corruption remains inconsistent. Setyaningrum et al. (2017) found that local governments receiving WTP opinions did not always demonstrate better financial management performance than entities receiving lower audit opinions. Najahningrum (2013) also reported that weak internal controls increased opportunities for fraud and recurring audit findings. Meanwhile, Sari (2021) argued that audit

opinions are often interpreted beyond their technical scope and tend to be used as instruments of political legitimacy within local government administration.

Although previous studies have discussed audit quality and corruption, most studies examined these issues separately and relied heavily on descriptive or cross-sectional approaches. Empirical studies integrating internal oversight quality, auditor independence, accounting HR capacity, and expenditure structure within WTP-recipient governments remain limited. As a result, the institutional conditions explaining why corruption persists in entities receiving clean audit opinions are still insufficiently explored.

This study therefore develops a more integrated framework by positioning corruption risk as a function of institutional oversight quality, auditor governance mechanisms, organizational competence, and fiscal structure within WTP-recipient local governments.

Hypothesis Development

APIP Quality and Corruption Risk

The Government Internal Supervisory Apparatus (APIP) represents the primary internal oversight institution within Indonesian local governments. Strong APIP capability is expected to improve monitoring effectiveness, strengthen internal control systems, and reduce opportunities for irregularities before external audits take place. Previous studies indicate that effective internal audit institutions contribute significantly to fraud prevention and governance quality in the public sector (Alzeban, 2020; Ahyaruddin & Akbar, 2022).

Conversely, weak APIP capability creates monitoring gaps that allow corruption practices to remain undetected. When internal oversight mechanisms do not function effectively, external auditors become more dependent on administrative documentation that may not fully reflect actual fiscal practices. This condition increases the possibility that corruption may persist despite the issuance of WTP opinions.

In addition, weak APIP institutions often reduce the effectiveness of risk mitigation and early fraud detection mechanisms within local governments. As a result, opportunities for abuse of authority and budget manipulation become more difficult to identify at the internal level before being examined by external auditors. This condition strengthens the argument that the quality of internal oversight plays a decisive role in determining whether WTP opinions truly reflect substantive accountability.

H1: Low APIP quality increases the probability of corruption occurring in local governments receiving WTP opinions.

Auditor Rotation and Audit Independence

Auditor independence constitutes an essential component of audit quality. In public sector auditing, periodic auditor rotation is intended to minimize excessive familiarity between auditors and auditees. Agency theory predicts that long-term auditor-client relationships may weaken professional skepticism and reduce monitoring effectiveness (DeAngelo, 1981).

Francis and Yu (2009) found that auditor tenure affects audit quality, particularly when long relationships reduce the independence of professional judgment. More recent evidence from

Florio and Leoni (2024) also suggests that ineffective auditor rotation mechanisms may increase familiarity threats and reduce the effectiveness of audit oversight.

Within local government auditing, excessively infrequent rotation may weaken auditors' ability to critically evaluate procurement activities, budget realization, and hidden irregularities. As familiarity increases, the risk of reduced professional skepticism may also intensify.

In the Indonesian public sector context, prolonged interaction between auditors and audited entities may also create informal relational pressures that influence audit objectivity. Although audit procedures formally remain independent, repetitive examination patterns and excessive familiarity may reduce the depth of audit skepticism in identifying corruption risks embedded within procurement and budget realization processes.

H2: *Insufficient BPK auditor rotation increases the probability of undetected corruption in WTP-recipient entities.*

Accounting HR Capacity and Reporting Quality

The quality of local government financial reporting is influenced not only by external audits but also by the competence of accounting personnel within government institutions. Accounting HR capacity reflects the ability of staff to prepare reliable reports, implement accounting standards properly, and support internal control systems.

Previous studies show that competent accounting personnel contribute to stronger governance quality and reduce reporting irregularities (Cohen et al., 2008; Coates & Srinivasan, 2014). Conversely, limited accounting competence may create procedural weaknesses that increase opportunities for manipulation and misuse of public resources.

Local governments with limited accounting HR capacity may still receive WTP opinions because external audits focus primarily on material presentation rather than operational integrity. However, weak accounting competence may reduce transparency and hinder the early identification of irregular transactions within financial management processes.

Furthermore, insufficient accounting competence may weaken the reliability of supporting financial documentation and reduce compliance with internal control procedures. In such circumstances, irregular transactions may remain undetected for longer periods, particularly when financial management systems rely heavily on administrative formality rather than substantive accountability practices.

H3: *Low accounting HR capacity is positively associated with corruption probability in local governments receiving WTP opinions.*

Capital Expenditure Density and Corruption Risk

Capital expenditure has consistently been identified as one of the most corruption-prone areas in Indonesian local government budgeting. Infrastructure procurement projects generally involve large contract values, technical complexity, and high information asymmetry between government officials and contractors (Olken, 2007).

KPK reports also show that procurement-related corruption continues to dominate regional corruption cases in Indonesia. Although external audits evaluate procedural compliance,

collusive practices and price manipulation are often difficult to detect when administrative documentation appears formally complete.

Recent governance studies suggest that organizations with higher procurement intensity face greater corruption risk because discretionary authority and contract complexity create broader opportunities for abuse of power (Shidqi et al., 2025). Therefore, local governments with higher capital expenditure proportions are expected to face higher corruption risk even when they receive WTP opinions.

Large-scale procurement activities also increase monitoring complexity because infrastructure projects often involve multiple actors, long implementation periods, and highly technical specifications. These characteristics create broader opportunities for collusion, mark-up practices, and manipulation of procurement outcomes that may not be fully captured through standard financial audit procedures.

H4: Capital expenditure density is positively associated with corruption probability in local governments receiving WTP opinions.

Research Methodology

This study employs a quantitative approach with a causal explanatory design to examine the determinants of corruption within local governments receiving Unqualified Audit Opinions (WTP). The quantitative panel approach was selected because it enables the analysis to capture both cross-sectional differences among local governments and changes across time, thereby improving the reliability of estimation results and reducing potential omitted variable bias associated with unobserved institutional characteristics (Wooldridge, 2010).

Balanced panel data were utilized covering the 2019–2022 period. Panel data analysis is considered appropriate because corruption risk and governance quality are dynamic phenomena influenced by institutional conditions that may vary across entities and over time (Hsiao, 2014). The study combines data from multiple official sources to improve data consistency and reduce measurement bias.

Data were collected from four primary sources: (1) Audit Reports (Laporan Hasil Pemeriksaan/LHP) issued by the Supreme Audit Board of Indonesia (BPK); (2) annual APIP capability reports published by the Ministry of Home Affairs; (3) corruption case data issued by the Corruption Eradication Commission (KPK); and (4) local government budget realization reports obtained from the Ministry of Finance. The use of official institutional data was intended to strengthen data reliability and ensure consistency between governance indicators and corruption measurements (Creswell, 2014).

Population and Sample

The population of this study consists of all district and municipal governments in Indonesia receiving WTP opinions during the 2019–2022 period. The study specifically focuses on WTP-recipient entities because the governance paradox examined in this research emerges when corruption occurs within governments formally recognized as having high-quality financial accountability.

Sample selection employed purposive sampling using three criteria: (1) the local government received WTP opinions for at least three years during the observation period; (2) complete data regarding APIP capability, accounting human resources, and budget realization were available; and (3) the entity did not experience administrative restructuring, regional expansion, or merger during the study period.

Based on these criteria, 114 local governments met the sampling requirements, generating 342 firm-year observations. Eleven local governments were excluded due to incomplete institutional and financial data.

The restriction to WTP-recipient entities was intended to maintain analytical consistency with the central argument of the study. By focusing only on entities receiving the highest audit opinion, the analysis specifically evaluates why corruption may still occur despite formal indicators of financial accountability (Sari, 2021). However, this sampling approach may limit the generalizability of findings to local governments receiving lower audit opinions.

Operational Definitions and Variable Measurement

The variables and their measurement are summarized in Table 1 below.

Table 1. Operational Definition

Variable	Definition	Measurement	Data Source
CORRUPTION (Dependent)	Occurrence of corruption cases handled by KPK in the relevant entity	Binary variable: 1 = corruption case exists in current year or t+1; 0 = none	KPK case database
APIP (Independent)	Quality of the Government Internal Supervisory Apparatus	APIP capability score (1–5) based on Kemendagri IACM: 1=Initial, 5=Optimizing	APIP report, Ministry of Home Affairs
ROTATION (Independent)	Frequency of BPK examination team rotation	Number of BPK lead examiner changes in 4 years; categorized: frequent (≥2x) = 1, infrequent (<2x) = 0	BPK LHP & BPK internal records
HR (Independent)	Accounting HR capacity of the local government	Ratio of employees with accounting/finance background in the financial department to total financial department staff (%)	Budget realization reports & BKD staffing profiles
CE (Independent)	Capital expenditure density relative to total expenditure	Ratio of realized capital expenditure to total realized APBD expenditure (%)	DJPK, Ministry of Finance

Econometric Model Specification

The empirical model employed is binary logistic regression with fixed effects to control for unobserved heterogeneity at the entity level. The baseline model is specified as follows:

$$P(\text{CORRUPTION}_{it} = 1) = F(\beta_0 + \beta_1\text{APIP}_{it} + \beta_2\text{ROTATION}_{it} + \beta_3\text{HR}_{it} + \beta_4\text{CE}_{it} + \alpha_i + \epsilon_{it}) \dots\dots\dots(1)$$

where $P(\text{CORRUPTION}_{it} = 1)$ is the probability of a corruption event occurring in local government i in year t , $F(\cdot)$ is the logistic function, α_i captures unobserved fixed entity effects, and ϵ_{it} is the idiosyncratic error term. All independent variables are entered with a one-year lag to mitigate reverse causality concerns.

The fixed-effects specification was employed to control for time-invariant institutional characteristics across local governments, including differences in governance culture, political structure, and administrative environments that are difficult to observe directly but may influence corruption risk (Wooldridge, 2010).

Several diagnostic procedures were conducted before estimating the model. Multicollinearity was examined using Variance Inflation Factor (VIF) analysis, while the Hausman specification test was employed to determine whether fixed effects were more appropriate than random effects (Hausman, 1978). Cluster-robust standard errors were also applied to reduce potential heteroskedasticity and serial correlation within panel observations (Arellano, 1987).

To reduce potential reverse causality and simultaneity bias, all independent variables were entered using a one-year lag structure. This approach was intended to ensure that governance characteristics preceded the occurrence of corruption cases identified in subsequent periods (Baltagi, 2021).

Research Findings

Descriptive Statistics

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

Table 2. Descriptive Statistics

Variable	N	Mean	Std. Dev.	Min	Max	Skewness
CORRUPTION (binary)	342	0.21	0.41	0	1	1.43
APIP (score 1-5)	342	2.87	0.74	1	5	0.31
ROTATION (binary)	342	0.38	0.49	0	1	0.48
HR (%)	342	34.6	12.8	8.4	71.2	0.19
CE (%)	342	22.4	8.7	4.1	51.3	0.67

Of the 342 observations, 21% (72 cases) recorded a corruption event—a figure that is statistically significant given that all entities in this sample are recipients of WTP opinions. This distribution confirms that the possession of a WTP opinion does not confer immunity from corruption. The mean APIP score of 2.87 indicates that the majority of APIP units remain at the Infrastructure level (Level 3) or below, far from optimal capacity. The average accounting HR ratio of 34.6% reflects a significant reliance on non-accounting staff in local government financial functions. The mean capital expenditure density of 22.4%, with a very wide range (4.1%–51.3%), mirrors substantial heterogeneity in expenditure priorities.

Model Diagnostic Tests

Prior to estimating the main model, a series of diagnostic tests were conducted to ensure inferential validity. Multicollinearity testing through the Variance Inflation Factor (VIF) yielded values between 1.23 and 2.14 for all independent variables, well below the threshold of 10, indicating no serious multicollinearity concerns. The Hausman test comparing fixed effects with random effects produced a chi-squared statistic of 28.7 with p-value < 0.001, leading to the selection of the fixed effects model as the more consistent specification. Model goodness-of-fit was verified using the Hosmer-Lemeshow test, which produced a chi-squared value of 6.42 with a p-value of 0.601, indicating adequate model calibration. The Area Under the ROC Curve (AUC) of 0.847 demonstrates good discriminatory power.

Discussion

The empirical findings of this study indicate that WTP opinions do not necessarily reflect the absence of corruption within Indonesian local governments. The results suggest that the effectiveness of audit opinions as accountability instruments depends heavily on institutional oversight quality, governance capacity, and internal control effectiveness. This finding strengthens the argument that audit opinions should not be interpreted as absolute indicators of clean governance, particularly when institutional monitoring mechanisms remain weak.

The significant negative effect of APIP quality on corruption probability demonstrates that internal oversight plays a central role in strengthening substantive accountability. This finding supports previous studies emphasizing that effective internal audit institutions contribute to fraud prevention and governance quality in the public sector (Alzeban, 2020; Ahyaruddin & Akbar, 2022). Local governments with stronger APIP capability appear more capable of detecting irregularities before they develop into formal corruption cases. Conversely, weak APIP institutions create monitoring gaps that reduce the effectiveness of external audits.

This result also extends prior literature by showing that the relationship between WTP opinions and corruption is conditional upon the effectiveness of internal oversight systems. Earlier studies primarily discussed audit opinions and corruption separately, whereas the present study demonstrates empirically that clean audit opinions may lose their signaling value when internal control institutions are unable to function effectively. This finding is consistent with Power's (1997) argument that audit effectiveness depends on broader oversight ecosystems rather than external audit procedures alone.

The auditor rotation variable also demonstrates a significant negative relationship with corruption probability. This finding confirms agency theory arguments suggesting that excessive familiarity between auditors and auditees may weaken professional skepticism and reduce monitoring effectiveness (DeAngelo, 1981). More frequent auditor rotation appears to strengthen auditor independence and reduce the risk of complacency in evaluating procurement activities and budget realization processes.

However, the findings also indicate that auditor rotation should not be interpreted as a purely administrative mechanism. Excessively rapid rotation may create knowledge limitations because newly assigned auditors require time to understand local government characteristics and regional budget structures. Therefore, effective rotation policies should be accompanied

by stronger audit documentation systems and institutional knowledge transfer mechanisms. This explanation extends prior findings from Francis and Yu (2009) and Florio and Leoni (2024), which emphasized the complex relationship between auditor tenure and audit quality.

The negative effect of accounting HR capacity on corruption probability indicates that competent financial personnel contribute significantly to governance quality and transparency. This finding supports earlier studies arguing that accounting competence strengthens reporting reliability and internal control implementation (Cohen et al., 2008; Coates & Srinivasan, 2014). Local governments with stronger accounting competence are likely to possess better financial monitoring procedures and more reliable documentation systems, thereby reducing opportunities for manipulation and misuse of public funds.

Unlike prior studies that mainly associated accounting HR capacity with reporting quality, this study demonstrates that accounting competence also has broader implications for corruption prevention within public organizations. This finding suggests that investment in accounting human resources should not be viewed merely as an administrative requirement, but as an institutional strategy for strengthening fiscal integrity and reducing governance risk.

The positive relationship between capital expenditure density and corruption probability further confirms that procurement activities remain highly vulnerable to corruption practices. This finding is consistent with Olken (2007), who showed that infrastructure-related expenditures are particularly susceptible to leakage and collusive behavior because of high contract values and information asymmetry. The result also aligns with recent governance studies suggesting that procurement intensity increases corruption vulnerability due to broader discretionary authority and complex contractual arrangements.

Importantly, the effect of capital expenditure remained significant even after controlling for APIP quality and auditor rotation. This indicates that corruption risks in procurement activities cannot be fully mitigated through conventional oversight mechanisms alone. Large infrastructure projects frequently involve complex networks of contractors, administrative actors, and discretionary decision-making processes that create opportunities for hidden collusion beyond the reach of standard audit procedures.

Taken together, the findings indicate that the WTP-corruption paradox reflects broader institutional weaknesses rather than merely technical limitations in external auditing. The study therefore contributes to the public sector accountability literature by demonstrating that formal audit outcomes should be interpreted within the broader context of governance quality, institutional oversight capacity, and public accountability systems. In this regard, WTP opinions may function effectively as accountability signals only when supported by strong internal controls, competent financial personnel, and governance structures capable of limiting corruption opportunities.

Compared with prior Indonesian studies that relied primarily on descriptive analysis, this study provides stronger empirical evidence through panel-data estimation and institutional-level analysis. The findings also offer a more integrated explanation of why corruption may persist even within entities receiving the highest audit opinion, thereby extending the governance paradox perspective within public sector accounting research.

Conclusion

This study examined the governance paradox surrounding the coexistence of Unqualified Audit Opinions (WTP) and corruption practices within Indonesian local governments. Using panel data from 114 local governments during the 2019–2022 period and applying fixed-effects binary logistic regression, the study found that APIP quality, auditor rotation, accounting HR capacity, and capital expenditure density significantly influence the probability of corruption within entities receiving WTP opinions. The findings demonstrate that clean audit opinions alone are insufficient to guarantee substantive accountability when institutional oversight systems and governance capacity remain weak.

From a theoretical perspective, this study extends the audit expectation gap literature by showing that the gap does not only arise between auditors and financial statement users, but also between formal audit outcomes and the broader governance systems required to support substantive accountability. The integration of agency theory, institutional theory, and the audit expectation gap concept provides a more comprehensive explanation of why corruption may persist even within governments formally recognized as financially accountable.

Unlike previous Indonesian studies that predominantly relied on descriptive analysis or focused solely on financial reporting quality, this study provides panel-based empirical evidence demonstrating that corruption risk within WTP-recipient entities is strongly shaped by institutional oversight quality, organizational competence, and fiscal structure. The study therefore contributes to public sector accounting research by positioning audit opinions as conditional governance signals rather than absolute indicators of clean governance.

The findings also carry several practical implications. First, BPK may need to strengthen corruption-sensitive audit procedures, particularly in areas related to procurement and capital expenditure management where corruption risks remain high. Second, the Ministry of Home Affairs should reinforce APIP capability development programs because internal oversight quality proved to be one of the strongest determinants of corruption prevention. Third, local governments need to improve accounting HR competence and internal governance systems to ensure that financial accountability is supported by substantive institutional capacity rather than procedural compliance alone.

This study has several limitations that should be considered when interpreting the findings. First, the corruption variable relies solely on KPK enforcement data, meaning that undetected corruption cases could not be captured in the analysis. This limitation may result in underestimation of actual corruption prevalence within local governments. Second, the study only examines WTP-recipient entities, limiting the generalizability of findings to local governments receiving lower audit opinions. Third, several institutional factors, including political intervention, informal networks, and regional patronage structures, could not be directly measured because of data limitations. These conditions may influence corruption dynamics beyond the variables included in the model.

Future research may extend this study in several directions. Subsequent studies could compare corruption determinants across different audit opinion categories to evaluate whether

governance mechanisms operate differently in lower-accountability entities. Future research may also incorporate corruption perception indices, political governance variables, or qualitative institutional analysis to capture dimensions of corruption that cannot be fully identified through enforcement-based data alone. In addition, examining moderating relationships between oversight quality, political competition, and procurement intensity may provide deeper insight into corruption risk within local government institutions.

Overall, this study highlights that the effectiveness of public sector accountability cannot be assessed solely through formal audit outcomes. The quality of governance ultimately depends on the interaction between external audits, internal oversight systems, organizational competence, and institutional integrity in preventing corruption and strengthening public trust in government financial management.

Appendix

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Data Availability Statement: The data underlying this research are derived from publicly accessible open sources available on the BPK portal (www.bpk.go.id), the KPK portal (www.kpk.go.id), and the DJPK Ministry of Finance portal (www.djpk.kemenkeu.go.id). The compiled derivative dataset may be requested from the corresponding author.

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