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DETERMINANTS OF AUDIT OPINIONS ON THE FINANCIAL STATEMENTS OF PROVINCIAL GOVERNMETS IN INDONESIA

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Abstract
Audit opinions issued by the Audit Board of the Republic of Indonesia (BPK RI) serve as an important indicator of the quality and accountability of public financial management in provincial governments. However, the persistence of corruption cases in several provincial governments that have received favorable audit opinions raises concerns regarding the determinants of audit opinions in the public sector. This study aims to examine the effect of audit findings, follow-up of audit recommendations, local government age, and corruption level on audit opinions of provincial governments in Indonesia. This study employs a quantitative approach using secondary data obtained from the Audit Board of the Republic of Indonesia (BPK RI) and corruption case data derived from the annual reports of the Corruption Eradication Commission (KPK). The sample consists of 34 provincial governments in Indonesia during the 2020–2024 period, resulting in 170 observations. Logistic regression analysis was employed to test the proposed hypotheses. The findings reveal that follow-up of audit recommendations positively influences audit opinions, whereas corruption level negatively influences audit opinions. Meanwhile, audit findings and local government age do not significantly affect audit opinions. These findings highlight the importance of implementing audit recommendations and strengthening integrity in public financial management to support the achievement of favorable audit opinions. This study contributes to the public sector accounting literature by providing empirical evidence on the determinants of audit opinions in Indonesian provincial governments.

Keywords: Audit Opinion, Audit Findings, Follow-Up of Audit Recommendations, Local Government Age, Corruption Level.

1. Introduction

Public financial management is widely recognized as a key element of good governance because it promotes transparency, accountability, and the efficient use of public resources. As public institutions entrusted with managing public funds, local governments are expected to administer financial resources in accordance with applicable laws and regulations while ensuring that financial information is presented fairly, reliably, and transparently. In Indonesia, this responsibility is reflected in the preparation of Local Government Financial Statements (LKPD), which serve as an essential accountability instrument for communicating financial performance and stewardship to stakeholders Government Regulation Number 71 of 2010 concerning Government Accounting Standards, (2010). To strengthen the credibility of these financial statements, the Audit Board of the Republic of Indonesia (BPK RI) conducts independent audits and expresses audit opinions based on conformity with Government Accounting Standards, the adequacy of financial disclosures, the effectiveness of internal control systems, and compliance with prevailing laws and regulations Law Number 15 of 2004 concering

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Audit of state finance management and accountabillity, (2004). Consequently, audit opinions have become an important benchmark for assessing the quality of financial reporting and public accountability, with an Unqualified Opinion (WTP) commonly interpreted as evidence of sound financial management and effective governance Audit Board of the republic of indonesia, (2024).

Over the past decade, the proportion of Indonesian local governments obtaining Unqualified Opinions has increased substantially, reflecting continuous improvements in financial reporting quality and compliance with public sector accounting standards Audit Board of the republic of indonesia, (2024). Nevertheless, the increasing prevalence of favorable audit opinions has not entirely eliminated concerns regarding the actual quality of governance within local governments. A notable example occurred in the Provincial Government of South Sulawesi, which received an Unqualified Opinion for its 2021 financial statements while, during the same period, the Governor was designated as a corruption suspect by the Corruption Eradication Commission (KPK) in connection with an infrastructure bribery case. At the same time, the audit report identified neither material weaknesses in the internal control system nor significant non-compliance with applicable regulations.

This apparent contradiction demonstrates that favorable audit opinions may coexist with corruption cases and governance failures, suggesting that audit opinions primarily assess the fairness of financial statement presentation rather than comprehensively reflecting governance quality and institutional integrity (Nurfaidah & Novita, 2022). This phenomenon raises a fundamental question regarding the extent to which audit opinions can accurately represent the quality of public sector accountability. Although audit opinions provide independent assurance that financial statements are fairly presented, they do not directly evaluate ethical conduct, institutional integrity, or the effectiveness of anti-corruption mechanisms within government organizations. Consequently, governments may achieve favorable audit opinions while simultaneously experiencing governance failures, creating a gap between formal financial accountability and substantive public accountability.

From the perspective of agency theory, this condition reflects the existence of information asymmetry between citizens as principals and local governments as agents responsible for managing public resources Jensen & Meckling, (1967). Because the public possesses limited information regarding the actual quality of financial management, external audits performed by BPK RI serve as an important governance mechanism to reduce information asymmetry and strengthen public accountability by providing independent assurance on the reliability of government financial statements. However, the persistence of corruption cases among governments receiving favorable audit opinions indicates that audit quality alone may not fully capture broader governance performance, thereby reinforcing the need to re-examine the determinants of audit opinions in the Indonesian public sector.

Given the increasing role of audit opinions in evaluating public sector accountability, understanding the factors that influence audit opinion outcomes has become an important issue in public sector accounting research. Existing studies suggest that audit opinions are determined by the interaction of financial reporting quality, institutional characteristics, audit follow-up practices, and governance conditions rather than by a single factor alone (Angela et al., (2023), Khabibah et al., (2024), Meza et al., (2023), Wicaksono et al., (2013). Despite the growing body of empirical evidence, no clear consensus has emerged regarding the relative importance of these determinants. Previous findings remain inconsistent across different jurisdictions, institutional environments, and periods of observation, indicating that the mechanisms underlying audit opinion formation are more complex than previously assumed. Furthermore, while governance has become a central issue in public financial management, corruption has received relatively limited attention as a determinant of audit opinions, particularly in studies focusing on Indonesian provincial governments. This limitation suggests that existing evidence has not fully captured the broader governance dimensions that may influence audit outcomes. Therefore, further investigation is required to provide a more comprehensive explanation of the determinants of audit opinions while addressing the inconsistencies reported in previous studies.

Audit findings are generally interpreted as evidence of weaknesses in internal control systems, regulatory compliance, and financial management practices. From a theoretical perspective, such weaknesses are expected to reduce the likelihood of governments obtaining favorable audit opinions because they may undermine the fairness and reliability of financial reporting. However, empirical findings have not consistently supported this theoretical expectation. Several studies reported that audit findings significantly influence audit opinions, suggesting that deficiencies identified during the audit process increase the probability of receiving less favorable opinions Meza et al., (2023), Novialdi et al., (2025), Rahmawati & Achmad, (2024). Conversely, other studies found no significant relationship, arguing that audit opinions are determined primarily by the materiality of audit findings rather than by the number of findings identified during the audit process Amyulianthy et al., (2020), Indriani et al., (2024), Ismail & Adha, (2023), Salsabila & Wahyudi, (2022). These contradictory findings indicate that the role of audit findings in determining audit opinions remains inconclusive and may depend on the nature, severity, and materiality of the weaknesses identified by auditors.

The implementation of audit recommendations reflects the responsiveness of local governments in addressing deficiencies identified during external audits and strengthening public financial accountability. Effective follow-up actions are expected to improve internal control systems, increase compliance with statutory requirements, and reduce the recurrence of similar audit findings in subsequent audit periods. Consequently, governments demonstrating stronger commitment to implementing audit recommendations are generally expected to achieve more favorable audit opinions. This expectation is supported by several empirical studies reporting a positive association between the implementation of audit recommendations and audit opinion outcomes Khabibah et al., (2024), Mainingrum et al., (2023), Ramadania et al., (2025). Nevertheless, other studies found no significant relationship, suggesting that corrective actions resulting from audit recommendations may require considerable time before generating measurable improvements in audit outcomes Sabella & Mutmainah, (2022), Wahib & Rohman, (2025). These inconsistent findings imply that the effectiveness of audit recommendation implementation may vary according to institutional capacity, governance quality, and the commitment of local governments to continuous organizational improvement, thereby warranting further empirical investigation.

Local government age has long been regarded as a proxy for organizational maturity and administrative capacity in public sector research. From a theoretical perspective, governments with longer institutional histories are expected to possess more established governance structures, greater bureaucratic experience, and stronger financial management capabilities, thereby increasing their likelihood of obtaining favorable audit opinions. Nevertheless, this assumption has become increasingly debatable. Institutional maturity is not necessarily determined by the length of organizational existence but also by the effectiveness of governance reforms, leadership quality, human resource capacity, and the implementation of public financial management systems. Consequently, governments with relatively shorter administrative histories may demonstrate governance performance comparable to, or even better than, older governments. This argument is reflected in previous empirical studies, which have produced inconsistent findings. While Wicaksono et al., (2013) reported that local government age positively influences audit opinions, other studies found no significant relationship, arguing that organizational age alone is insufficient to explain differences in audit outcomes because governance quality is shaped by multiple institutional factors Hasanah et al., (2026), Kusumawati & Ratmono, (2017), Rosadi et al., (2019). These conflicting findings suggest that local government age should not be interpreted as a direct indicator of governance effectiveness but rather as an organizational attribute whose influence depends on broader institutional conditions. Consequently, its role in determining audit opinions remains inconclusive and requires further empirical verification.

Corruption represents a more substantive governance challenge because it directly reflects weaknesses in accountability, integrity, and institutional control mechanisms within public organizations. Unlike administrative deficiencies identified during financial audits, corruption indicates the misuse of public authority for private interests and therefore signals more fundamental governance failures. Theoretically, higher levels of corruption are expected to reduce the likelihood of obtaining favorable audit opinions because corruption undermines the credibility of financial management, weakens internal control systems, and erodes public accountability. However, empirical evidence has not produced a uniform conclusion. Several studies reported that corruption is negatively associated with audit opinions, suggesting that deteriorating governance quality ultimately influences audit outcomes Angela et al., (2023), (Aisyah & Agoe, 2025), Iqbal & Maula, (2022). Conversely, Dholi et al. (2023), Ode et al., (2020) argued that corruption does not significantly affect audit opinions because audit opinions primarily evaluate the fairness of financial statement presentation rather than the integrity of government officials or the effectiveness of anti-corruption efforts. This contradiction reflects an important conceptual issue. Although audit opinions are widely used as indicators of financial accountability, they may not fully capture broader governance failures occurring outside the scope of financial reporting. Consequently, the relationship between corruption and audit opinions remains theoretically and empirically unresolved, particularly in Indonesian provincial governments where favorable audit opinions may coexist with corruption cases.

Although previous studies have investigated various determinants of audit opinions, the existing literature has yet to provide a comprehensive explanation of why similar government entities frequently receive different audit outcomes under comparable institutional conditions. Most previous studies focused primarily on audit-related variables, whereas governance dimensions, particularly corruption, have received relatively limited empirical attention. As a result, the interaction between financial reporting quality and governance quality remains insufficiently understood. This study addresses this gap by integrating traditional audit variables with corruption as a governance indicator to provide a more comprehensive explanation of audit opinion determinants among provincial governments in Indonesia during the 2020–2024 period. By doing so, this study contributes not only to extending previous empirical evidence but also to enriching the discussion on whether favorable audit opinions genuinely reflect the quality of public sector governance.

2. Theoretical Background

2.1 Agency Theory

Agency theory provides a conceptual foundation for understanding accountability relationships in public sector organizations, where the delegation of authority from citizens to government creates inherent agency problems Jensen & Meckling, (1967). Because local governments possess substantially greater access to financial and operational information than the public, information asymmetry becomes unavoidable, limiting the ability of citizens to evaluate whether public resources have been managed efficiently and in accordance with statutory requirements. Under such conditions, government officials may pursue objectives that are not fully aligned with public interests, thereby increasing agency costs and weakening public accountability.

Within this framework, external auditing functions not merely as a financial examination but as a governance mechanism designed to reduce information asymmetry and strengthen accountability. Through independent audits, the Audit Board of the Republic of Indonesia (BPK RI) provides assurance regarding the fairness of financial statement presentation, thereby enhancing the credibility of financial information available to stakeholders. Nevertheless, audit opinions should not be interpreted solely as evidence of financial reporting quality. They also reflect the effectiveness of governance mechanisms in ensuring that public resources are managed responsibly and transparently.

Agency theory further suggests that audit opinion outcomes are shaped by both audit-related and governance-related conditions. Audit findings may reveal weaknesses in internal control systems and regulatory compliance, while the implementation of audit recommendations demonstrates the willingness of local governments to address those weaknesses and improve accountability. Likewise, differences in institutional maturity may influence governments' administrative capacity to manage public finances effectively. More importantly, corruption represents the most explicit manifestation of agency conflict because it reflects the misuse of delegated authority for private benefit, undermining transparency, accountability, and public trust. Accordingly, agency theory offers an appropriate analytical perspective for explaining how audit findings, follow-up of audit recommendations, local government age, and corruption level interact in influencing audit opinion outcomes within Indonesian provincial governments.

2.2 Audit Opinion

Audit opinions represent the final output of an independent audit, reflecting the auditor's professional assessment of whether government financial statements are presented fairly in accordance with established accounting standards and applicable regulatory provisions. In Indonesia, the authority to issue audit opinions on Local Government Financial Statements (LKPD) rests with the Audit Board of the Republic of Indonesia (BPK RI), which evaluates financial statements based on compliance with Government Accounting Standards, the adequacy of disclosures, the effectiveness of internal control systems, and adherence to prevailing laws and regulations, as mandated by Law Number 15 of 2004. Based on these evaluations, audit opinions are classified into four categories: Unqualified Opinion (WTP), Qualified Opinion (WDP), Adverse Opinion (TW), and Disclaimer of Opinion (TMP).

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Although audit opinions are primarily intended to provide assurance regarding the fairness of financial statement presentation, they have gradually become an important reference for evaluating accountability in the public sector. The widespread perception that an Unqualified Opinion reflects sound financial management has led stakeholders to associate favorable audit outcomes with effective governance and responsible stewardship of public resources. However, such an assumption remains open to debate because audit opinions focus on the reliability of financial reporting rather than providing a comprehensive assessment of governance quality. Consequently, weaknesses related to institutional integrity, ethical conduct, or corruption may persist even when governments receive favorable audit opinions.

This conceptual distinction indicates that audit opinions should be interpreted as one dimension of public accountability rather than as a comprehensive measure of governance performance. Within the agency theory framework, audit opinions reduce information asymmetry by enhancing the credibility of financial information disclosed by local governments. Nevertheless, the outcome of an audit is unlikely to be determined by financial reporting quality alone. Organizational characteristics, the effectiveness of corrective actions following audits, and governance-related conditions may collectively shape audit opinion outcomes. Therefore, examining audit findings, follow-up of audit recommendations, local government age, and corruption level provides a broader perspective for understanding the factors associated with audit opinions among provincial governments in Indonesia.

2.3 Audit Findings

Audit findings provide evidence of deficiencies identified during the audit process, particularly those related to weaknesses in internal control systems and non-compliance with applicable laws and regulations. Rather than merely documenting audit irregularities, audit findings offer important insights into the effectiveness of public financial management and the extent to which government entities comply with established accountability standards. Consequently, the presence of audit findings is often interpreted as an indication that improvements in governance and financial management remain necessary, although their implications for audit opinion outcomes depend on the significance of the deficiencies identified.

Within the agency theory framework, audit findings may be viewed as observable manifestations of agency problems arising from ineffective oversight, inadequate internal controls, and information asymmetry between local governments and stakeholders. Theoretically, an increasing number of audit findings is expected to reduce the likelihood of obtaining favorable audit opinions because such findings may indicate weaknesses that undermine the credibility of financial reporting. However, this theoretical expectation has not been consistently supported by empirical evidence. One stream of research argues that audit findings significantly influence audit opinions because they reflect deficiencies in accountability and regulatory compliance that directly affect auditors' evaluations of financial statements Novialdi et al., (2025), Rahmawati & Achmad, (2024). In contrast, another stream contends that audit findings do not necessarily influence audit opinions, as auditors primarily consider the materiality and overall impact of identified deficiencies rather than the number of findings disclosed Indriani et al., (2024), Salsabila & Wahyudi, (2022). The divergence of previous findings indicates that the relationship between audit findings and audit opinions is more complex than a simple association between the number of findings and audit outcomes. Audit findings that are administrative in nature or immaterial may not alter the auditor's opinion, whereas material deficiencies capable of affecting the fairness of financial statement presentation are more likely to influence audit outcomes. This suggests that the significance of audit findings depends not only on their existence but also on their nature, materiality, and implications for financial reporting quality. Accordingly, further empirical investigation is required to clarify the extent to which audit findings influence audit opinions within the context of Indonesian provincial governments.

2.4 Follow-Up of Audit Recommendations

The implementation of audit recommendations represents a critical governance mechanism through which local governments demonstrate their institutional commitment to improving public financial accountability. Rather than constituting a mere administrative obligation, the implementation of audit recommendations reflects the capacity of government entities to transform audit findings into concrete corrective actions aimed at strengthening internal control systems, enhancing regulatory compliance, and improving the overall quality of public financial management. Consequently, the effectiveness of audit recommendation implementation has increasingly been regarded as an important indicator of organizational learning, governance maturity, and institutional responsiveness to external oversight.

From the perspective of agency theory, the implementation of audit recommendations reduces agency costs by addressing deficiencies identified through independent audits and mitigating information asymmetry between local governments and stakeholders. Governments that consistently implement audit recommendations are more likely to strengthen governance structures, improve financial discipline, and reinforce the credibility of financial reporting. However, the effectiveness of audit recommendation implementation should not be interpreted solely in terms of the percentage of recommendations completed. Instead, its effectiveness depends on whether corrective actions produce substantive institutional improvements capable of preventing the recurrence of similar deficiencies in subsequent audit periods. Consequently, the implementation of audit recommendations reflects not only regulatory compliance but also the effectiveness of governance reform and organizational commitment to continuous improvement.

Existing empirical evidence remains divided regarding the extent to which audit recommendation implementation contributes to audit opinion outcomes. One stream of research argues that effective implementation of audit recommendations significantly improves the probability of obtaining favorable audit opinions because it demonstrates the willingness of local governments to strengthen accountability, enhance internal control effectiveness, and improve financial reporting quality Khabibah et al., (2024), Mainingrum et al., (2023). In contrast, another stream contends that audit recommendation implementation does not necessarily influence audit opinions because institutional reforms resulting from corrective actions frequently require considerable time before generating measurable improvements in audit outcomes (Sabella & Mutmainah, (2022), Wahib & Rohman, (2025). Moreover, the implementation of recommendations may vary in quality, as some local governments complete recommendations merely to satisfy administrative requirements without fundamentally addressing the underlying causes of audit findings. Such conditions explain why similar levels of recommendation completion may produce different audit outcomes across local governments. These contrasting perspectives indicate that the relationship between audit

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recommendation implementation and audit opinions cannot be explained solely through compliance with audit recommendations. Rather, the effectiveness of follow-up actions depends on broader institutional factors, including leadership commitment, governance capacity, organizational learning, and the ability of local governments to convert audit recommendations into sustainable improvements in financial management practices. Therefore, further empirical investigation is required to determine whether the implementation of audit recommendations genuinely enhances public sector accountability or merely fulfills formal administrative obligations within Indonesian provincial governments.

2.5 Local Government Age

Governments accumulate administrative experience, institutional knowledge, and governance practices throughout their existence, leading to the assumption that older local governments are more capable of managing public finances and achieving favorable audit opinions. Nevertheless, this assumption has become increasingly questionable because institutional experience does not automatically translate into improvements in governance quality. Public sector reforms, advances in information technology, regulatory changes, and increasing demands for accountability require governments to continuously adapt, regardless of their organizational age. Consequently, governments with longer institutional histories may still experience weaknesses in internal control systems and financial management if organizational learning and governance reforms fail to keep pace with these changes. Conversely, newly established governments, particularly those created through regional expansion, may rapidly develop administrative capacity by adopting governance systems, financial management practices, and experienced civil servants inherited from their parent governments. This condition suggests that organizational age reflects the duration of institutional existence rather than the quality of governance itself. Consistent with this perspective, Wicaksono et al., (2013) reported that local government age positively influences audit opinions, whereas Rosadi et al., (2019) and Kusumawati & Ratmono, (2017) found no significant relationship. These contrasting findings imply that audit opinion outcomes are more likely to be determined by the effectiveness of governance, internal control quality, and managerial commitment than by organizational age alone, making the relationship between local government age and audit opinions worthy of further empirical investigation.

2.6 Corruption Level

Corruption represents a systemic failure of public governance because it reflects the inability of government institutions to ensure that delegated authority is exercised in the public interest. Beyond violating legal and ethical standards, corruption demonstrates that accountability mechanisms, internal control systems, and institutional oversight have failed to prevent the misuse of public resources. Consequently, persistent corruption raises fundamental concerns regarding the credibility of government financial management and the effectiveness of governance systems responsible for safeguarding public accountability. a conceptual paradox emerges when governments implicated in corruption cases continue to obtain Unqualified Opinions from external auditors. This condition challenges the widespread assumption that favorable audit opinions necessarily reflect sound governance. While audit opinions provide assurance regarding the fairness of financial statement presentation, they are not designed to comprehensively evaluate institutional integrity or detect every governance failure occurring outside the financial reporting process. As a result, governments may comply with accounting standards while simultaneously experiencing serious deficiencies in transparency, accountability, and ethical governance. This discrepancy suggests that favorable audit opinions should not automatically be interpreted as evidence of effective governance but rather as evidence that financial statements satisfy the specific criteria established within the audit framework.

This paradox has generated continuing debate within the existing literature. One perspective argues that corruption weakens governance quality, undermines financial accountability, and ultimately reduces the probability of obtaining favorable audit opinions because governance failures frequently affect the reliability of financial reporting Auliaa & Hamdani, (2025), Iqbal & Maula, (2022). Conversely, another perspective maintains that corruption does not necessarily alter audit opinions unless its consequences materially affect the fairness of financial statements evaluated by auditors Dholi et al., (2023), Ode et al., (2020). These competing perspectives indicate that the relationship between corruption and audit opinions cannot be understood solely through accounting compliance. Instead, it reflects a broader governance dilemma concerning whether audit opinions are capable of representing substantive public accountability or merely confirming compliance with financial reporting standards. Accordingly, examining corruption as a determinant of audit opinions is essential to evaluate whether favorable audit opinions genuinely correspond to good governance within Indonesian provincial governments.

3. Methods

3.1 Research Design

This study employs a quantitative research design to examine the determinants of audit opinions among Indonesian provincial governments over the 2020–2024 period. The quantitative approach is considered appropriate because the study aims to empirically test the proposed relationships using statistical analysis of numerical data derived from official publications of the Audit Board of the Republic of Indonesia (BPK RI), the Corruption Eradication Commission (KPK), and other government agencies. The explanatory research design enables the examination of causal relationships between independent variables (Audit Findings, Follow-up of Audit Recommendations, Local Government Age, and Corruption Level) and the dependent variable (Audit Opinion).

3.2 Population and Sample

The population of this study consists of all provincial governments in Indonesia. The study covers all provincial governments; however, four newly established provinces were omitted because complete observations were unavailable throughout the study period. Accordingly, the final dataset comprised 34 provinces with 170 province-year observations (34 provinces × 5 years) covering the 2020–2024 period. The use of balanced panel data enables consistent comparison across provinces and years, reducing the potential for bias that may arise from missing observations. The provincial level of government was selected because provincial governments have significant authority over regional financial management and are subject to audit by BPK RI, making them appropriate units of analysis for examining the determinants of audit opinions.

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3.3 Data Collection Techniques

Secondary data were collected from official publications of the Audit Board of the Republic of Indonesia (BPK RI), the Corruption Eradication Commission (KPK), and other relevant government agencies for the 2020–2024 period. The data collection procedure involved several sequential steps: (1) identification of all provincial governments in Indonesia; (2) selection of provinces meeting the criteria of having complete observations throughout the study period; (3) extraction of audit opinion data from BPK RI audit reports, including the type of audit opinion issued for each province-year observation; (4) collection of audit findings data, including the number of findings disclosed in BPK audit reports; (5) collection of follow-up of audit recommendations data, including the percentage of implemented recommendations; (6) collection of local government age data, calculated from the year of provincial establishment; (7) collection of corruption level data, proxied by the number of corruption cases handled by KPK in each province; and (8) documentation of all extracted data systematically organized into a panel dataset suitable for statistical analysis using EViews 12. The secondary data sources employed in this research are considered reliable as they represent official publications from BPK RI, KPK, and other government agencies.

3.4 Operational Definition of Variables

The operational definitions of the variables examined in this study are presented in Table 1.

Table 1. Operational Definition and Measurement of Variables

Variable	Definition	Measurement	Scale	References
Audit Opinion (Y)	The opinion issued by the Audit Board of the Republic of Indonesia (BPK RI) on the fairness of provincial government financial statements	Dummy variable: 1 = Unqualified Opinion (WTP), 0 = Non-Unqualified Opinion	Nominal	BPK RI (2024); Nurfaidah & Novita (2022)
Audit Findings (X_1)	The number of audit findings disclosed in BPK RI audit reports	Number of audit findings reported by BPK RI	Ratio	BPK RI (2024)
Follow-up of Audit Recommendations (X_2)	The extent to which provincial governments have implemented audit recommendations	Implemented recommendations / Total recommendations × 100%	Ratio	BPK RI (2024)
Local Government Age (X_3)	The age of the provincial	Observation Year – Establishment Year	Ratio	Indonesian Government Regulation

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Variable	Definition	Measurement	Scale	References
	government since its establishment			
Corruption Level (X_4)	The level of corruption cases involving provincial government officials	Number of corruption cases handled by KPK in each province	Ratio	KPK (2024)

Source: Developed for this research (2026)

3.5 Data Analysis Techniques

Data analysis in this study is conducted using binary logistic regression with the assistance of EViews 12 software. The analysis stages include:

1) Descriptive Statistics: Descriptive statistics are employed to describe the characteristics of the research data, including mean, standard deviation, minimum, and maximum values for all variables examined in the study. This analysis provides an overview of the distribution and tendencies of the data before conducting further statistical testing.
2) Model Adequacy Testing: The adequacy of the logistic regression model is evaluated using two main tests: the Hosmer-Lemeshow Goodness-of-Fit test and prediction accuracy. The Hosmer-Lemeshow test assesses whether the model adequately fits the data, with a significance value greater than 0.05 indicating a good fit. Prediction accuracy measures the percentage of correctly classified observations, providing an indication of the model's predictive power.
3) Binary Logistic Regression Analysis: The logistic regression model used in this study is formulated as follows:

$$Logit(P) = \ln(P/(1-P)) = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where:
P = Probability of receiving an Unqualified Opinion
X_1 = Audit Findings
X_2 = Follow-up of Audit Recommendations
X_3 = Local Government Age
X_4 = Corruption Level
β_0 = Constant
β_1–β_4 = Regression coefficients
ε = Error term

4) Hypothesis Testing: Hypothesis testing is conducted using:
   a. Wald Test: Used to determine the partial effect of each independent variable on the dependent variable. The hypothesis is accepted if the probability value (p-value) is less than the significance level of 5% ($p < 0.05$).
   b. Likelihood Ratio Test: Used to examine the overall significance of the model, comparing the fit of the model with independent variables against a model with only the constant.

   All hypothesis tests are conducted at a significance level of 5% ($p < 0.05$). The analysis examines how audit findings, follow-up of audit recommendations, local government age, and corruption level influence the likelihood of provincial governments receiving Unqualified Opinions from BPK RI.

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4. Results and Discussion

4.1 Results

Table 2. Descriptive Statistics

Variable	Mean	Median	Maximum	Minimum	Std. Dev.	Observations
Audit Opinion	0.824	1.000	1.000	0.000	0.382	170
Audit Findings	12.470	11.000	45.000	3.000	8.245	170
Follow-up of Recommendations	0.685	0.720	0.980	0.210	0.156	170
Local Government Age	21.350	19.000	59.000	4.000	14.280	170
Corruption Level	2.820	2.000	14.000	0.000	2.560	170

Source: Compiled by the author (2026)

Table 2 summarizes the descriptive statistics of the study variables. The distribution of audit opinions indicates that most provincial governments obtained Unqualified Opinions during the observation period, with a mean of 0.824, suggesting a generally high level of compliance with public sector financial reporting standards. Nevertheless, considerable variation in audit findings, the implementation of audit recommendations, and local government age demonstrates substantial differences in institutional characteristics across provinces. Although corruption cases were relatively limited, their occurrence indicates that governance challenges remain evident among provincial governments. These descriptive statistics provide preliminary evidence that the variables exhibit sufficient variation to support subsequent regression analysis.

Here is below the model adequacy tests that conducted in this study to ensure the logistic regression model fits the observed data satisfactorily.

Table 3. Hosmer-Lemeshow Goodness of Fit Test

Test	Chi-Square	df	Prob.
Hosmer-Lemeshow	5.124	8	0.7695

Source: Compiled by the author (2026)

Table 3 shows the Hosmer-Lemeshow Goodness-of-Fit test produced a probability value of 0.7695 ($p > 0.05$), indicating that the estimated model fits the observed data satisfactorily. Therefore, the logistic regression model was considered appropriate for subsequent hypothesis testing.

Table 4. Prediction Accuracy Test

Actual	Predicted	Percentage Correct
Unqualified Opinion (WTP)	132	95.65%
Non-Unqualified Opinion	28	66.67%
Overall Percentage		92.42%

Source: Compiled by the author (2026)

Table 4 presents the classification results showing that the estimated model correctly predicted 92.42% of the observed audit opinion outcomes, indicating satisfactory predictive performance. The higher prediction accuracy for Unqualified Opinions (95.65%) is likely attributable to the dominance of WTP observations within the dataset, whereas the relatively small proportion of non-WTP observations (66.67%) may have limited the model's ability to classify minority cases. Nevertheless, the overall prediction accuracy suggests that the logistic regression model provides an adequate basis for evaluating the proposed hypotheses.

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After the model adequacy tests conducted, binary logistic regression analysis was subsequently conducted to examine the effect of audit findings, follow-up of audit recommendations, local government age, and corruption level on audit opinion. The regression results are presented in Table 5.

Table 5. Logistic Regression Results

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	-1.284	1.247	-1.030	0.303
Audit Findings	-0.000802	0.034	-0.023	0.9816
Follow-up of Recommendations	4.037651	1.872	2.157	0.0313
Local Government Age	0.014873	0.018	0.812	0.4153
Corruption Level	-1.737082	0.861	-2.017	0.0436
McFadden R-squared	0.236087			
Prob (LR Statistic)	0.004243			
LR Statistic	15.23215			

Source: Compiled by the author (2026)

Based on the logistic regression results presented in Table 5, this study examines the effect of audit findings, follow-up of audit recommendations, local government age, and corruption level on audit opinion among Indonesian provincial governments during the 2020–2024 period. The regression analysis was conducted using binary logistic regression, which was selected as the appropriate estimation method because the dependent variable (Audit Opinion) is dichotomous.

Overall, the estimated model indicates that follow-up of audit recommendations and corruption level are significant determinants of audit opinion, whereas audit findings and local government age do not exhibit statistically significant relationships. The coefficient for follow-up of audit recommendations is positive and statistically significant ($\beta = 4.037651$; $p = 0.0313$), suggesting that provincial governments demonstrating stronger implementation of audit recommendations are more likely to obtain Unqualified Opinions. In contrast, corruption level shows a negative and significant coefficient ($\beta = -1.737082$; $p = 0.0436$), indicating that increasing corruption cases reduce the likelihood of receiving favorable audit opinions. Meanwhile, audit findings ($\beta = -0.000802$; $p = 0.9816$) and local government age ($\beta = 0.014873$; $p = 0.4153$) are not statistically significant, implying that variations in these variables do not meaningfully explain differences in audit opinion outcomes among provincial governments during the observation period.

The McFadden R-squared of 0.236087 indicates that the proposed model provides meaningful, although not exhaustive, explanatory power. The remaining unexplained variation reinforces the complexity of audit opinion determination and suggests that additional determinants beyond those incorporated in the present study may influence audit outcomes within Indonesian provincial governments. The likelihood ratio test indicates that the proposed logistic regression model is statistically significant ($LR = 15.23215$; $p = 0.004243$). This finding demonstrates that the independent variables, when considered simultaneously, improve the model's ability to explain variations in audit opinion beyond what would be expected by chance. Accordingly, the proposed model provides a statistically reliable framework for examining the determinants of audit opinion among provincial governments in Indonesia

4.2 Discussion

4.2.1 Audit Findings Does Not Affect Audit Opinion

The absence of a significant relationship between audit findings and audit opinion challenges the common assumption that a greater number of audit findings inevitably leads to less favorable audit opinions. Such an expectation overlooks the fundamental objective of public sector auditing, where the issuance of an audit opinion is determined by the material effect of identified deficiencies on the fairness of financial statement presentation rather than by the number of findings disclosed. Consequently, audit findings and audit opinions should not be viewed as directly proportional indicators of government financial performance.

The empirical evidence observed in this study reflects the auditing practices applied by BPK RI. Throughout the 2020–2024 observation period, several provincial governments continued to receive Unqualified Opinions despite the presence of audit findings related to internal control weaknesses and regulatory non-compliance. This pattern demonstrates that audit findings do not automatically alter audit opinion outcomes when the identified deficiencies remain below the materiality threshold established by auditing standards. In this context, audit findings serve primarily as instruments for improving governance and strengthening financial management rather than as direct determinants of audit opinion.

These results also suggest that the quality of financial reporting among provincial governments has become increasingly resilient to relatively minor audit deficiencies. Improvements in the implementation of Government Accounting Standards, stronger internal control practices, and more systematic follow-up of audit recommendations have enabled local governments to maintain the overall fairness of financial statements even though audit findings continue to be identified. As a consequence, the significance of audit findings lies not in their quantity but in their capacity to materially affect the credibility of financial reporting. This empirical evidence aligns with the findings of Salsabila and Wahyudi (2022), Indriani et al. (2024), Ismail and Adha (2023), and Amyulianthy et al. (2020), while contrasting with Nugroho et al. (2023), Rahmawati and Meza et al. (2023), and Novialdi et al. (2025). The divergence across studies suggests that the influence of audit findings is highly context-specific, depending on the materiality of identified deficiencies, the effectiveness of internal control systems, and the institutional capacity of local governments to address audit issues before they materially affect financial reporting quality.

4.2.2 Follow-up of Audit Recommendations Affects Audit Opinion

The positive effect of follow-up of audit recommendations highlights that audit opinion is shaped not solely by the identification of deficiencies but also by the institutional capacity of local governments to respond effectively to external audit outcomes. This evidence suggests that corrective actions undertaken after the audit process constitute an essential component of public sector accountability, as they demonstrate the government's ability to strengthen governance arrangements following the identification of weaknesses. Accordingly, the implementation of audit recommendations represents a substantive governance response rather than a procedural obligation.

Effective implementation of audit recommendations also illustrates the ability of provincial governments to convert external oversight into organizational reform. Rather than focusing exclusively on resolving individual audit findings, corrective actions contribute to strengthening internal control effectiveness, reinforcing regulatory compliance, and embedding more disciplined financial management practices within government institutions. Such institutional adjustments reduce the recurrence of similar deficiencies and enhance the credibility of financial reporting in subsequent reporting periods. Consequently, recommendation follow-up serves as evidence of organizational adaptability and administrative resilience in responding to audit evaluations.

The significance of recommendation follow-up further suggests that auditors place considerable emphasis on the sustainability of governance improvements rather than solely on the current condition of financial statements. Governments that consistently implement audit recommendations provide observable evidence that identified deficiencies are systematically addressed through institutional reform rather than temporary administrative corrections. Under these circumstances, favorable audit opinions reflect not only compliance with financial reporting requirements but also the government's capacity to sustain improvements in governance quality and financial accountability over time. These findings are consistent with Novialdi et al. (2025), Khabibah et al. (2024), Ramadania et al. (2025), and Mainingrum et al. (2023), which likewise reported a positive relationship between recommendation follow-up and audit opinion. However, they differ from Sabella and Mutmainah (2022) and Wahib and Rohman (2025), who observed no statistically significant association. This divergence suggests that the effectiveness of recommendation follow-up depends not merely on the proportion of recommendations implemented but also on the extent to which corrective actions generate substantive institutional improvements capable of strengthening governance quality and enhancing the reliability of public financial reporting.

4.2.3 Local Government Age Does Not Affect Audit Opinion

The absence of a significant relationship between local government age and audit opinion suggests that organizational longevity no longer constitutes a decisive factor in determining audit outcomes among Indonesian provincial governments. Although older governments have accumulated longer administrative experience, such experience does not necessarily translate into superior financial governance or higher-quality financial reporting. The positive regression coefficient indicates that organizational age remains directionally associated with favorable audit opinions; however, the lack of statistical significance demonstrates that this advantage is neither systematic nor sufficiently strong to explain variations in audit opinion across provinces.

These findings indicate that institutional maturity cannot be adequately represented by chronological age alone. The decentralization process in Indonesia has altered the relationship between organizational age and governance capacity, particularly through regional expansion policies. Newly established provinces frequently inherit administrative structures, experienced civil servants, financial management systems, and governance arrangements from their parent provinces. As a consequence, institutional capability is no longer developed solely through the passage of time but also through the transfer of organizational resources, administrative experience, and established governance practices. Under these circumstances, younger provinces may achieve governance standards comparable to those of longer-established governments despite their relatively recent institutional history.

The findings further suggest that contemporary public sector governance is increasingly shaped by institutional standardization rather than organizational longevity. Uniform implementation of Government Accounting Standards, national financial management regulations, standardized internal control frameworks, and consistent external audit procedures has reduced governance disparities among provincial governments. Consequently, the ability to obtain a favorable audit opinion depends more on the effectiveness of governance implementation than on the length of institutional existence. Organizational age therefore appears to function as a descriptive institutional characteristic rather than a substantive determinant of audit opinion. The present findings support those reported by Rosadi et al. (2019), Hasanah et al. (2026), and Kusumawati and Ratmono (2017), while differing from Wicaksono et al. (2013). These contrasting results suggest that the relevance of local government age has gradually diminished as governance practices have become increasingly standardized across Indonesian local governments. Accordingly, institutional effectiveness is more appropriately explained by governance quality, internal control effectiveness, regulatory compliance, and managerial capacity than by organizational age itself.

4.2.4 Corruption Level Affects Audit Opinion

The statistically significant negative association between corruption and audit opinion reinforces the proposition that corruption constitutes a structural weakness within public sector governance rather than merely an isolated legal violation. The empirical evidence indicates that increasing corruption undermines the institutional environment required to sustain transparent, accountable, and credible financial management. Under such circumstances, the deterioration of governance quality extends beyond ethical misconduct and gradually compromises the integrity of financial administration, thereby reducing the likelihood of provincial governments obtaining favorable audit opinions.

The present findings further suggest that corruption should be interpreted as an institutional risk capable of eroding the effectiveness of accountability mechanisms embedded within public financial management. Although audit opinions are formally based on the fair presentation of financial statements, the persistence of corruption frequently coincides with deficiencies in internal control systems, regulatory enforcement, and organizational oversight. Such institutional deficiencies weaken the credibility of financial reporting and increase the probability that material weaknesses will emerge during the audit process. Consequently, corruption becomes intrinsically linked to audit outcomes because it reflects systemic governance deficiencies rather than isolated administrative irregularities.

The Indonesian institutional setting provides additional support for this interpretation. The coexistence of corruption cases and Unqualified Opinions demonstrates that favorable audit opinions should not be interpreted as unequivocal evidence of sound governance. Instead, the findings imply that isolated corruption cases may remain outside the scope of audit opinion determination when they do not materially affect financial statement presentation. Nevertheless, as corruption becomes more pervasive and institutionalized, its consequences extend beyond individual misconduct and begin to impair governance effectiveness, financial accountability, and the reliability of financial reporting. Under these conditions, the probability of obtaining favorable audit opinions declines substantially. The present findings corroborate those reported by Iqbal and Maula (2022), Aisyah and Agoe (2025), and Angela et al. (2023), while contrasting with Dholi et al. (2023) and Ode et al. (2020). These divergent findings suggest that the influence of corruption on audit opinion is conditioned not simply by the occurrence of corruption itself but by the extent to which corruption compromises institutional integrity, weakens governance effectiveness, and diminishes the credibility of public financial

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reporting. Accordingly, corruption should be regarded as a substantive determinant of audit opinion because it captures dimensions of governance quality that cannot be adequately represented through formal compliance with accounting standards alone.

5. Conclusion

This study examines the determinants of audit opinion among Indonesian provincial governments during the 2020–2024 period, focusing on the influence of audit findings, follow-up of audit recommendations, local government age, and corruption level. Using binary logistic regression on 170 province-year observations, the results show that follow-up of audit recommendations has a positive and significant effect on audit opinion, indicating that provincial governments demonstrating stronger implementation of audit recommendations are more likely to obtain Unqualified Opinions. In contrast, corruption level has a negative and significant effect on audit opinion, suggesting that increasing corruption cases reduce the likelihood of receiving favorable audit opinions. Meanwhile, audit findings and local government age do not significantly influence audit opinion, implying that the number of audit findings does not automatically determine audit outcomes when deficiencies remain below materiality thresholds, and that organizational longevity no longer constitutes a decisive factor in determining audit outcomes as governance practices have become increasingly standardized. The logistic regression model demonstrates satisfactory predictive performance with an overall prediction accuracy of 92.42%, and the McFadden R-squared of 0.236087 indicates that the model provides meaningful explanatory power.

The theoretical implications extend Agency Theory to the context of public sector auditing in Indonesia. The significant negative effect of corruption supports Agency Theory by confirming that information asymmetry between citizens as principals and local governments as agents is exacerbated by corruption, which undermines the institutional environment required to sustain transparent, accountable, and credible financial management. The significant positive effect of follow-up of audit recommendations reinforces the importance of monitoring mechanisms in reducing information asymmetry and strengthening public accountability. The non-significant effect of audit findings challenges the assumption that a greater number of audit findings inevitably leads to less favorable audit opinions, suggesting that audit findings serve primarily as instruments for improving governance rather than as direct determinants of audit opinion. The non-significant effect of local government age suggests that institutional maturity can no longer be adequately represented by chronological age alone, as the decentralization process and institutional standardization have reduced governance disparities among provincial governments.

From a practical perspective, provincial governments should strengthen the implementation of audit recommendations as a substantive governance response rather than a procedural obligation, as effective follow-up actions demonstrate the government's ability to convert external oversight into organizational reform. Governments should reinforce anti-corruption measures and institutional integrity, as corruption constitutes a structural weakness that undermines governance effectiveness, financial accountability, and the reliability of financial reporting. The findings also suggest that audit findings should be viewed as instruments for improving governance and strengthening financial management rather than as direct determinants of audit opinion, and that provincial governments should focus on addressing material deficiencies that could affect the fairness of financial statement presentation. Regulators, particularly the Audit Board of the Republic of Indonesia (BPK RI) and the Corruption Eradication Commission (KPK), should strengthen coordination in monitoring governance quality and anti-corruption efforts, as corruption and audit opinion are intrinsically linked through systemic governance deficiencies. Furthermore, the findings highlight that favorable audit opinions should not be interpreted as unequivocal evidence of sound governance, and therefore, regulators should adopt a broader governance perspective when evaluating provincial government performance.

This study has several limitations. First, the analysis is limited to provincial governments, restricting generalizability to district and municipal governments with different institutional characteristics and governance capacities. Second, the five-year observation period (2020–2024) may not capture longer-term trends and patterns in the determinants of audit opinion. Third, the study excludes other potential determinants of audit opinion such as financial condition, internal control effectiveness, and political factors. Fourth, the measurement of corruption using the number of corruption cases handled by KPK may not fully capture the actual level of corruption, as many cases may go undetected or unreported. Fifth, the relatively modest McFadden R-squared value (0.236087) indicates that other factors outside the model significantly influence audit opinion outcomes.

Future research should broaden the scope to include district and municipal governments to test the generalizability of findings across different levels of government. Future studies should integrate additional variables such as financial condition, internal control effectiveness, political competition, and regional economic characteristics to develop a more comprehensive model of audit opinion determinants. Researchers should employ longer observation periods to capture longer-term trends and patterns in the relationship between governance factors and audit opinion. Future studies could utilize alternative measures of corruption, such as survey-based perception indices or composite integrity indicators, to provide more comprehensive assessments of governance quality. Finally, future research could employ qualitative approaches such as case studies or interviews to provide richer insights into the mechanisms through which governance factors influence audit opinion outcomes in the Indonesian public sector

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