

# The Influence of The Internal Control System, Follow-up Recommendations, and Regional Characteristics on Audit Opinion

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## KEYWORDS

Audit Opinion; Internal Control System (SPI); Follow-Up Recommendations; Regional Characteristics; Local Government; Logistic Regression

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## ABSTRACT

This research analyzes the influence of the internal control system (SPI), follow-up recommendations, and regional characteristics on audit opinions. The regional characteristic variables used are regional size and level of prosperity. Hypothesis testing was carried out using the binary logistic regression analysis method with the help of SPSS software. The population in this study is all district governments in Indonesia. The purposive sampling method selected the research sample with a total sample of 270 districts. The study results show that the internal control system negatively affects audit opinions. The follow-up of recommendations and regional sizes positively affect audit opinions. The level of prosperity did not affect the audit opinion. The results of this study show the importance of effective and efficient implementation of SPI, fulfillment of follow-up recommendations, and accountable financial reporting. Further research is suggested to add variables that affect audit opinions and use a sample of all local governments to assess audit opinions more accurately.

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## 1. Introduction

Indonesia is one of the countries that implements a decentralized government system. Decentralization is used to improve organizational management by delegating authority to a lower level of structure (Guntoro, 2021). Decentralization in Indonesia is regulated in the Law of the Republic of Indonesia (UU RI) Number 23 of 2014, where the central government delegates its authority to local governments to regulate their government, including fiscal management as outlined in the Regional Revenue and Expenditure Budget (APBD). Government Regulation (PP) Number 105 of 2000, article 37 states that local governments must prepare regional financial accountability reports to be submitted to the Regional People's Representative Council (DPRD). The regional financial accountability report submitted to the DPRD is a financial report examined by the Financial Audit Agency (BPK). Financial statements are audited to ensure that financial statements have been prepared reasonably and correctly (Saleh & Rahadian, 2023).

BPK conducts audits based on the Regulation of the Audit Board of the Republic of Indonesia (BPK RI) Number 1 of 2017 concerning State Financial Audit Standards (SPKN), which states three types of BPK audits, namely audits of financial statements, audits of performance, and audits with specific objectives (PDTT) (BPK RI, 2017). Financial audits are conducted to provide an opinion on the fairness of the financial statements of the audited entity. The central government uses local government audit opinions to evaluate local government performance (Firdaus, 2023). Audit opinions help strengthen stakeholder confidence in the relevance, appropriateness, and reliability of the information presented in financial statements (Fazlurahman et al., 2020).

BPK reports the results of its audit in the Audit Results Report (LHP), and then BPK summarizes them in the Audit Results Overview (IHPS). The results of obtaining fair audit opinions without exception (WTP) by local governments from 2021 – 2023 were 90%, 92.4%, and 91%, respectively. The BPK IHPS for 2021 – 2023 shows that the acquisition of WTP opinions, which has been more than 90%, is actually followed by increased findings and state/regional losses. The number of findings in local governments in 2021 – 2023 is 7,095, 7,234, and 7,695, respectively. Then, state/regional losses also increased consecutively by IDR 1.1 trillion, IDR 1.4 trillion, and IDR 1.7 trillion. BPK stated that the total amount of state/regional losses from 2005 to the first semester of 2023 was dominated by state/regional losses from local governments (BPK RI, 2024). State/regional losses in regional governments amounted to IDR 3,825.56 billion or 78.17% of the total state/regional losses calculated by BPK.

The WTP opinion on the government's financial statements from the BPK is one of the important measures showing good state financial management. However, acquiring the WTP opinion does not ensure that an area is free from corruption cases. In addition, regional leaders and financial management officials are still entangled in corruption cases even though their regions have received WTP opinions from the BPK. Therefore, it is necessary to examine further whether the WTP opinion received by the local government has described accountable financial management and whether the BPK has carried out an audit and provided an opinion based on existing criteria. BPK provides an opinion based on four criteria: compliance with government accounting standards, sufficient disclosure, compliance with laws and regulations, and the performance of the internal control system (SPI) (BPK RI, 2017). Suppose the audit is carried out correctly and in accordance with the criteria mentioned in the SPKN. In that case, the WTP opinion obtained by the ministry/institution or local government should show the quality of good state financial management, and the findings and losses of the state/region will be reduced. In addition, one of the criteria used is the SPI's effectiveness, which prevents fraud in the institution being examined.

According to the research of Simanjuntak et al. (2023), the BPK audit opinion is influenced by the implementation of SPI. The more findings related to the weaknesses of SPI, the lower the audit opinion received (Nurasia et al., 2023). The signs of successful implementation of SPI are reliable financial statements, safe state assets, compliance with laws and regulations, and a strong belief that the entity can achieve its goals effectively and efficiently (Novianti & Dewi, 2023). SPI should be used as a preventive measure for fraud in the government environment. Research by Nurasia et al. (2023) shows that the better the SPI, the lower the state losses, and the more findings related to the SPI, the lower the audit opinion obtainment.

In addition to providing opinions, BPK also provides recommendations on the findings of the audit that have been carried out. Auditors' Recommendations based on the audit results are given to

parties with the authority to take action and improve governance (BPK RI, 2017). BPK then monitors the implementation of follow-up recommendations to improve audit results and help improve government governance. According to Firdaus (2023), carrying out the follow-up of audit findings effectively will improve the quality of financial management and accountability. Audit opinion from BPK will be better if the quality of financial statements is improved.

Maharani and Arofah (2021) stated that SPI and available resources must be considered when preparing Local Government Financial Statements (LKPD). According to Firdaus (2023), the quality of LKPD information presented is influenced by the characteristics of local governments. Several studies have been conducted on the relationship between regional characteristics and the acquisition of audit opinions. Firdaus (2023) projects regional characteristics with regional size on total assets, the level of dependence on general allocation funds (DAU), the level of regional wealth on regional original income (PAD), and the level of local government expenditure on the amount of regional spending. The study results show that all variables of regional characteristics influence audit opinions. According to Firdaus (2023), the more significant the assets, DAU, and PAD owned by local governments, the greater the pressure to disclose their financial performance. In the last characteristic, it is projected with the level of expenditure in the total regional expenditure. The increasing amount of regional spending shows that the activities carried out by local governments are increasingly complex, so they need effective SPI.

Another study conducted by Rumihin et al. (2021) projects the characteristics of local governments using the size of local governments in total assets, regional wealth in PAD, the dependence on the central government in DAU, and capital expenditure in local government activities. Research by Rumihin et al. (2021) shows that the characteristics of local governments that affect audit opinions are only capital expenditure. Rumihin et al. (2021) stated that SPI will weaken along with the regional revenue and spending increase. The dependence described by DAU makes local governments dependent on the central government, so they are more compliant with applicable regulations and present LKPD in accordance with applicable regulations (Rumihin et al., 2021). Then, on the size of the area projected with assets, Rumihin et al. (2021) stated that local governments are less able to manage large amounts of assets. Hence, the larger the assets, the worse the opinion received.

Firdaus (2023) stated that the larger and more complex the APBD, the more complicated it is to be accountable for the APBD. From several studies on the characteristics of the regions described, it can be concluded that most of the variables tested are related to the pressure to disclose LKPD with accountability and effective SPI implementation. Therefore, the researcher used two variables that could describe accountability and the implementation of SPI in terms of regional characteristics. The variables taken are the region's size and the regional prosperity level. The region's size is projected with total assets to see that significant total regional assets will increase the pressure to make accountable disclosures. Then, the projected level of prosperity with PAD is used to assess the effectiveness of SPI. When the amount of regional revenue increases, the more complex the activities carried out, the SPI weakens.

From the description above, it can be concluded that previous research has produced different findings. So, the author was encouraged to conduct this research. The researcher aims to examine the influence of the internal control system, follow-up recommendations, and regional characteristics on audit opinion. The difference from the previous study is the combination of the Internal Control

System (SPI) variables and the Recommendation Follow-up with the Regional Characteristics variable. Some studies that have been conducted previously only measure SPI variables with other variables in audit criteria or only use regional characteristic variables. The author also uses a sample of LKPD of district governments throughout Indonesia in the last three years, where most of the previous studies were only conducted in one specific province, so it has not described the overall conditions in Indonesia.

## 2. Materials and Methods

This research is a correlational study. Mertler (2022) states that a correlational study determines the influence between two or more variables. This study will explain and measure the influence of independent variables in internal control systems (SPI), follow-up recommendations, regional size, and regional prosperity levels on dependent variables through audit opinions in district government organizational units. The author uses secondary data in a combination of time series and cross-section data obtained from the Audit Report of the Audit Board (LHP BPK) from 2021 to 2023 and data from the Regional Government Financial Statements (LKPD) of each district government in Indonesia for the period of 2020 – 2022. Data was collected from the website of the Central BPK office ([www.ihps.bpk.go.id](http://www.ihps.bpk.go.id)) and the website of each district government.

The sample was selected using a purposive sampling technique, and the analysis was carried out using the binary logistic regression analysis method. The district government chosen is the district government in the province that has a distribution of opinions, not only WTP. The sample selection aims to make the sample representative of the four existing audit opinions. The selected sample consisted of districts in Bengkulu Province, West Java Province, East Kalimantan Province, Maluku Province, Papua Province, Central Sulawesi Province, and North Sumatra Province. The seven provinces were chosen because they could represent the four types of opinions needed in the research and represent the local governments on each central island in Indonesia, so the total sample selected is 324 district governments. Hypothesis in this research can be describe as follows:

### The Effect of Internal Control System on Audit Opinion

The internal control system (SPI) is an integral process in the form of actions and activities carried out continuously by all parts of the organization to achieve organizational goals with effective and efficient activities, reliable financial reports, security of state assets, and compliance with statutory regulations. invitation (Simanjuntak et al., 2023). SPI weakness will result in audit findings, so that financial reports are considered unreliable (Sabella & Mutmainah, 2022). The research conducted Sabella & Mutmainah (2022) found that SPI had a negative effect on LKPD audit opinion. In line with that, Simanjuntak et al. (2023) the results also found that SPI influences audit opinion. Kusumawati and Ratmono (2017) Sabella & Mutmainah (2022) explain agency theory which assumes that the principal wants local governments as agent to prepare and implement effective SPI by applicable regulations. Effective preparation and implementation of SPI will reduce agency problems which may arise from the agency relationship between the principal and the agent. According to Yusuf & Gustiana (2022), SPI weakness is negatively correlated with the possibility of the entity's financial statements receiving a WTP opinion from the BPK.

H1: Internal control system hurts audit opinion.

### **The Effect of Follow-up Recommendation on Audit Opinion**

Recommendations are suggestions from auditors based on the results of examinations that have been carried out. Recommendations are reported to entities that have the authority to take action and/or improve governance. BPK monitors the follow-up recommendations by the auditee. The monitoring results are then submitted to representative institutions and parties responsible for improving the effectiveness of the LHP that has been prepared (BPK RI, 2017). Research by Amyulianthy et al. (2020) states that follow-up on audit results is positively related to obtaining an audit opinion. Regional governments that follow up on BPK recommendations show that they are trying to improve the quality of their financial reports. High-quality financial reports will reduce agency problems between principal and agent. Follow-up recommendations aim to ensure that recurring problems are not found during financial report audits so that the quality of the report can increase and the hope of obtaining a WTP opinion will also increase (Sabella & Mutmainah, 2022).

H2: Follow-up recommendations have a positive effect on audit opinion.

### **The Effect of Regional Size on Audit Opinion**

Firdaus (2023), Rumihin et al. (2021), and Maharani & Arofah (2021) projected regional size in total regional assets. Assets are all economic resources owned by the government with the hope of providing economic or social benefits in the future (Sadat, 2020). The study by Maharani and Arofah (2021) found that the size of local government influences BPK opinions negatively. Based on agency theory, the principal delegates authority to the agent, hoping that the agent will carry out his duties properly. Agents or local governments know more about LKPD than the principal. The existence of information asymmetry between the principal and the agent can cause agency problems to emerge. Firdaus (2023) states that increasing the size of local governments will improve their financial performance. Local governments with large assets will find it easier to fund their operational activities. However, implementing these activities also needs to be reported transparently and with accountability. Asset reporting that is transparent, accountable, and by standards will increase the chances of obtaining a WTP opinion from the BPK.

H3: Regional size has a positive effect on audit opinion.

### **The Effect of Regional Prosperity Level on Audit Opinion**

Maharani and Arofah (2021) use PAD to measure regional prosperity. PAD is regional income from regional taxes and levies, separated regional wealth management results, and other legitimate PAD by statutory regulations (Pemerintah Republik Indonesia, 2022). Research conducted by Firdaus (2023) states that the level of regional government wealth positively affects audit opinion. In line with this research, research Maharani and Arofah (2021) also show that the level of prosperity positively affects the BPK opinion received. Based on agency theory, agents must report resource management that has been carried out to the principal to reduce information asymmetry. Large revenues will reflect increasingly complex activities and require better SPI to obtain a good BPK opinion (Rumihin et al., 2021). With larger PAD, local governments are responsible for implementing good SPI to increase the opportunity for better opinions.

H4: Regional prosperity level has a positive effect on audit opinion.

## Variables and Their Measurements

### 1) Audit Opinion

Law of the Republic of Indonesia Number 15 of 2004 states that an opinion is a professional statement of the examiner's conclusion regarding the level of fairness of the information presented in the financial report (Pemerintah Republik Indonesia, 2004). Audit opinion variables are measured using measurements in the study (Mutiara et al., 2022). Dummy variables and nominal scales measure audit opinions. WTP opinions are given a value of 1 (one), and opinions other than WTP are given a value of 0 (zero).

### 2) Internal Control System

The Sabella & Mutmainah (2022) study measured the SPI variable using indicators. SPI is measured by natural logarithms from the number of findings related to SPI weaknesses in the BPK LHP.

### 3) Follow-up Recommendations

The follow-up variables of recommendations were measured using indicators in the Sabella & Mutmainah (2022) research. The number of follow-up recommendations is compared with all recommendations given by BPK in its audit report.

$$\text{Follow – up Recommendation (TLR)} = \frac{\text{Total of recommendations follow up}}{\text{Total of BPK Recommendations}}$$

### 4) Area Size

In the Rosadi & Okfitasari (2019) research, regional size variables were measured using indicators. The size of the area is measured using the natural logarithm of total assets in the district government's financial statements.

### 5) Prosperity Level

The variable level of regional prosperity was measured using indicators in the study Rosadi & Okfitasari (2019). The level of regional prosperity is measured using the natural logarithm of the total PAD in the district government's financial statements.

## Data Analysis Methods

The data in this study were analyzed using descriptive statistical analysis and binary logistic regression analysis with the help of SPSS software. The models used in this study are as follows:

$$\text{Ln} \frac{1}{1-p} = \beta_0 + \beta_1 \text{SPI} + \beta_2 \text{TLR} + \beta_3 \text{SZ} + \beta_4 \text{TK}$$

Information:

- OP = Audit opinion
- $\beta$  = Regression coefficient
- SPI = Internal control system
- TLR = Follow-up recommendations
- SZ = Regional size
- TK = Regional prosperity level

### 3. Result and Discussion

#### Outlier Test

This study conducted an outlier test by analyzing the Casewise List table from the binary logistic regression results in SPSS. Data with a ZResid below -2.5 or above 2.5 will be excluded from the sample because it is outlier data. Based on the Casewise List table, 54 data with a ZResid value below -2.5 or above 2.5 were obtained, so the number of samples in this study is as many as 270.

#### Descriptive Data and Statistics Description

The population in the study is all district governments in Indonesia, with 415 districts. The seven provinces selected represent the large islands in Indonesia, so they are considered to be able to describe the regional characteristics of each island. So, the number of samples in this study is 108 districts x 3 years or as much as 324 data; a summary of the description of the data in the study can be seen in the table below:

**Table 1 Description of Data in Research**

No.	Description	Total
1	Total of districts in Indonesia	415
2	The total of districts used as a sample	108
3	Total of district samples during 2020 - 2022	324
4	Total of outlier data	(54)
5	Total of research data	270

The following are the results of descriptive statistics on the five variables used in the research:

**Table 2 Descriptive Statistics,**

Variable	Total of Data	Minimum	Maximum	Average	Standard Deviation
OP	270	0	1	0,86	0,352
SPI	270	1,1	3,22	2,4436	0,48621
TLR	270	0	0,962	0,41537	0,296424
SZ	270	27,61	30,96	28,5995	0,59694
TK	270	22,3	28,96	25,1526	1,37619

Source: processed from SPSS

Based on Table 2, the audit opinion (OP) data has a minimum value of 0 (zero) and a maximum of 1 (one) because it is a dummy variable. The internal control system (SPI) variable has a minimum value of 1.1 and a maximum of 3.22. The SPI variable was measured using natural logarithms from the total findings related to SPI in the BPK LHP. The average SPI is 2.4436, meaning that the average SPI-related findings in the district government is  $e^{2,4436}$  or worth 11.51441812 findings.

The recommendation follow-up variable (TLR) is measured by comparing the total recommendations followed up and the total recommendations given by BPK in the BPK LHP. The average TLR is 0.41537, meaning that the average implementation of follow-up by local governments is 41% of the total recommendations given. The minimum value of TLR is 0, and the maximum value of TLR is 0.962, meaning that there are district governments that do not follow up on BPK's recommendations, and there are district governments that carry out the follow-up of 96% of the total recommendations. The standard deviation in the TLR variable is 0.296424.

The regional size variable (SZ) is measured using the natural logarithm of total assets in the district government's financial statements. The average SZ is 28.5995, the minimum value is 27,61, and the maximum value is 30,96. The level of prosperity (TK) variable is measured using the natural logarithm of the total original regional income in the district government's financial statements. The average is 25.1526, the minimum value is 22,3, and the maximum value is 28,96.

### Multicollinearity Test

This test was carried out because the binary logistic regression model assumed that the independent variables had little or no multicollinearity (Schreiber-Gregory & Bader, 2018). The results of the multicollinearity test are shown in the following table:

**Table 3 Multicollinearity Test Result**

Independent Variables	Tolerance	VIF	Conclusion
SPI	0,948	1,055	No multicollinearity occurs
TLR	0,970	1,031	No multicollinearity occurs
SZ	0,543	1,840	No multicollinearity occurs
TK	0,539	1,854	No multicollinearity occurs

Source: processed from SPSS

Multicollinearity from the Tolerance and VIF values from Table 3 above. The symptoms of multicollinearity were found if the independent variable had a Tolerance value  $< 0,1$  and a VIF  $> 10$ . From the results of the multicollinearity test above, all independent variables do not have a Tolerance value of  $< 0,1$  and VIF  $> 10$ . So, it can be concluded that there are no symptoms of multicollinearity in independent variables. Thus, the assumptions used in the binary logistic regression model can be fulfilled because each independent variable is unrelated.

### Linearity Test

The linearity test was carried out to ensure the fulfillment of the assumption that independent variables have a linear relationship with the logistic regression model (Roflin et al., 2023). The results of the linearity test in this study can be seen in the table below:

**Table 4 Linearity Test Results**

Variable	Sig.	Conclusion
T.SPI	0,166	SPI variables have linearity with <i>logit models</i>
T.TLR	0,235	TLR variables have linearity with <i>logit models</i>
T.SZ	0,427	The SZ variable has linearity with the <i>logit model</i>
T.TK	0,294	TK variables have linearity with <i>logit models</i>

Source: processed from SPSS

The linearity of independent variables with the model can be seen from the significance values in Table 4 above. Variables with a T code indicate independent variables already transformed with Box-Tidwell at the beginning of the letter. If the significance value  $< 0,05$ , then the independent variable is not linear with the logit model. From Table 4 above, the transformed independent variable



shows a significance value  $> 0,05$ . So, it can be concluded that this study has fulfilled the assumption of the logistic regression model, namely that the independent variable is linear with the logit model.

### Test the entire model.

Overall model tests are carried out to determine the model's overall quality. The test was carried out by comparing the value of -2 log likelihood (-2LL) on the null and full models. The overall test results of the model can be seen in the table below:

**Table 5 Overall Model Test Results**

Iterasi	-2LL	Conclusion
Step 0 (null model)	229.990	overall quality model
Step 1 (full model)	184.705	

Source: processed from SPSS

A model is considered good quality if the full model's -2LL value is smaller than a null model's. From Table 5 above, the null model's -2LL value is 229,990, and the full model's is 184,705. The value of -2LL decreases, so it can be concluded that adding independent variables to this model can improve its fit.

### Hosmer and Lemeshow's Goodness of Fit Test

Hosmer and Lemeshow's Goodness of Fit *test* was conducted to see the model's fit with the research data. The test results can be seen in the table below:

**Tabel 6 Hosmer and Lemeshow's Goodness of Fit results**

Step	Chi-square	df	Significance	Conclusion
1	5,564	8	0,696	The research data matches the model

Source: processed from SPSS

In this test, the model is said to match the data used if the significance value  $> 0,05$ . From Table 6 above, the resulting significance value is 0,696. Therefore, it can be concluded that the binary logistic regression model is compatible with the research data used.

### Negelkerke R Square

Negelkerke R Square shows that a large percentage of independent variables can explain the dependent variables in the study. The test results are shown in the table below:

**Table 7 Negelkerke R Square Determination Coefficient Test Results,**

Step	Nagelkerke R Square
1	0,269

(Source: processed from SPSS)

From Table 7 above, the Negelkerke R Square value obtained is 0,269. This means that the independent variable can explain 26.9% of the results of the dependent variable. The remaining 1 - 26,9% or 73,1% were influenced or explained by other variables outside the study.

### Omnibus Test of Model Coefficients

The Omnibus Test of Model Coefficients test was carried out to see the influence of independent variables together on dependent variables. The test results can be seen in the table below:

**Table 8 Test Results Omnibus Test of Model Coefficients**

		Significance
Step 1	Step	.000
	Block	.000
	Model	.000

Source: processed from SPSS

The significance value of the Omnibus Test of Model Coefficients  $< 0,05$  showed that independent variables together (simultaneously) affected the dependent variables. From Table 8 above, it can be seen that the significance value is 0,000 or  $< 0,05$ . So, it can be concluded that independent variables affect dependent variables together.

### Wald Test and Odds Ratio

The Wald and Odds Ratio test is used to look at the regression coefficients of each independent variable. This test was carried out to see whether the influence of independent variables was significant. The test results can be seen in the table below:

**Table 9 Wald Test Results and Odds Ratio**

	Predictions	B	Sig.	Exp(B) atau Odds Ratio	Results
SPI	-	-3,133	0,000	0,044	H1 accepted
TLR	+	1,475	0,031	4,373	H2 accepted
SZ	+	1,027	0,031	2,793	H3 accepted
TK	+	0,061	0,734	1,063	H4 rejected
Constant		-21,491	0,066	0,000	

Source: processed from SPSS

Table 9 shows the Odds Ratio in the Exp(B) column for each independent variable. The Odds Ratio shows the change in the probability of occurring according to the dependent variable when the independent variable increases by one unit. The odds ratio value  $> 1$  means that every increase in one independent variable unit will increase the chance of obtaining a WTP opinion by the odds ratio. On the other hand, the odds ratio value  $< 1$  means that when the independent variable rises by one unit, the chance of obtaining a WTP opinion will decrease by the odds ratio. The results of the test on the variable can be explained as follows:

### The Influence of the Internal Control System (SPI) on Audit Opinion

The first hypothesis is that the internal control system hurts audit opinion in the district government. From Table 9 above, the SPI variable has a significance value 0,000. The significance value of  $< 0,05$  indicates that the SPI variable affects the audit opinion. The SPI variable has an odds ratio of 0.044. This shows that an increase in one SPI unit will reduce the chance of obtaining a WTP

opinion by 0,044. It can be concluded that the first hypothesis is accepted. The SPI variable has a negative effect on audit opinion in the district government. The results of this study are in line with the research of Sabella & Mutmainah (2022), Simanjuntak et al. (2023), and Yusuf & Gustiana (2022), who stated that SPI affects the acquisition of audit opinions.

SPI is an action carried out continuously by all parts of the organization to achieve effective and efficient organizational goals. In government regulations, SPI is carried out to achieve effective and efficient organizational goals, prepare reliable financial statements, secure state assets, and comply with applicable laws and regulations. SPI is used as one of the assessment criteria by BPK to provide an audit opinion. The negative influence in the study shows that the more findings related to SPI in the audit, the lower the audit opinion obtained.

Based on the theory of agency, the community as a principal expects the local government as an agent to prepare and implement SPI effectively and in accordance with applicable regulations (Sabella & Mutmainah, 2022). The increase in the number of findings related to SPI shows that the local government or agents do not carry out agency contracts properly, resulting in adverse agency problems. According to Yusuf & Gustiana (2022), the more weaknesses SPI has in an entity, the less likely it is that the entity will obtain a WTP opinion from the BPK. The people and the legislature can use the WTP opinion to assess the agency's relationship with the government and the implementation of agency contracts. The government that obtains the WTP opinion can be evaluated to carry out agency relationships according to the agreement to minimize agency problems.

### **Effect of Recommendation Follow-up on Audit Opinion**

The second hypothesis is that the follow-up of recommendations positively affects audit opinions in the district government. From Table 9 above, the follow-up recommendation variable has a significance value of 0,031. The significance value of  $< 0,05$  indicates that the variable of follow-up recommendations affects the audit opinion. The recommendation follow-up variable has an odds ratio value of 4,373. This means that an increase in one unit of recommendation follow-up variables will increase the chances of obtaining an audit opinion by 4,373. It can be concluded that the second hypothesis is accepted. The variable of follow-up recommendations positively affects audit opinions in the district government. This research is in line with the results of the research of Amyulianthy et al. (2020), which stated that the follow-up of the audit results affected the audit opinion obtained.

Recommendations are suggestions from the auditor based on the results of the examination that has been carried out. The more recommendations are given, the more points need to be improved from the audited government financial statements. Salsabila and Wahyudi (2022) stated that the more recommendations, the worse the quality of financial statements and the decline in opinion acquisition. Follow-up recommendations are carried out to take action or improve government governance based on the audit results. BPK monitors the follow-up of recommendations to its entities to ensure no repeated findings in the next year's audit and that the opinion can be increased.

Based on agency theory, good-quality financial reports will reduce asymmetric information to minimize agency problems. The local government that followed up on the audit recommendations showed that it was trying to improve the quality of its financial reports. The positive direction in the study results shows that the more recommendations are followed up, the better the district government's audit opinion will be. The follow-up of the recommendations will improve government

governance. This governance improvement will help reduce agency issues between principals and agents.

### **The Effect of Regional Size on Audit Opinion**

The third hypothesis is that the regional size positively affects audit opinion in the district government. From Table 9 above, the regional size variable has a significance value of 0,031. The significance value of  $< 0,05$  shows that the regional size variable affects the audit opinion. The regional size variable has an odds ratio value of 2,793. This means that an increase in one unit of regional size variables will increase the chance of obtaining a WTP opinion by 2,793. It can be concluded that the third hypothesis is accepted. The regional size variable positively affects audit opinions in the district government. This research is in line with the research of Firdaus (2023) and Maharani & Arofah (2021), which states that the size of local governments affects the acquisition of audit opinions.

The regional size measured by the total assets owned by the local government. Firdaus (2023) stated that local governments with a large amount of assets will find it easier to provide adequate services to increase performance and improve opinion acquisition. The large number of assets also pressures local governments to disclose financial statements more accountably so that opinion gains increase. The positive direction of the research results shows that the greater the total assets owned by the district government, the more excellent the opportunity to obtain a WTP audit opinion.

Based on agency theory, the principal delegates authority to an agent in the hope that the agent will perform his or her duties correctly. Many assets will make it easier for agents to carry out services better. The large number of assets also helps principals pressure agents to report financial accountability more accurately. Accountable financial statements will reduce information asymmetry, reducing agency problems.

### **Effect of Dependency Level on Audit Opinion**

The fourth hypothesis is that the level of prosperity positively affects audit opinions in the district government. From Table 9 above, the variable level of prosperity has a significance value of 0,734. The significance value of  $> 0,05$  shows that the prosperity level variable does not affect the audit opinion. The variable level of prosperity has an odds ratio of 1,063. This shows that an increase in one variable unit of the level of prosperity will increase the chances of obtaining a WTP opinion. However, because the variable of prosperity level has a significance value of  $> 0,05$ , the fourth hypothesis is rejected. It can be concluded that the level of prosperity does not affect audit opinions in the district government. This research is in line with the research of Rumihin et al. (2021), which stated that the wealth or prosperity measured by PAD does not affect audit opinions.

PAD is regional revenue sourced from regional taxes and levies, segregated regional wealth, and other legitimate sources of PAD. PAD affects regional development (Firdaus, 2023). Referring to the agency theory, agents must report the resource management that has been carried out to the principal to reduce information asymmetry. The large number of PADs illustrates complex activities in district governments, so effective and efficient SPI is needed to achieve local government goals. A good SPI will help principals and agents reduce potential agency problems.

The larger the PAD owned by the regions, the smaller the level of dependence on the central government because the DAU is smaller. The amount of PAD does not affect the acquisition of audit opinions because the regions can still carry out their services with the help of DAU. The central

government gives DAU to local governments to perform government functions with a decentralized system (Firdaus, 2023). The use of DAU is exempted to local governments by the purpose of regional autonomy. The number of PADs does not affect the acquisition of audit opinions because the district government can use DAU to continue to carry out services and account for financial management with accountability.

#### 4. Conclusion

From the results of the research, it can be concluded that the internal control system (SPI) hurts the audit opinions from BPK in the district government. The follow-up of recommendations positively affects obtaining audit opinions from BPK in the district government. Regional size positively affects obtaining audit opinions from BPK in the district government. Regional prosperity does not affect the audit opinions from BPK in the district government. The researcher faces limitations because this study uses samples in several district governments in Indonesia, not the overall sample of provincial, city, and district governments. Then, the study results showed that the independent variable explained the dependent variable by 26,9%. There are still 73,1% of other variables outside the study that explain the dependent variable. Researchers also face difficulties because there is a large amount of outlier data. The suggestion that the researcher can give for the following research is to use research objects throughout local governments, namely the provincial, city, and district levels, to describe the overall data. Adding samples will reduce the number of outlier data in the study. The researcher can then add variables that have not been used and are related to the acquisition of audit opinions. Other variables that can be used are the adequacy of disclosure, the number of findings, compliance with laws and regulations, and variables that describe other regional characteristics. The addition of variables outside this study will increase the accuracy of the assessment of the audit opinion.

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