

Determinant Affecting Audit Opinion of the Local Governments' Financial Statements in Indonesia

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ABSTRACT

This study seeks empirical data as to whether the audit opinion criteria have had a major influence on audit views on local government financial statements in Indonesia. Internal control system (ICS) deficiencies, noncompliance with laws and regulations, compliance with Government Accounting Standards (GAS), and BPK's recommendations are considered when forming an audit opinion. The deficiency in internal control is evaluated according to the number of findings in three categories: the number of weaknesses in the internal control structure, the deficiency in the controlling system of revenue and expenditure budget realisation, and the weakness in the accounting and reporting controlling system. The number of administrative finds and the ratio of administrative finding value to the overall value of expenditures for regional losses, projected regional losses, and revenue shortfall define conformity with Government Accounting Standards (GAS). The examination of the financial accounts of local governments for the 2019-2020 fiscal year.

Keywords: *Audit Opinion; Internal Control System; Compliance with Laws and Regulations; Conformity With Government Accounting Standard*

1. INTRODUCTION

One reference of information in the assessment of the Performance Evaluation of Local Government Administration (EKPPD) is the accountability report on the implementation of the Local Government Budget (APBD). The Local Government Budget (APBD) implementation accountability report is in the form of a Local Governments' Financial Statement (LKPD). The Government Regulation Number 8 of 2006 concerning Financial Statement and Performance of Government Agencies obligates the government to present an accountability report in the form of financial statements. Also, the forms and contents of the National State Budget (APBN)/Local Government Budget (APBD) implementation report are prepared and presented by government accounting standards. The obligation to prepare government financial statements is also regulated in Indonesian Constitution Number 1 of 2004 concerning State Repertory. Local Governments' Financial Statement (LKPD) that has been prepared then will be submitted to the Supreme Audit Board (BPK).

The financial statements that will be accountable to the community / people must be examined by a state

institution called the Supreme Audit Board (BPK) mentioned in Act Number 17 of 2003. Where according to Government Accounting Standards Committee (KSAP) about Accrual-based Government Accounting Standards consists of Budget Realization Report (LRA), Over Amendment Budget Changes (SAL), Balance Sheet, Operational Reports (LO), Cash Flow Statements, Statement of Changes in Equity (LPE), and Notes to Financial Statements (CaLK) [1].

According to Government of Indonesia concerning the Audit of State Financial Management and Responsibility states that financial reports prepared by local governments are submitted to BPK no later than 3 (three) months after the fiscal year ends [2]. Then after the BPK receives the LKPD, the BPK is given 2 (two) months to conduct an audit of the LKPD before it is given to the DPRD, and BPK submits an Audit Report (LHP) to the DPRD no later than 2 (two) months after the BPK receives the LKPD from the local government.

The results of this examination are in the form of an audit report with an opinion, as regulated in [2]. "opinion is a professional statement as the examiner's conclusions regarding the level of reasonableness of the information

presented in the financial statements" [2]. In light of the technical guidelines for the examination of the 2007 regional government financial statements, the opinion on the fairness of the Finance accounts of the regional government consists of Opinion of Unqualified (WTP), Opinion of Qualified (WDP), Adverse Opinion (TW), and Opinion of Disclaimer (TMP). From this statement, it appears that BPK's audit opinion on LKPD is important for local governments. Local governments are competing to get the best audit opinion on the financial statements they compile [2].

In the first semester of 2021, the BPK examined 541 (99%) of 2020 Local Government Financial Statements (LKPD) out of 542 regional governments which were required to prepare financial statements (LK) in 2020. 1 regional government has not submitted financial reports to the BPK, namely the Waropen Regency Government in Papua Province. The examination of the 2019 LKPD included the Balance Sheet in December 31, 2020, Budget Realization Report (LRA), Over Amended Budget Balance Report (SAL), Operational Report (LO), Cash Flow Statements (LAK), and Statement of Changes in Equity (LPE) for the year ended on that date, and also Notes to Financial Statements (CaLK). The results of the BPK examination of 541 LKPD 2020 is Unqualified Opinion (WTP) of 486 (90 %) LKPD, the Qualified Opinion (WDP) of 49 (9 %) LKPD, Disclaimer Opinion (TMP) of 4 (0,7 %) LKPD, and Adverse Opinion (TW) of 2 (0,3 %) LKPD [3].

Based on the government hierarchy, the results of BPK's examination showed an increase of audit opinion. The increase in opinion occurred in the provincial government, district government, and city government. In the last 5 years (2016-2020), LKPD's opinions get enhanced. During this period, LKPDs that received Unqualified Opinion (WTP) increase by 12 %, from 70% in 2016 LKPDs to 90% in LKPDs in 2020. The increase of audit opinion on LKPD The better the opinion given by BPK on LKPD reflects the good record of local government performance. Therefore, further research needs to be done to find what factors influence the acquisition of opinion on local government financial reports (LKPD).

According to Indonesian Constitution Number 15 of 2004 Regarding Management and Responsibility Examination, Opinion is a statement of professional examiners regarding the fairness of financial information presented in financial statements. opinion on the fairness of financial information presented in LKPD is taken on the basis of conformity with Government Accounting Standards (GAS). The better the opinion given by BPK on LKPD reflects the good record of local government financial statements performance.

Article 20 of Indonesian Constitution Number 15 Year 2004 states that local governments must follow up on the results of the BPK audit and follow up on

recommendations. Follow-up on BPK's recommendations must be submitted by the local government no later than 60 (sixty) days after the audit report is received. Decrease or increase in audit opinion that will be received by the regional government is influenced by the number of follow-up recommendations from the examination conducted by the regional government (Bureau of Public Relations and International Cooperation of BPK RI).

This research aims to build an adequate model of the link between audit opinion generation criteria and the audit opinion itself, in light of the reasons provided before. This research intends to determine if (i) the Internal Control System (ICS), (ii) Non-Compliance with Law and Regulations, and (iii) Conformity with Government Accounting Standards (GAS) influence the audit opinion of the financial statements of Indonesian local governments. Thus, the title of this study is "Determinant Affecting Audit Opinion of The Local Governments' Financial Statements in Indonesia".

2. METHOD

The subject of the study are the BPK-audited financial statements of the local government. The sampling technique employs purposive sampling, which means that the population that will serve as the sample for this study must meet the criteria based on the research objectives. Examples of selection criteria:

- a. The Local Governments provide audited financial accounts for the 2019–2020 fiscal year
- b. The audit opinion data and audit results for the 2019–2020 fiscal year are provided by the Local Governments.

The dependent variable (Y) of this research is the ordinal categorization of the audit opinion for the financial accounts of local governments for 2016-2018. Not only are ordinal scales used to classify data into groups, but also to rank the groupings [4]. The BPK's State Financial Audit Standard is the source of the independent variables that are utilised in this study. In particular, the deficit in the internal control system (X1), noncompliance with laws and regulations (X2), and compliance with the GAS are the variables that were obtained from this source (X3). In addition, those independent variables were developed based on the classification of BPK's findings (2019-2020), specifically Deficiency in the Structure of Internal Control (IC), Deficiency in Control System of Revenue and Expenditure Budget Execution (CSREBE), Deficiency in Accounting and Reporting Control System (ARCS), Regional Losses (RL), Potency of Regional Losses (PRL), Revenue Shortfall (RS), Administration (ADM), and conformity with the General Accounting Standards (GAS).

2.1. Analysis Statistics

In this research, both descriptive and inferential statistical approaches are used. Ordinal logistic regression is used in SPSS for inference analysis. Ordinal logistic regression is used when the dependent variables have an ordinal scale, while logical regression is used when the dependent variables have a nominal scale and the independent variables have a mixed ratio and ordinal scale [4].

2.2. Goodness of Fit Test

The Goodness of Fit test is used to examine the null hypothesis (0) that empirical data matches the model and that there is no difference between the model and the data, implying that the model is fit [5].

- a. If Hosmer and Lemeshow's significance value is greater than 5 percent, then H_0 is accepted. This demonstrates that the model and data are identical, so the model is considered to be fit
- b. If Hosmer and Lemeshow's significance value is equal to or less than 5 percent, then H_0 is rejected. This demonstrates that there is a discrepancy between the model and the data, so the model cannot be deemed suitable

2.3. Overall Model Feasibility Test (Overall Fit Model Test)

In this study, to test the overall fit model test using the Likelihood L test method. Likelihood L is "the probability that the hypothesized model represents the input data". The Likelihood L test is used to assess the overall fit of the model against the data. To test the null and alternative hypotheses, L is transformed into -2LogL called the likelihood ratio statistik2 statistically [5]. The hypotheses used to assess the fit model are: H_0 : The hypothesized fit model with HA data: The hypothesized model does not fit the data. The overall model fit is shown by the Log Likelihood Value (-2LogL) by comparing -2LogL at the beginning of the model which only includes constants with -2LogL which includes constants and independent variables. If the initial value of -2LogL is greater than -2LogL plus the independent variable, the model is said to be getting better. So, if there is a reduction in the value of the initial -2LogL with a value of -2LogL after adding the independent variable, the model is hypothesized fit with the data [5].

2.4. Test Cox and Snell's and Nagelkerke R^2

Cox and Snell's R^2 is a measure that attempts to simulate the size of R^2 in multiple regression using likelihood estimation techniques and a maximum value of less than 1, making it difficult to interpret. Nagelkerke's R^2 is a modification of the Cox and Snell coefficients that varies the value between 0 and 1 [5]. The R^2 value of Nagelkerke is identical to the R^2 value of multiple linear regression. The Nagelkerke R^2 test measures the proportion of the independent variable's ability to explain the dependent variable. Nagelkerke R^2 has a value of 2 that ranges between 0 and 1. (one). The greater the value of Nagelkerke R, the greater the extent to which the independent variables explain the dependent variable [5].

2.5. Classification Matrix Table

This table is used to calculate the estimated value of true and false. The column in this table contains two predictive values of the dependent variable represented by the number 1 (one) if successful and 0 (zero) if not successful. While the rows in this table show 2 actual observational values of the dependent variable interpreted with the number 1 (one) if successful and 0 (zero) if not successful [5]. The model is said to be perfect if all cases are on a diagonal with 100% accuracy forecasting. The logistics model is said to have homokedasticity when the correct percentage will be the same on both lines [5].

2.6. Logistic Regression Analysis

Regression analysis is a study of the dependent variable dependent with one or more independent variables. The objective of logistic regression is to determine whether the probability of the dependent variable's occurrence can be predicted using the independent variable [5]. The hypothesis testing regression model is illustrated in the following equation:

$$\text{Opinion} = a + \beta_1 IC + \beta_2 CSREBE + \beta_3 ARCS + \beta_4 ARL + \beta_5 PRL + \beta_6 RS + \beta_7 ADM + \beta_8 GAS + E$$

Descriptions: α as constant structure value; β as regression coefficient of each variable; ε as error term; ADM as Administration; ARCS as Accounting and reporting control system; CSREBE as Control system of revenue and expenditure budget execution; GAS as Conformity with Government Accounting Standards; IC as Structure of internal control; PRL as Potency of regional losses; RL as regional losses; and RS as Revenue shortfall.

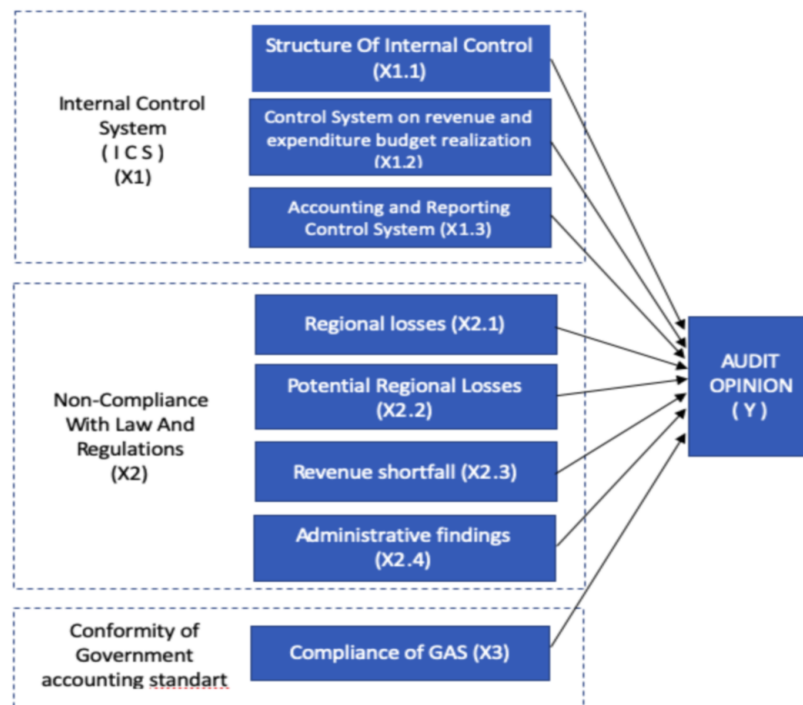


Figure 1 Conceptual Research

3. RESULT AND DISCUSSION

Due to the lack of audit report data, four samples from 541 municipal governments financial statements for 2019 and 2020 were excluded from the analyses. According to the data that was gleaned from BPK's Report, the aforementioned municipalities failed to submit their financial accounts in a timely manner in accordance with the mandated dates. As a result, 541 samples have been tested. In this particular investigation, a descriptive

statistical test as well as logistic regression were used in order to analyze the degree of correlation that exists between the independent and dependent variables [6].

Table 1 presents the total number of observed data points (541), together with the lowest, maximum, and average values for each variable that is the subject of the investigation. The dependent variable in this table is the distribution of audit opinions on local government financial accounts for the financial years 2019 and 2020. You can see this distribution in the table.

Table 1 Case processing summary

Materials	Variables	N	Marginal Percentage
Opinion	Unqualified Opinion	486	90 %
	Qualified Opinion	49	9 %
	Disclaimer Opinion	4	0,7 %
	Adversed Opinion	2	0,3 %
	Valid	541	100 %

Table 2 Model fitting information

Model	-2 Log Likelihood	Chi-Square	df	Sig.
Adversed Opinion	197.756			
Final	122.736	86.008	8	.000

3.1. Logistic regression analysis

A traditional assumption test, consisting of the Model Fitting Information, Goodness of Fit, Pseudo R2, and Parallel Lines tests, is carried out in advance of the

hypothetical test. According to Ghozali, a model fit test such as Model Fitting Information and Goodness of Fit may be used to estimate the probability that the hypothesized model accurately represents the input data.

Other model fit tests include Model Fitting Information and Model Fitting Information [4].

Using the model fitting information test presented in Table 4, the outcome of 2 Log Likelihood is 197.756 when only inputting the intercept model. The 2 Log likelihood reduced to 122,736 after including the

independent variable, which was significant at $p = 0.00$. Therefore, it may be concluded that this model is more accurate at predicting BPK's audit opinion. Table 3's Goodness of Fit reveals a significance value of 1.00, which is greater than $= 5\%$. Consequently, it can be concluded that this model is adequate for use in research.

Table 3 Goodness of fit

Model	Chi-Square	df	Sig.
Pearson	176,140	356	1.000
Deviance	122,736	356	1.000

3.2. Test of Parallel Lines

The goal of this test is to see if all of the categories' assumptions have the same parameters [4]. If the p-value

is greater than 0.05, the model is deemed to be suitable. Table 4 shows that the p-value is 0.999, which is greater than 0.05, based on the Test of Parallel Lines result. As a result, the test model can be considered to be appropriate.

Table 4 Test of Parallel Lines

Model	-2 Log Likelihood	Chi-Square	df	Sig.
Null Hypothesis	122,736			
General	112.869	.868	8	.999

3.3. Pseudo R²

The mean and minimum/maximum values for each variable are displayed in Table 5's descriptive statistics. The pseudo R² test is utilized to evaluate the robustness of the regression equation in describing dependent

variables. The highest Nagelkerke value has a Pseudo R² test result of 0.561, as shown in Table 6. This indicates that the independent variables may account for 55.1% of the variance in BPK's audit opinion, while the remaining 44.9% is accounted for by variables outside the model.

Table 5 Test of Parallel Lines

Model	N	Minimum	Maximum	Mean	Std. Deviation
Structure Of Internal Control (X1.1)	541	0	9	2.74	1.985
Control System on revenue and expenditure budget realization (X1.2)	541	1	18	4.90	2.964
Accounting and Reporting Control System (X1.3)	541	1	18	5.07	2.844
Regional losses (X2.1)	541	.0000	.9864	0.136207	0.1740653
Potential Regional Losses (X2.2)	541	.0000	.6230	0.034945	0.0860882
Revenue shortfall (X2.3)	541	.0000	.8412	0.042042	0.1018647
Administrative findings (X2.4)	541	0	12	4.05	2.451
Compliance of GAS (X3)	541	0	7	1.35	1.120
Audit Opinion (Y)	541	1	4	3.78	.453
Valid N (Listwise)	541				

Table 6 Pseudo R²

Cox and Snell	.370
Nagelkerke	.551
McFadden	.449

3.4. Hypotheses Testing

This study used a parameter estimation method to examine the hypotheses in conjunction with the results:

3.4.1. The impact of weaknesses in internal control systems on audit judgments of municipal financial reports.

As stated previously, three indicators represent the weaknesses of the internal control system in this study:

H1a, representing the weakness of the internal control structure; H1b, representing the weakness of the budget expenditure execution controlling system; and H1c, representing the weakness of the accounting and reporting system.

According to the H1a test, 1 has a value of 0.107 and a significance level of 0.49 ($\text{sig} > 0.05$). This illustrates that the inadequacies in the internal control system, as shown by the internal control structure, have no influence on local governments' viewpoints. This outcome is in accordance with results [7]–[9].

The H1b test returns $2 = 0.98$ at a significance level of 0.392 ($\text{sig} > 0.05$). This indicates that the municipal governments' audit opinions are unaffected by the internal control system's CSREBE-related weakness. This study's findings concur with those of [9], but they differ from those of Maabut and Atmajaya [7, 8], who found that the deficiencies of CSREBE and ARCS had a negative impact on audit opinion.

According to the H1c test, the 3 is 0.005 with a significance level of 0.968 ($\text{sig} > 0.05$). This indicates that the flaw in ARCS has no bearing on the audit opinion of the municipal government's financial statements. This study's findings contradict those of Maabuat et al., who asserted that ARCS's weakness negatively affected the audit opinion [8]–[10].

On the basis of the overall test results for the three types of internal control system flaws listed above, it can be concluded that the number of internal control system findings in audit reports on the financial statements of local governments has no bearing on the audit opinion. Prior scholars such as Setiawan, Munawar, Agusti, Setyaningrum, Winarti, and Taufikurrahman have stated that internal control system weaknesses have a detrimental impact on audit opinion [11]–[16]. Nonetheless, the findings of this study agree with those of Safitri, who claim that internal control systems have no effect on opinion and have a favorable association with audit opinion [17].

3.4.2. The impact of regulatory non-compliance on the audit opinion of municipal financial accounts

As stated previously, this study categorizes noncompliance with regulations into four variables: H2a Regional Losses (RL), H2b Regional Loss Potential (PRL), H2c Revenue Shortfall (RS), and H2d Administration (ADM).

$4 = 5.317$, with a significance level of 0.000, is the outcome of the H2a test ($\text{sig} > 0.05$). This indicates that noncompliance with laws and regulations, in the form of regional losses, has a negative effect on the perceptions of municipal governments. This finding is in accordance with [7]–[9].

At a significance level of 0.473 ($\text{sig} > 0.05$), the result for the 5 statistics for H2b is 1.852. This suggests that the possible regional losses variable's portrayal of noncompliance with the legislation has no influence whatsoever on the audit views of the local governments [7], [9]. In spite of this, it runs counter to the findings of the study that Atmajaya and Pearson carried out, in which they showed that the identification of prospective regional losses has a detrimental effect on an audit judgement [8], [18].

The results of the H2c test are $6 = 1,893$ and a significance level of 0.483, which is more than 0.05. This suggests that regulatory noncompliance, as evaluated by the variable revenue shortfall, has no influence on the audit opinion of local governments. This is shown by the fact that there is a variable revenue deficit. The findings are in line with the studies that came before them [7]–[9].

The H2d test yields $7 = 0.070$ with a significance level of 0.547 ($\text{sig} > 0.05$). This demonstrates that administrative findings of regulatory noncompliance have no bearing on the audit opinion of municipal financial accounts. This outcome is comparable to [7]. It contradicts the findings of Atmajaya and Fatimah, which indicate that noncompliance with administration has a negative impact on audit opinion [8], [9].

On the basis of analyses of these four variables of legislative non-compliance, one can arrive at the conclusion that the type of non-compliance finding that affects the audit opinion is the finding related to regional losses, whereas the other three variables have no effect on the audit opinion of the financial statements of municipal governments. This can be reached by coming to the conclusion that the type of non-compliance finding that affects the audit opinion is the finding related to regional losses. Because of the examination of these four aspects of statutory noncompliance, it is possible to draw the conclusion that has been presented here. Despite this, the findings of previous research are not totally apparent, particularly with regard to identifying the categories of non-compliance finds that have an impact on the audit outcome.

3.4.3. The influence of noncompliance with government accounting rules on the audit opinion of local government financial statements

H3 test result shows β_8 is -1.470 with significance level of 0.000 ($\text{sig} < 0.05$). This indicates that noncompliance with GAS findings has a detrimental effect on the audit opinion obtained by local administrations [19], [20]. The GAS specifies the accounting principles that should be applied in the compilation and presentation of government financial statements; hence, the GAS acts as both a legislative obligation and a guideline for enhancing the quality of government financial statistics in Indonesia [20], [21]. Consequently, a GAP discrepancy will have a substantial

effect on the audit opinion of a government financial statement.

4. CONCLUSION

This strategy may be used as an alternative avenue for promoting durian seedlings. This system's menu for customizing durian seed modifications based on customer preferences is advantageous. This research will use the parameter estimation methodology to 541 municipal financial statements for the 2019 and 2020 fiscal years in order to get empirical evidence of the relationship between the criteria for forming an audit opinion and the audit opinion rendered. On the basis of the findings of the partial hypotheses' tests, a broad variety of outcomes for each hypothesis test are obtained. Only two factors, noncompliance with the regulations resulting in regional financial losses and noncompliance with the GAS, had a negative impact on audit opinions, according to the total data. In contrast, the other elements that contribute to the formation of an audit view have no bearing on the audit opinion. According to BPK, state/region financial loss is the physical and quantitative reduction of state/region assets in the form of money, securities, or goods caused by willful or negligent behavior in violation of the law [22].

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