

The Influence of Internal Control System Weaknesses and Non-Compliance on Bpk Opinion on Regional Government Financial Statements

Vina Citra Mulyandani¹

¹Accounting Department, Politeknik Negeri Bandung, Indonesia

ABSTRACT: Sulawesi Island had the highest number of findings in one of the districts or cities with WTP opinions, while districts and cities with Non-WTP opinions had fewer findings. The aim of this research is to examine the influence of SPI weaknesses and non-compliance on audit opinions on LKPD on Sulawesi Island for the 2020 fiscal year. The research method used was quantitative, with a descriptive and verification approach. The hypothesis was tested using logistic regression analysis. The research results show that SPI weaknesses have a negative effect on audit opinions, non-compliance has a negative effect on audit opinions, and the findings of SPI weaknesses and non-compliance together have a negative effect on audit opinions on LKPD on Sulawesi Island.

KEYWORDS- BPK Opinion, SPI Weaknesses, Non-Compliance

I. INTRODUCTION

To provide adequate assurance that the financial reports have been presented fairly and materially in accordance with generally accepted accounting principles in Indonesia, the BPK carries out an examination of the Regional Government Financial Reports (LKPD). The former Deputy Chair of the BPK explained that there are several characteristics that differentiate LKPD from entity financial reports. This characteristic is that only the BPK has the authority to examine LKPD and LKPD will increase along with regional expansion. The LKPD must be audited first by the BPK before the report is submitted to the DPR, DPD and the public. BPK conducts LKPD audits in accordance with the mandate of Law Number 15 of 2004 concerning Audits of State Financial Management and Responsibility. The BPK provides four types of opinions, namely Reasonable Without Exception (WTP), Reasonable With Exception (WDP), No Opinion (TMP), and Unfair (TW). The WTP opinion is the most ideal of the four opinions, and all local governments strive to achieve the WTP opinion.

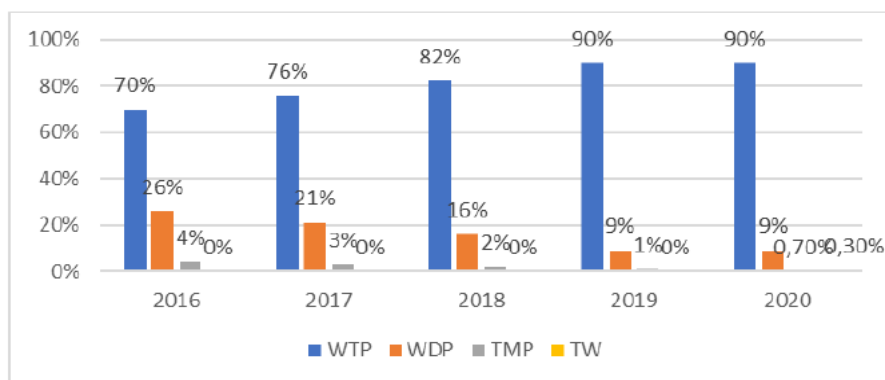
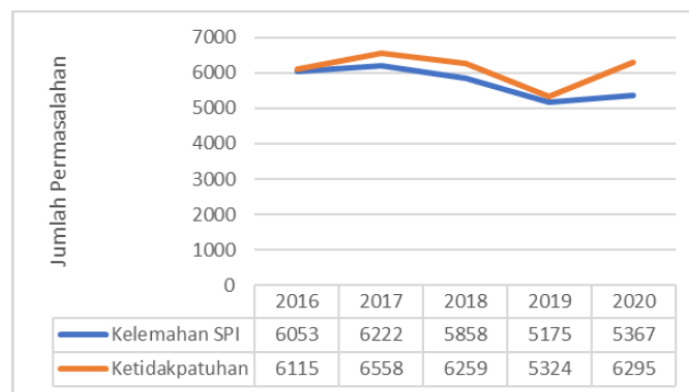


Figure 1 shows the BPK's opinion on LKPD from 2016 to 2020 which has increased. In 2016, the percentage of LKPD that received a WTP opinion was 70%. Until 2020, WTP opinion experienced a significant increase with a percentage reaching 90%. In 2020, the BPK also provided 49 WDP opinions (9%), 4 TMP opinions (0.70%), 2 TW opinions (0.30%), where these opinions were still not considered optimal. In contrast to previous years, where no LKPD received a TW opinion, in 2020 there were 2 local governments that received a TW opinion. A TW opinion is given if the SPI is ineffective and there is a material misstatement in the LKPD. So overall, the LKPD presented is unreasonable and does not comply with SAP.



Although the WTP opinion increased from 2016 to 2020, this was not offset by a significant decrease in the number of findings of SPI weaknesses and non-compliance. From 2019 to 2020 there was an increase in the number of findings. Based on Figure 2, during 2020 the BPK reported inspection findings of 5,367 SPI weakness problems. Apart from that, the results of BPK inspections revealed 6,295 cases of non-compliance with statutory provisions. In 2020, this non-compliance problem caused state losses of 2.07 trillion rupiah.

| Opini | Jumlah Opini | Jumlah Temuan Tertinggi |
|-------|--------------|-------------------------|
| WTP | 72 | 25 kasus |
| WDP | 7 | 23 Kasus |
| TMP | 1 | 21 Kasus |
| TW | 1 | 15 Kasus |

In a narrower scope, especially the Regional Government on Sulawesi Island has not shown maximum results regarding the provision of opinions and audit findings. One of the regional governments that accepts TW's opinion is Kab. North Minahasa. The inspection results showed that the highest number of findings was in Kab. Konawe, namely 25 findings. Even though the district Konawe received a WTP opinion. Apart from that, Kab. North Minahasa, which received TW's opinion, showed 15 findings. This is contrary to Law Number 15 of 2004 concerning Examination of Management and Responsibility of State Finances, which explains that the opinion given by the BPK is based on criteria including "(1) conformity with Government Accounting Standards; (2) adequate disclosures; (3) compliance with statutory regulations, and (4) effectiveness of the Internal Control System (SPI)."

II. LITERATUREREVIEW

Weaknesses of SPI

Based on PP Number 60 of 2008 concerning Internal Control Systems, the definition of SPI: "The Internal Control System is an integral process of actions and activities carried out continuously by management and all employees to provide adequate confidence in the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, security of state assets, and compliance with laws and regulations. -invitation."

Meanwhile, SPI weaknesses are "audit results that explain all matters relating to weaknesses in

internal control over financial reporting which are considered as conditions that can be reported" (Bastian, 2014). The results of the inspection report by the BPK indicate that the findings of SPI weaknesses can be classified into:

1. Findings of weaknesses in the accounting and reporting control system: including recording that has not been carried out accurately, preparing reports that do not comply with applicable regulations, as well as other problems related to the accounting and reporting control system.
2. Findings of weaknesses in the revenue and expenditure budget implementation control system: related to the lack of adequate activity planning, deviations from regulations regarding income and expenditure, and other problems related to the revenue and expenditure budget implementation control system.
3. Findings of weaknesses in the internal control structure: including findings regarding SOP procedures that have not been prepared or are incomplete, SOPs that have not been implemented optimally, and other problems related to weaknesses in the internal control structure that occur in local governments.

Disobedient

According to the Financial Audit Agency (BPK), non-compliance with laws and regulations refers to acts of breaking the law, fraud and non-compliance which directly have a significant impact on the presentation of financial reports. The results of the inspection report by the BPK indicate that non-compliance findings can be classified into:

1. Findings of losses to local government: including the number of findings related to reductions in the volume of work and/or goods, findings regarding expenditure that exceeds or does not comply with provisions, as well as findings of other loss problems.
2. Findings of potential regional losses: including findings such as unpaid excess payments to partners, the discovery of assets whose whereabouts are unknown, as well as the discovery of other potential problems that could cause losses.
3. Findings of regional revenue shortfalls: including findings such as fines for late work that have not been collected/received, findings of revenue other than late fines that have not been collected/received, and findings of other revenue shortfalls.
4. Findings of administrative irregularities: revealing findings of violations of regulations related to Regional Property (BMD), findings related to evidence of responsibility that cannot be accounted for/not complied with (other than official travel), and findings of other administrative violations.

BPK Opinion

Definition of Opinion according to Law Number 15 of 2004 concerning Examination of State Financial Management and Responsibility:

"Opinion is an auditor's professional statement regarding the fairness of financial information presented in financial reports which is based on the criteria of conformity with government accounting standards, adequacy of disclosures, compliance with laws and regulations, and the effectiveness of the internal control system."

Meanwhile, according to Mulyadi (2014: 19), the definition of audit opinion is "An audit opinion is an opinion given by an auditor regarding the fairness of the presentation of the financial statements of the company where the auditor is conducting an audit."

Law Number 15 of 2004 concerning Auditing of State Financial Management and Responsibility regulates four types of opinions that can be given by auditors, namely:

"a. Unqualified Opinion (WTP) or unqualified opinion: States that the financial statements of the entity being examined present fairly, in all material respects, the financial position, results of operations and cash flows of the particular entity in accordance with generally accepted accounting principles in Indonesia.

b. Qualified Opinion (WDP) or qualified opinion: States that the audited entity's financial statements present fairly in all material respects the financial position, results of operations and cash flows of the entity in

accordance with generally accepted accounting principles in Indonesia, except for the impact matters relating to those excluded.

c. Unfair Opinion or adverse opinion: States that the financial statements of the entity being examined do not fairly present the financial position, results of operations and cash flows of a particular entity in accordance with generally accepted accounting principles in Indonesia.

d. Statement of refusal to provide an opinion (disclaimer of opinion) or Not Providing an Opinion (TMP): States that the Auditor does not express an opinion on the report if the scope of the audit carried out is not sufficient to form an opinion."

III. RESEARCH METHOD

This research uses quantitative methods with descriptive and verification approaches. Meanwhile, for the time horizon, this research uses a cross sectional approach, namely examining various samples in one period. Purposive sampling technique was used to determine the research sample. The samples used were Regency and City Governments on Sulawesi Island. The reason for selecting this sample is because in every Regional Government that submits its financial reports, only the Regional Government on Sulawesi Island receives a complete opinion, including WTP, WDP, TMP and TW opinions. Data collection was carried out through secondary data sources obtained from E-PPID BPK. The analysis carried out included descriptive statistical analysis and logistic regression.

IV. RESULT AND DISCUSSION

Statistical analysis of the data used in this research is logistic regression analysis. Logistic regression analysis has four tests, namely assessing the entire model (Overall Model Fit), testing the feasibility of the regression model (Goodness of Fit Test), coefficient of determination (Nagelkerke's R Square) and Classification Matrix (Ghozali, 2018:332-334). The BPK opinion variable uses a dummy variable with a value of 1 to express WTP opinion and a value of 0 for Non-WTP opinion.

1. Testing -2 Log Likelihood

This test aims to determine whether the logistic regression model used is acceptable or not. The test was carried out by comparing the initial -2 Log Likelihood value (Block 0) with the final -2 Log Likelihood value (Block 1). If there is a reduction in the value between -2 initial Log Likelihood and -2 final Log Likelihood, this indicates that the proposed model fits the existing data.

| Iteration | -2 Log likelihood | Coefficients Constant |
|-----------|-------------------|--------------------------|
| Step 0 | | |
| 1 | 58.367 | 1.544 |
| 2 | 56.085 | 1.972 |
| 3 | 56.033 | 2.049 |
| 4 | 56.033 | 2.051 |
| 5 | 56.033 | 2.051 |

a. Constant is included in the model.
 b. Initial -2 Log Likelihood: 56.033
 c. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

| Iteration | -2 Log Likelihood | Coefficients | | |
|-----------|-------------------|--------------|-----------|----------------|
| | | Constant | Kelemahan | Ketidakpatuhan |
| Step 1 | | | | |
| 1 | 40.547 | 3.944 | -.151 | -.132 |
| 2 | 27.143 | 7.075 | -.273 | -.270 |
| 3 | 22.081 | 10.279 | -.380 | -.426 |
| 4 | 20.600 | 13.040 | -.468 | -.563 |
| 5 | 20.398 | 14.500 | -.516 | -.632 |
| 6 | 20.392 | 14.786 | -.526 | -.645 |
| 7 | 20.392 | 14.795 | -.526 | -.645 |
| 8 | 20.392 | 14.795 | -.526 | -.645 |

a. Method: Enter
 b. Constant is included in the model
 c. Initial -2 Log Likelihood: 56.033
 d. Estimation terminated at iteration number 8 because parameter

In tables there is a test value of -2 log likelihood which consists of two stages, namely the first stage (step 0) and the second stage (step 1). Based on table 4, it is stated that the value -2 log likelihood at stage 0 is 56.033, while at stage 1 it is listed in the table above, the -2 log likelihood value is 20.392. This shows that there is a decrease from the value of -2 log initial likelihood to the final -2 log likelihood value. Therefore, it can be concluded that the model The logistic regression used is feasible, and the addition of independent variables in the model improve model fit.

2. Assess the Feasibility of the Regression Model (Goodness of Fit Test)

| Step | Chi-square | df | Sig. |
|------|------------|----|------|
| 1 | 1.982 | 8 | .982 |

The Hosmer and Lemeshow test is used to determine whether the model fits or not. Based on the results of the Hosmer and Lemeshow Test above, a p-value was obtained of 0.982 ($> \alpha = 0.05$), which means H0 is not rejected. Therefore, it can be concluded that the data used in this research is suitable or in accordance with the regression model.

3. Coefficient of Determination

| Step | -2 Log likelihood | Cox & Snell R Square | Nagelkerke R Square |
|------|---------------------|----------------------|---------------------|
| 1 | 20.392 ^a | .363 | .715 |

It is known that the Nagelkerke R² value is 0.715. This value indicates that independent variables, namely weaknesses in SPI and non-compliance with regulatory provisions legislation, able to explain 71.5% of its influence on variables dependent, namely BPK Opinion. The remainder, amounting to 28.5%, is explained by other variables that are not including SPI weaknesses and non-compliance. In research conducted by Hamidayanti & Wardani (2019); Rahmi & Ariani (2020); Rufaedah (2020) shows that other factors are can influence BPK Opinion is the follow-up to the results of audit recommendations.

4. Classification Matrix

| Observed | | Predicted | | Percentage Correct |
|--------------------|---------------|---------------|-----------|--------------------|
| | | Opini Non WTP | Opini WTP | |
| Step 1 | Opini Non WTP | 6 | 3 | 66.7 |
| | Opini WTP | 1 | 69 | 98.6 |
| Overall Percentage | | | | 94.9 |

a. The cut value is .500

The table above shows the level of accuracy of the model predictions. Of the 9 Non WTP opinions, which can be predicted only 6 opinions. So the total prediction accuracy is 66.7%. Besides that, For WTP opinions there were 70 opinions, of which 69 opinions could be predicted correctly (98.6%). Overall the prediction accuracy rate was 94.9%.

Logistic Regression Model Analysis

| | B | S.E. | Wald | df | Sig. | Exp(B) |
|----------------------------------|--------|-------|--------|----|------|-------------|
| Step 1 ^a KelemahanSPI | -.526 | .213 | 6.128 | 1 | .013 | .591 |
| Ketidakpatuhan | -.645 | .308 | 4.388 | 1 | .036 | .525 |
| Constant | 14.795 | 4.238 | 12.187 | 1 | .000 | 2662602.848 |

a. Variable(s) entered on step 1: KelemahanSPI, Ketidakpatuhan.

Sumber: Output SPSS versi 26, Diolah Peneliti (2023)

$$Y = 14.795 - 0.526 \text{ Kelemahan SPI} - 0.645 \text{ Ketidakpatuhan} + \varepsilon$$

The regression model above can be described as follows.

1. The Constant coefficient value (α) is 14.795, which means that the independent variable is not changes or remains constant, the value of the dependent variable BPK Opinion will have value of 14,795.
2. The coefficient for the SPI Weakness variable (X1) is -0.526. This indicates that if there is an increase in the findings of SPI weaknesses, then the BPK Opinion will experience a decrease of -0.526. The assumption is that other independent variables are held constant. A negative coefficient indicates a negative relationship between improvements findings of SPI weaknesses with BPK Opinion. The higher the value of SPI weakness findings, then the BPK Opinion gets lower.
3. The coefficient for the variable Non-compliance with legislation (X2) is -0.645. This means that if there is an increase in findings of non-compliance, the BPK Opinion will decreased by -0.645. The assumption is that other independent variables considered constant. A negative coefficient indicates the existence of a negative relationship between increasing findings of non-compliance with BPK Opinions. The higher the value of the findings non-compliance, the BPK Opinion level tends to be lower.

V. Discussion

1. Effect of SPI Weaknesses on BPK

Based on the results of the t test (partial), the calculated t-value for the SPI Weakness variable is 6.128 and the significance value is 0.013. This shows that the t-calculated value is greater than the t-table value ($6.128 > 1.992$). The significance value of the SPI Weakness variable is smaller than 0.05 ($0.013 < 0.05$). Based on these

calculations, it can be stated that the SPI Weakness variable has a negative and significant effect on the BPK for district/city regional governments on Sulawesi Island. So, the first hypothesis in this study is accepted. The direction of the influence is negative, meaning that the higher the number of findings of SPI weaknesses, the lower the BPK's opinion will be. The results of this research support previous research, namely Hamidayanti & Wardani (2019); Rahmi & Ariani (2020); Siregar & Rudiansyah (2019)] which states that there is a negative influence between SPI weaknesses on BPK's opinion on LKPD.

This significant influence is proven by the high number of SPI weaknesses found for local governments that received Non-WTP opinions. The findings of SPI weaknesses include elements of weaknesses in the accounting and reporting control system, SPI weaknesses, and weaknesses in the internal control structure. Cases of SPI weaknesses generally occur because responsible officials/executors do not fully understand the applicable provisions, lack of control, and lack of coordination with related parties in carrying out supervision and control. In addition, cases of SPI weaknesses occur because authorized officials have not prepared and established normal policies for a procedure or overall planning and implementation of activities. This is a loophole that can be exploited by individuals who commit criminal acts of corruption to commit fraud. The many findings regarding the weaknesses of the SPI have the effect of reducing the opportunities for local governments to obtain WTP opinions.

2. The Effect of Non-Compliance with Legislation on BPK Opinion

Based on the results of the t test (partial), the calculated t-value for the variable Non-Compliance with Legislation is 4.388 and the significance value is 0.036. This shows that the t-calculated value is greater than the t-table value ($4,388 > 1,992$). The significance value of the Non-Compliance with Laws and Regulations variable is smaller than 0.05 ($0.036 < 0.05$). Based on these calculations, it can be stated that the variable Non-Compliance with Legislation has a negative and significant effect on the BPK's Opinion on Regency/City Regional Governments on Sulawesi Island. The results of this research support previous research by Fariah & Nendi (2020); Valentina (2022); Rahmi & Ariani (2020); Siregar & Rudiansyah (2019); Mutiara et al (2022); Bangsawan & Abbas (2021) stated that audit findings regarding non-compliance with laws and regulations had a negative and significant effect on the BPK's opinion on Regional Government.

This significant influence occurred due to the high number of non-compliance findings for Regional Governments that received Non-WTP opinions. Based on the Regency and City LHPs on Sulawesi Island, the BPK revealed findings of non-compliance, one of which was that payment for official travel for several OPDs exceeded standard costs, was paid double, and had no provisions. The results of the BPK's examination of official travel accountability and confirmation to the hotel used as a place to stay showed that the names of the official travel organizers were not registered in the hotel data so the hotel confirmed that these names had never stayed overnight and the invoice bill was not an original document. issued by the hotel concerned. This happened because of the deliberate intention of the official travel agent who submitted the accountability documents instead of the actual ones. This condition means that the actual expenditure cannot be trusted to be reasonable. This has the effect of reducing the opportunities for local governments to obtain WTP opinions.

3. Non-compliance with BPK Opinions

Based on the results of the F test (Simultaneous Test), the calculated f-value for the SPI Weaknesses and Non-Compliance with Legislation variables is 35,641. Then the f-table value is 3.12. This shows that the calculated f-value is greater than the f-table ($35,641 > 3.12$). It can be concluded that the SPI Weakness variables and Non-Compliance with Legislation together have a negative and significant effect on the BPK's Opinion on Regency/City Regional Governments on Sulawesi Island. The results of the f test are also supported by the Nagelkerke R Square value in the coefficient of determination test. It is known that the Nagelkerke R Square value is 0.715. Thus, the influence of the variables SPI Weakness and Non-Compliance with Legislation is 71.5%. The remaining 28.5% is influenced by other variables besides SPI Weaknesses and Non-Compliance

with Legislation which are not discussed in this research. Yaya Research (2021); Rahmi & Ariani (2020); and Rufaedah (2020) also stated that the audit findings (SPI weaknesses and non-compliance) had a negative influence on the BPK Opinion.

The inspection report shows that the highest number of findings was obtained by Kab. Konawe had 25 findings. Even though the district Konawe received a WTP opinion. Apart from that, Kab. North Minahasa has a TW opinion, showing 16 findings. This happens because North Minahasa's findings can contain SPI weaknesses as well as non-compliance. These findings are material in nature and could cause a decrease in the BPK Opinion. In BPK RI Decree number 5/K/I-XIII.2/10/2013 concerning Technical Guidelines for Determining Materiality Limits for Financial Audits, it is explained that the BPK provides WDP opinions for material findings and TMP and TW opinions for findings that are very material in nature. So we can see that in the inspection report which obtained a Non-WTP opinion, there were many SPI findings and material non-compliances. Meanwhile, in the inspection report that received a WTP opinion, there were no material findings.

VI. CONCLUSION

The conclusion of this research is that SPI Weaknesses have a negative and significant effect on BPK Opinion, Non-Compliance has a negative and significant effect on BPK Opinion, and the findings of SPI Weaknesses and Non-Compliance together have a negative and significant effect on BPK Opinion on Regency/City Regional Governments on Sulawesi Island 2020.

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