



DETERMINANTS OF AUDIT OPINION ON FINANCIAL REPORT OF REGENCY/CITY GOVERNMENTS OF SOUTH SUMATRA PROVINCE

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Abstract. . This study aims to determine the effect of audit findings, previous year's audit opinion, and size of local government on audit opinions in district/city government financial reports in the province of South Sumatra in the 2017-2021 period. The type of research used is quantitative research using secondary data obtained through the official website resmi www.bpk.go.id/ and requests for audit report data to the Indonesian Audit Board head office. The population in this study were all regencies/cities in South Sumatra Province, 17 regencies/cities with a total of 85 research samples. The sample was selected using the saturated sample method. The data analysis method is logistic regression analysis. The results of this study indicate that partially audit findings have a negative and significant effect on audit opinion. Meanwhile, previous year's audit opinion and the size of the local government did not have a partial significant effect on the audit opinion. Simultaneously audit findings, previous year's audit opinion and the size of the local government have had a positive and significant effect on audit opinion in the districts/cities of South Sumatra province.

Keywords: audit opinion, audit finding, previous year's audit opinion, the size of local government

1. INTRODUCTION

Local Government is the manager of local finances which carries out all policies from the central and regional levels. According to Bangsawan and Abbas (2021), the responsibilities of the Regent/Mayor/Governor in the financial sector are expressed every year in the form of a financial report. The community also demands that the regional government submit financial reports to create public trust in their region. According to Fitriana, et al. (2020), one of the main pillars of establishing a country's economy is accountability from those in power. Regional governments must demonstrate their credibility and accountability as proof that they have carried out their mandate and are responsible in managing public resources.

Financial reports prepared by local governments every year must be examined and audited by Indonesian Audit Board. Minister of Home Affairs Regulation No. 13 of 2006 which states that regional heads are required to submit financial reports to the BPK within three months after the fiscal year ends. Law of Republic of Indonesia no. 15 of 2004 concerning Auditing of State Financial Responsibility states that the Indonesian Audit Board has the responsibility to audit and provides a minimum of two months for the Indonesian Audit Board to carry out the audit. Indonesian Audit Board audits of

regional government financial reports are carried out in order to assess the fairness of the information which is then stated in the audit report. The audit report contains the auditor's statement or opinion on the financial reports prepared by the regional government.

Every year, the Indonesian Audit Board examines the government's financial reports with the aim of providing an opinion on the fairness of the financial reports. There are four audit opinions from the Indonesian Financial Audit Agency, namely Unqualified Opinion, Qualified Opinion, Adverse Opinion, and Disclaimer Opinion. Audit opinion data of Indonesian Audit Board for districts/cities in South Sumatra Province during 2017-2021 shows that 17 districts/cities in South Sumatra Province have experienced an increase in audit opinions from other than Qualified Opinion to Unqualified Opinion.

An opinion stating that the government's financial reports are Unqualified Opinion will gain a higher level of confidence from the public to trust the information contained therein. However, if the audit opinion is still in the form of Qualified Opinion or various other types of audit opinions which are categorized as unfavorable, the public's trust in the government as a regional wealth management entity is not yet 100% able to provide confidence in its performance during the current fiscal year. Regional Governments must be motivated to obtain an Unqualified Audit Opinion from the Indonesian Audit Board, because that becomes the identity of a regional government in the eyes of the public. Based on the results of the Indonesian Audit Board audit of financial reports in the districts/cities of South Sumatra province, it can be seen that the majority of districts/cities in South Sumatra province have experienced an increase in opinion as indicated by the decreasing acceptance of except from Unqualified Opinion. In the event that the opinion given on local government financial reports continues to improve, audit findings in the form of weaknesses in internal control and non-compliance with laws and regulations should be minimized. This has been explained in Law of Republic of Indonesia no. 15 of 2004 which states that giving an opinion on the fairness of financial reports must be based on optimal implementation of the internal control system, compliance with statutory regulations, adequacy of disclosure, and conformity with applicable of Government Accounting Standards. If problems like this continue to occur and are not acted upon, it will raise questions and debate in society.

Apart from the influence of the number of audit findings, the factor of receiving opinions on local government financial reports for the previous year also has an influence on the provision of audit opinions for the current year. According to International Standard on Auditing (ISA) 710, "The audit opinion of the previous year is related to the opinion of the following year as long as the problem giving rise to the modification has not been resolved and the corresponding figures have not been restated or have not been properly disclosed." Based on research by Pratiwi and Aryani (2016), which examined the influence of regional government characteristics (regional government size, level of regional government dependence on the central government, regional wealth, and realization of regional government spending) characteristics of regional heads and follow-up audit findings on Indonesian Audit Board opinions. As a result, the size of regional government has a positive influence on audit opinion, while the level of regional government dependence on the central government and the realization of regional government spending has a negative influence on audit opinion.

Based on this description, this research is focused on examining what factors influence the audit opinion on the financial reports of district/city governments in South Sumatra province consisting of audit findings, previous year's audit opinion, and the size of the local government.

2. LITERATURE REVIEW

This research uses an agency theory approach. Jensen and Meckling (1976) explain that in an agreement there are two parties, namely the principal who gives power and the agent who receives power. In implementing regional government with a democratic political system, the agent is the regional head and the principal is the community. The existence of different goals between the principal and the agent will give rise to agency problems. So the principal feels the need to prove whether the work done by the agent is correct or not. If monitoring is carried out every day, this requires large costs and requires a lot of time, then one way to do this is to check the fairness of the financial reports that have been prepared by the agent. This makes the auditor's function necessary to mitigate problems. In Indonesia, government institutions may only be audited by the Indonesian Audit Board, so it will assess whether the financial statements are fair or not. When an auditor carries out an audit, moral risk can be detected through audit findings, where audit findings can consist of a weak internal control system and non-compliance with legislation. The higher the audit findings, the more inconsistent they are with regulations and legislation and result in lower fairness of the financial statements. If the fairness of the financial statements is low and not in accordance with applicable financial accounting standards, the resulting audit opinion will also be low.

2.1 Financial Report of Local Government

Based on Government Regulation Number 71 of 2010, financial reports are structured reports regarding the financial position and transactions carried out by a reporting entity during one reporting period. Financial reports are mainly used to compare the realization of income, expenditure, transfers and financing with a predetermined budget, assess financial conditions, evaluate the effectiveness and efficiency of a reporting entity, and help determine its conformity with statutory regulations. Every region has an obligation to submit an accountability report for the management of Local Government Budget funds which is expressed in the form of a Financial Report of Local Government. In Law no. 17 of 2003 also states that financial reports submitted by the government must be presented in accordance with generally accepted Government Accounting Standards. Accountability for Local Government Budget management is regulated in Law no. 17 of 2003 concerning State Finances and Law no. 1 of 2004 concerning State Treasury. Based on Government Regulation Number 71 of 2010, the components of Financial Report of Local Government that must be presented as a form of accountability are as follows:

- a) Statement of Budget Realization
- b) Balance Sheet
- c) Changes in Budget Balance Statement
- d) Operational Statement
- e) Statement of Changes in Equity
- f) Cash Flow Statement

g) Notes to the Financial Statements

2.2 Audit Opinion

According to Law of Republic of Indonesia no. 15 of 2004 opinion is a professional statement in the form of an examiner's conclusion regarding the level of fairness of the information presented in the financial report. The meaning of audit opinion according to Arens, et al. (2015), namely "Audit opinion is the auditor's opinion in the form of a written statement regarding whether the financial statements have been presented fairly in all material respects based on the evaluation of audit evidence obtained and found by the auditor." Based on Law of Republic of Indonesia no. 15 of 2004 concerning Auditing of State Financial Management and Responsibility, the BPK audit opinion is given based on the following general criteria:

- a) Conformity with government accounting standards
- b) Adequate disclosure
- c) Compliance with laws and regulations
- d) Effectiveness of the internal control system.

Based on Law of the Republic of Indonesia no. 15 of 2004 concerning Examination of State Financial Management and Responsibility, there are four types of opinions that can be given by the Indonesian Audit Board, namely:

- a) Unqualified Opinion
- b) Qualified Opinion
- c) Adverse Opinion
- d) Disclaimer of Opinion

2.3 Audit Findings

State financial audits are carried out by the Indonesian Audit Board which consists of financial audits, performance audits and audits with specific objectives. Law of the Republic of Indonesia No. 15 of 2004 states that the results of BPK audits, apart from opinions, can also take the form of notes on audit findings, conclusions and recommendations. The Indonesian Audit Board's inspection report on audit findings is divided into two, namely findings on internal control system weaknesses and findings on non-compliance with statutory regulations.

The Indonesian Audit Board (2021) explains that findings of weaknesses in the internal control system are findings that contain problems regarding weaknesses in the accounting and reporting control system, weaknesses in the control system for implementing the income and expenditure budget, as well as weaknesses in the internal control structure. Weaknesses in the internal control system reflect that the government has not designed or implemented the control system effectively. The more weaknesses in the internal control system there are, the worse the opinion on financial reports will be. Kawedar (2009) states that "Increasing weaknesses in the internal control system is one of the causes of a local government experiencing a decline in audit opinions."

Non-compliance with the provisions of laws and regulations can cause material misstatement of information in financial statements or other financial data that is significantly related to the audit objectives, so the audit must be designed to detect it. The guidelines used by the BPK to determine opinions other than State Financial Audit Standards are various statutory provisions and guidelines related to state financial management.

Based on problems that often occur according to agency theory by Jensen and Meckling (1976), when auditors carry out audits, moral risks can be detected through audit findings. The higher the audit findings, the more inconsistent they are with statutory regulations and the lower the fairness of the financial statements. If the fairness of the financial statements is low and not in accordance with applicable financial accounting standards, the resulting audit opinion will also be low.

H₁: Audit findings influence the Audit Opinion on the Financial Report of Local Government

2.4 Previous Year's Audit Opinion

The previous year's audit opinion is an audit opinion received in the previous year or one year before the research year. According to International Standard on Auditing (ISA) 710, the previous year's audit opinion is related to the following year's opinion as long as the problem giving rise to the modification has not been resolved and the corresponding figures have not been restated or have not been properly disclosed. The previous year's audit opinion will be an important consideration factor for the auditor when reissuing an audit opinion in the following year. If the auditor issues an Unqualified Opinion audit opinion in the previous year, it is more likely that the government will accept the Unqualified Opinion audit opinion again in the current year (Irman and Suryati, 2017)

H₂: Previous Year's Audit Opinion influences the Audit Opinion on Financial Report of Local Government

2.5 Size of Local Government

According to Noviyanti and Kiswanto (2016), the size of a local government is how big or small the government is as indicated by the size of the local government's assets. Based on the results of research conducted by Salsabila and Wahyudi (2022), the term regional government size refers to one of the variables that measures the size of a local government which can be measured from several aspects such as the number of employees, total government assets, total income, and the level of productivity. According to Murhadi (2013), "Company size is measured using total assets owned because their value is more stable than sales value and market capitalization."

Company size can be proxied in the form of the natural logarithm of total assets with the aim of reducing excessive data fluctuations. In the public sector, the size of local government can be measured by the natural logarithm of total assets. Based on the research results of Sudarsana and Rahardjo (2013), natural logarithms are used to avoid abnormal data due to the different total assets of each local government. The size of local government can be seen from the total assets in the Balance Sheet.

H₃: Size of Local Government influenced Audit Opinion on Financial Report of Local Government

3. METHODOLOGY

The research population is 17 districts/cities in South Sumatra Province. The research sample is determined by a saturated sample where all members of the population are used as samples. The total sample in this study was 85 samples, which is the number of years for the 2017-2021 period of five years multiplied by 17 districts/cities in South Sumatra Province.

3.1 Research Variable

The independent variables used in this research are, audit findings (X_1), previous year's audit opinion (X_2), size of local government (X_3). The dependent variable in this research is Audit Opinion (Y).

3.2 Analysis Method and Hypothesis Test

The results of the logistic regression equation express the audit findings, previous year's audit opinion, and the size of the local government on the audit opinion. To prove the hypothesis in this research, the F test (simultaneous) and t test (partial) were carried out. Data processing was carried out with the help of the SPSS Version 25 application.

4. RESULT AND DISCUSSION

4.1 RESULT

From the logistic regression test, the results obtained are presented in tables 1 and 2.

Variables in the equation

		B	S.E.	Wald	df	Sig.	Exp(B)	95% C I for EXP(B)	
								Lower	Upper
Step 1	Audit Findings	-.375	.160	5.496	1	.019	.687	.502	.940
	Previous years audit opinion	16.653	23180.312	.000	1	.999	17077351.762	.00	
	Size of local government	-.540	1.116	.234	1	.629	.583	.065	5.200
	Constany	25.618	33.326	.591	1	.442	133589176353.143		

Table 1. Results of Logistic Regression Analysis

- a. Variable(s) entered on step 1: Audit Findings, Previous years audit opinion, Size of local government, Constany

The regression equation formed based on table 1 is:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

$$Y = 25,618 + (-0,375\text{AuditFindings}) + (16,653\text{PreviousYear'sAuditOpinion}) + (-0,540\text{SizeofLocalGovernment}) + \epsilon$$

Model Summary

Step	-2 Log likelihood	Cox & snell R square	Nagelkerke R Square
1	16.613	.104	.396

Table 2. Result of Nagelkerke R Square

- a. Estimation terminated at iteration number 20 because maximum iterations has been reached. Final solution cannot be found
 The Nagelkerke R Square value is 0.421, meaning that 39.6% of audit opinions are influenced by audit findings, previous year's audit opinions and the size of local government. The remaining 60.4% were influenced outside this research.

Hypothesis Test

Following are the results of the F test with logistic regression.

Omnibus Test of Model Coefficients				
		Chi-Square	df	Sig.
	Step	9.345	3	.025
Step	Block	9.345	3	.025
	Model	9.345	3	.025

Table 3. Results of F Test

From the results of the F test using the Omnibus Tests of Model Coefficients test, the significance value is 0.025 ($0.025 < 0.05$). This shows that all the variables in this study have an influence and are significant together on the dependent variable.

t Test

Based on the results of the T (Partial) test, the audit finding variable (X_1) has a T-value of 5.496 and a p-value (sig) of 0.019, this shows that the T-count value is greater than the T-table ($5.496 > 1.9896$) and the significant value is smaller than 0.05 ($0.019 < 0.05$). So it can be concluded that the audit finding variable has a significant influence on the audit opinion variable.

Based on the results of the T (Partial) test, the Previous Year Audit Opinion variable (X_2) has a T-value of 0.000 and a p-value (sig) of 0.999, this shows that the T-count value is smaller than the T-table ($0.000 < 1.9896$) and the significant value is greater than 0.05 ($0.999 > 0.05$), so it can be said that the previous year's audit opinion variable has no influence and is not significant on the audit opinion variable.

Based on the results of the T Test (Partial), the variable Size of Local Government (X_3) has a T-value of 0.234 and a p-value (sig) of 0.629, this shows that the T-count value is smaller than the T-table ($0.234 < 1.9896$) and the significant value

is greater than 0.05 ($0.629 > 0.05$), so it can be said that the local government size variable has no influence and is not significant on the audit opinion variable.

4.2 DISCUSSION

4.2.1 Audit Findings, Previous Year's of Audit Opinion and Size of Local Government

Based on the results of hypothesis testing, the influence of audit findings, previous year's audit opinion and local government size on audit opinion has an F-count of 9.345, which is much greater than the F-table value of 2.7173 ($9.345 > 2.7173$) and the significance value of 0.025 is smaller than the significance value of 0.05 ($0.025 < 0.05$), so it can be concluded that the variables Audit Findings, Previous Year's Audit Opinion and Size of Local Government have a simultaneous and significant effect on Audit Opinion in the Districts/Cities of South Sumatra Province.

4.2.2 Audit Findings on Audit Opinion

The T-count is 5.496 and the p-value (sig) is 0.019, this shows that the T-count value is greater than the T-table ($5.496 > 1.9896$) and the significant value is smaller than 0.05 ($0.019 < 0, 05$). So it can be concluded that the audit finding variable has a significant influence on the audit opinion variable. These results are in line with research by Amyulianthy, et al. (2020), Fitriana, et al. (2020), and Irman & Suryati (2017) who stated that audit findings had a negative and significant effect on audit opinion. This means that the more audit findings found by the Indonesian Audit Board in the audit, the lower the audit opinion received by the local government will be.

4.2.3 Previous Year's Audit Opinion on Audit Opinion

The T-count is 0.000 and the p-value (sig) is 0.999, this shows that the T-count value is smaller than the T-table ($0.000 < 1.9896$) and the significant value is greater than 0.05 ($0.999 > 0, 05$), so it can be said that the previous year's audit opinion variable has no influence and is not significant on the audit opinion variable. This research is in line with research conducted by Imani, et al. (2017) which states that the previous year's audit opinion has no effect on the audit opinion. This is because receiving an audit opinion in the previous year cannot guarantee whether the following year will receive a similar opinion. Because it is mentioned in the law. No. 15 of 2004 there are four criteria that serve as benchmarks for giving opinions by the Indonesian Audit Board, namely conformity to government accounting standard, adequacy of disclosure, compliance with statutory regulations, and effectiveness of the internal control system. So, if the local government has met these criteria, the local government has the right to get a good opinion and vice versa. Based on this, if the local government does not meet these criteria, the local government will receive an opinion other than the Unqualified Opinion even though the previous year the local government received a Unqualified Opinion.

4.2.4 Size of Local Government on Audit Opinion

The T-count is 0.234 and the p-value (sig) is 0.629, this shows that the T-count value is smaller than the T-table ($0.234 < 1.9896$) and the significant value is greater than 0.05 ($0.629 > 0, 05$), so it can be said that the size of local government variable has no influence and is not significant on the audit opinion variable. This research is in

line with research by Rosadi, et al. (2017), Kusumawati and Ratmono (2017), and Rosadi and Okfitasari (2019) who stated that the size of local government does not have a significant effect on audit opinion. This is because the problems faced are not measured by the size of the total value of assets, but problems in the management of these assets. Even though the local government as an agent has a large total asset value, if in carrying out its duties the agent is supported by a good system and adequate human resources in carrying out appropriate management, it will result in good state financial management.

5. CONCLUSION

Audit findings (X_1), Previous Year Audit Opinion (X_2), and local government size (X_3) have a joint (simultaneous) influence on the audit opinion on the Financial Report of Local Government (Y). Then, the audit findings (X_1) have a negative and significant effect on the audit opinion on the Financial Report of Local Government (Y). The remainder, Previous Year's Audit Opinion (X_2) and Size of Local Government (X_3) do not have a significant influence on the audit opinion on the Financial Report of Local Government (Y).

Based on the results of research that has been carried out, future research should use samples with the most recent time period. The results of this study also show a 39.6% influence of all variables. This means that there are many other variables that have not been included in this research which relate to audit opinions on the Financial Report of Local Government.

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