

Effects of Regional Financial Independence, Total Assets, Intergovernmental Revenue and Inspection Findings on Financial Performance with Capital Expenditure as Moderating Variable in Provincial Government of North Sumatera

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ABSTRACT

This study aims to determine and analyze how the effect of regional financial independence, total assets, intergovernmental revenue, and audit findings on the financial performance of local governments in North Sumatera Province. In addition, this study also aims to determine whether capital expenditure can be used as a moderating variable in the research model.

This type of research is causal associative research that uses a quantitative approach. The population in this study were all district/city governments in the Province of North Sumatera, consisting of 25 regencies and eight cities. The number of observation samples in this study was 165 data. Meanwhile, the data analysis technique used in this research is panel data regression and moderating test carried out with the help of Eviews software.

The results of this study indicate that regional financial independence and intergovernmental revenue have a positive and significant effect on the financial performance of local governments. Meanwhile, the audit findings have a negative and significant impact on the financial performance of local governments. Other results in this study indicate that capital expenditure can moderate the effect of regional financial independence and total assets on the financial performance of local governments in North Sumatera Province.

Keywords: Regional Financial Independence, Total Assets, *Intergovernmental Revenue*, Audit Findings, Local Government Financial Performance, Capital Expenditure.

INTRODUCTION

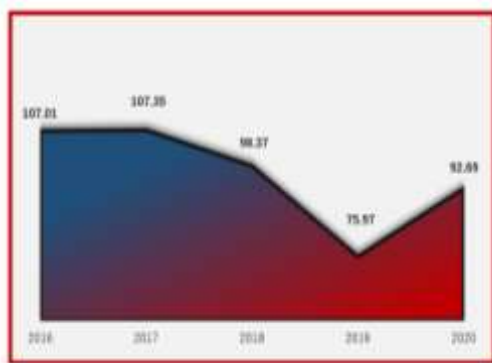
Government Regulation Number 12 of 2019 explains that Regional Financial Management is all activities that include planning, implementation, administration, reporting, accountability, and supervision of regional finances. Regional financial management that has been carried out correctly following government regulations can improve the region's economic performance.

Regional autonomy can be said to be successful if it cannot be separated from the performance of the Regional Government in managing finances independently, as expected, and does not violate the applicable laws and regulations. The management is carried out in an integrated system embodied in the APBD, which is annually stipulated by regional regulations (Government Regulation Number 12 of 2019)

Local government financial performance is one measure of a region's ability. The form of assessment is in the form of financial ratio analysis which is formed from the elements of the Regional Head's

accountability report in the form of an APBD report (Halim, 2012). Financial performance analysis is carried out to assess past performance by conducting various analyzes to obtain a financial position that represents the reality of the entity and its performance potentials that will be sustainable.

North Sumatra Province is the largest Province outside Java in terms of population, which has a very strategic role in the western part of Indonesia as a center of economic activity, especially plantations, industry, trade, mining, tourism, finance, and services. North Sumatra is the Province with the fourth largest population in Indonesia, after the provinces of West Java, East Java, and Central Java.



Source: Directorate General of Fiscal Balance, Ministry of Finance (2022)

Figure 1. Phenomena About Financial Performance of North Sumatra Province 2016-2020

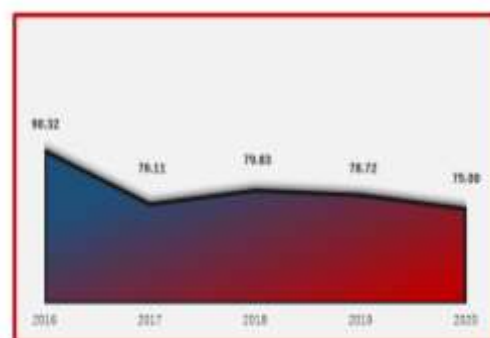
The graph above shows that in 2016 the financial performance of North Sumatra Province obtained excellent results. Then in 2017, the financial performance increased and reached 107.35. However, in 2018 financial performance experienced a significant decline compared to the previous year, 2017. Furthermore, in 2019 financial performance also declined to 75.97. Meanwhile, in 2020 the financial performance of North Sumatra Province experienced a slight increase at 92.69.

By this phenomenon, it can be concluded that the financial performance of North Sumatra Province in recent years has shown no optimal results. It needs to be addressed and improved in the following years. North

Sumatra Province deserves to be called the largest Province in Indonesia after West Java, East Java, and Central Java. So the local government, especially the North Sumatra provincial government, needs to know what variables can affect the low achievement of the financial performance.

Several things are thought to affect the financial performance of local governments, one of which is regional financial independence. Regional financial independence means that the government can carry out its financing and financial accountability and implement it within the principle of decentralization. A region is considered independent if the use of Regional Original Income in regional development is greater than transfer funds. This independence ratio also shows the role of the community in regional development. The higher the independence ratio, the higher the part of the community in paying retribution and local taxes, which are the most crucial components of Regional Original Income. With the low dependence between local governments on the central government, an area can be considered independent to produce better financial performance.

The phenomena that occur regarding the financial independence of local governments in North Sumatra Province are as follows:



Source: Directorate General of Fiscal Balance, Ministry of Finance (2022)

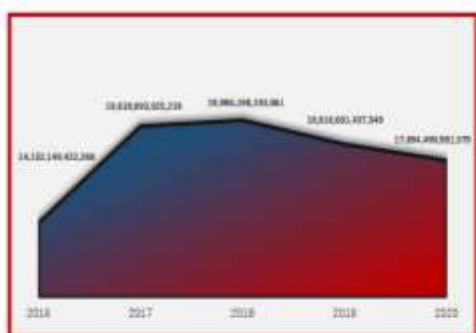
Figure 2. Phenomena of Regional Financial Independence Level North Sumatra Province 2016-2020

The graph above illustrates that the level of

regional independence for North Sumatra Province in 2016 was 90.32, which then decreased significantly to 76.11 in 2017, then increased slightly in 2018, and again reduced for the following year, namely 2019-2020. Associated with the same phenomenon experienced by the financial performance of North Sumatra Province, as shown in Figure 1, it can be seen that the decline in financial independence that occurs will affect the decline in financial performance that the Province of North Sumatra also experiences.

The following variable that is thought to be able to effect the financial performance of local governments is total assets. Total assets describe the size of the local government, which can be seen from the number of natural resources owned by the area. The larger the size of an area, the greater the assets owned by the local government. Assets owned by a region will impact the performance of local governments in providing services and facilities needed by the community. Therefore, regions with large total assets are expected to provide operational convenience for the government in carrying out their duties and functions as public servants.

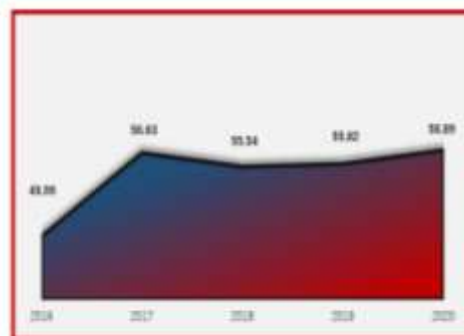
It is also inseparable from the phenomenon that occurs regarding total assets in North Sumatra Province, which shows that there has been a significant decline for the 2019 and 2020 fiscal years, as shown by the following graph:



Source: Directorate General of Fiscal Balance, Ministry of Finance (2022)
 Figure 3. Phenomena of Total Assets of North Sumatra Province 2016-2020

The graph above clearly shows that the total assets owned by the Province of North Sumatra appear to have decreased in 2019 and 2020. It causes a decline in financial performance, as shown in Figure 1.1. This phenomenon strengthens the theory that total assets can affect the financial performance of local governments.

Furthermore, the variable that is thought to be able to affect the financial performance of local governments is intergovernmental revenue. Intergovernmental revenue or balancing funds is one source of regional revenue that significantly contributes to the provincial revenue budget. Intergovernmental revenue is intended to assist regions in funding their authority, reduce the gap in government funding sources between the center and areas, and reduce the funding gap between regions.



Source: Directorate General of Fiscal Balance, Ministry of Finance (2022)
 Figure 4. Phenomena of Intergovernmental Revenue North Sumatra Province 2016-2020

Based on the graph above, it can be seen that the intergovernmental revenue of North Sumatra Province seems to have decreased in 2018 compared to 2017. Then it increased slightly in 2019 and 2020. It is suspected as the cause of the decline in financial performance, as shown in Figure 1.1. This phenomenon strengthens the theory that intergovernmental revenue can affect the financial performance of local governments. The last variable that is thought to affect local government financial performance is the audit findings. The findings on the examination of financial statements are a form of accountability of the local

government to the DPRD, which is very important in assessing the government's financial performance based on the prepared financial statements. The Supreme Audit Agency Regulation Number 1 of 2007 states that audit findings can be in the form of internal control weaknesses, fraud, irregularities, or non-compliance with statutory provisions that have the potential to harm state finances. Thus, audit findings that are the results of BPK audits can affect the financial performance of local governments.

To distinguish it from Wahyudin's (2020) research, the researcher added another independent variable, Total Assets, and Examination Findings. In addition, to add novelty to this study, the researchers also added a moderating variable which is thought to be able to moderate the effect of the independent variable on the financial performance of local governments. The moderating variable used is capital expenditure.

Capital expenditure is the total realization of all development expenditures, such as infrastructure and direct and indirect expenditures. Capital expenditure includes land, buildings, equipment and machinery, roads, irrigation and networks, and other fixed assets. Local governments must be able to allocate capital expenditure properly because capital expenditure is one step for local governments to provide services to the public (Abba et al., 2015).

By the explanation of the phenomenon, the results of previous research, and the background, the study entitled " Effects of Regional Financial Independence, Total Assets, Intergovernmental Revenue And Inspection Findings on Financial Performance With Capital Expenditure As Moderating Variable In Provincial Government of North Sumatera" becomes interesting to do.

LITERATURE REVIEW

Local Government Financial Performance

Performance is a description of the

achievement of the implementation of an activity/program/policy in realizing the goals, objectives, mission, and vision of the organization (Wana and Juniartika, 2021). In general, performance is an achievement achieved by the organization in a certain period. All organization activities must be recorded and measured to measure the success/failure of an organization.

Minister of Home Affairs Regulation Number 77 of 2020 states that performance is a measure of success achieved from planned programs, activities, and sub-activities, including inputs, outputs, and results. Meanwhile, local government financial performance is the level of achievement of work in regional finance, which includes provincial revenues and expenditures using financial indicators determined through a policy or statutory provision for one budget period.

Financial performance in this study was measured using the effectiveness ratio. This regional financial effectiveness ratio shows the ability of local governments to realize local revenue compared to the target set based on the real potential of the region (Sari et al., 2020). The ability of the areas to carry out their duties is categorized as effective if the ratio achieved is at least 100%. The higher the effectiveness ratio, the better the area's ability to describe.

Regional Financial Independence

Financial independence in the region is the ability of local governments to finance their government activities, accountability, and development, as well as services provided to people who have paid levies and taxes, which are sources of income that are needed by the region. The size of locally-generated revenue shows regional financial independence compared to regional income from other sources, such as central government assistance or loans.

Regional financial independence can be used to see whether or not a region can carry out its duties properly or not, as well as to see how much the region is

dependent on sources of funds other than those that can be generated on its own. An area can be considered independent if the site can finance government activities and development independently without relying on funds from the central government. Regional independence is one of the goals of regional autonomy.

The ratio of regional financial independence in this study is seen from the total local revenue compared to the total central assistance and loans obtained. The higher the ratio of regional financial independence, the lower the level of dependence of the provincial government on the central government. Conversely, the lower the ratio of regional independence, the higher the regional dependence on central government assistance.

Total Assets

Total assets describe the size of the local government, which can be seen from the number of natural resources owned by the area. The larger the size of an area, the greater the assets of the local government (Siregar, 2020). Assets owned by a region will impact the performance of local governments in providing services and facilities needed by the community. Therefore, regions with large total assets are expected to provide operational convenience for the government in carrying out their duties and functions as public servants (Aulia and Rahmawaty, 2020).

Ease of operation will provide smoothness in obtaining original regional income, simultaneously encouraging regional facilities and infrastructure development. Regional development carried out through the construction of facilities and other infrastructure can help and support the community to be more productive to have a good impact on regional development (Maulina et al., 2021).

Intergovernmental Revenue

Intergovernmental revenue (balancing fund) is a fund sourced from APBN revenues allocated to regions to fund regional needs in implementing decentralization. It aims to create a financial balance between the central and local governments. Intergovernmental revenue is income received by local governments from external sources and does not require any repayment. To support the implementation of national development, the government provides an opportunity to implement regional autonomy by issuing Law Number 12 of 2008.

Intergovernmental revenue is intended to assist regions in funding their authority and reduce the gap in government sources to fund between the center and the regions. Moreover, balancing funds can empower and improve the capacity of the regional economy, create a fair, accountable payment system, and provide regional financial certainty from the region concerned. Intergovernmental revenue is not only intended to assist regions in funding development but also to reduce government funding sources inequality between the center and the provinces.

If the realization of regional expenditure is higher than regional income, a deficit will occur. Therefore, to cover the shortage of provincial spending, the central government transfers funds by balancing funds with local governments. The greater the transfer of balancing funds received from the central government, the more dependent it is on the central government to meet regional needs. It will reduce the regional financial performance.

Audit Findings

The financial statements need to be audited by the Supreme Audit Agency to improve the quality of transparency and accountability of government financial reports. State financial audits conducted

by the Supreme Audit Agency consist of financial audits, performance audits, and audits with specific objectives. The examination results conducted by the Audit Board are in the form of opinions, findings, conclusions, or recommendations (Djuniar et al., 2021). The results of the examination in the form of the Audit Board audit findings are cases found by the Audit Board in local government financial reports for violations committed by a region against internal control provisions as well as against applicable laws and regulations (Ditasari and Sudrajat, 2020). The findings on the examination of financial statements are a form of accountability of the local government to the Provincial Legislative Council, which is very important in assessing the accountability of financial reports prepared by the government.

The Audit Board Regulation Number 1 of 2007 concerning Standards for State Financial Audit states that audit findings can be in the form of internal control weaknesses, fraud, irregularities, or non-compliance with the provisions of laws and regulations that can harm state finances. Thus, audit findings that are the results of The Audit Board audits can affect the financial performance of local governments.

Capital Expenditure

The capital expenditure, as referred to in the Regulation of the Minister of Home Affairs Number 77 of 2020, is used for expenditures carried out in the context of procuring tangible fixed assets that have a practical value of more than 12 (twelve) months to be used in government activities. Meanwhile, according to PSAP Number 2, capital expenditures are budgetary expenditures for acquiring fixed and other assets that provide benefits for more than one accounting period.

The value of tangible fixed assets budgeted in capital expenditure is the

purchase price/build of the investment plus all spending related to the procurement/development of the asset until the asset is ready for use. Regional Heads set a minimum capitalization limit to impose capital expenditures. In addition to meeting the minimum limit, budget expenditures for goods expenditures must provide benefits for more than one accounting period that is not routine (Gede, 2019). This provision is in line with Government Regulation 71 of 2010 concerning Government Accounting Standards, especially PSAP Number 7, which regulates accounting for fixed assets.

Framework

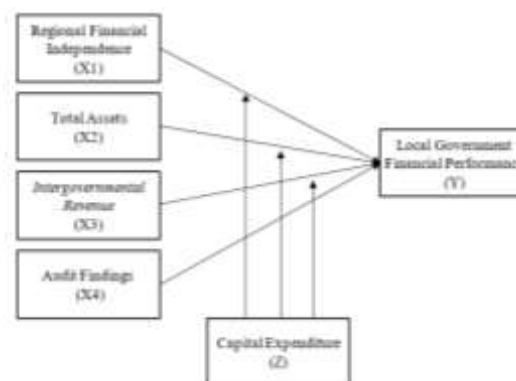


Figure 5. Framework

H1: Regional Financial Independence has a positive on Local Government Financial Performance.

H2: Total Assets have a positive effect on Local Government Financial Performance. H3: Intergovernmental Revenue has a positive impact on Local Government Financial Performance.

H4: Audit Findings Have a negative effect on Local Government Financial Performance.

H5: Capital Expenditure moderates the effect of Regional Financial Independence on Local Government Financial Performance.

H6: Capital Expenditure moderates the effect of Total Assets on Local Government Financial Performance.

H6: Capital Expenditure moderates the effect of Intergovernmental Revenue on Local Government Financial Performance.

H7: Capital Expenditure moderates the effect of Audit Findings on Local Government Financial Performance.

MATERIALS & METHODS

This type of research is causal associative research that uses a quantitative approach. According to Sugiyono (2015), quantitative research is a research method based on the philosophy of positivism, used to examine certain populations or samples, data collection using research instruments, and data analysis are quantitative/statistical, intending to test predetermined hypotheses. This study uses 4 (four) independent variables (X), 1 (one) dependent variable (Y) and 1 (one) moderating variable (Z).

The independent variables consist of regional financial independence, total assets, intergovernmental revenue, and audit findings. The dependent variable is the financial performance of the Regional Government, and the moderating variable is Capital Expenditure.

The population used in this study were all regencies/cities throughout North Sumatera from 2016 to 2020. The population of this study was all district and city governments in the Province of North Sumatera, amounting to 33 of which 25 regencies and eight cities. The sample in this study was selected using a purposive sampling method—the determination of the research sample using specific considerations or criteria. These provisions obtained 33 regencies and cities as samples in this study. So the number of observations used in this study was $33 \times 5 = 165$.

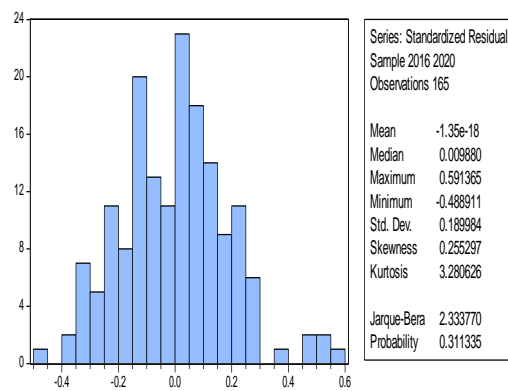
RESULT

A. Classic assumption test

1. Normality test

The normality test aims to determine whether each variable is normally

distributed. Normality tests can be detected from the method developed by Jarque Bera (JB). If the probability value of Jarque Bera (JB) > 0.05 , then the data has been normally distributed. However, if the probability value of Jarque Bera (JB) < 0.05 , then the data is not normally distributed. This study's normality testing results can be seen based on the following output results.



Source: data processed by Eviews
Figure 6. Normality Test Results

As seen in the picture above, it can be seen that the probability value of Jarque Bera (JB) is 0.311, which is greater than 0.05 ($0.311 > 0.05$). So it can be concluded that the data used in this study were normally distributed.

2. Multicollinearity Test

The results of multicollinearity testing in this study can be seen based on the following results.

Table 1. Multicollinearity Test with VIF

Variable	Centered VIF
X1	3.615606
X2	3.917418
X3	1.993264
X4	1.057736

Source: data processed by Eviews

Based on the table above, it can be seen the value of the correlation coefficient between the independent variables used in this study. Based on these results, it can be concluded that there is no multicollinearity problem because the VIF value produced by each independent variable is smaller than 10. So this research model is free from multicollinearity symptoms.

3. Autocorrelation Test

The autocorrelation test shows the correlation between the members of the observations ordered by time or space. The autocorrelation hypothesis testing in this study is as follows:

H0: no serial correlation (serial correlations).

H1: serial correlation occurs (serial correlations).

Table 2. Autocorrelation Test Results

Obs*R-squared	3.927099
Prob. Chi-Square (2)	0.1404

Source: data processed by Eviews

Based on the autocorrelation test of the Breusch-Godfrey Serial Correlation LM Test, it can be seen that the probability value of Obs*R-square is $0.1404 > 0.05$, so H0 is rejected, which means that there is no autocorrelation problem in this research model.

4. Heteroscedasticity Test

This heteroscedasticity test is used to determine whether there is variance heteroscedasticity in the regression model from the residual of one observation to another. If the variance from one observation to another is the same, it is called homoscedasticity. Meanwhile, if the variance is different, it is called heteroscedasticity.

Table 3. Heteroscedasticity Test Results

Variable	Probability
X1	0.1111
X2	0.6283
X3	0.7246
X4	0.1309

Source: data processed by Eviews

The probability value < 0.05 indicates a heteroscedasticity problem in the research model. Meanwhile, based on the table above, it can be seen that the probability value generated by each independent variable is greater than 0.05. So it can be concluded that the data used in this study is free from heteroscedasticity symptoms.

B. Hypothesis Testing

1. Coefficient of Determination Test

The results of the coefficient of determination test can be seen in the following table:

Table 4. Coefficient of Determination Test Results

R-squared	0.497833
Adjusted R-squared	0.356599
S.E. of regression	0.215047

Source: data processed by Eviews

Based on Table 5.10, the value of R Square (R²) is 0.4978, which means 0.4978 or (49.78%) independent variables, namely regional financial independence, total assets, intergovernmental revenue, and audit findings, can explain the financial performance of Regency/City governments in the Province. North Sumatera. At the same time, the remaining 50.22% is effected or explained by other variables not included in this research model.

2. Simultaneous Hypothesis Test Results (Statistical Test F)

The F test is used to see the effect of regional financial independence, total assets, intergovernmental revenue, and audit findings on the financial performance of local governments simultaneously.

Table 5. Simultaneous Test Results

F-statistic	3.524871
Prob(F-statistic)	0.000000

Source: data processed by Eviews

Based on the above, it can be seen that the results of the simultaneous test (statistic F) indicate that the significant value produced is 0.000 less than 0.05. These results indicate that all independent variables, namely regional financial independence, total assets, intergovernmental revenue, and audit findings together (simultaneously) significantly effect the dependent variable, namely the financial performance of local governments in North Sumatera Province. The test is continued with the t-test (partial test) to see what independent variables partially affect the financial performance of

district/city local governments in North Sumatera Province.

3. Results of Partial Hypothesis Testing (Test Statistical t)

The t-statistic test shows how much one independent variable's effect individually explains the dependent variable. Acceptance or rejection of the hypothesis in a study can be done with the following criteria:

1. If the significance value of t statistic > 0.05 , then H_0 is accepted. It means that an independent variable does not effect the dependent variable.
2. If the statistical significance value of $t < 0.05$, then H_0 is rejected. It means that an independent variable individually affects the dependent variable.

Table 6. Partial Test Results

Variable	t-Statistic	Probability
C	1.242583	0.2163
X1	5.541723	0.0000
X2	-1.592212	0.1138
X3	4.643150	0.0000
X4	-2.045325	0.0429

Source: data processed by Eviews

Regional financial independence (X1) has a significance value of $0.0000 < 0.05$. These results indicate that regional financial independence (X1) partially effects the financial performance of district/city governments in North Sumatera Province.

Total assets (X2) have a significance value of $0.1138 > 0.05$. These results indicate that the total assets (X2) partially do not significantly affect the financial performance of the district/city government in North Sumatera Province.

Intergovernmental revenue (X3) has a significance value of $0.0000 < 0.05$. These results indicate that intergovernmental revenue (X3) partially effects the financial performance of district/city governments in North Sumatera Province.

The examination findings (X4) have a significance value of $0.0429 < 0.05$. These results indicate that the audit findings (X4) partially also significantly effect the

financial performance of the district/city government in North Sumatera Province.

4. Test Moderated Regression Analysis

Moderated Regression Analysis (MRA) test was conducted to see whether the moderating variable could strengthen or weaken the effect of the independent variable on the dependent variable.

Table 7. Interaction Test Results Moderating Variables

Variable	Coefficient	t-Statistic	Probability
X1*Z	1.156707	2.084975	0.0391
X2*Z	-0.483711	-3.831749	0.0002
X3*Z	0.243482	0.283045	0.7776

Source: data processed by Eviews

Based on the table above, it can be seen that each of the interactions between the moderating variables, namely capital expenditures, and the independent variables, namely regional financial independence, total assets, intergovernmental revenue, and audit findings. Based on these results, it can be concluded that the interaction of capital expenditure (moderating variable) significantly effects local governments' financial performance, namely the interaction of X1*Z and X2*Z. At the same time, the X3*Z interaction is not significant at the 5% level.

X1*Z, the interaction between capital expenditure and regional financial independence, has a significance value of 0.0391, which is smaller than 0.05. X2*Z, the interaction between capital expenditure and total assets, has a significance value of 0.0002, which is smaller than 0.05. X3*Z, the interaction between capital expenditure and intergovernmental revenue, has a significance value of 0.7776, greater than 0.05. With these results, it can be concluded that capital expenditure can moderate the effects of regional financial independence and total assets on the financial performance of Regency/City regional governments in North Sumatera Province. But not with intergovernmental revenue.

CONCLUSION

The results of this study provide several conclusions that can be drawn based on the

discussion of the problems that have been carried out. The following are the conclusions that the author has summarized in this study:

1. Regional financial independence has a positive and significant effect on the financial performance of Regency/City local governments in North Sumatera Province.
2. Total assets have no significant effect on the financial performance of district/city governments in North Sumatera Province.
3. Intergovernmental revenue positively and significantly effects the financial performance of district/city governments in North Sumatera Province.
4. The audit findings negatively and significantly impact the financial performance of district/city governments in North Sumatera Province.
5. Capital spending can moderate the effects of regional financial independence on the financial performance of Regency/Municipal governments in North Sumatera Province.
6. Capital spending can moderate the effect of total assets on the financial performance of district/city governments in North Sumatera Province.
7. Capital spending cannot moderate the effect of intergovernmental revenue on the financial performance of Regency/City local governments in North Sumatera Province.

SUGGESTION

Based on the conclusions of this study, suggestions can be given which are as follows:

1. In the study results, it can be seen that regional financial independence and intergovernmental revenue have a positive and significant effect on the financial performance of Regency/City local governments in North Sumatera

Province. These two factors will determine the optimization of local government financial performance. So it is hoped that the district/city government in North Sumatera Province will maintain the level of regional financial independence and the intergovernmental revenue they have. In addition, the examination findings also have a significant effect but in a negative direction. It means that if the audit findings obtained by the BPK are increasing, the financial performance of the regional government is described as decreasing. For this reason, the district/city government in North Sumatera Province must also improve its internal control system so that the audit findings produced are decreased. In the end, the local government's financial performance will also increase.

2. Future research is expected to re-examine the effect of other variables that can affect the financial performance of the district/city government in North Sumatera Province. Some variables that can be studied include audit opinions, economic growth, legitimate local revenues, and SiLPA.
3. In the results of this study, it can be seen that capital expenditure cannot be used as a moderating variable in the effect of intergovernmental revenue on the financial performance of district/municipal governments in North Sumatera Province. So that further research is expected to re-examine the moderating variable of capital expenditure in other Provincial Governments of Indonesia to determine whether capital expenditure can be used as a moderating variable on the financial performance of local governments as a whole.

Conflict of Interest: None

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