The impact of audit findings and follow-up actions on audit recommendations on audit opinions of financial statements with APIP capabilities as a moderating variable (A study on provincial/regencies/cities governments in Suluttenggo Region)

Dwinta Indriani  
Corresponding author: dwintaindriani063@student.unsrat.ac.id  
Sam Ratulangi University  
Indonesia

Jantje J. Tinangon  
Sam Ratulangi University  
Indonesia

Novi S. Budiarso  
Sam Ratulangi University  
Indonesia

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ABSTRACT

The audit opinion issued on government financial statements is the conclusion of the BPK audit process. These opinions provide a qualitative picture of financial management, reflecting the accountability and transparency of local government. This research analyses the influence of audit findings and follow-up actions on audit recommendations (or TLRHP) on audit opinions and examines the moderating effect of APIP capabilities on this relationship. An analytical method employed is binary logistic regression analysis with the absolute difference test. This study used secondary data from the BPK IHPS and the Financial and Development Supervisory Agency (or BPKP) annual performance report. The data encompasses 37 provincial, regency, and city governments in North Sulawesi, Central Sulawesi, and Gorontalo for the fiscal period 2018 to 2022. The results reveal that audit findings have no significant impact on audit opinions. Conversely, both TLRHP and APIP capabilities have a significant influence on audit opinions. Furthermore, APIP capabilities moderate the relationship between TLRHP and audit opinions but not the relationship between audit findings and opinions.

Keywords: audit opinions; audit findings; TLRHP; APIP capabilities

JEL Classification: H11 & H83

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1. Introduction

Implementation of Law Number 32 of 2004 on Regional Government, specifically Article 184 (1), mandates regional governments to prepare Regional Government Financial Statements (or
LKPD) as a form of accountability for the execution of the Regional Revenue and Expenditure Budget (or APBD). The preparation of LKPD necessitates transparent and accountable regional financial management to achieve good governance and clean government. Financial reports are a primary mechanism for establishing public accountability (Rutherford, 2000). Local governments are required to submit LKPD that comply with Government Accounting Standards (or SAP) to Audit Board of the Republic of Indonesia (or BPK) for auditing. BPK will issue an audit report containing an audit opinion. According to Law Number 15 of 2004, the issuance of an audit opinion is based on criteria such as compliance with government accounting standards, adequate disclosure, adherence to laws and regulations, and the effectiveness of internal control systems.

Based on the Summary of Audit Results (or IHPS) for Semester I 2023, it is evident that several provincial, regency, and city governments in the North Sulawesi, Central Sulawesi, and Gorontalo (or Suluttenggo) region have received audit opinions other than Unqualified Opinion (or WTP) for their financial statements during the 2018-2022 fiscal years. It indicates that some regional governments have yet to demonstrate transparent and accountable management of their regional finances by applicable regulations. This lack of transparency and accountability has a material impact on the fair presentation and disclosure of their financial statements.

Beyond issuing audit opinions on local government financial statements, the BPK also identifies audit findings related to issues discovered during the audit process. Through these findings, the BPK provides recommendations to improve the management of government finances. It aligns with the mandate outlined in Law Number 15 of 2004, which empowers the BPK to issue audit opinions, give evaluative recommendations, and monitor the implementation of audit recommendations. Implementation of audit recommendations is imperative for audited entities as it serves as feedback on the audit process and as an initial step toward improving the transparency and accountability of local financial management.

To enhance transparency, accountability, and public trust, internal control function in local government is an essential factor. This function is carried out by the Internal Government Control Apparatus (or APIP), represented by Regional Inspectorate at the local government level. APIP plays a pivotal role in improving the accountability and transparency of government operations. To effectively fulfill their role, APIP must possess strong capabilities to enhance the performance of local governments, particularly in the financial reporting process. One of the responsibilities of APIP is conducting regular audits of local government units throughout the fiscal year. It enables early detection and prevention of irregularities and allows for the review of financial statements. The results of APIP reviews must be addressed by the local government units before the local financial statements are submitted to the BPK for auditing.

Previous research on the influence of audit findings, TLRHP, and APIP capabilities on audit opinions have yielded inconsistent results. Salsabila and Wahyudi (2022) find that insignificant relationship between audit findings and opinions. Similarly, Pratiwi and Aryani (2017) report that TLRHP did not influence audit opinions. However, Ageng and Usman (2023) observe a positive association between APIP capabilities and audit opinions. In contrast, Amyulianthy et al. (2020) discovered a negative influence of audit findings and a positive influence of TLRHP. Furthermore, Juniati (2021) states that APIP capabilities did not affect
audit opinions, but the completion of TLRHP did.

Beyond core activities of conducting audits, reviews, and evaluations, Regional Inspectorate, as APIP, plays a crucial role in monitoring the follow-up of BPK audit recommendations. APIP is responsible for collecting data on the follow-up of these recommendations from local government units before submitting it to the BPK. Therefore, APIP's capabilities are considered an integral part of a local government's role in financial accountability. A higher level of APIP capability within a local government signals a positive commitment to internal controls. It provides greater assurance regarding the achievement of the local government's organizational objectives, such as operational effectiveness and efficiency, reliable financial reporting, asset safeguarding, and compliance with laws and regulations. This study aims to identify the factors influencing audit opinions, given the inconsistencies found in previous research. Unlike prior studies, this research will examine the moderating effect of APIP capabilities on the relationship between audit findings and TLRHP on audit opinions of government financial statements, because APIP serves as an internal government auditor and is indirectly involved in the audit process, including monitoring the implementation of BPK's audit recommendations.

2. Literature review

Agency theory

Jensen and Meckling (1976) define agency theory as a contractual relationship between a principal and an agent, where the principal delegates decision-making authority to the agent. They identified two primary problems within agency theory: moral hazard and adverse selection. The root cause of these issues is information asymmetry, where one party possesses more information than the other especially in public sector (Evans & Patton, 1987).

Zimmerman (1977), and Bergman and Lane (1990) argue that agency problems occur in all organizations, private and public. In the public sector, citizens act as principals, delegating authority to agents, such as the legislative and executive, to manage public households. Government officials, as providers of public services, possess more information and may make decisions or policies that prioritize government and ruling elites over the interests and well-being of the public. Local governments must reduce the issues by enhancing transparency and public accountability by providing high-quality financial reports, strengthening internal control systems, and ensuring comprehensive disclosures. Since 2001, Indonesia has implemented decentralization and regional autonomy principles, granting local governments the authority and responsibility to manage their households, including local public policies and financial management for operational activities and public services. BPK is mandated to audit the governance and accountability of public finances. The audit aims to reduce information asymmetry between the public and the government.

Stewardship theory

Stewardship theory is related to concepts such as the model of man, behavioral aspects, psychological mechanisms (motivation, identification, and power), and situational mechanisms encompassing management philosophy and cultural differences. Donaldson and Davis (1991), and Davis et al. (1997) posit that stewardship theory leads to behaviors aligned with organizational goals, where stewards believe their interests align with principals. As steward and principal interests diverge, stewards are inclined to cooperate rather than oppose, as they perceive a shared interest and believe that acting in alignment with the principals' interests is a rational consideration.
Stewardship theory assumes a strong relationship between organizational success and principal satisfaction, suggesting that maximizing principal satisfaction maximizes the steward's utility.

**Expectancy theory**

Koontz et al. (1993) propose that individuals are motivated to undertake defined actions when they believe those actions will lead to desired outcomes. The core idea of this theory is that motivation is committed to an individual's expectations regarding the results of their actions. In increasing individual performance in organizations, a more indirect approach is necessary. It involves empowering internal auditors and fostering motivation through organizational support. Applying expectancy theory, an increase in the capabilities of APIP as internal auditors, driven by expectations and support from local governments, is anticipated to improve local government performance in achieving regional financial accountability and transparency.

**Audit opinions**

According to Law No. 15 of 2004 on the Examination of State Financial Management and Accountability, the BPK is mandated to audit the management and accountability of state finances. BPK issues opinions on the results of financial statement audits, which are professional statements regarding the fairness of the financial information presented in the financial statements. The issuance of audit opinions refers to criteria such as compliance with government accounting standards, adequate disclosure, adherence to laws and regulations, and the effectiveness of internal control systems. There are four types of audit opinions of government financial statements: Unqualified Opinion (or WTP), Qualified Opinion (or WDP), Adverse Opinion (or TW), and Disclaimer of Opinion (or TMP). Audit opinions on local government financial statements serve as an accountability mechanism for the management of public sector finances. Entities receiving an WTP have higher credibility than those receiving opinions other than it. Audit opinions also serve as a reference for the Ministry of Finance in assessing the performance of local governments and as a guideline for providing rewards and penalties to local governments.

**Audit findings**

Audit findings are the results of evaluating audit evidence collected against audit criteria. Audit findings can indicate either compliance or non-compliance with audit criteria or opportunities for improvement. Non-compliance references a divergence from audit criteria supported by objective evidence that the auditor must investigate to determine the specific audit criteria violated and recommend corrective actions based on the ISO 9000. Based on the IHPS Semester 1 2023 published by the BPK, audit findings are categorized into two types which are Weaknesses in Internal Control Systems (or SPI) and Non-Compliance with Laws and Regulations.

**TLRHP**

Tugiman (1997) defines the follow-up of internal auditor recommendations as a process to determine the adequacy, effectiveness, and timeliness of various actions taken by management in response to reported audit findings. Accomplishment of follow-up actions on BPK audit findings is a crucial step for the audited party to address identified issues and support continuous improvement in subsequent accounting periods, thereby enhancing transparency and accountability in the management and accountability. So, a higher level of accomplishment of BPK audit recommendations by an entity will be considered by BPK in issuing audit
opinions. Based on BPK Regulation No. 2 of 2017, follow-up actions on BPK audit recommendations must be done by the relevant officials and reported to the BPK within 60 days of receiving the audit report. The BPK monitors the follow-up action on audit recommendations every semester, where explanations and supporting documents submitted by the entity are reviewed and determined. The results of determining are classified as follows: TLRHP is accomplished, TLRHP isn't accomplished, recommendations have not been followed up, and recommendations cannot be followed up.

**APIP capabilities**

APIP capabilities refer to the ability of the APIP to carry out oversight tasks, encompassing the capacity, authority, and competence of APIP human resources, which are interconnected and must be possessed by the APIP to realize an efficacious APIP role (BPKP Regulation, Per-1633/K/JF/2011). Improving APIP capability levels will assist local governments in achieving accountable public financial management. Liable financial management ensures accountable governance of local governments, which is estimated to increase the quality of financial reporting. Based on the Head of BPK Regulation No. 8 of 2021, it is known that the assessment is carried out independently by the APIP, accompanied by an evaluation of the results of the self-assessment and the determination of the APIP capabilities level, as well as monitoring follow-up actions carried out by the Financial and Development Supervisory Agency (or BPKP). The assessment components include oversight support, oversight activities, and oversight quality. There are five levels of APIP capabilities: Level 1 Initial, Level 2 Structured, Level 3 Delivered, Level 4 Institutionalized, and Level 5 Optimized.

**Hypothesis development**

- **Audit findings and audit opinion.** An agency problem arises when a principal delegates decision-making authority to an agent (Zimmerman, 1977). In the government sector, agency problems occur between elected and appointed government officials as agents and the voters (public) as principals. Government officials, as providers of public services, have more information and can make decisions or policies that prioritize government and ruling elites over the interests and well-being of the public. Governments must reduce the issues by enhancing transparency and public accountability through the disclosure of accountability reports for the management of state finances. The BPK conducts audits of government financial statements based on audit standards to assess the truthfulness, accuracy, credibility, and reliability of information on the management and accountability of state finances. The results of these audits are reflected in the audit opinion and report issued by the BPK. The BPK audits the Internal Control System (or SPI) effectiveness and compliance with laws and regulations to obtain reasonable assurance and fairness of these financial statements. The report on the results of this audit is an integral part of the audited government financial statements. It underscores the critical role of SPI effectiveness and compliance in determining audit decisions, encompassing everything from the initial audit plan to the issue of the final opinion on the audit results. The more audit findings found by the auditor during the audit, the lower the SPI effectiveness and compliance with laws and regulations done by the entity. Several studies such as Siregar and Rudiansyah (2019), and Amyulianthy et al. (2020) support that
audit findings significantly influence the BPK's opinion. However, Salsabila and Wahyudi (2022) also suggest that audit findings may not have a significant effect, while Mutiara et al. (2022) find that compliance findings impact the opinion, but SPI findings do not. Therefore, this study combines audit findings on SPI effectiveness and compliance into one variable to test their combined effect on the audit opinion. Based on the evidence, this study hypothesized as follows.  

\[ H_1: \text{audit findings significant on the audit opinion of the financial statements} \]

- **TLRHP and audit opinion.** The level of completion of TLRHP can also be an indicator of adverse selection. Completing these actions is mandatory for the audited entity. It serves a dual purpose: providing feedback on the audit process and initiating improvements in local financial management. As governments fail to implement audit recommendations, it suggests an unwillingness to accept the auditor's suggestions. It can lead to moral hazard, where the agent (government) acts in its interest, potentially harming the principal (public). The BPK monitors the follow-up actions taken on audit recommendations from previous government financial statements as part of the current audit. The results are part of the BPK audit report for government financial statements. Monitoring TLRHP is one of the procedures used to assess the effectiveness of the Internal Control System (or SPI) implemented by the government. This approach aligns with stewardship theory, which posits that the government should act by organizational goals and support public satisfaction by enhancing transparency and accountability. Implementing follow-up actions as a form of improvement can reduce recurring audit findings. In turn, these reductions can be a factor when auditors issue their opinions on the financial statements. Pratiwi and Aryani (2017) find insignificant correlation between TLRHP and the audit opinion. However, contrasting findings emerged by Amyulianthy et al. (2020), Juniati (2021), and Salsabila and Wahyudi (2022) who found a significant impact. Based on the evidence, this study hypothesized as follows.  

\[ H_2: \text{the TLRHP significant on the audit opinion of the financial statements} \]

- **APIP capabilities and audit opinions.** In addition to the annual audits of local government financial statements conducted by the BPK, robust internal control functions are essential for promoting transparency, accountability, and public trust in local governments. These internal control functions are primarily executed by the Regional Inspectorate, which acts as APIP. This emphasis on internal controls aligns with stewardship theory that posits governments should operate by organizational objectives and strive to meet public expectations regarding transparency and accountability. Consequently, enhancing APIP capability reflects a local government's commitment to more transparent and accountable financial management. This commitment is achieved through improved internal audit functions (assurance and consulting) aligned with professional standards and practices. A higher level of APIP capability within a local government is a positive indicator of efficacious internal controls, which in turn, enhances public trust in the local government's ability to achieve its organizational objectives. These
objectives include operational efficiency, reliable financial reporting, asset safeguarding, and compliance with laws and regulations. Furthermore, a strong APIP can indirectly influence the outcomes of BPK audits. Studies on the relationship between APIP capabilities and audit opinions have yielded mixed results. Ageng and Usman (2023) find a significant positive impact, while Juniati (2021) reports insignificant impact on APIP capability but did find a positive effect from TLRHP. Based on the evidence, this study hypothesized as follows. 

\[ H_3: \text{APIP capabilities significant on the audit opinion of financial statements} \]

- **Audit findings, TLRHP, audit opinion, and APIP capabilities.** APIP, specifically Regional Inspectorate, constitutes the internal control system in local governments. Their responsibilities include conducting audits, reviews, evaluations, and other oversight activities such as monitoring, consulting, and guiding to enhance risk management effectiveness and governance quality. A responsibility of the APIP in local government financial management is to conduct regular audits of government units during the fiscal year. It can detect and prevent irregularities in government unit management and review financial statements. Government units must follow up on the results of these reviews before submitting local government financial statements to the BPK for audit. Regional Inspectorate has a significant role in monitoring the TLRHP. They collect data on the follow-up actions on audit recommendations from relevant government units before submitting them to the BPK. A higher level of APIP capability within a local government is a positive indicator of efficacious internal controls. It, in turn, enhances public trust in the local government’s ability to achieve its organizational objectives. These objectives include operational efficiency, reliable financial reporting, asset safeguarding, and compliance with laws and regulations. Furthermore, a strong APIP can indirectly influence the outcomes of BPK audits. Based on the evidence, this study hypothesized as follows. 

\[ H_4: \text{audit findings significant on the audit opinion of financial statements with APIP capabilities as a moderating variable} \]

\[ H_5: \text{TLRHP significant on the audit opinion of financial statements with APIP capabilities as a moderating variable} \]

3. **Research method**
   This study employs a descriptive approach using a quantitative methodology. The study consists of three variables: dependent, independent, and moderating. 

- The dependent variable is audit opinion and measured by categorizing it into unqualified opinions and opinions other than unqualified opinions. Local governments receiving an unqualified opinion are assigned a value of 1. Conversely, those receiving a qualified, adverse, or disclaimer of opinion are assigned a value of 0. The measurement of audit opinion by creating categorical data aligns with Mutiara et al. (2022), and Siregar and Rudiansyah (2019).

- The independent variables are audit findings and TLRHP. The audit findings are measured based on the total amount of weaknesses in the internal control system and non-compliance with regulations findings by BPK. The measurement of audit
findings refers to Mutiara et al. (2022), and Amyulianthy et al. (2020). TLRHP is measured based on the total amount of accomplishment follow-up action divided by the total of audit recommendations. The measurement of TLRHP refers to Mutiara et al. (2022) and Juniati (2021).

- The moderating variable is APIP capabilities and measured based on the results of the periodic assessment conducted by the BPKP. The measurement of audit capability refers to Juniati (2021).

The population in this study includes the 37 provincial/regency/city governments in the Sulut tenggo region. The period of observation is the fiscal year 2018 to 2022. Data collection utilizes a saturated sampling technique, meaning all populations are included as samples. The total sample size for this study is 185. Secondary data sources include data on the opinion of the financial statements of provincial/district/city governments in the Sulut tenggo region, data on audit findings on financial audit statements for the fiscal year, and data on TLRHP. This data is obtained from the IHPS reports archived by the BPK. Additionally, data on the assessment of the APIP capability of provincial/regency/city governments in the Sulut tenggo region was obtained from the BPKP Annual Performance Report archived by the BPKP. The testing employs moderation analysis with binary outcomes and absolute difference value tests. This regression is suitable when the dependent variable is dichotomous categorical, consisting of two categories with moderating variables. The empirical model used in testing the hypothesis is presented as follows.

\[ Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 |X_1 - X_3| + \beta_5 |X_2 - X_3| + \epsilon \]

Y is audit opinions, \( \alpha \) is constant, \( \beta_1 - \beta_4 \) is regression coefficient, \( X_1 \) is audit findings, \( X_2 \) is TLRHP, \( X_3 \) is APIP capabilities, \( |X_1 - X_3| \) is moderation with absolute difference value between audit findings and APIP capabilities, \( |X_2 - X_3| \) is moderation with absolute difference value between TLRHP and APIP capabilities, and \( \epsilon \) is error term.

4. Result and discussion

Result

Table 1 presents the descriptive statistics of each variables in this study. The average audit opinion score and the standard deviation were 0.8378 and 0.36960. It indicates that the average audit opinion of the regional governments in the sample was "Unqualified Opinions." The average number of audit findings and the standard deviation were 14.7730 and 4.53876. The highest number reached 33 and the lowest was 6. The high standard deviation indicates a wide variation in the audit findings data. The TLRHP had a maximum value of 0.92, a minimum of 0.28, and an average of 0.6994 with a standard deviation of 0.12190. It suggests that the average TLRHP by local governments is still relatively low. The average APIP capabilities was 2.2054 with a standard deviation of 0.72305. The first moderating variable, the interaction between the audit findings and APIP capabilities, had an average of 1.2220 with a standard deviation of 0.95076. In contrast, the second moderating variable, the interaction between the TLRHP and APIP capabilities, had an average of 0.9957 with a standard deviation of 0.73603.
Table 1. Descriptive statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std Dev</th>
</tr>
</thead>
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<tr>
<td>Audit opinions</td>
<td>185</td>
<td>0.00</td>
<td>1.00</td>
<td>0.8378</td>
<td>0.36960</td>
</tr>
<tr>
<td>Audit findings</td>
<td>185</td>
<td>6.00</td>
<td>33.00</td>
<td>14.7730</td>
<td>4.53876</td>
</tr>
<tr>
<td>TLRHP</td>
<td>185</td>
<td>0.28</td>
<td>0.92</td>
<td>0.6994</td>
<td>0.12190</td>
</tr>
<tr>
<td>APIP capabilities</td>
<td>185</td>
<td>1.00</td>
<td>3.00</td>
<td>2.2054</td>
<td>0.72305</td>
</tr>
</tbody>
</table>

Table 2 presents the result of test for overall model fit. The initial -2Log-likelihood (block number = 0) is 163.998. After including independent and moderating variables, the final -2Log likelihood (block number = 1) decreased to 107.758. The difference between the initial and final -2Log-likelihood values was 56.24. The decreasing -2Log-likelihood value signals that the hypothesized model fits the data well. Furthermore, the Hosmer-Lemeshow test has chi-square statistic of 4.459 with a significance level of 0.814 which indicates that the regression model is fit. The Nagelkerke R$^2$ is 0.446 which indicates that audit findings, TLRHP, and APIP capabilities explain 44.6% of the variation of audit opinion while 55.4% is explained by other variables.

Table 2. Model fit

<table>
<thead>
<tr>
<th>Overall model fit</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial -2Log likelihood (block number = 0)</td>
<td>163.998</td>
</tr>
<tr>
<td>Final -2Log likelihood (block number = 1)</td>
<td>107.758</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Omnibus test</th>
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<tbody>
<tr>
<td>Chi-square</td>
<td>56.24</td>
</tr>
<tr>
<td>Sig.</td>
<td>0.000</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Goodnes of fit (Hosmer-Lemeshow test)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-square</td>
<td>4.459</td>
</tr>
<tr>
<td>Df</td>
<td>8</td>
</tr>
<tr>
<td>Sig.</td>
<td>0.814</td>
</tr>
</tbody>
</table>

| Nagelkerke R$^2$                   | 0.446  |

Table 3 shows the result of logistic regression analysis. The result shows that audit findings and Moderating I are insignificant at 5%. Reversely, the variables of TLRHP, APIP capabilities, and Moderating II are significant at 5%.
Table 3. Logistic regression

<table>
<thead>
<tr>
<th></th>
<th>B</th>
<th>S.E.</th>
<th>Wald</th>
<th>Df</th>
<th>Sig.</th>
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<tbody>
<tr>
<td>Constant</td>
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<td>2,060</td>
<td>17,058</td>
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<td>0,000</td>
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<tr>
<td>Audit findings</td>
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<td>0,089</td>
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<td>TLRHP</td>
<td>8,869</td>
<td>2,268</td>
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<td>0,000</td>
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<tr>
<td>APIP capabilities</td>
<td>1,873</td>
<td>0,601</td>
<td>9,704</td>
<td>1</td>
<td>0,002</td>
</tr>
<tr>
<td>Moderating I</td>
<td>0,627</td>
<td>0,449</td>
<td>1,952</td>
<td>1</td>
<td>0,162</td>
</tr>
<tr>
<td>Moderating II</td>
<td>1,058</td>
<td>0,362</td>
<td>8,535</td>
<td>1</td>
<td>0,003</td>
</tr>
</tbody>
</table>

Moderating I is audit findings and APIP capabilities; and Moderating II is TLRHP and APIP capabilities.

Discussion

- **Audit findings and audit opinion.** The result indicates that the audit findings is not statistically significant so H₁ is rejected. It suggests that audit findings have no significant impact on government financial statement audit opinions which is consistent with Salsabila and Wahyudi (2022). This result contradicts agency theory, which posits that BPK is crucial in enhancing government transparency and accountability. One possible explanation for this discrepancy is the imprecise measurement of audit findings using only nominal values. Field analysis reveals that determining the nominal value of findings is highly subjective and lacks standardized guidelines. Consequently, measuring audit findings based solely on nominal value may yield biased results.

- **TLRHP and audit opinions.** The result shows that TLRHP is 15.299 and statistically significant so H₂ is accepted. The result indicates that TLRHP has a significant impact on audit opinions of government financial statements. The positive coefficient of 8.869 indicates that a higher value of TLRHP is associated with better audit opinions. These findings align with Salsabila and Wahyudi (2022) and Amyulianthy et al. (2020). This finding is consistent with stewardship theory where governments behave to align with organizational goals and seek to enhance public satisfaction by increasing transparency and accountability in local government operations. Moreover, the theory suggests that governments are more likely to pursue these objectives when incentives, such as rewards, are provided. Implementing BPK audit recommendations demonstrates a commitment to improving financial management and enhancing transparency and accountability in local government. Implementing BPK audit recommendations demonstrates a commitment to improving financial management and enhancing transparency and accountability in local government.

- **APIP capabilities and audit opinions.** The result indicates that the APIP capabilities is 9.704 and statistically significant so H₃ is accepted. It suggests that APIP capabilities have a significant impact on audit opinions of government financial statements. The positive coefficient of 1.873 indicates that a higher level of APIP capabilities is associated with better audit opinions which is consistent with Ageng and Usman (2023). This finding is consistent with stewardship theory, which posits that governments will behave to align with organizational goals and seek to enhance public satisfaction by increasing transparency and accountability in local government.
operations. Moreover, the theory suggests that governments are more likely to pursue these objectives when incentives, such as rewards, are provided. The enhancement of APIP capabilities serves as a testament to the commitment of local governments to achieving improved transparency and accountability within local government financial management practices through strengthened internal audit functions.

- **Audit findings, audit opinions, and APIP capabilities (Moderating I).** The result indicates that the interaction variable between audit findings and APIP capabilities is 1.952 which is significant so \( H_4 \) is rejected. It suggests that APIP capabilities do not moderate the relationship between audit findings and opinions.

- **TLRHP, audit opinions, and APIP capabilities (Moderating II).** The result indicated that the interaction variable between TLRHP and APIP capabilities is statistically significant. In this case, this study accepts the \( H_5 \) and suggests that APIP capabilities moderate the relationship between TLRHP and audit opinions.

5. **Conclusion**

Our findings indicate that audit findings do not significantly impact audit opinions. Conversely, both TLRHP and APIP capabilities have a significant influence on audit opinions. Furthermore, APIP capabilities moderate the relationship between TLRHP and audit opinions but not the relationship between audit findings and opinions. There are some limitations of this study. First, the research was limited to local governments in North Sulawesi, Central Sulawesi, and Gorontalo. Second, the analysis focused on a limited set of factors influencing audit opinions: audit findings, TLRHP, and APIP capabilities. Additionally, the measurement of audit findings solely considered the quantity of findings reported by the BPK without incorporating their significance or materiality. Future research on government audit opinions could benefit from a larger and more geographically diverse sample of local governments. Additionally, including other factors could provide a more comprehensive understanding of the factors influencing audit opinions. Refining the measurement of audit findings to consider significance and materiality would further enhance the accuracy of future studies.

**References**


