

The Effect of BPK Audit Findings on Local Government Financial Performance: An Empirical Study of Regencies/Cities in Bali Province

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Abstract

This study aims to empirically examine the impact of audit findings issued by the Supreme Audit Agency of Indonesia (BPK) on the financial performance of district and city governments in Bali Province. The research adopts a quantitative approach using a causal-associative method to analyze the relationship between audit findings and financial performance. The study utilizes secondary data obtained from BPK Audit Reports (LHP) and Local Government Financial Statements (LKPD) published by the Directorate General of Fiscal Balance (DJPK) of the Ministry of Finance. The research objects consist of nine regencies and cities in Bali Province observed over a four-year period from 2018 to 2021, resulting in a total of 36 observations selected through purposive sampling. Data analysis was conducted using multiple linear regression with IBM SPSS software, preceded by descriptive statistical analysis and classical assumption tests to ensure data reliability and validity. The findings indicate that BPK audit findings do not have a statistically significant effect on local government financial performance. This suggests that the presence of audit findings alone is insufficient to directly improve financial performance. Instead, audit effectiveness largely depends on the quality of follow-up actions on audit recommendations and the overall capacity of local government financial management. This study is expected to contribute empirical evidence to the public sector accounting literature, particularly regarding the role of external audits in improving local government financial performance.

Keywords: *Audit findings, financial performance, local government, BPK audit.*

INTRODUCTION

Public audits conducted by Supreme Audit Institutions (SAIs), such as the Supreme Audit Agency (BPK) in Indonesia, play a strategic role in the state financial management system. External audits not only serve to verify the fairness of financial reports, but also as an accountability mechanism that promotes transparency, improves public management, and increases public trust. Cross-country studies show that public audits have the potential to strengthen accountability and signal policy improvements, although the magnitude and mechanism of their impact vary across institutional contexts (Blanc, 2019).

At the local government level, audit findings generally reflect weaknesses in internal controls, non-compliance with regulations, and indications of financial management inefficiencies. Theoretically, these findings are expected to form the basis for managerial improvements that lead to improved financial performance. However, empirical research results still show inconsistent findings, where the impact of audits on performance often depends on the quality of follow-up, institutional capacity, and the local government context (Ojima, 2025; Reichborn-Kjennerud, 2018).

Within the framework of fiscal decentralization, local governments are required to manage their finances independently, accountably, and transparently. Compliance with internal control systems is an important prerequisite for effective financial management and the achievement of regional development goals. However, empirical studies that specifically examine

the impact of BPK audit findings on the financial performance of local governments in Bali Province are still limited. (Sudarsana & Rahardjo, 2013).

Based on these conditions, this study aims to empirically examine the impact of BPK audit findings on the financial performance of district/city local governments in Bali Province, in order to provide empirical evidence on the effectiveness of external audits in encouraging improvements in regional financial performance.

RESEARCH METHODS

Research Object and Location

The object of this research is the district/city government in the province of Bali. The research location covers all districts/cities in the province of Bali with an observation period of four years, namely 2018-2021.

Types and Sources of Data

The type of data used in this study is secondary data. This study was conducted at the Directorate General of Fiscal Balance (DJPk) of the Ministry of Finance on its official website. The data was obtained from:

1. Audit Report (LHP) of the Supreme Audit Agency (BPK)
2. Local Government Financial Report (LKPD) of regencies/cities in Bali province
3. www.djpk.kemenkeu.go.id
4. The Financial Supervisory Agency representative for the Province of Bali on its official website bali.bpk.go.id and via email.

This research is a quantitative study with a causal associative approach. A quantitative approach was used because the data analysed consisted of numbers and was processed using statistical methods, while the associative approach aimed to determine the relationship and influence between independent variables and dependent variables.

Sample Selection and Research

Table 3.1 Sample and Research Criteria

No.	Sample Selection Criteria	Total of observations
1	Number of Regencies/Cities in Bali	9
2	Regencies/Cities that do not have the required data	-
3	Completeness of sample	9
Total Sample over 4 years (2018-2021)		36

Sampling techniques are techniques for taking samples (Sugiyono, 2017:81). Sampling in this study used non-probability sampling techniques, namely purposive sampling techniques. The definition of non-probability sampling is a sampling technique that does not give equal opportunity to every member of the population to be included in the sample (Sugiyono (2017:84). According to Sugiono (2017:85), purposive sampling means that the research sample is determined using certain considerations.

Research Variables and Operational Definitions

a) Dependent Variable

The dependent variable in this study is Local Government Financial Performance (Y), which is measured using financial performance ratios.

b) Independent Variables

1. Audit Opinion (X1) Audit opinion is an opinion issued by the Supreme Audit Agency (BPK) on the fairness of local government financial reports. This variable is measured using a numerical scale.
2. Audit Findings (X2) Findings are the number or value of findings from BPK audits of each local government, measured as a ratio.

Data Collection Techniques

The analysis of the research data was conducted using IBM SPSS software. The stages of data analysis included:

1. Descriptive Statistics
2. Classical Assumption Test (multicollinearity)
3. Multiple linear regression analysis
4. T-test (partial)
5. F-test (simultaneous)
6. Coefficient of determination (R-square)

The regression model used in this study is formulated as follows:

$$\underline{Y = a + b_1X_1 + b_2X_2 + e}$$

RESULTS AND DISCUSSION

This study used regency/city governments in Bali as its object of study from 2018 to 2021. The sample size consisted of 9 regencies/cities in Bali over a period of 4 years (2018-2021), resulting in a total sample data of 36. The sampling technique used was purposive sampling, which means that the research sample was determined using specific considerations. The sampling criteria were based on the completeness of regency/city data in accordance with the researcher's requirements.

Descriptive Statistics

The results of descriptive statistical analysis show that the number of observations in this study is 36. The audit findings variable has a minimum value of 0.000 and a maximum value of 0.001 with an average value of 0.00067 and a standard deviation of 0.000478. This indicates that the level of audit findings in local government in Bali Province is relatively low and has little variation.

Table 1. Descriptive Statistics Test Results Table

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Audit opinion	36	1.00	1.00	1.0000	.00000
Audit findings	36	.000	.001	.00067	.000478
Financial Performance	36	1.029	1.125	1.07669	.019735
Valid N (listwise)	36				

Meanwhile, the local government financial performance variable has a minimum value of 1.029 and a maximum value of 1.125, with an average value of 1.07669 and a standard deviation of 0.019735. These results indicate that the financial performance of local governments in Bali Province is relatively good and evenly distributed.

Hypothesis Testing Results

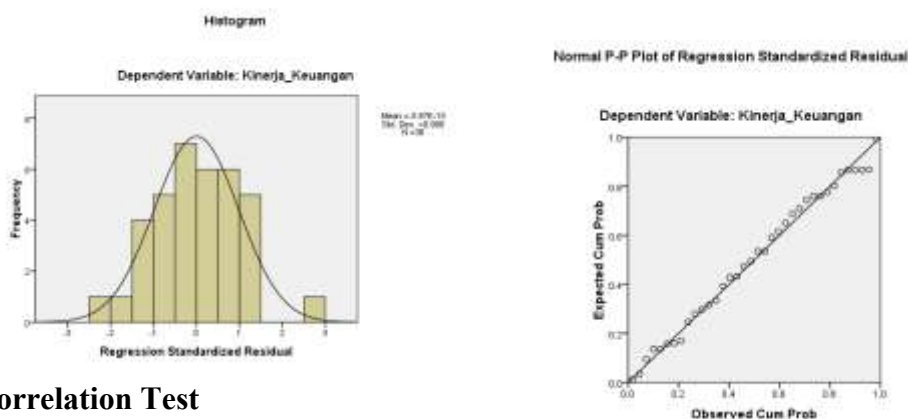
Classical assumption test

The classical assumption test is used to fulfil the stages in multiple linear regression testing. The classical assumption test consists of four tests, namely: 1) Normality test, 2) Autocorrelation test, 3) Multicollinearity test, and 4) Heteroscedasticity test.

a) Data Normality Test

The normality test aims to determine whether the residuals in the regression model are normally distributed. Based on the test results, the standardised residuals show a distribution around zero and do not show extreme deviations. Thus, it can be concluded that the residuals in the regression model are normally distributed, so the normality assumption is satisfied.

Figure 1. Result Normality Test



b) Autocorrelation Test

The autocorrelation test is a test to determine the correlation between the disturbance error in period t and the disturbance error in the previous period in a linear regression model. A good regression model is one that is free from autocorrelation. To detect the presence or absence of autocorrelation, the Durbin-Watson test was used in this study. The following are the results of the Durbin-Watson test.

Table 2. Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.247 ^a	.061	.034	.019401	1.623

Based on the autocorrelation test in this study using the Durbin–Watson test, the results show a Durbin–Watson value of 1.623, which is within the range of 1.5–2.5. Therefore, it can be concluded that the regression model does not experience autocorrelation.

c) Multicollinearity Test

The multicollinearity test aims to determine whether there is a high correlation between independent variables in the regression model. Multicollinearity testing in this study was conducted by looking at the Tolerance and Variance Inflation Factor (VIF) values.

Table 3. Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Audit Findings	1.000	1.000

Based on the Audit Findings Tolerance value of

test results, the variable has a 1.000 and a VIF

value of 1.000. A tolerance value greater than 0.10 and a VIF value less than 10 indicate that there are no symptoms of multicollinearity in the regression model. In addition, the Collinearity Diagnostics results show a Condition Index value of 3.146, which is still well below the critical limit of 30. This further confirms that the regression model in this study does not experience multicollinearity.

d) Heteroscedasticity Test

The heteroscedasticity test is used to determine whether there is variance in the residuals from one observation to another in the regression model. A good regression model is homoscedastic, or does not exhibit heteroscedasticity.

Table 4. Heteroscedasticity Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.084	.006		193.459	.000
	Audit Findings	-10.208	6.859	-.247	-1.488	.146

Based on Table 4.5, the results of the heteroscedasticity test conducted using the glacier test show that the audit opinion and BPK audit findings variables have a t-value greater than 0.05, so it can be concluded that the regression model is free from heteroscedasticity.

Hypothesis Testing

a. Coefficient of Determination (R2)

The coefficient of determination (R2) is a test to determine the extent to which the model can explain the variation in the dependent variable. If the Adjusted R Square value is close to one, then the independent variable provides most of the information needed.

Table 5. Coefficient of Determination (R2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.247 ^a	.061	.034	.019401	1.623

Based on the table above, it can be seen that the Adjusted R Square has a value of 0.034. This means that the percentage of independent variables (audit opinions) that influence the dependent variable (local government performance) is 3.4%. The remaining 96.6% is explained by other variables outside the research variables.

b. T-test

The t-test is used to determine the extent to which an independent t variable individually influences a dependent variable.

Table 6. T-test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.084	.006		193.459	.000
	Audit Findings	-10.208	6.859	-.247	-1.488	.146

From the t-test results, the following equation can be obtained:

$$\text{PERFORMANCE} = 1.084 + -10.208 (X2) + e$$

Based on the table above, it can be interpreted that:

The audit findings variable has a t-count value of -1.488 and a t-table value of -1.655, so the t-count value is smaller than the t-table value. The significance value is 0.146 > 0.05. This indicates that the audit opinion does not affect the performance of local governments in regencies/cities in Bali, thus H1 is rejected.

CONCLUSION

This study aims to empirically examine the effect of audit findings by the Supreme Audit Agency (BPK) on the financial performance of district/city governments in Bali Province during the period 2018–2021. Based on the results of data analysis using multiple linear regression, this study found that BPK audit findings did not have a significant effect on the financial performance of local governments. This finding indicates that the number and value of audit findings disclosed in the BPK Audit Report (LHP) have not been able to directly encourage improvements in the financial performance of local governments. These results are in line with the research by Parwanto and Harto (2017), which shows that the results of BPK audits, particularly audit findings, do not have a significant effect on the financial performance of local governments. Audit findings essentially reflect weaknesses in internal control systems and non-compliance with laws and regulations, so that their impact on financial performance can only be felt if followed up with effective and sustainable recommendations (Parwanto & Harto, 2017). Thus, the existence of audit findings alone is not sufficient to improve the financial performance of local governments without a commitment to improving governance and strengthening internal controls.

The results of this study indicate that external audit functions are not yet fully effective as instruments for improving regional financial performance. Conceptually, audit findings

should serve as an evaluative mechanism that encourages regional governments to improve weaknesses in financial management. However, the empirical results of this study show that the existence of audit findings alone is not sufficient to bring about real changes in performance. This condition suggests that the effectiveness of audits is highly dependent on other factors, such as the quality of follow-up on audit recommendations, the commitment of local leaders, the capacity of financial management officials, and the strength of local government internal control systems.

In addition, the relatively low coefficient of determination indicates that variations in local government financial performance are more influenced by factors other than audit findings. Therefore, local government financial performance is the result of the interaction of various aspects of governance, including structural, administrative, and institutional aspects. Thus, further research is recommended to include additional variables, such as follow-up on audit recommendations, internal control systems, fiscal capacity, and local government characteristics, in order to gain a more comprehensive understanding of the determinants of local government financial performance.

Overall, this study provides empirical contributions to the development of public sector accounting literature, particularly regarding the role of external audits in the context of local government. The findings of this study are also expected to serve as consideration for policymakers in strengthening follow-up mechanisms for audit results so that BPK audits are not merely administrative in nature but also capable of having a tangible impact on improving the financial performance of local governments.

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