

The Impact of Audit Findings and Recommendation Follow-Up on Public Service Quality: An Empirical Investigation

Penulis Pertama: Harti Budi Yanti (CA), Barlian Izza Ardlillah

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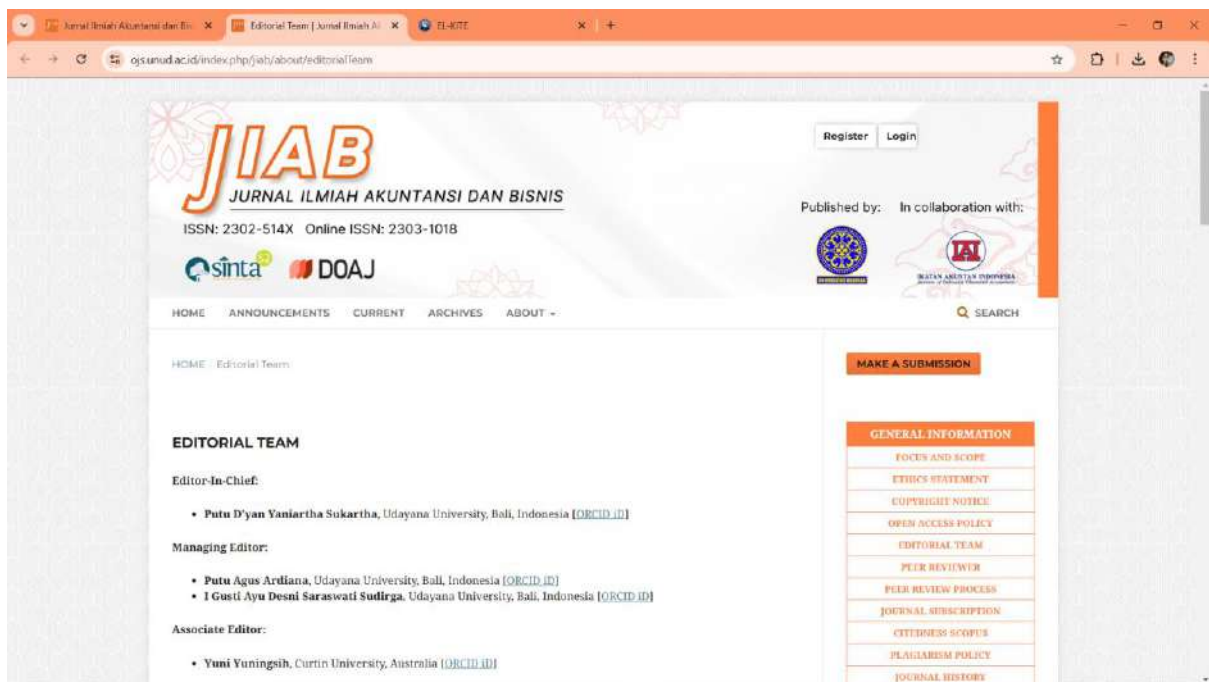
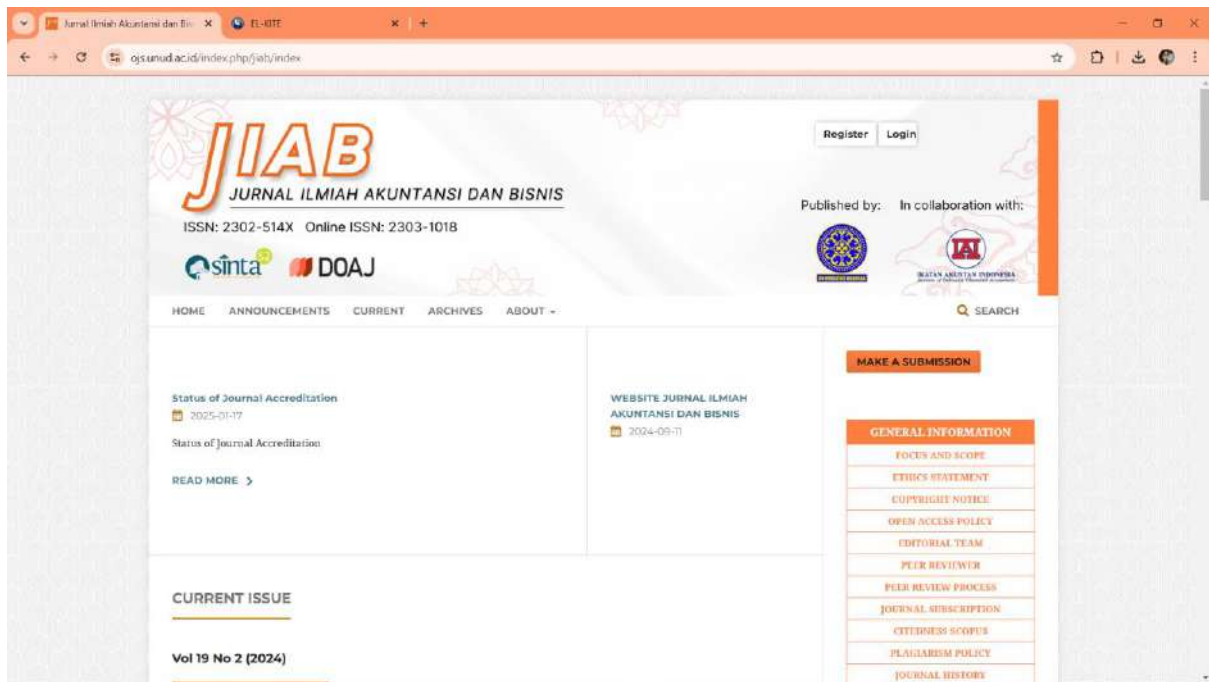
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The Impact of Audit Findings and Recommendation Follow-Up on Public Service Quality: An Empirical Investigation

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ABSTRACT

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Public services, traditionally provided by government agencies, present challenges in measuring their quality. As a result, research on public service quality remains relatively limited. This study seeks to examine both the direct and indirect effects of audit findings and the follow-up of audit recommendations on public service quality. The analysis covers 480 registry and city governments over the period 2021–2022, employing panel data regression, ordinal logistic regression, and the Sobel test. The findings reveal that audit findings negatively affect public service quality, while the follow-up on audit recommendations has a positive impact. These effects are observed both directly and indirectly, mediated by the quality of financial statements. This underscores the critical role of sound financial management in delivering high-quality public services. The results suggest that government agencies should not only strive for unqualified audit opinions but also prioritize the thorough follow-up of audit findings and recommendations. Doing so enhances both the quality of financial reporting and the overall delivery of public services.

Keywords: public service, opinion, audit findings, audit recommendations
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The Impact of Audit Findings and Recommendation Follow-Up on Public Service Quality: An Empirical Investigation

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Abstract

Public services, traditionally provided by government agencies, present challenges in measuring their quality. As a result, research on public service quality remains relatively limited. This study seeks to examine both the direct and indirect effects of audit findings and the follow-up of audit recommendations on public service quality. The analysis covers 480 regency and city governments over the period 2021–2022, employing panel data regression, ordinal logistic regression, and the Sobel test. The findings reveal that audit findings negatively affect public service quality, while the follow-up on audit recommendations has a positive impact. These effects are observed both directly and indirectly, mediated by the quality of financial statements. This underscores the critical role of sound financial management in delivering high-quality public services. The results suggest that government agencies should not only strive for unqualified audit opinions but also prioritize the thorough follow-up of audit findings and recommendations. Doing so enhances both the quality of financial reporting and the overall delivery of public services.

Keywords: public service, opinion, audit findings, audit recommendations follow-up

Introduction

Public services encompass all activities provided to the community by public service providers, as stipulated by Law No. 25/2009. The quality of these services can be measured by comparing their delivery against predefined standards. Public services, especially in strategic sectors, are often monopolized or exclusively provided by the government, meaning that the standards used for measurement are typically established by the public service entities themselves (PP No. 96/2012). This self-regulation complicates the measurement of public service quality, quantity, and efficiency, thereby limiting research in this area (Furqan et al., 2020).

In Indonesia, public service quality remains suboptimal. According to the 2023 Public Service Implementation Compliance Assessment Report by Ombudsman RI, only 70% of regency and city governments fall within the green zone (high compliance), while 23% are classified as medium compliance (yellow zone), and 7% are in the low compliance (red zone). This study focuses on the quality of public services provided by regional governments, particularly

regency and city governments, which exhibit the highest concentration of yellow and red zones ([Ombudsman RI, 2023](#)).

Local governments hold the authority to manage their regions and fulfill their obligations under Law No. 23/2014. This necessitates accountable governance, reflected in the preparation of Regional Government Financial Statements (LKPD). Based on Article 23, Paragraph 5 of the 1945 Constitution, the Audit Board of Indonesia (BPK) is mandated to audit state finances to provide an opinion on the fairness of financial statements ([BPK RI, 2017](#)). Despite over 90% of local governments receiving unqualified opinions on their 2022 financial reports, BPK identified 7,661 audit findings, with 56% attributed to non-compliance with regulations, potentially leading to losses exceeding Rp 3 trillion. Audit recommendations are provided to address these findings and specify follow-up actions ([BPK RI, 2023](#)).

In this study, the quality of financial statements, as measured by audit opinions, serves as an intervening variable. Although most government agencies receive unqualified opinions ([BPK RI, 2023](#)), the numerous audit findings and recommendations highlight the need for improvement ([Pamungkas et al., 2019](#); [Pamungkas et al., 2018](#); [Rochmah Ika & Mohd Ghazali, 2012](#)). The relationship between audit findings and the follow-up of audit recommendations (independent variables), financial statement quality (intervening variable), and public service quality (dependent variable) is explored in this research. The quality of financial statements reflects the effectiveness of government financial management, which is a crucial resource in delivering public services.

This study builds on the work of [Furqan et al. \(2020\)](#), who demonstrated that the quality of Regional Government Financial Statements (LKPD) positively influences public service quality. Their findings also showed that audit findings negatively affect both LKPD quality and public service quality, while follow-up on audit recommendations have a positive effect on both. However, [Furqan et al. \(2020\)](#) limited their analysis to a one-year period, whereas this study uses data from 2021–2022. Similar research by [Pertiwi & Wibowo \(2023\)](#) on Indonesian ministries and institutions yielded different results, concluding that follow-up audit recommendations did not affect financial statement quality, and audit findings did not influence public service quality. Additionally, [Pramana et al. \(2023\)](#) found that follow-up on audit recommendations had a positive impact on LKPD quality in district governments that received unqualified opinions for five consecutive years.

This study aims to analyze the influence of audit findings and the follow-up of audit recommendations on public service quality, with financial statement quality as a mediating variable. The research is expected to assist local governments in enhancing public service delivery by demonstrating how these factors impact service quality. It highlights the need for local governments to focus not only on obtaining favorable audit opinions but also on meeting financial audit criteria and diligently following up on audit recommendations to improve public service outcomes. Additionally, this study contributes to the limited literature on measuring public service quality. Notably, no prior research has used data from Ombudsman RI's compliance assessment of public service implementation.

[Saipuloh et al. \(2023\)](#) found that the follow-up on audit recommendations from the previous year had a significant positive effect on public service quality, as it helps local governments address underlying issues. This finding aligns with [Pertiwi & Wibowo \(2023\)](#)

and [Furqan et al. \(2020\)](#) but contrasts with [Lestari & Rohman \(2022\)](#). [Furqan et al. \(2020\)](#) concluded that audit findings negatively affect public services, a view contrary to [Saipuloh et al. \(2023\)](#), [Pertiwi & Wibowo \(2023\)](#), and [Lestari & Rohman \(2022\)](#), who found no significant effect. [Saipuloh et al. \(2023\)](#) also emphasized that audit opinions are based on the fairness of financial statements rather than overall government performance. [Furqan et al. \(2020\)](#) demonstrated that financial statement quality mediates the relationship between audit findings, follow-up recommendations, and public service quality, while [Lestari & Rohman \(2022\)](#) found no such mediation. [Pertiwi & Wibowo \(2023\)](#) noted that financial statement quality only mediates the relationship between audit findings and public service quality.

The formulation of this study's hypotheses is grounded in Legitimacy Theory, which posits that government activities must align with societal norms and values to maintain public trust ([Pertiwi & Wibowo, 2023](#)). High public trust supports the success of development programs ([Houston & Harding, 2013](#)). Consequently, governments strive to improve accountability and service performance through transparent financial reporting and public service provision to sustain their legitimacy ([Cameron, 2004; Stirton & Lodge, 2001](#)). A favorable audit opinion often enhances public legitimacy, and local governments frequently report such outcomes on official websites ([Furqan et al., 2020; Stirton & Lodge, 2001; Suwanda, 2015](#)).

According to Legitimacy Theory, local governments seek to avoid audit findings by strengthening internal control systems and complying with regulations to preserve their reputation ([Abd Aziz et al., 2015; Aikins, 2011](#)). This, in turn, leads to better financial management and higher-quality public services ([De Renzio, 2013; Goryakin et al., 2020; Milakovich, 1991](#)). Many audit findings reveal weaknesses in internal controls and governance, which can result in ineffective financial management and substandard public service delivery ([Pertiwi & Wibowo, 2023](#)). Thus, it is hypothesized that:

H₁: Audit findings have a negative effect on the quality of public services.

In line with Legitimacy Theory, local governments strive to implement the audit recommendations issued by BPK RI to preserve or enhance their reputation ([Indriani & Komala, 2024; Pamungkas et al., 2019](#)). These recommendations address key issues in public service delivery, suggesting improvements in internal control, legal compliance, and operational efficiency ([Saipuloh et al., 2023](#)). By following up on these recommendations, governments can improve the effectiveness, efficiency, and accountability of both financial management and public services ([Furqan et al., 2020](#)). Therefore, greater adherence to audit recommendation follow-up is expected to enhance public service quality.

H₂: Follow-up on audit recommendations has a positive effect on the quality of public services.

Aligned with Legitimacy Theory, entities seek to conform to societal expectations in order to gain public support and recognition ([Crossley et al., 2021](#)). Local governments earn public trust by obtaining unqualified audit opinions, which are granted when they meet BPK RI's criteria, such as compliance with accounting standards, adequate disclosure, legal adherence, and effective internal control systems ([BPK RI, 2017](#)). Failing to meet these criteria results in audit findings, motivating local governments to work diligently toward preventing such findings and improving the quality of their financial statements ([Furqan et al., 2020](#)).

However, when internal controls are ineffective, legal compliance is low, and financial management efficiency is compromised, governments accumulate significant audit findings (Chalmers et al., 2019). These findings negatively impact on the quality of financial statements, as reflected in poorer audit opinions (Deis Jr & Giroux, 1992; McDaniel et al., 2002). Since public services are largely funded by state or regional budgets, poor financial management inevitably leads to a decline in public service quality (Azfar et al., 2018; Schick, 2013). Thus, an increase in audit findings is expected to reduce the quality of financial reporting, which in turn diminishes the quality of public services (Habib, 2012).

H₃: Audit findings negatively affect public service quality through the quality of financial statements.

Saipuloh et al. (2023) argued that the implementation of audit recommendations offers valuable insights for local governments to enhance internal controls and compliance with laws, positively influencing the quality of financial statements. High-quality financial reports reflect sound financial management. Since public services are funded, at least in part, by state or regional finances, proper financial management leads to better public service delivery (Furqan et al., 2020). Therefore, following up on audit recommendations not only improves financial statement quality but also contributes to higher-quality public services.

H₄: Follow-up on audit recommendations positively affects public service quality through the quality of financial statements.

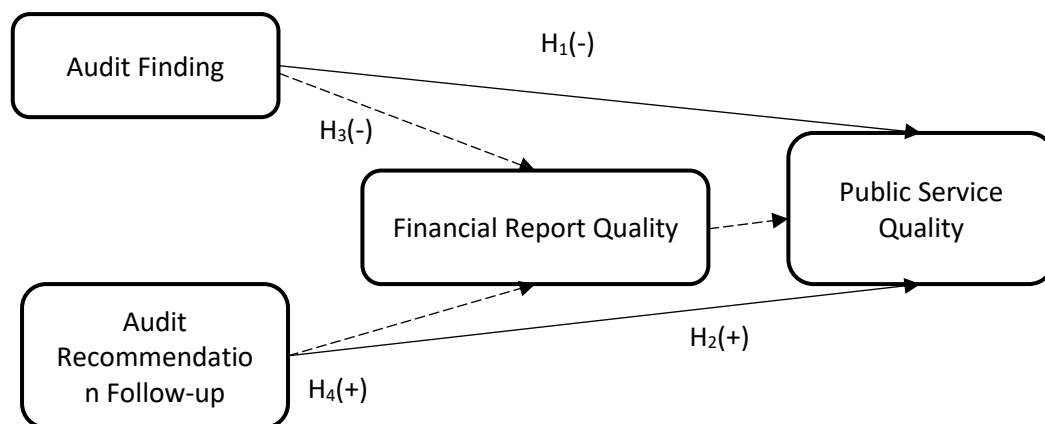


Figure 1 Research Framework

Research Method

The independent variables in this study are audit findings (X1) and the follow-up of audit recommendations (X2), while the dependent variable is public service quality (Y). Financial statement quality (Z) serves as the intervening variable, and geographical location is included as a control variable. This study investigates the influence of audit findings and the follow-up of audit recommendations on public service quality, with financial statement quality acting as a mediator and geographical location as a control.

The research adopts a quantitative approach using secondary data from the *Summary of Audit Reports* (IHPS) published by BPK RI¹ and the *Executive Summary of Public Service Standards Compliance Assessment* by Ombudsman RI.² The sample consists of district and city governments, selected due to their lower compliance levels in Ombudsman RI assessments over the past three years (Ombudsman RI, 2023). The period 2021–2022 was chosen as it reflects the most recent available data. Using purposive sampling based on data availability, 480 out of 514 governments were included.

Public service quality is measured based on the scores from the *Compliance Assessment of Public Service Implementation* by Ombudsman RI. Audit findings are quantified following the method used by Kiswanto & Fatmawati (2019), defined as the total number of audit findings divided by total budget expenditures. The follow-up of audit recommendations is measured according to Furqan et al. (2020), by calculating the percentage of recommendations followed up relative to the total audit recommendations. Financial statement quality is assessed using the BPK RI audit opinions, as per Din et al. (2017) and Kusumawati & Ratmono (2017), on an ordinal scale from 1 to 4: "Disclaimer," "Adverse," "Qualified," and "Unqualified." Geographical location, the control variable, is represented as a dummy variable, with "1" for regency/city governments located on Java and "0" for those outside Java.

Given the intervening variable of financial statement quality, this study employs two equations. Equation 1 examines the direct effect of the four variables—audit findings, follow-up of audit recommendations, financial statement quality, and geographical location—on public service quality, using panel data regression. Equation 2 assesses the relationship between the independent variables (audit findings and follow-up of audit recommendations) and the intervening variable (financial statement quality) through ordinal logistic regression, as financial statement quality is treated as an ordinal dependent variable in this equation. Both analyses will be conducted using Eviews 9, and the Interactive Mediation Test Online by Daniel Soper will be used to test whether financial statement quality mediates the relationship between the independent and dependent variables.

The initial analysis consists of descriptive statistics, aimed at providing an overview of the data without drawing conclusions. The descriptive statistics will include the mean, maximum, minimum, mode, and standard deviation for each variable (Sahir, 2021). Next, panel data regression will be conducted for Equation 1. As panel data consists of both cross-sectional and time-series components, model selection is required. The three estimation approaches for panel data regression models are the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) (Basuki, 2021). To determine the most appropriate model, two of the following three tests will be conducted: the Chow Test, Hausman Test, and Lagrange Multiplier Test. If the probability value from the Chow Test's Chi-square cross-section is less than 0.05, the FEM is preferred and will proceed to the Hausman Test. If the Hausman Test's cross-section random probability value is less than 0.05, the FEM remains the appropriate model; otherwise, the REM is selected.

¹ available at <https://www.bpk.go.id/ihps>

² available at <https://ombudsman.go.id/produk>

After selecting the most appropriate model, hypothesis testing is conducted. The F-test is used to determine whether all independent variables have a joint or simultaneous influence on the dependent variable (Sahir, 2021). The decision is based on the F-Statistic's probability value and a predefined significance level (α). Following this, the Coefficient of Determination Test is performed by examining the adjusted R-squared (Adj R-Square) value, which indicates the proportion of variance in the dependent variable explained by the independent variables (Sahir, 2021). The Adj R-Square value ranges from 0 to 1, with higher values suggesting a stronger explanatory power of the independent variables in predicting the dependent variable. Lastly, the T-Test assesses the individual influence of each independent variable on the dependent variable, with the decision based on the probability value at a specified significance level (α).

Next, equation 2 is tested. The effect of the independent variables—Audit Findings and Follow-up of Audit Recommendations—on the intervening variable, Financial Statement Quality, is analyzed using ordinal logistic regression. Unlike linear regression, ordinal logistic regression does not require classical assumption tests (Gujarati, 2012). The simultaneous effect of multiple independent variables on the dependent variable is evaluated using the Likelihood Ratio (LR) statistic (Iban, 2017). Similar to the F-test in linear regression, if the LR statistic's probability value is less than 0.05, the independent variables jointly affect the dependent variable. The Coefficient of Determination in ordinal logistic regression is measured by the Pseudo R-Squared value, indicating the extent to which the independent variables explain the variation in the dependent variable, with the remainder attributed to factors outside the model (Iban, 2017). The partial effect of each independent variable on the dependent variable is tested using the Statistical Z Test, analogous to the T-Test in linear regression, with the decision based on the comparison of the probability value to the significance level (α).

Finally, the Sobel Test is conducted to determine whether the intervening variable mediates the relationship between the independent and dependent variables. The Sobel test is carried out using Daniel Soper's Interactive Mediation Test Online, available at www.danielsoper.com. If the probability value is less than 0.05 or the Sobel test statistic exceeds 1.96, the intervening variable is confirmed to mediate the relationship between the independent and dependent variables.

Result and Discussion

Based on the descriptive statistics presented in Table 1, the analysis for the 960 samples reveals several key findings. First, the average audit finding for district and city governments is 0.31% of total spending, with the highest audit finding reaching 15.90% and the lowest at 0%. Second, the follow-up on audit recommendations shows that, on average, 51.77% of recommendations have been implemented, with some governments achieving 100% follow-up, while others have not followed up at all. Third, in terms of financial statement quality, most district and city governments received unqualified opinions, though some still obtained disclaimer opinions. Fourth, the sample contains more district and city governments located outside the island of Java. Lastly, the average quality of public services in the sample is 71 out of 100, with the highest score being 99.70 and the lowest at 9.63.

Table 1. Descriptive Statistics

Variable	FINDING	FOLUP	FINQ	ISLAND	PUBQ
Mean	0.0031	0.5177	3.9052	0.2292	71.1078
Maximum	0.1590	1.0000	4.0000	1.0000	99.7000
Minimum	0.0000	0.0000	1.0000	0.0000	9.6300
Std. Dev.	0.0089	0.2823	0.3771	0.4205	15.7351
Mode	0.0000	0.0000	4.0000	0.0000	61.5300
Observations	960	960	960	960	960

Source: Processed Data, 2024

Where,

- PUBQ = Public Service Quality,
- FINQ = Financial Statement Quality,
- FINDING = Audit Findings,
- FOLUP = Follow-up of Audit Recommendations,
- ISLAND = Geographical Location of the Regional Government.

These findings provide a broad overview of the variables analyzed in this study. The panel data regression analysis for equation 1 begins by estimating the results for each model, as outlined in [Table 2](#).

Table 2. Model Estimation Results

Test	Statistic	Prob	Conclusion
Chow Test	Cross-section Chi-square = 1309.9356	0.0000	FEM accepted
Hausman Test	Cross-section random = 29.9782	0.0000	FEM accepted

Source: Processed Data, 2024

To determine the appropriate model for this study, model selection tests were conducted. Based on the results of the Chow Test and Hausman Test ([Table 2](#)), the Fixed Effect Model (FEM) was identified as the most suitable for the panel data regression in this study.

Table 3. Model Selection Results

Variable	Common Effect		Fixed Effect		Random Effect	
	Coefficient	Prob	Coefficient	Prob	Coefficient	Prob
C	0.3894	0.0000	0.3833	0.0000	0.3998	0.0000
FINDING	-0.0093	0.1023	-0.0112	0.0451	-0.0018	0.7162
FINQ	0.0713	0.0000	0.0698	0.0000	0.0725	0.0000
FOLUP	0.0779	0.0000	0.1053	0.0000	0.0381	0.0253
ISLAND	0.0258	0.0432	0.0176	0.1615	0.0395	0.0064
Goodness of Fit						
Measure	Common Effect		Fixed Effect		Random Effect	
R-squared	0.0777		0.1115		0.0484	
Adj R-squared	0.0738		0.1069		0.0444	
F-Statistic	20.1030		23.9487		12.1360	
Prob F-stat	0.0000		0.0000		0.0000	

Source: Processed Data, 2024

As shown in [Table 3](#), the Fixed Effect Model (FEM) demonstrates the best fit for the data, as indicated by the highest R-squared and Adjusted R-squared values. Additionally, the Prob F-statistic values are all below 0.05, confirming the significance of the models. The FEM was therefore selected for further analysis.

Based on the panel data regression results in [Table 3](#), the F-statistic's probability value is 0.0000, which is less than the 0.05 significance level (alpha 5%). This indicates that the four variables in the regression equation have a joint and significant influence on the dependent variable, public service quality. The Adjusted R-squared value is 0.1069, suggesting that the variables in this study explain 10.69% of the variation in public service quality, while the remaining 89.31% is attributable to factors not included in this study. The focus here is on financial statement factors that likely affect the process dimensions, although Ombudsman RI's assessment also considers input, output, and complaint dimensions ([Ombudsman RI, 2023](#)).

Table 4. Regency/City Governments with the Most Findings in 2021-2022

No	2021			2022		
	Regency/city	Audit Findings	Public Service	Regency/city	Audit Findings	Public Service
1	Sarmi Regency	15.78%	Yellow	Sumbawa Barat Reg.	15.91%	Red
2	Penajam Paser Utara Regency	2.84%	Yellow	Buru Selatan Regency	11.87%	Yellow
3	Konawe Kepulauan Regency	1.59%	Red	Pulau Taliabu Regency	5.69%	Yellow
4	Bombana Regency	1.41%	Red	Waropen Reg.	5.01%	Green
5	Kolaka Utara, Regency	1.35%	Green	Ogan Ilir Reg.	2.38%	Yellow
6	Pulau Taliabu Regency	1.29%	Yellow	Gorontalo Regency	2.33%	Red
7	Padang Lawas Utara Regency	1.26%	Green	Kaur Regency	1.85%	Red
8	Mamberamo Raya Regency	1.14%	Yellow	Konawe Selatan Reg.	1.85%	Red
9	Maluku Tenggara Reg.	1.12%	Green	Kerinci Reg.	1.81%	Yellow
10	Bandung Reg.	0.08%	Yellow	Gorontalo City	1.62%	Yellow

Source: Results of researcher secondary data processing from IHPS I 2022 and 2023 and Compliance Assessment Report for Public Service Implementation 2021 and 2022

From [Table 3](#), the probability value for the FINDING variable is less than 0.05, indicating that audit findings have a significant and negative direct effect on public service quality. Therefore, the first hypothesis—that audit findings negatively affect the quality of public services—is accepted. Although audit findings are traditionally seen as outcomes of financial audit activities ([BPK RI, 2017](#)), they extend beyond financial statement corrections. In the 2022 BPK RI audit, 44.6% of the findings were due to internal control weaknesses, while 55% resulted from non-compliance with laws and regulations ([BPK RI,](#)

2023). These regulations encompass more than just accounting or financial statement preparation.

This aligns with the findings of [Pertiwi & Wibowo \(2023\)](#), who noted that a higher ratio of audit findings to total expenditure indicates significant weaknesses in internal control systems and governance compliance. Such deficiencies lead to ineffective financial management, which negatively impacts public service delivery. In this context, finances represent an agency's operational resources (input), while public services constitute the output provided to the community. When there are numerous weaknesses in input management, the quality of output inevitably suffers.

This conclusion is consistent with the descriptive statistics presented in [Table 4](#). Among regency/city governments with the highest percentage of audit findings, the quality of public services is frequently below standard. For instance, in 2021, seven out of the ten governments with the most audit findings were classified in the yellow or red zones for public service compliance. In 2022, almost all of these governments were still categorized as having low compliance levels.

Based on [Table 3](#), the probability value for the FOLUP variable is less than 0.05, indicating that the follow-up on audit recommendations has a significant and positive direct effect on public service quality. This finding aligns with Legitimacy Theory, as government agencies are motivated to demonstrate their improvements and good performance to the public ([Pertiwi & Wibowo, 2023](#)). The extent of audit recommendations follow-up is regularly monitored by the regional parliament (DPRD) and the community through the Summary of Audit Reports (IHPS) published semiannually by BPK RI. Moreover, BPK considers the follow-up on previous audit recommendations when conducting the financial audit for the current year, which further incentivizes local governments to act on these recommendations.

Audit recommendations are designed to address the issues identified in audit findings ([BPK RI, 2017](#)). By following up on these recommendations, local governments can enhance the effectiveness, efficiency, and accountability in performing their duties, including financial management and public service delivery ([Furqan et al., 2020](#)). This study's findings are consistent with the results of [Pramana et al. \(2023\)](#) and [Agustina & Setyaningrum \(2020\)](#).

Table 5. Distribution of Audit Recommendation Follow-up and Quality of Public Services of Regency/City Governments

Follow-up	2022		
	Green	Yellow	Red
100%	100%	0%	0%
0%	27%	63%	10%

Source : Results of the processing of the 2021 and 2022 Public Service Implementation Compliance Report and IHPS I 2022 and 2023

This conclusion is further supported by the descriptive statistics in [Table 5](#). In 2022, all regency and city governments that fully followed up on the 2021 audit recommendations were assessed by Ombudsman RI as having a high level of compliance in public service implementation. In contrast, only 27% of the governments that did not follow up on audit recommendations at all were in the green zone, with the remainder falling into the yellow and red zones, indicating that most did not meet public service standards. The 2022 public service outcomes are considered more representative, as

Ombudsman RI introduced a more comprehensive assessment method. This new method evaluates not only the availability of service standards and public feedback but also the competence of service providers, the availability and quality of infrastructure, and the supervision and management of complaints (Ombudsman RI, 2023).

As shown in Table 3, the probability value for the ISLAND variable is less than 0.05, indicating that geographical location does not significantly affect public service quality. The geographical location variable divides regency/city governments between those located on the island of Java and those outside Java, based on the assumption that public service quality in Java might be higher. However, the panel data regression results indicate that geographical location has no measurable effect on public service quality. This may be attributed to increasing development and improved access to services outside Java, reducing the relevance of geographical differences in public service quality.

In this study, public service quality was measured using scores from Ombudsman RI, whereas Furqan et al. (2020) used EKPPD scores. The Ombudsman RI assessment incorporates public perceptions of service quality, which includes an element of permissiveness from service recipients. Individuals who have not experienced public services in other regions may find it difficult to compare service quality across different regencies or cities. For example, residents of Regency A may be satisfied with a 2-3 day processing time for simple documents, seeing it as the norm. However, in Regency B, similar services may be completed in just one day. If residents of Regency A were aware of faster services elsewhere, their assessment might differ. The permissiveness aspect is minimized with EKPPD scores, as these scores are based on standardized indicators applied uniformly across all regency/city governments.

Although the control variable, geographical location, was not found to significantly affect the dependent variable, the descriptive statistics in Table 6 indicate that, over the two-year study period, regency/city governments outside Java consistently dominate the red zone in terms of public service quality. Even when viewed proportionally, this suggests that the level of compliance with public service standards in regency/city governments outside Java remains lower than in those located on Java Island.

Table 6. Results of Compliance Assessment of Public Service Implementation by Zone

Zona	2021				2022			
	Non Java	Java	Total	(%)	Non Java	Java	Total	(%)
Green	104	26	130	27%	126	59	185	39%
Yellow	201	83	284	59%	221	54	275	57%
Red	62	4	66	14%	20	0	20	4%
Total	367	113	480	100%	367	113	480	100%

Source: Results of the processing of the 2021 and 2022 Public Service Implementation Compliance Report

Before assessing whether the quality of financial statements mediates the relationship between the independent and dependent variables, it is essential to first test whether the independent variables have a significant effect on the intervening variable. In this step, the intervening variable, financial statement quality, will be treated as the dependent variable and analyzed using ordinal logistic regression.

Based on the ordinal logistic regression results shown in [Table 7](#), the probability value (LR Statistic) of 0.000002, which is less than 0.01 (alpha 1%), indicates that at least one independent variable significantly affects the dependent variable. The Pseudo R-Squared value of 0.0463 suggests that the Audit Findings and Audit Recommendation Follow-up variables explain 4.63% of the variation in Financial Statement Quality, while the remaining 95.37% is attributable to factors outside the study.

Table 7. Results of Ordinal Logistics Regression

Variable	Coefficient	Std. Error	z-Statistic	Prob.
FOLUP	0.8376	0.4415	1.8973	0.0578
FINDING2	-0.3493	0.0898	-3.8883	0.0001
Pseudo R-squared	0.0463			
Prob(LR statistic)	0.000002			

Source : Processed Data, 2024The test results show that the Prob value for Audit Findings is 0.0001, which is less than 0.01 (alpha 1%), indicating that Audit Findings have a statistically significant negative effect on Financial Statement Quality at the 99% confidence level. Similarly, a Prob value of 0.0578, which is less than 0.10 (alpha 10%), indicates that Audit Recommendation Follow-up has a positive effect on Financial Statement Quality at a 90% confidence level.

The Sobel test was conducted using Daniel Soper's interactive mediation test online by inputting the coefficient and standard error values. The indirect effect of the independent variables on the dependent variable was calculated by multiplying the coefficient of the independent variable's effect on the intervening variable by the coefficient of the intervening variable's effect on the dependent variable. The resulting p-values and coefficients for each variable are presented in [Table 8](#).

Table 8. Sobel Test Results

Variable	P-value	Coefficient
FINDING → FINQ → PUBQ	0.0008	-0.0244
FOLUP → FINQ → PUBQ	0.0369	0.0585

Source : Output *Interactive Mediation Test Online*

Based on the Sobel test results in [Table 8](#), the indirect effect of audit findings on public service quality has a P-value of less than 0.05 (alpha 5%) with a negative coefficient. This indicates that the third hypothesis—that audit findings negatively affect public service quality through financial statement quality—is accepted. Similarly, the indirect effect of audit recommendation follow-up on public service quality has a P-value of less than 0.05 with a positive coefficient. This supports the fourth hypothesis, which states that audit recommendation follow-up positively affects public service quality through financial statement quality.

Legitimacy theory posits that organizations, including public institutions, seek to align their actions with public expectations to gain support and recognition. In the case of local governments, this is reflected in their efforts to obtain unqualified audit opinions ([Pertiwi & Wibowo, 2023](#)). While audit opinions primarily assess the fairness of financial statements ([BPK RI, 2017](#)), BPK RI also considers factors such as compliance with accounting standards, adequacy of disclosures, adherence to laws and regulations, and the effectiveness of internal controls. Any discrepancies between actual performance and ideal criteria are identified as audit findings ([BPK RI, 2017](#)). Local governments, therefore,

strive to minimize audit findings by ensuring conformity with legal and regulatory standards, which in turn improves the quality of their financial statements.

Audit recommendation follow-up is undertaken to address the audit findings from the previous year. When recommendations are appropriately implemented, they significantly improve internal controls and compliance with laws and regulations (Saipuloh et al., 2023). The higher the level of follow-up implementation, the greater the improvements within the agency. More effective internal controls and higher compliance levels lead to improved financial statement quality. Furthermore, because BPK RI considers the follow-up on previous years' audit recommendations during the current year's audit, agencies that effectively implement these follow-ups are more likely to improve their financial statement quality. High-quality financial statements reflect strong financial management, which, in turn, leads to better public service quality.

Conclusion

Based on the analysis and testing of the data, the author concludes that audit findings have a proven negative effect, while the follow-up of audit recommendations has a proven positive effect on public service quality, both directly and indirectly through the quality of financial statements. This indicates that when local governments take steps to avoid audit findings, including by complying with laws and regulations and implementing effective internal controls, they not only produce higher-quality financial statements but also improve public service quality. Similarly, the study shows that when local governments follow up on audit recommendations as required, both financial management quality and public service quality are enhanced.

This study suggests that local governments should not focus solely on obtaining unqualified opinions but should strive to ensure financial management is carried out in accordance with regulations to achieve high-quality outcomes. Additionally, governments should work to improve their follow-up on audit recommendations, as the average follow-up rate for 2021–2022 was only 51.76%.

Table 9. Summary of Findings

Effect	Direction	Prob	Hypothesis
FINDING → PUBQ	(-)	significant	Accepted
FOLUP → PUBQ	(+)	significant	Accepted
FINDING → FINQ → PUBQ	(-)	significant	Accepted
FOLUP → FINQ → PUBQ	(+)	significant	Accepted

There are some limitations to this study. Many factors can influence public service quality, but this study only examines the effects related to financial statements. The 2023 Public Service Implementation Compliance Assessment Report by Ombudsman RI evaluates public services based on four dimensions: input (infrastructure and personnel), process (procedures and service delivery mechanisms), output (public perception), and complaints. The variables in this study pertain only to the process dimension.

Future research could explore additional factors influencing public service quality beyond financial statement-related aspects, given the limited research in this area. Furthermore, this study found that disparities in public service quality between Java and regions outside Java are not driven by geographical location. Future research could investigate which factors more dominantly contribute to these differences. For instance,

factors related to the characteristics of the service recipient population or the work culture of service providers could offer valuable insights and provide interesting topics for further exploration.

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The Impact of Audit Findings and Recommendation Follow-Up on Public Service Quality: An Empirical Investigation

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The Impact of Audit Findings and Recommendation Follow-Up on Public Service Quality: An Empirical Investigation

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Abstract

Public services, traditionally provided by government agencies, present challenges in measuring their quality. As a result, research on public service quality remains relatively limited. This study seeks to examine both the direct and indirect effects of audit findings and the follow-up of audit recommendations on public service quality. The analysis covers 480 regency and city governments over the period 2021–2022, employing panel data regression, ordinal logistic regression, and the Sobel test. The findings reveal that audit findings negatively affect public service quality, while the follow-up on audit recommendations has a positive impact. These effects are observed both directly and indirectly, mediated by the quality of financial statements. This underscores the critical role of sound financial management in delivering high-quality public services. The results suggest that government agencies should not only strive for unqualified audit opinions but also prioritize the thorough follow-up of audit findings and recommendations. Doing so enhances both the quality of financial reporting and the overall delivery of public services.

Keywords: Public Service, Opinion, Audit Findings, Audit Recommendations Follow-up

Introduction

Public services encompass all activities provided to the community by public service providers, as stipulated by Law No. 25/2009. The quality of these services can be measured by comparing their delivery against predefined standards. Public services, especially in strategic sectors, are often monopolized or exclusively provided by the government, meaning that the standards used for measurement are typically established by the public service entities themselves (PP No. 96/2012). This self-regulation complicates the measurement of public service quality, quantity, and efficiency, thereby limiting research in this area (Furqan et al., 2020).

In Indonesia, public service quality remains suboptimal. According to the 2023 Public Service Implementation Compliance Assessment Report by Ombudsman RI, only 70% of regency and city governments fall within the green zone (high compliance), while 23% are classified as medium compliance (yellow zone), and 7% are in the low compliance (red zone). This study focuses on the quality of public services provided by regional governments, particularly regency and city governments, which exhibit the highest concentration of yellow and red zones (Ombudsman RI, 2023).

Local governments hold the authority to manage their regions and fulfill their obligations under Law No. 23/2014. This necessitates accountable governance, reflected in the preparation of Regional Government Financial Statements (LKPD). Based on Article 23, Paragraph 5 of the 1945 Constitution, the Audit Board of Indonesia (BPK) is mandated to audit state finances to provide an opinion on the fairness of financial statements (BPK RI, 2017). Despite over 90% of local governments receiving unqualified opinions on their 2022 financial reports, BPK identified 7,661 audit findings, with 56% attributed to non-compliance with regulations, potentially leading to losses exceeding Rp 3 trillion. Audit

¹ Do Audit Findings and Audit Recommendations Follow-up Affect The Quality of Public Services? recommendations are provided to address these findings and specify follow-up actions (BPK RI, ⁵³2023).

In this study, the quality of financial statements, as measured by audit opinions, serves as an intervening variable. Although most government agencies receive unqualified opinions (BPK RI, 2023), the numerous audit findings and recommendations highlight the need for improvement. The relationship between audit findings and the follow-up of audit recommendations (independent variables), financial statement quality (intervening variable), and public service quality (dependent variable) is explored in this research. The quality of financial statements reflects the effectiveness of government financial management, which is a crucial resource in delivering public services.

This study builds on the work of Furqan et al. (2020), who demonstrated that the quality of Regional Government Financial Statements (LKPD) positively influences public service quality. Their findings also showed that audit findings negatively affect both LKPD quality and public service quality, while follow-up on audit recommendations have a positive effect on both. However, Furqan et al. (2020) limited their analysis to a one-year period, whereas this study uses data from 2021–2022. Similar research by Pertiwi and Wibowo (2023) on Indonesian ministries and institutions yielded different results, concluding that follow-up audit recommendations did not affect financial statement quality, and audit findings did not influence public service quality. Additionally, Pramana et al. (2023) found that follow-up on audit recommendations had a positive impact on LKPD quality in district governments that received unqualified opinions for five consecutive years.

⁶ This study aims to analyze the influence of audit findings and the follow-up of audit recommendations on public service quality, with financial statement quality as a mediating variable. The research is expected to assist local governments in enhancing public service delivery by demonstrating how these factors impact service quality. It highlights the need for local governments to focus not only on obtaining favorable audit opinions but also on meeting financial audit criteria and diligently following up on audit recommendations to improve public service outcomes. Additionally, this study contributes to the limited literature on measuring public service quality. Notably, no prior research has used data from Ombudsman RI's compliance assessment of public service implementation.

Saipuloh et al. (2023) found that the follow-up on audit recommendations from the previous year had a significant positive effect on public service quality, as it helps local governments address underlying issues. This finding aligns with Pertiwi and Wibowo (2023) and Furqan et al. (2020) but contrasts with Lestari and Rohman (2022). Furqan et al. (2020) concluded that audit findings negatively affect public services, a view contrary to Saipuloh et al. (2023), Pertiwi and Wibowo (2023), and Lestari and Rohman (2022), who found no significant effect. Saipuloh et al. (2023) also emphasized that audit opinions are based on the fairness of financial statements rather than overall government performance. Furqan et al. (2020) demonstrated that financial statement quality mediates the relationship between audit findings, follow-up recommendations, and public service quality, while Lestari and Rohman (2022) found no such mediation. Pertiwi and Wibowo (2023) noted that financial statement quality only mediates the relationship between audit findings and public service quality.

The formulation of this study's hypotheses is grounded in Legitimacy Theory, which posits that government activities must align with societal norms and values to maintain public trust (Pertiwi & Wibowo, 2023). High public trust supports the success of development programs. Consequently, governments strive to improve accountability and service performance through transparent financial reporting and public service provision

¹ Do Audit Findings and Audit Recommendations Follow-up Affect The Quality of Public Services? to sustain their legitimacy. A favorable audit opinion often enhances public legitimacy, and local governments frequently report such outcomes on official websites.

According to Legitimacy Theory, local governments seek to avoid audit findings by strengthening internal control systems and complying with regulations to preserve their reputation. This, in turn, leads to better financial management and higher-quality public services. Many audit findings reveal weaknesses in internal controls and governance, which can result in ineffective financial management and substandard public service delivery (Pertiwi & Wibowo, 2023). Thus, it is hypothesized that:

H₁: Audit findings have a negative effect on the quality of public services.

In line with Legitimacy Theory, local governments strive to implement the audit recommendations issued by BPK RI to preserve or enhance their reputation. These recommendations address key issues in public service delivery, suggesting improvements in internal control, legal compliance, and operational efficiency (Saipuloh et al., 2023). By following up on these recommendations, governments can improve the effectiveness, efficiency, and accountability of both financial management and public services (Furqan et al., 2020). Therefore, greater adherence to audit recommendation follow-up is expected to enhance public service quality.

H₂: Follow-up on audit recommendations has a positive effect on the quality of public services.

Aligned with Legitimacy Theory, entities seek to conform to societal expectations in order to gain public support and recognition (Crossley et al., 2021). Local governments earn public trust by obtaining unqualified audit opinions, which are granted when they meet BPK RI's criteria, such as compliance with accounting standards, adequate disclosure, legal adherence, and effective internal control systems (BPK RI, 2017). Failing to meet these criteria results in audit findings, motivating local governments to work diligently toward preventing such findings and improving the quality of their financial statements (Furqan et al., 2020).

However, when internal controls are ineffective, legal compliance is low, and financial management efficiency is compromised, governments accumulate significant audit findings. These findings negatively impact on the quality of financial statements, as reflected in poorer audit opinions. Since public services are largely funded by state or regional budgets, poor financial management inevitably leads to a decline in public service quality. Thus, an increase in audit findings is expected to reduce the quality of financial reporting, which in turn diminishes the quality of public services.

H₃: Audit findings negatively affect public service quality through the quality of financial statements.

Saipuloh et al. (2023) argued that the implementation of audit recommendations offers valuable insights for local governments to enhance internal controls and compliance with laws, positively influencing the quality of financial statements. High-quality financial reports reflect sound financial management. Since public services are funded, at least in part, by state or regional finances, proper financial management leads to better public service delivery (Furqan et al., 2020). Therefore, following up on audit recommendations not only improves financial statement quality but also contributes to high-quality public services.

H₄: Follow-up on audit recommendations positively affects public service quality through the quality of financial statements.

Research Methods

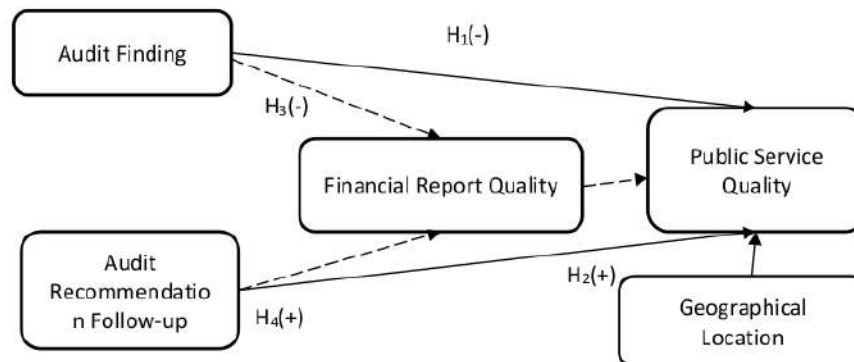


Figure 1 Research Framework

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The independent variables in this study are audit findings (X1) and the follow-up of audit recommendations (X2), while the dependent variable is public service quality (Y). Financial statement quality (Z) serves as the intervening variable, and geographical location is included as a control variable. This study investigates the influence of audit findings and the follow-up of audit recommendations on public service quality, with financial statement quality acting as a mediator and geographical location as a control.

The research adopts a quantitative approach using secondary data from the *Summary of Audit Reports* (IHPS) published by BPK RI¹ and the *Executive Summary of Public Service Standards Compliance Assessment* by Ombudsman RI.² The sample consists of district and city governments, selected due to their lower compliance levels in Ombudsman RI assessments over the past three years (Ombudsman RI, 2023). The period 2021–2022 was chosen as it reflects the most recent available data. Using purposive sampling based on data availability, 480 out of 514 governments were included.

Public service quality is measured based on the scores from the *Compliance Assessment of Public Service Implementation* by Ombudsman RI. Audit findings are quantified following the method used by Kiswanto & Fatmawati (2019), defined as the total number of audit findings divided by total budget expenditures. The follow-up of audit recommendations is measured according to Furqan et al. (2020), by calculating the percentage of recommendations followed up relative to the total audit recommendations. Financial statement quality is assessed using the BPK RI audit opinions, as per Din et al. (2017) and Kusumawati & Ratmono (2017), on an ordinal scale from 1 to 4: "Disclaimer," "Adverse," "Qualified," and "Unqualified." Geographical location, the control variable, is represented as a dummy variable, with "1" for regency/city governments located on Java and "0" for those outside Java.

Given the intervening variable of financial statement quality, this study employs two equations. Equation 1 examines the direct effect of the four variables—audit findings, follow-up of audit recommendations, financial statement quality, and geographical location—on public service quality, using panel data regression. Equation 2 assesses the relationship between the independent variables (audit findings and follow-up of audit recommendations) and the intervening variable (financial statement quality) through

¹ available at <https://www.bpk.go.id/iHPS>

² available at <https://ombudsman.go.id/produk>

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The initial analysis consists of descriptive statistics, aimed at providing an overview of the data without drawing conclusions. The descriptive statistics will include the mean, maximum, minimum, mode, and standard deviation for each variable (Sahir, 2021). Next, panel data regression will be conducted for Equation 1. As panel data consists of both cross-sectional and time series components, model selection is required. The three estimation approaches for panel data regression models are the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) (Basuki, 2021). To determine the most appropriate model, two of the following three tests will be conducted: the Chow Test, Hausman Test, and Lagrange Multiplier Test. If the probability value from the Chow Test's Chi-square cross-section is less than 0.05, the FEM is preferred and will proceed to the Hausman Test. If the Hausman Test's cross-section random probability value is less than 0.05, the FEM remains the appropriate model; otherwise, the REM is selected.

After selecting the most appropriate model, hypothesis testing is conducted. The F-test is used to determine whether all independent variables have a joint or simultaneous influence on the dependent variable (Sahir, 2021). The decision is based on the F-Statistic's probability value and a predefined significance level (α). Following this, the Coefficient of Determination Test is performed by examining the adjusted R-squared (Adj R-Square) value, which indicates the proportion of variance in the dependent variable explained by the independent variables (Sahir, 2021). The Adj R-Square value ranges from 0 to 1, with higher values suggesting a stronger explanatory power of the independent variables in predicting the dependent variable. Lastly, the T-Test assesses the individual influence of each independent variable on the dependent variable, with the decision based on the probability value at a specified significance level (α).

Next, equation 2 is tested. The effect of the independent variables—Audit Findings and Follow-up of Audit Recommendations—on the intervening variable, Financial Statement Quality, is analyzed using ordinal logistic regression. Unlike linear regression, ordinal logistic regression does not require classical assumption tests (Gujarati, 2012). The simultaneous effect of multiple independent variables on the dependent variable is evaluated using the Likelihood Ratio (LR) statistic (Ibrahim, 2017). Similar to the F-test in linear regression, if the LR statistic's probability value is less than 0.05, the independent variables jointly affect the dependent variable. The Coefficient of Determination in ordinal logistic regression is measured by the Pseudo R-Squared value, indicating the extent to which the independent variables explain the variation in the dependent variable, with the remainder attributed to factors outside the model (Iban, 2017). The partial effect of each independent variable on the dependent variable is tested using the Statistical Z Test, analogous to the T-Test in linear regression, with the decision based on the comparison of the probability value to the significance level (α).

Finally, the Sobel Test is conducted to determine whether the intervening variable mediates the relationship between the independent and dependent variables. The Sobel test is carried out using Daniel Soper's Interactive Mediation Test Online, available at www.danielsoper.com. If the probability value is less than 0.05 or the Sobel test statistic exceeds 1.96, the intervening variable is confirmed to mediate the relationship between the independent and dependent variables.

Result and Discussion

Table 1. Descriptive Statistics

Variable	FINDING	FOLUP	FINQ	ISLAND	PUBQ
Mean	0.0031	0.5177	3.9052	0.2292	71.1078
Maximum	0.1590	1.0000	4.0000	1.0000	99.7000
Minimum	0.0000	0.0000	1.0000	0.0000	9.6300
Std. Dev.	0.0089	0.2823	0.3771	0.4205	15.7351
Mode	0.0000	0.0000	4.0000	0.0000	61.5300
Observations	960	960	960	960	960

Source: Processed secondary data using Eviews 9 and Excel.

Where,

- PUBQ = Public Service Quality,
 FINQ = Financial Statement Quality,
 FINDING = Audit Findings,
 FOLUP = Follow-up of Audit Recommendations,
 ISLAND = Geographical Location of the Regional Government.

Descriptive Analysis

Based on the descriptive statistics presented in Table 1, the analysis for the 960 samples reveals several key findings. First, the average audit finding for district and city governments is 0.31% of total spending, with the highest audit finding reaching 15.90% and the lowest at 0%. Second, the follow-up on audit recommendations shows that, on average, 51.77% of recommendations have been implemented, with some governments achieving 100% follow-up, while others have not followed up at all. Third, in terms of financial statement quality, most district and city governments received unqualified opinions, though some still obtained disclaimer opinions. Fourth, the sample contains more district and city governments located outside the island of Java. Lastly, the average quality of public services in the sample is 71 out of 100, with the highest score being 99.70 and the lowest at 9.63.

These findings provide a broad overview of the variables analyzed in this study. The panel data regression analysis for equation 1 begins by estimating the results for each model, as outlined in Table 2.

Table 2. Model Estimation Results

Test	Statistic	Prob	Conclusion
Chow Test	Cross-section Chi-square = 1309.9356	0.0000	FEM accepted
Hausman Test	Cross-section random = 29.9782	0.0000	FEM accepted

Source: Processed secondary data using Eviews 9.

To determine the appropriate model for this study, model selection tests were conducted. Based on the results of the Chow Test and Hausman Test (Table 2), the Fixed Effect Model (FEM) was identified as the most suitable for the panel data regression in this study.

Table 3. Model Selection Results

Variable	Common Effect		Fixed Effect		Random Effect	
	Coefficient	Prob	Coefficient	Prob	Coefficient	Prob

Variable	Common Effect		Fixed Effect		Random Effect	
C	0.3894	0.0000	0.3833	0.0000	0.3998	0.0000
FINDING	-0.0093	0.1023	-0.0112	0.0451	-0.0018	0.7162
FINQ	0.0713	0.0000	0.0698	0.0000	0.0725	0.0000
FOLUP	0.0779	0.0000	0.1053	0.0000	0.0381	0.0253
ISLAND	0.0258	0.0432	0.0176	0.1615	0.0395	0.0064

Goodness of Fit

Measure	Common Effect	Fixed Effect	Random Effect
12 R-squared	0.0777	0.1115	0.0484
Adj R-squared	0.0738	0.1069	0.0444
F-Statistic	20.1030	23.9487	12.1360
Prob F-stat	0.0000	0.0000	0.0000

Source: Processed secondary data using Eviews 9.

As shown in Table 3, the Fixed Effect Model (FEM) demonstrates the best fit for the data, as indicated by the highest R-squared and Adjusted R-squared values. Additionally, the Prob F-statistic values are all below 0.05, confirming the significance of the model. The FEM was therefore selected for further analysis.

Based on the panel data regression results in Table 3, the F-statistic's probability value is 0.0000, which is less than the 0.05 significance level (alpha 5%). This indicates that the four variables in the regression equation have a joint and significant influence on the dependent variable, public service quality. The Adjusted R-squared value is 0.1069, suggesting that the variables in this study explain 10.69% of the variation in public service quality, while the remaining 89.31% is attributable to factors not included in this study. The focus here is on financial statement factors that likely affect the process dimensions, although Ombudsman RI's assessment also considers input, output, and complaint dimensions (Ombudsman RI, 2023).

From Table 3, the probability value for the FINDING variable is less than 0.05, indicating that audit findings have a significant and negative direct effect on public service quality. Therefore, the first hypothesis—that audit findings negatively affect the quality of public services—is accepted. Although audit findings are traditionally seen as outcomes of financial audit activities (BPK RI, 2017), they extend beyond financial statement corrections. In the 2022 BPK RI audit, 44.6% of the findings were due to internal control weaknesses, while 55% resulted from non-compliance with laws and regulations (BPK RI, 2023). These regulations encompass more than just accounting or financial statement preparation.

This aligns with the findings of Pertiwi and Wibowo (2023), who noted that a higher ratio of audit findings to total expenditure indicates significant weaknesses in internal control systems and governance compliance. Such deficiencies lead to ineffective financial management, which negatively impacts public service delivery. In this context, finances represent an agency's operational resources (input), while public services constitute the output provided to the community. When there are numerous weaknesses in input management, the quality of output inevitably suffers.

This conclusion is consistent with the descriptive statistics presented in Table 4. Among regency/city governments with the highest percentage of audit findings, the

¹ Do Audit Findings and Audit Recommendations Follow-up Affect The Quality of Public Services? quality of public services is frequently below standard. For instance, in 2021, seven out of the ten governments with the most audit findings were classified in the yellow or red zones for public service compliance. In 2022, almost all of these governments were still categorized as having low compliance levels.

Tabel 4. Regency/City Governments with the Most Findings in 2021-2022

No	2021			2022		
	Regency/city	Audit Findings	Public Service	Regency/city	Audit Findings	Public Service
1	Sarmi Regency	15.78%	Yellow	Sumbawa Barat Reg.	15.91%	Red
2	Penajam Paser Utara Regency	2.84%	Yellow	Buru Selatan Regency	11.87%	Yellow
3	Konawe Kepulauan Regency	1.59%	Red	Pulau Taliabu Regency	5.69%	Yellow
4	Bombana Regency	1.41%	Red	Waropen Reg.	5.01%	Green
5	Kolaka Utara, Regency	1.35%	Green	Ogan Ilir Reg.	2.38%	Yellow
6	Pulau Taliabu Regency	1.29%	Yellow	Gorontalo Regency	2.33%	Red
7	Padang Lawas Utara Regency	1.26%	Green	Kaur Regency	1.85%	Red
8	Mamberamo Raya Regency	1.14%	Yellow	Konawe Selatan Reg.	1.85%	Red
9	Maluku Tenggara Reg.	1.12%	Green	Kerinci Reg.	1.81%	Yellow
10	Bandung Reg.	0.08%	Yellow	Gorontalo City	1.62%	Yellow

Source: Results of researcher secondary data processing from IHPS I 2022 and 2023 and Compliance Assessment Report for Public Service Implementation 2021 and 2022

Based on Table 3, the probability value for the $F_{0.40}$ variable is less than 0.05, indicating that the follow-up on audit recommendations has a significant and positive direct effect on public service quality. This finding aligns with Legitimacy Theory, as government agencies are motivated to demonstrate their improvements and good performance to the public (Pertiwi & Wibowo, 2023). The extent of audit recommendations follow-up is regularly monitored by the regional parliament (DPRD) and the community through the Summary of Audit Reports (IHPS) published semiannually by BPK RI. Moreover, BPK considers the follow-up on previous audit recommendations when conducting the financial audit for the current year, which further incentivizes local governments to act on these recommendations.

Audit recommendations are designed to address the issues identified in audit findings (BPK RI, 2017). By following up on these recommendations, local governments can enhance the effectiveness, efficiency, and accountability in performing their duties, including financial management and public service delivery (Furqan et al., 2020). This study's findings are consistent with the results of Pramana et al. (2023) and Agustina and Setyaningrum (2020).

This conclusion is further supported by the descriptive statistics in Table 5. In 2022, all regency and city governments that fully followed up on the 2021 audit

¹ Do Audit Findings and Audit Recommendations Follow-up Affect The Quality of Public Services? recommendations were assessed by Ombudsman RI as having a high level of compliance in public service implementation. In contrast, only 27% of the governments that did not follow up on audit recommendations at all were in the green zone, with the remainder falling into the yellow and red zones, indicating that most did not meet public service standards. The 2022 public service outcomes are considered more representative, as Ombudsman RI introduced a more comprehensive assessment method. This new method evaluates not only the availability of service standards and public feedback but also the competence of service providers, the availability and quality of infrastructure, and the supervision and management of complaints (Ombudsman RI, 2023).

Table 5 Distribution of Audit Recommendation Follow-up and Quality of Public Services of Regency/City Governments

Follow-up	2022		
	Green	Yellow	Red
100%	100%	0%	0%
0%	27%	63%	10%

Source : Results of the processing of the 2021 and 2022 Public Service Implementation Compliance Report and IHPS I 2022 and 2023

As shown in Table 3, the probability value for the ISLAND variable is less than 0.05, indicating that geographical location does not significantly affect public service quality. The geographical location variable divides regency/city governments between those located on the island of Java and those outside Java, based on the assumption that public service quality in Java might be higher. However, the panel data regression results indicate that geographical location has no measurable effect on public service quality. This may be attributed to increasing development and improved access to services outside Java, reducing the relevance of geographical differences in public service quality.

In this study, public service quality was measured using scores from Ombudsman RI, whereas Furqan et al. (2020) used EKPPD scores. The Ombudsman RI assessment incorporates public perceptions of service quality, which includes an element of permissiveness from service recipients. Individuals who have not experienced public services in other regions may find it difficult to compare service quality across different regencies or cities. For example, residents of Regency A may be satisfied with a 2-3 day processing time for simple documents, seeing it as the norm. However, in Regency B, similar services may be completed in just one day. If residents of Regency A were aware of faster services elsewhere, their assessment might differ. The permissiveness aspect is minimized with EKPPD scores, as these scores are based on standardized indicators applied uniformly across all regency/city governments.

Although the control variable, geographical location, was not found to significantly affect the dependent variable, the descriptive statistics in Table 6 indicate that, over the two-year study period, regency/city governments outside Java consistently dominate the red zone in terms of public service quality. Even when viewed proportionally, this suggests that the level of compliance with public service standards in regency/city governments outside Java remains lower than in those located on Java Island.

Table 6 Results of Compliance Assessment of Public Service Implementation by Zone

Zona	2021				2022			
	Non Java	Java	Total	(%)	Non Java	Java	Total	(%)
Green	104	26	130	27%	126	59	185	39%

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Yellow	201	83	284	59%	221	54	275	57%
Red	62	4	66	14%	20	0	20	4%
Total	367	113	480	100%	367	113	480	100%

Source: Results of the processing of the 2021 and 2022 Public Service Implementation Compliance Report

Before assessing whether the quality of financial statements mediates the relationship between the independent and dependent variables, it is essential to first test whether the independent variables have a significant effect on the intervening variable. In this step, the intervening variable, financial statement quality, will be treated as the dependent variable and analyzed using ordinal logistic regression.

Table 7. Results of Ordinal Logistics Regression

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Variable	Coefficient	Std. Error	z-Statistic	Prob.
FOLUP	0.8376	0.4415	1.8973	0.0578
FINDING2	-0.3493	0.0898	-3.8883	0.0001

15 Pseudo R-squared 0.0463
Prob(LR statistic) 0.000002

Source : Output Views 9

Based on the ordinal logistic regression results shown in Table 7, the probability value (LR Statistic) of 0.000002, which is less than 0.01 (alpha 1%), indicates that at least one independent variable significantly affects the dependent variable. The Pseudo R-Squared value of 0.0463 suggests that the Audit Findings and Audit Recommendation Follow-up variables explain 4.63% of the variation in Financial Statement Quality, while the remaining 95.37% is attributable to factors outside the study.

The test results show that the Prob value for Audit Findings is 0.0001, which is less than 0.01 (alpha 1%), indicating that Audit Findings have a statistically significant negative effect on Financial Statement Quality at the 99% confidence level. Similarly, a Prob value of 0.0578, which is less than 0.10 (alpha 10%), indicates that Audit Recommendation Follow-up has a positive effect on Financial Statement Quality at a 90% confidence level.

The Sobel test was conducted using Daniel Soper's interactive mediation test online by inputting the coefficient and standard error values. The indirect effect of the independent variables on the dependent variable was calculated by multiplying the coefficient of the independent variable's effect on the intervening variable by the coefficient of the intervening variable's effect on the dependent variable. The resulting p-values and coefficients for each variable are presented in Table 8.

Table 8. Sobel Test Results

Variable	P-value	Coefficient
FINDING → FINQ → PUBQ	0,0008	-0,0244
FOLUP → FINQ → PUBQ	0,0369	0,0585

Source : Output Interactive Mediation Test Online

38 Based on the Sobel test results in Table 8, the indirect effect of audit findings on publicservice quality has a P-value of less than 0.05 (alpha 5%) with a negative coefficient. This indicates that the third hypothesis—that audit findings negatively affect public service quality through financial statement quality—is accepted. Similarly, the indirect effect of audit recommendation follow-up on public service quality has a P-value of less

¹ Do Audit Findings and Audit Recommendations Follow-up Affect The Quality of Public Services? than 0.05 with a positive coefficient. This supports the fourth hypothesis, which states that audit recommendation follow-up positively affects public service quality through financial statement quality.

Legitimacy theory posits that organizations, including public institutions, seek to align their actions with public expectations to gain support and recognition. In the case of local governments, this is reflected in their efforts to obtain unqualified audit opinions (Pertiwi & Wibowo, 2023). While audit opinions primarily assess the fairness of financial statements (BPK RI, 2017), BPK RI also considers factors such as compliance with accounting standards, adequacy of disclosures, adherence to laws and regulations, and the effectiveness of internal controls. Any discrepancies between actual performance and ideal criteria are identified as audit findings (BPK RI, 2017). Local governments, therefore, strive to minimize audit findings by ensuring conformity with legal and regulatory standards, which in turn improves the quality of their financial statements.

Audit recommendation follow-up is undertaken to address the audit findings from the previous year. When recommendations are appropriately implemented, they significantly improve internal controls and compliance with laws and regulations (Saipuloh et al., 2023). The higher the level of follow-up implementation, the greater the improvements within the agency. More effective internal controls and higher compliance levels lead to improved financial statement quality. Furthermore, because BPK RI considers the follow-up on previous years' audit recommendations during the current year's audit, agencies that effectively implement these follow-ups are more likely to improve their financial statement quality. High-quality financial statements reflect strong financial management, which, in turn, leads to better public service quality.

Conclusion

Table 9. Summary of Findings

Effect	Direction	Prob	Hypothesis
FINDING → PUBQ	(-)	significant	Accepted
FOLUP → PUBQ	(+)	significant	Accepted
FINDING → FINQ → PUBQ	(-)	significant	Accepted
FOLUP → FINQ → PUBQ	(+)	significant	Accepted

⁴⁹ Based on the analysis and testing of the data, the author concludes ⁵ that audit findings have a proven negative effect, while the follow-up of audit recommendations has a proven positive effect on public service quality, both directly and indirectly through the quality of financial statements. This indicates that when local governments take steps to avoid audit findings, including by complying with laws and regulations and implementing effective internal controls, they not only produce higher-quality financial statements but also improve public service quality. Similarly, the study shows that when local governments follow up on audit recommendations as required, both financial management quality and public service quality are enhanced.

³ This study suggests that local governments should not focus solely on obtaining unqualified opinions but should strive to ensure financial management is carried out in accordance with regulations to achieve high-quality outcomes. Additionally, governments should work to improve their follow-up on audit recommendations, as the average follow-up rate for 2021–2022 was only 51.76%.

1 Do Audit Findings and Audit Recommendations Follow-up Affect The Quality of Public Services?

There are some limitations to this study. Many factors can influence public service quality, but this study only examines the effects related to financial statements. The 2023 Public Service Implementation Compliance Assessment Report by Ombudsman RI evaluates public services based on four dimensions: input (infrastructure and personnel), process (procedures and service delivery mechanisms), output (public perception), and complaints. The variables in this study pertain only to the process dimension.

Future research could explore additional factors influencing public service quality beyond financial statement-related aspects, given the limited research in this area. Furthermore, this study found that disparities in public service quality between Java and regions outside Java are not driven by geographical location. Future research could investigate which factors more dominantly contribute to these differences. For instance, factors related to the characteristics of the service recipient population or the work culture of service providers could offer valuable insights and provide interesting topics for further exploration.

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Do Audit Findings and Audit Recommendations Follow-up Affect The Quality of Public Services?

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Abstract

Public services are solely provided by the government, so it's challenging to measure their quality. That's why the study regarding public services is so limited. Through financial statement quality, this study seeks to investigate the direct and indirect effects of audit findings and audit recommendations follow-up on public service quality. 480 regency and city governments in 2021-2022 were tested using panel data regression, ordinal logistic regression, and the Sobel test. It was concluded that audit findings had a negative effect and audit recommendation follow-up had a positive effect on the quality of public services, both directly and indirectly through the quality of financial statements. This implied the importance of good financial management in order to produce good public services. Government agencies are expected not only to focus on obtaining unqualified opinions but also to seriously follow up on audit recommendations and audit findings because these efforts will improve both the quality of financial statements and public services.

Keywords: Public Service, Opinion, Audit Findings, Audit Recommendations Follow-up

Introduction

Measuring the quality of public services is often an issue. Public services cover strategic sectors that are only provided by the government or monopolized by the government, so the only standards that can be used are those created by the public service entity itself (PP 96/2012). This makes it difficult to measure the quality, quantity, and efficiency of public services (PP 71/2010). This limitation causes not much research on the quality of public services (Furqan et al., 2020). On the other hand, the quality of public services in Indonesia is still below standard. Based on the Public Service Implementation Compliance Assessment Report 2023, Ombudsman RI assessed that only 70% of regency/city governments are classified as green zones (high compliance level), 23% of agencies are still in the yellow zone (medium compliance level), and even 7% of agencies are still in the red zone (low compliance level). This research will focus on the quality of public services provided by the regional government. Because among several categories of assessment objects of the Ombudsman RI, the regency/city government is the category of institutions with the most yellow and red zones (Ombudsman RI, 2023).

The local government has authority to manage regional wealth in the context of carrying out its duties and obligations (UU 23/2014), so it is important for the local government to be able to carry out government affairs in an accountable manner. In the context of accountability, the Regional Government Financial Statements (LKPD) are prepared. Based on the UUD 1945 Article 23 paragraph (5), Badan Pemeriksa Keuangan (BPK) is responsible for auditing state finances. The Financial Audit aims to establish an opinion on the fairness of financial statements (BPK RI, 2017). Although more than 90% of local governments have obtained unqualified opinions, for the 2022 financial report, BPK reported 7.661 findings, of which 56% were caused by problems due to non-

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compliance with legal provisions, which as a whole have the potential to cause losses of more than Rp3 trillion. In line with the audit findings presented, there are audit recommendations that describe what follow-ups need to be carried out and by whom the follow-up should be carried out (BPK RI, 2023).

This study refers to the research by Furqan et al. (2020), which proved that the quality of the Regional Government Financial Report (LKPD) has a positive effect on the quality of public services, audit findings have a negative effect on LKPD quality and public service quality, and follow-up audit recommendations have a positive effect on LKPD quality and public service quality. However, Furqan et al. (2020) only used a 1-year period for the dependent variable; therefore, in this study, the research object will be expanded using data from 2021–2022. Similar research has also been conducted by Pertiwi and Wibowo (2023), but with the research object of ministries and institutions in Indonesia. In contrast to the results of the research by Furqan et al. (2020), it was concluded that the follow-up of audit recommendations had no effect on the quality of financial statements, and the audit findings had no effect on the quality of public services. The effect of follow-up audit recommendations on LKPD quality has also been researched by Pramana et al. (2023). It was found that in a district government that obtained an unqualified opinion within 5 consecutive years, audit recommendations follow-up were proven to have a positive effect on LKPD quality. With the research gap from the previous study, this study is aimed at analyzing the influence of audit findings and follow-up of audit recommendations on the quality of public services through the quality of financial statements.

Saipuloh et al. (2023) stated that the audit recommendations follow-up carried out in the previous year had a significant positive influence on the quality of public services. This is because the audit recommendations were given to help local governments fix the causative factors of the problems that occurred. This is in line with Pertiwi and Wibowo (2023) and Furqan et al. (2020), but contrary to Lestari and Rohman (2022). Furqan et al. (2020) stated that the audit findings have a negative effect on public services; this is contrary to the research results of Pertiwi and Wibowo (2023), Saipuloh et al. (2023), and Lestari and Rohman (2022), who did not find any influence between the audit findings and the audit recommendations follow-up toward public service quality. According to Saipuloh et al. (2023), the audit opinion is only given based on the fairness of the financial accounts in the financial statements, not on the overall performance of the government as a whole. Furqan et al. (2020) showed that the quality of financial statements can mediate the influence of audit findings and the follow-up of audit recommendations on the quality of public services. However, this result is completely contrary to the results of Lestari and Rohman (2022), while according to Pertiwi and Wibowo (2023), the quality of financial statements is only able to mediate audit findings and public service quality.

Based on the legitimacy theory, local governments will try to avoid any audit findings on their financial statements. Local governments, being public institutions, aim to maintain a positive reputation among their constituents. Therefore, the regional government will try to strengthen its internal control system and try to comply with laws and regulations to avoid any audit findings. In line with this effort, it will result in better financial management and have an impact on the provision of better public service quality as well. Many audit findings show that the government has many weaknesses in its internal control and governance compliance. This condition will lead to ineffective financial management, so it will have a negative impact on the implementation of public services (Pertiwi & Wibowo, 2023).

H₁: Audit findings have a negative effect on the quality of public services

The local government will strive to follow up on every recommendation of the audit results given by BPK RI because, in accordance with the legitimacy theory, the local government wants to maintain a positive reputation or at least gradually improve it. By following up on the audit recommendations, local governments will further implement effectiveness, efficiency, and accountability in the implementation of their duties and functions, including in financial management and the implementation of public services (Furqan et al., 2020). When recommendations are given appropriately, they can greatly assist local governments in solving core problems related to the implementation of their duties and functions, including the implementation of public services (Saipuloh et al., 2023).

H₂: Audit recommendations follow-up have a positive effect on the quality of public services

In line with legitimacy theory, an entity will try to do what is considered right by the community to gain support and recognition from the public (Crossley et al., 2021). Local governments will also try to build public support and trust (Pertiwi & Wibowo, 2023), one of which is by obtaining an unqualified opinion. In order to obtain an unqualified opinion, local governments have to meet some criteria that are considered by BPK RI, namely conformity with government accounting standards, adequacy of disclosure, compliance with laws and regulations, and the effectiveness of internal control (BPK RI, 2014). The non-conformity of local government financial management with existing criteria will lead to audit findings (BPK RI, 2017). Therefore, the local government will try to prevent the emergence of audit findings by meeting the above criteria. The greater efforts of local governments in carrying out prevention to minimize audit findings will encourage better financial report quality (Furqan et al., 2020). The efforts of local governments in obtaining unqualified opinions will not only encourage the improvement of the quality of financial reports but also the quality of public services (Furqan et al., 2020).

H₃: Audit findings have a negative effect on the quality of public services through the quality of financial statements

Regarding the quality of financial statements as an intervening variable, Saipuloh et al. (2023) stated that the audit recommendations will provide a perspective that is very helpful for local governments in finding the main problems and improving the quality of internal control related to finance. So that if more audit recommendations are followed up, it will have a positive effect on the quality of financial reports. When local governments try to improve the quality of their financial reports by following up on audit recommendations, it also has an impact on improving the quality of public services provided by local governments to the community (Furqan et al., 2020).

H₄: Audit recommendations follow-up have a positive effect on the quality of public services through the quality of financial statements

Research Methods

In this study, the influence of audit findings and audit recommendations follow-up on the quality of public services through the quality of financial statements with geographical location as a control variable will be tested. This research was conducted with a quantitative approach, using secondary data sourced from IHPS published by BPK RI and the Executive Summary of Public Service Standards Compliance Assessment published by Ombudsman RI. The district and city governments were chosen as a sample in this study because based on the results of Ombudsman RI assessment in the last 3 years, most institution that have low compliance predicates is district and city

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governments (Ombudsman RI, 2023). The 2021-2022 period was chosen because it is the latest data published by BPK RI and Ombudsman RI. Samples were collected by the convenience sampling method, namely sampling depending on the availability of data. Of the 514 district and city governments in Indonesia, only 480 district and city governments have complete data related to the value of audit findings, total expenditure, percentage of audit recommendations follow-up, audit opinions, and compliance values for public service implementation.

The quality of public services in this study is measured based on score results of the Compliance Assessment of Public Service Implementation made by Ombudsman RI. The Audit Findings indicator refers to the measure used by Kiswanto et al. (2019), namely the total audit findings divided by the total budget expenditure. Audit recommendations follow-up are measured by referring to Furqan et al. (2020), namely the percentage of follow-up in accordance with the recommendations compared to the total audit recommendations. The quality of financial statements in this study is measured based on the research of Din et al. (2017) and Kusumawati & Ratmono (2017), namely using financial statement opinions made by BPK RI. Financial statement opinions are measured using ordinal scales 1-4, respectively for "Disclaimer", "Adverse", "Qualified", and "Unqualified". The geographical location variable was measured using a dummy variable with "1" for regency/city governments located on the island of Java, and "0" for those that are not.

Due to the intervening variable, the quality of financial statements, this study uses 2 equations. Equation 1 to analyze the direct effect of the three variables, the audit findings and audit recommendations follow-up and the intervening variable of financial statement quality to the dependent variable of public service quality through panel data regression. While Equation 2 is used in analyzing the relationship between the independent variables of audit findings and audit recommendation follow-up to the intervening variables of financial statement quality through ordinal logistic regression because in this equation, the financial statement quality variable in ordinal form applies as a dependent variable. Both tests will be carried out using Eviews 9 and will also be carried out through the Interactive Mediation Test Online from Daniel Soper to test whether intervening variables play a role in mediating the relationship between independent variables and dependent variables.

The first test carried out was a descriptive analysis. Descriptive analysis is a data analysis method that aims to provide an overview of the data without providing conclusions, the data description in question is the mean, maximum, minimum, modus and standard deviation values of each variable (Sahir, 2021). Next, tests were carried out for the first equation using panel data regression. Because the data that the researcher processed is panel data, which is a combination of cross section data and time series data, it is necessary to select a model first. There are 3 types of panel data regression model estimation approaches, namely the Common Effect Model, Fixed Effect Model, and Random Effect Model (Basuki, 2021). To determine which model is the most suitable, 2 of the following 3 tests are carried out depending on the results of the first test. Model Selection Testing consists of Chow Test, Hausman Test, and Lagrange Multiplier Test. In the Chow Test, if the probability value of the Chi-square cross section is less than 0.05, then FEM is more appropriate and must be continued with the Hausman Test. In the Hausman Test, if the probability value of the cross section random is less than 0.05, then FEM is more appropriate, on the other hand, if it is greater than 0.05, then REM is more appropriate.

After determining the most suitable model, hypothesis testing can be carried out. The F test is useful to see if all independent variables have a joint or simultaneous

influence on the dependent variable. The decision in this test is based on the probability value (F-Statistic) with a level of significance (α). Furthermore, the Coefficient of Determination Test was carried out by looking at the Adj R-Square value, the Adj R-Square value shows how much dependent variables can be explained by the research variables. The value of the determination coefficient in the range of 0 – 1, the greater the value, meaning that the independent variables are able to predict the dependent variables better. The last panel data regression test is the T-Test. Statistical T test is a test that aims to find out how far the influence of independent variables on dependent variables is. The decision in this test is based on the value of probability with a level of significance (α).

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The next test is on equation 2. Testing the influence of independent variables of Audit Findings and Audit Recommendation Follow-up on the intervening variables of Financial Statement Quality was carried out using ordinal logistic regression. In ordinal logistic regression there is no need for classical assumption testing. Simultaneous tests of several independent variables on the dependent variables in logistic regression were carried out using the Likelihood Ratio (LR) value. As with the prob value in the F test in linear regression, if the probability value (LR Statistic) is less than 0.05, then the independent variable affects the dependent variable together. The Coefficient of Determination test on ordinal logistic regression is seen through the Pseudo R-Squared Value. The Pseudo R-Squared value shows the extent to which the dependent variable can be explained by the independent variable, while the rest is explained by variables outside the study. Partial testing of the influence of each independent variable on the dependent variable was carried out by the Statistical Z Test. This statistical Z value is an analogue of the t statistic in linear regression which also aims to see the influence of independent variables on dependent variables partially. The test decision is seen by comparing the probability value with the significance value (α).

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The last test to be done is the Sobel Test. The Sobel test is used to prove whether intervening variable is able to mediate the relationship between independent variables and dependent variable. The Sobel test will be conducted online using Daniel Soper's Interactive Mediation Test Online which can be accessed through www.danielsoper.com. If the prob value is less than 0.05 or the statistical Sobel test value is greater than 1.96, then the intervening variable is able to mediate the relationship between the independent variable and the dependent variable.

Result and Discussion

Based on the results of the descriptive test analysis presented in Table 1, the descriptive analysis for the 960 samples used in this study can be explained for each variable as follows.

1. The audit findings variable has a mean value of 0.003135; maximum 0.159072; and minimum 0. This means that the district/city governments in this research sample have an average audit finding of 0.31% of total spending, the most audit findings of 15.90% of total spending, and the smallest audit finding of 0% of total spending.
2. The audit recommendation follow-up has a mean value of 0.0517660; maximum 1; and minimum 0. This means that the district/city governments included in this research sample have followed up according to the recommendations on average as much as 51.766%, some have followed up 100% and some have not followed up at all.
3. The financial statement quality variable has a mode value of 4; maximum 4; minimum 1; and standard deviation of 0.377100. This means that most of the regency/city governments have obtained unqualified opinions, but there are still those who only get a score of 1 or disclaimer opinions.

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4. The geographic location variable has a mode value of 0; maximum 1; minimum 0; and

Variable	COMMON		FIXED		RANDOM	
	Coefficient	Prob	Coefficient	Prob	Coefficient	Prob
C	0,389371	0,0000	0,383271	0,0000	0,399792	0,0000
FINDING	-0,009302	0,1023	-0,011226	0,0451*	-0,001793	0,7162
FINQ	0,071285	0,0000	0,069842	0,0000*	0,072491	0,0000
FIP	0,077898	0,0000	0,105348	0,0000*	0,038053	0,0253
ISLAND	0,025809	0,0432	0,017642	0,1615	0,039532	0,0064
Goodness of Fit Model						
R-squared	0,077662		0,111520		0,048373	
Adj R-squared	0,073799		0,106863		0,044387	
F-Statistic	20,10299		23,94868		12,13603	
Prob F-stat	0,000000		0,000000		0,000000	

standard deviation of 0.420516. This geographical location is measured by dummy variables 0 and 1, the mode value shows that in the sample there are more regency/city governments outside Java.

5. The public service quality variable has a mean value of 71.10784; maximum 99.70; minimum 9.63; and standard deviation of 15.73506. This means that the average quality of public services from the district/city governments sampled has a score of 71 out of 100, with the highest score at 99.70, while the lowest is at a score of 9.63.

Table 1. Descriptive Statistics

	FINDING	FOLUP	FINQ	ISLAND	PUBQ
Mean	0.003135	0.517660	3.905208	0.229167	71.10784
Maximum	0.159072	1.000000	4.000000	1.000000	99.70000
Minimum	0.000000	0.000000	1.000000	0.000000	9.630000
Std. Dev.	0.008898	0.282332	0.377100	0.420516	15.73506
Mode	0.000000	0.000000	4.000000	0.000000	61.53000
Observations	960	960	960	960	960

Source : Secondary data that has been processed using Eviews 9 and excel

PUBQ	= Quality of Public Services
FINQ	= Quality of Financial Reports
FINDING	= Audit Findings
FOLUP	= Audit Recommendations Follow-up
ISLAND	= Geographical location of the Regional Government

The test of equation 1 carried out using panel data regression begins by estimating the results of panel data regression for each model. The results of the panel data regression estimation using CEM, FEM, and REM are in Table 2.

Table 2. Model Estimation

Source: Secondary data that has been processed using Eviews 9

To find out model will be used, a model selection test is carried out. Based on the results of the Chow Test and the Hausman Test in Table 3, it was obtained that FEM is the most suitable model for the data regression of this research panel.

Table 3. Model Selection

Source : Secondary data that has been processed using Eviews

Based on the regression results of the panel data in Table 2, the Prob Value from F-Statistic was obtained of 0.000000 or less than 0.05 (alpha 5%). This means that the four variables in the panel data regression equation have a joint influence on the dependent variable. The Adjusted R-Squared value is 0.106863, meaning that the variables in this study can explain the Quality of Public Services by 10.68%, while the remaining 89.32% is explained by other variables that are not tested in this study. This study only focuses on financial statement factors that are likely to affect the process dimensions, even though the assessment of Ombudsman RI also includes the dimensions of input, output, and complaints (Ombudsman RI, 2023).

Based on Table 2, it can be seen that the prob value for the FINDING variables < 0.05, meaning that the audit findings are proven to have a negative effect directly on the quality of public services. This is because although the audit findings are an output of financial audit activities (BPK RI, 2017), the audit findings do not only include corrections to the financial statements. In fact, based on the results of BPK RI's audit of the 2022 Financial Statements, 44.6% of the problems that caused the findings were due to internal control weaknesses and the remaining 55% were due to non-compliance with the provisions of laws and regulations (IHPS, 2023). These laws and regulations are not only limited to regulations on accounting or the preparation of financial statements.

Chow Test	Cross-section Chi-square	Prob	Results
	1309,935589	0,0000	FEM accepted
Hausman Test	Cross-section random	Prob	Results
	29,978229	0,0000	FEM accepted

This is in line with the results of research by Pertiwi and Wibowo (2023), that when a government agency has many audit findings, which in this study is shown from the ratio of audit findings and total expenditure, it means that the agency has many weaknesses in their internal control and governance compliance. Finance is an operational resource of an agency or it can be called input, while public service is what the agency provides to the community or it can be called output. When there are many weaknesses in the management of inputs, of course it will also have an impact on the low quality of the output. This conclusion is in line with the descriptive statistical results shown in Table 4. Most of the regency/city governments that have the largest percentage of audit findings turn out to have a quality of public services that are still below standard, shown in 2021 7 out of 10 regency/city governments with the largest percentage of audit findings are in the yellow and red zones. Meanwhile, in 2022, 9 out of 10 district/city governments with the largest percentage of audit findings are in the yellow and red zones according to the Ombudsman RI.

Tabel 4. Regency/City Governments with the Most Findings in 2021-2022

No	2021			2022		
	Regency/city	Audit Findings	Public Service	Regency/city	Audit Findings	Public Service
1	Sarmi Regency	15.78%	Yellow	Sumbawa Barat Reg.	15.91%	Red
2	Penajam Paser Utara Regency	2.84%	Yellow	Buru Selatan Regency	11.87%	Yellow

3	Konawe Kepulauan Regency	1.59%	Red	Pulau Taliabu Regency	5.69%	Yellow
4	Bombana Regency	1.41%	Red	Waropen Reg.	5.01%	Green
5	Kolaka Utara, Regency	1.35%	Green	Ogan Ilir Reg.	2.38%	Yellow
6	Pulau Taliabu Regency	1.29%	Yellow	Gorontalo Regency	2.33%	Red
7	Padang Lawas Utara Regency	1.26%	Green	Kaur Regency	1.85%	Red
8	Mamberamo Raya Regency	1.14%	Yellow	Konawe Selatan Reg.	1.85%	Red
9	Maluku Tenggara Reg.	1.12%	Green	Kerinci Reg.	1.81%	Yellow
10	Bandung Reg.	0.08%	Yellow	Gorontalo City	1.62%	Yellow

Source: Results of researcher secondary data processing from IHPS I 2022 and 2023 and Compliance Assessment Report for Public Service Implementation 2021 and 2022

Based on Table 2, it can be seen that the prob value for the FOLUP variables < 0.05, meaning that the audit recommendations follow-up is proven to have a positive effect directly on the quality of public services. The legitimacy theory can be associated with the audit recommendations follow-up, because government agencies want the public to see the good performance or improvements they have made (Pertiwi & Wibowo, 2023). The extent to which the local government has carried out audit recommendations follow-up is always monitored by the parliament (DPRD) and the community through the IHPS published every semester by BPK RI. In addition, BPK also always considers the follow-up of the previous year's audit recommendations when conducting the current year's financial audit. These things encourage local governments to follow up on audit recommendations.

Audit recommendations must be a solution to problems related to audit findings (bpk ri, 2017), therefore by following up on audit recommendations, local governments will better implement effectiveness, efficiency, and accountability in the implementation of their duties and functions, including in financial management and the implementation of public services (Furqan et al., 2020). The results of this study are also in line with the research results of Pramana et al. (2023) and Agustina and Setyaningrum (2020).

This conclusion is also supported based on the descriptive statistical results shown in Table 5. In 2022, all regency/city governments that have followed up on the recommendations of the BPK audit in 2021 are considered to have a high level of compliance in the implementation of public services by Ombudsman RI. Meanwhile, only 27% of those who have not followed up on the audit recommendations at all are in the green zone, the rest are divided into yellow and red zones, which means that the majority of them are considered not to meet public service standards. The results of public services in 2022 are considered more representative because since 2022 Ombudsman RI has innovated its assessment method. The assessment is not only based on the availability of service standards and community assessments, but also considers the competence of the organizers, the availability and quality of infrastructure, as well as the supervision and management of complaints (Ombudsman RI, 2023).

Table 5 Distribution of Audit Recommendation Follow-up and Quality of Public Services of Regency/City Governments

Follow-up	2021			2022		
	Green	Yellow	Red	Green	Yellow	Red
100%	38%	56%	6%	100%	0%	0%
0%	50%	50%	0	27%	63%	10%

Source : Results of the processing of the 2021 and 2022 Public Service Implementation Compliance Report and IHPS I 2022 and 2023

As showed in Table 2, for the prob value of ISLAND > 0.05, it means that the geographical location is not proven to have an effect on the quality of public services. Geographical location divides regency/city governments located on the island of Java and outside Java because it is predicted that the quality of public services of regency/city governments on the island of Java tends to be better than outside the island of Java. However, based on the results of the regression of panel data conducted in this study, it was concluded that geographical location has no effect on the quality of public services. This can be due to the increasingly open access and high development outside Java, so that the difference in geographical location is no longer relevant.

On the other hand, in this study, the quality of public services was measured using scores from Ombudsman RI, different to the measurements made by Furqan, et al. (2020) who used EKPPD scores. The assessment from Ombudsman RI takes into account the public's perception of the quality of public services, so that in the assessment there is a component of the permissibility of the service recipients. People who have never received public services from other city or district governments will find it difficult to assess the quality of public services in their place because there is no comparison. For example, people from Regency A feel that the processing of simple documents that take 2-3 days is a natural thing, so they are quite satisfied with the existing services. In fact, in Regency B, similar services can be completed in just 1 day. Of course, the person's assessment will be different after knowing that in other districts, similar services can be completed more quickly. Forgiveness aspect can be minimized when using EKPPD scores, because in EKPPD scoring, all indicators apply equally to each district/city government.

Although this study did not succeed in proving the influence of geographical location on the quality of public services, based on the results of descriptive statistics in Table 6, it was obtained that during the 2-year research period, the regency/city governments outside Java always dominated the red zone, despite the fact that their number was higher, but if observed proportionately, it will be very visible that the red zone is very dominated by the regency/city governments outside Java. This shows that the level of compliance of regency/city governments outside Java Island with public service standards is still low.

Table 6 Results of Compliance Assessment of Public Service Implementation by Zone

Zona	2021				2022			
	Non Java	Java	Total	(%)	Non Java	Java	Total	(%)
Green	104	26	130	27%	126	59	185	39%
Yellow	201	83	284	59%	221	54	275	57%
Red	62	4	66	14%	20	0	20	4%
Total	367	113	480	100%	367	113	480	100%

Source: Results of the processing of the 2021 and 2022 Public Service Implementation Compliance Report

Before determining whether the Quality of Financial Statements can mediate the indirect relationship between independent variables and dependent variables, it is necessary to first test whether the independent variable is proven to have an effect on

the intervening variable. Therefore, in this ordinal logistic regression, the intervening variable will be positioned as a dependent variable.

Table 7. Results of Ordinal Logistics Regression

Variable	Coefficient	Std. Error	z-Statistic	Prob.
FOLUP	0.837652	0.441485	1.897349	0.0578
FINDING2	-0.349333	0.089842	-3.888296	0.0001
Pseudo R-squared	0.046349			
Black criterion	0.595824			
Hannan-Quinn criter.	0.583267			
LR statistic	26.46499			
Prob(LR statistic)	0.000002			

Sumber : Output Eviews 9

Based on the results of ordinal logistic regression as shown in Table 7, a Prob value (LR Statistic) of 0.000002 or less than 0.01 (alpha 1%), so statistically there will be at least 1 variable that is proven to have an effect on the dependent variable. Pseudo R-Squared value of 0.046349 was obtained. This means that the magnitude of the ability of the Audit Findings and Audit Recommendation Follow-up variables in explaining the Financial Statement Quality variable is 4.63%, while the remaining 95.37% is explained by other variables outside the study. Based on the test results, a Prob value of 0.0001 or less than 0.01 (alpha 1%) was obtained so it can be concluded that at the 99% confidence level, audit findings are proven to have a negative effect on the quality of financial statements. Based on the test results, a prob value of 0.0578 or less than 0.10 (alpha 10%) was obtained, so at a confidence level of 90%, the audit recommendations follow-up has proven to have a positive effect on the quality of financial statements.

The Sobel test was carried out through the interactive mediation test online from Daniel Soper which can be accessed through the www.danielsoper.com by entering the coefficient and standard error. So the results of the calculation of the p-value for each variable are obtained as in Tabel 8.

Table 8. Sobel Test Results

Variable	P-value
FINDING → FINQ → PUBQ	0,00084557
FOLUP → FINQ → PUBQ	0,03695009

Source : Output *Interactive Mediation Test Online*

Based on the results of the Sobel test in Table 8, the P-value is less than 0.05 (alpha 5%), meaning that the intervening variable is able to play a role in mediating the relationship, so it can be concluded that the audit findings have a negative effect on the quality of public services through the quality of financial statements and the audit recommendations follow up has a positive effect on the quality of public services through the quality of financial statements.

Legitimacy theory states the tendency of a company to be what the public wants in order to gain support and recognition. In practice in public institutions, it can be seen from the efforts of local governments to obtain unqualified opinions on their financial statements (Pertiwi & Wibowo, 2023). Opinions basically state the fairness of a financial statement (BPK RI, 2017), but in determining opinions, BPK RI not only considers the aspects of the suitability of the preparation of financial statements to government accounting standards and the adequacy of disclosure, the aspects of compliance with laws

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and regulations and the effectiveness of internal control are also the basis for determining audit opinions (BPK RI, 2014). Each of these aspects will be compared between what is in the field and the ideal conditions according to the criteria, when there is a discrepancy between the two, it is called an audit finding (BPK RI, 2017). The local government will try to ensure the conformity of each of these aspects with the laws and regulations or their criteria, so that there are no audit finding. Efforts to minimize the audit findings will improve the quality of financial statements, which is shown by the acquisition of unqualified opinions.

Audit recommendations Follow-up are carried out in the current year on the previous year's audit findings. When the audit recommendation is given appropriately, the follow-up carried out by the entity will have a great impact on the improvement of both the internal control and compliance with the agency's laws and regulations in the future. Of course, the higher the level of implementation of audit recommendation follow-up, the more improvements will be made by the agency (Saipuloh et al., 2023). The more effective the internal control and the higher the level of compliance with laws and regulations, it will improve the quality of financial statements. In addition, with the consideration of the follow-up recommendations on the previous year's audit findings in the current year's financial audit by BPK RI, the higher the level of implementation of audit recommendations follow-up by agencies will improve the quality of their financial statements. The quality of good financial statements represents good financial management as well, with good financial management leads to good quality of public services as well.

Conclusion

Based on the results of the analysis and testing of the data that has been carried out, the author concludes that the audit findings are proven to have a negative effect and the audit recommendations follow-up is proven to have a positive effect on the quality of public services, both directly and indirectly through the quality of financial statements. This shows that when local governments make efforts to avoid audit findings, including by complying with laws and regulations, implementing an effective internal control system, it will not only produce quality financial statements, but also better public services quality. In terms of audit recommendations follow-up, the results of this study show that when local governments follow up on audit recommendations according to the results of the audit, not only the quality of financial management increases, but also the quality of public services provided.

There are many factors that can affect the quality of public services, but this study only observes the influence in terms of financial statements. Based on the 2023 Public Service Implementation Compliance Assessment Report, Ombudsman RI's assessment is based on 4 dimensions. Starting from the input dimension consisting of infrastructure and implementers; process dimensions regarding procedures, mechanisms, and service implementation; the output dimension of public perception; and the dimensions of the complaint. The variables of this study are only related to 1 of the 4 dimensions of assessment, namely the process dimension.

Based on this study, it is hoped that the local government will not only focus on obtaining the unqualified Opinion, but actually carry out financial management in accordance with the provisions so that the outcomes produced are also of high quality. In terms of audit recommendations follow-up, it is hoped that local governments can increase the implementation of audit recommendation follow-up, considering that the average 2021-2022 audit recommendation follow-up is only 51.76%.

The next research can analyze the factors that can affect the quality of public services, because in this study only factors from the side of financial statements are examined, while there are many other aspects that can be researched, considering the lack of research related to the quality of public services. In addition, in this study, it is known that the inequality in the quality of public services on the island of Java and outside Java Island does not occur due to geographical location factors, so further research can dig deeper into what factors are more dominant so as to cause differences in the quality of public services on the island of Java and outside the island. Factors that are closely related to geographical location such as the characteristics of the service recipient community and the work culture of service providers will be interesting topics to explore more deeply.

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REVIEW FORM

N o	Criteria	Ava ilab le	Not Ava ilab le
1	Title		
a	The title of the article is clearly written, straightforward and if possible (not absolute) no more than 15 words.	V	
b	Avoid the title style of thesis or dissertation, or Higher Education grant. Use a short but interesting title	V	
2	Abstract		
a	Research background,	V	
b	Purpose	V	
c	Summary of method	V	
d	Result including new finding	V	
e	conclusion and implication (optional)	V	
f	Contains 3-5 key words/phrase	V	
3	Introduction		
a	Research background	V	
b	Literature reference in <i>state of the art</i> of previous research are up to date, relevant and original	V	
c	<i>Gap analysis</i> or research gap	V	
d	<i>State of the art</i> to justify current research novelty	V	
e	Hypotheses (on quantitative method) need not always be explicit nor always be in interrogative sentence;		V

4	Research Method		
a	Research technique/procedure are stated	V	
b	Population	V	
c	Sampling method & number of sample or respondent, distribution technique,	V	
d	Variable or construct definition and measurement,		V
e	Method of Analysis, analysis tools	V	
5	Result and Discussion		
a	(1) (<i>what/how</i> element) the data has been processed (not raw), displayed in a table or figure (choose one), brief understandable description and state the finding.	V	
b	(2) (<i>why</i> element) in discussion, there is linkage on result and the basic concept and or the hypotheses.	V	
c	(3) (<i>what else</i> element) has it correspond or contradict other research?	V	
d	(4) Discussion should not about significance or resemblance to previous research, it should focus on data tabulation.		V
6	Conclusion		
a	answer the research purpose or hypotheses. (Be mind of generalization and do not discuss the result in conclusion)	V	
b	Mention research limitation, as it will be the base of suggestion or recommendation		V
c	Suggestion or recommendation		V
7	Reference		
a	Use reference management software: Endnote, Zetero and Mendeley.		V
b	The basic format uses American Psychological Association 7th Edition Style.	V	

*** *Detail review comments in manuscript***

Decision for publication (please tick V):

- 1 Accept with minor revision
- 2 Accept with major revision
- 3 Resubmit for Review
- 4 Rejected

V

Do Audit Findings and Audit Recommendations Follow-up Affect The Quality of Public Services?

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Abstract

Public services are solely provided by the government, so it's challenging to measure their quality. That's why the study regarding public services is so limited. Through financial statement quality, this study seeks to investigate the direct and indirect effects of audit findings and audit recommendations follow-up on public service quality. 480 regency and city governments in 2021-2022 were tested using panel data regression, ordinal logistic regression, and the Sobel test. It was concluded that audit findings had a negative effect and audit recommendation follow-up had a positive effect on the quality of public services, both directly and indirectly through the quality of financial statements. This implied the importance of good financial management in order to produce good public services. Government agencies are expected not only to focus on obtaining unqualified opinions but also to seriously follow up on audit recommendations and audit findings because these efforts will improve both the quality of financial statements and public services.

Keywords: Public Service, Opinion, Audit Findings, Audit Recommendations Follow-up

Introduction

Measuring the quality of public services is often an issue. Public services cover strategic sectors that are only provided by the government or monopolized by the government, so the only standards that can be used are those created by the public service entity itself (PP 96/2012). This makes it difficult to measure the quality, quantity, and efficiency of public services (PP 71/2010). This limitation causes not much research on the quality of public services (Furqan et al., 2020). On the other hand, the quality of public services in Indonesia is still below standard. Based on the Public Service Implementation Compliance Assessment Report 2023, Ombudsman RI assessed that only 70% of regency/city governments are classified as green zones (high compliance level), 23% of agencies are still in the yellow zone (medium compliance level), and even 7% of agencies are still in the red zone (low compliance level). This research will focus on the quality of public services provided by the regional government. Because among several categories of assessment objects of the Ombudsman RI, the regency/city government is the category of institutions with the most yellow and red zones (Ombudsman RI, 2023).

The local government has authority to manage regional wealth in the context of carrying out its duties and obligations (UU 23/2014), so it is important for the local government to be able to carry out government affairs in an accountable manner. In the context of accountability, the Regional Government Financial Statements (LKPD) are prepared. Based on the UUD 1945 Article 23 paragraph (5), Badan Pemeriksa Keuangan (BPK) is responsible for auditing state finances. The Financial Audit aims to establish an opinion on the fairness of financial statements (BPK RI, 2017). Although more than 90% of local governments have obtained unqualified opinions, for the 2022 financial report, BPK reported 7.661 findings, of which 56% were caused by problems due to non-

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compliance with legal provisions, which as a whole have the potential to cause losses of more than Rp3 trillion. In line with the audit findings presented, there are audit recommendations that describe what follow-ups need to be carried out and by whom the follow-up should be carried out (BPK RI, 2023).

This study refers to the research by Furqan et al. (2020), which proved that the quality of the Regional Government Financial Report (LKPD) has a positive effect on the quality of public services, audit findings have a negative effect on LKPD quality and public service quality, and follow-up audit recommendations have a positive effect on LKPD quality and public service quality. However, Furqan et al. (2020) only used a 1-year period for the dependent variable; therefore, in this study, the research object will be expanded using data from 2021–2022. Similar research has also been conducted by Pertiwi and Wibowo (2023), but with the research object of ministries and institutions in Indonesia. In contrast to the results of the research by Furqan et al. (2020), it was concluded that the follow-up of audit recommendations had no effect on the quality of financial statements, and the audit findings had no effect on the quality of public services. The effect of follow-up audit recommendations on LKPD quality has also been researched by Pramana et al. (2023). It was found that in a district government that obtained an unqualified opinion within 5 consecutive years, audit recommendations follow-up were proven to have a positive effect on LKPD quality. With the research gap from the previous study, this study is aimed at analyzing the influence of audit findings and follow-up of audit recommendations on the quality of public services through the quality of financial statements.

Saipuloh et al. (2023) stated that the audit recommendations follow-up carried out in the previous year had a significant positive influence on the quality of public services. This is because the audit recommendations were given to help local governments fix the causative factors of the problems that occurred. This is in line with Pertiwi and Wibowo (2023) and Furqan et al. (2020), but contrary to Lestari and Rohman (2022). Furqan et al. (2020) stated that the audit findings have a negative effect on public services; this is contrary to the research results of Pertiwi and Wibowo (2023), Saipuloh et al. (2023), and Lestari and Rohman (2022), who did not find any influence between the audit findings and the audit recommendations follow-up toward public service quality. According to Saipuloh et al. (2023), the audit opinion is only given based on the fairness of the financial accounts in the financial statements, not on the overall performance of the government as a whole. Furqan et al. (2020) showed that the quality of financial statements can mediate the influence of audit findings and the follow-up of audit recommendations on the quality of public services. However, this result is completely contrary to the results of Lestari and Rohman (2022), while according to Pertiwi and Wibowo (2023), the quality of financial statements is only able to mediate audit findings and public service quality.

Based on the legitimacy theory, local governments will try to avoid any audit findings on their financial statements. Local governments, being public institutions, aim to maintain a positive reputation among their constituents. Therefore, the regional government will try to strengthen its internal control system and try to comply with laws and regulations to avoid any audit findings. In line with this effort, it will result in better financial management and have an impact on the provision of better public service quality as well. Many audit findings show that the government has many weaknesses in its internal control and governance compliance. This condition will lead to ineffective financial management, so it will have a negative impact on the implementation of public services (Pertiwi & Wibowo, 2023).

H₁: Audit findings have a negative effect on the quality of public services

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The local government will strive to follow up on every recommendation of the audit results given by BPK RI because, in accordance with the legitimacy theory, the local government wants to maintain a positive reputation or at least gradually improve it. By following up on the audit recommendations, local governments will further implement effectiveness, efficiency, and accountability in the implementation of their duties and functions, including in financial management and the implementation of public services (Furqan et al., 2020). When recommendations are given appropriately, they can greatly assist local governments in solving core problems related to the implementation of their duties and functions, including the implementation of public services (Saipuloh et al., 2023).

H₂: Audit recommendations follow-up have a positive effect on the quality of public services

In line with legitimacy theory, an entity will try to do what is considered right by the community to gain support and recognition from the public (Crossley et al., 2021). Local governments will also try to build public support and trust (Pertiwi & Wibowo, 2023), one of which is by obtaining an unqualified opinion. In order to obtain an unqualified opinion, local governments have to meet some criteria that are considered by BPK RI, namely conformity with government accounting standards, adequacy of disclosure, compliance with laws and regulations, and the effectiveness of internal control (BPK RI, 2014). The non-conformity of local government financial management with existing criteria will lead to audit findings (BPK RI, 2017). Therefore, the local government will try to prevent the emergence of audit findings by meeting the above criteria. The greater efforts of local governments in carrying out prevention to minimize audit findings will encourage better financial report quality (Furqan et al., 2020). The efforts of local governments in obtaining unqualified opinions will not only encourage the improvement of the quality of financial reports but also the quality of public services (Furqan et al., 2020).

H₃: Audit findings have a negative effect on the quality of public services through the quality of financial statements

Regarding the quality of financial statements as an intervening variable, Saipuloh et al. (2023) stated that the audit recommendations will provide a perspective that is very helpful for local governments in finding the main problems and improving the quality of internal control related to finance. So that if more audit recommendations are followed up, it will have a positive effect on the quality of financial reports. When local governments try to improve the quality of their financial reports by following up on audit recommendations, it also has an impact on improving the quality of public services provided by local governments to the community (Furqan et al., 2020).

H₄: Audit recommendations follow-up have a positive effect on the quality of public services through the quality of financial statements

Research Methods

In this study, the influence of audit findings and audit recommendations follow-up on the quality of public services through the quality of financial statements with geographical location as a control variable will be tested. This research was conducted with a quantitative approach, using secondary data sourced from IHPS published by BPK RI and the Executive Summary of Public Service Standards Compliance Assessment published by Ombudsman RI. The district and city governments were chosen as a sample in this study because based on the results of Ombudsman RI assessment in the last 3 years, most institution that have low compliance predicates is district and city

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governments (Ombudsman RI, 2023). The 2021-2022 period was chosen because it is the latest data published by BPK RI and Ombudsman RI. Samples were collected by the convenience sampling method, namely sampling depending on the availability of data. Of the 514 district and city governments in Indonesia, only 480 district and city governments have complete data related to the value of audit findings, total expenditure, percentage of audit recommendations follow-up, audit opinions, and compliance values for public service implementation.

The quality of public services in this study is measured based on score results of the Compliance Assessment of Public Service Implementation made by Ombudsman RI. The Audit Findings indicator refers to the measure used by Kiswanto et al. (2019), namely the total audit findings divided by the total budget expenditure. Audit recommendations follow-up are measured by referring to Furqan et al. (2020), namely the percentage of follow-up in accordance with the recommendations compared to the total audit recommendations. The quality of financial statements in this study is measured based on the research of Din et al. (2017) and Kusumawati & Ratmono (2017), namely using financial statement opinions made by BPK RI. Financial statement opinions are measured using ordinal scales 1-4, respectively for "Disclaimer", "Adverse", "Qualified", and "Unqualified". The geographical location variable was measured using a dummy variable with "1" for regency/city governments located on the island of Java, and "0" for those that are not.

Due to the intervening variable, the quality of financial statements, this study uses 2 equations. Equation 1 to analyze the direct effect of the three variables, the audit findings and audit recommendations follow-up and the intervening variable of financial statement quality to the dependent variable of public service quality through panel data regression. While Equation 2 is used in analyzing the relationship between the independent variables of audit findings and audit recommendation follow-up to the intervening variables of financial statement quality through ordinal logistic regression because in this equation, the financial statement quality variable in ordinal form applies as a dependent variable. Both tests will be carried out using Eviews 9 and will also be carried out through the Interactive Mediation Test Online from Daniel Soper to test whether intervening variables play a role in mediating the relationship between independent variables and dependent variables.

The first test carried out was a descriptive analysis. Descriptive analysis is a data analysis method that aims to provide an overview of the data without providing conclusions, the data description in question is the mean, maximum, minimum, modus and standard deviation values of each variable (Sahir, 2021). Next, tests were carried out for the first equation using panel data regression. Because the data that the researcher processed is panel data, which is a combination of cross section data and time series data, it is necessary to select a model first. There are 3 types of panel data regression model estimation approaches, namely the Common Effect Model, Fixed Effect Model, and Random Effect Model (Basuki, 2021). To determine which model is the most suitable, 2 of the following 3 tests are carried out depending on the results of the first test. Model Selection Testing consists of Chow Test, Hausman Test, and Lagrange Multiplier Test. In the Chow Test, if the probability value of the Chi-square cross section is less than 0.05, then FEM is more appropriate and must be continued with the Hausman Test. In the Hausman Test, if the probability value of the cross section random is less than 0.05, then FEM is more appropriate, on the other hand, if it is greater than 0.05, then REM is more appropriate.

After determining the most suitable model, hypothesis testing can be carried out. The F test is useful to see if all independent variables have a joint or simultaneous

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Why is there no hypothesis regarding the relationship between geographical location and quality of public services?

influence on the dependent variable. The decision in this test is based on the probability value (F-Statistic) with a level of significance (α). Furthermore, the Coefficient of Determination Test was carried out by looking at the Adj R-Square value, the Adj R-Square value shows how much dependent variables can be explained by the research variables. The value of the determination coefficient in the range of 0 – 1, the greater the value, meaning that the independent variables are able to predict the dependent variables better. The last panel data regression test is the T-Test. Statistical T test is a test that aims to find out how far the influence of independent variables on dependent variables is. The decision in this test is based on the value of probability with a level of significance (α).

The next test is on equation 2. Testing the influence of independent variables of Audit Findings and Audit Recommendation Follow-up on the intervening variables of Financial Statement Quality was carried out using ordinal logistic regression. In ordinal logistic regression there is no need for classical assumption testing. Simultaneous tests of several independent variables on the dependent variables in logistic regression were carried out using the Likelihood Ratio (LR) value. As with the prob value in the F test in linear regression, if the probability value (LR Statistic) is less than 0.05, then the independent variable affects the dependent variable together. The Coefficient of Determination test on ordinal logistic regression is seen through the Pseudo R-Squared Value. The Pseudo R-Squared value shows the extent to which the dependent variable can be explained by the independent variable, while the rest is explained by variables outside the study. Partial testing of the influence of each independent variable on the dependent variable was carried out by the Statistical Z Test. This statistical Z value is an analogue of the t statistic in linear regression which also aims to see the influence of independent variables on dependent variables partially. The test decision is seen by comparing the probability value with the significance value (α).

The last test to be done is the Sobel Test. The Sobel test is used to prove whether intervening variable is able to mediate the relationship between independent variables and dependent variable. The Sobel test will be conducted online using Daniel Soper's Interactive Mediation Test Online which can be accessed through www.danielsoper.com. If the prob value is less than 0.05 or the statistical Sobel test value is greater than 1.96, then the intervening variable is able to mediate the relationship between the independent variable and the dependent variable.

Result and Discussion

Based on the results of the descriptive test analysis presented in Table 1, the descriptive analysis for the 960 samples used in this study can be explained for each variable as follows.

1. The audit findings variable has a mean value of 0.003135; maximum 0.159072; and minimum 0. This means that the district/city governments in this research sample have an average audit finding of 0.31% of total spending, the most audit findings of 15.90% of total spending, and the smallest audit finding of 0% of total spending.
2. The audit recommendation follow-up has a mean value of 0.0517660; maximum 1; and minimum 0. This means that the district/city governments included in this research sample have followed up according to the recommendations on average as much as 51.766%, some have followed up 100% and some have not followed up at all.
3. The financial statement quality variable has a mode value of 4; maximum 4; minimum 1; and standard deviation of 0.377100. This means that most of the regency/city governments have obtained unqualified opinions, but there are still those who only get a score of 1 or disclaimer opinions.

4. The geographic location variable has a mode value of 0; maximum 1; minimum 0; and

Variable	COMMON		FIXED		RANDOM	
	Coefficient	Prob	Coefficient	Prob	Coefficient	Prob
C	0,389371	0,0000	0,383271	0,0000	0,399792	0,0000
FINDING	-0,009302	0,1023	-0,011226	0,0451*	-0,001793	0,7162
FINQ	0,071285	0,0000	0,069842	0,0000*	0,072491	0,0000
FIP	0,077898	0,0000	0,105348	0,0000*	0,038053	0,0253
ISLAND	0,025809	0,0432	0,017642	0,1615	0,039532	0,0064
Goodness of Fit Model						
R-squared	0,077662		0,111520		0,048373	
Adj R-squared	0,073799		0,106863		0,044387	
F-Statistic	20,10299		23,94868		12,13603	
Prob F-stat	0,000000		0,000000		0,000000	

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standard deviation of 0.420516. This geographical location is measured by dummy variables 0 and 1, the mode value shows that in the sample there are more regency/city governments outside Java.

5. The public service quality variable has a mean value of 71.10784; maximum 99.70; minimum 9.63; and standard deviation of 15.73506. This means that the average quality of public services from the district/city governments sampled has a score of 71 out of 100, with the highest score at 99.70, while the lowest is at a score of 9.63.

Table 1. Descriptive Statistics

	FINDING	FOLUP	FINQ	ISLAND	PUBQ
Mean	0.003135	0.517660	3.905208	0.229167	71.10784
Maximum	0.159072	1.000000	4.000000	1.000000	99.70000
Minimum	0.000000	0.000000	1.000000	0.000000	9.630000
Std. Dev.	0.008898	0.282332	0.377100	0.420516	15.73506
Mode	0.000000	0.000000	4.000000	0.000000	61.53000
Observations	960	960	960	960	960

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Source : Secondary data that has been processed using Eviews 9 and excel

PUBQ = Quality of Public Services
FINQ = Quality of Financial Reports
FINDING = Audit Findings
FOLUP = Audit Recommendations Follow-up
ISLAND = Geographical location of the Regional Government

The test of equation 1 carried out using panel data regression begins by estimating the results of panel data regression for each model. The results of the panel data regression estimation using CEM, FEM, and REM are in Table 2.

Table 2. Model Estimation

Source: Secondary data that has been processed using Eviews 9

To find out model will be used, a model selection test is carried out. Based on the results of the Chow Test and the Hausman Test in Table 3, it was obtained that FEM is the most suitable model for the data regression of this research panel.

Table 3. Model Selection

Source : Secondary data that has been processed using Eviews

Based on the regression results of the panel data in Table 2, the Prob Value from F-Statistic was obtained of 0.000000 or less than 0.05 (alpha 5%). This means that the four variables in the panel data regression equation have a joint influence on the dependent variable. The Adjusted R-Squared value is 0.106863, meaning that the variables in this study can explain the Quality of Public Services by 10.68%, while the remaining 89.32% is explained by other variables that are not tested in this study. This study only focuses on financial statement factors that are likely to affect the process dimensions, even though the assessment of Ombudsman RI also includes the dimensions of input, output, and complaints (Ombudsman RI, 2023).

Based on Table 2, it can be seen that the prob value for the FINDING variables < 0.05, meaning that the audit findings are proven to have a negative effect directly on the quality of public services. This is because although the audit findings are an output of financial audit activities (BPK RI, 2017), the audit findings do not only include corrections to the financial statements. In fact, based on the results of BPK RI's audit of the 2022 Financial Statements, 44.6% of the problems that caused the findings were due to internal control weaknesses and the remaining 55% were due to non-compliance with the provisions of laws and regulations (IHPS, 2023). These laws and regulations are not only limited to regulations on accounting or the preparation of financial statements.

	Cross-section Chi-square	Prob	Results
Chow Test	1309,935589	0,0000	FEM accepted
	Cross-section random	Prob	Results
Hausman Test	29,978229	0,0000	FEM accepted

This is in line with the results of research by Pertiwi and Wibowo (2023), that when a government agency has many audit findings, which in this study is shown from the ratio of audit findings and total expenditure, it means that the agency has many weaknesses in their internal control and governance compliance. Finance is an operational resource of an agency or it can be called input, while public service is what the agency provides to the community or it can be called output. When there are many weaknesses in the management of inputs, of course it will also have an impact on the low quality of the output. This conclusion is in line with the descriptive statistical results shown in Table 4. Most of the regency/city governments that have the largest percentage of audit findings turn out to have a quality of public services that are still below standard, shown in 2021 7 out of 10 regency/city governments with the largest percentage of audit findings are in the yellow and red zones. Meanwhile, in 2022, 9 out of 10 district/city governments with the largest percentage of audit findings are in the yellow and red zones according to the Ombudsman RI.

Tabel 4. Regency/City Governments with the Most Findings in 2021-2022

No	Regency/city	2021		2022		
		Audit Findings	Public Service	Regency/city	Audit Findings	Public Service
1	Sarmi Regency	15.78%	Yellow	Sumbawa Barat Reg.	15.91%	Red
2	Penajam Paser Utara Regency	2.84%	Yellow	Buru Selatan Regency	11.87%	Yellow

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3	Konawe Kepulauan Regency	1.59%	Red	Pulau Taliabu Regency	5.69%	Yellow
4	Bombana Regency	1.41%	Red	Waropen Reg.	5.01%	Green
5	Kolaka Utara, Regency	1.35%	Green	Ogan Ilir Reg.	2.38%	Yellow
6	Pulau Taliabu Regency	1.29%	Yellow	Gorontalo Regency	2.33%	Red
7	Padang Lawas Utara Regency	1.26%	Green	Kaur Regency	1.85%	Red
8	Mamberamo Raya Regency	1.14%	Yellow	Konawe Selatan Reg.	1.85%	Red
9	Maluku Tenggara Reg.	1.12%	Green	Kerinci Reg.	1.81%	Yellow
10	Bandung Reg.	0.08%	Yellow	Gorontalo City	1.62%	Yellow

Source: Results of researcher secondary data processing from IHPS I 2022 and 2023 and Compliance Assessment Report for Public Service Implementation 2021 and 2022

Based on Table 2, it can be seen that the prob value for the FOLUP variables < 0.05, meaning that the audit recommendations follow-up is proven to have a positive effect directly on the quality of public services. The legitimacy theory can be associated with the audit recommendations follow-up, because government agencies want the public to see the good performance or improvements they have made (Pertiwi & Wibowo, 2023). The extent to which the local government has carried out audit recommendations follow-up is always monitored by the parliament (DPRD) and the community through the IHPS published every semester by BPK RI. In addition, BPK also always considers the follow-up of the previous year's audit recommendations when conducting the current year's financial audit. These things encourage local governments to follow up on audit recommendations.

Audit recommendations must be a solution to problems related to audit findings (bpk ri, 2017), therefore by following up on audit recommendations, local governments will better implement effectiveness, efficiency, and accountability in the implementation of their duties and functions, including in financial management and the implementation of public services (Furqan et al., 2020). The results of this study are also in line with the research results of Pramana et al. (2023) and Agustina and Setyaningrum (2020).

This conclusion is also supported based on the descriptive statistical results shown in Table 5. In 2022, all regency/city governments that have followed up on the recommendations of the BPK audit in 2021 are considered to have a high level of compliance in the implementation of public services by Ombudsman RI. Meanwhile, only 27% of those who have not followed up on the audit recommendations at all are in the green zone, the rest are divided into yellow and red zones, which means that the majority of them are considered not to meet public service standards. The results of public services in 2022 are considered more representative because since 2022 Ombudsman RI has innovated its assessment method. The assessment is not only based on the availability of service standards and community assessments, but also considers the competence of the organizers, the availability and quality of infrastructure, as well as the supervision and management of complaints (Ombudsman RI, 2023).

Table 5 Distribution of Audit Recommendation Follow-up and Quality of Public Services of Regency/City Governments

Follow-up	2021			2022		
	Green	Yellow	Red	Green	Yellow	Red
100%	38%	56%	6%	100%	0%	0%
0%	50%	50%	0	27%	63%	10%

Source : Results of the processing of the 2021 and 2022 Public Service Implementation Compliance Report and IHPS I 2022 and 2023

As showed in Table 2, for the prob value of ISLAND > 0.05, it means that the geographical location is not proven to have an effect on the quality of public services. Geographical location divides regency/city governments located on the island of Java and outside Java because it is predicted that the quality of public services of regency/city governments on the island of Java tends to be better than outside the island of Java. However, based on the results of the regression of panel data conducted in this study, it was concluded that geographical location has no effect on the quality of public services. This can be due to the increasingly open access and high development outside Java, so that the difference in geographical location is no longer relevant.

On the other hand, in this study, the quality of public services was measured using scores from Ombudsman RI, different to the measurements made by Furqan, et al. (2020) who used EKPPD scores. The assessment from Ombudsman RI takes into account the public's perception of the quality of public services, so that in the assessment there is a component of the permissibility of the service recipients. People who have never received public services from other city or district governments will find it difficult to assess the quality of public services in their place because there is no comparison. For example, people from Regency A feel that the processing of simple documents that take 2-3 days is a natural thing, so they are quite satisfied with the existing services. In fact, in Regency B, similar services can be completed in just 1 day. Of course, the person's assessment will be different after knowing that in other districts, similar services can be completed more quickly. Forgiveness aspect can be minimized when using EKPPD scores, because in EKPPD scoring, all indicators apply equally to each district/city government.

Although this study did not succeed in proving the influence of geographical location on the quality of public services, based on the results of descriptive statistics in Table 6, it was obtained that during the 2-year research period, the regency/city governments outside Java always dominated the red zone, despite the fact that their number was higher, but if observed proportionately, it will be very visible that the red zone is very dominated by the regency/city governments outside Java. This shows that the level of compliance of regency/city governments outside Java Island with public service standards is still low.

Table 6 Results of Compliance Assessment of Public Service Implementation by Zone

Zona	2021				2022			
	Non Java	Java	Total	(%)	Non Java	Java	Total	(%)
Green	104	26	130	27%	126	59	185	39%
Yellow	201	83	284	59%	221	54	275	57%
Red	62	4	66	14%	20	0	20	4%
Total	367	113	480	100%	367	113	480	100%

Source: Results of the processing of the 2021 and 2022 Public Service Implementation Compliance Report

Before determining whether the Quality of Financial Statements can mediate the indirect relationship between independent variables and dependent variables, it is necessary to first test whether the independent variable is proven to have an effect on

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the intervening variable. Therefore, in this ordinal logistic regression, the intervening variable will be positioned as a dependent variable.

Table 7. Results of Ordinal Logistics Regression

Variable	Coefficient	Std. Error	z-Statistic	Prob.
FOLUP	0.837652	0.441485	1.897349	0.0578
FINDING2	-0.349333	0.089842	-3.888296	0.0001
Pseudo R-squared	0.046349			
Black criterion	0.595824			
Hannan-Quinn criter.	0.583267			
LR statistic	26.46499			
Prob(LR statistic)	0.000002			

Sumber : Output Eviews 9

Based on the results of ordinal logistic regression as shown in Table 7, a Prob value (LR Statistic) of 0.000002 or less than 0.01 (alpha 1%), so statistically there will be at least 1 variable that is proven to have an effect on the dependent variable. Pseudo R-Squared value of 0.046349 was obtained. This means that the magnitude of the ability of the Audit Findings and Audit Recommendation Follow-up variables in explaining the Financial Statement Quality variable is 4.63%, while the remaining 95.37% is explained by other variables outside the study. Based on the test results, a Prob value of 0.0001 or less than 0.01 (alpha 1%) was obtained so it can be concluded that at the 99% confidence level, audit findings are proven to have a negative effect on the quality of financial statements. Based on the test results, a prob value of 0.0578 or less than 0.10 (alpha 10%) was obtained, so at a confidence level of 90%, the audit recommendations follow-up has proven to have a positive effect on the quality of financial statements.

The Sobel test was carried out through the interactive mediation test online from Daniel Soper which can be accessed through the www.danielsoper.com by entering the coefficient and standard error. So the results of the calculation of the p-value for each variable are obtained as in Tabel 8.

Table 8. Sobel Test Results

Variable	P-value
FINDING → FINQ → PUBQ	0,00084557
FOLUP → FINQ → PUBQ	0,03695009

Source : Output *Interactive Mediation Test Online*

Based on the results of the Sobel test in Table 8, the P-value is less than 0.05 (alpha 5%), meaning that the intervening variable is able to play a role in mediating the relationship, so it can be concluded that the audit findings have a negative effect on the quality of public services through the quality of financial statements and the audit recommendations follow up has a positive effect on the quality of public services through the quality of financial statements.

Legitimacy theory states the tendency of a company to be what the public wants in order to gain support and recognition. In practice in public institutions, it can be seen from the efforts of local governments to obtain unqualified opinions on their financial statements (Pertiwi & Wibowo, 2023). Opinions basically state the fairness of a financial statement (BPK RI, 2017), but in determining opinions, BPK RI not only considers the aspects of the suitability of the preparation of financial statements to government accounting standards and the adequacy of disclosure, the aspects of compliance with laws

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and regulations and the effectiveness of internal control are also the basis for determining audit opinions (BPK RI, 2014). Each of these aspects will be compared between what is in the field and the ideal conditions according to the criteria, when there is a discrepancy between the two, it is called an audit finding (BPK RI, 2017). The local government will try to ensure the conformity of each of these aspects with the laws and regulations or their criteria, so that there are no audit finding. Efforts to minimize the audit findings will improve the quality of financial statements, which is shown by the acquisition of unqualified opinions.

Audit recommendations Follow-up are carried out in the current year on the previous year's audit findings. When the audit recommendation is given appropriately, the follow-up carried out by the entity will have a great impact on the improvement of both the internal control and compliance with the agency's laws and regulations in the future. Of course, the higher the level of implementation of audit recommendation follow-up, the more improvements will be made by the agency (Saipuloh et al., 2023). The more effective the internal control and the higher the level of compliance with laws and regulations, it will improve the quality of financial statements. In addition, with the consideration of the follow-up recommendations on the previous year's audit findings in the current year's financial audit by BPK RI, the higher the level of implementation of audit recommendations follow-up by agencies will improve the quality of their financial statements. The quality of good financial statements represents good financial management as well, with good financial management leads to good quality of public services as well.

Conclusion

Based on the results of the analysis and testing of the data that has been carried out, the author concludes that the audit findings are proven to have a negative effect and the audit recommendations follow-up is proven to have a positive effect on the quality of public services, both directly and indirectly through the quality of financial statements. This shows that when local governments make efforts to avoid audit findings, including by complying with laws and regulations, implementing an effective internal control system, it will not only produce quality financial statements, but also better public services quality. In terms of audit recommendations follow-up, the results of this study show that when local governments follow up on audit recommendations according to the results of the audit, not only the quality of financial management increases, but also the quality of public services provided.

There are many factors that can affect the quality of public services, but this study only observes the influence in terms of financial statements. Based on the 2023 Public Service Implementation Compliance Assessment Report, Ombudsman RI's assessment is based on 4 dimensions. Starting from the input dimension consisting of infrastructure and implementers; process dimensions regarding procedures, mechanisms, and service implementation; the output dimension of public perception; and the dimensions of the complaint. The variables of this study are only related to 1 of the 4 dimensions of assessment, namely the process dimension.

Based on this study, it is hoped that the local government will not only focus on obtaining the unqualified Opinion, but actually carry out financial management in accordance with the provisions so that the outcomes produced are also of high quality. In terms of audit recommendations follow-up, it is hoped that local governments can increase the implementation of audit recommendation follow-up, considering that the average 2021-2022 audit recommendation follow-up is only 51.76%.

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The next research can analyze the factors that can affect the quality of public services, because in this study only factors from the side of financial statements are examined, while there are many other aspects that can be researched, considering the lack of research related to the quality of public services. In addition, in this study, it is known that the inequality in the quality of public services on the island of Java and outside Java Island does not occur due to geographical location factors, so further research can dig deeper into what factors are more dominant so as to cause differences in the quality of public services on the island of Java and outside the island. Factors that are closely related to geographical location such as the characteristics of the service recipient community and the work culture of service providers will be interesting topics to explore more deeply.

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3 July 2024 at 14:14

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Abstract

Public services are solely provided by the government, making it challenging to measure their quality. Therefore, studies on public services are limited. This study aims to investigate the direct and indirect effects of audit findings and audit recommendations follow-up on public service quality. A total of 480 regency and city governments from 2021-2022 were tested using panel data regression, ordinal logistic regression, and the Sobel test. The results indicated that audit findings had a negative effect and audit recommendation follow-up had a positive effect on the quality of public services, both directly and indirectly through the quality of financial statements. This implies the importance of good financial management to produce high-quality public services. Government agencies are expected not only to focus on obtaining unqualified opinions but also to seriously follow up on audit recommendations and audit findings, as these efforts will improve both the quality of financial statements and public services.

Keywords: Public Service, Opinion, Audit Findings, Audit Recommendations Follow-up

Introduction

Public services are all forms of activities provided to the community by public service providers (UU No. 25/2009). Measurement of public service quality can be done by comparing the implementation of services with existing standards. Public services cover strategic sectors, some of them are only provided by the government or monopolized by the government, so the only standards used are those created by the public service entity itself (PP No. 96/2012). This makes it difficult to measure the quality, quantity, and efficiency of public services, limiting research on the quality of public services (Furqan et al., 2020).

In Indonesia, the quality of public services is still below standard. Based on the Public Service Implementation Compliance Assessment Report 2023, Ombudsman RI assessed that only 70% of regency/city governments are classified as green zones (high compliance level), 23% are in the yellow zone (medium compliance level), and 7% are in the red zone (low compliance level). This research focuses on the quality of public services provided by the regional government, as the regency/city government category has the most yellow and red zones (Ombudsman RI, 2023).

Local government have the authority to manage regional to carry out its duties and obligations (UU No. 23/2014), making it important for them to carry out government

Do Audit Findings and Audit Recommendations Follow-up Affect The Quality of Public Services? affairs in an accountable manner. In this context, Regional Government Financial Statements (LKPD) are prepared. Based on the UUD 1945 Article 23 paragraph (5), Badan Pemeriksa Keuangan (BPK) is responsible for auditing state finances to establish an opinion on the fairness of financial statements (BPK RI, 2017). Although more than 90% of local governments obtained unqualified opinions for the 2022 financial report, BPK reported 7.661 findings, 56% of which were due to non-compliance with legal provisions, potentially causing losses of over Rp3 trillion. In line with the audit findings presented, Audit recommendations describe the follow-ups needed and who should carry them out (BPK RI, 2023).

The quality of Financial Statements, measured using audit opinions, is an intervening variable in this study. Despite more than 90% of government agencies obtaining unqualified opinions (BPK RI, 2023), many audit findings and recommendations indicate numerous improvements are needed. The relationship between audit findings and follow-up of audit recommendations as an independent variable, the quality of financial statements as an intervening variable, and the quality of public services as a dependent variable is interesting to study. This is because the quality of financial reports reflects government financial management, a key resource in public service implementation.

This study builds on Furqan et al. (2020), who proved that the quality of the Regional Government Financial Report (LKPD) positively affects public service quality, audit findings negatively affect both LKPD quality and public service quality, while follow-up audit recommendations positively affect both. However, Furqan et al. (2020) used only a 1-year period for the dependent variable; hence, this study uses data from 2021–2022. Similar research by Pertiwi and Wibowo (2023) on Indonesian ministries and institutions found different results, concluding that follow-up of audit recommendations had no effect on financial statement quality and audit findings had no effect on public service quality. The effect of follow-up audit recommendations on LKPD quality was also researched by Pramana et al. (2023), who found a positive effect in district governments obtaining unqualified opinions for five consecutive years.

This study aims to analyze the influence of audit findings and follow-up of audit recommendations on public service quality through financial statement quality. The research is expected to help local governments to improve public service quality by demonstrating that these factors affect service quality. Local governments should not only focus on obtaining audit opinions but also earnestly meet financial audit criteria and follow-up recommendations to improve public service quality. This research adds to the limited references on public service quality measurement. There is no previous research related to public services that has used the results of the compliance assessment of the implementation of public services by the Ombudsman RI.

Saipuloh et al. (2023) stated that the audit recommendations follow-up carried out in the previous year had a significant positive influence on public service quality, as they help local governments address underlying problems. This aligns with Pertiwi and Wibowo (2023) and Furqan et al. (2020) but contrasts with Lestari and Rohman (2022). Furqan et al. (2020) stated that audit findings negatively affect public services, contrary to Pertiwi and Wibowo (2023), Saipuloh et al. (2023), and Lestari and Rohman (2022), who found no effect. According to Saipuloh et al. (2023), audit opinions are based on financial statement fairness, not overall government performance. Furqan et al. (2020) showed that financial statement quality mediates the influence of audit findings and follow-up recommendations on public service quality, contrary to Lestari and Rohman (2022), while Pertiwi and Wibowo (2023) found financial statement quality mediates only audit findings and public service quality.

Do Audit Findings and Audit Recommendations Follow-up Affect The Quality of Public Services?

The Theory of Legitimacy underpins this study's hypothesis formulation. Government activities must align with societal norms and values to gain public trust (Pertiwi & Wibowo, 2023). High public trust in the government supports development programs. Therefore, the government strives to improve accountability and performance quality through financial information and public service presentation to maintain public legitimacy. A good audit opinion often increases public legitimacy, frequently reported on official websites of district or city governments.

Based on legitimacy theory, local governments aim to avoid audit findings by strengthening internal control systems and complying with laws to maintain a positive reputation, leading to better financial management and higher quality public services. Many audit findings indicate weaknesses in internal control and governance compliance, leading to ineffective financial management and poor public service implementation (Pertiwi & Wibowo, 2023). Hence, audit findings negatively affect public service quality.

H₁: Audit findings have a negative effect on the quality of public services

In accordance with the legitimacy theory, local governments strive to follow up on BPK RI audit recommendations to maintain or improve their reputation. Audit recommendations address core problems in public service implementation, suggesting improvements in internal control, legal compliance, and efficiency (Saipuloh et al., 2023). Following up on these recommendations enhances effectiveness, efficiency, and accountability in financial management and public service implementation (Furqan et al., 2020). Therefore, higher follow-up of audit recommendations improves public service quality.

H₂: Audit recommendations follow-up have a positive effect on the quality of public services

In line with legitimacy theory, entities aim to align with community norms to gain support and recognition (Crossley et al., 2021). Local governments build public trust by obtaining unqualified opinions, meeting BPK RI criteria such as conformity with accounting standards, adequate disclosure, legal compliance, and effective internal control (BPK RI, 2017). Non-conformity results in audit findings, so local governments work to prevent these by meeting criteria, improving financial report quality (Furqan et al., 2020).

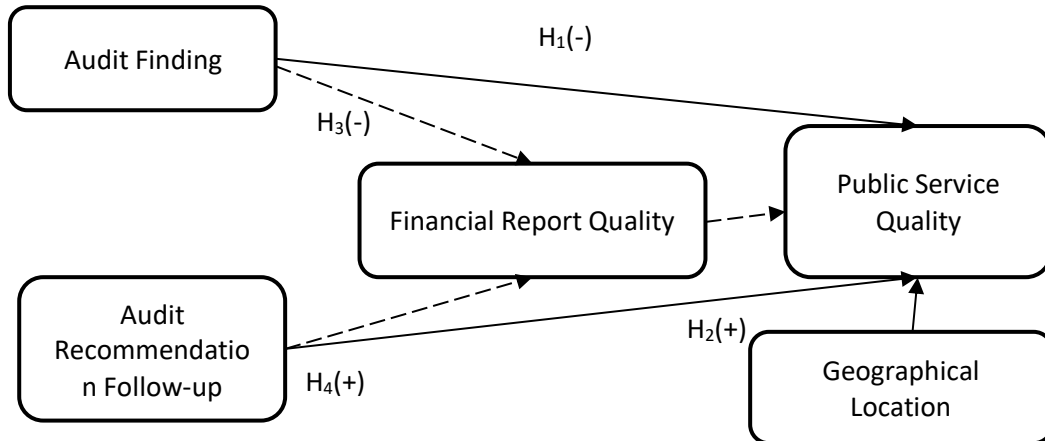
On the other hand, when the government does not have effective internal control, the level of compliance with laws and regulations is low, and the level of efficiency of financial management will result in many audit findings. The number of audit findings that are of significant value will reduce the quality of government financial statements, as shown by the poor audit opinions. The low quality of financial statements represents poor financial management. As source of public service's funding comes from the state or region, poor financial management leads to poor public service quality. Hence, more audit findings reduce financial report quality and public service quality.

H₃: Audit findings have a negative effect on the quality of public services through the quality of financial statements

Saipuloh et al. (2023) stated that the audit recommendations will provide valuable perspectives for local governments to improve internal control dan compliance with laws and regulations, positively affecting financial report quality. Good financial reports reflect good financial management. Public services are activities that are partially or wholly funded using state or regional finances. Funding sources that are managed properly, resulting high-quality public services (Furqan et al., 2020). Hence, more Audit recommendations follow-up positively affects public service quality through financial statement quality.

H₄: Audit recommendations follow-up have a positive effect on the quality of public services through the quality of financial statements

Research Methods



The independent variables are audit findings (X1) and follow-up of audit recommendations (X2), while the dependent variable is public service quality (Y). Financial statement quality (Z) is the intervening variable, and geographical location is the control variable. This study tests the influence of audit findings and audit recommendations follow-up on public service quality through financial statement quality, with geographical location as a control variable. The research employs a quantitative approach using secondary data from IHPS (Summary of Audit Reports) published by BPK RI through <https://www.bpk.go.id/ihps> and the Executive Summary of Public Service Standards Compliance Assessment published by Ombudsman RI through <https://ombudsman.go.id/produk>. The sample includes district and city governments, chosen due to their low compliance levels in Ombudsman RI assessments over the past three years (Ombudsman RI, 2023). The period of 2021-2022 was chosen as it is the latest data available. Samples were collected using purposive sampling based on data availability, with 480 out of 514

The quality of public services in this study is measured based on the score results of the Compliance Assessment of Public Service Implementation made by Ombudsman RI. The Audit Findings indicator refers to the measure used by Kiswanto & Fatmawati (2019), namely the total audit findings divided by the total budget expenditure. Audit recommendations follow-up is measured by referring to Furqan et al. (2020), namely the percentage of follow-up in accordance with the recommendations compared to the total audit recommendations. The quality of financial statements in this study is measured based on the research of Din et al. (2017) and Kusumawati & Ratmono (2017), using financial statement opinions made by BPK RI. Financial statement opinions are measured using ordinal scales 1-4, respectively for "Disclaimer", "Adverse", "Qualified", and "Unqualified". As control variable, geographical location was measured using a dummy variable with "1" for regency/city governments located on the island of Java, and "0" for those that are not.

Due to the intervening variable, the quality of financial statements, this study uses 2 equations. Equation 1 analyzes the direct effect of the four variables (audit findings, audit recommendations follow-up, the intervening variable of financial statement quality, and geographical location) on the dependent variable of public service quality through

Do Audit Findings and Audit Recommendations Follow-up Affect The Quality of Public Services? panel data regression. Equation 2 is used to analyze the relationship between the independent variables of audit findings and audit recommendation follow-up with intervening variables of financial statement quality through ordinal logistic regression because, in this equation, the financial statement quality variable in ordinal form applies as a dependent variable. Both tests will be carried out using Eviews 9 and will also be carried out through the Interactive Mediation Test Online from Daniel Soper to test whether intervening variable play a role in mediating the relationship between independent variables and dependent variables.

The first test carried out was a descriptive analysis, data analysis method that aims to provide an overview of the data without providing conclusions. The data description in question is the mean, maximum, minimum, modus and standard deviation values of each variable (Sahir, 2021). Next, tests were carried out for the first equation using panel data regression. As panel data, which is a combination of cross section and time series data, it is necessary to start with a model selection test. There are 3 types of panel data regression model estimation approaches, namely the Common Effect Model, Fixed Effect Model, and Random Effect Model (Basuki, 2021). To determine which model is the most suitable, 2 of the following 3 tests are carried out depending on the results of the first test. Model Selection Testing consists of Chow Test, Hausman Test, and Lagrange Multiplier Test. In the Chow Test, if the probability value of the Chi-square cross section is less than 0.05, then FEM is more appropriate and must be continued with the Hausman Test. In the Hausman Test, if the probability value of the cross section random is less than 0.05, then FEM is more appropriate, on the other hand, if it is greater than 0.05, then REM is more appropriate.

After determining the most suitable model, hypothesis testing can be carried out. The F test is used to see whether all independent variables have a joint or simultaneous influence on the dependent variable (Sahir, 2021). The decision in this test is based on the probability value (F-Statistic) with a level of significance (α). Furthermore, the Coefficient of Determination Test was carried out by looking at the Adj R-Square value that shows how much dependent variables can be explained by the research variables (Sahir, 2021). The value of the determination coefficient in the range of 0 – 1, the greater the value, the better independent variables capacity on predicting the dependent variables. The last panel data regression test is the T-Test, aims to find out how far the influence of independent variables on dependent variables is (Sahir, 2021). The decision in this test is based on the value of probability with a level of significance (α).

The next test is on equation 2. Testing the influence of independent variables of Audit Findings and Audit Recommendation Follow-up on the intervening variables of Financial Statement Quality was carried out using ordinal logistic regression. In ordinal logistic regression there is no need for classical assumption testing (Gujarati, 2012). Simultaneous tests of several independent variables on the dependent variables in logistic regression were carried out using the Likelihood Ratio (LR) value (Iban, 2017). As with the prob value in the F test in linear regression, if the probability value (LR Statistic) is less than 0.05, then the independent variable affects the dependent variable together. The Coefficient of Determination test on ordinal logistic regression is seen through the Pseudo R-Squared Value. The Pseudo R-Squared value shows the extent to which the dependent variable can be explained by the independent variable, while the rest is explained by variables outside the study (Iban, 2017). Partial influence of each independent variable on the dependent variable was carried out by the Statistical Z Test. This statistical Z value is an analogue of the t statistic in linear regression (Iban, 2017). The test decision is seen by comparing the probability value with the significance value (α)

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The last test to be done is the Sobel Test. The Sobel test is used to prove whether intervening variable is able to mediate the relationship between independent variables and dependent variable. The Sobel test will be conducted online using Daniel Soper's Interactive Mediation Test Online which can be accessed through www.danielsoper.com. If the prob value is less than 0.05 or the statistical Sobel test value is greater than 1.96, then the intervening variable is able to mediate the relationship between the independent variable and the dependent variable.

Result and Discussion

The following are the results of the descriptive statistical test for each variable.

Table 1. Descriptive Statistics

	FINDING	FOLUP	FINQ	ISLAND	PUBQ
Mean	0,0031	0,5177	3,9052	0,2292	71,1078
Maximum	0,1590	1,0000	4,0000	1,0000	99,7000
Minimum	0,0000	0,0000	1,0000	0,0000	9,6300
Std. Dev.	0,0089	0,2823	0,3771	0,4205	15,7351
Mode	0,0000	0,0000	4,0000	0,0000	61,5300
Observations	960	960	960	960	960

Source : Secondary data processed using Eviews 9 and excel

PUBQ	= Quality of Public Services
FINQ	= Quality of Financial Reports
FINDING	= Audit Findings
FOLUP	= Audit Recommendations Follow-up
ISLAND	= Geographical location of the Regional Government

Based on the results of the descriptive test analysis presented in Table 1, the descriptive analysis for the 960 samples used in this study can be explained for each variable as follows.

1. The district/city governments in this research sample have an average audit finding of 0.31% of total spending, the most audit findings of 15.90% of total spending, and the smallest audit finding of 0% of total spending.
2. The district/city governments included in this research sample have followed up according to the recommendations on average as much as 51.77%, some have followed up 100% and some have not followed up at all.
3. Most of the regency/city governments have obtained unqualified opinions, but there are still those who get disclaimer opinions.
4. In the sample there are more regency/city governments outside Java.
5. the average quality of public services from the district/city governments sampled has a score of 71 out of 100, with the highest score at 99.70, while the lowest is at a score of 9.63.

The test of equation 1 carried out using panel data regression begins by estimating the results of panel data regression for each model. The results of the panel data regression estimation using CEM, FEM, and REM are in Table 2.

Table 2. Model Estimation

Variable	COMMON		FIXED		RANDOM	
	Coefficient	Prob	Coefficient	Prob	Coefficient	Prob
C	0,3894	0,0000	0,3833	0,0000	0,3998	0,0000
FINDING	-0,0093	0,1023	-0,0112	0,0451	-0,0018	0,7162
FINQ	0,0713	0,0000	0,0698	0,0000	0,0725	0,0000
FIP	0,0779	0,0000	0,1053	0,0000	0,0381	0,0253
ISLAND	0,0258	0,0432	0,0176	0,1615	0,0395	0,0064
Goodness of Fit Model						
R-squared	0,0777		0,1115		0,0484	
Adj R-squared	0,0738		0,1069		0,0444	
F-Statistic	20,1030		23,9487		12,1360	
Prob F-stat	0,0000		0,0000		0,0000	

Source: Secondary data processed using Eviews 9

To find out the model will be used, a model selection test is carried out. Based on the results of the Chow Test and the Hausman Test in Table 3, it was obtained that FEM is the most suitable model for the data regression of this research panel.

Table 3. Model Selection

Chow Test	Cross-section Chi-square	Prob	Results
	1309,9356	0,0000	FEM accepted
Hausman Test	Cross-section random	Prob	Results
	29,9782	0,0000	FEM accepted

Source : Secondary data processed using Eviews

Based on the regression results of the panel data in Table 2, the Prob Value from F-Statistic was 0.0000, which is less than 0.05 (alpha 5%). This indicates that the four variables in the panel data regression equation have a joint influence on the dependent variable. The Adjusted R-Squared value is 0.1069, meaning that the variables in this study can explain the Quality of Public Services by 10.69%, while the remaining 89.31% is explained by other variables that are not tested in this study. This study focuses solely on financial statement factors that are likely to affect the process dimensions, even though the assessment of Ombudsman RI also includes the dimensions of input, output, and complaints (Ombudsman RI, 2023).

Based on Table 2, the prob value for the FINDING variables is less than 0.05, indicate that audit findings are proven negatively affect public services quality in a direct way. So the first hypothesis that audit findings have a negative effect on the quality of public services is accepted. As although the audit findings are an output of financial audit activities (BPK RI, 2017), the audit findings do not only include corrections to the financial statements. In fact, based on the results of BPK RI's audit of the 2022 Financial Statements, 44.6% of the problems that caused the findings were due to internal control weaknesses and the remaining 55% were due to non-compliance with the provisions of laws and regulations (BPK RI, 2023). These laws and regulations are not only limited to regulations on accounting or the preparation of financial statements.

This is in line with Pertiwi and Wibowo (2023) that stated many audit findings, which in this study is shown from the ratio of audit findings and total expenditure, indicates many weaknesses in internal control system and governance compliance. This condition leads to ineffective financial management, negatively impacting the

Do Audit Findings and Audit Recommendations Follow-up Affect The Quality of Public Services? implementation of public services. Finance is an operational resource of an agency or input, while public service is what the agency provides to the community or output. When there are many weaknesses in the management of inputs, it causes low quality of the output. This conclusion aligns with the descriptive statistical results shown in Table 4. Most of the regency/city governments that have the largest percentage of audit findings turn out to have a quality of public services that are still below standard, shown in 2021 among 10 regency/city governments with the most findings, 7 had a low level of compliance with public service standards or were in the yellow and red zones. Meanwhile, in 2022, almost all of them were considered to have a low level of compliance.

Tabel 4. Regency/City Governments with the Most Findings in 2021-2022

No	2021			2022		
	Regency/city	Audit Findings	Public Service	Regency/city	Audit Findings	Public Service
1	Sarmi Regency	15.78%	Yellow	Sumbawa Barat Reg.	15.91%	Red
2	Penajam Paser Utara Regency	2.84%	Yellow	Buru Selatan Regency	11.87%	Yellow
3	Konawe Kepulauan Regency	1.59%	Red	Pulau Taliabu Regency	5.69%	Yellow
4	Bombana Regency	1.41%	Red	Waropen Reg.	5.01%	Green
5	Kolaka Utara, Regency	1.35%	Green	Ogan Ilir Reg.	2.38%	Yellow
6	Pulau Taliabu Regency	1.29%	Yellow	Gorontalo Regency	2.33%	Red
7	Padang Lawas Utara Regency	1.26%	Green	Kaur Regency	1.85%	Red
8	Mamberamo Raya Regency	1.14%	Yellow	Konawe Selatan Reg.	1.85%	Red
9	Maluku Tenggara Reg.	1.12%	Green	Kerinci Reg.	1.81%	Yellow
10	Bandung Reg.	0.08%	Yellow	Gorontalo City	1.62%	Yellow

Source: Results of researcher secondary data processing from IHPS I 2022 and 2023 and Compliance Assessment Report for Public Service Implementation 2021 and 2022

Based on Table 2, the prob value for the FOLUP variables is less than 0.05, indicating that audit recommendations follow-up is proven to positively affect public service quality in a direct way. The legitimacy theory can be associated with the audit recommendations follow-up, as government agencies want the public to see the good performance or improvements they have made (Pertiwi & Wibowo, 2023). How far audit recommendations follow-up have been done is always monitored by the parliament (DPRD) and the community through the IHPS published every semester by BPK RI. In addition, BPK always considers the follow-up of the previous audit recommendations when conducting the current year's financial audit. These factors encourage local governments to follow up on audit recommendations.

Audit recommendations must provide solution to problems related to audit findings (BPK RI, 2017). Therefore by following up on audit recommendations, local governments will better implement effectiveness, efficiency, and accountability in the

Do Audit Findings and Audit Recommendations Follow-up Affect The Quality of Public Services? implementation of their duties and functions, including in financial management public services (Furqan et al., 2020). The results of this study are also in line with the research results of Pramana et al. (2023) and Agustina and Setyaningrum (2020).

This conclusion is supported by the descriptive statistical results shown in Table 5. In 2022, all regency/city governments that have fully followed up on 2021 audit recommendation are considered to have a high level of compliance in the implementation of public services by Ombudsman RI. Meanwhile, only 27% of those who have not followed up on the audit recommendations at all are in the green zone, the rest are divided into yellow and red zones, which means that the majority of them do not meet public service standards. The results of public services in 2022 are considered more representative as since 2022 Ombudsman RI has innovated its assessment method. The assessment not only considers the availability of service standards and community assessments but also the competence of the organizers, the availability and quality of infrastructure, and the supervision and management of complaints (Ombudsman RI, 2023).

Table 5 Distribution of Audit Recommendation Follow-up and Quality of Public Services of Regency/City Governments

Follow-up	2022		
	Green	Yellow	Red
100%	100%	0%	0%
0%	27%	63%	10%

Source : Results of the processing of the 2021 and 2022 Public Service Implementation Compliance Report and IHPS I 2022 and 2023

As showed in Table 2, for the prob value of ISLAND is less than 0.05, indicating that the geographical location does not affect the quality of public services. Geographical location divides regency/city governments located on the island of Java and outside Java because it is predicted that the quality of public services on Java Island tends to be better than the outside Java. However, based on the results of the regression of panel data conducted, geographical location has no effect on the quality of public services. This may be due to the increasingly open access and high development outside Java, making geographical location differences less relevant.

In this study, the quality of public services was measured using scores from Ombudsman RI, unlike Furqan, et al. (2020) who used EKPPD scores. The assessment from Ombudsman RI takes into account the public's perception of the quality of public services, which includes a component of the permissibility of the service recipients. People who have never received public services from other city or district governments will find it difficult to compare the quality of public services. For example, people from Regency A might be satisfied with the processing of simple documents that take 2-3 days, as it is a natural thing. However, in Regency B, similar services can be completed in just one day. The assessment would differ if they knew that similar services could be completed faster elsewhere. The forgiveness aspect is minimized when using EKPPD scores because all indicators apply equally to each district/city government.

Although the control variable in this study was not proven to affect the dependent variable, based on the results of descriptive statistics in Table 6, during the 2-year research period, the regency/city governments outside Java is dominating the red zone, even if we observe it proportionally. This shows that the level of compliance of regency/city governments outside Java Island with public service standards is still low.

Table 6 Results of Compliance Assessment of Public Service Implementation by Zone

Zona	2021				2022			
	Non Java	Java	Total	(%)	Non Java	Java	Total	(%)
Green	104	26	130	27%	126	59	185	39%
Yellow	201	83	284	59%	221	54	275	57%
Red	62	4	66	14%	20	0	20	4%
Total	367	113	480	100%	367	113	480	100%

Source: Results of the processing of the 2021 and 2022 Public Service Implementation Compliance Report

Before determining whether the Quality of Financial Statements can mediate the indirect relationship between independent variables and dependent variables, it is necessary to test whether the independent variable affect the intervening variable. Therefore, in this ordinal logistic regression, the intervening variable will be positioned as a dependent variable.

Table 7. Results of Ordinal Logistics Regression

Variable	Coefficient	Std. Error	z-Statistic	Prob.
FOLUP	0.8376	0.4415	1.8973	0.0578
FINDING2	-0.3493	0.0898	-3.8883	0.0001
Pseudo R-squared	0.0463			
Prob(LR statistic)	0.000002			

Source : Output Eviews 9

Based on the results of ordinal logistic regression as shown in Table 7, a Prob value (LR Statistic) of 0.000002, which is less than 0.01 (alpha 1%), indicates that statistically at least one variable affect the dependent variable. A Pseudo R-Squared value of 0.0463 means that the Audit Findings and Audit Recommendation Follow-up variables can explain 4.63% of Financial Statement Quality variable, while the remaining 95.37% is explained by other variables outside the study. Based on the test results, a Prob value of 0.0001 which is less than 0.01 (alpha 1%) indicates that audit findings negatively affect financial statements quality at the 99% confidence level. Similarly, a prob value of 0.0578 which is less than 0.10 (alpha 10%) indicates that the audit recommendations follow-up positively affect financial statements quality at a confidence level of 90%,.

The Sobel test was carried out through the interactive mediation test online from Daniel Soper by entering the coefficient and standard error. The coefficient of the indirect influence of independent variables on dependent variables is calculated by multiplying the coefficient of influence of independent variables on intervening variables and the coefficient of influence of intervening variables on dependent variables. So the results of the calculation of the p-value and coefficient for each variable are shown in Tabel 8.

Table 8. Sobel Test Results

Variable	P-value	Coefficient
FINDING → FINQ → PUBQ	0,0008	-0,0244
FOLUP → FINQ → PUBQ	0,0369	0,0585

Source : Output *Interactive Mediation Test Online*

Do Audit Findings and Audit Recommendations Follow-up Affect The Quality of Public Services?

Based on the results of the Sobel test in Table 8, indirect effect between audit finding and quality of public services has P-value less than 0.05 (alpha 5%) and the coefficient is negative, meaning that the third hypothesis that the audit findings have a negative effect on the quality of public services through the quality of financial statements is accepted. Indirect effect between audit recommendation follow-up and quality of public service has P-value less than 0.05 (alpha 5%) and the coefficient is positive, so the fourth hypothesis that audit recommendations follow up has a positive effect on the quality of public services through the quality of financial statements is accepted.

Legitimacy theory states the tendency of a company to be align with the public preferences in order to gain support and recognition. For instance in public institutions is the efforts of local governments put to obtain unqualified opinions (Pertiwi & Wibowo, 2023). Opinions basically state the fairness of a financial statement (BPK RI, 2017), but in determining opinions, BPK RI not only considers the compliance with accounting standards and the adequacy of disclosure, but also the aspects of compliance with laws and regulations and the effectiveness of internal control (BPK RI, 2017). Each of these aspects will be compared between what is existing and the ideal conditions according to the criteria, the discrepancy between the two is called an audit finding (BPK RI, 2017). The local government will try to ensure the conformity of each of these aspects with the laws and regulations or their criteria, so that there are no audit finding. Efforts to minimize the audit findings will improve the quality of financial statements.

Audit recommendations Follow-up are carried out in the current year to solve the previous year's audit findings. When the audit recommendation is given appropriately, the follow-up will have a great impact on the improvement of both the internal control and compliance with the agency's laws and regulations in the future. Of course, the higher the level of implementation of audit recommendation follow-up, the more improvements will be made by the agency (Saipuloh et al., 2023). The more effective the internal control and the higher the level of compliance with laws and regulations, it will improve the quality of financial statements. In addition, with the consideration of the follow-up recommendations on the previous year's audit findings in the current year's financial audit by BPK RI, the higher the level of implementation of audit recommendations follow-up by agencies will improve the quality of their financial statements. The quality of good financial statements represents good financial management as well, with good financial management leads to good quality of public services as well.

Conclusion

Table 9. Resume of Statistical Test Results

Effect	Direction	Prob	Hypothesis
FINDING → PUBQ	(-)	significant	Accepted
FOLUP → PUBQ	(+)	significant	Accepted
FINDING → FINQ → PUBQ	(-)	significant	Accepted
FOLUP → FINQ → PUBQ	(+)	significant	Accepted

Based on the results of the analysis and testing of the data that has been carried out, the author concludes that the audit findings are proven to have a negative effect and the audit recommendations follow-up is proven to have a positive effect on the quality of public services, both directly and indirectly through the quality of financial statements.

Do Audit Findings and Audit Recommendations Follow-up Affect The Quality of Public Services? This shows that when local governments make efforts to avoid audit findings, including by complying with laws and regulations, implementing an effective internal control system, it will not only produce quality financial statements, but also better public services quality. In terms of audit recommendations follow-up, the results of this study show that when local governments follow up on audit recommendations according to the results of the audit, not only the quality of financial management increases, but also the quality of public services provided.

This study implicate that the local governments hopefully not only focus on obtaining the unqualified Opinion, but actually carry out financial management in accordance with the provisions so that the outcomes produced are also of high quality. In terms of audit recommendations follow-up, local governments hopefully can increase the implementation of audit recommendation follow-up, considering that the average 2021-2022 audit recommendation follow-up is only 51.76%.

There are several limitations in this study. There are many factors that can affect the quality of public services, but this study only observes the influence in terms of financial statements. Based on the 2023 Public Service Implementation Compliance Assessment Report, Ombudsman RI's assessment is based on 4 dimensions. Starting from the input dimension consisting of infrastructure and implementers; process dimensions regarding procedures, mechanisms, and service implementation; the output dimension of public perception; and the dimensions of the complaint. The variables of this study are only related to 1 of the 4 dimensions of assessment, namely the process dimension.

The next research can analyze the factors that can affect the quality of public services, because in this study only factors from the side of financial statements are examined, while there are many other aspects that can be researched, considering the lack of research related to the quality of public services. In addition, in this study, it is known that the inequality in the quality of public services on the island of Java and outside Java Island does not occur due to geographical location factors, so further research can dig deeper into what factors are more dominant so as to cause differences in the quality of public services on the island of Java and outside the island. Factors that are closely related to geographical location such as the characteristics of the service recipient community and the work culture of service providers will be interesting topics to explore more deeply.

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Do Audit Findings and Audit Recommendations Follow-up Affect The Quality of Public Services?

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Abstract

Public services, traditionally provided by government agencies, present challenges in measuring their quality. As a result, research on public service quality remains relatively limited. This study seeks to examine both the direct and indirect effects of audit findings and the follow-up of audit recommendations on public service quality. The analysis covers 480 regency and city governments over the period 2021–2022, employing panel data regression, ordinal logistic regression, and the Sobel test. The findings reveal that audit findings negatively affect public service quality, while the follow-up on audit recommendations has a positive impact. These effects are observed both directly and indirectly, mediated by the quality of financial statements. This underscores the critical role of sound financial management in delivering high-quality public services. The results suggest that government agencies should not only strive for unqualified audit opinions but also prioritize the thorough follow-up of audit findings and recommendations. Doing so enhances both the quality of financial reporting and the overall delivery of public services.

Keywords: Public Service, Opinion, Audit Findings, Audit Recommendations Follow-up

Introduction

Public services encompass all activities provided to the community by public service providers, as stipulated by Law No. 25/2009. The quality of these services can be measured by comparing their delivery against predefined standards. Public services, especially in strategic sectors, are often monopolized or exclusively provided by the government, meaning that the standards used for measurement are typically established by the public service entities themselves (PP No. 96/2012). This self-regulation complicates the measurement of public service quality, quantity, and efficiency, thereby limiting research in this area (Furqan et al., 2020).

In Indonesia, public service quality remains suboptimal. According to the 2023 Public Service Implementation Compliance Assessment Report by Ombudsman RI, only 70% of regency and city governments fall within the green zone (high compliance), while 23% are classified as medium compliance (yellow zone), and 7% are in the low compliance (red zone). This study focuses on the quality of public services provided by regional

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Do Audit Findings and Audit Recommendations Follow-up Affect The Quality of Public Services? governments, particularly regency and city governments, which exhibit the highest concentration of yellow and red zones (Ombudsman RI, 2023).

Local governments hold the authority to manage their regions and fulfill their obligations under Law No. 23/2014. This necessitates accountable governance, reflected in the preparation of Regional Government Financial Statements (LKPD). Based on Article 23, Paragraph 5 of the 1945 Constitution, the Audit Board of Indonesia (BPK) is mandated to audit state finances to provide an opinion on the fairness of financial statements (BPK RI, 2017). Despite over 90% of local governments receiving unqualified opinions on their 2022 financial reports, BPK identified 7,661 audit findings, with 56% attributed to non-compliance with regulations, potentially leading to losses exceeding Rp 3 trillion. Audit recommendations are provided to address these findings and specify follow-up actions (BPK RI, 2023).

In this study, the quality of financial statements, as measured by audit opinions, serves as an intervening variable. Although most government agencies receive unqualified opinions (BPK RI, 2023), the numerous audit findings and recommendations highlight the need for improvement. The relationship between audit findings and the follow-up of audit recommendations (independent variables), financial statement quality (intervening variable), and public service quality (dependent variable) is explored in this research. The quality of financial statements reflects the effectiveness of government financial management, which is a crucial resource in delivering public services.

This study builds on the work of Furqan et al. (2020), who demonstrated that the quality of Regional Government Financial Statements (LKPD) positively influences public service quality. Their findings also showed that audit findings negatively affect both LKPD quality and public service quality, while follow-up on audit recommendations have a positive effect on both. However, Furqan et al. (2020) limited their analysis to a one-year period, whereas this study uses data from 2021–2022. Similar research by Pertiwi and Wibowo (2023) on Indonesian ministries and institutions yielded different results, concluding that follow-up audit recommendations did not affect financial statement quality, and audit findings did not influence public service quality. Additionally, Pramana et al. (2023) found that follow-up on audit recommendations had a positive impact on LKPD quality in district governments that received unqualified opinions for five consecutive years.

This study aims to analyze the influence of audit findings and the follow-up of audit recommendations on public service quality, with financial statement quality as a mediating variable. The research is expected to assist local governments in enhancing public service delivery by demonstrating how these factors impact service quality. It highlights the need for local governments to focus not only on obtaining favorable audit opinions but also on meeting financial audit criteria and diligently following up on audit recommendations to improve public service outcomes. Additionally, this study contributes to the limited literature on measuring public service quality. Notably, no prior research has used data from Ombudsman RI's compliance assessment of public service implementation.

Saipuloh et al. (2023) found that the follow-up on audit recommendations from the previous year had a significant positive effect on public service quality, as it helps local governments address underlying issues. This finding aligns with Pertiwi and Wibowo (2023) and Furqan et al. (2020) but contrasts with Lestari and Rohman (2022). Furqan et al. (2020) concluded that audit findings negatively affect public services, a view contrary to Saipuloh et al. (2023), Pertiwi and Wibowo (2023), and Lestari and Rohman (2022), who found no significant effect. Saipuloh et al. (2023) also emphasized that audit opinions are based on the fairness of financial statements rather than overall government

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Do Audit Findings and Audit Recommendations Follow-up Affect The Quality of Public Services? performance. Furqan et al. (2020) demonstrated that financial statement quality mediates the relationship between audit findings, follow-up recommendations, and public service quality, while Lestari and Rohman (2022) found no such mediation. Pertiwi and Wibowo (2023) noted that financial statement quality only mediates the relationship between audit findings and public service quality.

The formulation of this study's hypotheses is grounded in Legitimacy Theory, which posits that government activities must align with societal norms and values to maintain public trust (Pertiwi & Wibowo, 2023). High public trust supports the success of development programs. Consequently, governments strive to improve accountability and service performance through transparent financial reporting and public service provision to sustain their legitimacy. A favorable audit opinion often enhances public legitimacy, and local governments frequently report such outcomes on official websites.

According to Legitimacy Theory, local governments seek to avoid audit findings by strengthening internal control systems and complying with regulations to preserve their reputation. This, in turn, leads to better financial management and higher-quality public services. Many audit findings reveal weaknesses in internal controls and governance, which can result in ineffective financial management and substandard public service delivery (Pertiwi & Wibowo, 2023). Thus, it is hypothesized that:

H₁: Audit findings have a negative effect on the quality of public services.

In line with Legitimacy Theory, local governments strive to implement the audit recommendations issued by BPK RI to preserve or enhance their reputation. These recommendations address key issues in public service delivery, suggesting improvements in internal control, legal compliance, and operational efficiency (Saipuloh et al., 2023). By following up on these recommendations, governments can improve the effectiveness, efficiency, and accountability of both financial management and public services (Furqan et al., 2020). Therefore, greater adherence to audit recommendation follow-up is expected to enhance public service quality.

H₂: Follow-up on audit recommendations has a positive effect on the quality of public services.

Aligned with Legitimacy Theory, entities seek to conform to societal expectations in order to gain public support and recognition (Crossley et al., 2021). Local governments earn public trust by obtaining unqualified audit opinions, which are granted when they meet BPK RI's criteria, such as compliance with accounting standards, adequate disclosure, legal adherence, and effective internal control systems (BPK RI, 2017). Failing to meet these criteria results in audit findings, motivating local governments to work diligently toward preventing such findings and improving the quality of their financial statements (Furqan et al., 2020).

However, when internal controls are ineffective, legal compliance is low, and financial management efficiency is compromised, governments accumulate significant audit findings. These findings negatively impact on the quality of financial statements, as reflected in poorer audit opinions. Since public services are largely funded by state or regional budgets, poor financial management inevitably leads to a decline in public service quality. Thus, an increase in audit findings is expected to reduce the quality of financial reporting, which in turn diminishes the quality of public services.

H₃: Audit findings negatively affect public service quality through the quality of financial statements.

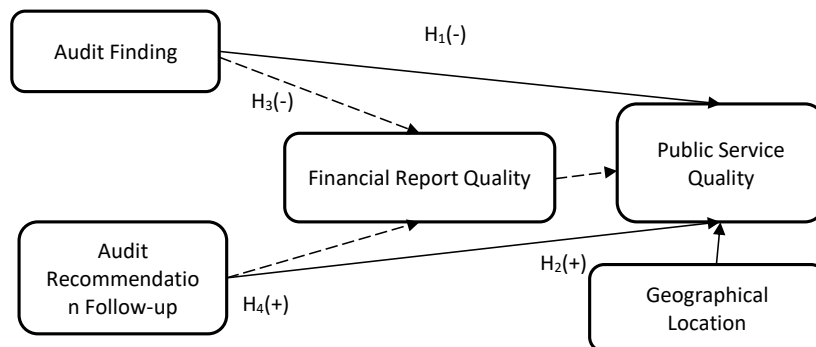
Saipuloh et al. (2023) argued that the implementation of audit recommendations offers valuable insights for local governments to enhance internal controls and compliance with laws, positively influencing the quality of financial statements. High-quality financial reports reflect sound financial management. Since public services are

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Do Audit Findings and Audit Recommendations Follow-up Affect The Quality of Public Services? funded, at least in part, by state or regional finances, proper financial management leads to better public service delivery (Furqan et al., 2020). Therefore, following up on audit recommendations not only improves financial statement quality but also contributes to higher-quality public services.

H₄: Follow-up on audit recommendations positively affects public service quality through the quality of financial statements.

Research Methods



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The independent variables in this study are audit findings (X1) and the follow-up of audit recommendations (X2), while the dependent variable is public service quality (Y). Financial statement quality (Z) serves as the intervening variable, and geographical location is included as a control variable. This study investigates the influence of audit findings and the follow-up of audit recommendations on public service quality, with financial statement quality acting as a mediator and geographical location as a control.

The research adopts a quantitative approach using secondary data from the *Summary of Audit Reports* (IHPS) published by BPK RI¹ and the *Executive Summary of Public Service Standards Compliance Assessment* by Ombudsman RI.² The sample consists of district and city governments, selected due to their lower compliance levels in Ombudsman RI assessments over the past three years (Ombudsman RI, 2023). The period 2021–2022 was chosen as it reflects the most recent available data. Using purposive sampling based on data availability, 480 out of 514 governments were included.

Public service quality is measured based on the scores from the *Compliance Assessment of Public Service Implementation* by Ombudsman RI. Audit findings are quantified following the method used by Kiswanto & Fatmawati (2019), defined as the total number of audit findings divided by total budget expenditures. The follow-up of audit recommendations is measured according to Furqan et al. (2020), by calculating the percentage of recommendations followed up relative to the total audit recommendations. Financial statement quality is assessed using the BPK RI audit opinions, as per Din et al. (2017) and Kusumawati & Ratmono (2017), on an ordinal scale from 1 to 4: "Disclaimer," "Adverse," "Qualified," and "Unqualified." Geographical location, the control variable, is represented as a dummy variable, with "1" for regency/city governments located on Java and "0" for those outside Java.

¹ available at <https://www.bpk.go.id/ihps>

² available at <https://ombudsman.go.id/produk>

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Given the intervening variable of financial statement quality, this study employs two equations. Equation 1 examines the direct effect of the four variables—audit findings, follow-up of audit recommendations, financial statement quality, and geographical location—on public service quality, using panel data regression. Equation 2 assesses the relationship between the independent variables (audit findings and follow-up of audit recommendations) and the intervening variable (financial statement quality) through ordinal logistic regression, as financial statement quality is treated as an ordinal dependent variable in this equation. Both analyses will be conducted using Eviews 9, and the Interactive Mediation Test Online by Daniel Soper will be used to test whether financial statement quality mediates the relationship between the independent and dependent variables.

The initial analysis consists of descriptive statistics, aimed at providing an overview of the data without drawing conclusions. The descriptive statistics will include the mean, maximum, minimum, mode, and standard deviation for each variable (Sahir, 2021). Next, panel data regression will be conducted for Equation 1. As panel data consists of both cross-sectional and time-series components, model selection is required. The three estimation approaches for panel data regression models are the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) (Basuki, 2021). To determine the most appropriate model, two of the following three tests will be conducted: the Chow Test, Hausman Test, and Lagrange Multiplier Test. If the probability value from the Chow Test's Chi-square cross-section is less than 0.05, the FEM is preferred and will proceed to the Hausman Test. If the Hausman Test's cross-section random probability value is less than 0.05, the FEM remains the appropriate model; otherwise, the REM is selected.

After selecting the most appropriate model, hypothesis testing is conducted. The F-test is used to determine whether all independent variables have a joint or simultaneous influence on the dependent variable (Sahir, 2021). The decision is based on the F-Statistic's probability value and a predefined significance level (α). Following this, the Coefficient of Determination Test is performed by examining the adjusted R-squared (Adj R-Square) value, which indicates the proportion of variance in the dependent variable explained by the independent variables (Sahir, 2021). The Adj R-Square value ranges from 0 to 1, with higher values suggesting a stronger explanatory power of the independent variables in predicting the dependent variable. Lastly, the T-Test assesses the individual influence of each independent variable on the dependent variable, with the decision based on the probability value at a specified significance level (α).

Next, equation 2 is tested. The effect of the independent variables—Audit Findings and Follow-up of Audit Recommendations—on the intervening variable, Financial Statement Quality, is analyzed using ordinal logistic regression. Unlike linear regression, ordinal logistic regression does not require classical assumption tests (Gujarati, 2012). The simultaneous effect of multiple independent variables on the dependent variable is evaluated using the Likelihood Ratio (LR) statistic (Iban, 2017). Similar to the F-test in linear regression, if the LR statistic's probability value is less than 0.05, the independent variables jointly affect the dependent variable. The Coefficient of Determination in ordinal logistic regression is measured by the Pseudo R-Squared value, indicating the extent to which the independent variables explain the variation in the dependent variable, with the remainder attributed to factors outside the model (Iban, 2017). The partial effect of each independent variable on the dependent variable is tested using the Statistical Z Test, analogous to the T-Test in linear regression, with the decision based on the comparison of the probability value to the significance level (α).

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Finally, the Sobel Test is conducted to determine whether the intervening variable mediates the relationship between the independent and dependent variables. The Sobel test is carried out using Daniel Soper's Interactive Mediation Test Online, available at www.danielsoper.com. If the probability value is less than 0.05 or the Sobel test statistic exceeds 1.96, the intervening variable is confirmed to mediate the relationship between the independent and dependent variables.

Result and Discussion

Table 1. Descriptive Statistics

Variable	FINDING	FOLUP	FINQ	ISLAND	PUBQ
Mean	0.0031	0.5177	3.9052	0.2292	71.1078
Maximum	0.1590	1.0000	4.0000	1.0000	99.7000
Minimum	0.0000	0.0000	1.0000	0.0000	9.6300
Std. Dev.	0.0089	0.2823	0.3771	0.4205	15.7351
Mode	0.0000	0.0000	4.0000	0.0000	61.5300
Observations	960	960	960	960	960

Source: Processed secondary data using EvIEWS 9 and Excel.

Where,

- PUBQ = Public Service Quality,
- FINQ = Financial Statement Quality,
- FINDING = Audit Findings,
- FOLUP = Follow-up of Audit Recommendations,
- ISLAND = Geographical Location of the Regional Government.

Descriptive Analysis

Based on the descriptive statistics presented in Table 1, the analysis for the 960 samples reveals several key findings. First, the average audit finding for district and city governments is 0.31% of total spending, with the highest audit finding reaching 15.90% and the lowest at 0%. Second, the follow-up on audit recommendations shows that, on average, 51.77% of recommendations have been implemented, with some governments achieving 100% follow-up, while others have not followed up at all. Third, in terms of financial statement quality, most district and city governments received unqualified opinions, though some still obtained disclaimer opinions. Fourth, the sample contains more district and city governments located outside the island of Java. Lastly, the average quality of public services in the sample is 71 out of 100, with the highest score being 99.70 and the lowest at 9.63.

These findings provide a broad overview of the variables analyzed in this study. The panel data regression analysis for equation 1 begins by estimating the results for each model, as outlined in Table 2.

Table 2. Model Estimation Results

Test	Statistic	Prob	Conclusion
Chow Test	Cross-section Chi-square = 1309.9356	0.0000	FEM accepted
Hausman Test	Cross-section random = 29.9782	0.0000	FEM accepted

Source: Processed secondary data using EvIEWS 9.

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To determine the appropriate model for this study, model selection tests were conducted. Based on the results of the Chow Test and Hausman Test (Table 2), the Fixed Effect Model (FEM) was identified as the most suitable for the panel data regression in this study.

Table 3. Model Selection Results

Variable	Common Effect	Fixed Effect	Random Effect
	Coefficient	Prob	Coefficient
C	0.3894	0.0000	0.3833
FINDING	-0.0093	0.1023	-0.0112
FINQ	0.0713	0.0000	0.0698
FIP	0.0779	0.0000	0.1053
ISLAND	0.0258	0.0432	0.0176

Goodness of Fit

Measure	Common Effect	Fixed Effect	Random Effect
R-squared	0.0777	0.1115	0.0484
Adj R-squared	0.0738	0.1069	0.0444
F-Statistic	20.1030	23.9487	12.1360
Prob F-stat	0.0000	0.0000	0.0000

Source: Processed secondary data using EvIEWS 9.

As shown in Table 3, the Fixed Effect Model (FEM) demonstrates the best fit for the data, as indicated by the highest R-squared and Adjusted R-squared values. Additionally, the Prob F-statistic values are all below 0.05, confirming the significance of the models. The FEM was therefore selected for further analysis.

Based on the panel data regression results in Table 3, the F-statistic's probability value is 0.0000, which is less than the 0.05 significance level (alpha 5%). This indicates that the four variables in the regression equation have a joint and significant influence on the dependent variable, public service quality. The Adjusted R-squared value is 0.1069, suggesting that the variables in this study explain 10.69% of the variation in public service quality, while the remaining 89.31% is attributable to factors not included in this study. The focus here is on financial statement factors that likely affect the process dimensions, although Ombudsman RI's assessment also considers input, output, and complaint dimensions (Ombudsman RI, 2023).

From Table 3, the probability value for the FINDING variable is less than 0.05, indicating that audit findings have a significant and negative direct effect on public service quality. Therefore, the first hypothesis—that audit findings negatively affect the quality of public services—is accepted. Although audit findings are traditionally seen as outcomes of financial audit activities (BPK RI, 2017), they extend beyond financial statement corrections. In the 2022 BPK RI audit, 44.6% of the findings were due to internal control weaknesses, while 55% resulted from non-compliance with laws and regulations (BPK RI, 2023). These regulations encompass more than just accounting or financial statement preparation.

This aligns with the findings of Pertiwi and Wibowo (2023), who noted that a higher ratio of audit findings to total expenditure indicates significant weaknesses in internal control systems and governance compliance. Such deficiencies lead to ineffective financial management, which negatively impacts public service delivery. In this context,

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Do Audit Findings and Audit Recommendations Follow-up Affect The Quality of Public Services? finances represent an agency's operational resources (input), while public services constitute the output provided to the community. When there are numerous weaknesses in input management, the quality of output inevitably suffers.

This conclusion is consistent with the descriptive statistics presented in Table 4. Among regency/city governments with the highest percentage of audit findings, the quality of public services is frequently below standard. For instance, in 2021, seven out of the ten governments with the most audit findings were classified in the yellow or red zones for public service compliance. In 2022, almost all of these governments were still categorized as having low compliance levels.

Tabel 4. Regency/City Governments with the Most Findings in 2021-2022

No	Regency/city	2021		Regency/city	2022	
		Audit Findings	Public Service		Audit Findings	Public Service
1	Sarmi Regency	15.78%	Yellow	Sumbawa Barat Reg.	15.91%	Red
2	Penajam Paser Utara Regency	2.84%	Yellow	Buru Selatan Regency	11.87%	Yellow
3	Konawe Kepulauan Regency	1.59%	Red	Pulau Taliabu Regency	5.69%	Yellow
4	Bombana Regency	1.41%	Red	Waropen Reg.	5.01%	Green
5	Kolaka Utara, Regency	1.35%	Green	Ogan Ilir Reg.	2.38%	Yellow
6	Pulau Taliabu Regency	1.29%	Yellow	Gorontalo Regency	2.33%	Red
7	Padang Lawas Utara Regency	1.26%	Green	Kaur Regency	1.85%	Red
8	Mamberamo Raya Regency	1.14%	Yellow	Konawe Selatan Reg.	1.85%	Red
9	Maluku Tenggara Reg.	1.12%	Green	Kerinci Reg.	1.81%	Yellow
10	Bandung Reg.	0.08%	Yellow	Gorontalo City	1.62%	Yellow

Source: Results of researcher secondary data processing from IHPS I 2022 and 2023 and Compliance Assessment Report for Public Service Implementation 2021 and 2022

Based on Table 2, the probability value for the FOLUP variable is less than 0.05, indicating that the follow-up on audit recommendations has a significant and positive direct effect on public service quality. This finding aligns with Legitimacy Theory, as government agencies are motivated to demonstrate their improvements and good performance to the public (Pertiwi & Wibowo, 2023). The extent of audit recommendations follow-up is regularly monitored by the regional parliament (DPRD) and the community through the Summary of Audit Reports (IHPS) published semiannually by BPK RI. Moreover, BPK considers the follow-up on previous audit recommendations when conducting the financial audit for the current year, which further incentivizes local governments to act on these recommendations.

Audit recommendations are designed to address the issues identified in audit findings (BPK RI, 2017). By following up on these recommendations, local governments can enhance the effectiveness, efficiency, and accountability in performing their duties,

Commented [PS2]: Saya tidak bisa menemukan variabel FOLUP di table 2. Tolong diperbaiki.

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This conclusion is further supported by the descriptive statistics in Table 5. In 2022, all regency and city governments that fully followed up on the 2021 audit recommendations were assessed by Ombudsman RI as having a high level of compliance in public service implementation. In contrast, only 27% of the governments that did not follow up on audit recommendations at all were in the green zone, with the remainder falling into the yellow and red zones, indicating that most did not meet public service standards. The 2022 public service outcomes are considered more representative, as Ombudsman RI introduced a more comprehensive assessment method. This new method evaluates not only the availability of service standards and public feedback but also the competence of service providers, the availability and quality of infrastructure, and the supervision and management of complaints (Ombudsman RI, 2023).

Table 5 Distribution of Audit Recommendation Follow-up and Quality of Public Services of Regency/City Governments

Follow-up	2022		
	Green	Yellow	Red
100%	100%	0%	0%
0%	27%	63%	10%

Source : Results of the processing of the 2021 and 2022 Public Service Implementation Compliance Report and IHPS I 2022 and 2023

As shown in Table 2, the probability value for the ISLAND variable is less than 0.05, indicating that geographical location does not significantly affect public service quality. The geographical location variable divides regency/city governments between those located on the island of Java and those outside Java, based on the assumption that public service quality in Java might be higher. However, the panel data regression results indicate that geographical location has no measurable effect on public service quality. This may be attributed to increasing development and improved access to services outside Java, reducing the relevance of geographical differences in public service quality.

In this study, public service quality was measured using scores from Ombudsman RI, whereas Furqan et al. (2020) used EKPPD scores. The Ombudsman RI assessment incorporates public perceptions of service quality, which includes an element of permissiveness from service recipients. Individuals who have not experienced public services in other regions may find it difficult to compare service quality across different regencies or cities. For example, residents of Regency A may be satisfied with a 2-3 day processing time for simple documents, seeing it as the norm. However, in Regency B, similar services may be completed in just one day. If residents of Regency A were aware of faster services elsewhere, their assessment might differ. The permissiveness aspect is minimized with EKPPD scores, as these scores are based on standardized indicators applied uniformly across all regency/city governments.

Although the control variable, geographical location, was not found to significantly affect the dependent variable, the descriptive statistics in Table 6 indicate that, over the two-year study period, regency/city governments outside Java consistently dominate the red zone in terms of public service quality. Even when viewed proportionally, this suggests that the level of compliance with public service standards in regency/city governments outside Java remains lower than in those located on Java Island.

Commented [PS3]: Mohon di cek kembali tabel 2. Saya tidak menemukan variabel ISLAND pada tabel 2.

Table 6 Results of Compliance Assessment of Public Service Implementation by Zone

Zona	2021				2022			
	Non Java	Java	Total	(%)	Non Java	Java	Total	(%)
Green	104	26	130	27%	126	59	185	39%
Yellow	201	83	284	59%	221	54	275	57%
Red	62	4	66	14%	20	0	20	4%
Total	367	113	480	100%	367	113	480	100%

Source: Results of the processing of the 2021 and 2022 Public Service Implementation Compliance Report

Before assessing whether the quality of financial statements mediates the relationship between the independent and dependent variables, it is essential to first test whether the independent variables have a significant effect on the intervening variable. In this step, the intervening variable, financial statement quality, will be treated as the dependent variable and analyzed using ordinal logistic regression.

Table 7. Results of Ordinal Logistics Regression

Variable	Coefficient	Std. Error	z-Statistic	Prob.
FOLUP	0.8376	0.4415	1.8973	0.0578
FINDING2	-0.3493	0.0898	-3.8883	0.0001
Pseudo R-squared	0.0463			
Prob(LR statistic)	0.000002			

Source : Output Eviews 9

Based on the ordinal logistic regression results shown in Table 7, the probability value (LR Statistic) of 0.000002, which is less than 0.01 (alpha 1%), indicates that at least one independent variable significantly affects the dependent variable. The Pseudo R-Squared value of 0.0463 suggests that the Audit Findings and Audit Recommendation Follow-up variables explain 4.63% of the variation in Financial Statement Quality, while the remaining 95.37% is attributable to factors outside the study.

The test results show that the Prob value for Audit Findings is 0.0001, which is less than 0.01 (alpha 1%), indicating that Audit Findings have a statistically significant negative effect on Financial Statement Quality at the 99% confidence level. Similarly, a Prob value of 0.0578, which is less than 0.10 (alpha 10%), indicates that Audit Recommendation Follow-up has a positive effect on Financial Statement Quality at a 90% confidence level.

The Sobel test was conducted using Daniel Soper's interactive mediation test online by inputting the coefficient and standard error values. The indirect effect of the independent variables on the dependent variable was calculated by multiplying the coefficient of the independent variable's effect on the intervening variable by the coefficient of the intervening variable's effect on the dependent variable. The resulting p-values and coefficients for each variable are presented in Table 8.

Table 8. Sobel Test Results

Variable	P-value	Coefficient
FINDING → FINQ → PUBQ	0,0008	-0,0244
FOLUP → FINQ → PUBQ	0,0369	0,0585

Source : Output *Interactive Mediation Test Online*

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Based on the Sobel test results in Table 8, the indirect effect of audit findings on public service quality has a P-value of less than 0.05 (alpha 5%) with a negative coefficient. This indicates that the third hypothesis—that audit findings negatively affect public service quality through financial statement quality—is accepted. Similarly, the indirect effect of audit recommendation follow-up on public service quality has a P-value of less than 0.05 with a positive coefficient. This supports the fourth hypothesis, which states that audit recommendation follow-up positively affects public service quality through financial statement quality.

Legitimacy theory posits that organizations, including public institutions, seek to align their actions with public expectations to gain support and recognition. In the case of local governments, this is reflected in their efforts to obtain unqualified audit opinions (Pertiwi & Wibowo, 2023). While audit opinions primarily assess the fairness of financial statements (BPK RI, 2017), BPK RI also considers factors such as compliance with accounting standards, adequacy of disclosures, adherence to laws and regulations, and the effectiveness of internal controls. Any discrepancies between actual performance and ideal criteria are identified as audit findings (BPK RI, 2017). Local governments, therefore, strive to minimize audit findings by ensuring conformity with legal and regulatory standards, which in turn improves the quality of their financial statements.

Audit recommendation follow-up is undertaken to address the audit findings from the previous year. When recommendations are appropriately implemented, they significantly improve internal controls and compliance with laws and regulations (Saipuloh et al., 2023). The higher the level of follow-up implementation, the greater the improvements within the agency. More effective internal controls and higher compliance levels lead to improved financial statement quality. Furthermore, because BPK RI considers the follow-up on previous years' audit recommendations during the current year's audit, agencies that effectively implement these follow-ups are more likely to improve their financial statement quality. High-quality financial statements reflect strong financial management, which, in turn, leads to better public service quality.

Conclusion

Table 9. Summary of Findings

Effect	Direction	Prob	Hypothesis
FINDING → PUBQ	(-)	significant	Accepted
FOLUP → PUBQ	(+)	significant	Accepted
FINDING → FINQ → PUBQ	(-)	significant	Accepted
FOLUP → FINQ → PUBQ	(+)	significant	Accepted

Based on the analysis and testing of the data, the author concludes that audit findings have a proven negative effect, while the follow-up of audit recommendations has a proven positive effect on public service quality, both directly and indirectly through the quality of financial statements. This indicates that when local governments take steps to avoid audit findings, including by complying with laws and regulations and implementing effective internal controls, they not only produce higher-quality financial statements but also improve public service quality. Similarly, the study shows that when local governments follow up on audit recommendations as required, both financial management quality and public service quality are enhanced.

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This study suggests that local governments should not focus solely on obtaining unqualified opinions but should strive to ensure financial management is carried out in accordance with regulations to achieve high-quality outcomes. Additionally, governments should work to improve their follow-up on audit recommendations, as the average follow-up rate for 2021–2022 was only 51.76%.

There are some limitations to this study. Many factors can influence public service quality, but this study only examines the effects related to financial statements. The 2023 Public Service Implementation Compliance Assessment Report by Ombudsman RI evaluates public services based on four dimensions: input (infrastructure and personnel), process (procedures and service delivery mechanisms), output (public perception), and complaints. The variables in this study pertain only to the process dimension.

Future research could explore additional factors influencing public service quality beyond financial statement-related aspects, given the limited research in this area. Furthermore, this study found that disparities in public service quality between Java and regions outside Java are not driven by geographical location. Future research could investigate which factors more dominantly contribute to these differences. For instance, factors related to the characteristics of the service recipient population or the work culture of service providers could offer valuable insights and provide interesting topics for further exploration.

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Do Audit Findings and Audit Recommendations Follow-up Affect The Quality of Public Services?

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Abstract

Public services, traditionally provided by government agencies, present challenges in measuring their quality. As a result, research on public service quality remains relatively limited. This study seeks to examine both the direct and indirect effects of audit findings and the follow-up of audit recommendations on public service quality. The analysis covers 480 regency and city governments over the period 2021–2022, employing panel data regression, ordinal logistic regression, and the Sobel test. The findings reveal that audit findings negatively affect public service quality, while the follow-up on audit recommendations has a positive impact. These effects are observed both directly and indirectly, mediated by the quality of financial statements. This underscores the critical role of sound financial management in delivering high-quality public services. The results suggest that government agencies should not only strive for unqualified audit opinions but also prioritize the thorough follow-up of audit findings and recommendations. Doing so enhances both the quality of financial reporting and the overall delivery of public services.

Keywords: Public Service, Opinion, Audit Findings, Audit Recommendations Follow-up

Introduction

Public services encompass all activities provided to the community by public service providers, as stipulated by Law No. 25/2009. The quality of these services can be measured by comparing their delivery against predefined standards. Public services, especially in strategic sectors, are often monopolized or exclusively provided by the government, meaning that the standards used for measurement are typically established by the public service entities themselves (PP No. 96/2012). This self-regulation complicates the measurement of public service quality, quantity, and efficiency, thereby limiting research in this area (Furqan et al., 2020).

In Indonesia, public service quality remains suboptimal. According to the 2023 Public Service Implementation Compliance Assessment Report by Ombudsman RI, only 70% of regency and city governments fall within the green zone (high compliance), while 23% are classified as medium compliance (yellow zone), and 7% are in the low compliance (red zone). This study focuses on the quality of public services provided by regional

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Local governments hold the authority to manage their regions and fulfill their obligations under Law No. 23/2014. This necessitates accountable governance, reflected in the preparation of Regional Government Financial Statements (LKPD). Based on Article 23, Paragraph 5 of the 1945 Constitution, the Audit Board of Indonesia (BPK) is mandated to audit state finances to provide an opinion on the fairness of financial statements (BPK RI, 2017). Despite over 90% of local governments receiving unqualified opinions on their 2022 financial reports, BPK identified 7,661 audit findings, with 56% attributed to non-compliance with regulations, potentially leading to losses exceeding Rp 3 trillion. Audit recommendations are provided to address these findings and specify follow-up actions (BPK RI, 2023).

In this study, the quality of financial statements, as measured by audit opinions, serves as an intervening variable. Although most government agencies receive unqualified opinions (BPK RI, 2023), the numerous audit findings and recommendations highlight the need for improvement. The relationship between audit findings and the follow-up of audit recommendations (independent variables), financial statement quality (intervening variable), and public service quality (dependent variable) is explored in this research. The quality of financial statements reflects the effectiveness of government financial management, which is a crucial resource in delivering public services.

This study builds on the work of Furqan et al. (2020), who demonstrated that the quality of Regional Government Financial Statements (LKPD) positively influences public service quality. Their findings also showed that audit findings negatively affect both LKPD quality and public service quality, while follow-up on audit recommendations have a positive effect on both. However, Furqan et al. (2020) limited their analysis to a one-year period, whereas this study uses data from 2021–2022. Similar research by Pertiwi and Wibowo (2023) on Indonesian ministries and institutions yielded different results, concluding that follow-up audit recommendations did not affect financial statement quality, and audit findings did not influence public service quality. Additionally, Pramana et al. (2023) found that follow-up on audit recommendations had a positive impact on LKPD quality in district governments that received unqualified opinions for five consecutive years.

This study aims to analyze the influence of audit findings and the follow-up of audit recommendations on public service quality, with financial statement quality as a mediating variable. The research is expected to assist local governments in enhancing public service delivery by demonstrating how these factors impact service quality. It highlights the need for local governments to focus not only on obtaining favorable audit opinions but also on meeting financial audit criteria and diligently following up on audit recommendations to improve public service outcomes. Additionally, this study contributes to the limited literature on measuring public service quality. Notably, no prior research has used data from Ombudsman RI's compliance assessment of public service implementation.

Saipuloh et al. (2023) found that the follow-up on audit recommendations from the previous year had a significant positive effect on public service quality, as it helps local governments address underlying issues. This finding aligns with Pertiwi and Wibowo (2023) and Furqan et al. (2020) but contrasts with Lestari and Rohman (2022). Furqan et al. (2020) concluded that audit findings negatively affect public services, a view contrary to Saipuloh et al. (2023), Pertiwi and Wibowo (2023), and Lestari and Rohman (2022), who found no significant effect. Saipuloh et al. (2023) also emphasized that audit opinions are based on the fairness of financial statements rather than overall government

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The formulation of this study's hypotheses is grounded in Legitimacy Theory, which posits that government activities must align with societal norms and values to maintain public trust (Pertiwi & Wibowo, 2023). High public trust supports the success of development programs. Consequently, governments strive to improve accountability and service performance through transparent financial reporting and public service provision to sustain their legitimacy. A favorable audit opinion often enhances public legitimacy, and local governments frequently report such outcomes on official websites.

According to Legitimacy Theory, local governments seek to avoid audit findings by strengthening internal control systems and complying with regulations to preserve their reputation. This, in turn, leads to better financial management and higher-quality public services. Many audit findings reveal weaknesses in internal controls and governance, which can result in ineffective financial management and substandard public service delivery (Pertiwi & Wibowo, 2023). Thus, it is hypothesized that:

H₁: Audit findings have a negative effect on the quality of public services.

In line with Legitimacy Theory, local governments strive to implement the audit recommendations issued by BPK RI to preserve or enhance their reputation. These recommendations address key issues in public service delivery, suggesting improvements in internal control, legal compliance, and operational efficiency (Saipuloh et al., 2023). By following up on these recommendations, governments can improve the effectiveness, efficiency, and accountability of both financial management and public services (Furqan et al., 2020). Therefore, greater adherence to audit recommendation follow-up is expected to enhance public service quality.

H₂: Follow-up on audit recommendations has a positive effect on the quality of public services.

Aligned with Legitimacy Theory, entities seek to conform to societal expectations in order to gain public support and recognition (Crossley et al., 2021). Local governments earn public trust by obtaining unqualified audit opinions, which are granted when they meet BPK RI's criteria, such as compliance with accounting standards, adequate disclosure, legal adherence, and effective internal control systems (BPK RI, 2017). Failing to meet these criteria results in audit findings, motivating local governments to work diligently toward preventing such findings and improving the quality of their financial statements (Furqan et al., 2020).

However, when internal controls are ineffective, legal compliance is low, and financial management efficiency is compromised, governments accumulate significant audit findings. These findings negatively impact on the quality of financial statements, as reflected in poorer audit opinions. Since public services are largely funded by state or regional budgets, poor financial management inevitably leads to a decline in public service quality. Thus, an increase in audit findings is expected to reduce the quality of financial reporting, which in turn diminishes the quality of public services.

H₃: Audit findings negatively affect public service quality through the quality of financial statements.

Saipuloh et al. (2023) argued that the implementation of audit recommendations offers valuable insights for local governments to enhance internal controls and compliance with laws, positively influencing the quality of financial statements. High-quality financial reports reflect sound financial management. Since public services are

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H₄: Follow-up on audit recommendations positively affects public service quality through the quality of financial statements.

Research Methods

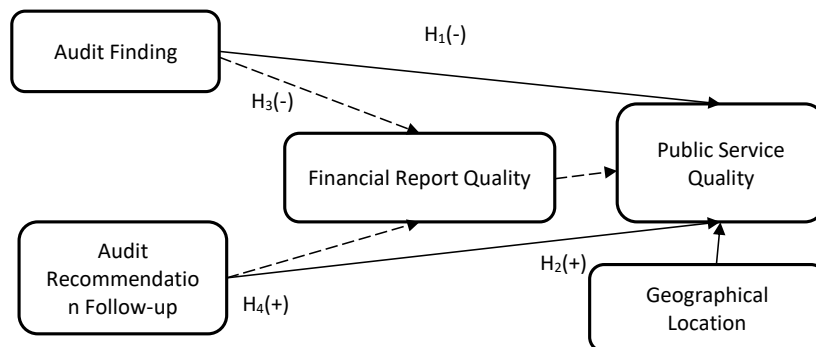


Figure 1 Research Framework

The independent variables in this study are audit findings (X1) and the follow-up of audit recommendations (X2), while the dependent variable is public service quality (Y). Financial statement quality (Z) serves as the intervening variable, and geographical location is included as a control variable. This study investigates the influence of audit findings and the follow-up of audit recommendations on public service quality, with financial statement quality acting as a mediator and geographical location as a control.

The research adopts a quantitative approach using secondary data from the *Summary of Audit Reports* (IHPS) published by BPK RI¹ and the *Executive Summary of Public Service Standards Compliance Assessment* by Ombudsman RI.² The sample consists of district and city governments, selected due to their lower compliance levels in Ombudsman RI assessments over the past three years (Ombudsman RI, 2023). The period 2021–2022 was chosen as it reflects the most recent available data. Using purposive sampling based on data availability, 480 out of 514 governments were included.

Public service quality is measured based on the scores from the *Compliance Assessment of Public Service Implementation* by Ombudsman RI. Audit findings are quantified following the method used by Kiswanto & Fatmawati (2019), defined as the total number of audit findings divided by total budget expenditures. The follow-up of audit recommendations is measured according to Furqan et al. (2020), by calculating the percentage of recommendations followed up relative to the total audit recommendations. Financial statement quality is assessed using the BPK RI audit opinions, as per Din et al. (2017) and Kusumawati & Ratmono (2017), on an ordinal scale from 1 to 4: "Disclaimer," "Adverse," "Qualified," and "Unqualified." Geographical location, the control variable, is represented as a dummy variable, with "1" for regency/city governments located on Java and "0" for those outside Java.

¹ available at <https://www.bpk.go.id/ihps>

² available at <https://ombudsman.go.id/produk>

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Given the intervening variable of financial statement quality, this study employs two equations. Equation 1 examines the direct effect of the four variables—audit findings, follow-up of audit recommendations, financial statement quality, and geographical location—on public service quality, using panel data regression. Equation 2 assesses the relationship between the independent variables (audit findings and follow-up of audit recommendations) and the intervening variable (financial statement quality) through ordinal logistic regression, as financial statement quality is treated as an ordinal dependent variable in this equation. Both analyses will be conducted using Eviews 9, and the Interactive Mediation Test Online by Daniel Soper will be used to test whether financial statement quality mediates the relationship between the independent and dependent variables.

The initial analysis consists of descriptive statistics, aimed at providing an overview of the data without drawing conclusions. The descriptive statistics will include the mean, maximum, minimum, mode, and standard deviation for each variable (Sahir, 2021). Next, panel data regression will be conducted for Equation 1. As panel data consists of both cross-sectional and time-series components, model selection is required. The three estimation approaches for panel data regression models are the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) (Basuki, 2021). To determine the most appropriate model, two of the following three tests will be conducted: the Chow Test, Hausman Test, and Lagrange Multiplier Test. If the probability value from the Chow Test's Chi-square cross-section is less than 0.05, the FEM is preferred and will proceed to the Hausman Test. If the Hausman Test's cross-section random probability value is less than 0.05, the FEM remains the appropriate model; otherwise, the REM is selected.

After selecting the most appropriate model, hypothesis testing is conducted. The F-test is used to determine whether all independent variables have a joint or simultaneous influence on the dependent variable (Sahir, 2021). The decision is based on the F-Statistic's probability value and a predefined significance level (α). Following this, the Coefficient of Determination Test is performed by examining the adjusted R-squared (Adj R-Square) value, which indicates the proportion of variance in the dependent variable explained by the independent variables (Sahir, 2021). The Adj R-Square value ranges from 0 to 1, with higher values suggesting a stronger explanatory power of the independent variables in predicting the dependent variable. Lastly, the T-Test assesses the individual influence of each independent variable on the dependent variable, with the decision based on the probability value at a specified significance level (α).

Next, equation 2 is tested. The effect of the independent variables—Audit Findings and Follow-up of Audit Recommendations—on the intervening variable, Financial Statement Quality, is analyzed using ordinal logistic regression. Unlike linear regression, ordinal logistic regression does not require classical assumption tests (Gujarati, 2012). The simultaneous effect of multiple independent variables on the dependent variable is evaluated using the Likelihood Ratio (LR) statistic (Iban, 2017). Similar to the F-test in linear regression, if the LR statistic's probability value is less than 0.05, the independent variables jointly affect the dependent variable. The Coefficient of Determination in ordinal logistic regression is measured by the Pseudo R-Squared value, indicating the extent to which the independent variables explain the variation in the dependent variable, with the remainder attributed to factors outside the model (Iban, 2017). The partial effect of each independent variable on the dependent variable is tested using the Statistical Z Test, analogous to the T-Test in linear regression, with the decision based on the comparison of the probability value to the significance level (α).

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Finally, the Sobel Test is conducted to determine whether the intervening variable mediates the relationship between the independent and dependent variables. The Sobel test is carried out using Daniel Soper's Interactive Mediation Test Online, available at www.danielsoper.com. If the probability value is less than 0.05 or the Sobel test statistic exceeds 1.96, the intervening variable is confirmed to mediate the relationship between the independent and dependent variables.

Result and Discussion

Table 1. Descriptive Statistics

Variable	FINDING	FOLUP	FINQ	ISLAND	PUBQ
Mean	0.0031	0.5177	3.9052	0.2292	71.1078
Maximum	0.1590	1.0000	4.0000	1.0000	99.7000
Minimum	0.0000	0.0000	1.0000	0.0000	9.6300
Std. Dev.	0.0089	0.2823	0.3771	0.4205	15.7351
Mode	0.0000	0.0000	4.0000	0.0000	61.5300
Observations	960	960	960	960	960

Source: Processed secondary data using EvIEWS 9 and Excel.

Where,

- PUBQ = Public Service Quality,
- FINQ = Financial Statement Quality,
- FINDING = Audit Findings,
- FOLUP = Follow-up of Audit Recommendations,
- ISLAND = Geographical Location of the Regional Government.

Descriptive Analysis

Based on the descriptive statistics presented in Table 1, the analysis for the 960 samples reveals several key findings. First, the average audit finding for district and city governments is 0.31% of total spending, with the highest audit finding reaching 15.90% and the lowest at 0%. Second, the follow-up on audit recommendations shows that, on average, 51.77% of recommendations have been implemented, with some governments achieving 100% follow-up, while others have not followed up at all. Third, in terms of financial statement quality, most district and city governments received unqualified opinions, though some still obtained disclaimer opinions. Fourth, the sample contains more district and city governments located outside the island of Java. Lastly, the average quality of public services in the sample is 71 out of 100, with the highest score being 99.70 and the lowest at 9.63.

These findings provide a broad overview of the variables analyzed in this study. The panel data regression analysis for equation 1 begins by estimating the results for each model, as outlined in Table 2.

Table 2. Model Estimation Results

Test	Statistic	Prob	Conclusion
Chow Test	Cross-section Chi-square = 1309.9356	0.0000	FEM accepted
Hausman Test	Cross-section random = 29.9782	0.0000	FEM accepted

Source: Processed secondary data using EvIEWS 9.

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To determine the appropriate model for this study, model selection tests were conducted. Based on the results of the Chow Test and Hausman Test (Table 2), the Fixed Effect Model (FEM) was identified as the most suitable for the panel data regression in this study.

Table 3. Model Selection Results

Variable	Common Effect		Fixed Effect		Random Effect	
	Coefficient	Prob	Coefficient	Prob	Coefficient	Prob
C	0.3894	0.0000	0.3833	0.0000	0.3998	0.0000
FINDING	-0.0093	0.1023	-0.0112	0.0451	-0.0018	0.7162
FINQ	0.0713	0.0000	0.0698	0.0000	0.0725	0.0000
FOLUP	0.0779	0.0000	0.1053	0.0000	0.0381	0.0253
ISLAND	0.0258	0.0432	0.0176	0.1615	0.0395	0.0064

Goodness of Fit

Measure	Common Effect	Fixed Effect	Random Effect
R-squared	0.0777	0.1115	0.0484
Adj R-squared	0.0738	0.1069	0.0444
F-Statistic	20.1030	23.9487	12.1360
Prob F-stat	0.0000	0.0000	0.0000

Source: Processed secondary data using EvIEWS 9.

As shown in Table 3, the Fixed Effect Model (FEM) demonstrates the best fit for the data, as indicated by the highest R-squared and Adjusted R-squared values. Additionally, the Prob F-statistic values are all below 0.05, confirming the significance of the models. The FEM was therefore selected for further analysis.

Based on the panel data regression results in Table 3, the F-statistic's probability value is 0.0000, which is less than the 0.05 significance level (alpha 5%). This indicates that the four variables in the regression equation have a joint and significant influence on the dependent variable, public service quality. The Adjusted R-squared value is 0.1069, suggesting that the variables in this study explain 10.69% of the variation in public service quality, while the remaining 89.31% is attributable to factors not included in this study. The focus here is on financial statement factors that likely affect the process dimensions, although Ombudsman RI's assessment also considers input, output, and complaint dimensions (Ombudsman RI, 2023).

From Table 3, the probability value for the FINDING variable is less than 0.05, indicating that audit findings have a significant and negative direct effect on public service quality. Therefore, the first hypothesis—that audit findings negatively affect the quality of public services—is accepted. Although audit findings are traditionally seen as outcomes of financial audit activities (BPK RI, 2017), they extend beyond financial statement corrections. In the 2022 BPK RI audit, 44.6% of the findings were due to internal control weaknesses, while 55% resulted from non-compliance with laws and regulations (BPK RI, 2023). These regulations encompass more than just accounting or financial statement preparation.

This aligns with the findings of Pertiwi and Wibowo (2023), who noted that a higher ratio of audit findings to total expenditure indicates significant weaknesses in internal control systems and governance compliance. Such deficiencies lead to ineffective financial management, which negatively impacts public service delivery. In this context,

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This conclusion is consistent with the descriptive statistics presented in Table 4. Among regency/city governments with the highest percentage of audit findings, the quality of public services is frequently below standard. For instance, in 2021, seven out of the ten governments with the most audit findings were classified in the yellow or red zones for public service compliance. In 2022, almost all of these governments were still categorized as having low compliance levels.

Tabel 4. Regency/City Governments with the Most Findings in 2021-2022

No	Regency/city	2021		Regency/city	2022	
		Audit Findings	Public Service		Audit Findings	Public Service
1	Sarmi Regency	15.78%	Yellow	Sumbawa Barat Reg.	15.91%	Red
2	Penajam Paser Utara Regency	2.84%	Yellow	Buru Selatan Regency	11.87%	Yellow
3	Konawe Kepulauan Regency	1.59%	Red	Pulau Taliabu Regency	5.69%	Yellow
4	Bombana Regency	1.41%	Red	Waropen Reg.	5.01%	Green
5	Kolaka Utara, Regency	1.35%	Green	Ogan Ilir Reg.	2.38%	Yellow
6	Pulau Taliabu Regency	1.29%	Yellow	Gorontalo Regency	2.33%	Red
7	Padang Lawas Utara Regency	1.26%	Green	Kaur Regency	1.85%	Red
8	Mamberamo Raya Regency	1.14%	Yellow	Konawe Selatan Reg.	1.85%	Red
9	Maluku Tenggara Reg.	1.12%	Green	Kerinci Reg.	1.81%	Yellow
10	Bandung Reg.	0.08%	Yellow	Gorontalo City	1.62%	Yellow

Source: Results of researcher secondary data processing from IHPS I 2022 and 2023 and Compliance Assessment Report for Public Service Implementation 2021 and 2022

Based on Table 3, the probability value for the FOLUP variable is less than 0.05, indicating that the follow-up on audit recommendations has a significant and positive direct effect on public service quality. This finding aligns with Legitimacy Theory, as government agencies are motivated to demonstrate their improvements and good performance to the public (Pertiwi & Wibowo, 2023). The extent of audit recommendations follow-up is regularly monitored by the regional parliament (DPRD) and the community through the Summary of Audit Reports (IHPS) published semiannually by BPK RI. Moreover, BPK considers the follow-up on previous audit recommendations when conducting the financial audit for the current year, which further incentivizes local governments to act on these recommendations.

Audit recommendations are designed to address the issues identified in audit findings (BPK RI, 2017). By following up on these recommendations, local governments can enhance the effectiveness, efficiency, and accountability in performing their duties,

Commented [PS3]: Saya tidak bisa menemukan variabel FOLUP di table 2. Tolong diperbaiki.

Commented [BI4R3]: Sudah disesuaikan

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This conclusion is further supported by the descriptive statistics in Table 5. In 2022, all regency and city governments that fully followed up on the 2021 audit recommendations were assessed by Ombudsman RI as having a high level of compliance in public service implementation. In contrast, only 27% of the governments that did not follow up on audit recommendations at all were in the green zone, with the remainder falling into the yellow and red zones, indicating that most did not meet public service standards. The 2022 public service outcomes are considered more representative, as Ombudsman RI introduced a more comprehensive assessment method. This new method evaluates not only the availability of service standards and public feedback but also the competence of service providers, the availability and quality of infrastructure, and the supervision and management of complaints (Ombudsman RI, 2023).

Table 5 Distribution of Audit Recommendation Follow-up and Quality of Public Services of Regency/City Governments

Follow-up	2022		
	Green	Yellow	Red
100%	100%	0%	0%
0%	27%	63%	10%

Source : Results of the processing of the 2021 and 2022 Public Service Implementation Compliance Report and IHPS I 2022 and 2023

As shown in Table 3, the probability value for the ISLAND variable is less than 0.05, indicating that geographical location does not significantly affect public service quality. The geographical location variable divides regency/city governments between those located on the island of Java and those outside Java, based on the assumption that public service quality in Java might be higher. However, the panel data regression results indicate that geographical location has no measurable effect on public service quality. This may be attributed to increasing development and improved access to services outside Java, reducing the relevance of geographical differences in public service quality.

In this study, public service quality was measured using scores from Ombudsman RI, whereas Furqan et al. (2020) used EKPPD scores. The Ombudsman RI assessment incorporates public perceptions of service quality, which includes an element of permissiveness from service recipients. Individuals who have not experienced public services in other regions may find it difficult to compare service quality across different regencies or cities. For example, residents of Regency A may be satisfied with a 2-3 day processing time for simple documents, seeing it as the norm. However, in Regency B, similar services may be completed in just one day. If residents of Regency A were aware of faster services elsewhere, their assessment might differ. The permissiveness aspect is minimized with EKPPD scores, as these scores are based on standardized indicators applied uniformly across all regency/city governments.

Although the control variable, geographical location, was not found to significantly affect the dependent variable, the descriptive statistics in Table 6 indicate that, over the two-year study period, regency/city governments outside Java consistently dominate the red zone in terms of public service quality. Even when viewed proportionally, this suggests that the level of compliance with public service standards in regency/city governments outside Java remains lower than in those located on Java Island.

Commented [PS5]: Mohon di cek kembali tabel 2. Saya tidak menemukan variabel ISLAND pada tabel 2.

Commented [BI6R5]: Sudah diperbaiki

Table 6 Results of Compliance Assessment of Public Service Implementation by Zone

Zona	2021				2022			
	Non Java	Java	Total	(%)	Non Java	Java	Total	(%)
Green	104	26	130	27%	126	59	185	39%
Yellow	201	83	284	59%	221	54	275	57%
Red	62	4	66	14%	20	0	20	4%
Total	367	113	480	100%	367	113	480	100%

Source: Results of the processing of the 2021 and 2022 Public Service Implementation Compliance Report

Before assessing whether the quality of financial statements mediates the relationship between the independent and dependent variables, it is essential to first test whether the independent variables have a significant effect on the intervening variable. In this step, the intervening variable, financial statement quality, will be treated as the dependent variable and analyzed using ordinal logistic regression.

Table 7. Results of Ordinal Logistics Regression

Variable	Coefficient	Std. Error	z-Statistic	Prob.
FOLUP	0.8376	0.4415	1.8973	0.0578
FINDING2	-0.3493	0.0898	-3.8883	0.0001
Pseudo R-squared	0.0463			
Prob(LR statistic)	0.000002			

Source : Output Eviews 9

Based on the ordinal logistic regression results shown in Table 7, the probability value (LR Statistic) of 0.000002, which is less than 0.01 (alpha 1%), indicates that at least one independent variable significantly affects the dependent variable. The Pseudo R-Squared value of 0.0463 suggests that the Audit Findings and Audit Recommendation Follow-up variables explain 4.63% of the variation in Financial Statement Quality, while the remaining 95.37% is attributable to factors outside the study.

The test results show that the Prob value for Audit Findings is 0.0001, which is less than 0.01 (alpha 1%), indicating that Audit Findings have a statistically significant negative effect on Financial Statement Quality at the 99% confidence level. Similarly, a Prob value of 0.0578, which is less than 0.10 (alpha 10%), indicates that Audit Recommendation Follow-up has a positive effect on Financial Statement Quality at a 90% confidence level.

The Sobel test was conducted using Daniel Soper's interactive mediation test online by inputting the coefficient and standard error values. The indirect effect of the independent variables on the dependent variable was calculated by multiplying the coefficient of the independent variable's effect on the intervening variable by the coefficient of the intervening variable's effect on the dependent variable. The resulting p-values and coefficients for each variable are presented in Table 8.

Table 8. Sobel Test Results

Variable	P-value	Coefficient
FINDING → FINQ → PUBQ	0,0008	-0,0244
FOLUP → FINQ → PUBQ	0,0369	0,0585

Source : Output *Interactive Mediation Test Online*

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Based on the Sobel test results in Table 8, the indirect effect of audit findings on public service quality has a P-value of less than 0.05 (alpha 5%) with a negative coefficient. This indicates that the third hypothesis—that audit findings negatively affect public service quality through financial statement quality—is accepted. Similarly, the indirect effect of audit recommendation follow-up on public service quality has a P-value of less than 0.05 with a positive coefficient. This supports the fourth hypothesis, which states that audit recommendation follow-up positively affects public service quality through financial statement quality.

Legitimacy theory posits that organizations, including public institutions, seek to align their actions with public expectations to gain support and recognition. In the case of local governments, this is reflected in their efforts to obtain unqualified audit opinions (Pertiwi & Wibowo, 2023). While audit opinions primarily assess the fairness of financial statements (BPK RI, 2017), BPK RI also considers factors such as compliance with accounting standards, adequacy of disclosures, adherence to laws and regulations, and the effectiveness of internal controls. Any discrepancies between actual performance and ideal criteria are identified as audit findings (BPK RI, 2017). Local governments, therefore, strive to minimize audit findings by ensuring conformity with legal and regulatory standards, which in turn improves the quality of their financial statements.

Audit recommendation follow-up is undertaken to address the audit findings from the previous year. When recommendations are appropriately implemented, they significantly improve internal controls and compliance with laws and regulations (Saipuloh et al., 2023). The higher the level of follow-up implementation, the greater the improvements within the agency. More effective internal controls and higher compliance levels lead to improved financial statement quality. Furthermore, because BPK RI considers the follow-up on previous years' audit recommendations during the current year's audit, agencies that effectively implement these follow-ups are more likely to improve their financial statement quality. High-quality financial statements reflect strong financial management, which, in turn, leads to better public service quality.

Conclusion

Table 9. Summary of Findings

Effect	Direction	Prob	Hypothesis
FINDING → PUBQ	(-)	significant	Accepted
FOLUP → PUBQ	(+)	significant	Accepted
FINDING → FINQ → PUBQ	(-)	significant	Accepted
FOLUP → FINQ → PUBQ	(+)	significant	Accepted

Based on the analysis and testing of the data, the author concludes that audit findings have a proven negative effect, while the follow-up of audit recommendations has a proven positive effect on public service quality, both directly and indirectly through the quality of financial statements. This indicates that when local governments take steps to avoid audit findings, including by complying with laws and regulations and implementing effective internal controls, they not only produce higher-quality financial statements but also improve public service quality. Similarly, the study shows that when local governments follow up on audit recommendations as required, both financial management quality and public service quality are enhanced.

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This study suggests that local governments should not focus solely on obtaining unqualified opinions but should strive to ensure financial management is carried out in accordance with regulations to achieve high-quality outcomes. Additionally, governments should work to improve their follow-up on audit recommendations, as the average follow-up rate for 2021–2022 was only 51.76%.

There are some limitations to this study. Many factors can influence public service quality, but this study only examines the effects related to financial statements. The 2023 Public Service Implementation Compliance Assessment Report by Ombudsman RI evaluates public services based on four dimensions: input (infrastructure and personnel), process (procedures and service delivery mechanisms), output (public perception), and complaints. The variables in this study pertain only to the process dimension.

Future research could explore additional factors influencing public service quality beyond financial statement-related aspects, given the limited research in this area. Furthermore, this study found that disparities in public service quality between Java and regions outside Java are not driven by geographical location. Future research could investigate which factors more dominantly contribute to these differences. For instance, factors related to the characteristics of the service recipient population or the work culture of service providers could offer valuable insights and provide interesting topics for further exploration.

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BUKTI KONFIRMASI ARTIKEL ACCEPTED



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Subject: Article Acceptance Letter

Dear Harti Budi Yanti, Barlian Izza Ardlillah

We are pleased to inform you that our reviewers has been accepted and recommended your manuscript entitled **"Do Audit Findings and Audit Rekommedations Follow-up Affect The Quality of Public Services?"**. Authored by **Harti Budi Yanti, Barlian Izza Ardlillah**, is accepted for in Volume 19 Number 2 (July Edition), 2024.

We are looking forward for more participation.

Congratulations on your acceptance!

Best Regards,

#

P. D'yan Yaniartha Sukartha

Editor in Chief

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