

Evaluating Financial Statement Presentation Compliance and Auditor Opinion Based on BPK-RI Examination: A Case Study in West Java Local Governments

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ABSTRACT

This research aims to analyze the financial accountability of local governments in West Java based on the examination results of the Supreme Audit Agency (BPK-RI) on the Local Government Financial Statements (LKPD), specifically by mapping and analyzing issues related to the fairness of LKPD presentation and compliance with regulations. The study covers all regencies and cities in West Java for the period of LKPD 2018-2019, which were audited by BPK-RI, resulting in 54 research units.

This research adopts a descriptive approach with a method of descriptive content analysis to explain the issues of local government financial accountability. The analysis is conducted on qualitative data in the form of texts/sentences that describe the issues in the BPK-RI audit report on LKPD.

The findings reveal that the most common issues affecting the auditor's opinion on the fairness of LKPD presentation are non-compliance with Government Accounting Standards (SAP). The compliance issues with regulations that cause the most significant losses to the local government are indications of asset misuse.

Keywords: Audit Report of BPK-RI, Local Government Financial Statements, Compliance with Regulations

INTRODUCTION

The application of regional autonomy and fiscal decentralization in Indonesia demonstrates a diverse phenomenon. On one hand, it shows positive outcomes compared to the pre-decentralization era, such as accelerated development equality, regional economic growth, transparency, and empowerment of regions both politically and administratively. However, the negative impacts of decentralization are also significant, including the increasing misuse of authority in various reported cases by the mass media (1).

According to CNN Indonesia on October 9, 2019, data compiled by the Corruption Eradication Commission (KPK) as of October 7, 2019, revealed that since its establishment

in 2002, the KPK has legally processed 119 Regional Heads. Among those processed, West Java and East Java provinces had the highest number with 14 heads of regions legally processed. These cases of corruption, conducted through various methods, indicate the lack of awareness among regional governments in proper financial management, insufficient internal control systems, and non-compliance with applicable regulations.

One of the government's efforts to reduce the occurrence of corruption is to strive for the highest opinion on the fairness of presenting local government financial accountability reports through the examination conducted by BPK-RI, with an Unqualified Opinion (WTP).

In West Java, efforts to improve financial accountability in accordance with the

auditor/BPK-RI's opinion regarding the fairness of presenting local government financial statements (LKPD) have achieved the expected target, showing significant improvement in 2019. According to the BPK-RI Report on LKPD for West Java Province, as of the end of the second semester of 2019, out of the 27 regencies/cities in West Java, all 27 LKPD received the highest opinion, which is WTP (2).

Kompas.com on October 16, 2019, reported that the Corruption Eradication Commission (KPK) conducted another operation capturing the Regent of Indramayu on Monday, October 14, 2019. The KPK apprehended the Regent and seven others, including the Head of the Public Works and Spatial Planning Office of Indramayu Regency and the staff of the Road Division of the Public Works and Spatial Planning Office of Indramayu Regency (3).

This situation is contradictory. On one hand, the achievement of financial accountability in the West Java Provincial Government in 2019, with a 100% WTP opinion for 27 LKPD, is remarkable. On the other hand, there are still corruption cases involving local government leaders in West Java. Moreover, the West Java Provincial Government holds the highest position among the heads of regions processed by the Corruption Eradication Commission (4).

The occurrence of arrests by the KPK indicates the misuse of authority by regional leaders in financial management, leading to the acceptance of gratuities/bribes from other

parties. Incidents like these should serve as a reference for other auditors to be more vigilant when examining LKPD regarding all activities suspected to cause bribery.

However, the WTP given by BPK-RI for the examination of Indramayu Regency's LKPD in 2019 shows that corruption committed by Regional Heads does not affect the opinion provided by BPK-RI (5).

BPK-RI conducts audits/examinations of LKPD as part of the local government's accountability process. The audit of LKPD by BPK-RI results in examination reports (LHP) that include opinions, as stipulated in Law Number 17 of 2003 regarding State Finances and Law Number 15 of 2004 regarding the Examination of the Management and Responsibility of State Finances. The opinion represents the auditor's professional statement regarding the fairness of financial information in the financial statements, consisting of four types: [a] Unqualified Opinion, [b] Qualified Opinion, [c] Adverse Opinion, and [d] Disclaimer of Opinion (6).

According to Law Number 15 of 2004, the opinion regarding the fairness of financial information is influenced by four criteria: [a] compliance with government accounting standards, [b] adequacy of disclosures, [c] compliance with regulations, and [d] effectiveness of internal control systems (7).

Therefore, the issuance of an opinion for the audit of LKPD depends on fulfilling these four criteria. During the examination conducted by BPK-RI on LKPD to assess the financial

accountability of the region, BPK-RI not only assesses the fairness of financial statements through opinion statements but also evaluates the effectiveness of the internal control system implemented by the local government and its compliance with applicable regulations. The results are presented in two types of examination reports: [a] Book I, which contains the examination results of the financial statements and the auditor's opinion on their fairness, [b] Book II, which contains the examination results of the Internal Control System, and [c] Book III, which contains the examination results of Compliance with Regulations (8).

In Book II (Examination Results of the Internal Control System) (9) and Book III (Examination Results of Compliance with Regulations) , the auditor explains the condition of internal control and compliance issues found, including violated rules/regulations, causes of problems/findings, consequences, and auditor's recommendations to address the identified problems. The issues described in these two reports provide a more detailed overview of the financial accountability of the local government than the auditor's opinion on financial information, as they outline all identified problems that affect and do not affect the auditor's opinion. The BPK-RI's examination of the 27 LKPD in West Java Province conducted in 2019 and 2020 on the LKPD for 2018 and 2019 revealed weaknesses in financial accountability found in the regencies/cities of West Java in 2019.

The increasing trend of receiving 100% WTP opinions from BPK is not in line with the level of compliance with regulations, and there are still revealed losses in the LKPD, indicating the need for further improvement.

Financial accountability of the West Java Provincial Government in 2019 tended to improve compared to 2018, with the audit opinion of the BPK-RI (Supreme Audit Agency) on all 28 LKPD of West Java Province receiving an WTP. The increase in this opinion is proportional to the decrease in compliance findings with laws and regulations and disclosed losses. However, upon closer examination, even in local governments that have received a WTP opinion, there are still many findings related to compliance with laws and regulations and disclosed losses. The auditor considers these findings to be below the materiality threshold, so they do not become exceptions and do not affect the BPK-RI's opinion.

The total value of losses uncovered from the audit of the LKPD was quite high, amounting to Rp178,393,290,111.86. This amount is the actual recommendation made by the auditor for depositing into the regional/national treasury. There are also other potential losses that are even greater. Information on the fairness of financial statement presentation is crucial to assess the financial accountability of local governments, which also includes information on the effectiveness of the internal control system and compliance with laws and regulations.

From the BPK-RI's audit of the LKPD, we can see common types of deviations, particularly those related to positions, such as indications of fraud in financial reporting (10), indications of asset misuse, and indications of corruption in the form of conflicts of interest. Through the BPK-RI's report, problems and accounts that often affect the auditor's opinion in the preparation of local government financial statements can be identified. Knowing the problems and accounts that can potentially affect the auditor's opinion will be beneficial for stakeholders to improve the quality of LKPD presentation, leading to improved auditor opinions, especially when connected with compliance findings with laws and regulations that also outline disclosed losses to be deposited into the national/regional treasury.

Over time, as improvements are made based on recommendations, the quality of LKPD presentation is expected to continue to increase. However, it is important to note that even with the highest achievement of the WTP opinion given by BPK-RI for LKPD, the occurrence of corruption among regional leaders continues. This has sparked the interest of researchers to investigate the fairness of financial statement presentation and compliance with laws and regulations when connected to the opinion given by the BPK-RI auditor.

Based on this background, the researcher intends to conduct an in-depth study of the BPK-RI's Examination Reports (LHP) on LKPD in the West Java Province using

content analysis to obtain a comprehensive understanding of the financial accountability of district and city governments in West Java from the perspective of the fairness of LKPD presentation and compliance with laws and regulations (11).

The research problem is to identify the factors that affect the auditor's opinion regarding the fairness of LKPD in the districts/cities of West Java Province, specifically which accounts have an impact on the auditor's opinion, and what compliance issues are encountered that affect the auditor's opinion on the district/city governments in West Java Province (12).

This study aims to identify the problems related to the fairness of LKPD presentation and determine the types of deviations encountered related to compliance with laws and regulations in the district/city governments of West Java Province that affect the auditor's opinion (13).

The results of this research are expected to provide benefits to both theoretical and practical stakeholders. The author hopes to contribute to the development of knowledge, particularly in the field of public finance related to the financial accountability of local governments. The research findings can also serve as a reference for future research and provide input for internal auditors in the government to further support follow-up (14)

METHODS

To obtain an overview of the relationship between the fairness of financial statement

presentation and compliance with laws and regulations in relation to the auditor's opinion from the BPK-RI audit, the research methodology to be employed is descriptive content analysis. The analysis will be conducted on qualitative data in the form of the substantive issues described in the BPK-RI's Examination Reports on 27 LKPD of the Districts/Cities in West Java Province for the years 2018 and 2019 (15).

In this research, a descriptive approach will be used to address the research problems and provide a more detailed depiction of the financial accountability conditions of the district/city governments in West Java. This approach involves collecting data to test hypotheses or answer questions about the latest status, characteristics, and frequency of the subjects under study. The objective of descriptive research is to obtain a profile or explain the aspects of the phenomena encountered from a specific perspective (16).

The data analyzed in this research is qualitative data in the form of words. The analysis aims to draw valid conclusions from the collected data. The data collected in this study consist of descriptions of problem conditions and the causes of these problems related to the financial accountability of local governments (17).

The data is sourced from the BPK-RI's Examination Reports on LKPD, which include: [a] Book I (Examination of Financial Statements); and [b] Book III (Examination of Compliance with Laws and Regulations) (18).

The process of analyzing the qualitative data involves quantifying the data using content analysis. The results are presented as frequency numbers grouped according to the established coding scheme and then interpreted to draw conclusions about the examined financial accountability conditions (19).

RESULTS AND DISCUSSION

The issues regarding the fairness of financial statement presentation of the district/city governments in West Java are mapped and analyzed based on the substantive texts/sentences explaining the auditor's/BPK-RI's opinion as outlined in the BPK-RI's Examination Reports on Financial Statements. According to the results of the content analysis, the problem that most significantly affects the auditor's opinion on the fairness of the financial statements of the district/city governments in West Java during the period of 2018 and 2019 is non-compliance with Government Accounting Standards (SAP) (20), occurring 6 times in frequency, followed by non-compliance with laws and regulations, occurring 4 times. On the other hand, insufficient disclosure and the limitation of the scope of the audit do not affect the audit opinion.

The problems/findings of the audit on LKPD generally have connections with specific accounts. All the problems/findings of the audit, including related accounts, whether they affect the auditor's opinion or not, are included in the Examination Reports on

Internal Control Systems Book II and Examination Reports on Compliance with Laws and Regulations Book III, depending on the type of problem. However, for issues addressed in the Examination Reports on Internal Control Systems Book II, they are outside the scope of this research.

From the analysis results, it is evident that the account "Hibah Expenditures" is dominant in the problems/findings of the audit and is one of the accounts that impact the auditor's opinion. In 2018, out of 10 problems that affected the auditor's opinion, 7 of them were related to "Hibah Expenditures," followed by "Building and Construction Expenditures," "Other Receivables," and "Claims for Compensation," each with one issue.

Specifically, the issues related to "Other Receivables" and "Claims for Compensation" are discussed in more detail in the Examination Report on Compliance with Laws and Regulations Book III on the LKPD of Kabupaten Bandung Barat in 2018.

The compliance issues with laws and regulations of the district/city governments in West Java are mapped and analyzed based on the substance of the texts/sentences describing

the condition of the problems/findings in the BPK-RI's Examination Reports on Compliance with Laws and Regulations Book III. In this research, the identified problems/findings are linked to three types of occupational fraud according to ACFE: indications of asset misappropriation, corruption, and financial statement fraud. Problems that do not fall into these three categories of occupational fraud are categorized into a fourth group, including administrative deviations, violations of civil agreements, and significant improprieties.

During the years 2018 and 2019, BPK-RI identified a total of 352 compliance issues/findings. Based on the analysis of the 352 descriptions of compliance issues/findings, it was found that indications of asset misappropriation were the most dominant, occurring 156 times, followed by indications of corruption, occurring 102 times, while no indications of financial statement fraud were found. Apart from issues related to occupational fraud, the most commonly encountered problems were administrative deviations, violations of civil agreements, and improprieties, occurring 94 times.

Table 1: Opinion Given by BPK-RI

YEAR	TYPE OF OPINION				LKPD AUDIT FINDINGS	
	WTP	WDP	TW	TMP	COMPLIANCE WITH LAWS	VALUE OF DISCLOSED LOSSES Rp
2018	24	3	-	-	211	97.834.798.585,23
2019	27	-	-	-	141	78.558.491.526,63
	AMOUNT				352	176.393.290.111,86

Source: LHP BPK-RI for LKPD Regencies/Cities in West Java in 2018 and 2019

Table 2: Parameter operationalization

DRAFT	INDIKATOR	INFORMANT (INITIALS)
<p>Fairness of LKPD Presentation</p> <p>What is meant by fairness is that the maker of accounting information has worked in good faith and applied ethical business practices and several accounting considerations in presenting, preparing and auditing accounting results. The conventional nature of the concept of fairness is fairness in the presentation of financial information (Belkaoui-translation edition, 2011)</p>	<p>Problems that often arise and affect the auditor's opinion regarding the fairness of the presentation of LKPD, include:</p> <ol style="list-style-type: none"> 1. Compliance with SAP 2. Adequacy of Disclosure 3. Effectiveness of the Internal Control System 1. 4. Compliance with laws and regulations 	<p>The source of information is the BPKP Representative Auditor for West Java Province, including:</p> <ol style="list-style-type: none"> 1. SR (Associate Auditor) 2. TS (Associate Auditor) 3. PD (Associate Auditor) 4. SS (Young Auditor) 1. 5. RK (First Auditor)
<p>Compliance with laws and regulations</p> <p>Acts of violation of regulations in government institutions are closely related to acts of fraud in office (occupational fraud), namely "the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets" (21)</p>	<p>Problems that often arise and affect compliance with laws and regulations can be mapped as follows:</p> <ol style="list-style-type: none"> 1. Indication of misappropriation of assets 2. An indication of corruption 3. Indication of fraud in financial reporting 4. Administrative irregularities, violations of civil engagements, and significant impropriety. 	<p>The source of information is the Auditor at the BPKP Office of West Java Province, including:</p> <ol style="list-style-type: none"> 1. SR (Associate Auditor) 2. TS (Associate Auditor) 3. PD (Associate Auditor) 4. SS (Young Auditor) 1. 5. RK (First Auditor)

Source: Processed Data

CONCLUSIONS

Based on the analysis of the financial accountability of the district/city governments in West Java from the BPK-RI's examination of LKPD, the following conclusions can be drawn: The problem that most significantly affects the auditor's opinion on the fairness of the presentation of LKPD is non-compliance

with Government Accounting Standards (SAP), followed by non-compliance with laws and regulations. On the other hand, insufficient disclosure and the limitation of the scope of the audit do not affect the auditor's opinion. The account that most frequently encounters audit problems/findings is "Hibah Expenditures," followed by

"Building and Construction Expenditures," "Other Receivables," and "Claims for Compensation." Specific issues related to "Other Receivables" and "Claims for Compensation" are discussed in more detail in the BPK-RI's Examination Report on Compliance with Laws and Regulations (Book III) on the LKPD of Kabupaten Bandung Barat in 2018. The compliance issues with laws and regulations that cause the most losses for the region are indications of asset misappropriation, which are commonly found in the form of fraudulent disbursements, followed by indications of corruption, often in the form of physical deficiencies in the work. Please note that the above translation is based on the provided text

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