

## The Effect of Audit Findings, Local Government Losses, and Follow-up of Audit Recommendations on the Public Services Quality Through the Audit Opinion of Local Government Financial Statements in Sulawesi

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### ARTICLE INFORMATION

#### Publication information

#### Research article

#### HOW TO CITE

Saipuloh, S., Ismail, T., & Adha, W. M. (2023). The effect of Audit Findings, Local Government Losses, and Follow-up of Audit Recommendations on the Public Services Quality through the Audit Opinion of Local Government Financial Statements in Sulawesi. *International Journal of Applied Business and International Management*, 8(3), 306-321.

#### DOI:

<https://doi.org/10.32535/ijabim.v8i3.2639>

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Published by IJABIM



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Received: 20 OCTOBER 2023

Accepted: 19 NOVEMBER 2023

Published: 20 DECEMBER 2023

#### ABSTRACT

Audit outcomes, local government losses, audit views on Local Government Financial Statements (LGFS), and audit suggestion follow-up can all have an influence on the quality of public services provided by local governments. The goal of this study, with the audit opinion of LGFS as an intervening variable, is to analyze the direct and indirect impacts of audit results, local government losses, and follow-up on audit recommendations on public service quality in Sulawesi in 2020–2021. SEM-PLS was used as the study analysis approach. According to the findings, audit findings have no statistically significant direct influence on LGFS's audit opinion or the efficacy of public services. Local government losses are significant and directly adverse to LGFS's audit judgment and the quality of public services. As a consequence of adopting audit recommendations, positive and significant changes in LGFS audit opinion and the integrity of public services have been noticed. The audit conclusion of LGFS has no significant influence on the integrity of public services. The audit opinion of LGFS cannot mediate the indirect link between audit results, local government losses, and follow-up on audit recommendations regarding the integrity of public services.

**Keywords:** Audit Findings, Audit Opinion, Audit Recommendations, Local Government Losses, Public Service Quality

## **INTRODUCTION**

Law (UU) Number 32/2004 explains that the principle of autonomy will help the central government so that it can accelerate the realization of welfare for the community (Indonesia. The House of Representatives, 2004). For this reason, regional autonomy gives local governments the authority, rights, and obligations to provide public services and carry out regional management based on the provisions of the law. Public services are directly tied to universal activities for citizens relating to the provision of commodities and services (Broadbent & Guthrie, 2008). In this digital era, it has triggered high public demands for bureaucratic reform, including bureaucratic reform in terms of simplifying public service delivery and bureaucratic reform to prevent corruption (Prasojo & Holidin, 2018).

Through Presidential Regulation Number 81/2010, the government has created a comprehensive plan for bureaucratic reform (Indonesia. The Audit Board, 2010). The objective is to attain a government that is free from collusion, corruption, and nepotism while also enhancing the caliber of public services given to the population and bolstering the competence and responsibility of bureaucratic functioning. The observed phenomenon pertains to the persistent occurrence of the government providing services that fail to fulfill the populace's expectations and deviate from the prescribed standards set out by legislation. According to the Republic of Indonesia's Ombudsman (2022), a notable observation in 2022 was the non-compliance of 64 local governments with the public service standards mandated by law.

According to Law Number 25/2009, it is mandatory for public service providers and local governments to possess a financial budget for the purpose of facilitating the delivery of public services (Indonesia. The Audit Board, 2009). Nevertheless, due to the inherent susceptibility of the budget to potential mismanagement, it is imperative for the Supreme Audit Agency of Indonesia (BPK) to do an extra audit to assess the level of accountability reflected in the Local Government Financial Statements (LGFS). The audit report indicates a positive assessment of the management of the finance budget, highlighting effective measures undertaken to enhance the provision of public services. This finding aligns with the results of research conducted by Kurnia (2020) and Furqan et al. (2020), which demonstrated a noteworthy favorable influence of audit opinion on financial accounts on the performance and quality of public services provided by local government entities. Nevertheless, the assertion made by Ditasari and Sudrajat (2020) suggest that there is no significant impact of audit opinions on the performance of local governments. This finding highlights the need for more investigation in this area.

Moreover, the conclusions reached by the auditor during the auditing procedure have a significant impact on the audit opinion about LGFS (Johnson et al., 2012). According to Istiyanto (2016), it is frequently seen that auditors encounter deficiencies in local government financial management, leading to financial losses. According to the Audit Board of the Republic of Indonesia's (BPK) overview of the audit results of the first semester of 2022, the Local Government Financial Statements (LGFS) contained a total of 11,910 audit issues and findings (Indonesia. The Audit Board, 2022). Among these, some results led to financial losses exceeding Rp1.45 trillion for local governments. The successful management of the financial budget by the local government is of paramount importance in ensuring the provision of excellent public services to the population.

The audit findings presented by BPK also offer suggestions to the auditee, aiming to address the issues identified in the audit results. These recommendations are intended

to serve as a remedy, preventing the recurrence of the identified problems in subsequent years. By the conclusion of 2022, the Board of Audit and Inspection (BPK) will have issued a total of 669,268 recommendations to the entities undergoing audits. Notably, about 77.3% of these suggestions have been duly implemented and acted upon by the auditees. This implies that a significant proportion of recommendations, namely 26.7%, have yet to be pursued or implemented. The implementation of audit recommendations represents a proactive step that the local government may undertake to enhance the quality of financial statements and public services (Setyaningrum, 2017).

Prior relevant studies conducted by Furqan et al. (2020) and Lestari and Rohman (2022) had study gaps that needed to be filled. One of them is concerned with indicators for assessing the quality of public services. The Ministry of Home Affairs' Evaluation of Local Government Performance (EKPPD) was employed as an indicator in the study. EKPPD is used to assess the performance of local government activities in order to improve performance through good governance. As a result, it is deemed critical to apply additional indicators that are more focused on monitoring the quality of public services. Because one of the priorities of bureaucratic reform is public service quality, the bureaucratic reform index offers a response to addressing the research vacuum.

## **LITERATURE REVIEW**

### **Agency Theory**

As stated by Lane (2000), modern democracies are based on a principal-agent relationship. Due to the separation of duties between owners and management, agency relationships lead to agency conflicts (Hery, 2017). Local government (agent) comprehensively has more information about local government financials than the people and parliament/DPRD (principal). Financial information disclosed in the financial statements may be biased, asymmetric, or not fully conveyed to the principal.

According to Arief in Christiana et al. (2020), the theory of agency posits that individuals are primarily driven by their self-interest, leading to a clash of interests between the principal and the agent. In this scenario, the shareholder, acting as the principal, engages in contracts with the goal of enhancing personal well-being through growing profitability. Conversely, the manager, functioning as the agent, is incentivized to optimize the satisfaction of economic and psychological needs, such as securing investments, loans, and compensation contracts.

### **Audit Findings**

According to the audit management guidelines in BPK Decision Number 5/K/I-XIII.2/10/2015 (Indonesia. The Audit Board, 2015), audit findings include signs of problems with not following the law and regulations, problems and irregularities that are important enough to be reported, significant flaws in the internal control system that need to be reported, the program being looked at failing, and conditions not matching the criteria that were set.

### **Local Government Losses**

Non-compliance with legislation is identified as a significant factor contributing to the financial losses experienced by local governments (Istiyanto, 2016), regardless of whether such non-compliance is deliberate or unintentional. In Law Number 1/2004, it is made clear that state or local governments can lose money when someone does something illegal, willfully, or carelessly, which results in the clear and certain loss of money, securities, or physical assets.

### **Follow-up of Audit Recommendations**

According to Setyaningrum (2017), organizations make a strategic effort to improve financial responsibility by acting on audit recommendations. As per Article 1 of BPK Regulation Number 2/2017, recommendations refer to ideas provided by auditors following their audit findings that are directed towards individuals and/or entities possessing the authority to implement necessary actions and/or enhancements.

### **Audit Opinion of Financial Statements**

As outlined by the Indonesian Institute of Accountants in Pradnyawati et al. (2022), financial statements constitute an integral component of the financial reporting process. Comprehensive financial reporting encompasses a balance sheet, an income statement, and a statement of changes in financial position, which may be presented through different formats like a cash flow statement or a fund flow statement. The auditor's formal declaration regarding the accuracy of the financial data included in the financial statements is the audit opinion. This opinion is based on the principles outlined in the Government Accounting Standards, which assess the adequacy of disclosures, compliance with laws and regulations, and the effectiveness of SPI (Indonesia. The Audit Board, 2004). Consequently, the issuance of a good audit opinion serves as evidence of the equitable implementation of effective financial management practices. The four forms of audit opinions are: unqualified opinion (WTP), qualified opinion (WDP), adverse opinion (TW), and disclosure (TMP).

### **Public Service Quality**

The level of public demand for bureaucratic change, together with the need for bureaucratic reform aimed at streamlining public service delivery and curbing corruption, is very substantial (Prasojo & Holidin, 2018). Consequently, the evaluation of public service quality in local governments is conducted as part of the assessment of the implementation of bureaucratic reform (BR). Each public service provider was urged to conduct regular evaluation of its public services, with a minimum frequency of once a year, to gauge and appraise its performance (Aryani & Siallagan, 2021). This evaluation component includes an examination of the quality of public service.

### **Hypothesis**

The hypothesis of this research is based on the background and theoretical studies that have been obtained.

The audit findings suggest that local governments, which are expected to deliver the highest level of service, are experiencing performance issues. The greater the number of audit findings, the more detrimental the impact on public services. This observation aligns with other scholarly investigations, which have demonstrated that audit results exert an adverse influence on both performance outcomes and the quality of public services (Sudarsana & Rahardjo, 2013; Harumiati & Payamta, 2014; Furqan et al., 2020).

H1: Audit findings directly have a negative effect on the public service quality of local governments in Sulawesi.

According to a study by Herliyanti (2016), corruption which serves as a sign of financial losses for local governments, has the potential to lessen the impact of financial factors on the operation of these governments. Additionally, Mustikaningrum (2022) conducted research that provides support for the notion that signs of corruption, specifically

indicators of local government losses, have a detrimental impact on public services, hence hindering the promotion of community welfare.

H2: Local Government losses directly have a negative effect on the public service quality of local governments in Sulawesi.

Several studies have demonstrated that the act of implementing the audit recommendations from the previous year has a notable and constructive impact on the quality and performance of public services within local government in the subsequent year (Furqan et al., 2020; Kurnia, 2020; Pertiwi & Wibowo, 2023).

H3: Follow-up of audit recommendations directly have a positive effect on the public service quality of local governments in Sulawesi.

The implementation of the accrual basis of accounting in the government results in a high-quality financial report, which encourages high-quality public services (Bruns, 2014). The research was then strengthened by Ahyaruddin and Amrillah (2018) and Kurnia (2020), who discovered that audit opinion has a positive effect on the performance of local governments.

H4: Audit opinion of Local Government financial statements directly have a positive effect on the public service quality of local governments in Sulawesi.

The outcomes of an audit have a significant impact on both the audit opinion about financial statements and the overall quality of public services provided by local governments. The aforementioned observation is consistent with research by Johnson et al. (2012), which showed a negative correlation between audit findings and the expression of audit opinion on financial statements. According to Furqan et al. (2020), the audit opinion on financial accounts acts as a strong mediator in the relationship between audit results and public service quality, showing a negative trend. This supports the current study.

H5a: Audit findings directly have a negative effect on the audit opinion of Local Government financial statements in Sulawesi.

H5b: Audit findings indirectly have a negative effect on the public service quality through the audit opinion of Local Government financial statements in Sulawesi.

Auditors should be allowed to analyze the impact of local government losses on their assessment of the fairness of the financial accounts. Local government losses mentioned in audit findings had a detrimental influence on the audit opinion of financial statements, according to the conclusions of Istiyanto's (2016) research. Audit views on financial accounts, on the other hand, have an impact on the quality of public services. Thus, in order to acquire a good audit judgment, local governments consistently prevent local government losses, thereby increasing the quality of local government performance (Ahyaruddin & Amrillah, 2018).

H6a: Local Government losses directly have a negative effect on the audit opinion of Local Government financial statements in Sulawesi.

H6b: Local Government losses indirectly have a negative effect on the public service quality through the audit opinion of Local Government financial statements in Sulawesi.

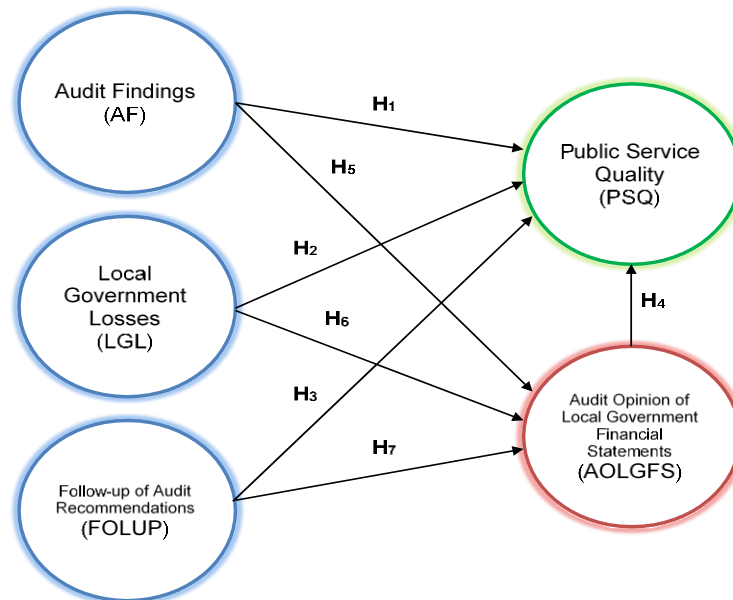
Auditee financial governance will improve as a result of follow-up audit suggestions (Liu & Lin, 2012). This is consistent with Setyaningrum's (2017) results, according to which the auditee's execution of audit recommendations has a favorable influence on the audit opinion of the financial statements. Another study goes deeper, indicating that audit opinion on financial accounts is a substantial positive mediator between audit suggestion follow-up and public service quality (Furqan et al., 2020).

H7a: Follow-up of audit recommendations directly have a positive effect on the audit opinion of Local Government financial statements in Sulawesi.

H7b: Follow-up of audit recommendations indirectly have a positive effect on the public service quality through the audit opinion of Local Government financial statements in Sulawesi.

Therefore, the framework of this research is as follows.

**Figure 1. Research Framework**



## RESEARCH METHOD

This study utilized secondary data obtained from government organizations and institutions, including the Audit Board of the Republic of Indonesia (BPK) and the Ministry of Administrative and Bureaucratic Reform (PANRB), as well as local governments in the Sulawesi region. A quantitative approach was used in the research methodology to find causal links between the variables being studied and to test hypotheses using analyzed and collected data from theories and real-life events. The present analysis utilizes time series data spanning the period from 2020 to 2021. The study encompassed a total of 87 local governments in Sulawesi, out of which a sample of 76 local governments was selected for the research. Purposive sampling is a method employed in research to strategically pick a sample that aligns with the specific research indicators deemed necessary for the study.

The analysis method in this study used Structural Equation Modeling-Partial Least Square (SEM-PLS). This method allows simultaneous modeling and estimating complex relationships among several independent and dependent variables (Hair Jr, et al., 2021)

and can integrate path analysis and factor analysis (Hamid & Anwar, 2019) needed in analyzing intervening effects.

## RESULTS

The description of the research data on each indicator of the research variable is described in the descriptive statistics in Table 2 below:

**Table 1.** Descriptive Statistics (N =152)

Construct	Min.	Max.	Mean	SD
Audit Findings	5.00	29.00	14.20	4.96
Local Government Losses	0.00004	0.016	0.002	0.003
Follow-up of Audit Recommendations	0.39	0.98	0.75	0.10
Audit Opinion of LGFS Dummy Variable	0,00	1,00	0.91	0.28
BR Index Dummy Variable	0.00	3.00	1.71	0.79

SD = Standard Deviation

As presented in Table 2, during 2020–2021, there were audit findings in LGFS, averaging 14 audit findings in Local Governments in Sulawesi. In addition, there were problems that caused local government losses. The average ratio of local government losses that occur is 1:0.002 to the realization of expenditure. This ratio indicates that every Rp1.00 of expenditure causes an average local government loss of Rp0.002. Local governments in Sulawesi have attempted to follow up on BPK's audit recommendations, with an average completion rate of up to 75%. The average audit opinion of LGFS showed a result of 0.91. This implies that 91% of local governments in Sulawesi have received an unqualified opinion. Meanwhile, the bureaucratic reform index reached an average of 1.71. This figure implies that the implementation of bureaucratic reforms in local governments in Sulawesi, whose goal is to create quality public services, is still in the "Bad – Simply" range.

### Validity Test

#### **Convergent Validity**

**Table 2.** AVE Value and Square Root of AVE

Construct	AVE Value	Square Root AVE
AF	1.00	1.00
LGL	1.00	1.00
FOLUP	1.00	1.00
AOLGFS	1.00	1.00
PSQ (BR Index)	1.00	1.00

Source: Processed Data by SmartPLS 3.29

Note: AF = Audit Findings, LGL= Local Government Losses, FOLUP = Follow-up Audit Recommendations, AOLGFS = Audit Opinion of Local Government Statements, PSQ = Public Service Quality

One of the prerequisites for achieving variable validity in structural equation modeling with partial least squares (SEM-PLS) is that the outer loading value should exceed 0.7. The obtained standardized loading factor value indicates that the outer loading has achieved a value of 1.00, hence confirming the validity of the individual item dependability. An alternative approach to assessing convergent validity involves the utilization of the Average Variance Extracted (AVE) metric. The anticipated average

value equivalency (AVE) exceeds 0.5. According to the data provided in Table 3, the average variance extracted (AVE) value for each variable indicator is either equal to 1 or more than 0.5.

### ***Discriminant Validity***

**Table 3.** Fornell-Larcker Criterion

Construct	AF	LGL	FOLUP	AOLGFS	PSQ
AF	1.00				
LGL	-0.11	1.00			
FOLUP	-0.23	-0.05	1.00		
AOLGFS	0.40	-0.03	-0.20	1.00	
PSQ (BR Index)	0.18	0.12	0.19	0.03	1.00

Source: Processed Data by SmartPLS 3.29

The validity of variable constructs is established when the square root of the average variance extracted (AVE), according to the Fornell-Larcker criterion, exceeds the correlation between the variables. According to the findings shown in Table 4, it has been ascertained that the bolded numerical value corresponds to the square root of the average variance extracted (AVE). Furthermore, this particular value surpasses the correlation coefficient with other variables, as indicated by the numerical value below it.

### **Reliability Test**

**Table 4.** Internal Consistency Reliability

Construct	Composite Reliability	Cronbach's Alpha
AF	1.00	1.00
LGL	1.00	1.00
FOLUP	1.00	1.00
AOLGFS	1.00	1.00
PSQ (BR Index)	1.00	1.00

Source: Processed Data by SmartPLS 3.29

Reliable data can effectively mirror the authentic information presented. Constructs are deemed dependable if their composite reliability value and Cronbach's alpha exceed 0.7. According to the data in Table 5, all constructs exhibit a composite reliability and Cronbach's alpha value of 1.00 or greater than 0.7.

### **R Square Test**

R square is basically used to determine the number of endogenous variables that can be explained by exogenous variables. The R square value is between 0 and 1, the closer it is to 1, the more it can be explained. The R square value in this study is presented in Table 6 below:

**Table 5.** R Square

Test	Audit Opinion of LGFS	Public Service Quality
R Square	0.13	0.05

Source: Processed Data by SmartPLS 3.29

The data presented in Table 6 demonstrate that the audit opinion of the LGFS variable can be accounted for by the construct variables of audit findings, local government losses, and follow-up of audit recommendations, with an explanatory power of 13%. The variable of public service quality is influenced by the construct factors of audit results,



local government losses, follow-up of audit recommendations, and the audit opinion of LGFS, and audit opinion of LGFS by 5%.

#### **Inter-variable Effect Test**

To understand the relationship and significance of variables, an examination is conducted by analyzing the outcomes of regression coefficients and their statistical significance, either through the observation of p-values derived from probability or by comparing t-statistics with the values in t-tables. When the t-statistic exceeds the critical value in the t-table or when p-values are less than 0.05, the null hypothesis (H0) is rejected, affirming the research hypothesis. This research employs a 95% confidence level (with an alpha of 5%) and adopts a two-tailed hypothesis direction, with the critical t-value identified as 1.976. The data processing results are shown below:

**Table 6.** Path Coefficients

Path Analysis	Original Sample	T Statistics	P-Values
AF → PSQ	0.014	0.161	0.872
LGL → PSQ	-0.182	1.996	0.046
FOLUP → PSQ	0.172	2.101	0.036
AOLGFS → PSQ	-0.129	1.606	0.109
AF → AOLGFS	-0.102	1.147	0.252
LGL → AOLGFS	-0.258	2.034	0.042
FOLUP → AOLGFS	0.241	2.225	0.026

Source: Processed Data by SmartPLS 3.29

Based on Table 7, the variables of local government losses and follow-up of audit recommendations have a significant effect on the public service quality and audit opinion of LGFS. Afterward, the effect of the intervening variables is tested, and the results are presented as follows:

**Table 7.** Specific Indirect Effects

Path Analysis	Original Sample	T Statistics	P-Values
AF → AOLGFS → PSQ	0,013	0,813	0,417
LGL → AOLGFS → PSQ	0,033	1,124	0,261
FOLUP → AOLGFS → PSQ	-0,031	1,158	0,247

Source: Processed Data by SmartPLS 3.29

According to Table 8, it is found that there is no significant effect between audit findings, Local Government losses, and follow-up of audit recommendations on the public service quality through the audit opinion of LGFS (unable to mediate).

## **DISCUSSION**

### **The Effect of Audit Findings on the Public Services Quality**

According to Table 7, it can be inferred that audit results do not exert any influence on the overall quality of public service. This presupposes that the outcomes of audits can exert a more substantial influence on the financial governance of local governments, rather than explicitly affecting the quality of public services provided by local governments. The findings of this study align with the conclusions drawn by Lestari and Rohman (2022) as well as Pertiwi and Wibowo (2023), whereby they assert that audit findings do not exert a statistically significant impact on the quality of public services.

#### **The Effect of Local Government Losses on the Public Services Quality**

According to Table 7, it can be shown that the occurrence of local government losses exerts a noteworthy and adverse influence on the overall quality of public services. According to the data provided by BPK's Overview of Audit Results for the First Semester (IHPS I) of 2021 and 2022 (Indonesia. The Audit Board, 2022), the range of losses experienced by local governments encompasses various forms such as fictitious expenditure or procurement of goods, insufficient volume of construction work or goods, price markup, personal appropriation of funds or goods, excessive payment of honorarium or official travel expenses beyond the standard, provision of goods or services that do not meet the specified requirements, and expenditures that are not deemed necessary. These concerns are interconnected with the concept of the agency problem. Agents are motivated to increase their earnings; hence, they engage in price markups or exploit monetary and material resources for personal benefit. Nevertheless, the citizen, in their capacity as the primary stakeholder, expresses a preference for the allocation of the local government's financial resources to be directed towards the welfare and advancement of the populace. These concerns may also have an influence on public services. This work contributes to the extant literature established by Ahyaruddin and Amrillah (2018) and Mustikaningrum (2022).

#### **The Effect of Follow-up of Audit Recommendations on the Public Services Quality**

According to Table 7, it can be concluded that the execution of audit recommendations has a noteworthy and favorable impact on the caliber of public services. The study's findings offer empirical substantiation that the audit suggestions put out by BPK are suitable and have significance in enhancing performance while also aiding the fundamental objective of local governments in Sulawesi, namely the provision of public services. The present study's results are consistent with the research conducted by Kiswanto and Fatmawati (2019) and Furqan et al. (2020), which showed that implementing audit recommendations has a notable and favorable impact on performance and the quality of public services.

#### **The Effect of Audit Opinion of Local Government Financial Statement on the Public Services Quality**

According to Table 7, it may be inferred that the audit opinion of the Local Government Financial Statements (LGFS) does not have any discernible impact on the overall quality of public services. The assertion that the local government financial accounts, which are deemed to be fair in all major aspects, do not necessarily ensure a high standard of public service excellence. This phenomenon arises from the inherent limitations of financial statement audits, which fail to include the entirety of local government performance and governance. The primary focus of LGFS audits is to evaluate the equity of financial statements, scrutinize the various components within financial statements and accounting records (Susanti et al., 2017), and ensure adherence to relevant regulations by ICS and local government entities. The results of this study are consistent with the findings of Susanti et al. (2017) as well as Ditasari and Sudrajat (2020), which indicate that there is no statistically significant impact of financial statement audit opinion on performance and public service quality.

#### **The Effect of Audit Findings on the Public Service Quality Through Audit Opinion of Local Government Financial Statements as a Mediating Variable**

According to Table 7, it can be observed that the audit findings do not exert any influence on the audit opinion of the Local Government Financial Statements (LGFS). The audit findings encompass both significant and insignificant matters that were duly taken into account during the determination of the LGFS audit opinion. The State Financial Audit

Standard (SPKN) delineates that the determination of materiality level is an exercise of professional judgment by the auditor, for which they can be held responsible. The presence of several audit findings that are deemed immaterial does not exert a substantial influence on the audit opinion of the Local Government Financial Statements (LGFS). The results of this study align with the conclusions drawn by Alfiani et al. (2017) as well as Salsabila and Wahyudi (2022), indicating that there is no statistically significant impact of audit findings on the financial statement audit opinion.

Additionally, it can be shown from Table 8 that the LGFS audit opinion does not effectively function as a mediator between audit results and the overall quality of public services. Based on the results of the above intervention test, it can be concluded that Sulawesi local governments that want to improve the quality of their public services shouldn't hide important audit findings in order to make the views of financial statement auditors more credible. The audit findings and LGFS audit opinion prioritize financial management and the elements within the financial statements. The research of Lestari and Rohman (2022) and Pertiwi and Wibowo (2023) shows that there isn't a clear link between audit findings and the quality of public services as judged by the Local Government Financial Statements (LGFS) audit opinion.

#### **The Effect of Local Government Losses on the Public Service Quality Through Audit Opinion of Local Government Financial Statements as a Mediating Variable**

According to Table 7, the findings indicate that there is a statistically significant and adverse impact of local government losses on the audit opinion of Local Government Financial Statements (LGFS). The determination of the audit opinion about the fairness of financial statements relies on the assessment of materiality, encompassing both quantitative and qualitative factors. The potential weakening of the LGFS audit conclusion may occur when the quantitatively measured losses of the local government are above the materiality threshold. The results of this study align with the findings of Istiyanto (2016) and Atmaja and Probohudono (2018), which indicate that there is a negative and statistically significant relationship between local government losses and financial statement audit opinion.

Moreover, based on the findings shown in Table 8, it can be inferred that the LGFS audit opinion does not possess the ability to act as a mediator in the relationship between losses incurred by local governments and the quality of public services. Therefore, it can be inferred that the audit opinion of the LGFS does not have any impact on the correlation between losses incurred by local governments and the standard of public services. These findings also suggest that it is essential for the local government to not only obtain a favorable audit opinion about the fairness of their financial accounts but also to prevent any financial mismanagement in order to enhance the quality of public services.

#### **The Effect of Follow-up of Audit Recommendations on the Public Service Quality Through Audit Opinion of Local Government Financial Statements as a Mediating Variable**

According to Table 7, shows that following up on audit recommendations has a positive and significant effect on LGFS audit opinion. Implementing audit recommendations can have a positive the subsequent year's influence on the quality of financial accounts and public services. The audit suggestions supplied will furnish local governments with valuable insights, enabling them to address concerns and enhance their performance. The present study's findings are consistent with prior research conducted by Johnson et al. (2012) and Setyaningrum (2017), which showed that the act of following up on audit

suggestions has a notable and favorable impact on the audit opinion rendered for financial statements.

Moreover, the analysis of Table 8 leads to the conclusion that the LGFS audit opinion does not effectively facilitate the connection between the execution of audit recommendations and the standard of public services. These findings suggest that the implementation and completion of audit recommendations play a crucial role in enhancing the performance and accountability of local governments. This is particularly important for effectively managing financial resources and delivering public services. The results of this study are consistent with the conclusions drawn by Lestari and Rohman (2022) as well as Pertiwi and Wibowo (2023), which indicate that there is no indirect correlation between the execution of audit recommendations and the quality of public services as mediated by LGFS audit opinion.

### **CONCLUSION**

The analysis and examination of study data have resulted in the determination that audit results do not exert a statistically significant impact on the quality of public services within local governments in Sulawesi. The primary objective of the LGFS audit is to assess the reasonableness of the local government's financial management practices in relation to the standards and criteria outlined in the legislation. This evaluation primarily pertains to the financial aspects of the local government rather than its overall performance. In the context of Sulawesi, it is observed that the adverse impact of local government losses on the quality of public services is both substantial and statistically significant. The occurrence of increased financial deficits in local government entities can significantly impact the provision of public services, leading to a reduction in the availability of resources, finances, and essential commodities or infrastructure. In addition to this, the variable of follow-up on audit recommendations conducted in the previous year has a notable and favorable impact on the quality of public services in local governments within the Sulawesi area. The audit suggestions serve to uncover the underlying factors contributing to governance concerns. The inference may be made that local governments will be better prepared to foster improvement in the quality of public services in the subsequent year as a result of adhering to a greater number of audit recommendations.

Moreover, it may be argued that the audit opinion of financial accounts pertaining to local government entities in Sulawesi does not exert a substantial influence on the quality of public services provided by these local governments. The audit opinion serves as an evaluation of the equity of financial accounts rather than a declaration of the comprehensive performance of the government. The inference may be made that the issuance of a favorable or unfavorable audit opinion about the financial accounts of a local government does not always result in an improvement or deterioration of the quality of public services provided by said authority.

Furthermore, it has been observed that the quantity of audit findings does not exert a substantial influence on the audit opinion of LGFS in the region of Sulawesi. Therefore, it can be inferred that the quantity of audit findings, whether high or low, does not have an influence on LGFS's audit opinion, provided that these discoveries do not significantly alter the accuracy and reliability of the financial statements. Additionally, the results indicate that the financial losses incurred by local government entities have a detrimental and statistically significant effect on the audit opinion provided by the Local Government Financial Supervisory Board (LGFS) in the region of Sulawesi. The significance of

considering the materiality of losses incurred by local governments in the process of inferring a financial statement audit judgment cannot be overemphasized. This implies that a rise in the value of losses incurred by the local government will adversely impact the integrity of the audit opinion provided by the Local Government Financial Statements (LGFS). The variable of audit suggestion follow-up demonstrates a statistically significant favorable impact on the audit opinion of local government financial statements (LGFS) in the region of Sulawesi. The audit suggestions presented will be highly advantageous to local governments, as they offer valuable insights for addressing concerns and enhancing financial control.

The study revealed that the LGFS audit opinion did not serve as a mediator in the association between audit results, local government losses, and the follow-up of audit recommendations on public service quality in Sulawesi. The local government is required to enhance the audit opinion on LGFS. In contrast, it is imperative for local government to enhance the caliber of public services. One potential approach for enhancing audit opinion and public service quality is the prevention of financial losses within local government entities and the implementation of audit recommendations in the realm of financial management.

#### **LIMITATION**

Local governments have to adhere to the stipulations of laws and regulations and refrain from engaging in activities that result in financial losses for the local government. The local government's allocation to raising the standard of public services may serve as an example of how best to use its financial budget. It is recommended that local governments consistently undertake and diligently pursue the implementation of all audit recommendations provided by the Supreme Audit Agency (BPK).

This study focuses on the examination of local government structures and operations in the region of Sulawesi. Hence, it is not possible to immediately extrapolate the findings of this study to other organizations, institutions, or local governments. The anticipated outcomes of this study are anticipated to provide valuable insights and contribute to the existing body of knowledge on government financial management and public services.

#### **ACKNOWLEDGMENT**

Thank you to all those who directly or indirectly provide assistance and support, so that research can be completed. May God Almighty bless and reward every good thing that is done.

#### **DECLARATION OF CONFLICTING INTERESTS**

The authors declared no potential conflicts of interest.

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