

**THE EFFECT OF AUDIT OPINION, AUDIT FINDING, AND  
AUDIT RECTIFICATION ON CORRUPTION LEVEL  
IN INDONESIAN PROVINCES YEAR 2018**



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*Proposed as One of the Requirements to Get A Bachelor of Economics Degree*

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FACULTY OF ECONOMICS  
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**COMPREHENSIVE EXAM APPROVAL LETTER**

**THE EFFECT OF AUDIT OPINION, AUDIT FINDING, AND  
AUDIT RECTIFICATION ON CORRUPTION LEVEL  
IN INDONESIAN PROVINCES YEAR 2018**

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## **MOTTO**

“In everything give thanks; for this is the will of God in Christ Jesus for you.”

**(1 Thessalonians 5 : 18)**

“Have I not commanded you? Be strong and of good courage; do not be afraid, nor be dismayed, for the Lord your God is with you wherever you go.”

**(Joshua 1 : 9)**

“Trust in the Lord with all your heart, and lean not on your own understanding; in all your ways acknowledge Him, and He shall direct your paths.”

**(Proverbs 3 : 5-6)**

“What appears to be tasteless in the beginning may come to be the most precious later”

**(Watchman Nee)**

**I present this script for:**

**God of the Heaven**

**My beloved parents**

**My sisters; Kezia, Karen and Devina**

**My best friends**

**Sriwijaya University**

## PREFACE

Praise and thank to God for the blessing and mercy so author can complete the script entitled “**The Effect of Audit Opinion, Audit Finding, and Audit Rectification on Corruption Level in Indonesian Provinces Year 2018**”. The script is made as one of the requirements to achieve Bachelor Degree of Economics (S1) in Economic Faculty, Sriwijaya University.

My sincere appreciation to many parties who have help me to finish the script. Therefore, author would like to express gratitude to:

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who have given their time, energy, and thought to guide and provide advices in completing this script.

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21. All of people related to the accomplishment of this script that author cannot mentions whose name one by one for all their help.

Author hopes that this script can be beneficial for many parties. Therefore, criticism and suggestion from all parties can improve this script for perfection will always be welcomed in the future.

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## ABSTRACT

### **The Effect of Audit Opinion, Audit Finding, and Audit Rectification on Corruption Level in Indonesian Provinces Year 2018**

**By:**  
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Agency theory assumes that information asymmetry will occur because the government as an agent has more information about the resources owned compared to the community. This asymmetry will make possible for corruption done by agents. Government auditing is believed to affect the level of local government corruption. This study aims to empirically examines the phenomenon about the influence of government audit result such as audit opinion, audit finding, and audit rectification on corruption level in Indonesian provinces. This research uses secondary data from the report of audit result issued by Supreme Audit Institutions of Republic of Indonesia, the Trend Reports of Handling Corruption from Indonesia Corruption Watch, and Central Bureau of Statistics. The object in this study is 34 provincial governments for the year 2018. This research uses purposive sampling and multiple linear regression analysis. The study shows that partially, audit rectification has negative effect on corruption level, audit finding and audit opinion has no effect on corruption level. This study has limitation related to the data of corruption cases which is supposedly less representative in real situation.

**Keywords:** *Corruption Level, Audit Opinion, Audit Finding, Audit Rectification.*

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## ABSTRAK

### The Effect of Audit Opinion, Audit Finding, and Audit Rectification on Corruption Level in Indonesian Provinces Year 2018

Oleh:  
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Teori agensi berasumsi bahwa asimetri informasi akan terjadi karena pemerintah sebagai agen memiliki lebih banyak informasi tentang sumber daya yang dimiliki dibandingkan dengan masyarakat. Asimetri ini akan memungkinkan terjadinya korupsi yang dilakukan oleh agen. Audit pemerintah diyakini memengaruhi tingkat korupsi pemerintah daerah. Penelitian ini bertujuan untuk menguji secara empiris fenomena tentang pengaruh hasil audit pemerintah seperti opini audit, temuan audit, dan perbaikan audit terhadap tingkat korupsi di provinsi-provinsi Indonesia. Penelitian ini menggunakan data sekunder dari laporan hasil pemeriksaan yang dikeluarkan oleh Badan Pemeriksa Keuangan Republik Indonesia, Laporan Tren Penindakan Kasus Korupsi dari *Indonesia Corruption Watch*, dan Badan Pusat Statistik. Objek dalam penelitian ini adalah 34 pemerintah provinsi untuk tahun 2018. Penelitian ini menggunakan *purposive sampling* dan analisis regresi linier berganda. Studi ini menunjukkan bahwa secara parsial, perbaikan audit berpengaruh negatif pada tingkat korupsi, temuan audit dan opini audit tidak berpengaruh terhadap tingkat korupsi. Penelitian ini memiliki keterbatasan terkait dengan data kasus korupsi yang dianggap kurang representatif dalam situasi nyata.

**Kata kunci: Tingkat Korupsi, Opini Audit, Temuan Audit, Perbaikan Audit.**

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## TABLE OF CONTENTS

COMPREHENSIVE EXAM APPROVAL LETTER .....	ii
SCRIPT APPROVAL LETTER .....	iii
STATEMENT OF RESEARCH INTEGRITY .....	iv
MOTTO .....	v
PREFACE .....	vi
LETTER OF STATEMENT .....	ix
ABSTRACT .....	x
ABSTRAK .....	xi
RESEARCHER RESUME .....	xii
TABLE OF CONTENTS .....	xiii
LIST OF TABLES .....	xvi
LIST OF FIGURES .....	xvii
CHAPTER I .....	1
1.1. Background .....	1
1.2. Problems Formulation .....	8
1.3. Objective of Research .....	8
1.4. Contribution of Research.....	8
CHAPTER II.....	10
2.1. Theory of Agency.....	10
2.2. Audit Opinion.....	11
2.3. Audit Finding .....	13
2.4. Audit Rectification .....	14
2.5. Corruption .....	15
2.6. Previous Studies .....	17
2.7. Conceptual Framework .....	19
2.8. Hypothesis .....	20
2.8.1. The Effect of Audit Opinion on The Corruption Level .....	20
2.8.2. The Effect of Audit Finding on The Level of Corruption.....	20
2.8.3. The Effect of Audit Rectification on The Level of Corruption .....	21

CHAPTER III .....	23
3.1. Scope of Research .....	23
3.2. Research Design .....	23
3.3. Types and Data Sources .....	23
3.4. Data Collection Method .....	24
3.5. Population and Sample .....	24
3.6. Data Analysis Method .....	25
3.6.1. Descriptive Statistics Analysis .....	25
3.6.2. Classic Assumption Test .....	26
3.6.2.1. Normality Test .....	26
3.6.2.2. Multicollinearity Test .....	27
3.6.2.3. Heteroscedasticity Test .....	27
3.6.3. Hypothesis Testing .....	28
3.6.3.1. Partial Test (t test) .....	28
3.6.4. Multiple Linear Regression Analysis .....	28
3.7. Operational Definition and Measurement of Variables .....	29
3.7.1. Dependent Variable (Y) .....	29
3.7.2. Independent Variable (X) .....	30
3.7.2.1. Audit Opinion .....	30
3.7.2.2. Audit Finding .....	31
3.7.2.3. Audit Rectification .....	31
3.7.3. Control Variable (C) .....	32
CHAPTER IV .....	33
4.1. Overview of Research Sample .....	33
4.2. Overview of Research Variables .....	35
CHAPTER V .....	44
5.1. Descriptive Statistics Analysis .....	44
5.2. Classic Assumption Test .....	46
5.2.1. Normality Test .....	46
5.2.2. Multicollinearity Test .....	47
5.2.3. Heteroscedasticity Test .....	48
5.3. Hypothesis Testing .....	49

5.3.1. Partial Test (t test) .....	49
5.4. Multiple Linear Regression Analysis .....	51
5.5. Discussion .....	53
5.5.1. The Effect of Audit Opinion on The Corruption Level .....	53
5.5.2. The Effect of Audit Finding on The Corruption Level .....	55
5.5.3. The Effect of Audit Rectification on The Corruption Level.....	57
CHAPTER VI .....	59
6.1. Conclusion.....	59
6.2. Limitations & Suggestions .....	59
6.3. Implications .....	60
REFERENCES.....	61
APPENDIX.....	65

## LIST OF TABLES

Table 4.1	Sample.....	33
Table 4.2	Data of Corruption Cases in 2018.....	35
Table 4.3	Data of Audit Opinion in 2018.....	37
Table 4.4	Data of Audit Finding in 2018.....	38
Table 4.5	Data of Audit Rectification in 2018.....	40
Table 4.6	Data of Poverty in 2018.....	41
Table 5.1	Descriptive Statistics.....	43
Table 5.2	One-Sample Kolmogorov-Smirnov Test.....	45
Table 5.3	Multicollinearity Test.....	46
Table 5.4	Glejser Test.....	47
Table 5.5	Result of t test.....	49



## LIST OF FIGURES

Figure 1.1	Mapping of Corruption Cases Handled Based on Law Enforcement in 2018.....	2
Figure 2.1	Conceptual Framework.....	19

# **CHAPTER I**

## **INTRODUCTION**

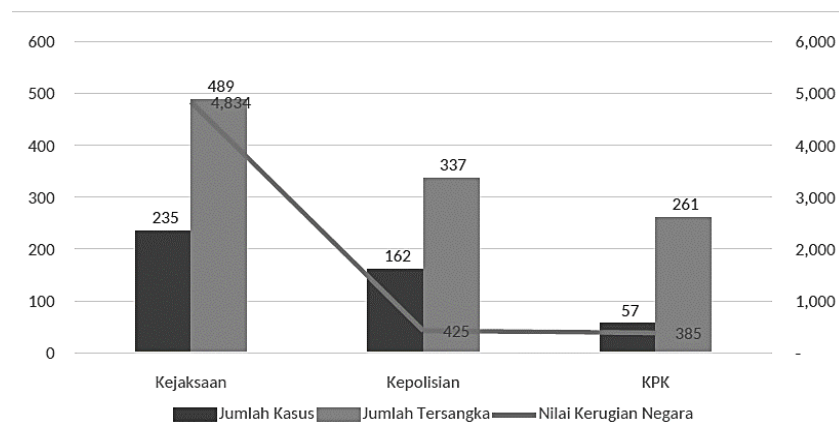
### **1.1. Background**

The formulation of State Budget (APBN) at the central level and Local Government Budget (APBD) at the regional government level are based on all matters relating to government revenues and expenditures. The financial representation of the national/ local government which is APBN/ APBD itself needs to be maintained properly by the government as they are accountable to the people to bring improvements in public service which eventually will create prosperity for the people. However, over the past few years, not only from within the country but also from the international community, the administration of government in general and development in particular, has received several fundamental criticisms. For example, Transparency International (TI) survey who generates a country's score on how corrupt their public sector looks (Transparency International, 2018). It has identified Indonesia as a country that is still troubled by corruption in the world.

The Transparency International Survey on the Corruption Perception Index (CPI) ranking for 2018 has put Indonesia in 89th place with a score of 38. CPI values are in the range of 0 to 100, where 0 is perceived to be highly corrupt, while 100 is very clean. The total countries counted are 180. Compared to 2017, Indonesia in 96th place with a score of 37. The increase of ranking

and value indicates the increase in efforts to fight against corruption in the country. However, CPI of Indonesia is still under several countries in ASEAN, such as Singapore (85), Brunei Darussalam (63), and Malaysia (47). It is also below the average CPI of countries in the ASEAN region of 41.6 and the Asia Pacific region of 44.4. The Corruption Perception Index sends a strong message and the government has been forced to pay attention and take action (Transparency International, 2018). Therefore, Indonesia must take a serious action about this phenomenon.

Corruption can occur in the public and private sectors, even at the community level. Corruption cases have been investigated by the Attorney General's Office, the Police Department and Corruption Eradication Commission (KPK). Below is presented data mapping of corruption cases that have been handled based on law enforcement.



Source: Indonesia Corruption Watch, 2018

**Figure 1.1**

**Mapping of Corruption Cases Handled Based on Law Enforcement in 2018.**

Law enforcement is the spearhead in the systematic eradication of corruption. Based on the data presented in Figure 1 shows that in 2018, ICW found there were 454 corruption cases handled by law enforcement. The total number of suspects is 1,087 people with various professional backgrounds. The number of state losses that have been discovered by law enforcement is Rp5.6 trillion.

Corruption cases have received significant attention from the community because they have a destructive effect on the stability of the country's economy and affect welfare. Corruption is a form of fraud that harms the public interest and benefits the perpetrators (Tehupuring, 2018). A study found that most corruption is done because there is an opportunity. Through weak legislation and bureaucracy and the moral degradation of corruptors, the opportunity is created. The reflection of weak legislation and bureaucracy is seen in a number of findings that indicate non-compliance with regulations and the ineffectiveness of internal control systems (Tehupuring & Lingga, 2017). These findings would impact audit opinions on local governments.

Auditors in governmental environment are a significant element in reducing fraud and corruption. The purpose of government audits is to monitor, verify, and assess accountability of government. Government audits are the most important in building good governance (Azhar & Setyaningrum, 2015). Therefore, the audit results of the Supreme Audit Institution (SAIs) should be

able to be a performance benchmark of a government and a forum that has the role of reducing fraud and corruption (Ferraz & Finan, 2009).

According to SAIs, the financial audit is carried out by the SAIs in order to provide an opinion statement about the level of reasonableness of the information presented in the government's financial statements. There are four types of audit opinions issued by the SAIs for Local Government Financial Statement: Unqualified Opinion, Qualified Opinion, Adverse Opinion, and Disclaimer Opinion. Unqualified opinions are given to financial reports that are free from any material misrepresentation (Badan Pemeriksa Keuangan Republik Indonesia, 2018). Unqualified opinion which is a form of local government accountability indicates that the government has good governance so that it will become an important concern for local government.

From SAIs Report of Audit Result in 2017, it was found at the government level, an unqualified opinion was received by 33 out of the 34 provincial governments (97%). Meanwhile in 2018, an unqualified opinion was received by 32 out of the 34 provincial governments (94%) (Badan Pemeriksa Keuangan Republik Indonesia, 2018). Those description shows opinions that were achieved by provincial governments are dominated by unqualified opinion than any other opinions.

However, in recent years, the giving of unqualified opinion by the SAIs on the Local Government Financial Statement becomes an attention. This is because some provincial governments and ministries who get unqualified

opinion from SAIs are still indicated corruption/ bribery committed by officials at the institutions. Therefore from that phenomena, researcher interest to discuss about the relationship between government audit result and level of corruption in Indonesian provinces. This study will examine several variables that are expected to affect the level of corruption in Indonesian provinces. Those variables are audit opinion, audit findings and audit rectification.

Empirical research on the effect of audit opinion, audit finding and audit rectification on the level of corruption has been carried out by Masyitoh, Wardhani and Setyaningrum. The researcher proves that audit opinion and audit rectification have negative effect on the level of corruption, while audit finding of the compliance to the regulation has positive effect on the level of corruption (Masyitoh et al., 2015).

Some studies have showed a correlation between SAIs opinion with corruption committed by heads of local governments (Avalon et al., 2018; Rosyadi & Budding, 2017). The study stated that SAIs opinion is dominantly determined by the compliance of government financial reports with Government Accounting Standards, the effectiveness of the internal control system, and compliance with laws and regulations. So, when the government received unqualified opinion, it indicates that government has a good and clean governance.

However, there is a different result from previous studies. These studies found that audit opinion does not affect the level of corruption. The researcher

argued that the good opinion issued by SAIs is not a guarantee that a region is free from corruption (Husna et al., 2017; Rini & Damiati, 2017; Tehupuring, 2018). This is because the audit opinion given by the Supreme Audit Institutions (SAIs) only assesses that the financial management carried out by the provincial government is good and the presentation of its financial statements is reasonable and in accordance with regulations, but not assesses the truth and honesty of the data whether it is manipulated or not (Seabra, 2018). There is emergence of gaps from the results of the above research causing this research to be still interesting and relevant to be studied. In addition, the opposite results above drew the attention of the authors to reexamine the relationship between level of corruption and government audit result such as audit opinion, audit finding, and audit rectification in Indonesian provinces.

This study is different from previous studies in terms of the object of research, data source of corruption cases and additional variable. In this study, the researcher's object focuses on provincial government and the object of previous research was municipality in Indonesia (Masyitoh et al., 2015). The reason of focusing on provincial government is because the corruption cases in Indonesian provinces tends to be high but majority of the provincial government have received unqualified opinion (94%). The period of the study is 2018.

This study uses an quantitative method to examine the effect of audit opinion, audit finding, and audit rectification on level of corruption in

Indonesian provinces. Variable corruption in this research using data from Indonesia Corruption Watch because it is currently one of the loudest independent institutions in the anti-corruption movement. The existence of ICW in the eradication of corruption since 1998 has been publicly recognized and it never stops overseeing the government as a public service provider. In addition, it also has a complete data of corruption cases for all provinces.

Beside that, researcher also add another variable as a variable control namely poverty that is measured by national's gini ratio which is used to see an economic inequality in a province. There is evidence from Sung & Khagram (2005) research proved that inequality increases corruption. Communities in areas with high inequality are more likely to become targets of bureaucratic exploitation when they attempt to obtain basic needs. Oftenly, they don't have any choice except obey to the authority in bureaucratic even though it is not true. In the fraud triangle theory, one of the triggers for fraud is opportunity. Opportunity is a situation that opens opportunity to allow fraud to occur (Nurhasanah, 2016). In this case, poverty situation in a region has become an opportunity for head of government to commit corruption in their area. Variable of poverty was included to control the effect of economic inequality on level of corruption.

Based on the background above, the author finally decided to conduct a study entitled **The Effect of Audit Opinion, Audit Finding, and Audit Rectification on Corruption Level in Indonesian Provinces Year 2018.**



## **1.2. Problems Formulation**

Based on the background description above, here are problems that can be formulated as follows:

1. How does the audit opinion influence the level of corruption in Indonesian provinces?
2. How does the audit finding influence the level of corruption in Indonesian provinces?
3. How does the audit rectification influence the level of corruption in Indonesian provinces?

## **1.3. Objective of Research**

Based on the formulation of the research problems listed above, the objective of this study is to examine empirically:

1. The effect of audit opinion on the level of corruption in Indonesian provinces,
2. The effect of audit finding on the level of corruption in Indonesian provinces, and,
3. The effect of audit rectification on the level of corruption in Indonesian provinces.

## **1.4. Contribution of Research**

This study attempted to contribute:

### **Theoritically**

1. The study extend the relationship between level of corruption and government audit result such as audit opinion, audit finding, and audit rectification of provincial governments in Indonesia.
2. As a reference for future studies which relates to the determinants of the level of corruption in Indonesian provinces and become a further study material for future researcher that interest with the same topic.

### **Practically**

1. This study gives contribution in understanding the role of government audit in detecting the acts of corruption in the provincial government environment. With the increasing quality of the internal audit role, it is expected that the level of corruption at the government level is decreasing, so the development in every sector can run optimally thus people's welfare can be achieved.
2. Supporting government to strengthen supervision over the administration of the provincial government so that it will reduce the level of corruption.

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