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The Effect of Local Government Characteristics and Audit Findings on Financial Performance with Responsibility Level Moderation

Nirfa Ayunisa[1], Didik Susetyo[2], Yusnaini[3]

[1,2,3]Postgraduate Program, University of Sriwijaya

ABSTRACT: Purpose: to examine the effect of local governments characteristics and the findings of the investigation on financial performance moderated by the level of responsiveness of local governments. Methodology: population and sample as many as 180 districts and cities. Secondary data sourced from the report on the results of the examination of the financial statements audited by the Audit Board of Republic of Indonesia from 2017 to 2019. The analysis technique of panel data regression analysis was data processing software reviews with a random effect model. Results: The results showed the size of the legislative, the weakness of the SPI and non-compliance with laws and regulations had no effect on financial performance. Meanwhile, the size of the government, and the level of wealth had a significant effect on financial performance. The level of responsiveness cannot strengthen the influence of size of legislative, weaknesses of SPI and non-compliance with laws and regulations on financial performance, while the level of responsiveness can strengthen the influence of government size and the level of wealth of local governments on financial performance. Limitation: the number of samples was only 12%, the results cannot be generalized. Contribution: local governments must realize recommendations on the findings of BPK RI and manage the assets effectively and efficiently. Ministry of Home Affairs, the provisions on the number of members of the legislative need to be reviewed.

KEY WORDS: Local Government Characteristics, Investigation Findings, Performance and Responsiveness Level

1. INTRODUCTION

The main purpose of new public management is to improve the public services, especially in developing countries (Wardhani, Rossieta and Martani, 2017; Yusup and Guohua, 2017). Three principles of Good Governance that are closely related to local financial management consist of transparency, accountability (responsibility) and responsiveness. Transparency means that local governments in are required to lead to the public interest in managing the finance (Mardiasmo, 2002). Transparency and accountability in local financial management is one example of several factors related to local government financial performance. Furthermore, the government must quickly respond the findings and recommendations of the findings of the BPK RI.

Financial performance is a performance assessed based on number in units of value for money. Nonfinancial performance is not assessed based on the size of the number in units of value for money. The local government as the agent in carrying out the mandate given by the community as the principal, the local government must improve the financial performance.

The characteristics of local governments can be in the form of regional size, legislative size, welfare, functional differentiation, regional age, educational background of regional heads, regional leverage, and intergovernmental revenue (Suhardjanto et al., 2010), legislative size, wealth level, (Utama, et al., 2010). al., 2019), local government size , prosperity, dependence level with the center, leverage and the amount of spending used (Kusuma and Handayani, 2017), number of SKPD, size of region, local revenue, (Mutiarani and Siswantoro, 2020), research In this case, the characteristics of local government, using the dimensions of legislative size, local government size , and regional wealth level.

The level of responsiveness to the recommendations of BPK RI audit results is the completion of the realization to the recommendations from the audit results to eliminate the identified weaknesses and improve regional financial management. Sari (2013), explained that the principles of good governance can be influenced by the follow-up recommendations from the BPK audit, SPI and implementation of accounting standards in government. Therefore, in order to improve the implementation of good governance, the responsiveness of the follow-up settlement becomes important matter for the competent authorities to pay attention to. The positive impact of following up the recommendations on audit results is proved in Pratiwi and Aryani (2016) and

Winanti (2014) study where the follow-up to recommendations can increase the likelihood of local governments to obtain a better audit opinion.

II. LITERATURE REVIEW

Yoyo (2017) describes one of tools for analyzing local government financial performance, namely by applying the ratio analysis to the APBD that has been determined and implemented. Financial ratio analysis in the APBD can be applied by comparing the results achieved in a period with the previous period, thus it shows the trend.

The ratio of regional financial independence describes the dependence of the region on external funding sources Ramli, (2016), the high ratio of the independence of a region can be interpreted that the level of regional dependence on external parties (central and provincial) is said to be lower, and vice versa. Regional financial independence is described by the size of the regional original income compared to regional income originating from other sources, for instance the central/provincial assistance or loans.

Characteristics of Local Government are special characteristics that sign an area and have differences with other regions (Kusuma & Handayani, 2017). The characteristics of local government in this study consist of:

a. Size of Legislative

Law of the Republic of Indonesia No. 23 of 2014, Article 155, states that the members of the regency/municipal DPRD are at least 20 (twenty) people and a maximum of 50 (fifty) people. /city domiciled in the capital city of the district/city.

b. Size of Regional Government

The large size of the local government can contribute the operational activities of the local government that is followed by the increase in the financial performance of the local government (Kusumawardani, 2012). The indicator of government size variable used by Kusumawardani (2012), Rustiyaningsih & Immanuela (2014) uses total local government assets, while Renas & Muid, (2014) uses Ln total income.

c. Level of Local Government Wealth

The local government's performance that have added value to their own regional income is considered capable to increase the independence of their own regional potential. This strengthens role of local governments as agents with authority from the central government that can be trusted in managing their own regional resources. The success of local governments in increasing regional wealth through Regional Original Revenue, will ultimately increase the performance score received from the central government (Qowi, Jatmiko, & Prabowo, 2017).

d. Investigation Results

The examiner must disclose the findings in the LHP if there is a discrepancy between the conditions and the criteria. Examination findings that contain early indications of fraud are presented in the LHP without explaining the detail fraud.

(1). Weaknesses of Internal Control System

Government Internal Control System, hereinafter abbreviated as SPIP, is an Internal Control System that is comprehensively implemented within the central government and regional governments. SPI weaknesses include: a). weakness of the accounting and reporting control system (KSPAP), b). Weakness of the control system for the implementation of the revenue and expenditure budget (KSPPAPB), and c). Weakness of the internal control structure (KStPI).

(2). Non-compliance with laws and regulations

State Financial Audit Standards (BPK 2017). The results of audits of financial statements reveal noncompliance with statutory provisions that result in regional losses, potential regional losses, and lack of revenue, administration, inefficiency, inefficiency, and ineffectiveness.

e. Level of Responsiveness

One form of responsiveness from the local government is in completing the recommendations delegated by the BPK based on the examination results. The large number of follow-up on the recommendations is expected to eliminate the weaknesses found during the examination, so that the impact on financial management improvement and responsibility as well as good governance in local government can be enhanced.

3. RESEARCH METHODOLOGY

This research is quantitative and associative. The dimension of time required in this study was time series or panel data, namely the report on the results of the Indonesian National Audit Board (BPK) of the financial statements of local governments (local governments) in Indonesia that was used to measure the financial performance of local governments in 2017-2019. Data collection techniques used in this study using documentation techniques was by collecting data from: 1). budget realization report (LRA) in the form of total local revenue, total assets 2). Data from the Central Statistics Agency for the number of members of the legislature, 3). Follow-up data on findings and recommendations of BPK.

The sampling method used in this study was saturated sample. It's is because all districts and cities had complete data such as 60 districts and cities with 3 years of data each, so the number of observations was 180. The analysis technique was carried out by descriptive statistics, classical assumption test, hypothesis testing (testing the significance of equation 1 and 2), and the coefficient of determination. Research model, data processing with eviews program, selection of panel data estimation using common effect and random effect.

4. RESULTS AND DISCUSSIONS

Results

To determine the model between Common effects or Random effects in panel data processing. Based on the model selection, the model used was Random effect (the probability value on both is less than 0.05 (0.000 < 0.05)). Below is a statistical descriptive analysis:

Table 1. Statistical Descriptive Analysis

Description	KKPD_Y	UL_X1	UPD_X2	TKPD_X3	KSPI_X4	KTPP_X5	TRPD_Z
Mean	12.55257	34.75000	12.34899	10.96405	20.23889	12.26111	44.74685
Median	9.362195	35.00000	12.31783	10.93567	18.50000	12.00000	41.54040
Maximum	57.21079	50.00000	13.21161	12.03811	55.00000	32.00000	100.0000
Minimum	3.534901	25.00000	12.05412	10.29848	8.000000	3.000000	3.225806
Std. Dev.	9.305015	8.411136	0.199042	0.322329	7.914603	3.700164	20.94333
Skewness	2.423072	0.311858	1.525678	0.592228	1.219456	1.262216	0.255284
Kurtosis	9.684544	1.826989	6.791900	4.045027	5.260660	7.200348	2.402398
Jarque-Bera	511.2618	13.23733	177.6696	18.71263	82.94160	180.1176	4.633566
Probability	0.000000	0.001335	0.000000	0.000086	0.000000	0.000000	0.098590
Sum	2259.463	6255.000	2222.818	1973.529	3643.000	2207.000	8054.432
Sum Sq. Dev.	15498.41	12663.75	7.091594	18.59740	11212.73	2450.728	78513.56
Observations	180	180	180	180	180	180	180

Source: Processed Data, 2022

Table 1 showed mean > deviation standard so the data quality was good.

The results of the classical assumption test of the normality test based on equations 1 and 2, the data showed that the residual data were not normal, but because the number of observations was more than 30, the data were not normal distribution. . Heteroscedasticity test showed a Chi square probability value of 0.000 was less than 0.05 both for equations 1 and 2 so that the regression model had a heteroscedasticity problem (random effect model does not require classical assumptions). Furthermore, the autocorrelation test showed that because the DW value was at 1.65 to 2.35, there was no autocorrelation problem (equations 1 and 2). To test the hypothesis (t test), the comparation between the probability > 0.05 (no effect) was conducted if the probability is < 0.05 (influence).

Table 2. Random effect regression analysis equation 1

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-146.4512	41.36419	-3.540532	0.0005
UL_X1	-0.136706	0.102567	-1.332839	0.1843
UPD_X2	-7.847470	3.668539	-2.139127	0.0338
TKPD_X3	23.69041	1.937488	12.22738	0.0000
KSPI_X4	0.055204	0.024157	2.285235	0.0235
KTPP_X5	-0.016105	0.060085	-0.268041	0.7890
	Effects Specif ication			
			S.D.	Rho
Cross-section random			5.256627	0.8594
Idiosyncratic random			2.125929	0.1406
	Weighted Statistics			
R-squared	0.476522	Mean depen dent var	2.854212	
Adjusted R-squared	0.461480	S.D. dependent var	3.028060	
S.E. of regression	2.222109	Sum squared resid	859.1719	
F-statistic	31.67847	Durbin-Watson stat	1.821501	
Prob(F-statistic)	0.000000			
	Unweighted Stat istics			
R-squared	0.607791	Mean dependent var	12.55257	
Sum squared resid	6078.613	Durbin-Watson stat	0.739569	

Source: Processed Data,

a. The size of the legislative had no effect on the financial performance of the regional government. It is because the probability value > 0.05 (0.184 > 0.05) so that Ho was accepted and Ha was rejected.
b. The size of the local government had a significant effect on the financial performance of the local government. It is because the probability value < 0.05 (0.033 < 0.05) so that Ho was rejected and Ha was accepted. The effect is negative because the regression coefficient was negative, it means that if the size of the government increases, the financial performance may decrease.
c. The level of wealth of the local government had a significant effect on the financial performance of the local government. It is because the probability value < 0.05 (0.000 < 0.05) so that Ho was rejected and Ha was accepted. The effect was positive because the regression coefficient value was positive, it means that if the level of government wealth increases, financial performance will also increase.
d. The weakness of the Internal Control System has a significant effect on the financial performance of the regional government. It is because the probability value < 0.05 (0.023 < 0.05) so that Ho was rejected and Ha was accepted. The effect was positive because the regression coefficient was positive, it means that the weakness of the internal control system increases, financial performance will increase.
e. Non-compliance with laws and regulations did not affect the financial performance of local governments. This is because the probability value > 0.05 (0.789 > 0.05) so that Ho was accepted and Ha was rejected.

Table 3 Random effect regression analysis equation 2

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-131.2224	40.60754	-3.231479	0.0015
UL_X1	-0.125651	0.118874	-1.057011	0.2920
UPD_X2	-15.88722	3.920363	-4.052488	0.0001
TKPD_X3	31.08077	2.672640	11.62924	0.0000
KSPI_X4	0.136134	0.055846	2.437653	0.0158
KTPP_X5	0.025415	0.102119	0.248876	0.8038
X1Z	-9.35E-06	0.001297	-0.007210	0.9943
X2Z	0.139560	0.035580	3.922403	0.0001
X3Z	-0.153464	0.040899	-3.752288	0.0002
X4Z	-0.001575	0.001244	-1.265863	0.2073
X5Z	6.78E-05	0.002253	0.030120	0.9760

Effects Specification		S.D.	Rho
Cross-section random		5.192667	0.8725
Idiosyncratic random		1.984617	0.1275

Weighted Statistics			
R-squared	0.530899	Mean dependent var	2.704797
Adjusted R-squared	0.503141	S.D. dependent var	2.956149
S.E. of regression	2.083737	Sum squared resid	733.7910
F-statistic	19.12632	Durbin-Watson stat	1.833228
Prob(F-statistic)	0.000000		

Unweighted Statistics			
R-squared	0.617261	Mean dependent var	12.55257
Sum squared resid	5931.845	Durbin-Watson stat	0.749594

Based on t-test of equation 2 can be concluded:

a. The level of responsiveness cannot strengthen the influence of Legislative Measures on the Financial Performance of Local Governments. This is because in the X1Z variable the probability value was > 0.05 (0.994 > 0.05) so that Ho was accepted and Ha was rejected.
b. The level of responsiveness can strengthen the influence of the size of the local government on the financial performance of the local government. This is because the variable X2Z probability value was <0.05 (0.0001 <0.05) so that Ho was rejected and Ha was accepted.
c. The level of responsiveness can strengthen the influence of the level of wealth of the local government on the financial performance of the local government. This is because the variable X3Z probability value was <0.05 (0.0002 <0.05) so that Ho was rejected and Ha was accepted.
d. The level of responsiveness cannot strengthen the influence of SPI Weaknesses on Regional Government Financial Performance. This is because in the X1Z variable the probability value was > 0.05 (0.207 > 0.05) so that Ho was accepted and Ha was rejected.

e. The level of responsiveness cannot strengthen the effect of non-compliance with laws and regulations on local government financial performance. This is because in the X5Z variable the probability value was > 0.05 (0.976 > 0.05) so that Ho was accepted and Ha was rejected.

The results of the F test showed that the size of Legislative, Regional Government and Regional Government Wealth Level, SPI Weaknesses, and Non-compliance with Laws and Regulations simultaneously had a significant effect on local government financial performance. It is because the probability value on the F test was less than 0.05 (0.000 < 0.05), so Ho was rejected and Ha was accepted.

DISCUSSION

The Influence of Size of Legislative on Financial Performance

Based on the results, hypothesis was rejected, meaning that the size of the legislative had no effect on financial performance, it means that the number of legislators who are large or small has nothing to do with financial performance, especially the ratio of regional financial independence (amount of local revenue divided by government assistance central/provincial and loans). This research showed that DPRD members had not maximally carried out their duties as supervisors of the implementation of the APBD, so they had not been able to increase regional financial independence.

This research is not in line with the research of Gusnaeni, et al (2020), Sri (2021), Kamela & Setyaningrum (2020), Utama (2019), Setyaningrum and Syahfitri, (2020) and Azwar (2019), furthermore this research is in line with Muhawai (2015), Noviyanti and Kiswanto (2016) ,

The Influence of Local Government Size on Financial Performance

Based on the results, especially the second hypothesis was accepted, it means that the size of the local government affected the financial performance of the local government, it means that the greater the total assets owned by the local government and optimally utilized will affect the financial performance of the regional financial independence, because the optimal use of assets will generate local revenue, besides that it can also provide good services to the community.

The results of the study are in line with Andani et al (2019), Nurhayati and Hamzah (2020), Wijayanti and Suryandari (2020) and Yousuf et al (2020), furthermore this research is not in line with Gusnaeni (2020), Muhawai (2015), Nugraheni and Adi (2020), Oktaviani et al (2020), Praptiningsih and Khoirunisa, (2020), Muid (2014), on the other hand the size of government can moderate the influence of wealth level on local government performance. Several research shows that large total assets if not utilized optimally will only become a burden and will not generate regional income.

The Influence of Local Government Wealth Level on Financial Performance

The third hypothesis proved that the level of local government wealth (local revenue) had a significant effect on local government performance, it means that the greater the amount of regional income to develop the area so that the facilities built will be used to provide public services and will generate returns. Regional original income, then financial performance will increase. On the other hand, low regional original income cannot carry out development aimed at public services and cannot generate local revenue. Regional original income is a measure of the financial independence of a region, so that regional government efforts must explore the potential of resources sourced from the region, this is in accordance with the spirit of regional autonomy.

This research is in line with Amyulianty (2016), Amalina and Sumardjo (2020), setyaningrum and syahfitri (2020), Nugraheni and Adi (2020), Muid (2014), Wijaya and Solikhin (2021). (2019), Noviyanti and Kiswanto (2016).

Local governments need to explore from various sources, including local taxes (hotel tax, restaurant tax, class C excavation tax, advertisement tax, street lighting tax, entertainment tax and land and building tax), besides that it needs to explore sources of regional retribution (licensing levies), service fees and business fees), maximizing the share of BUMD profits can also be done by utilizing fixed assets of local governments that had not been used properly, as well as other legitimate local revenue.

The Effect of Weaknesses in the Internal Control System on Financial Performance

The weakness of the government internal control system had no effect on the financial performance of local governments, so the fourth hypothesis was rejected. This means that the more weaknesses in the government internal control system, the decrease financial performance. Conversely, a small number of SPIP weaknesses will improve the financial performance of local governments, it is due to the large SPIP weaknesses, and the deviation will be even greater so that the APBD cannot reach the target determined.

It is in accordance with the objectives of the Government Internal Control System (SPIP) as referred in Article 2 paragraph 3 of the Government Regulation of the Republic of Indonesia No. 60 of 2008 concerning SPIP. It is to provide adequate assurance for the effectiveness and efficiency of achieving the objectives of state administration, reliability of financial reporting, safeguarding state assets, and compliance with laws and regulations. This study is not in accordance with Munawar (2016) and Furqan (2020), on the contrary this research is in line with the research of Kirana et al (2019).

The results of other studies on the Government's Internal Control System (SPIP), for example, internal control had a positive effect on fraud prevention (Soleman, 2013), the stronger the internal control, the more fraud prevention can be carried out, on the contrary, the weaker the fraud prevention internal control, the more flexible it will be, so that it will effect on the financial performance of local governments. On the other hand, the quality of internal control had a significant effect on the follow-up process on findings, the competence of the internal auditor function, and the involvement of the audit committee (Oussii and Boulila Taktak, 2018), the effectiveness of internal control did not significantly affect the results of audits of local government financial statements (Nurdiono et al., 2016), the number of audit findings on the internal control system and the number of compliance audit findings together had a negative effect on the opinion on LKPD.

The Effect of Non-compliance with Laws and Regulations on Financial Performance

The fifth hypothesis of non-compliance with laws and regulations did not affect the financial performance of local governments, the results were rejected. Government Regulation No. 60 of 2008, concerning the Government Internal Control System, article 1 paragraph 1, explains that the Internal Control System is an integral process for actions and activities carried out continuously by the leadership and all employees to provide adequate confidence in the achievement of organizational goals through effective activities. And efficiency, reliability of financial reporting, safeguarding state assets and compliance with laws and regulations.

The results of Probohudono's research (2015) showed that compliance with laws and regulations affected the audit opinion of local government financial statements, the greater the weakness of the case findings and the value of non-compliance found, the BPK gave an unfair opinion or not give an opinion. Internal control can be achieved by the company through compliance with the legal framework that strengthens government governance (Aziz, 2013). Meanwhile, similar research was carried out by Kirana et al. (2019), and Munawar (2016).

The Level of Responsiveness Can Strengthen the Effect of Size of Legislative on Financial Performance

Based on the sixth hypothesis, the level of responsiveness can strengthen the influence of the number of legislators on financial performance and the results were not proven (cannot strengthen), it means that the duties and functions of legislative members include monitoring the follow-up to BPK findings on the results of audits of financial statements that had not been running properly. It can be seen that the average response of local governments in completing BPK findings or recommendations on audit results was only 44.75% on average. The figure of 44.75% also showed that the response of the local government in following up on findings was still low, so it cannot strengthen the duties and functions of the DPRD in improving the financial performance of local governments.

The Level of Responsiveness Can Strengthen the Influence of Size of Local Government Size on Financial Performance

Based on the seventh hypothesis, namely the level of responsiveness can strengthen the influence of local government size on financial performance and the results were proven (can strengthen), it means that governments with large total assets had complex problems and required reliable human resources, so it tend to respond to the findings. Or recommendations quickly, so that the problems faced did not increase and it may improve financial performance. In addition, the commitment of the regional head to complete the findings on the recommendations of the BPK audit results was very indispensable. It can be seen that the Lampung Province and Bangka Belitung Province had a high level of responsiveness in following up on findings. On the other hand, governments with high total assets also had a high level of responsiveness, for instance Palembang City, Bandar Lampung City, Musi Banyuasin Regency and others, the faster they respond to these findings, the fewer problems in regional financial management, so it may improve local government financial performance.

The Level of Responsiveness Can Strengthen the Effect of Local Government Wealth Levels on Financial Performance

Based on the eighth hypothesis, the level of responsiveness can strengthen the influence of the level of local government wealth on financial performance and the results were proven (can strengthen), it means that governments with large total local revenue tend to have big problems and need human resources to solve it quickly. When faced this problem, they tend to respond the findings or recommendations of BPK audit results quickly, so that the problems faced did not increase and can improve financial performance. In addition, the commitment of the regional head to complete the findings on the recommendations of the BPK audit results was indispensable, it can be seen that the Lampung Province and Bangka Belitung Province had a high level of responsiveness in following up on findings.

The level of responsiveness cannot strengthen the influence of the weakness of the internal control system on financial performance

Based on ninth hypothesis, namely the level of responsiveness cannot strengthen the influence of SPIP weaknesses on financial performance and the results were proven (cannot strengthen), it means that governments with large number of internal control system weaknesses tend to have high problems and did not have adequate human resources and reliable to solve this problem, it tends to respond slowly to the findings the recommendation of the BPK audit results so that the problems faced are increasing and ultimately financial performance cannot improve. Furthermore, the commitment of regional heads to complete the findings on the recommendations of the BPK audit results was very low and the supervisory function was not running well.

Referring to this explanation, the level of responsiveness of local governments in following up the findings cannot strengthen or reduce the number of weaknesses so that the financial performance of local governments cannot increase.

The level of responsiveness cannot strengthen the effect of non-compliance with laws and regulations on financial performance

Based on tenth hypothesis, the level of responsiveness cannot strengthen the effect of non-compliance with laws and regulations on financial performance and the results were proven (cannot strengthen), it means that governments with large number of non-compliance with laws and regulations tend to have very serious problems. Many and lack of reliable human resources to solve this problem, they tend to respond slowly the findings or recommendations of the BPK audit results so that the problems faced were increasing and ultimately financial performance cannot improve. Furthermore, the commitment of the regional head to complete the findings on the recommendations of the BPK audit results was very low and the supervisory function was not running well.

5. CONCLUSION

a. The size of local government, the level of wealth, and the weakness of the SPI had a significant effect on financial performance
b. The size of Legislative and non-compliance with laws and regulations had no effect on financial performance.
c. The level of responsiveness can strengthen the influence of local government size and wealth level on financial performance.
d. The level of responsiveness cannot strengthen the influence of legislative measures, SPI weaknesses and noncompliance with laws and regulations on financial performance.

LIMITATION AND FURTHER RESEARCH

Further research should use proxy for comparing the number of board members with the population and the number of follow-ups with the number of recommendations. The limitations of the study is the small sample size that is only 12%, it makes the results cannot be generalized.

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