Exploring the Dynamics of Public Finance and Corruption in Indonesia: The Role of Good Government Governance as a Moderator

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ABSTRACT: This study examines the impact of Regional Original Revenue (PAD), Revenue Sharing Funds (DBH), and Capital Expenditure (BM) on corruption levels (CL) in local governments in Indonesia, with Good Government Governance (GGG) as a moderating variable. Using panel data from ten provinces with the highest corruption rates from 2014 to 2023, the analysis applies a quantitative method with panel data regression. The results show that PAD, DBH, and capital expenditure significantly affect corruption. When GGG is included as a moderating factor, PAD has a negative effect on corruption, DBH has no effect, and capital expenditure still has a positive effect. These finding highlight the role of good governance These findings in reducing corruption related to local revenues, but also show that capital spending remains vulnerable, even under strong governance.

KEYWORDS - *capital expenditure, corruption, GGG, DBH, PAD*

I. INTRODUCTION

According to the 2024 report by Transparency International Indonesia (TII), Indonesia's Corruption Perceptions Index (CPI) score reached 37 points, an improvement from 34 points in 2023. This increase elevated Indonesia's global ranking from 115th in 2023 to 99th out of 180 surveyed countries. While the higher score indicates progress in perceived anti-corruption efforts, it remains relatively low, reflecting ongoing challenges in eradicating corruption. Figure 1 illustrates the trend of corruption cases in Indonesia from 2019 to 2023. This quantitative data provides a more detailed depiction of how corruption has evolved over the years and suggests that, despite improvements in perception, the number of reported cases continues to rise. This upward trend warrants serious attention from policymakers, regulatory bodies, and the wider public.
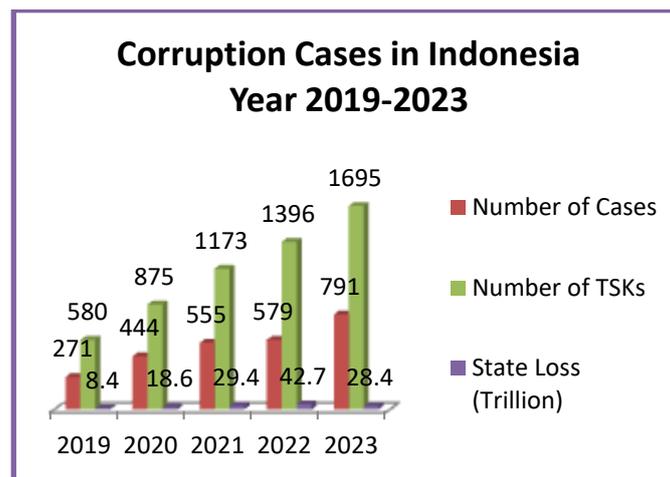

Figure 1. Indonesia Corruption Perception Index 2019-2023 Source: ICW Data

Locally Generated Revenue (*Pendapatan Asli Daerah* or PAD) is one of the main sources of income for regional governments in Indonesia. It is derived from regional taxes, retributions, the management of regionally owned assets, and other legitimate sources as regulated by statutory provisions. PAD plays a critical role in financing the administration and development activities of local governments. As such, it is a crucial fiscal instrument for achieving regional autonomy and promoting local economic development and welfare. Strengthening PAD is expected to reduce regional dependence on transfers from the central government.

However, while PAD reflects fiscal independence, it also presents vulnerabilities to corruption risks (Alhusain & Achmad Sani, 2018). The misuse of PAD may occur through manipulation of local tax assessments, collusion in public procurement, and misreporting of revenues.

Another significant fiscal component prone to corruption is the Revenue Sharing Fund (*Dana Bagi Hasil* or DBH), which is transferred from the central government to regional governments. Although DBH is designed to ensure equitable distribution of national revenues—particularly those derived from natural resource exploitation—it often lacks transparency in its allocation and management. Ineffective and unaccountable DBH management increases the potential for misuse and fiscal leakage. Conversely, a well-managed DBH system can enhance local revenue generation and promote public trust, especially when communities perceive that their rights to benefit from local natural resources are acknowledged and realized.

In addition to PAD and DBH, capital expenditure represents another highly corruption-prone area within regional budgets. Capital expenditures are intended to finance development projects and the procurement of long-term assets, such as infrastructure. However, these processes—particularly those involving public procurement and project implementation—are susceptible to manipulation and abuse. Common forms of corruption in capital expenditures include price mark-ups, tailored specifications, bribery, collusion in bidding processes, and the procurement of substandard goods and services. Despite these risks, capital expenditures remain pivotal to regional development, supporting investments in infrastructure, public facilities, and essential services that drive economic growth and enhance quality of life.

The strategic allocation of state budget transfers to local governments must be aligned with efforts to strengthen regional economic independence and improve community welfare. Infrastructure availability, funded through capital expenditures, is often linked to the stimulation of local economic activities. As such, the allocation of capital expenditures in regional budgets serves as a tangible expression of a government's commitment to economic development and self-reliance. Effective capital expenditure enables regional governments to build infrastructure such as roads, bridges, public buildings, and service facilities, which, in turn, foster interregional connectivity and improve access to public services. Moreover, such investments can enhance education and overall societal well-being.

The susceptibility of capital expenditures to corruption has been well documented in previous studies, which highlight a strong correlation between public spending and the potential for budgetary misappropriation. Therefore, enhancing transparency, accountability, and institutional integrity in the management of PAD, DBH, and capital expenditures is essential to curbing corruption and achieving sustainable regional development in Indonesia.

Good Government Governance (GGG) has a significant relationship with efforts to prevent and eradicate corruption. GGG comprises eight core characteristics: public participation, rule of law, transparency, responsiveness, consensus orientation, equity in service delivery, effectiveness and efficiency, accountability, and strategic vision. Effective implementation of these principles fosters a robust control system, cultivates an organizational culture of integrity, enhances the quality of public service delivery, and promotes objective decision-making. The better GGG is implemented, the lower the likelihood of corruption occurring within regional governments in Indonesia. When GGG is strong, the influence of fiscal variables such as locally generated revenue (PAD), revenue-sharing funds (DBH), and capital expenditures on corruption tends to weaken. In other words, even as local financial capacity increases, corruption risks do not necessarily rise due to the presence of effective oversight mechanisms. Conversely, when GGG is weak or poorly implemented, these fiscal components are more likely to exacerbate corruption risks, as inadequate control mechanisms fail to prevent misuse of public funds.

This study differentiates itself from prior research by focusing on ten provinces with the highest levels of corruption over the past three years, namely East Java, North Sumatra, Central Java, South Sulawesi, East Nusa Tenggara, Aceh, West Java, South Sumatra, Bengkulu, and Lampung. The study employs panel data analysis, combining cross-sectional and time-series data across a ten-year span from 2014 to 2023, resulting in 100 observations. Corruption case data were obtained from the Case Tracking Information System (*Sistem Informasi Penelusuran Perkara*, SIP) of the relevant district courts. This research introduces capital expenditure as an additional independent variable and GGG as a moderating variable. A quantitative-descriptive methodology is applied, with data analysis conducted using EViews 12 software.

To provide a theoretical explanation of the observed phenomenon, this study draws upon two foundational frameworks: **legitimacy theory** and **good governance theory**. Legitimacy theory posits that the success of anti-corruption efforts largely depends on a government's ability to acquire and maintain legitimacy through sound financial management. PAD, DBH, and capital expenditures represent the financial capacity of local governments to provide public services. Competent and transparent management of these fiscal resources enhances public trust and legitimizes local authority. Conversely, mismanagement or corruption involving these resources undermines public confidence and erodes governmental legitimacy. Within the legitimacy theory framework, organizations that lose public trust are more likely to face heightened social, political, and legal pressures.

While legitimacy theory emphasizes the central role of public trust, **good governance theory** reinforces the argument that adherence to sound governance principles serves as an effective monitoring and control mechanism. The principles embedded in good governance—such as transparency, accountability, oversight, and community participation—can serve to mediate the impact of PAD, DBH, and capital expenditures on corruption. Thus, this theoretical foundation supports the notion that the implementation of GGG can mitigate corruption risks associated with increased fiscal resources in Indonesian regional governments.

Research Objectives

This study aims to provide a deeper understanding of the relationship between locally generated revenue (*Pendapatan Asli Daerah*, PAD), revenue-sharing funds (*Dana Bagi Hasil*, DBH), and capital expenditures on the level of corruption in Indonesia, as well as to examine how the implementation of good government governance (GGG) moderates this relationship. The findings are expected to contribute to anti-corruption efforts at the regional government level by promoting improved financial management and the adoption of GGG principles. The study seeks to advance the academic literature on the nexus between regional financial management and corruption, particularly by enriching the theoretical and empirical discourse on the moderating role of good government governance in this context. It also aims to serve as a reference for future research in the field of public sector accounting, especially studies focusing on corruption prevention.

From a practical perspective, the research is expected to provide insights for local governments to improve their financial management systems, identify high-risk areas in the management of PAD, DBH, and capital expenditures, and promote the adoption of more robust GGG principles. Moreover, the study may inform policymakers and stakeholders in formulating corruption prevention strategies, designing more effective oversight mechanisms, and refining regulations related to local financial governance. Finally, this research aspires to enhance public understanding of the factors that influence corruption at the regional level and to encourage greater citizen participation in monitoring public financial management. It also aims to offer valuable information for assessing local government performance and accountability.

II.   LITERATURE REVIEW

Theoretical Review

The core of legitimacy theory states that the company's operational activities (in this case local government) must be in accordance with public expectations. Local governments try to legitimize their policies to fulfill the wishes of the community. Local governments can legitimize the benefits of financial statements to information sources, so local governments should report to the public by disclosing this information in their annual reports. Legitimacy theory encourages companies (in this case local governments) to ensure that their activities and performance are acceptable to society. Local governments use their annual reports to portray an impression of environmental responsibility, so that they are accepted by society (Siladjaja, 2023) .

Good Governance concept is definitively defined as a system that regulates and controls the company in order to always create added value for all *stockholders* and *stakeholders*. There are two important points emphasized in this concept, namely the right of *stockholders* and *stakeholders* to obtain accurate and timely information (*timeliness)* and the company's obligation to *disclose* accurately, timely and transparently all information about the company. Or in other words, the concept of *good governance* emphasizes the importance of *fairness*, *transparency*, *accountability* and *responsibility* of information to improve the quality of financial statements. The reason is that financial reports are the company's main communication tool with all parties who have an interest in the company. The more qualified the financial statements, the more qualified the decisions made by *stakeholders* using that information.

According to Sadjijono (2007), *good governance* means "The activities of a government institution are carried out based on the interests of the people and the prevailing norms to realize the ideals of the state". Meanwhile, according to IAN & BPKP (2005) what is meant by *good governance* is "How the government interacts with society and manages resources in development". Government Regulation No. 101 of 2000 formulates the meaning of *good governance* as follows: "Governance that develops and applies the principles of professionalism, accountability, transparency, excellent service, democracy, efficiency, effectiveness, rule of law and data accepted by the whole community".

Previous Research

The relationship between fiscal decentralization and corruption has been widely debated, producing mixed empirical evidence across various contexts. In Indonesia, Alfada (2019)**,** using panel data from 19 provinces during 2004–2014, found that both decentralized expenditures and tax revenues were positively associated with corruption, suggesting that fiscal autonomy can create new opportunities for rent-seeking behavior. This finding is echoed by Ulum et al. (2019)**,** who observed that fiscal decentralization in 433 Indonesian local governments (districts and cities) between 2008–2014 significantly increased corruption,

especially when moderated by natural resource abundance. Similarly, Nathan (2022) confirmed the positive relationship between decentralization and corruption in 114 local governments, while also showing that internal audit and law enforcement had no significant mitigating effects.

However, contrasting evidence was presented by Anan (2019), who found a negative and significant effect of fiscal decentralization on corruption across all district and city governments in Indonesia during 2004–2010. This suggests that decentralization may enhance accountability and reduce corrupt behavior when properly managed. Supporting this view, Saputra & Setiawan (2021), analyzing 94 local governments in Java (2013–2015), reported that higher fiscal decentralization reduced regional losses and revenue shortfalls, albeit accountability had no significant effect on corruption indicators. In a broader international context, Changwony & Paterson (2019), using a sample of 128 countries, also found that decentralization—especially when combined with high-quality accounting practices—was significantly associated with reduced corruption.

Despite these findings, several studies caution that decentralization alone is insufficient to curb corruption. Triwibowo (2019) found a long-term causal relationship between public financial management (PFM) quality and corruption in Indonesia (2006–2017), concluding that better audit opinions did not necessarily translate into reduced corruption. Similarly, Ratmono (2021) revealed that increased fiscal authority among local governments was associated with higher corruption, exacerbated by weak internal control systems. Rahmasari & Setiawan (2021) also identified a positive effect of fiscal decentralization and capital expenditure on fraud, indicating that transfers may incentivize opportunistic behavior.

The role of government size and administrative capability has also drawn scholarly attention. Syauqi (2020) showed that larger government size correlates with higher corruption, while fiscal decentralization and audit findings were inversely related to corruption levels. These results align with Hamidi (2024), who warned that Indonesia's decentralization reform may unintentionally facilitate corruption due to weak judicial institutions and local elite capture. In this context, Choudhury (2023) suggested that revenue decentralization may reduce informal payments in procurement, although the results were not consistently significant across models.

The impact of fiscal instruments on governance outcomes has also been explored. Hardiningsih et al. (2020) and Maula et al. (2023) reported that locally generated revenue (PAD) and fiscal transfers positively affect capital expenditure. Yet, while this may reflect improved infrastructure investment, Firansyah & Gamayuni (2024) found that capital expenditure may in fact increase corruption risks, whereas personnel expenditure and financial independence reduce corruption potential. Similarly, Firmansyah et al. (2024) noted that although capital spending enhances financial performance, excessive dependence on central transfers harms fiscal independence.

The preventive role of audit and transparency mechanisms is another area of concern. Purnamasari et al. (2020) demonstrated that the application of forensic accounting significantly improves corruption prevention. In the digital governance domain, Arayankalam et al. (2021) emphasized that the effectiveness of public administration mediates the relationship between e-government maturity and corruption, especially when enhanced by virtual social networks (VSNs). Silal et al. (2023) added that the development of e-government and human capital positively contributes to corruption control, although this effect becomes significant only after two years.

In the realm of public procurement, which is particularly vulnerable to corrupt practices, Lisciandra et al. (2022) developed a contract-level corruption risk indicator based on Italian data (2007–2013), highlighting the multifaceted nature of corruption in government contracting. Vendrell-Herrero et al. (2022) found that in developing countries, domestic firms were more likely to engage in rent-seeking and pay bribes to secure contracts compared to foreign firms, indicating structural deficiencies in governance environments.

At the grassroots level, Nan (2021) found that in Province S, China, decentralization of power contributed to increased corruption in public service delivery. Zarychta et al. (2024) made a similar observation in Honduras, where decentralized health systems saw higher corruption, unless moderated by non-state actors like NGOs or municipal associations, who could play a watchdog role.

In sum, the relationship between fiscal decentralization and corruption remains context-specific and mediated by governance quality, institutional strength, and transparency mechanisms. While decentralization offers opportunities for improved accountability and service delivery, it may also open avenues for mismanagement if not accompanied by robust control systems, effective audits, and strong civic oversight.

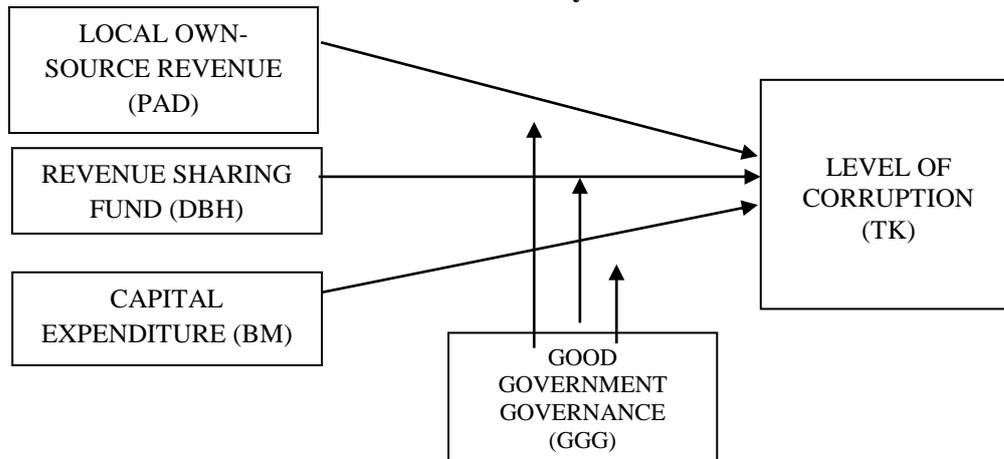**Figure 2 illustrates the research model and the relationship between the variables used in this study:**

Figure 2. Research Thinking Flow

Hypothesis

PAD is one of the sources of local government revenue obtained from local taxes, local levies, the results of the management of separated local assets and other legitimate local revenue in accordance with statutory regulations. Effective and accountable PAD financial management can reduce the level of corruption, and can increase regional fiscal capacity to make investments and capital expenditures (Anan, 2022) . Apart from PAD, another source of revenue that has a complex relationship with the level of corruption is Revenue Sharing Fund (DBH). DBH is part of the Transfer to Regions (TKD) provided by the central government based on a percentage of state revenue from taxes and natural resources originating from the regions. DBH aims to reduce fiscal imbalances between the center and regions and provide incentives for regional contributions to the national economy (Anan, 2022). Within the framework of Legitimacy Theory, the presence of DBH also requires local governments to manage it responsibly, as a form of respect for regional fiscal rights and a form of legitimacy for the role of regions in national development. Another aspect of regional expenditure that is no less important in this discourse is **capital expenditure**. Capital expenditure refers to local government spending on long-term investments such as infrastructure development and fixed asset procurement. According to Sudaryo (2017), capital expenditures are expenditures whose benefits extend beyond one fiscal year and directly add to regional assets/wealth. However, the process of procuring goods and services in capital expenditures is very vulnerable to corrupt practices, such as price *mark-ups*, specification setting, tender collusion, and procurement of goods that are not in accordance with the contract.

Based on the explanation above, the following hypothesis is formulated:

H1: Local Original Revenue (PAD) has a negative effect on the level of local government corruption.
H2: Revenue Sharing Fund (DBH) negatively affects the level of local government corruption.
H3: Capital expenditure has a positive effect on the level of local government corruption.

High PAD can create greater opportunities for corruption if there is no adequate supervision. Local governments with large PAD but without transparency can tend to misuse funds for personal interests or certain groups. Transparency and accountability in PAD management can ensure that the funds obtained are used in accordance with regional needs, so that the risk of corruption can be reduced. DBH also has a complex relationship with the level of corruption in local governments in Indonesia. Effective and accountable DBH financial management can reduce the level of corruption, as well as the potential for regional revenue to increase and the regions feel that their rights to the utilization of natural resources owned by each region are considered by the central government. By applying the principles of *good government governance*, namely transparency, accountability and community participation, the management of capital expenditure becomes more open and can be supervised so as to minimize the risk of abuse of authority. This means that GGG plays an important role in influencing capital expenditure and reducing the level of corruption in local governments in Indonesia.

Based on the explanation above, the following hypothesis is formulated:

H4 : *Good government governance* acts as a moderating variable that strengthens the effect of PAD on the level of corruption in local governments in Indonesia.
H5 : *Good government governance* acts as a moderating variable that strengthens the effect of DBH on the level of corruption in local governments in Indonesia.
H6 : *Good government governance* acts as a moderating factor that weakens the effect of capital expenditure on the level of corruption in local governments in Indonesia.

III. RESEARCH METHOD

This study adopts a quantitative research approach to investigate the relationship between fiscal capacity and corruption levels in Indonesian local governments, while also exploring the moderating role of good government governance (GGG). The quantitative approach is selected because it allows for systematic measurement, statistical analysis, and the testing of hypotheses through numerical data. By using this method, the study aims to provide robust empirical evidence on how fiscal decentralization—represented by key fiscal indicators—relates to corruption.

The analysis focuses on three independent variables: local own-source revenue (PAD), which reflects the ability of local governments to generate income independently; revenue sharing funds (DBH), which represent transfers from the central government; and capital expenditure, which indicates the extent of local investment in infrastructure and development. These variables are used to assess how different sources and uses of regional funds may influence corruption outcomes. The dependent variable is the level of corruption, which is operationalized as the number of finalized corruption case verdicts at the provincial level per year. This indicator was chosen because it provides a concrete, documented measure of corruption activity within the jurisdiction of local governments. The moderating variable, good government governance (GGG), is used to explore whether the quality of governance strengthens or weakens the relationship between fiscal variables and corruption. In this study, GGG is proxied by the operational solvency ratio, which reflects a local government's ability to finance its operational expenditures using its own revenue. A higher solvency ratio is considered an indicator of better financial governance.

Secondary data were collected from publicly available and credible sources. Fiscal data—including PAD, DBH, and capital expenditure—were obtained from the official website of the Directorate General of Fiscal Balance (DJPK RI). Corruption data were gathered from the Case Tracking Information System (SIPP) of the Indonesian District Courts, which provides official records of corruption case decisions. The GGG proxy was calculated from financial reports available for each province. The population of this study includes all provincial governments in Indonesia. However, using purposive sampling, the study focuses on 10 provinces with the highest average levels of corruption reported between 2019 and 2023. These provinces are East Java, North Sumatra, Central Java, South Sulawesi, East Nusa Tenggara, Aceh, West Java, South Sumatra, Bengkulu, and Lampung. The study period spans from 2014 to 2023, providing a decade-long panel dataset with 100 total observations.

The analysis begins with descriptive statistics to profile the data. Subsequently, panel data regression **analysis** is employed using three common models: the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). The most appropriate model is determined based on standard diagnostic tests, including the Chow test, Hausman test, and Breusch-Pagan Lagrange Multiplier test. To ensure the validity of the regression results, classical assumption tests are conducted. The normality test examines whether the data are normally distributed, and the heteroscedasticity test assesses the consistency of variance in the residuals. These steps are crucial to ensure the reliability and robustness of the regression estimates. To evaluate the relationships between variables, the F-test is used to test the overall significance of the model, while the **t-test** assesses the individual contribution of each independent variable. The coefficient of determination (R^2) is reported to show how much of the variation in corruption levels can be explained by the fiscal and governance variables included in the model.

In summary, this study employs a systematic and data-driven methodology to explore how fiscal decentralization components—PAD, DBH, and capital expenditure—influence corruption in Indonesian provinces, and how this relationship may be moderated by the quality of local governance.

IV. RESULTS AND DISCUSSION

Result

Descriptive statistics are carried out to find the strength of the relationship between variables through correlation analysis, make predictions with regression analysis and make comparisons by comparing the average sample or population data (Sugiyono, 2019) . The results of the descriptive statistical test of this study can be seen in table 1.

Table 1 Descriptive Statistical Analysis

	CL	PAD	DBH	BM	GGG
Mean	95.80000	14415.68	3391.371	9250.031	0.852100
Median	89.50000	7070.485	1561.025	7968.225	0.830000
Maximum	303.0000	52173.77	15278.77	21119.93	1.040000
Minimum	4.000000	1052.670	225.4600	1578.390	0.720000
Std. Dev.	54.21655	14533.31	3707.131	5287.835	0.069330
Skewness	1.255697	1.070648	1.389550	0.609168	0.823195
Kurtosis	5.219646	2.685462	4.086983	2.362042	2.967884
Jarque-Bera	46.80805	19.51702	37.10385	7.880560	11.29846
Probability	0.000000	0.000058	0.000000	0.019443	0.003520
Sum	9580.000	1441568.	339137.1	925003.1	85.21000
Sum Sq. Dev.	291004.0	2.09E+10	1.36E+09	2.77E+09	0.475859
Observations	100	100	100	100	100

Source: Processing results using Eviews 12

Based on the table above, it can be seen that the data used in this study are 100 observations studied in the period 2014-2023. The variables used in this study are regional own-source revenue (PAD), revenue sharing funds (DBH), capital expenditure, corruption level and *good government governance* (GGG).

Panel Data Regression Selection Test

Table 2. Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	10.720913	(9,83)	0.0000
Cross-section Chi-square	77.126897	9	0.0000

Source: Eviews 12

Based on table 2, the Chow Test produces a *Cross-section Chi-square* probability value of 0.0000 with a significant level of 0.05. because the *Cross-section Chi-square* probability value of 0.0000 <0.05, it shows the result that the model chosen in this study is *Fixed Effect* (FEM). Then it can proceed to the Hausman Test.

Table 3. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	5.623827	7	0.5843

Source: Eviews 12

Based on table 3, the Hausman Test produces a *random Cross-section* probability value of 0.5843 with a significance level of 0.05. Because the *Cross-section random* probability value is 0.5843> 0.05, it shows the result that the model chosen in this study is the *Random Effect* Model (REM), so it can be continued with the *Lagrange Multiplier* (LM) test.

Table 4. LM Test Results

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	83.34086	0.067134	83.40799
	(0.0000)	(0.7956)	(0.0000)
Honda	9.129121	-0.259102	6.272051
	(0.0000)	(0.6022)	(0.0000)

King-Wu	9.129121	-0.259102	6.272051
	(0.0000)	(0.6022)	(0.0000)
Standardized Honda	11.62890	0.190134	4.399844
	(0.0000)	(0.4246)	(0.0000)
Standardized King-Wu	11.62890	0.190134	4.399844
	(0.0000)	(0.4246)	(0.0000)
Gourieroux, et al.	--	--	83.34086
			(0.0000)

Source: Results of Eviews 12

Based on table 4, the LM test produces a *cross section* value of 0.0000 with a significant level of 0.05. Because the *Breusch-Pagan cross section* probability value is 0.0000 <0.05, it shows the result that this model chosen in this study is REM. From the results of the Chow Test, Hausman Test and LM Test, the best model in this study is REM. However, in this study the model chosen for panel data regression is the *Common Effect Model* (CEM).

Classical Assumption Test

Figure 3 shows that the value of Jarque-Bera is 4.332042 and the probability value is 0.114633 or the probability value is greater than the 5% significance level (0.114633> 0.05), so it can be said that the model in this study's regression has normally distributed data.
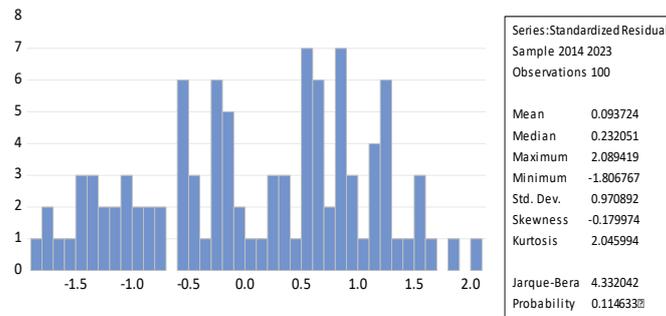

Figure 3. Normality Test Results
Source: Results of Eviews 12

Based on the Breusch_Pagan Test results in table 5. known Prob value. Chi-Square (7) is 0.0066 <0.05, it can be concluded that it does not pass the heteroscedasticity test. The results of this test indicate that there is inhomogeneity of variance between residuals, which results in the estimation of values no longer being efficient.

Table 5. Heteroscedasticity Test Results

F-statistic	2.299819	Prob. F(7,92)	0.0332
Obs*R-squared	14.89262	Prob. Chi-Square(7)	0.0374
Scaled explained SS	19.56271	Prob. Chi-Square(7)	0.0066

Source: Results of Eviews 12

Panel Data Regression Model

This study uses the panel data regression analysis method using the *Eviews* 12 application program. Panel data regression analysis is used to test the effect between two independent variables on the dependent variable, namely the level of corruption using panel data. *The Fixed Effect Model (FEM)* was selected as the best model to use. *The Fixed Effect Model* (FEM) regression results can be seen in table 6.

Table 6. CEM Model with Moderation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-63.42776	23.60613	-2.686919	0.0086
PAD	-0.027111	0.000983	-27.58838	0.0000
DBH	0.005079	0.004683	1.084615	0.2809
BM	0.043248	0.003668	11.79167	0.0000
GGG	112.9365	26.01733	4.340817	0.0000
PAD_GGG	0.031992	0.001094	29.25277	0.0000
DBH_GGG	-0.008953	0.005256	-1.703230	0.0919
BM_GGG	-0.041795	0.004250	-9.834571	0.0000

Source: Results of Eviews 12

Based on Table 6. above, the panel data regression equation in this study is as follows:
CL = -63.42776 - 0.027111 * PAD + 0.005079 *DBH + 0.043248 *BM + 112.9365 *GGG + 0.031992 *PAD_GGG - 0.008953 *DBH_GGG - 0.041795 * BM_GGG

The results of this study indicate several key findings regarding the relationship between regional financial variables and corruption in local governments in Indonesia. First, Regional Original Revenue (PAD) has a significant negative effect on the level of corruption, suggesting that higher PAD is associated with lower corruption levels. This finding supports Hypothesis 1 (H1), as evidenced by a t-statistic of -27.58838 and a p-value of 0.0000. In contrast, Revenue Sharing Funds (DBH) do not have a significant effect on corruption, leading to the rejection of Hypothesis 2 (H2), with a t-statistic of 1.084615 and a p-value of 0.2809. Capital expenditure, however, shows a significant positive effect on corruption, indicating that increased capital spending may raise the risk of corrupt practices. This supports Hypothesis 3 (H3), with a t-statistic of 11.79167 and a p-value of 0.0000.

In terms of the moderating role of Good Government Governance (GGG), the results show that GGG strengthens the negative relationship between PAD and corruption, confirming Hypothesis 4 (H4). The interaction between PAD and GGG yields a t-statistic of 29.25277 with a p-value of 0.0000, demonstrating that effective governance enhances the ability of PAD to reduce corruption. Conversely, GGG does not moderate the relationship between DBH and corruption, leading to the rejection of Hypothesis 5 (H5), as shown by a t-statistic of -1.703230 and a p-value of 0.0919. Lastly, GGG is found to weaken the positive effect of capital expenditure on corruption, supporting Hypothesis 6 (H6), with a t-statistic of -9.834571 and a p-value of 0.0000. This suggests that good governance can play a crucial role in mitigating the corruption risks associated with capital investment activities.

Simultaneous Significance Test (Test f)

Table .8. Test Results f

Sum squared resid	94.19894	F-statistic	252.2948
Durbin-Watson stat	1.963979	Prob(F-statistic)	0.000000

Source: Results of Eviews 12

Based on table 8. above, it is known that the *F-Statistic* value is 252.2948 with a *Prob. (F-Statistic)* value of 0.000000 (<0.05). These results indicate that PAD (X1), DBH (X2), and BM (X3) as independent variables simultaneously have a significant effect on the level of corruption as the dependent variable (Y).

Table 9. Determination Test Results with Moderation

Root MSE	0.970561	R-squared	0.950486
Mean dependent var	2.718599	Adjusted R-squared	0.946719

Source: Results of Eviews 12

Based on table 9. above, it is known that the *R-squared* value is 0.950486, it can be concluded that the contribution of the influence of the independent variable (X) to the dependent variable (Y) is 95.05%. While the remaining 4.95% is influenced by other variables outside this study.

IV. DISCUSSION

The findings confirm that Regional Original Revenue (PAD) has a significant negative effect on corruption in local governments. This supports the view that higher PAD is associated with stronger fiscal capacity and increased public service provision, which in turn enhances public trust and reduces incentives for

corruption. Drawing from legitimacy theory, well-managed local revenues strengthen the legitimacy of local governments, while misuse or corruption erodes public confidence and increases external pressure. This finding aligns with Anan (2019), who also found a negative relationship between fiscal decentralization and corruption. However, contrasting results from Ratmono (2021) and Zarychta et al. (2024) suggest that without proper institutional safeguards, fiscal authority may also increase corruption risks. The results indicate that Revenue Sharing Funds (DBH) have no significant effect on corruption levels. Although DBH is intended to reduce vertical fiscal imbalance, its impact on corruption may be neutral due to the standardized nature of intergovernmental transfers and the lack of discretion in its allocation. According to legitimacy theory, DBH should be managed transparently to reinforce the local government's fiscal autonomy. However, previous studies (Anan, 2019; Febrian & Rossieta, 2019; Saputra & Setiawan, 2021) also observed that the structure of intergovernmental transfers does not necessarily influence corruption, particularly when governance quality is inconsistent across regions. This study reveals that capital expenditure has a significant positive effect on corruption, indicating that higher infrastructure spending tends to increase corruption risk. From the legitimacy theory perspective, large capital projects carry symbolic importance, and any mismatch between budgeted expenditure and tangible outcomes (e.g., abandoned or poor-quality infrastructure) can undermine public trust. This result is supported by Lisciandra et al. (2022), Vendrell-Herrero et al. (2022), and Choudhury (2023), who found that capital budgets often become fertile ground for corruption, especially in developing countries with weak procurement oversight.

Good Government Governance (GGG) significantly moderates the relationship between PAD and corruption, strengthening its negative effect. The presence of governance principles such as transparency, accountability, and public participation enhances the effectiveness of PAD in reducing corruption. These findings are consistent with good governance theory, which posits that sound governance mechanisms reduce the misuse of public resources and reinforce institutional legitimacy. This aligns with Triwibowo (2019), who found a long-term causal relationship between public financial management and corruption levels in Indonesia. The study finds that GGG does not moderate the relationship between DBH and corruption. This suggests that even in the presence of governance mechanisms, the impact of DBH remains limited, potentially due to the formulaic nature of the transfer and the lack of localized discretion in its use. This result reflects findings by Arayankalam et al. (2021), which emphasize that administrative capacity and digital maturity may be more critical than fiscal design alone in curbing corruption. Finally, the results show that GGG significantly weakens the positive relationship between capital expenditure and corruption. This implies that governance mechanisms can mitigate corruption risks inherent in infrastructure procurement by promoting transparency and accountability. These findings are supported by Silal et al. (2023), who demonstrated the positive impact of e-government and governance reforms on corruption control in developing countries.

V. CONCLUSIONS

This study investigated the impact of Regional Original Revenue (PAD), Revenue Sharing Funds (DBH), and Capital Expenditures on the level of corruption in local governments in Indonesia, with Good Government Governance (GGG) as a moderating variable. Based on panel data analysis of 100 observations from 10 provinces over a 10-year period (2014–2023), the Common Effect Model (CEM) was selected as the most appropriate estimation technique. The findings reveal several important conclusions.

First, PAD was found to have a significant negative effect on corruption, indicating that regions with higher fiscal capacity and better-managed local revenues tend to experience lower levels of corruption. This supports the legitimacy theory, where transparent and accountable financial management enhances public trust and institutional legitimacy. Second, DBH did not show any significant relationship with corruption levels. This result suggests that the standardized and non-discretionary nature of revenue transfers may limit their influence on corrupt practices, especially in the absence of strong local governance. Third, capital expenditure was found to have a significant positive effect on corruption. This confirms that infrastructure and procurement-related spending are highly vulnerable to misuse, particularly in regions with weak oversight mechanisms.

Furthermore, the study found that GGG plays an important moderating role. Specifically, GGG strengthens the negative relationship between PAD and corruption, meaning that good governance practices such as transparency, accountability, and public participation enhance the capacity of PAD to reduce corruption. On the other hand, GGG does not significantly moderate the effect of DBH on corruption, reaffirming its limited influence in the context of fixed intergovernmental transfers. Interestingly, GGG was also found to weaken the positive relationship between capital expenditure and corruption, suggesting that strong governance can reduce the misuse of capital budgets.

In summary, the study highlights that effective governance mechanisms are essential in ensuring that local fiscal resources are managed responsibly and free from corrupt practices. Improving the quality of governance at the regional level is crucial not only for minimizing corruption but also for maximizing the developmental impact of local government spending.

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