

ROE

RESEARCH OF ECONOMICS AND BUSINESS

The Impact of Audit Findings on ICS and Compliance with Opinions Government in Lampung

Popy Luky^{1}, Einde Evana², Reni Oktavia³*

^{1,2,3}Faculty of Economics and Business, Universitas Lampung

Abstract. The Audit Board of the Republic of Indonesia's (BPK) opinion on Regional Government Financial Statements is a key indicator of accountability in regional financial management and serves as an important governance signal reflecting the quality of public financial oversight. However, several local governments continue to receive an Unqualified Opinion despite findings related to weaknesses in the Internal Control System (ICS) and non-compliance with laws and regulations. This phenomenon is also evident in local governments in Lampung Province, where Unqualified Opinions accompanied by an Emphasis of Matter Paragraph have increased in recent years. This study aims to examine the effect of ICS weaknesses and compliance findings on BPK's audit opinion. Using a quantitative approach, secondary data were collected from Audit Reports, IHPD, and IHPS for 16 local governments in Lampung Province during 2021–2024, totaling 64 observations. Binary logistic regression analysis shows that ICS weaknesses and non-compliance with laws and regulations negatively and significantly affect BPK's opinion, both individually and simultaneously, indicating increased governance and fiscal risk concerns.

Keywords: Internal Control, Compliance with Legislation, Opinion, Regional Government

Received [01 February 2026] | **Revised** [09 February 2026] | **Accepted** [09 February 2026]

1. Introduction

Accountability in regional financial management is a key foundation for public sector reform, particularly in increasing transparency, reducing the risk of corruption, and strengthening public trust in local government (Mardiasmo, 2018). As a form of accountability, local governments are required to prepare and present reliable, relevant, and accountable Regional Government Financial Reports to the public (Mardiasmo, 2018). From an agency theory perspective, the preparation and audit of financial reports is a monitoring mechanism used by the public as principal to reduce information asymmetry and opportunistic behavior of local governments as agents (Jensen & Meckling, 1976; Eisenhardt, 1989; Mardiasmo, 2018). Information asymmetry that is not adequately controlled has the potential to encourage deviations in regional financial management, so the role of external auditors is needed as an independent control tool (Jensen & Meckling, 1976).

The Audit Board of the Republic of Indonesia, as a free and independent state institution, has the authority to audit the management and accountability of state finances and provide an opinion on the fairness of regional government financial reports in accordance with Law Number 15 of 2004. The The Audit Board of the Republic of Indonesia 's opinion is given based on four main criteria, namely compliance with Government Accounting Standards, adequacy of disclosure, compliance with laws and regulations, and the effectiveness of the Internal Control System (SPKN, 2017). In audit practice, weaknesses in the Internal Control System and non-compliance with laws and regulations are often the dominant findings that influence the auditor's assessment of the quality of



regional financial management (SPKN, 2017). In the The Audit Board of the Republic of Indonesia Audit Report on the Financial Statements, it is explained that an ineffective ICS indicates the failure of the regional government to control fiscal risks, budgeting errors, and undisciplined management of expenditure and cash.

Empirical data in Lampung Province shows that in recent years, local governments have experienced an increase in obtaining Unqualified Opinions, but this is still accompanied by an increase in findings of weaknesses in the Internal Audit System (ICS) and non-compliance with laws and regulations (IHPD Lampung Province, 2023). The opinions of local governments in Lampung on the Regional Government Financial Reports for 2020 to 2023 can be seen in the following figure.

Figure 1 shows an increase in unqualified opinions with an emphasis of matter paragraph starting in 2021 and peaking in 2023. The Lampung Provincial Audit Board recorded hundreds of issues related to Internal Control System (ICS) weaknesses and regulatory non-compliance with a significant value, although an unqualified opinion was still issued (IHPD Lampung Province, 2023). In such conditions, auditors often add an Emphasis of Matter (EOM) Paragraph to communicate the existence of fiscal risks and governance weaknesses that are considered important to users of financial statements, although not material enough to modify the audit opinion (SA 706; The Audit Board of the Republic of Indonesia Regulation No. 1 of 2017). The EOMs accompanying unqualified opinions in Lampung mainly relate to accounts such as budget surplus (SiLPA), Regional Original Revenue, expenditure payables, revenue-sharing payables, and real fiscal deficits, which indicate weaknesses in internal control effectiveness and budgetary compliance (Audit Report on the Financial Statements of the Lampung Provincial Government).

This study offers novelty by reframing the interpretation of an unqualified opinion with an Emphasis of Matter as a signal of governance and fiscal risk rather than merely an indicator of accounting compliance. While prior studies largely focus on audit opinions as a binary measure of financial statement fairness, this research highlights that WTP with EOM reflects underlying vulnerabilities in public financial governance, particularly persistent ICS weaknesses and regulatory non-compliance that may threaten fiscal sustainability. By empirically linking EOM issuance to governance-related audit findings, this study contributes to the literature by positioning audit opinions as a broader governance signal for stakeholders in regional public sector oversight.

Based on agency theory, this condition indicates weak control and supervision mechanisms, so that auditors tend to provide unqualified opinions with EOM as a form of early warning to stakeholders (Eisenhardt, 1989). Meanwhile, from a signal theory perspective, increasing ICS findings and non-compliance with laws and regulations provide a signal to the public that although financial reports are presented fairly, there are governance and fiscal risks that require serious attention (SPKN, 2017).

Previous research has shown mixed results regarding the influence of ICS findings and compliance with laws and regulations on The Audit Board of the Republic of Indonesia audit opinions, both in terms of direction of influence and significance (Syam et al., 2023; Bangsawan & Abbas, 2021). In addition, research with a specific focus on local governments in Lampung Province is still relatively limited, even though this region shows a significant increase in unqualified opinions with the EOM compared to other regions (IHPD Lampung Province, 2023).

Based on the description, this study aims to analyze the influence of the findings of the Internal Control System and compliance with laws and regulations on the The Audit Board of the Republic of Indonesia 's opinion on local governments in Lampung Province using a quantitative approach through logistic regression. This research is expected to provide empirical contributions to the public sector audit literature and serve as evaluation material for local governments in strengthening internal control and regulatory compliance to improve the quality of regional financial management.

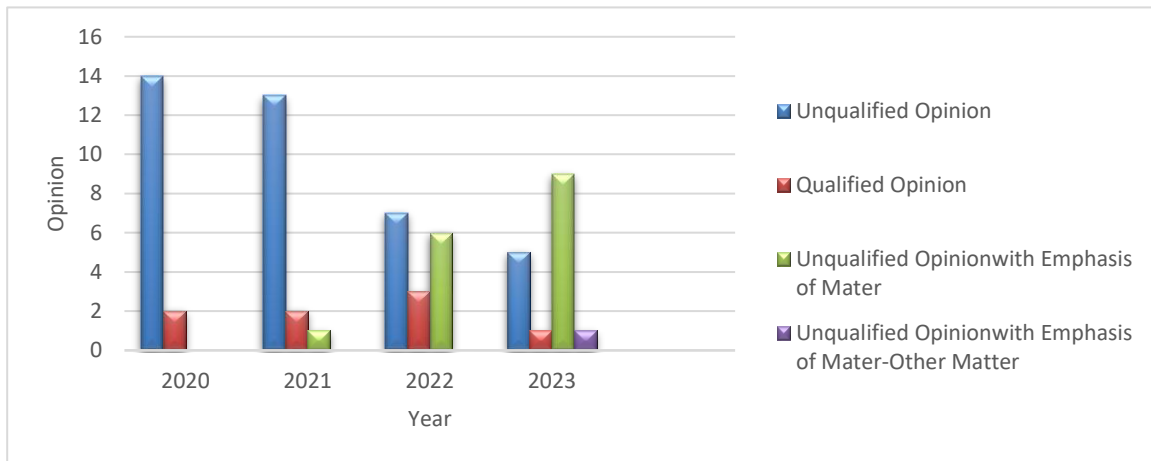


Figure 1. Regional Government Opinion in Lampung 2020 to 2023

Source: Processing of Audit Report on the Financial Statements data for 2020 to 2024

Agency Theory

Agency theory explains the contractual relationship between a principal and an agent, in which the principal delegates authority to the agent to manage resources and make decisions in the principal's interest (Jensen & Meckling, 1976). In the public sector context, the community acts as the principal, while local governments function as agents entrusted with managing public resources and ensuring accountability for their use (Mardiasmo, 2018).

A central issue in agency relationships is information asymmetry, where agents possess more detailed information regarding financial management activities and performance than principals (Eisenhardt, 1989). This asymmetry creates opportunities for opportunistic behavior, including regulatory non-compliance and weak internal controls, which may ultimately undermine the quality of public financial accountability (Mardiasmo, 2018).

External audits conducted by The Audit Board of the Republic of Indonesia serve as an oversight mechanism to mitigate information asymmetry. Audit findings—particularly those related to weaknesses in the Internal Control System (ICS) and non-compliance with laws and regulations—reflect the level of agency risk faced by local governments and constitute a key basis for the issuance of audit opinions (SPKN, 2017).

Signaling Theory

Signaling theory posits that parties with superior information convey signals to reduce uncertainty faced by less informed parties in decision-making processes (Spence, 1973). In public sector financial reporting, audited financial statements and audit opinions issued by The Audit Board of the Republic of Indonesia function as signals to the public and other stakeholders regarding the quality of regional financial governance (SPKN, 2017).

An Unqualified Opinion generally conveys a positive signal that financial statements are fairly presented in accordance with applicable accounting standards. However, the disclosure of Internal Control System weaknesses and regulatory non-compliance—particularly when emphasized through an Emphasis of Matter (EOM) Paragraph—constitutes a warning signal regarding underlying governance and fiscal risks (SA 706; SPKN, 2017). Thus, even when the audit opinion remains unqualified, extensive ICS findings and compliance violations indicate negative signals about the effectiveness of control mechanisms and regulatory adherence in local government financial management.

Internal Control System

The Internal Control System (ICS) is a process designed and implemented by management and all levels of local government to provide reasonable assurance regarding the achievement of organizational objectives, reliability of financial reporting, safeguarding of assets, and compliance with laws and regulations (SPKN, 2017). An effective ICS plays a critical role in preventing misstatements, budgetary irregularities, and misuse of authority.

Conversely, weaknesses in the Internal Control System indicate deficiencies in control quality and increase the risk of material misstatements and regulatory violations. In public sector audits, ICS weaknesses are a key consideration in assessing audit risk and determining the appropriate audit opinion. The greater the number and severity of ICS deficiencies identified, the higher the risk faced by local governments in sustaining a favorable audit opinion (SPKN, 2017).

Compliance with Legislation

Compliance with laws and regulations is a fundamental obligation of local governments in managing public finances. This obligation encompasses all stages of financial management, including budgeting, budget execution, and financial reporting, in accordance with applicable laws, government regulations, and regional policies (SPKN, 2017).

Non-compliance signals weak governance and exposes local governments to legal, fiscal, and reputational risks. Audit findings related to non-compliance commonly involve expenditure management, procurement practices, asset administration, and revenue recognition. Such findings are critical inputs for auditors in evaluating the level of public accountability and the quality of financial management, which ultimately influence the audit opinion issued.

Audit Opinion

An audit opinion represents the auditor's professional judgment regarding the fairness of financial statement presentation based on established criteria. In the Indonesian public sector, audit opinions issued by The Audit Board of the Republic of Indonesia include unqualified, qualified, adverse, and disclaimer opinions (SPKN, 2017).

The audit opinion is determined by considering compliance with Government Accounting Standards, adequacy of disclosures, effectiveness of the Internal Control System, and adherence to laws and regulations. Although an Unqualified Opinion indicates that financial statements are fairly presented, the presence of ICS weaknesses and regulatory non-compliance remains an important indicator of governance and fiscal risks that warrant serious attention from stakeholders (SPKN, 2017).

Hypothesis Development

From an agency theory perspective, local governments act as agents entrusted by the public, as principals, to manage public finances responsibly. Ineffective control and oversight mechanisms increase the likelihood of agency problems arising from conflicts of interest and information asymmetry (Jensen & Meckling, 1976; Mardiasmo, 2018). The State Financial Audit Standards emphasize that the effectiveness of the Internal Control System is a primary consideration in issuing audit opinions on local government financial statements (SPKN, 2017). Weaknesses in the ICS indicate risks in budgeting, implementation, and reporting processes that may affect the fairness of financial statement presentation. Accordingly, an increase in ICS deficiencies is expected to reduce the likelihood of maintaining a more favorable audit opinion.

H1: Findings of weaknesses in the Internal Control System negatively affect the audit opinion of local governments in Lampung Province.

Furthermore, compliance with laws and regulations is an essential element of sound public financial governance. Non-compliance findings disclosed in audit reports signal weak governance and heightened fiscal and legal risks (SPKN, 2017). Within the signaling theory framework, such findings transmit negative signals to auditors and users of financial statements regarding the quality of regional financial management.

H2: Non-compliance with laws and regulations negatively affects the audit opinion of local governments in Lampung Province.

2. Methods

This study employs a quantitative approach with an explanatory research design aimed at examining the influence of audit findings on the audit opinions issued by The Audit Board of the Republic of Indonesia. A quantitative approach is appropriate because the study utilizes numerical data derived from official audit results and applies statistical analysis to test the causal relationships among the research variables. Specifically, this research focuses on analyzing the effect of findings

related to weaknesses in the Internal Control System and non-compliance with laws and regulations on local government audit opinions.

The population of this study comprises all local governments in Lampung Province, including the provincial government as well as district and municipal governments. Lampung Province was selected due to an observable empirical phenomenon in which local governments have increasingly received Unqualified Opinions while still exhibiting findings related to Internal Control System weaknesses and non-compliance with laws and regulations, as documented in the Audit Reports and Regional Audit Result Summaries issued by The Audit Board of the Republic of Indonesia. Additionally, the number of Unqualified Opinions accompanied by an Emphasis of Matter Paragraph has increased over the last three years (2021–2023), making Lampung Province a relevant setting for examining regional financial management quality and public accountability.

A purposive sampling technique was applied, in which all local governments in Lampung Province were included as units of analysis. The observation period spans 2020–2024, generating annual data from local government financial reports. The use of a census-based purposive sample allows this study to capture comprehensive variation in audit opinions and audit findings across local governments in Lampung Province while minimizing sample selection bias.

This study utilizes secondary data obtained from Audit Reports on Local Government Financial Statements, the Summary of Semester Audit Results (IHPS), and the Summary of Regional Audit Results (IHPD) published by The Audit Board of the Republic of Indonesia. These data sources were selected because they represent official audit outcomes compiled in accordance with the State Financial Audit Standards and serve as the primary basis for evaluating the fairness of financial statement presentation and the level of compliance with applicable laws and regulations.

The dependent variable in this study is the audit opinion on local government financial statements. The audit opinion is measured as a dichotomous (binary) variable, where a value of 1 is assigned to local governments receiving an Unqualified Opinion, and a value of 0 is assigned to those receiving opinions other than Unqualified (including Unqualified Opinions accompanied by an Emphasis of Matter Paragraph).

Internal Control System

The first independent variable is the findings of weaknesses in the Internal Control System (ICS). This variable is measured by the number of ICS findings. ICS weaknesses reflect the effectiveness of local government internal controls in financial management and reporting.

Compliance with Legislation

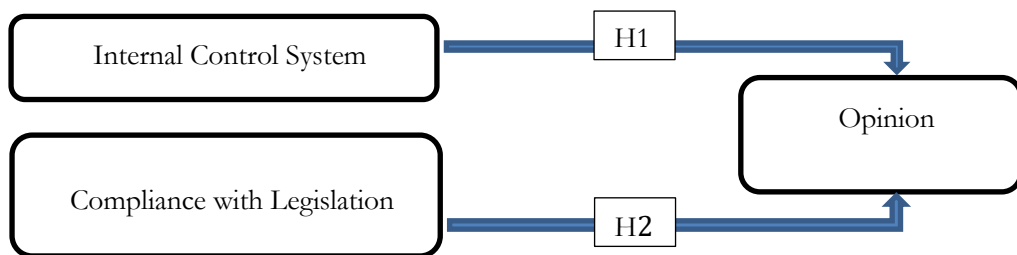
The second independent variable is compliance with laws and regulations, which is measured based on the following indicators:

$$\text{Compliance with Legislation} = \frac{\text{Audit Findings (Rp)}}{\text{Total Expenditure Realization (Rp)}} \times 100$$

This finding shows the level of compliance of local governments with the provisions of laws and regulations in regional financial management.

Framework

Based on the background and previous research that has a similar topic to this research, the framework of thought for this research that can be put together is:



Data Analysis Methods

Data analysis was conducted using descriptive statistics and binary logistic regression analysis. Descriptive statistics were used to provide an overview of the characteristics of the research data, including the distribution of audit opinions and variations in findings of internal control system weaknesses and compliance with laws and regulations. Logistic regression was used because the dependent variable in this study is dichotomous, thus not meeting the assumptions of classical linear regression. According to Ghozali (2018), logistic regression is an appropriate analytical method when the dependent variable is categorical and aims to estimate the probability of an event occurring based on the independent variables that influence it.

Logistic Regression Model

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

$$\ln \left[\frac{P}{1 - P} \right] = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$

Information:

- P = probability of local government obtaining a Unqualified Opinions
 - β_0 = constant
 - β_1 = coefficient of findings of weaknesses in the Internal Control System
 - β_2 = coefficient of compliance with laws and regulations
 - X1 = number of findings of weaknesses in the Internal Control System
 - X2 = number of findings of compliance with laws and regulations
- ε = error

The logistic regression coefficient is interpreted through the odds ratio value (Exp(B)), which shows the change in the regional government's chances of obtaining a Unqualified Opinion due to changes in the independent variable (Ghozali, 2018).

Model Feasibility Test and Hypothesis Testing

The feasibility of the logistic regression model was tested using the Hosmer and Lemeshow's Goodness of Fit Test, which aims to assess the suitability between the regression model and the observed data. The model is declared fit if the Hosmer and Lemeshow significance value is greater than 0.05, indicating no significant difference between the model's predicted values and the actual data (Hosmer, 2013).

The next test was conducted to see the ability of the logistic regression model in explaining the variation in audit opinion, namely with Pseudo R Square measured using Cox & Snell and Nagelkerke is a measure developed to adapt the concept of the coefficient of determination in logistic regression. This value indicates the proportion of variation in the dependent variable that can be explained by the model, but has limitations because its maximum value cannot reach 1, so it tends to produce relatively small values (Cox & Snell, 1989).

In addition, the significance of the model was tested. simultaneously with the Omnibus test, which functions to test whether all independent variables simultaneously influence the dependent variable. A p-value <0.05 indicates that the model is statistically significant. If the probability is <0.05, then Ho is accepted or Ha is accepted (there is a simultaneous influence). If the probability is >0.05, then Ho is rejected or Ha is accepted (there is no simultaneous influence).

Further hypothesis testing is carried out using the Wald test, which is a test statistic for partial influence. The greater the value, the stronger the influence, and the decision is based on significance (sig.). Significance is the p-value of the Wald test. If sig. < 0.05, the variable has a significant effect. Exp (B) or the odds ratio indicates the magnitude of the opportunity. If Exp (B) < 1, it will reduce the opportunity. The 95% CI for Exp (B) column is the confidence range of the odds ratio. If it does not exceed 1, the effect is significant.

3. Results and Discussion

Result

Data processing uses the SPSS IBM 27 statistical tool for 64 Local Government Financial Statements from 2020 to 2023. To begin the analysis, descriptive statistics were used to provide an overview of the research variables. These statistics summarize the minimum, maximum, mean, and standard deviation values for each variable in the study. The results are presented in Table 1:

Table 1. Descriptive Statistical Analysis Results

	N	Minimum	Maximum	Mean	Std. Deviation
Internal Control System	64	1	26	11.36	5.545
Compliance with Laws and Regulations	64	.0546	1.3759	.402146	.2901643
Opinion	64	0	1	.61	.492
Valid N (listwise)	64				

Based on descriptive statistics, this study used 64 observations of local government financial reports in Lampung Province, and all data were declared valid. The Internal Control System (ICS) variable had an average value of 11.36 with a standard deviation of 5.545, indicating that local governments still face ISC weaknesses with a fairly high level of variation across regions. The compliance variable with laws and regulations has an average value of 0.4021 with a standard deviation of 0.2902, which indicates that the level of compliance is relatively lower and more homogeneous than the weaknesses of the ICS. Meanwhile, the audit opinion variable shows an average value of 0.61, which means that around 61 percent of local governments received an Unqualified Opinion, although there are still some regions that received opinions other than Unqualified Opinion (including those that received Unqualified Opinion with the Emphasis of Matter Paragraph (EOM)).

Table 2 displays the variance inflation factor (VIF) values below 10 and tolerance values above 0.1. This confirms the absence of multicollinearity among the independent variables, ensuring the reliability of the logistic regression analysis.

Table 2. Multicollinearity Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.315	.114		11.529	<.001		
	Internal Control System	-.043	.009	-.489	-4.813	<.001	.899	1.112
	Compliance with Laws and Regulations	-.528	.172	-.311	-3.062	.003	.899	1.112

a. Dependent Variable: Opinion

Table 3. Hosmer and Lemeshow Goodness of Fit Test

Step	Chi-square	df	Sig.
1	6.819	8	.556

The Hosmer and Lemeshow test yields a p-value of 0.556, which exceeds the 0.05 significance level. This indicates that the logistic regression model fits the data well and is suitable for further inferential analysis.

Table 4. Model Suitability Testing

Description	Mark
-2 Log likelihood (Block 0: Beginning Block)	85,635
-2 Log likelihood (Block 1: Method=Enter)	51,270

Based on the figure above, the -2 Log Likelihood (-2LL) value decreased from 81.635 (Block 0) to 51.270 (Block 1) after the independent variables were entered. This decrease of 30.365 indicates an increase in the model's fit to the sample data, thus supporting the acceptance of the null hypothesis that the estimated model fits the data. This finding provides a strong basis that the addition of predictors increases the explanatory power of the binary logistic regression model in explaining variations in audit opinions. Next, tests were carried out to see the influence of independent variables on the dependent variable simultaneously (Omnibus test), the influence of each independent variable on the dependent variable partially (Wald test) and Pseudo R Square testing (Cox & Snell and Nagelkerke).

Table 5. Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	34.365	2	<.001
	Block	34.365	2	<.001
	Model	34.365	2	<.001

As shown in Table 5, the Chi-Square is 34.365 with a significance value of less than 0.001. This suggests that the independent variables, Internal Control System and compliance with statutory regulations jointly have a statistically significant effect on the likelihood of receiving audit opinion.

Table 6. Coefficient of Determination (Nagelkerke R²)

Model Summary			
Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	51.270 ^a	.415	.563

a. Estimation terminated at iteration number 6 because parameter estimates changed by less than .001.

The Nagelkerke R Square value of 0.563, presented in Table 5, indicates that the model can explain 56.3% of the variance in the dependent variable. The remaining 43.7% is attributed to factors not included in the model, suggesting the need for further variable expansion in future studies.

Table 7. Hypothesis Testing and Logistic Regression Analysis

		Variables in the Equation							
		B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I. for EXP(B)	
								Lower	Upper
Step 1 ^a	Internal Control System	-.285	.082	12.016	1	<.001	.752	.640	.884
	Compliance with Laws and Regulations	-4.042	1.610	6.302	1	.012	.018	.001	.412
	Constant	5.534	1.300	18.118	1	<.001	253.190		

a. Variable(s) entered on step 1: Internal Control System, Compliance with Laws and Regulations.

The logistic regression results are interpreted as follows:

- a. The results of the logistic regression analysis indicate that the Internal Control System and compliance with laws and regulations have a significant influence on the audit opinion of local governments in Lampung Province. A regression model was constructed to test the probability of local governments obtaining an unqualified opinion based on audit findings identified by the Audit Board.
- b. Internal Control System variable has a negative regression coefficient of -0.285 with a significance value of less than 0.001. This result indicates that the more Internal Control System weaknesses are found, the lower the chance of the local government obtaining an Unqualified Opinion. The odds ratio (Exp(B)) value of 0.752 indicates that every one unit increase in ICS weakness findings reduces the chance of the local government obtaining an Unqualified Opinion by approximately 24.8 percent, with a 95 percent confidence level ranging from 0.640 to 0.884. This finding indicates that the effectiveness of internal control is an important factor that auditors consider in providing audit opinions.
- c. Furthermore, the variable of compliance with laws and regulations also shows a negative and significant influence on audit opinion, with a regression coefficient of -4.042 and a significance value of 0.012. The odds ratio value of 0.018 indicates that increasing compliance with laws and regulations substantially reduces the chance of local governments obtaining an unqualified opinion. The 95 percent confidence interval ranging from 0.001 to 0.412 indicates that the influence of compliance on audit opinion is strong and statistically consistent.
- d. Overall, these results confirm that both weaknesses in the internal control system and compliance with laws and regulations are important determinants in determining the audit opinion of local governments. Although the financial statements may be fairly presented, the high level of findings in both aspects reflects the governance and compliance risks that auditors are concerned about in the audit opinion process. These findings align with public sector audit regulations, which prioritize internal control and compliance with laws and regulations as primary criteria in assessing audit opinions.

Discussion

The Influence of Internal Control Systems on Audit Opinions

The results of this study indicate that Hypothesis 1 is supported, namely that findings related to weaknesses in the Internal Control System (ICS) have a significant effect on local government audit opinions. These results are consistent with the studies of Syam et al. (2023) and Sianturi (2024), which find that the effectiveness of internal control systems and compliance with laws and regulations significantly influence audit opinions on local government financial statements.

These findings provide empirical evidence that internal control weaknesses constitute conditions requiring special attention by auditors in audit reporting. Although such weaknesses do not always lead to a modification of the audit opinion, their presence reflects substantial risks in financial management and may affect the sustainability of local financial governance quality.

In the context of public sector audits, these conditions are particularly relevant for disclosure through an Emphasis of Matter (EOM) Paragraph, especially when auditors assess that weaknesses in the Internal Control System significantly affect users' understanding of the financial statements. The results of this study indicate that as the number of ICS findings increases, the probability of a local government obtaining an Unqualified Opinion decreases. Consequently, emphasizing these conditions becomes important, even when the financial statements are still considered fairly presented.

Therefore, this study supports the practice of including Emphasis of Matter Paragraphs as a professional mechanism for warning stakeholders about significant internal control risks. Such emphasis enhances information transparency and signals that, although the audit opinion is not modified, certain aspects of internal control require serious attention and continuous improvement by local governments.

The Impact of Compliance with Laws and Regulations on Audit Opinions

The results of the logistic regression analysis indicate that Hypothesis 2 is supported, demonstrating that compliance with laws and regulations has a negative and significant effect on audit opinions for local governments in Lampung Province. These findings are consistent with prior

studies by Kamilah (2024), Valentina (2022), and Syam (2023), which show that regulatory compliance significantly influences audit opinions. The negative regression coefficient indicates that higher levels of non-compliance with laws and regulations reduce the likelihood of local governments obtaining an Unqualified Opinion. This finding confirms that regulatory compliance is a critical factor considered by auditors in evaluating the quality of regional financial management.

Conceptually, non-compliance with laws and regulations reflects weak budgetary discipline and poor financial governance, which may expose local governments to legal, fiscal, and reputational risks. The State Financial Audit Standards emphasize compliance with laws and regulations as a key criterion in determining audit opinions. Accordingly, even when financial statements are fairly presented from an accounting perspective, significant non-compliance remains an indicator of serious weaknesses in public financial management.

These results can also be explained through the lens of signaling theory. Findings of non-compliance with laws and regulations convey negative signals to auditors and users of financial statements regarding the quality of local government governance. Such signals suggest that financial management practices are not fully aligned with applicable regulations, thereby increasing auditor caution in issuing more favorable audit opinions.

In audit practice, compliance issues that are considered significant but not material enough to warrant opinion modification are often disclosed through an Emphasis of Matter Paragraph. This paragraph allows auditors to highlight compliance issues that are important for users' understanding, even though the financial statements as a whole are still fairly presented. The results of this study indicate that higher levels of non-compliance reduce the probability of local governments obtaining an Unqualified Opinion, making disclosure through an Emphasis of Matter Paragraph a relevant and effective communication tool.

Thus, this study supports the use of Emphasis of Matter Paragraphs as an auditor's instrument for communicating significant compliance-related risks to stakeholders. Such emphasis is not intended to modify the audit opinion, but rather to serve as a professional warning encouraging local governments to improve regulatory compliance, strengthen governance, and ensure the sustainability of regional financial management.

4. Conclusion and Recommendation

Conclusion

This study examines the influence of the Internal Control System and compliance with laws and regulations on the audit opinions of local governments in Lampung Province. Based on the results of the logistic regression analysis, both variables are found to have a significant effect on audit opinions. The findings indicate that weaknesses in the Internal Control System negatively affect audit opinions. An increase in the number of internal control weaknesses reduces the probability that a local government will obtain an Unqualified Opinion. This result confirms that internal control effectiveness remains a key consideration in auditors' assessments, not only in evaluating the fairness of financial statement presentation but also in assessing governance risks and public accountability.

In addition, non-compliance with laws and regulations is shown to have a significant negative effect on audit opinions. High levels of non-compliance reflect weak financial management discipline and increased legal and fiscal risks, which influence auditors' professional judgment. Although such conditions do not always result in a modification of the audit opinion, they nonetheless reduce the likelihood of local governments receiving the highest audit opinion. Overall, the results demonstrate that audit opinions are not determined solely by technical accounting compliance, but are also strongly influenced by the quality of internal controls and the degree of regulatory compliance. These findings highlight the importance of strengthening governance mechanisms to ensure sustainable and accountable regional financial management.

Recommendation

Based on the findings of this study, several recommendations can be proposed. First, local governments should strengthen the effectiveness of their Internal Control Systems by improving risk assessment procedures, enhancing supervisory mechanisms, and ensuring consistent implementation of internal control policies across all organizational units. Second, local governments need to improve compliance with laws and regulations, particularly in areas related to budgeting, expenditure management, procurement, and asset administration. This can be achieved through regular regulatory

updates, increased capacity building for financial management personnel, and stricter monitoring of compliance practices. Third, audit findings related to internal control weaknesses and regulatory non-compliance should be used as a basis for continuous improvement rather than being viewed merely as formal audit requirements. Follow-up actions on audit recommendations must be strengthened to reduce recurring findings and enhance overall governance quality. Finally, future research is encouraged to expand the scope of analysis by incorporating additional variables, such as follow-up on audit recommendations or political and institutional factors, and by extending the observation period to provide a more comprehensive understanding of the determinants of local government audit opinions.

5. References

- Amyulianthy, R. (2020). Pengaruh sistem pengendalian intern terhadap opini audit BPK. *Jurnal Akuntansi Sektor Publik*, 12(2), 145–158. <https://scholar.google.com/scholar?q=Pengaruh+sistem+pengendalian+intern+terhadap+opini+audit+BPK+Amyulianthy>
- Badan Pemeriksa Keuangan. (2017). Peraturan BPK Nomor 1 Tahun 2017 tentang Standar Pemeriksaan Keuangan Negara. BPK RI. <https://peraturan.bpk.go.id/Home/Details/111362/peraturan-bpk-no-1-tahun-2017>
- Badan Pemeriksa Keuangan. (2024). Ikhtisar Hasil Pemeriksaan Daerah (IHPD) Provinsi Lampung Tahun 2023. https://lampung.bpk.go.id/wp-content/uploads/2024/08/Final_IHPD_2023_Lampung_060524_10.111-1.pdf
- Bangsawan, A. A., & Abbas, A. (2021). Efek pelanggaran Standar Akuntansi Pemerintahan dan ketidakpatuhan peraturan terhadap opini audit laporan keuangan di Sulawesi Selatan. *Jurnal Akuntansi dan Pajak*, 21(2). <https://doi.org/10.29040/jap.v21i02.1481>
- Cox, D. R., & Snell, E. J. (1989). *Analysis of binary data* (2nd ed.). Chapman & Hall. <https://scholar.google.com/scholar?q=Analysis+of+Binary+Data+Cox+Snell+1989>
- Eisenhardt, K. M. (1989). Agency theory: An assessment and review. *Academy of Management Review*, 14(1), 57–74. <https://doi.org/10.5465/amr.1989.4279003>
- Ghozali, I. (2018). *Aplikasi analisis multivariate dengan program IBM SPSS 25* (Edisi 9). Semarang: Badan Penerbit Universitas Diponegoro. <https://scholar.google.com/scholar?q=Ghozali+Aplikasi+Analisis+Multivariate+SPSS+25>
- Hosmer, D. W., Lemeshow, S., & Sturdivant, R. X. (2023). *Applied logistic regression* (3rd ed.). Wiley. <https://www.wiley.com/en-us/Applied+Logistic+Regression%2C+3rd+Edition-p-9781118548387>
- Ikatan Akuntan Indonesia. (2021). Standar Audit 706: Paragraf penekanan suatu hal dan paragraf hal lain dalam laporan auditor independen. Jakarta: IAPI. <https://iapi.or.id/standar-profesional-akuntan-publik/>
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305–360. [https://doi.org/10.1016/0304-405X\(76\)90026-X](https://doi.org/10.1016/0304-405X(76)90026-X)
- Kamilah, N. F., Zakaria, A., & Mulyasari, I. (2024). Pengaruh SPI, kepatuhan peraturan perundang-undangan, dan tindak lanjut rekomendasi hasil pemeriksaan terhadap opini audit BPK. *VISA: Journal of Visions and Ideas*, 4(1), 202–217. <https://doi.org/10.47467/visa.v4i1.6225>
- Mardiasmo. (2018). *Akuntansi sektor publik* (Edisi ke-2). Jakarta: Salemba Empat. <https://scholar.google.com/scholar?q=Akuntansi+Sektor+Publik+Mardiasmo+2018>
- Putro, S. H., Mollet, J. A., & Klara, A. (2020). Analisis faktor-faktor yang mempengaruhi opini hasil pemeriksaan BPK. *Jurnal Akuntansi Publik*, 5(2), 101–117. <https://scholar.google.com/scholar?q=Analisis+faktor+yang+mempengaruhi+opini+hasil+pemeriksaan+BPK>
- Sianturi, A. M. T., & Siahaan, M. (2024). Empirical study on compliance and accountability in government finance. *International Journal of Economics, Business and Management Research*, 8(12), 211. <https://doi.org/10.51505/IJEBMR.2024.81217>
- Syam, J., Azlina, N., & Rasuli, M. (2023). Faktor-faktor yang mempengaruhi opini audit laporan keuangan pemerintah daerah dengan tindak lanjut rekomendasi sebagai variabel moderasi. *Prosiding Konferensi Riset Akuntansi Riau*, 1(1), 240–262. <https://scholar.google.com/scholar?q=Faktor+faktor+yang+mempengaruhi+opini+audit+Syam+Azlina+Rasuli>

Valentina, J. V. (2022). Pengaruh temuan SPI, temuan kepatuhan, tindak lanjut hasil pemeriksaan dan penyelesaian kerugian daerah terhadap opini audit di Kabupaten/Kota Provinsi Sumatera Selatan. *Syntax Idea*, 4(6), 951–970. <https://doi.org/10.46799/syntax-idea.v4i6.1867>