

The Influence of Audit Opinions and Audit Findings on the Level of Regional Government Corruption in Indonesia

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Abstract

This research is motivated by the increasing trend of corruption cases and the potential for greater financial losses to the state. Data from the Indonesian Corruption Watch (ICW) in 2022 indicates that local government employees are the primary perpetrators of corruption. This study aims to analyze the influence of audit opinions and audit findings on the level of corruption in local governments in Indonesia. The data utilized includes the BPK RI Semester Examination Results Summary (IHPS) and Court Decision data from the Supreme Court Directory. Using multiple linear regression, the study examines the relationship between the independent variables (audit opinion and audit findings) and the dependent variable (level of corruption). The results indicate that audit opinions significantly influence local government corruption levels, with better audit opinions correlating with lower corruption levels. Conversely, audit findings do not significantly impact the level of corruption in local governments. The research suggests that improving the audit system and enhancing the quality of audit opinions can contribute to reducing corruption levels in local governments in Indonesia.

Key words: audit opinion, audit findings, level of corruption, local government, Indonesia.

INTRODUCTION

According to data from the official KPK website, the Corruption Eradication Commission (KPK) has prosecuted over 148 regents/mayors and 22 governors from 2004 to early 2022. When combined with data from the Attorney General's Office and the Police, these numbers would be significantly higher. Indonesian Corruption Watch (ICW) reported

that from 2010 to 2018, law enforcement agencies identified 253 regional heads as suspects in corruption cases.

The ICW report on the Monitoring Trends in Corruption Enforcement for 2022, published in 2023, illustrates the trends in corruption cases in Indonesia from 2018 to 2022. The data reveals a decrease in corruption cases in 2019, followed by an increase in both the number of cases and suspects from 2020 to 2022.

Additionally, the potential financial losses due to corruption have shown an upward trend from 2018 to 2022, rising dramatically from IDR 5.6 trillion in 2018 to IDR 42.74 trillion in 2022. ICW's mapping of corruption cases based on the positions of the perpetrators identified at least 25 professional backgrounds involved in corruption. Notably, local government employees were the most frequent perpetrators, accounting for 365 individuals or 26.15% of the total corruption actors, followed by village heads and village officials.

Given the increase in corruption cases, potential financial losses, and the distribution of corruption cases among various positions, it is essential to address the level of corruption, particularly within local governments. Corruption at the local government level not only results in financial losses for the state but also undermines public trust in government institutions and leads to injustices in development and public services. According to Panji & Utomo (2023), corruption is driven by the desire for more wealth, lack of stringent supervision, lack of exemplary leadership, and insufficient penalties for corrupt behavior.

Panji & Utomo (2023) argue that audits in the public sector are crucial for combating corruption, as they provide objective, independent, and evidence-based information. Independent audit opinions and audit findings from the examination process are factors that influence the level of corruption. Syahrir & Suryani (2020) found a relationship between BPK's audit opinions and corruption levels, indicating that better audit opinions are associated with lower corruption likelihood. Nurfaidah & Novita (2022) also stated that audit findings positively and significantly influence corruption levels in local governments.

According to BPK RI Regulation No. 1 of 2017 on State Financial Audit Standards, one benefit of state financial audits is supporting anti-corruption efforts by reporting findings indicating criminal acts and/or financial losses in state financial management to the relevant authorities for further action, as well as through prevention by strengthening the state financial management system.

Various studies have examined the impact of audit opinions and audit findings on corruption levels in local governments. However, previous research shows varying results regarding the influence of audit findings on local government corruption. Therefore, further

research is needed to determine the significant impact of audit opinions and audit findings on local government corruption.

Research by Panji & Utomo (2023) indicates that audit opinions influence corruption levels, while audit findings do not. Similar results were found in a study by Al-Faruqi et al. (2024), which states that audit opinions significantly impact local government corruption levels, while audit findings do not have a significant effect. Conversely, Nurfaidah & Novita (2022) found that findings on weaknesses in the Internal Control System (SPI) and non-compliance with regulations have a positive and significant impact on corruption levels.

Previous research used various types of data to measure corruption levels in local governments. Apriastanti & Widajantie (2022) used local government corruption level data from KPK annual reports. Syahrir & Suryani (2020) used corruption level data from the public integrity index surveyed by KPK. Fuadi & Maburur (2021) used data on the number of corruption cases in regencies/cities from court rulings.

In this study, the authors use corruption level data based on the amount of state financial losses from local government corruption cases, sourced from court rulings. This approach aims to provide data that accurately reflects the corruption level in local governments as handled by law enforcement agencies.

Based on the background provided, the title of this study is "The Influence of Audit Opinions and Audit Findings on the Level of Regional Government Corruption in Indonesia."

LITERATURE ANALYSIS AND METHODOLOGY

Institutional Theory

Institutional theory, as articulated by Scott (1995), provides a framework for understanding how institutions—defined as regulative, normative, and cultural-cognitive elements—shape the behavior of organizations. In the context of regional governments, institutional theory suggests that audit opinions and findings can serve as mechanisms for institutionalizing norms of accountability and transparency. These audits act as regulative elements, enforcing compliance with financial management standards and deterring corrupt practices through the threat of exposure and sanctions.

Audit opinions (unqualified, qualified, adverse, and disclaimer) reflect the extent to which regional governments adhere to these institutional norms. Unqualified opinions indicate strong institutional compliance, while qualified, adverse, and disclaimer opinions signal deviations and potential vulnerabilities to corruption. Audit findings, on the other hand, highlight specific instances where institutional norms are breached, providing a basis for corrective actions and institutional reforms.

Decentralization Theory

Decentralization theory, as embodied in Indonesia's Law Number 23 of 2014, emphasizes the transfer of authority and responsibility from central to regional governments to enhance efficiency, accountability, and local governance. Decentralization aims to bring government closer to the people, improving responsiveness and fostering local development. However, it also presents challenges, particularly in ensuring consistent standards of governance and accountability across diverse regions.

Under decentralization, regional governments are granted greater autonomy, which can lead to variations in how effectively audit mechanisms are implemented and enforced. The theory posits that decentralization can either mitigate or exacerbate corruption, depending on the strength of local institutions and oversight mechanisms. Audit opinions and findings are crucial in this context, serving as tools to monitor and evaluate the performance of decentralized entities, ensuring they uphold principles of good governance.

Audit Opinion

According to Panji and Utomo (2023), an audit opinion is the conclusion drawn from the steps taken by auditors to evaluate financial statements. It serves as a means to assess a company's effectiveness and to evaluate the transparency and accountability of its financial reports. The Indonesian Law Number 15 of 2004 on the Audit of State Financial Management and Responsibility defines an opinion as a professional judgment concluding an audit concerning the adequacy and fairness of the information in financial statements. Audit opinions are presented in the audit report on government financial statements and can be classified into four types: unqualified opinion, qualified opinion, adverse opinion, and disclaimer of opinion.

Audit Findings

Naibaho and Shanti (2021) describe audit findings as the results of an audit. When auditors conduct an audit, they identify situations that do not comply with generally accepted accounting standards. These findings can include non-compliance with internal controls, significant errors in information presentation, inefficiencies in operations, or violations of applicable laws. Findings are detailed based on criteria, conditions, causes, and consequences. Apriastanti et al. (2022) state that audit findings, as identified by the Audit Board of Indonesia (BPK), include issues related to internal control systems and non-compliance with regulations. According to Law Number 15 of 2004, after completing an audit, BPK compiles and presents the results in an audit report (LHP). Financial audits aim to provide an opinion, performance audits result in findings, conclusions, and

recommendations, and special-purpose audits produce conclusions. The BPK's Audit Standards (2017) indicate that audit findings cover internal control, regulatory compliance, fraud, and non-compliance, each of which should be described with criteria, conditions, causes, and consequences.

Corruption

Corruption is often described as the misuse of public office for personal gain (Saraswati & Triyanto, 2020). Naibaho and Shanti (2021) define corruption as malicious behavior by individuals, including public officials, businesspeople, law enforcers, and village heads, which hinders national progress, economic growth, and public welfare, and erodes public trust in the integrity of state officials. According to Law Number 31 of 1999, corruption offenses refer to actions by individuals that unlawfully enrich themselves or others, causing financial or economic losses to the state. This law, amended by Law Number 20 of 2001, categorizes 30 forms of corruption into seven groups: state financial losses, bribery, embezzlement in office, extortion, fraudulent acts, conflicts of interest in procurement, and gratuities.

Previous Research

Numerous studies have examined the role of auditing in enhancing public sector governance and reducing corruption. Auditing is widely recognized as a crucial mechanism for ensuring transparency, accountability, and compliance within governmental operations. The relationship between audit outcomes and corruption levels has been a focal point of research, with several key findings emerging.

Previous research indicates that unfavorable audit opinions, such as qualified, adverse, or disclaimer opinions, are often associated with higher incidences of corruption. These opinions suggest significant issues in financial reporting and internal controls, which may indicate underlying corrupt practices. Conversely, unqualified opinions typically imply sound financial management and lower corruption risks.

Several studies, including those by Panji & Utomo (2023) and Al-Faruqi et al. (2024), highlight the significant impact of audit opinions on corruption levels, suggesting that the overall assessment of financial statements plays a crucial role in deterring corrupt practices. On the other hand, the influence of audit findings is less consistent, with some studies, like those by Nurfaidah & Novita (2022) and Apriastanti & Widajantie (2022), indicating their significance, while others, like Panji & Utomo (2023) and Al-Faruqi et al. (2024), do not.

This analysis underscores the importance of both audit opinions and findings in addressing corruption, albeit with varying degrees of influence. Strengthening audit

processes and ensuring rigorous follow-up actions are essential for enhancing public sector governance and reducing corruption in regional governments. Further research is needed to explore the contextual factors that may influence the effectiveness of audit mechanisms in different regional settings.

METHODOLOGY

This study employs a quantitative research design to investigate the influence of audit opinions and audit findings on the level of corruption in regional governments in Indonesia.

The research involves the collection of secondary data from summary of BPK RI semester examination results and corruption data from court decisions on the supreme court directory page. The audit reports provide detailed information on audit opinions (categorized as unqualified, qualified, adverse, and disclaimer) and audit findings, including the number of these findings.

The study uses multiple linear regression analysis to examine the relationship between the dependent variable (corruption level) and the independent variables (audit opinions and audit findings). Descriptive statistics will be used to summarize the data, providing an overview of audit opinions, findings, and corruption levels across different regional governments. Correlation analysis will be conducted to identify potential associations between audit outcomes and corruption levels.

RESEARCH AND RESULTS

Results

The Influence of Audit Opinions on the Corruption Levels in Local Governments

The first hypothesis test results indicate that the proposed hypothesis is accepted: audit opinions influence the corruption levels in local governments in Indonesia. This finding aligns with the research by Panji & Utomo (2023), which states that audit opinions have an impact on corruption levels.

The results show that audit opinions provided by the Audit Board of Indonesia (BPK) affect the corruption levels in local governments. This is consistent with the research by Perdana & Prasetyo (2023), which explains that the better the audit opinion received by a local government, the lower the potential for corruption. An audit opinion is an indicator of the quality of local government financial statements.

A favorable audit opinion, such as an unqualified opinion (WTP), indicates that the financial statements are presented fairly in all material respects and comply with generally accepted accounting principles. Conversely, less favorable opinions, such as qualified

opinions (WDP) or adverse opinions (TW), indicate weaknesses in internal control systems or non-compliance with accounting principles.

This study found that regions receiving WTP opinions tend to have lower corruption levels compared to those receiving WDP or TW opinions. This could be due to several factors, such as WTP opinions reflecting high transparency and accountability in financial management. Transparent and accountable local governments are less likely to engage in corrupt practices. Additionally, regions with WTP opinions likely have better internal control systems, which can prevent and detect corruption.

The Influence of Audit Findings on the Corruption Levels in Local Governments

The second hypothesis test results show that the proposed hypothesis is rejected: audit findings do not influence the corruption levels in local governments in Indonesia. This finding contradicts the research by Nurfaidah & Novita (2022), which states that audit findings affect corruption levels in 34 provincial governments in Indonesia. On the other hand, this result aligns with the research by Al-Faruqi et al. (2024), which states that audit findings do not significantly affect the corruption levels in local governments. Similarly, the research by Panji & Utomo (2023) also states that audit findings do not affect corruption levels.

This indicates that audit findings, which include weaknesses in internal control systems and non-compliance with regulations found during the audit process, do not have a significant impact on corruption levels in local governments. Several potential reasons why audit findings do not significantly affect corruption levels include the possibility that audit findings are not effectively followed up by local governments. Without adequate follow-up, audit findings will not serve as a tool to prevent or reduce corruption. Additionally, local governments may address audit findings only formally without addressing the root causes of the identified issues. This means that audit findings are not integrated into real changes in internal control systems or financial management practices. Furthermore, local government employees might resist the changes needed to address audit findings, especially if those changes threaten personal or group interests. There is also the potential that local governments may lack sufficient resources, whether financial, technical, or human, to follow up on audit findings and implement the recommendations provided.

CONCLUSION AND RECOMMENDATIONS

Audit opinions issued by the Audit Board of Indonesia (BPK) significantly influence the corruption levels in local governments. Regions receiving unqualified opinions (WTP) tend to have lower corruption levels compared to those receiving qualified (WDP) or

adverse opinions (TW). This underscores the importance of financial report quality, transparency, and accountability in financial management as efforts to reduce corruption levels.

Audit findings do not affect the corruption levels in local governments in Indonesia. Audit findings, which include weaknesses in internal control systems and non-compliance with regulatory provisions identified during the audit process, do not significantly impact corruption levels in local governments. This may be due to the ineffective follow-up on audit findings, formal compliance without substantial improvement, resistance to change, and insufficient resources to implement audit recommendations.

Based on the findings, several recommendations can be made to strengthen anti-corruption measures and improve governance effectiveness in Indonesia's regional governments such as Enhance Audit Quality and Transparency, Strengthen Internal Control Systems, Policy Reform and Legal Frameworks and Continuous Evaluation.

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