

# **The Effect of Audit Findings, Follow-Up Audit Recommendations, And BPK Opinions from The Previous Year on The Determination of Opinions in Local Government Financial Statements**

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## **ABSTRACT**

This study aims to analyze the effect of audit findings, follow-up on audit recommendations from the Supreme Audit Agency (BPK RI) and audit opinion from previous year on the determination of audit opinions on local government financial statements. The historical data of 24 local governments in South Sulawesi for the period 2016 - 2020 related to the examination of local government financial statements is used in this study. The results of the study found that: 1) There was a positive but not significant effect on the opinion of the Audit Findings on the determination of the audit opinion of the district government in South Sulawesi, 2) there was a positive and significant effect of follow-up on the recommendations of the audit results of local government in South Sulawesi, and 3) there was a negative and significant effect of the previous year audit opinion on the opinion of the local government financial statements.

Keywords:

Audit findings,

Follow-up audit

recommendations of BPK RI,

Audit opinion

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## **1. Introduction**

One of the main tasks of Financial Audit Agency (BPK) is to audit local government financial statements (Law No. 15 of 2004 concerning the Supreme Audit Agency). Local government financial reports (LKPD) are prepared in accordance with Government Accounting Standards as a means of holding regional heads accountable for budget implementation in a single fiscal year. Before the LKPD is approved by the regional parliament, it must be audited by the BPK as an independent state institution (Aminah et al., 2022; Din et al., 2017) in order to achieve transparency (Adiputra et al., 2018; Ratmono & Darsono, 2022; Willmott, 2020) and accountability in financial management (Ferry & Midgley, 2022). The audit aims to maintain the quality of accounting information presented in the local government's financial statements (Aboukhadeer et al., 2023). This audit also serves to improve financial performance, efficiency, effectiveness (Cordery & Hay, 2019) and government accountability (Ahrens & Ferry, 2021). Audit is a vital activity in a democratic country (Ferry et al., 2022, 2023), because audit plays a role in ensuring the compliance of institutions with Government Accounting Standards,

adequate disclosure, adherence to laws and regulations, and the efficiency of the internal control system, BPK issued its opinion (Law Number 15 of 2004).

In agency theory, there is an agency relationship between the executive as an agent (executor) and the legislature which is a representation of the people (owner / *principle*). It is necessary to convey accountability from the agent to the owner / *principle* in the form of financial statements (Hay & Cordery, 2018). To provide confidence for stakeholders and agents to gain legitimacy for the tasks that have been carried out (Tetteh et al., 2023), auditors are needed to conduct audits of financial statement accountability (Abdullah et al., 2022; Sylvia et al., 2018). In developing countries, the demand for government performance audits is relatively significant (Fan, 2012; Pratiwi et al., 2022). The audit should be carried out objectively and professionally by an independent auditor both personally and institutionally (Aikins et al., 2022; Nguyen & Soobaroyen, 2022). The audit is to ensure conformity between government products and services and the auditability theory component.

According to the 1945 Constitution, the institution assigned the task of auditing state and regional finances is the Financial Audit Agency (BPK). Law Number 15 of 2004 concerning Examination of State Financial Management and Responsibility states that opinions on financial statements are divided into four types:

1. Unqualified opinion (WTP)
2. Qualified opinion (WDP)
3. Adverse opinion (TW)
4. Disclaimer opinion (TMP)

Table 1.1 shows the LKPD audit opinion on district and city governments in South Sulawesi Province from 2016 to 2020.

**Table 1.1 List of District and City LKPD Audit Opinions**

<b>Opinion</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Sum</b>	<b>Percentage</b>
WTP	20	20	21	21	18	100	83
WDP	3	4	3	3	6	19	16
TMP	1	-	-	-	-	1	1
<b>Total</b>	<b>24</b>	<b>24</b>	<b>24</b>	<b>24</b>	<b>24</b>	<b>120</b>	<b>100</b>

*Source: Data processed from IHPS BPK RI in 2015 and 2020*

According to Table 1.1, 83 percent of LKPDs received a WTP opinion between 2016 and 2020. Audit opinions reflect the performance of local governments in realizing regional operational expenditures (Abdullah et al., 2020; Kahar et al., 2023). The quality of Local Government Financial management can maintain the economic stability of a region (Craja et al., 2020; Mabelane et al., 2023). From 2016 to 2019, the number of local governments that received WTP opinions remained relatively constant, but there was a slight decrease in WTP opinions in 2020 to WDP. No local government in South Sulawesi received a disclaimer opinion between 2017 and 2020. This demonstrates that the local government has acknowledged the need to implement the audit recommendations for improvement. If the local government receives numerous recommendations from the financial statement audit, the local government will improve the quality of its financial reports in the following year in order to receive a better opinion (Duan et al., 2022; He et al., 2022; Liston-Heyes & Juillet, 2022). Similarly, a high number of audit findings reported by the BPK indicates a low audit opinion. ESG performance and government ownership influences audit opinion (Taherinia et al., 2022; Wang et al., 2023).

In agency theory, there is an agency relationship between the executive as an agent (executor) and the legislature which is a representation of the people (the owner/principle) so that it is necessary to convey accountability from the agent to the owner/principle (Evans & Tourish, 2016; Mansoor, 2021) in the form of financial statements. To provide confidence for stakeholders and agents to obtain legitimacy for the tasks that have been carried out, an auditor is needed to conduct an audit of financial statement accountability. The audit must be carried out objectively and professionally (Alon et al., 2019) by an independent auditor, both personally (Barrainkua & Espinosa-pike, 2018; Lateef, 2019) and institutionally. According to the 1945 Constitution, the institution tasked with auditing state and regional finances is the Supreme Audit Agency (BPK).

When the financial statements describe the management of state finances mandated by the people to the government, the BPK will issue an opinion on them. This audit opinion serves as an accountability mechanism for government financial management. Agencies that receive an

unqualified opinion will be more credible than agencies that do not receive an unqualified opinion. This is consistent with the legitimacy theory, which states that local governments will always strive to improve their credibility and accountability in relation to regional financial management, as evidenced by the achievement of good audit opinions, in order for local government activities to be accepted and approved by the community. In addition to attempting to gain favor, the government is also attempting to maintain legitimacy by improving performance with various performance indicators and good performance achievements, which are then made public in order to provide information that can directly increase the credibility of government.

The next variable is the follow-up recommendation of the examination results (TLRHP). The TLRHP is created by the examined official and includes the actions taken by the auditee (SKPD) in response to the BPK findings, as well as supporting documents. If the SKPD is unable to complete all recommendations for the examination results within 60 days, a valid reason must be included. In general, follow-up on BPK examination recommendations in the form of depositing money/assets to the state/region/company, completing work/goods, and administrative actions in the form of warnings, reprimands, and/or sanctions to the person in charge and/or implementer of the activity. Administrative actions can also take the form of financial administration corrective actions, completing evidence of accountability, and improving the internal control system. By carrying out BPK's recommendations, the audit opinion may improve in the coming year.

Previous researches found that following up on examination results improved audit opinion. However, others found that following up on examination results recommendations had a negative impact on audit opinion. The follow-up of the examination results had a positive effect on the audit opinion. However, other researches found that the follow-up of the recommendations of the examination results negatively affected the audit opinion. SKPD can use the previous year's audit opinion as an evaluation tool to improve its financial management for the current year. According to the State Financial Examination Standard (SPKN), the previous examination opinion has a connection with the current examination opinion as long as the examination findings that were material in the previous year still appear, have not been resolved, or have not been properly disclosed in the current examination year. The previous year's opinion had a significant positive effect on the determination of the examination opinion. The previous audit opinion has a negative effect on the current audit opinion. This study examines the variables that may affect the BPK Audit Opinion on Regional Government Financial Statements by using the findings of the previous year's audit, the level of completion of follow-up recommendations from the BPK RI audit results, and the opinion of the previous year.

#### **a. The effect of the BPK audit findings on audit opinion**

According to Law Number 15 of 2006 concerning BPK, the examination results are the final result of the process of assessing the correctness, compliance, accuracy, credibility, and reliability of data/information regarding management and independent, objective, and state financial responsibilities professional based on the Examination Standards, which are set out in the examination results report as a BPK decision. The examination results include a description of the findings related to the Internal Control System and findings related to Compliance with the Provisions Laws and Regulations, which will be used as the basis for providing opinions on local government financial management.

The local government, which acts as an agent in agency theory, must be able to persuade the legislature that the principal's mandate was properly carried out. Compliance with the internal control system and with laws and regulations is one way to provide such assurance. BPK as an independent party who reports to the principal on the agent's compliance with the mandate.

The financial statements audit by BPK reports findings in the form of the internal control system effectiveness, compliance with laws and regulations, and compliance with Government Accounting Standards. Previous research on the findings of the BPK audit has different effects on audit opinion. The weakness of the internal control system caused by the weakness of the accounting and reporting control system had a negative effect on the determination of audit opinion on LKPD, while the weakness of the control system for the implementation of the revenue and expenditure budget and the weakness of the internal control structure does not affect the determination of audit opinion, non-compliance with laws and regulations with the classification of regional loss cases has a negative effect on the determination of audit opinion. Meanwhile, for cases of potential regional losses, cases of lack of receipts and cases of administrative irregularities do not affect the determination of the audit opinion from the BPK.

To prevent fraud in the presentation of financial statements, an internal control system is required. As a result, the SKPD is more likely to receive the highest opinion i.e. unqualified opinion if there are fewer BPK findings on the internal control system. The Internal Control System had a significant negative impact on audit opinion, whereas findings of non-compliance with legal provisions had no effect on audit opinion. The number of findings on the internal control unit (SPI) audit and the number of findings on the compliance audit both had a negative impact on the BPK audit opinion. Audit findings have a negative and significant effect on audit opinion. Audit findings and follow-up recommendations on examination results have a negative impact on opinion.

Based on the theory and previous research findings, the following research hypotheses can be developed:

H1: Audit findings from BPK have a negative effect on the audit opinion.

#### **b. The Effect of Follow-up on BPK Examination Results Recommendation on Audit Opinion**

According to Law Number 15 of 2004 on Audit of State Finance Management and Accountability, the regional government and DPRD are responsible for implementing follow-up on the recommendations of the BPK audit results. In order to improve financial performance, local governments must immediately implement BPK recommendations based on audit results of local government financial reports. The level of completion of follow-up recommendations based on examination results demonstrates the local government's concrete efforts to improve its performance.

In agency theory, the recommendation given by BPK is the output of the control system so that there is no information asymmetry that can cause adverse selection and moral hazard. When BPK reports its audit findings, agents are offered the opportunity to take action based on BPK's findings. Agents, of course, want to be judged as capable of carrying out the mandate, so the intention to gain the principal's trust must be carried out. Follow-up examination results had a positive and statistically significant effect on audit opinion. The follow-up to the recommendations of the examination results has a negative effect on opinions on the financial statements of districts/cities.

H2: Follow-up of the Recommendation of BPK's Examination Results has a significant effect on audit opinion

#### **c. The Effect of BPK's Previous Year's Opinion on Audit Opinion**

Law Number 15 of 2004 Concerning Audit of State Financial Management and Responsibility, where opinion is defined as a professional statement as a conclusion of the examination regarding the fairness of the information presented in financial statements. The previous year's audit opinion is the audit opinion obtained in the previous fiscal year. According to the State Financial Audit Standard (SPKN), the previous audit opinion is related to the current audit opinion if material audit findings from the previous audit year still appear, have not been resolved, or have not been properly disclosed in the current audit year. As a result, the determination of the current opinion is influenced by the previous year's opinion. The initial materiality of the examination is determined by the previous year's opinion. One of the auditor's considerations in determining the audit opinion is the audit's initial materiality.

Following the theory of legitimacy, an institution will seek to gain public trust by making efforts that reflect the professionalism of the manager at the institution. The audit opinion obtained by the local government will make the local government gain the trust of the public in carrying out government duties.

One of the important qualitative considerations for the examiner is the previous year's audit opinion. The poor opinion on the previous year's financial statements indicates that there is a high inherent risk to the implementation of the audit to be performed, necessitating the auditor to increase the detection risk in the materiality calculation formula. If the previous year's opinion was satisfied, the current opinion should be satisfied, or at least in line with the results of the previous year's examination. If the previous year's opinion was low and the local government did not improve, this year's opinion should be low as well.

The previous year's opinion has a significant positive effect on determining the audit opinion. The test results show that there is a consistency factor in determining the audit opinion based on the previous year's opinion. This can be interpreted as a tendency for the examiner to issue the

same or a higher audit opinion than the previous year. The previous year's opinion influenced the audit opinion of Ministry/Agency in 2015-2017 period.

H3: Previous year's audit opinion has a significant effect on audit opinion.

## 2. Method

The data used in this study is quantitative data, and the data source is a summary of the BPK audit results from 2015 to 2020. The population in this study is all district/city governments in South Sulawesi Province which consists of 24 regencies/cities, as well as research samples using purposive sampling with the following criteria:

1. Regencies/Cities in South Sulawesi listed in the Summary of BPK Examination Results 2015 to 2020
2. Regencies/Cities in South Sulawesi that have audit opinion data for the previous and current fiscal years, audit findings, and recommendations for follow-up on audit results.

**Table 1. Population and Samples**

No.	Districts/Cities	No.	Districts/Cities
1	Makassar	13	Bone
2	Gowa	14	Wajo
3	Takalar	15	Luwu
4	Jeneponto	16	North Luwu
5	Bantaeng	17	East Luwu
6	Bulukumba	18	Tana Toraja
7	Selayar Islands	19	North Toraja
8	Maros	20	Enrekang
9	Pangkajene Islands	21	Sinjai
10	Sidenreng Rappang	22	Pinrang
11	Pare-Pare	23	Barru
12	Soppeng	24	Palopo

Source : BPK RI Audit Results Report in 2016 to 2020

The data analysis method in this study uses descriptive statistical analysis and logistic regression analysis. The variables of the audit opinion and the examination opinion of the previous year were not included in the descriptive statistical calculations because both variables had a nominal scale. The nominal scale is a scale of measurement of categories or groups (Ghozali 2018).

The empirical model to test the research hypothesis can be seen in the following equation:

$$OPINI_{i,t} = \alpha + \beta_1 TP_{i,t-1} + \beta_2 TLRHP_{i,t-1} + \beta_3 OPINI_{i,t-1} + \varepsilon$$

**Keterangan:**

- OPINI<sub>i,t</sub>** = audit opinion
- TP<sub>i,t-1</sub>** = Previous year's examination findings
- TLRHP<sub>i,t-1</sub>** = Follow up on recommendations from previous year's research
- OPINI<sub>i,t-1</sub>** = Previous year's audit opinion
- α** = constant
- β<sub>1</sub>, β<sub>2</sub>, β<sub>3</sub>** = regression coefficient
- ε** = error term

**Table 2. Operationalization Variable and Measurement**

Variable	Definition	Measurement
Audit opinion	Opinion is the auditor's professional statement regarding the fairness of the information presented in the financial statements. (Law No. 15 of 2004, article 16 paragraph 1)	5 = Unqualified Opinion (WTP) 4 = Unqualified Opinion with Additional Explanation (WTP DPP) 3 = Qualified Opinion (WDP) 2 = Adverse Opinion (TW) 1 = Disclaimer Opinion (TMP)
Examination findings	The audit findings are descriptions of findings related to the Internal Control System and findings related to Compliance with the Provisions of Laws and Regulations set forth in the results of the examination which will be the basis for consideration in giving opinions on local government financial management. (Law 15 of 2006)	TP = $\Sigma$ Previous year's examination findings
Follow up on recommendations	Follow-up to the recommendations of the examination results is a follow-up carried out by the local government that will correct existing problems so that errors can be stopped and can improve their performance in managing regional finances better.	$TLRHP = \frac{\Sigma TLRHP TS}{\Sigma Recommendations} \times 100\%$
Previous year's audit opinion	The audit opinion for the previous year is the audit opinion obtained in the previous fiscal year.	5 = Unqualified Opinion (WTP) 4 = Unqualified Opinion with Additional Explanation (WTP DPP) 3 = Qualified Opinion (WDP) 2 = Adverse Opinion (TW) 1 = Disclaimer Opinion (TMP)

### 3. Results

#### i. Descriptive Statistical Test

Descriptive statistical tests provide an overview or description of a data seen from the average value (*mean*), maximum value, minimum value, and standard deviation on the variables studied.

**Table 3. Descriptive Statistical Test Results**

	N	Minimum	Maximum	Mean	Std. Deviation
X1 (TP)	120	5.00	46.00	16.6750	7.38857
X2 (TLRHP)	120	40.06	97.64	75.2608	11.61362
Valid N (listwise)	120				

Based on the table 3, the minimum examination findings (X1) are 5 findings in Bulukumba District and the maximum findings are 46 findings in Gowa District. The average value of examination findings is 16,675 and the standard deviation is 7.38. Based on the average value of examination findings, there were 70 samples with fewer examination findings than the average and 45 samples with more examination findings than the average. This shows that the local government

has made progress in reducing the occurrence of repeated deviations in the internal control system and compliance with laws and regulations.

Follow-up BPK examination results (X2) have a minimum value of 40.06 percent in the Jeneponto Regency Government and a maximum score of 97.64 percent in the East Luwu Regency Government. This variable has an average value of 76.60 and a standard deviation of 11.61. Based on the average value of the completion rate of recommendations from the BPK audit results, 65 samples had a percentage of completion of recommendations on audit results that was lower than the average and 58 samples had a percentage of completion of recommendations on audit results. the level of completion of the follow-up on the recommendations of the examination results is higher than the average. This shows that the regional government is trying to improve the quality of financial management and responsibility based on the results of BPK's audit.

**ii. Model Overall Test (Likelihood L Test)**

The results of the *Likelihood L* test showed that there was a decrease in the value of *-2 Log Likelihood* from *Intercept Only* to *Final*, namely 116,075 to 51,095 with a significance level at  $p=0.000$ , meaning that models with independent variables were better than models with only dependent variables.

**Table 4. Analysis of Model Fitting Information**

Type	-2 Likelihood Logs	Chi- Square	Df	Sig.
Intercept Only	116.075			
Final	51.095	64.980	5	.000

**iii. Regression Model Feasibility Test (Goodness of Fit Test)**

The results of the Regression Model Feasibility test (Goodness of Fit Test) show that the Pearson significance value is 1,000 and the Deviance is 1,000, which means it is greater than 0.05. The conclusion drawn is that the research model is feasible to use, where the observation/ research data is in accordance with the prediction of the ordinal logistic regression model used.

**Table 5. Goodness-of-Fit Analysis**

	Chi- Square	Df	Sig.
Pearson	151.290	233	1.000
Deviance	51.095	233	1.000

**iv. Coefficient of Determination (Nagelkerke R Square)**

The results of the Coefficient of Determination (Nagelkerke R Square) test showed that the Nagelkerke coefficient value of 67.5% means that an independent variable consisting of the findings of the examination, follow-up recommendations of the examination results and opinions of the previous year, influenced the determination of the BPK's opinion on the LKPD examination by the remaining 67.5% of the remaining 32.5% explained by other factors or variables that were not included in the model testing.

**v. Parameter Estimation Test**

The results of the Parameter Estimation **test** showed that the independent variables that had a significant effect on the determination of the examination opinion (Sig. < 0.05) were TLRHP (0.03) and OTS (0.00). TP had a signification value of 0.359 the value was large from alpha (0.359 > 0.05) meaning that the Examination Findings did not affect the determination of the examination opinion.

**Table 7. Parameter Estimation**

		Estimate	Std. Error	Wald	Df	Sig.	95% Confidence Interval	
							Lower Bound	Upper Bound
Threshold	[OPINION = 1.00]	-.175	3.702	.002	1	.962	-7.431	7.081
	[OPINION = 3.00]	5.157	4.162	1.535	1	.215	-3.000	13.315
Location	TP	.079	.086	.841	1	.359	-.089	.247
	TLRHP	.100	.046	4.703	1	.030	.010	.190
	[OTS=1.00]	-.624	2.517	6.151	1	.013	-11.177	-1.309
	[OTS=2.00]	-.260	1.699	2.357	1	.125	-5.939	.722
	[OTS=3.00]	-.450	.979	21.150	1	.000	-6.420	-2.583
	[OTS=5.00]	0 <sup>a</sup>	.	.	.	0	.	.

SPSS 26 Data Processing Result Source

**Table 6. Pseudo R-Square**

Cox and Snell	.418
Nagelkerke	.675
McFadden	.560

**vi. Parallel Lines Test**

The *parallel lines* test results show that the p-value of the > 0.05. This means that the ordinal logistics model in this study provides good data suitability.



**Table 8 Parallel Lines**

Type	-2 Likelihood Logs	Chi-Square	Df	Sig.
Null Hypothesis	51.095			
General	41.401	9.694	5	.084

*SPSS 26 Data Processing Result Source*

**vii. Hypothesis Test**

The results of hypothesis testing are known that there is a positive but not significant influence on the examination findings on the opinion of the Regency / City Government in South Sulawesi Province with a  $\alpha$  sig value of  $0.359 > 0.05$  so that Hypothesis 1 (H1) is rejected. There was a positive and significant influence of the follow-up of the recommendations of the examination results on the opinion of the Regency/City Government in South Sulawesi Province with a sig value of  $\alpha$  of  $0.03 < 0.05$  so that Hypothesis 2 (H2) was accepted. There was a negative and significant influence of the previous year's opinion on the opinion of the Regency/City Government in South Sulawesi Province with a  $\alpha$  sig value of  $0.00 < 0.05$  so that Hypothesis 3 (H3) was accepted.

**4. Discussion**

**a) The Effect of The Examination Findings on Opinion**

As the implementation of agency theory, BPK submits audited local government financial reports along with their opinions as a form of accountability from the executive as an agent to the legislature, which is a representation of the people (principles). Such accountability mechanisms provide legitimacy to the government while also increasing the credibility and accountability of regional financial management, as evidenced by the achievement of satisfactory audit opinions. The government wants legitimacy for its actions and being accepted by the public, so that they design strategies to get them, not least in regional financial management (Guo et al., 2018; Mortreux et al., 2018). In audit process, the BPK renders an opinion on the financial statements and reports the findings of the regional government's financial audit for statutory and internal control system violations. This means that the higher the number of BPK findings, the lower the audit opinion.

The results of this study showed that the amount findings of the examination had a probability value of 0.359 which was greater than the error rate of 5% and a coefficient value of 0.079. This means that the findings of the examination have a positive but insignificant effect on the opinion of local governments in regencies/cities in South Sulawesi Province for the 2016-2020 period so that the first hypothesis is rejected.

Any additional audit findings do not necessarily have an impact on the audit opinion. This is because the audit findings may increase in quantity but the findings do not reflect or contain material misstatements so that they do not affect the audit opinion on the fairness of the presentation of the financial statements.

If the misstatements found in the financial statements do not have a significant impact on misstatements, either individually or as a whole, in the year under review and the following period, the financial statements are said to contain no material misstatements. BPK issues an opinion on the fairness of the financial statements based on compliance with Accounting Standards, the adequacy of disclosure and presentation of Financial Statements, compliance with laws and regulations, and the effectiveness of the Internal Control System.

The results of this study are in line with research found that audit findings have an insignificant positive effect on audit opinions because audit findings have not reflected material misstatements that can affect the examination opinion on the fairness of the presentation of financial statements. SPI weaknesses and findings of compliance with laws and regulations did not have a significant effect on the opinion of the BPK RI because the number of SPI findings and non-compliance with the 2014-2016 laws and regulations in quantity and quality was not very material.

The findings of the Internal Control System and non-compliance with laws and regulations have an insignificant effect on the audit opinion of the CPC because the number of SPI findings and non-compliance with laws and regulations in 2013-2014 cannot describe the material whether or not the findings of the SPI findings and non-compliance with laws and regulations in Cirebon City,

West Java. The effect of the examination findings on the examination opinion on the local government is evidenced by the results of the comparison of the minimum and maximum values in the variable findings of the 2020 examination in the Jeneponto Regency and Bulukumba Regency Governments as shown in table 9 below.

**Table 9 Comparison of Examination Findings with Opinions  
Jeneponto regency and Bulukumba regency in 2020**

<b>No.</b>	<b>Local Government Name</b>	<b>Amount of Examination Findings</b>	<b>Opinion</b>
1	Jeneponto	20	Qualified Opinion (WDP)
2	Bulukumba	5	Qualified Opinion (WDP)

Table 9 shows that the local government that has the most number of examination findings with the local government that has the least number of examination findings does not have significant differences of opinion. This indicates that the findings of the examination did not have a direct impact on the opinion of the regency/city government in South Sulawesi Province.

However, the result is different from the previous research by that (1) the findings of weaknesses in the internal control system with the classification of weaknesses in the accounting and reporting control system negatively affect the determination of the BPK examination opinion on LKPD, while for the classification of weaknesses in the control system for the implementation of the revenue and expenditure budget and the weakness of the internal control structure have no effect on determining the opinion of the BPK, (2) findings of non-compliance with laws and regulations with the classification of cases of regional losses negatively affect the determination of the opinion of the BPK. As for cases of potential regional losses, cases of lack of revenue and cases of administrative irregularities have no effect on the determination of the BPK opinion.

The number of findings on the SPI examination and the number of findings on compliance examinations partially negatively affected the audit opinion of the Financial Audit Agency and the research showed that audit findings had a negative and significant effect on audit opinions.

Materiality is divided into three levels; first the amount of audit finding is not material, that is, if there is a misstatement in the financial statements but it does not affect the decision of the user of the report, the misstatement is considered immaterial, and the opinion of the examination of the fairness of the presentation of the financial statements is unqualified opinion (WTP). Second, the amount is significant but has no effect on the financial statements as a whole, so that misstatements in the financial statements affect user decisions while the financial statements as a whole are presented correctly and remain useful. In such a situation, the opinion on the financial statements is qualified opinion (WDP). Third, the amount is so material that it has such a great influence that the reasonableness of the financial statements as a whole is doubtful.

Financial statements do not contain material misstatements, that is, if the financial statements do not contain misstatements whose impact is individually or as a whole is not significant enough to result in the financial statements being reasonably misstated in all material respects. BPK provides opinions on the fairness of financial statements by taking into account compliance with Government Accounting Standards, the adequacy of disclosure and presentation of Financial Statements, compliance with laws and regulations and the effectiveness of the Internal Control System.

#### **b) Effect of Follow-up Recommendations for Examination Results on Opinion**

In accordance with the mandate of Law Number 15 of 2004 concerning State Financial Management and Responsibility, article 20 states that officials are required to follow up on recommendations in the Examination Results Report (LHP) and provide answers or explanations to the BPK about follow-up on these recommendations. Answers or explanations are submitted to the

BPK no later than 60 days after the LHP is received. Follow-up recommendations for the results of the examination are activities and/ or decisions carried out by the examined officials and / or other competent parties to carry out the recommendations of the results of the BPK examination.

The results of this study showed that the follow-up variable recommendations of the examination results had a probability value of 0.03 which was smaller than the error rate of 5% and a coefficient value of 0.100. This means that the follow-up of the recommendations for the examination results has a positive and significant effect on the opinion of local governments in regencies/cities in South Sulawesi Province in 2016-2020 so that the second hypothesis is accepted.

It can be explained that every time there is an addition to the Follow-up Recommendations for Examination Results (TLRHP) of the BPK will have a significant impact on opinion. This implies that the higher the completion of the follow-up recommendations for the examination results means that the district/city government has made improvements (Yamin et al., 2022) because the audit results will provide benefits if every recommendation from the BPK is followed up by the leadership, which will improve the quality of the financial statements.

The follow-up of the examination results has a positive and significant effect on audit opinions because the more recommendations that have been done means that improvements to mistakes have been made, mistakes that previously often occurred can be stopped and the preparation of financial statements is considered to have begun to follow the standards. So that if you have followed the standards, then the financial statements prepared are free from material misstatements and the opinions given by the auditors are good opinions.

This is also in accordance with the list of recapitulation of the monitoring results of local government TLHP in the Overview of Semester Examination Results (IHPS) I and II of the BPK RI from 2015 to 2020 which shows that the average percentage of Follow-up Recommendations for Examination Results (TLRHP) BPK followed up by local governments has been achieved quite well, namely 67.7%. Financial statements do not contain material misstatements, that is, if the financial statements do not contain misstatements whose impact is individually or as a whole is not significant enough to result in the financial statements being reasonably misstated in all material respects. BPK provides opinions on the fairness of financial statements by taking into account compliance with Government Accounting Standards, the adequacy of disclosure and presentation of Financial Statements, compliance with laws and regulations and the effectiveness of the Internal Control System. The percentage of the completion rate of recommendations for BPK examination results of 67.7% has passed the target of the Main Performance Indicators (IKU) of the BPK RI which states that the percentage of recommendations for examination results that must be followed up by local governments is 63%. This is evidenced by the high percentage of TLRHP completion rates and the large number of district/city governments that have tried to achieve TLRHP completion rates.

The effect of the Follow-up Recommendations for the Examination Results (TLRHP) of the BPK on the opinion of the Regional Government Financial Statements is evidenced by the results of the comparison of the realization of the TLRHP BPK in areas that optimally implement the BPK TLRHP compared to areas that have not optimally implemented the 2020 BPK TLRHP in the East Luwu Regency Government and Jeneponto Regency Government can be seen in table 1.10 below.

**Table 1.10 Comparison of TLRHP CPC Realization with Opinion  
East Luwu Regency and Jeneponto Regency Government in 2020**

<b>No.</b>	<b>Local Government</b>	<b>Realization of TLRHP BPK (%)</b>	<b>Opinion</b>
1	East Luwu	93,6	Unqualified Opinion (WTP)
2	Jeneponto	40,01	Qualified Opinion (WDP)

Source: (Badan Pemeriksa Keuangan Republik Indonesia, n.d.)

Based on table 1.10 above, it is known that local governments that optimally implement the BPK Follow-up Recommendations for Examination Results (TLRHP) can get a better opinion compared to local governments that have not optimally implemented the BPK Follow-up Recommendations for Examination Results (TLRHP). This indicates that the Follow-up recommendations for the examination results (TLRHP) of the BPK have a direct impact on the opinions of the regency/city governments in South Sulawesi Province.

However, these results are not in line with the previous research that the follow-up of the recommendations for the examination results negatively affects the opinion of the financial statements of districts/cities in Aceh Province.

Thus, the results confirm that the higher the completion of the BPK TLRHP means that the district/city government has made improvements and has begun to follow standards that will improve the quality of financial statements. The good quality of financial statements is represented by a high level of disclosure. The higher the level of disclosure of financial statements, the better the quality of financial statements will affect the opportunity for opinions obtained.

### c) The Influence of The Previous Year's Opinion On The Opinion

An opinion, according to Law Number 15 of 2004 Concerning Examination of State Financial Management and Responsibility, is a professional statement issued as a result of the examination regarding the level of reasonableness of the information presented in the financial statements. An examination opinion obtained in the previous fiscal year is referred to as the previous year's opinion. According to the State Financial Examination Standard (SPKN), the previous examination opinion has a connection with the current examination opinion as long as the examination findings that were material in the previous year still appeared, were not resolved, or were not properly disclosed in the current examination year. The previous year's opinion will influence the initial materiality of the audit and the determination of the current year opinion. One of the examiners' considerations in determining the audit opinion will be the initial materiality of examination.

The results of this study showed that the previous year's opinion variable had a probability value of 0.00 which was smaller than the error rate of 5% and a coefficient value of -4.501. This means that the previous year's opinion had a negative and significant effect on the opinion of local governments in regencies/cities in South Sulawesi Province in 2016-2020 so that the third hypothesis was accepted.

Previous research has revealed that a variety of factors influence the audit opinion. This means that the examiner is more likely to give a different opinion than the previous year's audit, so this year's opinion could be better, the same, or worse. This can happen if in the audit opinion of the previous year there are material findings of examination that cause the opinion to fall but have been resolved by following up on the recommendations of the results of the BPK examination and are correctly disclosed in the current examination year, it will cause the opinion to rise and vice versa if in the audit opinion of the previous year the opinion went up but in the current year of the examination there are findings of the examination that materially cause the opinion to fall.

The results of this study are in line with the previous research showing that the previous year's opinion had a negative effect on the opinion of the BPK RI. The effects of the previous year's opinion on the audit opinion can be proven by the results of the audit opinion of Makassar, Bulukumba, and Gowa as can be seen in table 1.11.

**Table 1.11 Audit Opinion of Makassar, Bulukumba, and Gowa in 2019 and 2020**

No.	Local Government	Previous Year Opinion 2019	Audit Opinion 2020
1	Makassar	Unqualified Opinion (WTP)	Qualified Opinion (WDP)
2	Gowa	Unqualified Opinion (WTP)	Qualified Opinion (WDP)
3	Bulukumba	Unqualified Opinion (WTP)	Qualified Opinion (WDP)

Source: (Badan Pemeriksa Keuangan Republik Indonesia, n.d.)

Table 1.1 listed the local governments whose audit opinions were unqualified in 2019 but changed to qualified in 2020. This suggests that the audit findings in 2020 are material, and the auditee does not immediately follow-up the recommendations of the BPK examination results.

Materiality is a factor that determines the audit opinion (Sutopo et al., 2017). In addition, audit opinions are also influenced by auditor behavior during the audit process (Pamungkas et al., 2018; Xiao et al., 2020). The presentation of financial statements that are not in accordance with regulations and the consequences of the misstatements are used to determine materiality. Materiality is considered based on audit findings if it occurs in specific accounts and amounts and has a significant impact on the accuracy of the information conveyed by the financial statements. Materiality can thus be viewed quantitatively as well as qualitatively as can be seen in these three levels of materiality. First, the monetary amount of audit findings are said to be immaterial if there are misstatements in the financial statements but tend not to influence the decisions of report users. Because the misstatement is considered immaterial, the audit opinion is WTP.

Second, the monetary amount is material but does not interfere with the overall financial statements. It means that the misstatement in the financial statements can affect user's decision but the entire financial statement is presented correctly so that it remains useful so that the opinion is WDP. And finally, the monetary amount is material that it has such a great influence that the reasonableness of the financial statements as a whole is doubtful. The findings of this study contradict the findings that found that the previous year's audit opinion had a positive significant effect on the audit opinion of the BPK in Cirebon City, West Java. It indicated that local governments that received the WTP opinion the previous year are likely to be able to keep the WTP opinion the following year because recommendations for financial statements with WTP opinions are not as extensive as recommendations for financial statements without WTP opinions. Furthermore, local governments that have not met WTP can use the previous year's mistakes to justify not doing the same the following year, so it is hoped that local governments will receive a better opinion.

The previous year's opinion had a significant positive effect on determining the examination opinion. The results show that the auditor based the current opinion on the previous year's opinion acquisition. This can be interpreted as a tendency for auditors to give an opinion that is the same as or higher than the opinion of the previous year's examination. The previous year's opinion had a positive effect on the audit opinion of the Ministry/Institution for 2015-2017. This implies that the audit opinion is determined by taking into account the previous year's opinion in order to establish the initial level of materiality for producing the audit opinion issued later. The better the opinion of the previous year, the higher the level of materiality set.

## **5. Conclusion**

The examination results have a positive but non-significant effect on the opinion. This demonstrates that additional audit findings do not always have an impact on opinion. This is possible because audit findings in terms of quantity and quality do not always reflect a material misstatement that directly affects the opinion on the fairness of the financial statement presentation. The financial statements are not materially misstated if they do not contain any misstatements that are not significant enough, individually or collectively, to cause the financial statements to be misstated in all material respects, and the effect on subsequent periods is not expected to be significant. The auditor provides an opinion on the fairness of the financial statements by considering compliance with Government Accounting Standards (SAP), adequacy of disclosure and presentation of Financial Statements, compliance with laws and regulations, and the effectiveness of the Internal Control System (SPI).

Recommendations for follow-up examination results have a positive and significant effect on opinion. This means that every addition to the Recommendation for Follow-up on Examination Results (TLRHP) of BPK will have a significant impact on the opinion. This means that as more recommendations for follow-up on audit results are completed, district/city governments will make more improvements to improve the quality of their financial reports, allowing the audit opinion obtained to increase.

The previous year's opinion had a significant negative impact on the opinion. This indicates that there is an inconsistency factor in the examination opinion determination based on the previous year's opinion. This can be interpreted to mean that the examiner has a tendency to give an opinion that differs from the previous year's examination, whether the opinion is negative or

positive. This can happen if there are material examination findings in the previous year that have been resolved by following up on the recommendations of the BPK examination results and are correctly disclosed in the current examination year, then the opinion will be better. If the previous year's audit opinion is good but there are material findings of the examination in the current year, the acquisition of audit opinion will be worse.

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