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Analysis of factors affecting on local government's financial losses in North Sulawesi

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ABSTRACT
This study intends to examine if internal control effectivity, audit findings, audit opinion, completion of follow up audit results and characteristics of regional head have impacts on local government's financial losses. The study will use district and city local governments in North Sulawesi province as a case study to examine this relationship. Using a sample of 80 respondents in the year 2024, this study draws on primary sources to examine all of the local governments in North Sulawesi Province. Multiple linear regression analysis was processed by Smart PLS version 3.0 software program in order to analyze data and evaluate hypothesis. This study demonstrate that: (1) effectiveness of internal control system has a negative and significant effect on local government's financial losses; (2) audit findings has negative and significant effect on local government's financial losses; (3) audit opinion has negative and significant effect on local government's financial losses; (4) completion of follow up audit results has negative and significant effect on local government's financial losses; and (5) characteristics of regional heads has negative and significant effect on local government's financial losses.

Keywords: internal control effectivity; audit findings; audit opinion; completion of follow up audit results; characteristics of regional heads; local government's financial losses
JEL Classification: H11; M42

1. Introduction

The economy is controlled by a state, so that in public sector reform requires public participation in assessing the implementation and results of government programs with the ultimate goal that every allocation of funds originating from the state must be based on the interests of the community. Government institutions are essentially economic entities that produce products in the form of services, both direct and indirect services and are not oriented towards achieving profit. One of the services that must be provided by government institutions to the community is transparency and accountability for financial management (Harun, 2009). As a form of public transparency, the government as a party that organizes public services for the community is given the authority to regulate government affairs under it.

Accountability Report is a form of accountability of government administrators in managing existing resources. Accountability and transparency of central and regional government financial management are important goals in public sector accounting and administration reform. To ensure the quality of government financial reports, based on Article 23E paragraph 1 of the 1945 Constitution, the Audit Board of Indonesia (or BPK) was formed as a free and independent body that functions to examine the management and responsibility of state finances for financial reports presented by the Regional Government and the Central Government (Rosadi & Okfitasari, 2019).

The BPK carries out an audit function which is a test of the accuracy, objectivity and completeness of certain reports, statements or accounts with the aim of assessing whether the implementation of government financial management is in accordance with established standards or planning (Tumija & Febriansyah, 2019). Regional governments are encouraged to obtain an Unqualified Audit Opinion (or WTP) every year, as an indicator for realizing quality financial reports (Djalil, 2014). Opinion is a reflection of the quality of management and presentation of a financial report itself. The higher the opinion given, the higher the credibility of the information provided by an organization's financial report to interested parties (Harun, 2009). In the Technical Bulletin of State Financial Audit Standards Number 01 of 2012 it is explained that adequate disclosure represents a condition in which the financial report and its notes have provided information that can influence its use, understanding and interpretation adequately in accordance with Government Accounting Standards (Kasmir, 2019).

The achievement of a good opinion from the BPK shows that the district/city government and provincial government have been able to account for and report their finances well because the LKPD is in accordance with standards, meets adequate disclosure, and complies with regulations. However, the increase in audit opinion is inversely proportional to the State Losses incurred by the regional government (Arianto et al., 2018). Corruption cases against Regional Heads throughout the period 2005 to 2020, there were 124 cases handled by the Corruption Eradication Commission (or KPK) and 44 cases have been found guilty. Many factors influence the success of the regional government in the BPK opinion assessment, however, improvements in financial management must be in line with administrative and substantive improvements.

According to Suyatmiko and Nicola (2019), the Transparency International Indonesia reveals that in 2019, Indonesia's Corruption Perception Index (CPI) reached 40/100, the highest in the last 25 years. However, in 2020 the score dropped to 37, and Indonesia was ranked 102 out of 108 countries. The above facts are one of the reasons why Indonesia's CPI remains low even though the BPK's opinion on the regional government's financial report and the government's financial report in general, on paper, has improved. Rini and Damiati (2017) find that several regions that received WTP opinions still indicated non-compliance/bribery by officials at the regional agencies. This is supported by data obtained from the KPK where there were regional heads who were caught in corruption cases even though the audit results of the regional government's financial reports obtained a WTP opinion from the BPK.

Liu and Lin (2012) find that the purpose of the audit process in the government is to monitor, convince and assess government accountability. Monitoring carried out on the use of public resources in government audits can strengthen accountability and reduce abuse of power. Indirectly, government audits can play a role in eradicating corruption through early detection of financial reports. Previous results by Naibaho and Shanti (2021) show that increasing audit opinions, the audit findings, and follow-up audit results indicate significant corruption. Meanwhile, Nurhayati et al. (2019) and Rini and Damiati (2017) show that a good opinion obtained by a region does not guarantee that the regional government is free from corruption. Their findings show that per capita audit findings were significantly and negatively related to state losses in the province, while follow-up audit results per capita had a significant and positive effect on state losses in the province. Albab et al. (2019) show that supervision carried out by government auditors plays an important role and has been proven to be significant in reducing lost expenditures. Meanwhile, supervision carried out by the community has a small average impact on reducing lost expenditures.

This study examines a number of factors that have an impact on regional financial losses based on previous studies, namely financial factors such as the effectiveness of the internal control system, audit findings, audit opinions, completion of follow-up to audit results and non-financial factors, namely the characteristics of regional heads. The urgency of this study is the increasing demands for regional financial accountability and research on the characteristics of regional heads is still rare, so researchers are interested in re-examining the factors that influence the financial performance of regional governments. Previous studies on several factors that influence Regional Financial Losses have produced inconsistent empirical evidence. Coupled with the still minimal research on Regional Financial Losses in the North Sulawesi region, this study takes the title analysis of factors affecting regional financial losses in the North Sulawesi Regional Government.

2. Literature review

Agency theory

Jensen and Meckling (1976) revealed that agency theory is based on conflicts between owners and agents which tend to be caused by the separation of authority between ownership and managers in a company. Agency theory reveals the working relationship between the party giving authority (principal) and the party receiving authority (agent), the relationship is realized in the form of a cooperation contract called the nexus of contract. According to Eisenhardt (1989), agency conflicts can occur in public sector organizations, the government as an agent is considered to have direct access to information compared to the people as principals so that information asymmetry can arise. In order to minimize information asymmetry, the government is required to increase transparency and accountability in financial management**.**

The application of this agency theory can be examined from two perspectives, namely the relationship between the executive and the legislature, and the legislature and the people, the implications of which can be positive in the form of efficiency, but more negative in the form of opportunistic behavior (Panda & Leepsa, 2017). This occurs because the agent has the advantage of financial information than the principal, while the principal may take advantage of personal interests (self-interest) because they have the advantage of power.

In accordance with Rini and Damiati (2017), this research begins with the assumption that agency problems arise because executives tend to maximize their personal interests starting from the

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budgeting process, decision making to presenting fair financial reports. This behavior appears as motivation to show that their performance is good with the aim of securing their position in the eyes of the legislature and the people.

Stewardship theory

Stewardship theory explains that management is not motivated by individual goals but rather is directed at their main outcome targets for the benefit of the organization (Donaldson & Davis, 1991). This theory describes the strong relationship between satisfaction and organizational success. This theory can be applied to public sector organizations because the government as a steward-functions to manage resources from the people as the principal as the owner of the resources. The people as the principle give full trust to the government as a steward to manage resources with full responsibility, high integrity, and honesty for the benefit of the wider community. The government makes maximum efforts to achieve the welfare of the people so that the people will be satisfied with the government's performance. Stewardship theory is a theory that describes a situation where management is not motivated by individual goals but rather is directed at their main outcome targets for the benefit of the organization (Haryanto et al., 2024; Ramadhani et al., 2024). This theory assumes that there is a relationship between government organizations and the goals to be achieved, namely to prosper the community. Government organizations are institutions that are trusted by the community to carry out their duties and functions properly in accordance with applicable provisions.

Regional government financial report

Bastian and Krista (2011) state that public sector financial reports are a picture of the financial position of transactions carried out by public sector entities. According to Law Number 17 of 2003 concerning State Finance, regional governments as reporting entities are required to present accountability reports on the implementation of the Regional Revenue and Expenditure Budget (or APBD) in the form of regional government financial reports. Regional government financial reports are a manifestation of the implementation of accountability in the financial sector to the public. According to Yadiati and Mubarok (2017), the dimensions and indicators of regional government financial reports by PP No. 71 of 2010 are: (1) relevant; (2) reliable; (3) comparable; and (4) understandable.

Government internal control system

Internal control system is a process implemented comprehensively by management and all employees in the form of methods, policies, procedures or other practices to provide sufficient assurance that the entity's objectives can be achieved, namely effective and efficient operating processes, reliable financial reporting, and compliance with laws and regulations. Indriani and Siswantoro (2023) explain that the indicators for the implementation of the internal control system are follow the PP No. 60/2008: (1) control environment; (2) risk assessment; (3) control activities; (4) information and communication; and (5) monitoring of internal control.

Audit findings

Audit findings are the conclusions of the audit activities after the auditor has analyzed and evaluated the audit evidence that has been collected during the audit, where this section contains a special message conveyed by the auditor to the readers of the financial statements. In the audit findings, it can be seen whether the compliance or non-compliance with the established audit criteria and opportunities for improvement are known. The meaning of non-compliance is the deviation obtained from objective evidence of the previously established audit criteria, if there is a deviation, the auditor is required to provide recommendations for improvement of the findings or LHP (Kurnia, 2020). Siregar and Rudiansyah (2019) reveal that the more material findings, both internal control system findings and non-compliance findings, the lower the chances of obtaining an WTP opinion. Meanwhile, Rahmi and Ariani (2020) did not find a significant effect between the number of audit findings and the level of disclosure of financial information in the Regional Government Financial Report (or LKPD).

Public sector audit

Public sector audit in Indonesia is known as state financial audit. Financial Audit or State Financial Audit is an examination of financial statements that aims to provide adequate assurance, whether the financial statements have been presented fairly, in all material respects in accordance with generally accepted accounting principles in Indonesia. This state financial audit is regulated in Law Number 15 of 2004 concerning the Examination of State Financial Management and Accountability. In Law Number 15 of 2004, public sector audit consists of financial audit, performance audit, and audit with a specific purpose. In detail, public sector audit can be described as follows: (1) financial audit, is an examination of financial statements that aims to express an opinion on the financial position, results of operations and cash flow adjusted to generally accepted government accounting standards; (2) performance audit, is an audit conducted to assess the performance of the audited entity in terms of economy, efficiency, and effectiveness, aims to improve the performance of the audited entity and increase government accountability; and (3) audit with a specific purpose is a special audit outside of financial audit and performance audit that aims to provide conclusions on the matters audited.

Audit opinion

Audit opinion is an accurate opinion given by the auditor in accordance with the criteria of various opinions regarding the fairness of the presentation of the company's financial statements where the auditor is conducting the audit. There are five opinions or opinions that can be given by the auditor on the financial statements he audits. These opinions are: unqualified opinion, unqualified with explanatory paragraph or modified wording (unqualified opinion with a paragraph emphasizing one thing), qualified opinion (qualified opinion with a qualified opinion), adverse opinion (unqualified opinion), and disclaimer of opinion (statement of not providing an opinion). The measurement indicator for this variable is carried out by providing ten statements through the questionnaire used (Tarigan et al., 2023). Arens et al. (2019) state that an adverse opinion is used only if the auditor believes that the financial statements as a whole contain material or misleading misstatements so that they do not fairly present the financial position in accordance with generally accepted principles. A disclaimer opinion is issued when the auditor cannot satisfy himself that the financial statements as a whole are presented fairly.

Completion of audit result follow-up (or TLHP)

Audit result follow-up is an action taken by the head of the audited entity or other competent party to implement the audit result recommendations. According to Indriani et al. (2024), recommendations mean suggestions given by the auditor to an authorized person or agency based on the results of their audit in an effort to take corrective action.

Characteristics of regional heads

Dimensions and Indicators of Characteristics of Regional Heads, based on the Decree of the Head of BKN No. 46 A of 2007 concerning Guidelines for the Preparation of Structural Competency Standards for Civil Servants and Regional Leaders, the characteristics possessed by a Civil Servant or leader are in the form of knowledge, skills, and behavioral attitudes required in carrying out their duties, so that they can carry out their duties professionally, effectively and efficiently. Meanwhile, according to Launtu (2021), human resource indicators include knowledge, skills, abilities, attitudes, and behavior.

State losses

Based on Law Number 1 of 2004 concerning State Treasury, State/regional losses are a shortage of money, securities, and goods that are real and certain in amount as a result of unlawful acts, either intentionally or negligently. The definition of state losses according to the World Bank is the abuse of public office for personal gain. According to Dion (2010), state losses occur when the government only focuses on personal interests without regard to the interests of the community so that the community no longer trusts officials and public servants. Criminal acts of state losses or non-compliance in Indonesia are regulated in Law Number 31 of 1991 concerning the Eradication of Criminal Acts of Corruption and its amendments to Law Number 20 of 2001.

Hypothesis development

- ***The effect of internal control system effectiveness on regional financial losses***. Increasing the reliability of financial reports is one of the objectives of internal control activities to reduce regional financial losses. In good internal control activities, the control procedures will be prepared to ensure that specific objectives. The specific objectives are to achieve reliability of financial reports, reduce the risk of fraud, and eliminate doubts regarding data, recording, and financial reports. This means that effective internal control will be able to improve the quality of financial reporting. Septariani and Asoka (2020), and Kalau and Leksair (2020) show that the effectiveness of the internal control system has an effect on regional financial losses. Based on review, the hypothesis for this study is as follows.

H1: the effectiveness of the internal control system has an effect on regional financial losses

- ***The influence of audit findings on regional financial losses***. Audit findings are facts found by the auditor as a result of a comparison between the conditions encountered by the auditor and the criteria that have been determined in accordance with the firm audit objective. The audit findings are the result of implementing audit evidence testing program in the field. These audit findings will then be processed so that they become the basis for opinions or conclusions that will be included in the final audit report. The results of the examination of the financial statements reveal that the reported audit findings do not comply with the audit results will result in state losses, audit findings that violate statutory provisions that result in regional losses, regional losses, lack of revenue, administration, and uneconomical. The findings by Ningsih and Haryanto (2022), Nurfaidah and Novita (2022), and Pertiwi and Haryanto (2022) which state that audit findings have an effect on regional financial losses. Based on review, the hypothesis for this study is as follows.

H2: audit findings have an effect on regional financial losses

- ***The influence of audit opinion on regional financial losses***. The finding from Angelina et al. (2024) implies that audit opinions influence perceptions of corruption so the local governments that receive low opinion (for example, disclaimer statements or TMP) tend to have higher perceptions of corruption compared to fair opinions. The findings by Nurfaidah and Novita (2022) show that audit opinion influences regional financial losses. Based on review, the hypothesis for this study is as follows.
  H3: audit opinion influences regional financial losses
- ***The influence of audit result follow-up on regional financial losses***. The results of the BPK audit are stated in the Audit Result Report which contains opinions, findings and recommendations. Recommendations are suggestions from the auditor based on the results of their audit which are addressed to the person and/or body authorized to take action and/or improvements. Settlement of audit findings is an activity carried out by the head of the audited entity and/or other competent parties to implement the recommendations of the BPK audit results. The Audit Result Report by BPK reveals findings on weaknesses in the internal control system and findings on non-compliance with laws and regulations. Naibaho and Shanti (2021), and Maulana and Fuadi (2023) find that increasing follow-up audit results tend to identify increasing levels of corruption in terms of reducing state losses.
  H4: audit result follow-up has an effect on regional financial losses
- ***The influence of regional head characteristics on regional financial losses***. The characteristics of the Regional Head are an important factor in financial reporting that will have an impact on regional financial losses. A competent Regional Head is needed who can understand well how to avoid regional financial losses. Regional Heads who have an accounting background are better able to examine the results of financial reports that are easy to understand, in accordance with Government Accounting Standards (or SAP) and create efficiency in the time of making them. Regional Heads who take part in training are expected to have better skills, plus experience and have competent characteristics (Tama & Adi, 2018).
  H5: regional head characteristics have an effect on regional financial losses

3. Research method

This study uses a quantitative research type with aims to test whether audit findings, audit opinions, follow-up to audit results, and characteristics of regional heads affect financial losses in regional governments throughout North Sulawesi. The data used in this study are primary data with a research sample of the North Sulawesi regional government. There are five independent variables to be tested, namely internal control system effectiveness, audit findings, audit opinions, TLHP settlement and characteristics of Regional Heads. The dependent variable in this study is the financial loss of the regional government. The population in this study were Civil Servants (or PNS) working in the Regional Inspectorate in 16 districts/cities throughout North Sulawesi Province totaling 80 people with functional positions as examiners. According to Sugiyono (2022), saturated sampling is a sample selection technique when all members of the population are sampled. The sampling technique in this study used the saturated sampling technique, where all populations in this study are the sample.

The data sources used in this study are primary data. Following Prasetyawati et al.

(2024), this study uses primary data where data obtained directly from research subjects using measurement tools or direct data collection on the subjects as a source of information sought. Data related to this, for example, data from interviews with related sections or data based on observations at the research location. For this study, a questionnaire is used to collect data; specifically, they gave participants a list of prepared statements and asked them to rate these statements based on their personal views. An ordinal Likert scale, ranging from 1 to 5, was used by all instruments. According to the study, there were five possible ratings for each statement: (1) Strongly Disagree; (2) Disagree; (3) Agree, and (4) Strongly Agree. The analysis techniques used in this study include analysis of respondent characteristics, descriptive analysis and hypothesis testing (outer model and inner model testing). Hypothesis testing is carried out using SmartPLS 3.0. The PLS approach is distribution free (does not assume certain data distribution, can be nominal, category, ordinal, interval and ratio). Partial Least Square is a powerful indeterminacy factor analysis method because it does not assume data must be with a certain scale measurement, small sample size.

4. Result and discussion

Result

Table 1 shows the R-square value for the regional financial loss obtained at 0.781. This result indicates that 78.1% of the regional financial loss can be influenced by the variables of internal control system effectiveness, audit findings, audit opinions, follow-up settlement and regional head characteristics. The results of regression show that all independent variables are significant at 5%.

Table 1. Hypothesis test results

	O	**M**	**STDEV**	**|O/STDEV|**	**Sig.**
Dependent variable: Regional financial loss					
Effectiveness of the internal control system	-0.261	-0.272	0.083	3.163	0.002
Audit findings	-0.182	-0.192	0.070	2.586	0.010
Audit opinion	-0.196	-0.206	0.079	2.464	0.014
Settlement of audit result follow-up	-0.279	-0.274	0.094	2.959	0.003
Characteristics of regional head	-0.211	-0.191	0.085	2.467	0.014
R Square	0.781				
R Square Adjusted	0.766				

Notes: O is original sample, M is sample mean, STDEV is standard deviation, and |O/STDEV| is t-statistics

In term to confirm the results in Table 1, Figure 1 depicts the test results for the impact of the effectiveness of the internal control system, audit findings, audit opinion, audit result follow-up, and regional head characteristics on regional financial losses.

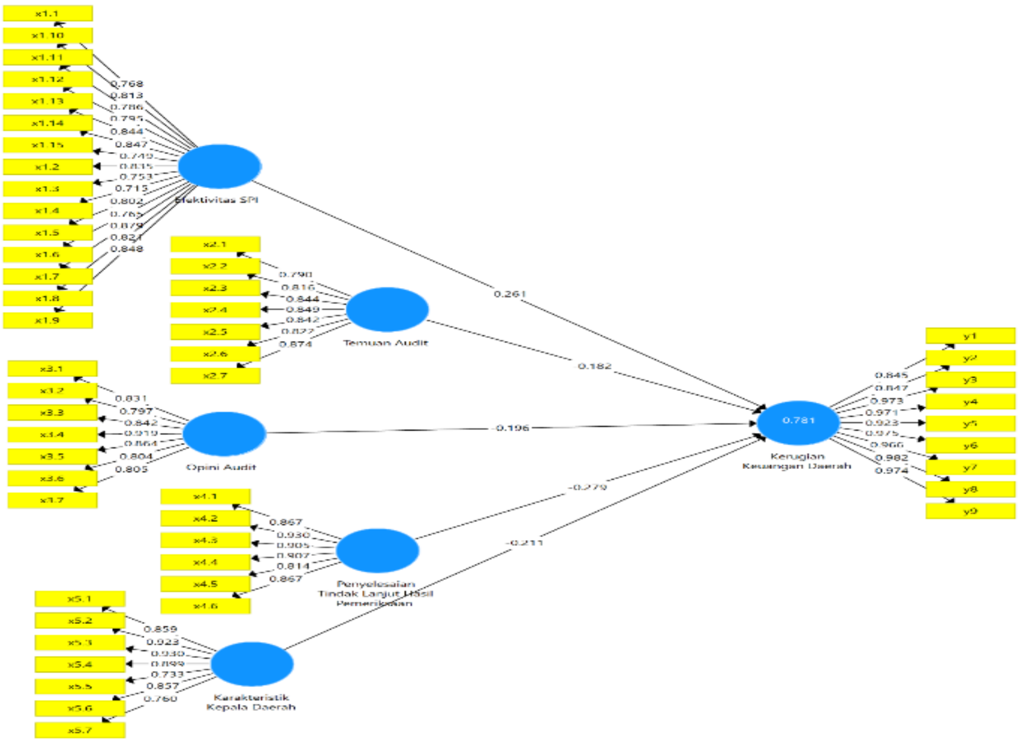

Figure 1. Structural model calculation results (inner model)

Discussion

- ***The effect of internal control system effectiveness on regional financial losses in regional governments in North Sulawesi***. The result indicates that the effectiveness of internal control system has a significant effect on regional financial losses in the North Sulawesi Regional Government, thus H1 of this study is accepted. The result implies that more effective the internal control system then regional financial losses can be reduced. This is in line with the stewardship theory which describes the government will act in accordance with the goals of the organization and support public satisfaction in increasing transparency and public accountability. The regional government designs the best possible internal control system, so that it is expected to prevent and minimize regional financial losses. So that the goals of the organization in terms of accountable financial management and also achieving the satisfaction expected by the community can be achieved. This is in line with Septariani and Asoka (2020), and Kalau and Leksair (2020) show that the effectiveness of the which shows that the internal control system has a significant effect on regional financial losses. An effective internal control system can help detect and prevent fraud that can cause financial losses. With strict monitoring procedures and transparent audit mechanisms, the opportunity for fraud can be minimized. A good internal control system ensures that the budget is used in accordance with the planning and objectives that have been set.
- ***The influence of audit findings on regional financial losses in regional governments in North Sulawesi***. This study finds that audit findings have a significant influence on regional financial losses in the North Sulawesi Regional Government, thus H2 of this study is accepted. Problems related to agency theory arise when the principal delegates authority to the agent. The agent exercises authority and obtains

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more information so that he can make decisions or policies that only prioritize the government and the authorities and ignore the interests and welfare of the people which is caused by asymmetric information. The Audit Board is present as a guarantor to the principal that the agent has or has not carried out financial accountability accountably. The result is consistent with Nurfaidah and Novita (2022), and Pertiwi and Haryanto (2022) which shows that audit findings have a significant effect on the level of corruption. In line with Ningsih and Haryanto (2022), audit findings often reveal non-compliance with regulations and policies that can result in financial losses.

- ***The influence of audit opinions on regional financial losses in regional governments in North Sulawesi***. The result indicates that audit opinion has a significant effect on regional financial losses in the North Sulawesi Regional Government, thus H3 of this study is accepted. This is in line with agency theory, the government as an agent and the community as a principal in carrying out the relationship between the two parties often experience asymmetric information problems. Therefore, to avoid this problem, the local government needs to increase transparency and financial accountability to the public. An audit opinion in the form of Unqualified Opinion as one of the proofs to the public that the government has carried out its obligations related to financial accountability properly in accordance with applicable regulations. This is to provide a sense of trust and avoid asymmetric information to the public in terms of financial management. The result of this study is in line with Nurfaidah and Novita (2022) which explains that audit opinion has a significant effect on corruption cases. In line with Pertiwi and Haryanto (2022), and Angelina et al. (2024), this finding implies that a high audit opinion increases public trust in local government. This trust can encourage public participation in various government programs and improve compliance with tax payments which in turn increases local revenue and reduces financial losses.
- ***The influence of follow-up settlement of audit results on regional financial losses in regional governments in North Sulawesi***. This study finds that the completion of follow-up has a significant effect on regional financial losses in the North Sulawesi Regional Government, thus H4 is accepted. In addition, based on the negative regression coefficient, it shows that the completion of follow-up has a negative effect on regional finances, so that the higher the completion of follow-up, the lower the regional financial losses in the North Sulawesi Regional Government. This is in line with the stewardship theory which describes the government will act in accordance with the goals of the organization and support public satisfaction in increasing transparency and public accountability of regional governments and the existence of rewards given for achieving this. The implementation of recommendations on the results of the BPK audit is a form of commitment from the regional government in supporting improvements and avoiding repeated findings, so that more accountable financial management is created. The government acting as a manager has an obligation to present information that is useful for users of government financial information who act as principals in assessing accountability and making decisions, both economic, social and political decisions. The government is required to provide the best service to the

community. Thus, management in the government environment is more dominant in acting as a steward. The result of this study is consistent with Liu and Lin (2021) which explains that improvement efforts made by the auditee as a follow-up to audit findings are effective in reducing corruption. In line with Naibaho and Shanti (2021), and Maulana and Fuadi (2023) which explain that improvement efforts made by the auditee as a follow-up to audit findings are effective in identifying corruption so it will impact reducing financial loss.

- ***The influence of regional head characteristics on regional financial losses in regional governments in North Sulawesi***. The result indicates that the characteristics of regional heads have a significant influence on regional financial losses in the North Sulawesi Regional Government thus H5 is accepted. This is in line with the stewardship theory which describes the government will act in accordance with organizational goals and support public satisfaction in increasing transparency and public accountability. The public chooses leaders who are trustworthy, have integrity and are professional in carrying out their obligations and responsibilities. Obligations and responsibilities include in terms of the implementation and accountability of state finances, in order to minimize regional financial losses. The implications of the stewardship theory for this study are that it can explain the existence of regional governments as institutions that can be trusted to accommodate community aspirations, can provide good services to the public, are able to make financial accountability entrusted to them, so that economic goals are met and community welfare can be achieved optimally. The result of the study is in line with Bunadi et al. (2022), and Martiqoh et al. (2023) which show that the characteristics of regional heads affect regional financial losses. Tama and Adi (2019) show that the characteristics of Regional Heads have a positive impact on regional financial performance. Regional heads with high integrity and ethics tend to avoid corruption and abuse of authority. Regional heads will ensure that every decision and policy taken is based on the principles of honesty and transparency, thereby reducing the possibility of financial losses due to unethical actions. Visionary regional heads have a clear long-term view and focus on sustainable development.

5. Conclusion

Based on discussion, it can be concluded that the effectiveness of the internal control system has a negative and significant effect on regional financial losses in the Regional Government in North Sulawesi. It implies that the higher the effectiveness of the internal control system, the lower the regional financial losses in the Regional Government in North Sulawesi. Audit findings have a negative and significant effect on regional financial losses in the Regional Government in North Sulawesi. The higher the audit findings, the lower the regional financial losses in the Regional Government in North Sulawesi. Audit opinion has a negative and significant effect on Regional Financial Losses in the Regional Government in North Sulawesi. The higher the audit opinion, the lower the regional financial losses in the Regional Government in North Sulawesi. Completion of follow-up has a negative and significant effect on Regional Financial Losses in the Regional Government in North Sulawesi. The higher the completion of follow-up, the lower the regional financial losses in the Regional Government in North Sulawesi. The characteristics of the regional head have a negative and significant effect on Regional Financial Losses in the Regional Government in North Sulawesi. The higher the characteristics of the regional head, the lower the regional financial losses in the Regional Government in North Sulawesi.

This study is limited to District/City and Provincial Governments in North Sulawesi. Data collection only uses questionnaires, not accompanied by interviews and documentation, so that this questionnaire method has several weaknesses regarding the quality of the information provided. It is very suggested that local governments can provide continuous training and development to employees regarding internal control systems to improve their understanding and skills, and determine clear and timely corrective actions for each audit finding to reduce the risk of financial loss. Local governments can conduct regular monitoring of the status of completion of follow-up audit findings to ensure that corrective actions are implemented according to plan. Further researchers can conduct similar research in other regions to obtain a comparison of the influence of these factors on regional financial losses in various contexts. Further researchers can conduct longitudinal data analysis to see long-term trends and changes in the influence of these factors on regional financial losses.

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