

**Relationship Between The Type of Auditor Opinions With  
The Difference of Local Government Forms in Indonesia**

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— *Review of* —  
**Integrative  
Business &  
Economics**  
— *Research* —

**ABSTRACT**

The purpose of this study was to obtain empirical evidence about the differences in the acquisition of an audit opinion on the financial statements of local government districts/ cities throughout Indonesia associated with different types of regions and identify the characteristics that supposedly influence the acquisition of that opinion. To test the hypothesis, this study used parametric analysis Correlate Bivariate for Hypothesis 1a and Hypothesis 2a, as well as the Independent Samples T Test to see mean differences between populations in Hypothesis 1b and Hypothesis 2b. The results of analysis showed that Hypotheses 1a, 1b, 2a and 2b are supported. Overall this study shows that there is a relationship between the type of auditor opinion through the local government financial reports and differences in their respective areas of local government. These results are caused entirely by the inherent characteristics of the remains these types of area. This study supports the conclusions that both empirical and non empirical polemics are related to regional autonomy and the division that the performance of the expanded region is still not good, especially in terms of financial management.

**Key words:** type of area, local government, government financial reports, audit opinion.

**1. Introduction**

Various empirical and non empirical evaluation of the recently published related to the implementation of regional autonomy and decentralization indicates that the overall results are not satisfactory implementation of regional autonomy. Furthermore BPK audit results to the financial statements of local government mostly get the title of "qualified" and

"disclaimer" opinion. There are few local governments' financial statements that received the title "unqualified" opinion. BPK audit results showed weak financial management, particularly for regions that bloomed. These areas largely are underperforming. Data from an investigative audit stated that approximately 83 percent of the approximately 148 regional expansion results, financial condition does not qualify and are still apprehensive.

Research related to management performance of local government budgets are made Ida (2005) also suggests that transparency, participation and accountability have not been fully implemented in the management of the local budget and more than half of the total number of local governments that have not been studied to Government Accountability Report Information (ILPPD), especially the local government district/ municipality bloomed. As an example of poor performance of the expanded area is the complaint that the budget they've been used for personnel expenditure, which should it be overcome by increasing efficiency and productivity of employees in the local bureaucracy in a way not necessarily to recruit new employees as the regional division new. When inefficiencies in expenditure dominates, then the expenditure for the public automatically lead experienced a reduction in service to the public to be not optimal. These arguments raises the question whether the true consequences of regional growth policy affects all aspects of local government activities including the management of regional finances associated with the acquisition of audit opinion from the Supreme Audit Board (BPK) to the expanded areas. This topic is very interesting to be appointed in empirical research because there have been no previous empirical studies that relate to the problems of the BPK audit results to all regencies/ cities in Indonesia. This issue remains a hot topic in academic and practical level, many of the

descriptions given, but unfortunately the descriptions are merely descriptive, and even there, previous empirical studies was only partial, which focused on one district or a particular city.

## **2. Theoretical and Hypothesis Development**

### **2.1 Authority of the State Audit Board (BPK)**

Supreme Audit Agency (BPK) is a State Agency that holds the constitutional mandate to inspect or audit the financial management responsibilities of the state (public). Presentation of financial statements is a form of implementation of public financial management accountability. The absence of financial statements showed lack of accountability. Demands of accountability in the public sector need to do related to transparency and providing information to the public in order to fulfill the rights of the public. With the issuance of Act No. 15 of 2006 about BPK, then all parties can know the functions and duties of BPK auditors. Supreme Audit Agency (BPK) holds a strategic role in assessing local government financial databases must address satisfying. The assessment process is done by examining the central government accountability report / financial areas of Central and Local Government. From the results of the BPK over 344 LKPD of Local Government Finance Report 2005, the results as much as 84.6% with the exception of obtaining qualified opinion, as much as 2.33% gain unfair opinion, and as much as 7.86% gain disclaimer opinion (no opinion). This suggests that the determination of local governments to follow the rules and regulations applicable in the management of state finances was minimal.

Output resulting from the examination by the BPK auditor is an audit report containing an audit opinion therein. According to Arens and Loebbecke (2006) The audit report is

important in an audit process because give information about what the auditor and the conclusions obtained. In other words, the audit report is a media auditor messaging to users of financial statements. In each audit conducted, the BPK issued a statement or conclusion of the so-called "opinion". Opinion is that the conclusion of the examiner regarding the reasonableness of the information presented in financial statements. This opinion is based on the criteria (1) compliance with Government Accounting Standards, (2) the adequacy of disclosure (adequate disclosures), (3) compliance with laws and regulations and (4) the effectiveness of Internal Control Systems.

## 2.2. Audit Opinion Against the Local Government Finance Report

According to Arens and Loebbecke (2006) who proposed type of opinion given by the auditor to audit the results of which are also adapted in auditing the public sector, are:

### a. Unqualified opinion (WTP)

This opinion can only be given when the auditor believes that based on the audit in accordance with GAAP, no change in the application of accounting principles (consistent) and contain an adequate explanation or disclosure of the wearer so as not to mislead, and there is no uncertainty beyond ordinary (material).

### b. Qualified Opinion

This opinion is given when the auditor concerned to put an objection or exception to the fairness of presentation of financial statements, or in a state that the financial statements as a

whole is fair is no exception to this particular case due to certain factors that lead to qualified opinion (one or more accounts that are not reasonable).

c. Not Fair opinion

It is given if the auditor feels confident that the overall financial statements contain material misstatements or misleading so as not to present fairly the financial position in accordance with generally accepted accounting principles. This opinion is only made if the auditor has to have enough material evidence, through an adequate investigation, about the discrepancy. This is not an uncommon occurrence is very rare that this opinion is issued.

d. Disclaimer opinion

Refusal to give an audit opinion means that the report does not contain the opinion of the auditor. This can be issued if the auditor does not believe in themselves or had doubts about the fairness of the financial statements. This statement arises because many restrictions on the scope of the audit, or no relationship between the independent auditor to the client according to the code of professional conduct. Each of these situations do not allow the auditor to be able to express his opinion on these financial statements.

The next paragraph of the scope of the BPK audit results report on the financial statements of government contains two sentences that relate to the materiality and reasonable assurance about whether that is free of material misstatement. Obtain reasonable assurance about whether the sentence is intended to provide information to users of financial statements that the auditor does not guarantee the fairness of the financial statement presentation. Sentence is to inform you that there is no risk of the financial statements presented fairly,

even when the auditor's opinion on the financial statements is unqualified. Sentences are free of material misstatement intended to provide information that the auditor's liability is limited to a material financial information. Here is a picture considerations opinion also adapted for the determination of audit opinion by the Supreme Audit Board of Indonesia (BPK RI).

### 2.3 Differences Characteristics of Type City and District

According to Indonesian General Dictionary (2006), the characteristics of the specific characteristics; have distinctive properties (specificity) in accordance with a certain disposition that distinguishes something (people) with something else. According to Wikipedia (2011) difference with the District Municipality (now called the City) is on demographics, area, region and major business sectors. In general, both the counties and cities have the same authority. District is not subordinate to the provincial, district heads or mayors therefore not responsible to the governor. District and the city is an autonomous region that is authorized to set and administer the affairs of his own government. The city is a residential area which is physically represented by a collection of houses that dominate the spatial and has various facilities to support its citizens living independently.

Abdullah (2011) reveals that the district and the city has different characteristics, including: (1) from the aspect of an area, the district administration is relatively larger than the local government area of the city. Therefore, in the district there are many villages, while to reach equitable development throughout the region needed a bigger budget. (2) from the aspect of population, population density in the district is lower than the city. Population

density are problems for local governments in providing employment, education, health, and prevention of social problems. (3) From the aspect of the livelihoods of residents, county residents are generally engaged in agriculture or an agricultural nature, while the urban population is engaged in trade and services. Regional development policy-making, priority will be different local government districts with city governments, particularly in terms of the implementation of choice in the matter. (4) from the aspect of governance structures, in the town and village district was formed, while in the region are sub-districts, villages, and villages, or *kampung*, or village. Sub-districts and villages are part of the county and city governments, which converge in terms of policy making and local government budgets, while the village is a separate autonomous region in the district, so it has its own budget, including sources of revenue allocated from the district budget. (5) from a socio-cultural, urban residents have high levels of education and better health than the district. Public service facilities are also better in cities than in counties. (6) from the aspect of economy, the average Gross Domestic Product (GDP) in the district is lower than the GDP of the city. This has implications for the proportions of local revenue (PAD) that can be levied by local governments. Economic activity and revenue (income) in the city is also greater than the district.

#### 2.4 Regional Divisions in Indonesia

Regional divisions in Indonesia are the formation of new types of regions at the provincial and city and district of the parent. The legal basis for regional expansion in Indonesia are No. 22 in 1999 about Regional Autonomy which was then revised to Act No. 32 of 2004 about Local Government which further articulated in the Government Regulation

No. 78 in 2007 which is a change of Government Regulation No. 129 in 2000. With the aim to improve the welfare reasons, and reflected the spirit of regional autonomy, among others, the desire to split the parts of ourselves. Until 2007 the provincial government alone has increased from 26 to 33 (26.9%), while the district/ city governments increased 45.2%, from 303 to 440.

Several studies on various issues in the regional expansion ever undertaken among others by Bappenas (2005), Institute of Public Administration (2005), and the Ministry of Government (2005). The results of this regional expansion studies showed noteworthy findings from each of the aspects analyzed. From the financial side, it was concluded that the new area formed by the Regional Government policy indicates that relatively less optimal performance than the parent. This is mainly due to some problems in the financial management area, the greater fiscal dependence on the expansion associated with the large allocation of capital expenditure in the division; optimizing income and low economic contribution, and the portion of capital expenditure allocation of local government is low. All this indicates to inefficient financial policy areas, especially in the new autonomous region in driving economic activity. From the performance aspect of local government officials identified several problems, namely the mismatch between the required apparatus is available, which are generally low-quality personnel and local officials to work in conditions of underemployment. In terms of economic growth in the study results suggest that the new autonomous region more volatile than the parent who is relatively stable and increasing. From the economic side, behind the new autonomous region of the parent or other areas in general due to the limited natural resources and human resources available, in addition to



government support is not maximized in support of the movement of the economy through public investment. On the financial side of the area concluded that the role of local government budgets in promoting economic expansion, relatively less optimal than the parent.

Furthermore Fitriani et al. (2005) states that the division has opened up opportunities for bureaucratic and political rent-seeking, the opportunity to gain funding, both from the central government as well as from its own revenues. With the demand to demonstrate the ability to explore the potential of the region, many areas sets out the charges to increase revenue (PAD). This leads to an economy of high-cost areas. Further allegations arose that the regional growth is also an elite group of businesses in the area who just want a job and position.

Research and Development Center for Regional Autonomy Ministry (2005) conducted a study on the effectiveness of Regional Expansion Era of Regional Autonomy in nine new autonomous region. This study concluded that in general none of the DOB can be grouped into categories capable, although the arrangement of the various aspects of government to support government administration in accordance with existing guidelines. DOB cause is poor governance by the appropriate authority to formulate or matters that will be implemented to suit the conditions, characteristics and needs of the region. In the financial sector, there is only one of nine areas considered capable of managing its finances. The main problem is the number of institutional (SKPD) which tends to overload, organizational structures tend to be large, and not taking into account institutional criteria of effectiveness and good eisiensi. From the above information, it is clear that to date there has been no single

study has ever done to get a comprehensive picture of the impact caused by the expansion of areas in Indonesia.

Research conducted Bappenas (2008) concluded that during the five-year run and control the position of the parent is always better than the new autonomous region in all aspects. Therefore we need a preparatory period prior to the division, both the transfer of personnel, and preparation of economic and administrative infrastructure. One thing for sure is the equitable distribution of economic potential to be an absolute requirement that the new autonomous region can be comparable to the parent. In the short term are also required changes in personnel and spending patterns of development that will create demand for local goods and services as well as full support for the development of the agricultural sector as the economic base of the new autonomous region. On the other hand, some of the arguments put forward to support the division, which include the need to overcome the distance of the span of control between the government and society, as well as provide opportunities for equitable development area. Another reason is diupayakannya development of local democracy through the power-sharing at a smaller level (Ida, 2005). Regardless of the pros and cons, the existing laws and regulations, regional division is still considered to have many shortcomings.

- The relationship between the difference of audit opinion with the type of district and city characteristics

**H1a: There is a relationship between the type of audit opinion with the kind of city region and district type.**

**H1b: The cities audit opinion better than the kind of district audit opinion.**

- The relationship between the difference of audit opinion with the type of parent area and expansion area characteristics

**H2a: There is a relationship between the type of audit opinion with the kind of county parent and expansion area type.**

**H2b: The parent area audit opinion better than the expansion area audit opinion.**

### **3. Research Methods**

The data used in this study is the Report of Inspection of the Republic Indonesia Supreme Audit Board (BPK RI LHP) to the financial statements and the City District Government of Indonesia. The data has as much as 431 regencies/ cities for 2009 and 2010. While the data division of the district and the city of Indonesia acquired all of Wikipedia (2011). LHP audit opinion on the data recapitulated LK Indonesia Government and given a weighting according to the characteristics of the opinion given by BPK RI, the weighting itself is based on deal valuation (interrater agreement) are carried out by several experts in the field of public sector accounting is given a range of values between 0 up to 100. Total value of the weighting is analyzed using parametric analysis Bivariate Correlate hypothesis for hypothesis 1a and 2a, as well as the Independent Samples T Test to see Mean differences between populations in hypothesis 1b and hypothesis 2b. The weighting values for each of the characteristics of opinion as follows:

**Table 1****Weighting the BPK RI Opinion**

<b>Opinion</b>	<b>Weighting</b>
Unqualified Opinion (WTP)	100
Qualified Opinion (WDP)	75
Not Fair Opinion	50
Disclaimer	25

**4. Result**

Testing for normality of the data analyzed in significant research on the 0000 Test of normality using the Kolmogorov-Smirnov. The results show that the hypothesis testing for Hypothesis 1a that revealed that there is a relationship between the acquisition of the type of audit opinion by the local government area of the City District Government has consistently supported by the Pearson correlation coefficient and sig -0.105. (2-tailed) of 0.031 for data in 2009 and the Pearson correlation coefficient and sig -0.109. (2-tailed) of 0.023 for data in 2010. While testing the hypothesis 1b reveals that the type of audit opinion better than the City of audit opinion type of district is supported by F-test = 19.819 with the significance of 0.017 for 2009 and the F-test = 24.107 with the significance of 0.012 for 2010, so that overall hypothesis 1a and 1b are supported. As for the results of testing Hypothesis 2a which reveals that there is a relationship between the type of audit opinion to the type of the City/ County parent and the type of the City / County division, Pearson correlation coefficient showed a sig

-0.240. (2-tailed) for the year 2009 and 0.000 for year 2010, so that hypothesis 2a is supported. While testing the hypothesis 2b reveals that the type of audit opinion regency / city a better parent than the type of audit opinion regency / city division is supported by F-test = 48.556, the significance of 0.000 for 2009 and the F-test = 57.302, the significance of 0.000 for 2010, thus the overall hypothesis 1a, 1b, 2a and 2b are supported by the results of the analyzes presented in the following table:

**Table 2****Statistical Analysis Results****Panel A**

Information	Year 2009		Year 2010	
	<i>Pearson</i>	<i>Sig. (2-tailed)</i>	<i>Pearson</i>	<i>Sig. (2-tailed)</i>
	<i>Correlation</i>		<i>Correlation</i>	
City/ District	-0.105	0.031	-0.109	0.023
Parent/ Expasion area	-0.240	0.000	-0.240	0.000

**Panel B**

Information	Year 2009			Year 2010		
	<i>F-test</i>	<i>Sig</i>	<i>Mean</i>	<i>F-test</i>	<i>Sig</i>	<i>Mean</i>
Characteristics Type of Region						
<b>a.</b> City/ District	19.819	0.017		24.107	0.012	
• City			86.9231			88.0769
• District			77.5281			78.5519
<b>b.</b> Parent area/Expansion area	48.556	0.000		57.302	0.000	
• Parent area			84.6014			85.5596
• Expansion area			68.2759			69.9675

## 5. Results, Discussion and Limitations

From the results of hypotheses testing 1a and 1b that consistently for the year 2009 and 2010, revealed that indeed there is a relationship between the acquisition of the type of audit opinion by the District and the City as well as between the parent with an expanded area which further justifies the assumption that the type of the city with the characteristics attached to such a smaller area and focus that resulted in administrative management is also more focused, as it also levels of education and health facilities and better public services, so that it can be concluded that human resource type city region better than the district. In addition to the GRDP (Gross Regional Domestic Product) is better and PAD (Revenue) is higher than the district, the city has the welfare of the average better than the district, so that the characteristic is reasonable when the type of region cities can do the management of government, including the take over management of regional finances better than any district, which led to the results of the audit that it is better to type the city.

The test results for hypotheses 2a and 2b which revealed that there are differences of opinion between the acquisition of the parent type to the type of the division, in which the parent showed the acquisition of audit opinion better than the regional division. These results support previous research related to social and economic aspects were observed between the parent compared to the expansion area which showed that the parent either social, administrative, resources, facilities and infrastructure and the economy is more established than in the division. When this is associated with the acquisition of the audit opinion is

reasonable if the parent obtain a better audit opinion due to human and natural resources and public facilities to better governance, which in turn will result in performance is also better governance in general and performance finance in particular.

This study should be followed up to meliha whether the results are consistent from year to year based on LHP LK, because it does not rule out the possibility that there is no more significant differences associated with the attributes and local district or city division of the parent that gave rise to differences of opinion on Financial Report of Local Government caused by the learning process as well as in administrative improvements. Furthermore for further research could explore other variables are related to poor outcome audit of local governments that can not be presented in this study. Something also interesting phenomenon for further study related to how the race to obtain unqualified opinion (WTP) that motivated the incentives from the central to the area that became promising area for research in the field of public sector accounting foreseeable future.

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