



CURRENT
Jurnal Kajian Akuntansi dan Bisnis Terkini
<https://current.ejournal.unri.ac.id>



THE INFLUENCE OF REGIONAL FINANCIAL INDEPENDENCE AND EFFECTIVENESS ON THE QUALITY OF PUBLIC SERVICES IN INDONESIA

Anisah Fadhillah¹, Rahma Masdar², Andi Chairil Furqan³, Masruddin⁴

^{1,2,3,4}*Program Studi Akuntansi, Fakultas Ekonomi dan Bisnis Universitas Tadulako, Palu*

*Email: anisa.fadhillah02@gmail.com

Keywords

Effectiveness, Independence, Regional Finance, Quality Of Public Service

Article information

Received:

2025-09-28

Accepted:

2025-11-11

Available Online:

2025-11-21

Abstract

This study investigates the influence of regional financial independence and financial effectiveness on the quality of public services in Indonesia. It underscores the significance of public sector accounting particularly the analytical use of local government financial statements as a crucial instrument for evaluating fiscal accountability and enhancing service delivery performance. Employing secondary data from 1,620 local governments over the 2021-2023 period, the analysis utilizes panel data regression with a random effects model. The empirical results reveal that fiscal independence exerts a positive and significant impact on service quality, whereas financial effectiveness demonstrates a negative relationship. These findings indicate that transparent and accountable fiscal capacity tends to foster better service outcomes, while effectiveness without adequate governance oversight may lead to inefficiencies and misallocation of resources. Despite the limited observation period and the use of a single service quality indicator, this study makes a theoretical contribution by offering an integrated framework that connects fiscal autonomy, governance quality, and public service performance within a decentralized setting. From a policy standpoint, the results call for a paradigm shift from efficiency-oriented fiscal management toward a governance-driven fiscal strategy that prioritizes accountability, transparency, and citizen-centered service improvement.

INTRODUCTION

Public service constitutes a fundamental obligation of the government to fulfill societal needs in a just and equitable manner. The provision of high-quality public services is defined as services that are responsive to the needs and expectations of citizens, thereby fostering greater satisfaction and strengthening public trust (Akay et al., 2021). Nevertheless, in many developing countries, including Indonesia, the quality of public services remains constrained by persistent challenges, ranging from budgetary inefficiencies to weak accountability in performance outcomes (Furqan et al., 2020). These challenges are further compounded by inadequate internal control mechanisms and limited fiscal transparency, which not only open avenues for corrupt practices but also weaken the overall quality of governance (Shidqi & Arfiansyah, 2023).

Within the framework of public sector accounting, regional financial management plays a crucial role that is directly linked to the quality of public services. Regional financial ratios, such as the independence ratio (local revenue to total transfer revenue) and the effectiveness ratio (realized local revenue to targeted local revenue), are widely employed to assess the fiscal accountability of local



governments (Mahmudi, 2010; Mardiasmo, 2009). Previous studies have demonstrated that regional financial indicators are closely associated with fiscal efficiency and improvements in public service delivery. (Rivenbark et al., 2010) emphasized that financial ratios can serve as predictors of fiscal conditions and the performance of local services. Furthermore, (Wardhani et al., 2017) found that good governance strengthens the impact of public expenditure on the performance of local governments.

The international literature increasingly underscores the importance of fiscal accountability. (Martínez-Vázquez et al., 2017) demonstrated that fiscal decentralization exerts a positive effect on public sector performance when supported by adequate fiscal capacity. (Milán-García et al., 2022) examined the determinants of local government efficiency and found that fiscal conditions constitute a key factor in improving performance. Likewise, (Afonso et al., 2024) provided evidence that an effective fiscal design is closely associated with the efficiency of public expenditure. These findings reinforce the argument that ratio-based financial statement analysis serves as a crucial instrument for assessing fiscal accountability as well as predicting public service outcomes. The Indonesian context reflects similar patterns observed globally. The Ombudsman of the Republic of Indonesia has reported that the quality of national public services remains lower compared to other Southeast Asian countries such as Singapore, Malaysia, Thailand, and even Vietnam (Putri & Mutiarin, 2018). Despite increases in regional budget allocations, improvements in service quality have not been sufficiently evident. Several studies further indicate that the Ombudsman's compliance score provides a valid indicator for measuring the quality of public service delivery (Apriza, 2021; Cahyanti et al., 2018).

Undang-Undang Nomor 25 Tahun 2009 affirms that public services encompass the fulfillment of societal needs for goods, services, and administrative functions (Kurniawan, 2016). Furthermore, Undang-Undang nomor 23 tahun 2014 grants extensive authority to local governments in managing governmental affairs, which must be supported by fiscal independence and effective budget management (Ministry of Home Affairs, 2018). Recent studies also emphasize that fiscal independence fosters improvements in the quality of public services by enabling greater budgetary flexibility (Digdowiseiso & Kaliwattu, 2023; Iskandar, 2021; Wang et al., 2024). Conversely, financial effectiveness that is not reinforced by sound governance may exert a negative impact on service quality (Salomo & Rahmayanti, 2023; Setiawan et al., 2022; Shinohara, 2023).

The data used in this study consist of local government data in Indonesia, encompassing 412 regencies, 96 cities, and 34 provinces, with a final sample size of 1,620 observations for the period 2021–2023. The findings show that regional financial independence, measured through public sector accounting indicators, has a positive impact on public service quality, while financial effectiveness, measured by the ratio of realized to targeted local revenue, has a negative impact. The main contributions of this study are summarized as follows.

The main findings of this study are as follows. **First**, regional fiscal independence has a strong positive effect on public service quality, supporting previous studies (Afonso et al., 2024; Digdowiseiso & Kaliwattu, 2023; Furqan et al., 2020; Iskandar, 2021; Martínez-Vázquez et al., 2017; Wang et al., 2024) that link local government autonomy with better fiscal performance and service delivery. **Second**, financial effectiveness shows a significant negative effect on service quality (Deng, 2024; Salomo & Rahmayanti, 2023; Setiawan et al., 2022; Shidqi & Arfiansyah, 2023; Shinohara, 2023; Yang, 2020). This indicates that budget effectiveness, without results-oriented planning, transparency, and accountable governance, does not lead to meaningful improvements. Moreover, high financial effectiveness, as reflected in public sector accounting reports, cannot be considered a guarantee of better service quality if it is not outcome-oriented and does not address real community needs.

Although numerous studies have examined fiscal decentralization, limited research has explored how fiscal effectiveness can paradoxically exert a negative influence on public service quality in developing countries, where governance capacity and accountability levels vary significantly. This study seeks to fill that gap by analyzing the effects of regional fiscal independence and financial effectiveness on public service quality in Indonesia during the 2021-2023 period.

Theoretically, this research contributes to the development of agency theory by reaffirming the importance of local governments' accountability as agents in fulfilling public expectations. Empirically, it provides comprehensive cross-regional evidence based on 1,620 local government observations in Indonesia. Practically, the findings offer policy implications for designing fiscal strategies that emphasize not only financial performance but also transparency, responsiveness, and governance-based effectiveness in improving public service quality.



LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory explains the contractual association between two entities, where one acts as the agent and the other as the principal. The agent is empowered to execute specific duties on behalf of the principal and is granted decision making authority to operate in the principal's optimal interest (Jensen & Meckling, 1976). The study conducted by (Lanin & Hermanto, 2019) substantiates this perspective by revealing that the performance of local governments, especially in delivering high quality public services significantly affects public satisfaction and trust. These findings are consistent with the agency theory framework, wherein the government, acting as the agent, is entrusted to fulfill its responsibilities effectively in accordance with the interests of the public as the principal.

Good Governance

Good Governance principles complement the discussion on fiscal independence and financial effectiveness by providing a governance framework that ensures resources are managed transparently and accountably. These principles transparency, accountability, rule of law, responsiveness, participation, and efficiency are directly aligned with the objectives of regional autonomy, particularly in strengthening fiscal capacity and enhancing the efficiency of local financial management (Programme, 1996). Previous studies have emphasized that financial indicators alone, such as regional spending or fiscal effectiveness, do not necessarily guarantee better service outcomes. (Wardhani et al., 2017) demonstrated that local government expenditure is not always efficient in improving performance, but the application of Good Governance principles helps reduce inefficiencies and increase the impact of spending on public welfare. Similarly, (Masdar et al., 2021) found that higher financial transparency strengthens accountability and public trust, as it encourages local governments to adopt responsible financial practices in service delivery.

The Influence of Regional Fiscal Independence on the Quality of Public Services

Regional financial independence refers to a region's ability to finance its own governmental and developmental needs through locally generated revenue (PAD) rather than relying on central government transfers. A higher PAD ratio indicates stronger fiscal autonomy, which gives local governments greater flexibility in budgeting and can improve public service quality (Iskandar, 2021). Prior studies (Afonso et al., 2024; Digdowiseiso & Kaliwattu, 2023; Furqan et al., 2020; Martínez-Vázquez et al., 2017; Wang et al., 2024) show that financial independence helps local governments manage resources more effectively and align spending with community needs.

Public sector accounting plays a key role in this process. Reliable accrual-based reporting, strong internal controls, and credible audits enhance transparency and accountability, ensuring that PAD is used efficiently. Thus, fiscal independence supported by sound accounting practices enables governments to provide more responsive and equitable services. Therefore, the hypothesis is formulated as follows.

H₁: Regional financial independence has a positive effect on the quality of public services.

The Influence of Regional Financial Effectiveness on the Quality of Public Services

Within the framework of agency theory, the relationship between local governments (agents) and citizens (principals) involves potential goal misalignment. When performance evaluation emphasizes financial effectiveness, such as achieving or exceeding revenue targets, local governments may prioritize short-term fiscal metrics rather than long-term service outcomes (Warni, 2025). This creates perverse incentives and goal displacement, where local leaders focus on maximizing revenue realization or budget absorption to signal success, even at the expense of service quality. For instance, excessive efforts to meet fiscal targets may lead to over-taxation, reduced spending on maintenance, or neglect of non-revenue-generating services. Consequently, the pursuit of financial effectiveness may distort managerial behavior, weaken accountability to citizens, and ultimately deteriorate public trust.

Effectiveness in the context of regional finance refers to the extent to which local governments succeed in utilizing financial resources to produce public service outputs that meet community needs (Milán-García et al., 2022). However, several studies indicate that regional financial effectiveness does not necessarily lead to better service quality. In some cases, it may even have negative effects if not

supported by good governance, accountability, and responsible fiscal management. Unhealthy competition among regions, weak financial discipline, and mismanagement practices can reduce service quality, even when effectiveness indicators appear high.

Public sector accounting and fiscal governance play a crucial role in ensuring that financial effectiveness is aligned with real improvements in service delivery. Without transparency and accountability, financial effectiveness may only reflect nominal capacity rather than actual performance, potentially resulting in inefficiencies, service cutbacks, and declining public trust (Deng, 2024; Salomo & Rahmayanti, 2023; Setiawan et al., 2022; Shidqi & Arfiansyah, 2023; Shinohara, 2023; Yang, 2020).

In conclusion, regional financial effectiveness may negatively affect public service quality if it is not accompanied by sound governance and well-functioning accountability mechanisms. Accordingly, the second hypothesis of this study is stated as follows:

H₂: Regional financial effectiveness has a negative effect on the quality of public services.

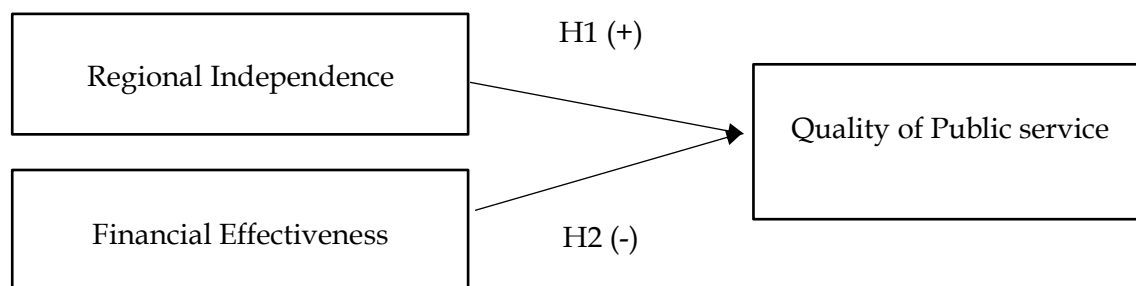


Figure 1.
Research Model

RESEARCH METHOD

A quantitative analytical framework underlies this research, with multiple regression analysis serving as the primary analytical tool. The data utilized in this research consist of local government data from 542 provinces/regencies/municipalities in Indonesia for the years 2021-2023. The three year period was selected based on the availability and consistency of data across all variables during this timeframe. In addition, 2 regencies/municipalities were excluded due to incomplete or unavailable data. As a result, the final sample includes 1,620 observations over the three year period from 2021 to 2023. Sample determination is shown in Table 1.

Table 1.

General Description of the Research Sample

Description	Sample
Number of Regencies/Cities/Provinces in Indonesia	542
Exclude Due To Incomplete/unavailable data	-2
Final sample of local governments (2021-2023)	540
Total observations	1,620

Source: Research Data, 2025

The Random Effect Model was employed in the regression analysis. This model was chosen because the data are panel in nature, combining time-series and cross-sectional observations. The random effect specification is appropriate as it assumes that unobserved individual effects across local governments are random and uncorrelated with the independent variables. This study uses the following empirical model to investigate the research problem and evaluate the presented hypotheses:

$$Klp_{it} = \beta_0 + \beta_1 Independence_{it} + \beta_2 effectiveness_{it} + \beta_3 Ages_{it} + \beta_4 Mun_{it} + \beta_5 Island_{it} + \varepsilon_{it}$$

The main dependent variable in this study is public service quality (**Klp_{it}**), measured using the compliance score with public service standards established by the Ombudsman of the Republic of Indonesia, in accordance with Undang-Undang Nomor 25 Tahun 2009 on Public Services (Negeri, 2018). A higher score reflects better service quality, whereas a lower score indicates weaker performance of local government service delivery.



The **Independence_{it}** variable refers to regional fiscal autonomy, measured by the percentage of Locally Generated Revenue (PAD) divided by total transfer revenue. A higher ratio indicates a greater capacity of local governments to finance their administrative functions independently, with reduced reliance on central government transfers. The measurement formula follows (Mahmudi, 2010), using data from the Ministry of Finance of the Republic of Indonesia

The variable **Effectiveness_{it}** represents regional financial effectiveness, measured by the ratio of realized Local Own Source Revenue (PAD) to the PAD target set in the Regional Revenue and Expenditure Budget (APBD). This ratio reflects the extent to which local governments are able to achieve their revenue targets, thereby indicating the effectiveness of financial management in generating regional income. The measurement formula follows (Mardiasmo, 2009), with data obtained from the Ministry of Finance of the Republic of Indonesia.

The control variables in this study are **Ages_{it}**, **Mun_{it}**, and **Island_{it}**. **Ages_{it}** measures the age of local governments (in years) for the 2021–2023 period, based on official records from the Ministry of Home Affairs as regulated in Minister of Home Affairs Regulation No. 58 of 2021 and Minister of Home Affairs Decree No. 050-145 of 2022 (Indonesia, 2021, 2022). **Island_{it}** represents geographical location, coded as “1” if the local government is on Java Island and “0” otherwise, referring to the official administrative mapping in Minister of Home Affairs Decree No. 050-145 of 2022 (Republic of Indonesia, 2022). **Mun_{it}** denotes administrative status, coded as “1” for municipalities, “2” for regencies, and “3” for provinces, following official classifications issued by the Ministry of Home Affairs (Indonesia, 2021).

Table 2.

Operational Definitions of Variables and Data Sources

Variables	Operational Variables	Data Sources
Klp _{it}	Score of the local government's public services quality. The quality of public services is measured by the Ombudsman's Compliance Score, an official indicator recognized by the Ministry for Administrative and Bureaucratic Reform (Kemen PAN-RB) that evaluates local governments adherence to national public service standards.	Ombudsman of the Republic of Indonesia
Independence _{it}	The financial independence of the region is measured through Local Own Revenue (PAD) divided by total revenue.	Ministry of Finance
Effectiveness _{it}	The effectiveness of regional finance is measured by the realization of Regional Own-Source Revenue (PAD) divided by the targeted PAD as stated in the Regional Budget (APBD).	Ministry of Finance
Ages _{it}	The tenure of the municipal administration is calculated from the year of establishment through 2023.	Ministry of Internal Affairs
Mun _{it} ,	Status of local government: 1=City, 2=Regency, 3=Province.	Ministry of Internal Affairs
Island _{it}	Geographical location: 1=Java Island, 0=outside Java.	Ministry of Internal Affairs

Source: Research Data, 2025

RESULTS AND DISCUSSION

Table 3.

Statistical description of variables

Variabel	Mean	Standar Deviasi	Min	Max
KLP _{it}	72.92	18.06	4.7	99.7
Independence _{it}	21.77	35.49	0.3	695.1
Effectiveness _{it}	108.2	59.11	10.4	870.8
AGES _{it}	45.27	23.97	7	73

MUN_{it}	1.29	0.57	1	3
$ISLAND_{it}$	0.22	0.41	0	1
Quantity of Observations = 1.620				
Clarification of the operative variable in Table 1				
Source: Research Data, 2025				

The average value of **Klp_{it}** (Public Service Quality) is 72.92, with a minimum of 4.7 and a maximum of 99.7. This indicates that, on average, local governments in Indonesia have achieved a relatively high level of public service quality. However, there remains considerable variation in performance across regions. The very low minimum score reflects the existence of local governments that still struggle to meet public service standards, whereas the maximum score, which is close to 100, suggests that certain regions have achieved near-complete compliance with the Ombudsman's standards. A standard deviation of 18.06 further highlights the substantial disparity in public service quality among local governments.

For the variable **Independence_{it}** (Regional Fiscal Independence), the average value is 21.77, with a range from 0.3 to 695.1 and a high standard deviation of 35.49. This implies that most regions remain highly dependent on central government transfers, while only a few local governments are capable of achieving very high levels of fiscal independence. The large variation suggests that fiscal autonomy is unevenly distributed across regions, which may in turn affect the ability of local governments to provide effective public services.

For the variable **Effectiveness_{it}** (Financial Effectiveness), the average value is 108.2, with a minimum of 10.4 and a maximum of 870.8, and a standard deviation of 59.11. This indicates that, in general, most regions are able to achieve and, in some cases, even exceed their targeted local revenue (PAD). However, the wide variation reflects significant imbalances, where certain regions may experience abnormal fiscal conditions or specific inefficiencies. The relatively low minimum score also underscores that some regions have yet to fully optimize the realization of their revenue potential.

The variable **Ages_{it}** (Age of Local Government) has an average value of 45.27 years, with a range from 7 to 73 years and a standard deviation of 23.97. This suggests that some local governments are relatively new administrative entities, whereas others have a long institutional history. Such institutional maturity may contribute positively to the accumulation of experience in governance and the provision of public services. The variable **Mun_{it}** (Regional Status) has an average value of 1.29 on a scale of 1 to 3, indicating that most of the sample is composed of regencies rather than municipalities or provinces. This distribution suggests that the findings of the study are more strongly influenced by the conditions of regencies, which typically face fiscal and public service challenges distinct from those encountered by municipalities or provinces. Finally, the variable **Island_{it}** (Java Island Location) has an average value of 0.22, meaning that only about 22% of the sample comes from local governments located on Java Island. Given that Java generally benefits from stronger infrastructure and greater fiscal capacity, this distribution highlights the importance of considering geographical disparities when interpreting variations in public service quality.

Table 4.

Variable Correlation Analysis Table

Variabel	KLP _{it}	Independence _{it}	Effectiveness _{it}	Ages _{it}	Mun _{it}	Island _{it}
KLP _{it}	1.000 0.246***					
Independence _{it}	(0.000) -0.188***	1.000				
Effectiveness _{it}	(0.000) 0.335***	-0.040 (0.099)	1.000			
Ages _{it}	(0.000)	0.246*** (0.000)	-0.098*** (0.000)	1.000		
Mun _{it}	0.158*** (0.000)	0.519*** (0.000)	-0.079*** (0.001)	0.088*** (0.003)	1.000	



Variabel	KLP _{it}	Independence _{it}	Effectiveness _{it}	Ages _{it}	Mun _{it}	Island _{it}
Island _{it}	0.225*** (0.000)	0.275*** (0.000)	-0.042 (0.0788)	0.455*** 0.000	0.044 (0.071)	1.000

Number of Observations = 1.620

Operational explanation of the variable in table 1

***= 1% Significant P-Value

Source: Research Data, 2025

Table 4 presents the results of the correlation analysis. It can be observed that public service quality (**Klp_{it}**) is positively associated with regional fiscal independence, with a correlation coefficient of 0.246. In addition, **Klp_{it}** shows a stronger positive correlation with the age of local governments, at 0.3359. These findings suggest that higher levels of fiscal independence and longer institutional experience of local governments are linked to better quality of public service delivery.

The correlation coefficient between regional financial effectiveness and public service quality is -0.1884. This value indicates a relatively weak negative relationship, implying that variations in financial effectiveness do not directly correspond to variations in public service quality. This finding reinforces the notion that financial effectiveness alone does not automatically improve service quality unless supported by results-oriented planning and accountable performance measurement. Meanwhile, the analysis of control variables reveals that regional fiscal independence is moderately and positively correlated with the administrative status of local governments (MUN). This suggests that the type of local government (regency, municipality, or province) influences its capacity for fiscal self-reliance. Conversely, financial effectiveness shows a negative correlation with both the age of local governments (-0.101) and geographical location (-0.105), indicating that financial effectiveness does not necessarily align with institutional maturity or regional location. The correlations among the control variables ages, mun, and island also exhibit logical patterns in relation to the main variables, thereby justifying the inclusion of these control variables in the hypothesis testing.

Table 5.

Hypothesis Testing Results

	expected sign	Klp _{it}
_CONS		63.354*** 0.000
Independence _{it}	H1 : (+)	.059*** 0.001
Effectiveness _{it}	H2 : (-)	-.044*** 0.000
Ages _{it}	+/-	.2291*** 0.000
Mun _{it}	+/-	1.790 0.148
Island _{it}	+/-	1.998 0.256
Prob > F		0.000
R-square		0.168
Obs		1.620
Mean Vif		1.31

Explanation:

Explanation of variable operationalization in table 1

*** = Significant P-Value at 1%

Source: Research Data, 2025

The results of the multiple linear regression analysis using the Random Effect Model indicate that the model explains 16.8% of the variation in public service quality (R-squared = 0.168). The significance test yields a value of Prob > chi² = 0.0000 at the 1% level, suggesting that the independent variables jointly exert a statistically significant effect on public service quality. In addition, the Mean VIF value of 1.31 demonstrates the absence of serious multicollinearity, thereby confirming the validity of the model for hypothesis testing.

The regression results presented in Table 5 show that regional fiscal independence has a positive

and significant effect on public service quality (coefficient = 0.0595; $p = 0.001$). This finding implies that higher levels of fiscal autonomy are associated with improved public service delivery, thereby supporting H1 and underscoring the importance of public sector accounting practices in strengthening fiscal independence. This first finding is consistent with the work of (Afonso et al., 2024), who argue that greater fiscal autonomy contributes to enhanced efficiency in the public sector, as regions with stronger fiscal capacity are more successful in delivering high-quality services tailored to community needs. Similarly, (Wang et al., 2024) found that greater fiscal decentralization, combined with strengthened regional financial independence, has the potential to improve the efficiency of public service provision. As fiscal autonomy expands, local governments acquire more resources to invest in sectors directly related to public welfare. Supporting evidence is also provided by (Digdowiseiso & Kaliwattu, 2023), who noted that financial independence strengthens the efficiency of public budget allocation, which in turn improves service quality. In line with this, (Martínez-Vázquez et al., 2017) argued that effective fiscal autonomy enhances public service efficiency by granting local governments greater control over resource management. (Furqan et al., 2020) further provided empirical evidence that high-quality financial reporting, often associated with regions possessing stronger fiscal independence, significantly contributes to improvements in service delivery. Similarly, (Iskandar, 2021) emphasized that higher levels of fiscal independence increase a region's capacity to provide responsive, efficient, and citizen-oriented public services. Overall, these findings are consistent with prior studies that highlight the role of fiscal independence in improving both the efficiency and effectiveness of public service provision. Fiscal autonomy grants local governments greater flexibility in allocating resources according to community needs. Strong fiscal governance and high-quality public sector accounting practices such as reliable accrual-based financial reporting and effective internal control systems ensure that Local Own Source Revenue (PAD) is managed transparently and accountably. Thus, fiscal independence and public sector accounting emerge as complementary aspects in strengthening the quality of public service delivery.

Conversely, the variable of regional financial effectiveness exerts a significant negative effect on public service quality (coefficient = -0.0449 ; $p = 0.000$), thereby supporting H2. This finding underscores that fiscal effectiveness, as represented by the ratio of realized to targeted local revenue (PAD), does not automatically translate into improved service quality. This second result is consistent with (Setiawan et al., 2022), who demonstrated that the operational capacity of local governments including fiscal capacity or financial effectiveness does not directly contribute to enhanced service delivery unless supported by sufficient analytical capacity and political commitment. This highlights that financial effectiveness, when not accompanied by evidence-based planning and strong institutional support, may result in resource misallocation and limited impact on service delivery outcomes. Put differently, financial effectiveness without sound governance and adequate oversight mechanisms may actually hinder the achievement of optimal public service outcomes. The study also aligns with (Shidqi & Arfiansyah, 2023), who showed that higher levels of government spending can increase the risk of irregularities if not accompanied by transparent and accountable financial governance. This underscores that public service quality is more closely tied to clean financial management than to mere effectiveness in budget absorption. Similarly, (Salomo & Rahmayanti, 2023) noted that regional financial effectiveness, even when reflected in high budget absorption and comprehensive planning documents, does not automatically improve service quality. A bureaucracy still oriented toward administrative formalities rather than tangible outcomes risks producing misaligned resource allocations. Additional support comes from (Yang, 2020), who emphasized that fiscal transparency is a key prerequisite for improving service quality. A study of 12 coastal provinces in China revealed that fiscal openness has a significant positive impact by optimizing allocation and improving expenditure efficiency. Conversely, when financial effectiveness is not accompanied by transparency and proper oversight, resource allocation tends to be misdirected and fails to yield meaningful service improvements. (Deng, 2024) similarly found that a high level of financial effectiveness may actually worsen misallocation in the absence of strong control mechanisms. In line with this, (Shinohara, 2023) showed that local fiscal crises, reflecting poor financial performance, negatively affect citizens' perceptions of government, indicating that financial effectiveness without good governance can erode public trust and diminish perceived service quality.

Taken together, these findings confirm prior research showing that financial effectiveness does not inherently enhance public service quality unless supported by evidence-based planning, institutional



capacity, and transparent and accountable governance. High levels of budget absorption or the completeness of planning documents often reflect administrative formality rather than genuine service improvements. Indeed, financial effectiveness without transparency can result in resource misallocation and declining public trust. Thus, fiscal effectiveness can only generate positive outcomes when accompanied by high quality public sector accounting practices, including reliable accrual-based reporting, systematic internal controls, and fiscal openness.

The regression results for the control variables show that the age of local governments (AGES) has a positive and significant effect on public service quality (coefficient = 0.229; $p = 0.000$). This means that older governments tend to have more mature administrative capacity, allowing them to provide services more effectively. The variables of administrative status (MUN) and geographical location (ISLAND) also have positive coefficients, but their effects are not statistically significant. This indicates that, although municipalities and regions on Java Island usually have better infrastructure and fiscal capacity, these advantages do not consistently translate into higher service quality in this model.

Taken together, these findings reaffirm that improvements in public service quality are not solely determined by financial indicators, but also by the quality of fiscal governance and public sector accounting practices. This approach provides a more comprehensive understanding of how fiscal independence, financial effectiveness, and institutional characteristics interact to shape the quality of public service delivery in Indonesia.

CONCLUSION

This study confirms that the quality of public services in Indonesia is not only determined by the operational aspects of service delivery to citizens but is also strongly influenced by how local governments manage their finances and budgets effectively and accountably. The analysis shows that regional fiscal independence has a positive effect on public service quality, while financial effectiveness has a negative effect during the 2021-2023 period.

These findings indicate that the higher the ability of local governments to finance their fiscal needs independently, the better their performance in meeting public service standards. Conversely, a high level of financial effectiveness that is not accompanied by transparent and accountable financial governance may lead to inefficiency, budget misallocation, and a decline in service quality outcomes.

This study has several limitations. The observation period is relatively short (2021–2023) and relies on a single indicator, namely the Ombudsman Compliance Score. Other factors such as human resources, community participation, and bureaucratic quality were not included in the analysis. Future research is expected to employ broader measures, such as the Citizen Satisfaction Index, sectoral indicators in health and education, and public opinion surveys, with a longer observation period and more sophisticated analytical methods such as dynamic panel data or SEM-PLS, to provide deeper and more comprehensive insights.

From a policy perspective, this study offers several practical recommendations. Local governments should strengthen fiscal independence by increasing locally generated revenue through innovative taxation strategies, digitalized collection systems, and the development of local economic bases. The Ministry of Home Affairs and the Ministry of Finance also need to enhance public financial governance by reinforcing audit mechanisms, improving budget transparency, and implementing performance-based budgeting to ensure more efficient and measurable fiscal resource utilization. Furthermore, capacity building for local officials should be prioritized through continuous training in public sector accounting, digital financial management, and results-based planning to strengthen institutional responsiveness. Overall, fiscal independence supported by accountable governance and strong institutional capacity will ensure efficient public fund management and promote transparent, high-quality, and sustainable public service delivery.

REFERENCES

- Afonso, A., Jalles, J. T., & Venâncio, A. (2024). Fiscal decentralization and public sector efficiency. *European Journal of Political Economy*, 82, 102493. <https://doi.org/10.1016/j.ejpoleco.2024.102493>
- Akay, E., Demirci, Ş., & Karataş, A. (2021). Public service quality and citizen satisfaction: Evidence from local government services. *Journal of Public Administration Research and Theory*, 31(3), 455–470. <https://doi.org/10.1093/jopart/muaa045>

- Apriza, S. (2021). The Ombudsman's compliance score as a measure of public service quality in Indonesia. *Journal of Governance*, 6(1), 35–49. <https://doi.org/10.31506/jog.v6i1.12450>
- Cahyanti, R., Wijayanti, L., & Pramono, S. (2018). Public service quality improvement through Ombudsman compliance scores: Evidence from Salatiga Health Department. *Jurnal Ilmu Administrasi*, 15(2), 112–123.
- Deng, Y. (2024). Fiscal effectiveness and public service delivery: Evidence from East Asian local governments. *Asian Journal of Public Administration*, 46(1), 1–20. <https://doi.org/10.1080/02598272.2023.2275213>
- Digdowiseiso, K., & Kaliwattu, B. (2023). Fiscal autonomy and local government performance: Evidence from Indonesia. *Public Sector Economics*, 47(2), 175–195. <https://doi.org/10.3326/pse.47.2.3>
- Furqan, A. C., Wardhani, R., & Martani, D. (2020). Financial performance and accountability of local governments: The case of Indonesia. *Cogent Business & Management*, 7(1), 1798065. <https://doi.org/10.1080/23311975.2020.1798065>
- Indonesia, R. of. (2021). *Regulation of the Minister of Home Affairs of the Republic of Indonesia Number 58 of 2021 concerning the Code, Data, and Government Administration Area [Peraturan Menteri Dalam Negeri Republik Indonesia Nomor 58 Tahun 2021 tentang Kode, Data, dan Wilayah]*. Ministry of Home Affairs of the Republic of Indonesia.
- Indonesia, R. of. (2022). *Decree of the Minister of Home Affairs of the Republic of Indonesia Number 050-145 of 2022 concerning the Code, Data, and Government Administration Area [Keputusan Menteri Dalam Negeri Republik Indonesia Nomor 050-145 Tahun 2022 tentang Kode, Data, dan Wi]*. Ministry of Home Affairs of the Republic of Indonesia.
- Iskandar, A. (2021). Local fiscal independence and service quality in Indonesian regional governments. *Jurnal Akuntansi Dan Keuangan Indonesia*, 18(2), 147–163. <https://doi.org/10.21002/jaki.2021.09>
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs, and ownership structure. *Journal of Financial Economics*, 3(4), 305–360. [https://doi.org/10.1016/0304-405X\(76\)90026-X](https://doi.org/10.1016/0304-405X(76)90026-X)
- Kurniawan, A. (2016). *Pelayanan publik di Indonesia: Teori dan praktik*. Prenadamedia Group.
- Lanin, D., & Hermanto, A. (2019). The effect of service quality on citizen satisfaction and trust in local government. *Journal of Governance*, 4(1), 23–36. <https://doi.org/10.31506/jog.v4i1.5783>
- Mahmudi. (2010). *Analisis laporan keuangan pemerintah daerah*. UPP STIM YKPN.
- Mardiasmo. (2009). *Akuntansi sektor publik*. Andi.
- Martínez-Vázquez, J., Lago-Peñas, S., & Sacchi, A. (2017). The impact of fiscal decentralization: A survey. *Journal of Economic Surveys*, 31(4), 1095–1129. <https://doi.org/10.1111/joes.12182>
- Masdar, M., Nugroho, A., & Ratmono, D. (2021). Financial transparency and follow-up of audit recommendations in Indonesian local governments. *Journal of Public Budgeting, Accounting & Financial Management*, 33(5), 539–556. <https://doi.org/10.1108/JPBAFM-04-2020-0059>
- Milán-García, J., Muñoz-Pérez, M. E., & Cuesta-González, M. (2022). Local government efficiency: Reviewing determinants. *Sustainability*, 14(4), 2331. <https://doi.org/10.3390/su14042331>
- Negeri, K. D. (2018). *Peraturan Menteri Dalam Negeri tentang pedoman pengelolaan keuangan daerah*. Kementerian Dalam Negeri Republik Indonesia.
- Programme, U. N. D. (1996). *Good governance and sustainable human development*. UNDP.
- Putri, D. I., & Mutiarin, D. (2018). Public service quality in Southeast Asia: A comparative study. *Jurnal Ilmu Pemerintahan*, 4(2), 101–115.
- Republik Indonesia. (2014). *Undang-Undang Nomor 23 Tahun 2014 tentang Pemerintahan Daerah*. Sekretariat Negara. <https://peraturan.bpk.go.id/Details/38685/uu-no-23-tahun-2014>
- Republik Indonesia. (2009). *Undang-Undang Nomor 25 Tahun 2009 tentang Pelayanan Publik*. Sekretariat Negara. <https://peraturan.bpk.go.id/Details/38748/uu-no-25-tahun-2009>
- Rivenbark, W. C., Roenigk, D. J., & Allison, G. S. (2010). Conceptualizing financial condition in local government. *Journal of Public Budgeting, Accounting & Financial Management*, 22(2), 149–177. <https://doi.org/10.1108/JPBAFM-22-02-2010-B002>
- Salomo, R., & Rahmayanti, L. (2023). Budget effectiveness and public service performance in Indonesian local governments. *Jurnal Akuntansi Multiparadigma*, 14(1), 65–82. <https://doi.org/10.21776/ub.jamal.2023.14.1.04>



- Setiawan, A., Prabowo, H., & Widodo, A. (2022). The paradox of budget effectiveness in Indonesian local governments. *Asian Journal of Accounting Research*, 7(3), 251–267. <https://doi.org/10.1108/AJAR-03-2021-0034>
- Shidqi, H. A., & Arfiansyah, A. (2023). Internal audit, corruption, and public service performance in Indonesian local governments. *International Journal of Public Administration*, 46(12), 935–947. <https://doi.org/10.1080/01900692.2022.2130231>
- Shinohara, H. (2023). Fiscal capacity, governance, and local public services in Japan. *Asia Pacific Journal of Public Administration*, 45(1), 63–79. <https://doi.org/10.1080/23276665.2022.2160864>
- Wang, X., Guo, H., & Yuan, F. (2024). Fiscal autonomy and local service delivery: Evidence from China. *Public Administration Review*, 84(2), 275–290. <https://doi.org/10.1111/puar.13652>
- Wardhani, R., Rossieta, H., & Martani, D. (2017). Good governance and the impact of government spending on local government performance in Indonesia. *International Journal of Public Sector Performance Management*, 3(1), 77–102. <https://doi.org/10.1504/IJPSPM.2017.081221>
- Warni, A. R., Darlis, E., & Al Azhar A. (2025). Building Government Performance Accountability Through Competence, Budget Goal Clarity, And Reporting System. *CURRENT: Jurnal Kajian Akuntansi Dan Bisnis Terkini*, 6(2), 272–285. <https://doi.org/10.31258/current.6.2.272-285>
- Yang, Z. (2020). Budget effectiveness and governance outcomes in Asian local governments. *International Review of Administrative Sciences*, 86(3), 498–515. <https://doi.org/10.1177/0020852318801152>