

THE ANALYSIS OF FACTORS AFFECTING THE FINDING AND OPINIONS OF LOCAL GOVERNMENT FINANCIAL STATEMENTS BY AUDIT BOARD OF THE REPUBLIC OF INDONESIA: STUDIES ON DISTRICT MUNICIPALITY ON THE ISLAND OF SUMATERA AND JAVA

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Abstract: Regional finance is important element in local autonomy implementation. In order to improve the efficiency and effectiveness of local autonomy implementation, this autonomy is focused on the region of municipality or district because this type of region interacts with the community directly. As stated in the regulation, Local Financial Statement is delivered by the District Head to the Audit Board. Then, auditing is conducted based on the audit standard i.e. Audit Board Regulation No. 1 of 2007: Standards for State Financial Auditing. This research is managed to analysis: (a) factors influence on findings, (b) relations among total assets, number of findings, social assistance funds, and opinion types, and (c) relations among findings, recommendations, and follow-up action. The data are collected from Financial Audit Result for periods of 2011-2014 encompass all municipalities and districts on the island of Sumatera and Java. The result of this research shows that: (a) total assets, grants, and social assistance funds are identified as factors influence on findings, (b) number of findings have a positive correlation with opinion types, (c) recommendations complement 95% of the findings, but not all recommendations were followed-up, only 76.6% of recommendations were followed-up successfully, makes a gap between recommendations and follow-up actions. The statistical test confirms that all research hypotheses (H1 till H6) are accepted and significant.

Keywords: Opinion of Audit Board, Findings, Recommendations, Follow-up Actions

1. INTRODUCTION

1.1 Background

The issuance of Act No.22 of 1999: Local Government which was amended by Act No. 32 of 2004, makes a considerable change on the government system from centralization to decentralization. Furthermore, Act No. 17 of 2003: State

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Finance has given autonomy in managing the regional finance for local development, by transferring funding from central to local via equalization funds. This is regulated in Act No. 29 of 1999 which was amended by Act No. 33 of 2004.

Regional finance is important element in local autonomy implementation. Large autonomy given to local government is intended to accelerate the public welfare by improvement on public services, empowerment and participation. Besides, large autonomy will increase the competitiveness of region by considering the principles of democracy, equalization, fairness, uniqueness and specific characteristics, and diversity of various regions. In order to improve the efficiency and effectiveness of local autonomy implementation, this autonomy is focused on the region of municipality or district because this type of region interacts with the community directly.

So, local autonomy is not only giving authority to do the development but also giving authority to manage its finance. The role of district head is very strategic, that the district head must have leadership skill and managerial ability to manage regional finance.

Local government is defined as governmental organization implemented by local government and local public representative board based on autonomy principle and service function based on the largest autonomy in an established system and principle of Unitary State of the Indonesian Republic as stated in Constitution of 1945 (Article 2 subsection 3 Act No. 32 of 2004: Local Government). Article 3 subsection 1 states that local government comprises:

- (a) Province local government contains province local government and province local public representative board
- (b) Municipality or district local government contains municipality or district local government and municipality or district local public representative board

Furthermore, article 3 subsection 2 states that local government embraces local head dan local apparatus.

Government reformation from centralization to decentralization is conducted in financial aspect gradually as follows:

- (a) Planning reformation moves from traditional budgeting to performance based budgeting. The budget arrangement is in a certain fixed schedule.

- (b) Implementation reformation moves toward a single treasury account.
- (c) Financial recording reformation moves from a single entry to double entry recording system and from cash basis to accrual basis.
- (d) Reporting reformation moves from budget calculation to a full financial statement, i.e. Regional Government Budget realization report, statement of financial position, statement of cash flows, and notes to financial statement, which attached with local owned company's financial statement.

The main driver of this reformation is that public demand on a better performance of government (Harun, 2009).

The reformation procedure is following a clear schedule. The regulation states that apparatus must finish the financial statement at the latest in two months after the ending fiscal year and deliver it to Local Treasurer. In three months after the ending fiscal year, Local Treasurer must finish Regional Government Budget realization report in a complete financial statement. Then, this financial statement is delivered by the District Head to the Audit Board.

Auditing by the Audit Board

Constitution of 1945 states explicitly that the Audit Board are established to audit the state financial management and responsibility. This audit comprises all elements of state finance as stated in article 2 Act No. 17 of 2003: State Finance.

Types of Auditing by the Audit Board

Act 15 of 2004: Auditing on State Financial Management and Responsibility states that there are three types of auditing conducted by the Audit Board, i.e. Financial Audit, Performance Audit, and Investigative Audit.

Audit must be conducted based on an auditing standards. The auditing standards is set by the Audit Board with a consideration on common standards in international audit profession environment. On March 7th, 2007, the Audit Board has issued Audit Board Regulation No. 1 of 2007: Standards for State Financial Auditing. All audit of state finance conducted by the Audit Board must keep follow this regulation. This regulation is published in State Gazette No. 42 of 2007 and Supplement State Gazette No. 4707 of 2007 which is easily accessed by everyone.

Financial Audit for Local Government Financial Statement

It is a compulsory responsibility to prepare Local Government Financial Statement completely. Since 2007, audit conducted by Audit Board is proposed to audit all existing Local Government Financial Statement.

Article 16 Act No. 15 of 2004 states that audit result on Local Government Financial Statement includes opinion. Opinion is a professional statement that the audit obtains fairness of all financial information presented on the financial statement based on specific criteria such as in accordance with government accounting standards, adequate disclosures, regulatory compliance, and internal control system effectiveness.

There are four types of alternative Audit Board's opinion as follows:

- (a) Unqualified opinion
- (b) Qualified opinion
- (c) Adverse opinion
- (d) Disclaimer of opinion

Moreover, output of audit on Local Government Financial Statement is various, not just an opinion. Opinion is the main output beside other additional output from audit activity as determined by the regulation. In audit on Local Government Financial Statement, Audit Board can develop an audit report on internal control system and an audit report on regulatory compliance based on findings during the financial statement audit. These three products will be delivered to the local public representative board and the district head in accordance to their authorization. Findings disclosure in audit report on internal control system and regulatory compliance as additional product of financial audit is the same with findings disclosure in performance audit and investigative audit. Findings will be divided as findings indicated some state deficits, findings indicated some lower revenues, findings indicated some administrative failure, findings indicated some compliance and obedience, and findings indicated some efficiency and savings.

Follow-up Actions from Audit on Local Government Financial Statement

The usefulness of audit conducted by Audit Board is existed if the recommendation can create a transparent and accountable financial management in government. This will happen as long as the government takes action to follow-up the audit result of Audit Board. The follow-up

actions is expected to make the good governance concept realized in the real world practices.

After Audit Board's recommendation is delivered to the auditee, Audit Board could take a monitoring phase. Article 20 subsection 3 Act No. 15 of 2004 states that Audit Board will monitor the follow-up actions based on audit results and subsection 6 states that Audit Board will delivered the result of follow-up monitoring to the public representative board in semester audit result. This monitoring activity is recognize as a passive action. Therefore, the effectiveness of audit result is depend on monitoring function of the public representative board. Article 21 subsection 1 Act No. 15 of 2004 states that the public representative board must follow-up the audit result of Audit Board by deliberating it comprehensively in accordance with its authorization.

Issuance and Publication of Audit Board's Audit Report

In organizing the audit, Audit Board is restricted by ethical obligation on a code of ethics. Audit Board Regulation No. 2 of 2007: Code of Ethics was already released as a follow-up of article 29 Act No. 15 of 2006. Code of ethics contains norms to be obeyed by all members and auditor during performing their duties to maintain Audit Board's dignity, honor, and credibility. To enforce the code of ethics, Audit Board set an Ethics Committee.

Based on code of ethics, Audit Board cannot deliver any information gained during audit process without permission as common procedure. Publication of the audit report is intended for delivering audit result to the public representative board. The mechanism of delivering this audit report to the public representative board is based on Memorandum of Understanding between the Audit Board and the public representative board. Besides, findings indicated a criminal act will be delivered to the competent authorities. Mechanism of it is based on Memorandum of Understanding too. Publication of the audit report will be available at Audit Board's website (www.bpk.go.id). The auditor of Audit Board cannot give some information to some mass media without assignment from Audit Board in accordance with the common procedure.

Audit conducted by the Audit Board supports the transformation of government paragdim from "ruling government" to "governance" in order to create useful, suitable, dan fair governmental administration which could increase the appreciation on apparatus's best transparent and accountable

services in accordance to the changes of public demand and modern environment (Indra Bastian, 2007).

1.2 Research Objective

This research is intended to analysis Audit Board's audit result on local financial statement, consists of findings, opinions, recomendations, and follow-up actions. This is important to motivate every regions to achieve high quality of financial reporting with an unqualified opinion as the best opinion.

Specifically, the research objective is to analysis particular items as follows:

- (a) Factors influence on findings
- (b) Relations among total assets, number of findings, social assistance funds and opinion types.
- (c) Relations among findings, recommendations, and follow-up actions.

2. LITERATURE REVIEW

2.1 Definition and Scope of Regional Finance

In the public sector context, regional finance issues are current problems. Abdul Halim (2001) defines regional finance as every rights and obligations which can be measured in a monetary value, both money or goods owned by the region given that they are not possessed by the state or other higher region and other parties in accordance with prevailing regulation.

Government regulation No. 58 of 2005: Regional Financial Management states in the general statute that regional finance is every rights and obligations in local government organization which is can be measured in an amount of money included every forms of the region's assets.

Regional finance policy is focused on the achievement of development goal, independent regional economic as collectively effort based on communally value and democracy principle for economic in the Pancasila and Constitution of 1945 for the equally public welfare.

Mamesah (Abdul Halim, 2001) explains that regional finance is every rights and obligations which can be measured in a monetary value, both money or goods owned by the region given that they are not possessed by

the state or other higher region and other parties in accordance with prevailing regulation.

Act No. 17 of 2003 states that draft of act or local regulation on central or local government financial statement must be attached additional information relates with government's institutional performance, which is performance achieved in the budget usage or expenditure. This disclosure is relevant with the paradigma change in government budgeting which is set by identifying output and outcome distinctly for each program. Therefore, integration of the performance accountability system and the strategic planning system is a necessity to prepare a integrated financial statement and performance report as stated in President Decree No. 7 of 1999: Performance Accountability of Government Institution. Minister of Home Affairs Decree No. 29 of 2002 which is amended by Minister of Home Affairs Regulation No. 13 of 2006: Guidance of Management, Responsibility and Monitoring of Regional Finance and Procedure of Local Proposed Budget Preparation states that regional finance is every rights and obligations of region for local government organization which can be measured in a monetary value, any assets possessed by the region related with region's rights and obligations in the local proposed budget framework.

Abdul Halim (2001) gives two important points to be apprehended as follows:

- (a) Right is the claim to collect local revenues such as local taxes and local retribution, revenue of local owned company, and claim to receive other source of revenues such as General Allocation Fund and Specific Allocation Fund in accordance with prevailing regulations. These claims will increase the region's assets.
- (b) Obligation is the promise to pay some money for every payables to the region in order to organize some government functions, infrastructures, public services, and economic development.

According to Abdul Halim (2001), the scopes of regional finance are two items, i.e. (1) regional finance are managed directly, such as Local Proposed Budget and Identified Local Goods; and (2) regional finance are managed separately, such as local owned company.

Regional finance is an asset management in a particular region to achieve its goal. Local financial accounting is a recording process for several financial

activities which is conducted sistematically based on some principles, specific standards, and particular procedures to prepare actual information in the financial aspect.

- (a) Daves, *et al.* (1987) describe some principles of regional financial management as follows:
- (b) Accountability. Local government must give a financial accountability to every valid interested parties such as central government, local public representative board, district head, and public society. Crusial elements in this accountability are effective procedures to maintain financial assets and goods, to prevent any corruption and collusion, and to ensure that any revenues and expenditures are valid and reliable, used as supposed to be.
- (c) Ability to provide payment for all financial obligation. Regional finance must be managed successfully to pay any obligations or commitments both short term and long term liabilities.
- (d) Integrity. Every regional financial management must be carried by honest and trusted civil servants.
- (e) Effectiveness and efficiency. Regional financial management is organized that every program is planned and implemented to achieve local government goals in a lowest cost and fastest way.
- (f) Monitoring. Regional financial management apparatus, local public representative board, and oversight body must monitor to ensure that every goals can be achieved.

Those principles are vital because regional development planning in the implementation of regional financial management is aimed to optimize every potential usefulness and to reduce the inter regional gap of development (Indra Bastian, 2009).

2.2 Regional Government's Finance

After operational budgeting, the next step taken by a public sector organization is performance measurement to assess the organization's performance and accountability in delivering better public services. Accountability is charateristic of good governance which is not only ability to disclose but also ability to ensure that public funds is occurred economically, effectively, and efficiently (Mardiasmo, 2007). Economic is ability of public sector organization to minimize input resources usage by

prevent any destructive expenditures. Efficiency is ratio output to input related with specific performance standard or established target. Effectiveness is level of achievement in performance standard or established target, measured by ratio outcome to output (Mardiasmo, 2007).

Performance measurement is periodical assessment of operational effectiveness for organization, its division, and employees based on established objectives, standards, and criteria (Mardiasmo, 2007). Minister of Home Affairs Decree No. 29 of 2002 which is amended by Minister of Home Affairs Regulation No. 13 of 2006: Guidance of Management, Responsibility and Monitoring of Regional Finance and Procedure of Local Proposed Budget Preparation, Regional Financial Management Implementation, and Local Proposed Budget Calculation states that performance criteria must be developed as basis of financial performance assessment in the performance budgeting system.

Mahmudin (2010) said that performance is description on achievement level of any activity, program, policy implementation to accomplish organization's objective, goals, mission, and vision which is showed in the strategic planning of an organization.

According to Sedarmayanti (2003), performance means work result of a worker, a management process, or an organization, which is assessed by comparing it with the established standards. Resources factors of civil servants are included intellectual quotient (IQ) and ability (knowledge + skill). Motivation factors stems from attitude of civil servants as government apparatus to fit their work environment. Motivation is a condition which encourages civil servants as government apparatus to achieve the government objective, i.e. good governance.

President Decree No. 7 of 1999: Performance Accountability of Government Institution states that every government institution is required to prepare and report its strategic schemes of main programs in a year and five years ahead in accordance with main responsibility and function for each institution.

Sometimes Performance Accountability Report of Government Institution does not relate with its financial statement as supposed to be. Performance Accountability Report of Government Institution must be prepared based on the financial statement. Every activities of government organization ends with financing. Unstructured and inconsistent procedures for preparing Performance Accountability Report of Government Institution will effect on no delivered report at all as experienced ten years ago.

Government institution included central institution and local government both municipal and district is required to implement performance accountability system and deliver reports. Person in charged for preparation of Performance Accountability Report of Government Institution is functional officer with specific responsibility to operate the administrative function in each institution. Furthermore, the head and team members have to get the responsibility and explain all of both successful or failed achievement of performance level.

Besides, preparation of Performance Accountability Report of Government Institution must follow common principles that report must be prepared objectively and transparent. There are more principles as follows:

- (a) Responsibility center principle. The scope must be limited clearly. Every controllable item in the point of view preparer must be understandable easily by every users of report.
- (b) Exceptional principle. Things to be reported are important and relevant issues for institution's decision making and accountability. For example, extreme success or failure, varians between realization and target/standard/budget, override from particular scheme for any reasons.
- (c) Benefit principle. It must be a greater benefit than cost from report preparation activity. The content of Performance Accountability Report of Government Institution is explanation about every implementation of responsibility and function to achieve vision and mission, and main details of it. There are many supporting aspect to be included in the report, such as financial aspect, resources aspect, infrastructure and working method aspect, managerial control and other policy to support responsibility of the institution.

In order to get more advantage from Performance Accountability Report of Government Institution as a feedback to many interested parties, the form and content of it is standardized with some exception for uniqueness of each government institution. This standarization is important to minimize the differences in presentation which is far away from minimal requirement of information disclosed in Performance Accountability Report of Government. Standarization is required for routine reporting, so evaluation or comparison can be done adequately. Performance Accountability Report of Government Institution is categorized as routine report. It is prepared annually for any interested party.

Besides, there are some aspects of disclosure on responsibility and function accountability to be considered not overlapping with disclosure on performance accountability as follows:

- (a) Financial accountability. Explanation is focused on receipt and disbursement of funds, both from allocation funds of Proposed Budget (Reguler and Development) and from Non Tax Revenue.
- (b) Human resources accountability. Explanation emphasis is on utilization and development of human resources to improve performance on the oriented result or benefit and to increase the quality of services for the community.
- (c) Infrastructure usage accountability. Explanation is about its management, maintenance, utilization, and enhancement.
- (d) Working method, managerial control and other policies. Explanation is regarding the benefits and effects of a policy as reflection of policy accountability.

2.3 Financial Performance Analysis of Regional Government

Financial analysis is an effort to identify financial characteristics based on available financial statement (Abdul Halim, 2001). Article 4 Government Regulation No. 58 of 2005: Regional Financial Management states that regional finance is managed orderly, obediently, efficiently, economically, effectively, transparently, and accountable with considerateness of principles of fairness, compliance, and public advantages.

Article 4 Government Regulation No. 58 of 2005: Regional Financial Management explained that efficient is maximum output achievement with specific input or lower level of input to get specific output; economic is specific level of qualified input acquisition with a lower cost; effective is program result achievement on established target which is calculated by ratio outcome to output; transparent is openness principle which enable community to know and get access of greater information about regional finance; and accountability is an obligation of officers or entity to account its resources management and controlling and its policy application. The ability of local government in financial management is presented in Local Proposed Budget which is reflected capability of local government to finance its government responsibility, development and social community services. This can be analyzed by financial ratio analysis to Local Proposed Budget.

Financial ratios used in analyzing the local government financial statement are as follows (Ihyaal Ulum, 2009):

- (a) **Fiscal autonomy self-sufficiency ratio:** This ratio is computed from a ratio of the district own source revenue to the loan and government assistant (central and/or province).
- (b) **Effectiveness and efficiency ratio:** Effectiveness ratio is computed from a ratio of the realization of regional own source revenue to the target of regional own source revenue which is set based on the real potention of region.

Efficiency ratio is computed from a ration of the expenditure to collect regional own source revenue to the realization of regional own source revenue.

- (c) **Debt service coverage ratio:** This ratio is computed from a ratio of total regional revenues deducted by total regional expenses to the total regional loans (principal and interest).

3. METHODOLOGY

3.1 Research Data

Research data are collected from Financial Audit Result of Audit Board encompass all municipalities and districts on the island of Sumatera and Java for periods of 2011, 2012, 2013, and 2014.

3.2 Analysis Method

The analysis method is divided into three parts as follows:

- (a) Factors influence on findings

There is an equation model to analysis factors influence on findings as follows:

$$Y = a + b_1 X_1 + b_2 X_2 + b_3 X_3 + e$$

Where:

Y = Number of findings

X₁ = Total assets

X₂ = Grant funds

X₃ = Social assistance funds

b₁, b₂, b₃ X₃ = Regression coefficient

e = Error or other factors which is not observed in this research

Hypothesis test uses t test. If t-statistic higher than t-table, then the influence of independent variables on dependend variable is significant.

- (b) Relations between number of findings and opinion types: This analysis is testing the positive correlation between number of findings and opinion types. Hypothesis test uses Chi Square test. If Chi Square-statistic higher than Chi Square-table, then the correlation between variables is significant.
- (c) Relations among findings, recommendations, and follow-up actions: The important part in local financial audit is number of findings and its opinion types. Based on the findings, Audit Board makes some recommendations. The Local Government is expected to take some actions as follow-up the recommendation on that findings.

Hypothesis test uses correlation test, to measure level of correlation between (a) number of findings and recommendation, and (b) recommendation and follow-up actions.

3.3 Research Hypotheses

Based on previous three analysis model, there are six research hypoteses as follows:

- H₁ : Total assets influences number of findings positively.
- H₂ : Grant funds influences number of findings positively.
- H₃ : Social assistance funds influences number of findings positively.
- H₄ : Number of findings correlates with opinion types.
- H₅ : Number of finding correlates with recommendation positively.
- H₆ : Recommendations correlates with follow-up actions positively.

4. RESULT AND DISCUSSION

4.1 Research Result

This research covers all Financial Audit Result of Audit Board on municipalities and districts on the island of Sumatera and Java. During periods of 2011 till 2013, there were 279 municipalities and districts in the island of Sumatera and Java. Since the area enlargement in 2014, there was extension of 4 region, then there are 283 municipalities and districts in the island of Sumatera and Java.

Audit Result of Audit Board during the analysis periods (4 years) is as follows:

Table 1.
Audit Board's Opinion for Periods of 2011-2014 on Municipalities and Districts on the Island of Sumatera and Java

<i>Year</i>	<i>UO</i>	<i>UO-EP</i>	<i>QO</i>	<i>AO</i>	<i>DO</i>	<i>Total</i>
2011	31	25	239	2	13	279
2012	60	26	180	2	11	279
2013	55	43	168	2	11	279
2014	82	64	125	1	11	283
Total	197	158	712	7	46	1120
Average	17.59%	14.11%	63.57%	0.63%	4.11%	

Where:

UO	=	unqualified opinion
UO-EP	=	unqualified opinion with explanatory paragraph
QO	=	qualified opinion
AO	=	adversed opinion
DO	=	disclaimer of opinion

Result shows that in 4 years, the dominant audit opinion is qualified opinion which is 63.6% of 283 municipalities and districts. Unqualified opinion is around 34.4%. There is 0.6% municipalities get adversed opinion (around 2 municipalities) and 4.1% municipalities get disclaimer of opinion (around 11 municipalities).

Weighted mean is calculated with the result as follows.

Table 2.
Weighted Mean, Scores of Opinion Type Measurement on Audit Board's Opinion for Periods of 2011-2014 on Municipalities and Districts on the Island of Sumatera and Java

<i>Year</i>	<i>UO</i>	<i>UO-EP</i>	<i>QO</i>	<i>AO</i>	<i>DO</i>	<i>Total</i>	<i>Score</i>	<i>Score Scale (100)</i>
	5	4	3	2	1			
2011	155	100	627	2	13	897	3.22	64.30
2012	300	104	540	4	11	959	3.44	68.75
2013	275	172	504	4	11	966	3.46	69.25
2014	410	256	375	2	11	1054	3.72	74.49
Total	1140	632	2046	12	46	3876	3.46	69.21

Figure 1: Weighted Opinion Score for Period of 2011-2014

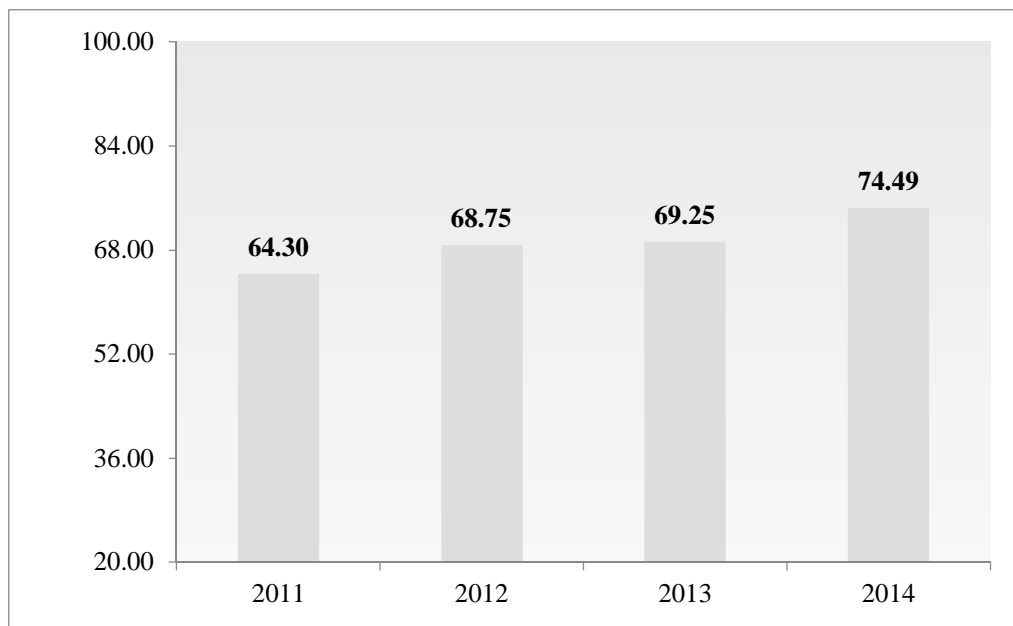


Table 2 and Figure 1 show that there is a positive trend which reflects a gradual improvement in audit opinion. The audit opinion score is 64.30 (average) in 2011, increases to 68.75 (good) in 2012, escalates to 69.25 (better) in 2013, and grows to 74.49 (better) in 2014.

This finding is revealed that during the research period many municipalities and districts get unqualified opinion which is 20.1% in 2011 and 34.4% in 2014. Accordingly, the qualified opinion decreases from 85.7% in 2011 to 63.6% in 2014. Municipalities and districts with adverse opinion and disclaimer opinion is rare, nevertheless they fail to improve their audit opinion.

4.2 DISCUSSION

Factors Influence on Number of Findings

Based on the analysis model, it can be identified the most influential variable among total assets, grant funds, and social assistance funds influences on the number of findings. The estimation model is as follows:

Table 3.
Estimation Result of Factors Influence on Number of Findings

		Coefficients ^a				
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	22.710	.853		26.626	.000
	Asset	.020	.004	.167	5.651	.000
	Grant	.062	.025	.075	2.522	.006
	Social Assis	2.623	1.559	.050	1.683	.045

Dependent Variable: Findings

According to the estimation result, the regression equation is developed as follows:

$$Findings = 22,71 + 0,020 Assets + 0,062 Grant + 2,623 Social Assistance$$

The parameter of estimation result shows three independent variable have positive influences on number of findings. IDR 1 trillion increases in total assets will effect on 0.02 increases in number of findings. IDR 1 trillion increases in grant funds will effect on 0.06 increases in number of findings. IDR 1 trillion increases in social assistance funds will effect on 2.633 increases in number of findings. Among three variable, the social assistance funds is the most influential variable with the biggest regression coeficient. It means that social assistance funds tends to give more findings than total assets and grant funds.

Table 4.
Hypotheses Testing: t-Test

Hypotheses	Statement	t-statistic	t-table $\alpha=5\%$ (1 tail)	Inference
H ₁	Total assets influences number of findings positively	5.651	1.646	Significant
H ₂	Grand funds influences number of findings positively	2.522	1.646	Significant
H ₃	Social assistance funds influences number of findings positively	1.683	1.646	Significant

Consistent with Table 3, Total Assets, Grant Funds, and Social Assistance Funds have a positive parameters and along with the developed hypotheses. In relation to t-Test (one tail test), t-statistic is 1.646 above t-table. Likewise, it can be interpreted as follows:

1. H_1 is accepted, where total assets influences number of findings positively.
2. H_2 is accepted, where grand funds influences number of findings positively.
3. H_3 is accepted, where social assistance funds influences number of findings positively.

Relation between Number of Findings and Opinion Types

Opinion types is categorized based on its level of audit given by Audit Board. Number of findings is related with opinion types as described on tabulation model as follows:

Table 5.
Relation between Number of Findings and Opinion Types

<i>Number of Findings</i>	<i>UO</i>	<i>UO-EP</i>	<i>QO</i>	<i>AO</i>	<i>DO</i>	<i>Total</i>	<i>Percentage</i>
1-10	16	6	28	0	0	50	4.46
10-25	108	84	365	4	33	594	53.04
25-50	57	46	265	2	12	382	34.11
50-75	11	15	45	1	1	73	6.52
75-100	2	5	6	0	0	13	1.16
Above100	3	2	3	0	0	8	0.71
Total	197	158	712	7	46	1120	
Percentage	17.59	14.11	63.57	0.63	4.11		

Table 5 shows depiction of relation between number of findings and opinion types. Finding during the research period is revealed that Unqualified Opinion (UO), Adverse Opinion (AO) and Disclaimer Opinion (DO) are in a lower percentage, below 5%. Qualified Opinion (QO) is 63.57% as the major portion. It is supposed that percentage of QO will increase in the future, which is reflected a better quality of Local Government’s financial management.

Pertain to the relationship between number of findings and audit opinion type, it is obvious that number of finding above 100 is rare (0.71%).

Common number of findings are 10-25 findings (53%) and 25-50 findings (34%).

In Unqualified Opinion (UO), number of findings is dispersed. In this category of opinion, there is 1-10 findings (8.12%), 10-25 findings (54.8%, the highest portion), 25-50 findings (28.93%) and above 75 findings (2.54%, around 5 municipalities). This condition is occurred in other type of opinions, which low and high number of findings is diffused in every category of opinion types.

Chi-Square Test is conducted to know the correlation between number of findings and opinion types. The testing result shows that there is positive correlation between number of finding and opinion types, as follows:

Table 6.
Hypothesis Test: Chi Square Test

<i>Hypothesis</i>	<i>Statement</i>	<i>Chi Square -statistic</i>	<i>Chi Square -table</i>	<i>Inference</i>
H ₄	Number of findings correlates with opinion types	43.797	31.410	Significant

Table 6 shows that Chi Square-statistic is 43.797 above Chi Square-table (31.410). Accordingly, H₄ is accepted, where number of finding correlates with opinion types significantly.

Relation between Number of Findings and Recommendations

Number of findings will effect some recommendations of Audit Board to Local Government. Correlation between number of findings and recommendation is decribed as follows:

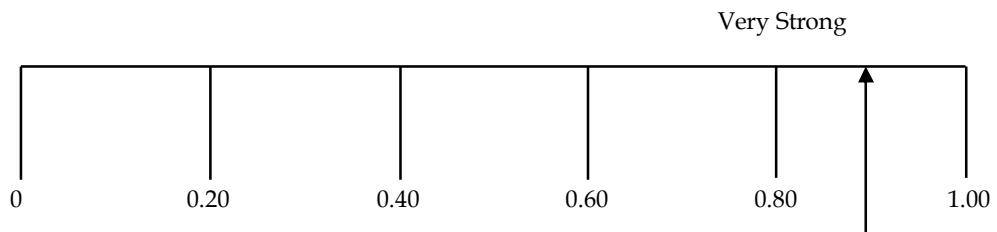
Table 7.
Relation between Number of Findings and Recommendations

<i>Opinion Types</i>	<i>Correlation between Number of Findings and Recommendations</i>
UO	95.2%
UO-EP	98.3%
QO	94.2%
AO	67.4%
DO	95.4%
Mean	90.10%

Table 7 shows there is a high correlation between number of findings and recommendations on each level of opinion types. Typically, the correlation is 90.10%, means that number of findings correlates with recommendation positively. Greater number of findings will be follow by substantial recommendations.

The Pearson Correlation score is 0.953 (revealed in Table 9). It is confirmed that the correlation between number of findings and recommendations is very strong relationship. It is verified that important findings will be follow by extensive recommendation. This Pearson Correlation score is described as follows:

Figure 2. Level of Correlation Between Number of Findings and Recommendations



Correlation = 0.953

Relation between Recommendations and Follow-up Actions

After recommendation, it is important to monitor every follow-up actions. Consequently, it is vital to know whether or not the recommendations is followed-up. The relationship between recommendation and follow-up action is depicted as follows:

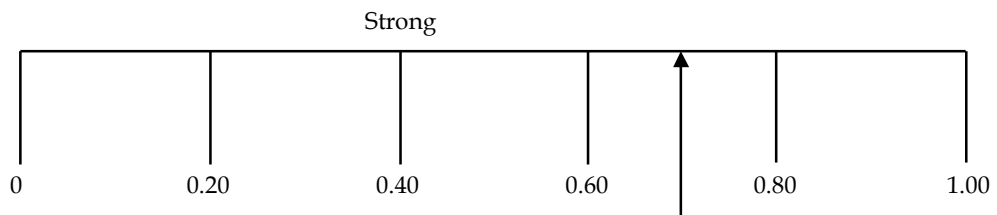
Tabel 8.
Relation between Recommendations and Follow-up Actions

	<i>Correlation Between Number of Findings and Recommendations</i>	<i>Correlation Between Recommendations and Follow-up Actions</i>
UO	95.2%	82.9%
UO-EP	98.3%	91.5%
QO	94.2%	64.4%
AO	67.4%	51.3%
DO	95.4%	62.0%
Mean	90.10%	70.42%

Table 8 shows that there is correlation between recommendations and follow-up actions for each opinion types. Overall, the correlation is 70.42%, means that recommendation correlates with follow-up actions positively. Substantial recommendations will be followed by extensive follow-up actions.

The Pearson Correlation score is 0.766 (revealed in Table 9). It is confirmed that the correlation between recommendations and follow-up actions is strong relationship. This not as very strong as relationship between number of findings and recommendation. It is verified that not every recommendations will be followed-up. This Pearson Correlation score is described as follows:

Figure 3. Level of Correlation Between Recommendations and Follow-up Actions



Correlation = 0,772

The correlation test among number of findings, recommendation and follow-up actions is illustrated as follows:

Table 9.
Pearson Correlation between Number of Findings, Recommendation and Follow-up Actions

		<i>Correlations</i>		
		<i>Findings</i>	<i>Recomm</i>	<i>Follow-up</i>
Findings	Pearson Correlation	1	.953**	.772**
	Sig. (2-tailed)		.000	.000
	N	1105	1104	1102
Recomm	Pearson Correlation	.953**	1	.766**
	Sig. (2-tailed)	.000		.000
	N	1104	1105	1103
Follow-up	Pearson Correlation	.772**	.766**	1
	Sig. (2-tailed)	.000	.000	
	N	1102	1103	1103

** . Correlation is significant at the 0.01 level (2-tailed).

Based on the analysis data, the hypothesis testing result is described as follows:

Table 10.
Hypotheses Testing: Pearson Correlation

<i>Hypotheses</i>	<i>Statement</i>	<i>Correlation</i>	<i>Sig.</i>	<i>Inferences</i>
H ₅	Number of findings correlates with recommendation positively	0.953	0.000	Significant
H ₆	Recommendation correlates with follow-up actions positively	0.766	0.000	Significant

The testing result shows that sig. value is 0.000 and above 0.05. It can be interpreted that H₅ and H₆ is accepted and significant.

5. CONCLUSION AND IMPLICATION

Based on previous result and discussion, in general this research result can be illustrated as follows:

Figure 4. Comprehensive Research Result Constellation

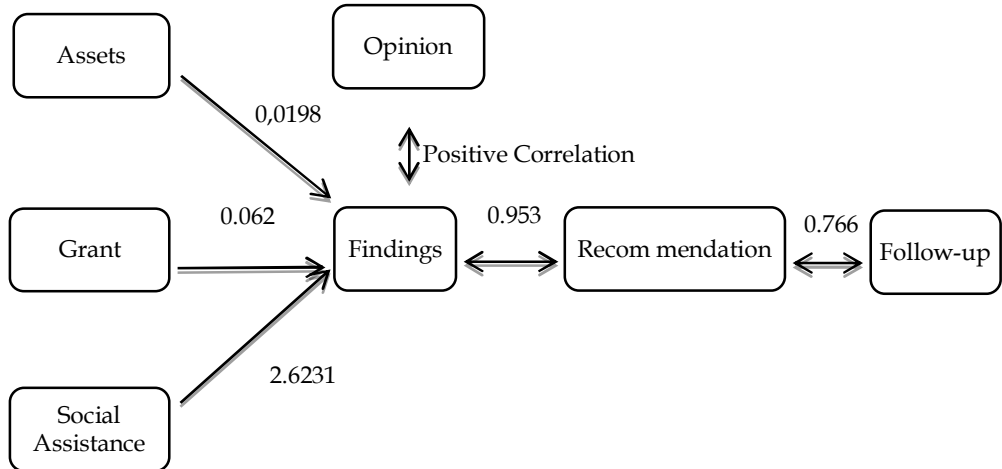


Figure above gives some comprehensive conclusions and implications as follows:

Total assets, grant funds, and social assistance funds are identified as factors influence number of findings. Social assistance funds is the most influential factor with the biggest regression coefficient. The implication is that social assistance funds must get higher attention and monitoring.

Number of findings has a positive correlation with Audit Board's opinion types. The result shows that number of findings is dispersed among opinion types. The finding of this result confirms that quality of Local Financial Statement at the level of qualified opinion. The implication is that target of unqualified opinion must be achieved forward. It needs a long process and must be supported by readiness of human resources and technology.

Result shows that 95% findings is followed with recommendations. This is an effort to improve the quality of Local Government's Financial Statement. But follow-up actions on recommendation is not 100%, it is 76.6% merely. There is still a gap between recommendations and follow-up actions. The implication is that the point of focus for Local Government is both recommendations and follow-up actions.

Statistical testing result shows that all research hypotheses (H_1 till H_6) are accepted and significant.

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