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The Effect of Conformity with Accounting Standard and Legislation Compliance to Unqualified Audit Opinion

Sarinah Joyce Margaret Rafael, Elma Yulinda Lenggu
Fakultas Ekonomi dan Bisnis, Universitas Nusa Cendana, 85001, East
Nusa Tenggara - Indonesia

Abstract

Auditors take the applicable standard and legislation as consideration in auditing processes. The unqualified audit opinion was given when the preparation of financial statements conformed. Research was conducted on East Nusa Tenggara Province Office and East Sumba District Office of Indonesia. Both of them was granted the unqualified audit opinion for two consecutive years from 2015. This achievement is impossible without the hard work of regional office of Local Revenue, Financial Management and Asset Agency (LRFMAA) which responsible for consolidation in the presentation of financial statements that will be audited by the State Audit Agency (SAA). Employees of LRFMAA totally 55 people who did the job is taken as a sample in this research using purposive sampling technique. Data were analysed using SPSS version 24. The results showed that conformity with accounting standards and legislation compliance had a significant positive effect on acceptance of unqualified audit opinion.

Keywords: Conformity with accounting standard; Legislation Compliance; Unqualified Audit Opinion

El Efecto De La Conformidad Con El Estándar De Contabilidad Y El Cumplimiento De La Legislación Con La Opinión De Auditoría No Calificada

Los auditores toman la norma y la legislación aplicables como consideración en los procesos de auditoría. La opinión de auditoría no calificada se dio cuando la preparación de los estados financieros se conformaba. La investigación se realizó en la oficina de la provincia de East Nusa Tenggara y la oficina del distrito de East Sumba en Indonesia. A ambos se les otorgó la opinión de auditoría no calificada durante dos años consecutivos a partir de 2015. Este logro es imposible sin el arduo trabajo de la oficina regional de la Agencia Local de Ingresos, Gestión Financiera y Activos (LRFMAA) que es responsable de la consolidación en la presentación de los estados financieros que será auditado por la Agencia Estatal de Auditoría (SAA). Los empleados de LRFMAA en total 55 personas que hicieron el trabajo se toman como muestra en esta investigación utilizando una técnica de muestreo intencional. Los datos se analizaron utilizando SPSS versión 24. Los resultados mostraron que la conformidad con las normas contables y el cumplimiento de la legislación tuvieron un efecto positivo significativo en la aceptación de la opinión de auditoría no calificada.

Palabras clave: Conformidad con el estándar contable; Cumplimiento de la legislación; Opinión de auditoría no calificada

1. INTRODUCTION

The government continues to encourage local governments to be transparent and accountable in local financial management. State Audit Agency (SAA) as a state institution in the Indonesian state administration system is authorized to examine the management and accountability of state finances. Therefore, all local governments are obliged to submit their financial reports to be audited by SAA.

The results of the examination conducted by the SAA will be disclosed in the form of audit opinion and recommendation. Based on Law No. 15 Year 2004 on Audit of State Financial Management and Accountability (Article 16 Paragraph 1, Explanation of Part II), there are four types of audit opinions related to the audit of Local Government Financial Statements (LGFS). Those opinions are; Unqualified Opinion, Qualified Opinion, Adverse Opinion, and Disclaimer of Opinion. The best opinion is

Unqualified Opinion.

Acceptance of unqualified audit opinion becomes very important, because this opinion is assuring that the presentation of LGFS has been prepared based on general accepted accounting standards (Teri and Darmawan, 2017). However, there is a misperception related to the acceptance of the audit opinion. the assumption that achievement of unqualified opinion means the local government or agency is free from the actions of Corruption, Collusion and Nepotism. In fact, the opinion is only as an appreciation given by SAA due to the local government or agency has done the financial management properly.

Conformity with Government Accounting Standards (GAS) is one of the requirements or criteria in providing an audit opinion. The government's financial report must present based on GAS as stipulated in Government Regulation No. 24 of 2005, which renewed with Government Regulation No. 71 of 2010. Bastian (2010) explains GAS is a prerequisite that has the power of law in an effort to improve the quality of financial report.

The law is also one of the references in determining the audit opinion. Compliance with legislation emphasizes the government's adherence to the rules that have been made and established in terms of presentation of financial statements. In the SAA Regulation Year 2017 on the State Audit Standards (Article 1 Point 6), it is clear that the responsibility of state finance is the obligation of the government to implement the state financial management in an orderly, law-abiding, efficient, economical, effective and transparent manner with respect to the taste justice and propriety. Based on these explanations, all local government are required to comply with existing laws and regulations.

East Nusa Tenggara Province (NTT) is one of the provinces in Indonesia, with 21 District Government and 1 Municipal Government, obliged to provide financial statements to be audited by SAA. The percentage of audit opinion acquisition received by local government in 2015 was 8.70% for each unqualified opinion and disclaimer opinion, and 82.60% for qualified opinion, while in 2016 was 13.04% for unqualified opinion and 86.96% for qualified opinion (See Figure 1 and 2). The figures also show that on East Nusa Tenggara Province Office and East Sumba District Office of Indonesia was granted the unqualified audit opinion for two consecutive years from 2015.

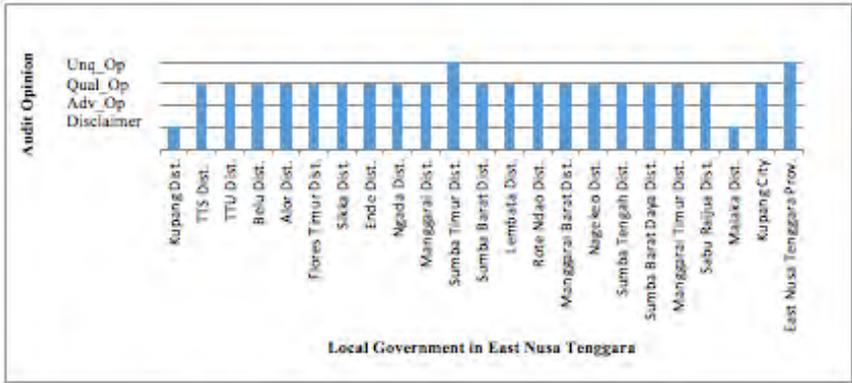


Figure 1. 2015 Audit Opinion in Local Government East Nusa Tenggara

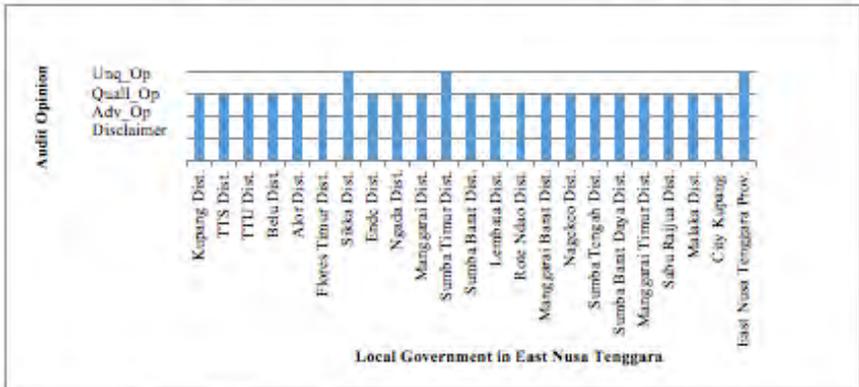


Figure 2. 2016 Audit Opinion in Local Government East Nusa Tenggara

2. LITERATURE REVIEW

2.1 Role of Financial Statement

The financial statements are records of information presented by an agency to provide information regarding financial position in a certain accounting period (Tanjung, 2014). The financial statements are also used to compare the realization of revenues, expenditures, transfers and financing with budgets, it also to assess the financial condition, evaluate the effectiveness and efficiency of a government institution, and help to determine its compliance with laws and regulations (Nordiawan, et al., 2012). The financial statement is also used for the following purposes (Tanjung, 2014):

1. **Accountability.** Accountability relates to the form of accountability to the resource management and implementation of policies entrusted

to a government agency in achieving its goal.

2. Management. Assist users to evaluate the implementation of the government agency activities in a certain accounting period so as to facilitate the functions of planning, management and control over all assets, liabilities and equity of public funds for the public interest.

3. Transparency. Providing a transparent financial information to the public based on the consideration that the public is entitled to know what the government is doing.

4. Period Balance. Helping the users to know whether the money received by the government during an accounting period is able to finance all allocated expenditures and whether future period will also bear the expenditure.

2.2 Purpose of Financial Statement

The financial statements are structured reports on the financial position and transactions conducted by a government instance. The general purpose of the financial statements is to provide information on the financial position, budget realization, cash flow and financial performance of a government instance useful to users in prepare and evaluating decisions on resource allocation (Government Regulation No. 24/2005 on Government Accounting Standards).

2.3 Audit Opinion

There were four (4) types of audit opinion, which are:

Unqualified opinion

Unqualified opinion as the best opinion, stated that the financial statement is examined and fairly presented all material matters, financial position, operation result and cash flow according to government accounting standard. In other words, unqualified opinion reflected accountable financial statement for making decision.

Efforts made by local government to obtain unqualified opinion are not only to get a good assessment from SAA, but based on a desire to improve transparency and accountability in local finance management. The early stages to received unqualified opinion is done by building commitment to the leadership to produce quality financial reports. Commitment in leadership level is also done to disenchant leadership that the achievement of unqualified opinion is important thing that must be done to convince the external party that the financial management has done in an orderly, transparent and accountable manner (Marjulin, 2012).

□ Qualified opinion

This opinion stated that the financial statement is examined and fairly presented all material matters, financial position, operation result and cash flow according to government accounting standard, except for the effects of matters relating to the excluded. That is, in the presentation of financial statements, an agency has presented and disclosed all matters fairly, but there are unintentional items, presented unfairly, but it does not affect the fairness of the financial statements as a whole.

□ Adverse Opinion

This opinion stated that the financial statements is examined and does not present fairly for the financial position, results of operations, and cash flows of such agencies in accordance with government accounting standard. That is, the presentation of financial statements in general describes an unfair position. Due to many estimates and unusual amounts, as well as the improper or inconsistent application of other accounting principles.

□ Disclaimer

This opinion stated that the auditor does not declare an opinion on the financial statements, if audit evidence is not adequate to make a conclusion. It means, during the examination by SAA, the agency does not provide sufficient evidence or intentionally hides the files requested by SAA.

2.4 Government Accounting Standard (GAS)

Government financial reports must be presented based on GAS, as set forth in Law No. 17 of 2003 on State Finances and Law No. 32 of 2004 on Regional Government. GAS is set by the government in Government Regulation no 24/2005 on accounting standards based on cash to accrual, in which the main financial statements to be presented by the government are the budget realization, balance sheet, cash flow statement, and notes to financial statement. In October 2010 the government issued the Regulation Government no. 71 of 2010 on Government Accounting Standards with accrual basis in lieu of Government Regulation No. 24 of 2005. However, it shall be applied no later than the financial statements for the fiscal year 2015, does not only apply the accrual basis but also still accommodate cash-based implementation toward accruals as well which is regulated in No. 24 of 2005.

GAS is the accounting principles applied in preparing and presenting the government's financial statements (Ministry of Home Affairs Regulation No. 64 of 2013 on the Implementation of Accrual-Based Government Accounting Standards to Local Government). GAS is a series of manual-ly and computerized procedure, starting from data collection, recording,

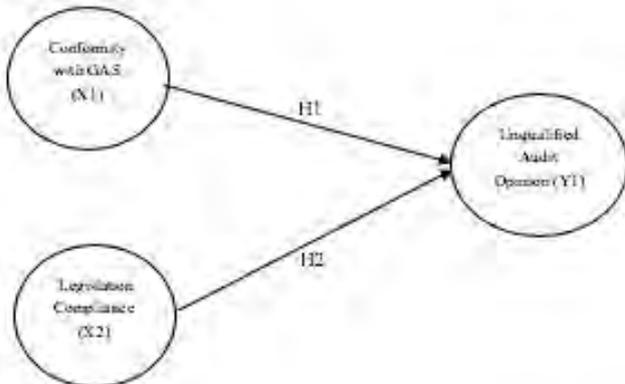
summarizing, and reporting of government financial position. It also a step devoted to transparency and accountability of government finance. Therefore, conformity with GAS needs to be taken into account in the preparation of financial statements, thereby reducing material misstatement.

2.5 Legislation Compliance

Financial statements audit by SAA shall be guided by the Finance State Audit Standard (FSAS) as stipulated in the SAA Rules No. 1 of 2007. Based on FSAS, Report of Inspection Result of the financial statements should disclose that the examiner has done the examination of compliance with the laws and regulations direct and material impact on the presentation of financial statements.

Legislation compliance also implied that financial management should be guided by existing regulations (Ministry of Home Affairs Regulation No. 13 of 2006 on Guidelines for Regional Financial Management, Article 4 Paragraph 3). It should be properly addressed and adhered to by all existing local governments, to manage local finances properly and presented accountable financial statements. Therefore, non-compliance with legislation may result an information material misstatement in financial statements or other financial data that are significantly related to the purpose of the examination (Fatimah, et al., 2014).

2.6 Conceptual Framework



GAS is the accounting principles applied in the preparation and presentation of government financial statements. Conformity with GAS means that in presenting the financial statements of a government agency, have followed the existing GAS. If a discrepancy with GAS is found, it will affect

the audit opinion that will be accepted.

Compliance with legislation means in the presentation of financial statements, a government agency has complied with every rule that has been determined. If in the presentation of financial statements found the act of violating the rules, then the unqualified opinion of the audit will not be obtained. In this study the hypotheses are developed as follows:

H1: Conformity with accounting standard has an affected to the acceptance of unqualified audit opinion.

H2: Legislation compliance has an affected to the acceptance of unqualified audit opinion.

3. METHODS

This research is performed through a survey in East Nusa Tenggara Province Office and East Sumba District Office of Indonesia. Both of them was granted the unqualified audit opinion for two consecutive years from 2015. This achievement is impossible without the hard work of regional office of of Local Revenue, Financial Management and Asset Agency (LRFMAA) which responsible for consolidation in the presentation of financial statements that will be audited by the State Audit Agency (SAA). Employees of LRFMAA included Head and Secretary totally 55 people who did the job is taken as a sample in this research using purposive sampling technique. Data collection techniques are using questionnaires and literature study. Data were analysed using SPSS version 24. The data analysis is performed using multiple linear regression tests, t-test, F-test, the coefficient of determination.

4. FINDINGS AND ARGUMENT

4.1 Result

Table below presented the result of statistical test for descriptive analysis of the data such as mean, standard deviation, and variance of the data, as can be seen in Table 1.

Table 1. Descriptive Statistics of Variable

	N	Minimum	Maximum	Mean	Std. Deviation
Conformity with accounting standard	55	12	20	18.5091	1.80404
Compliance with Legislation	55	8	15	13.8909	1.62928
Unqualified Audit Opinion	55	19	35	33.3091	2.57389

Source: Data processing 2018

The quality data test is done by validity and reliability test at 5% significance level. Based on the data validity test, corrected item-total correlation > r table is valid. The value of r-table can be seen from df: 55-2 = 53, then r-table = 0,271. The results of validity test data are as follows:

Table 2. Validity test of Variable Conformity with Accounting Standard (X₁)

Question	Corrected item – Total Correlation	r-table	Test Result
Item no 1	0.464	0.271	Valid
Item no 2	0.847	0.271	Valid
Item no 3	0.778	0.271	Valid
Item no 4	0.726	0.271	Valid

Source: Data processing 2018

Table 3. Validity test of Variable Legislation Compliance (X₂)

Question	Corrected item – Total Correlation	r-table	Test Result
Item no 1	0.892	0.271	Valid
Item no 2	0.838	0.271	Valid
Item no 3	0.785	0.271	Valid

Source: Data processing 2018

Table 4. Validity test of Variable Unqualified Audit Opinion (Y)

Question	Corrected item – Total Correlation	r-table	Test Result
Item no 1	0.660	0.271	Valid
Item no 2	0.631	0.271	Valid
Item no 3	0.546	0.271	Valid
Item no 4	0.714	0.271	Valid
Item no 5	0.710	0.271	Valid
Item no 6	0.827	0.271	Valid
Item no 7	0.797	0.271	Valid

Source: Data processing 2018

Based on the data reliability test, the cronbach alpha of all the questions is above 0.6 so it can be declared reliable. The results of reliability test data can be seen in the able below:

Table 7. Realibility test of Variable Conformity with Accounting Standard (X₁)

Cronbach Alpha	N of Item	Test Result
0.666	4	Reliable

Source: Data processing 2018

Table 6. Realibility test of Variable Legislation Compliance (X₂)

Cronbach Alpha	N of Item	Test Result
0.769	3	Reliable

Source: Data processing 2018

Table 8. Realibility test of Variable Unqualified Audit Opinion (Y)

Cronbach Alpha	N of Item	Test Result
0.811	7	Reliable

Source: Data processing 2018

The coefficient of determination (R²) is used to find out how much inde-

pendent variable can explain the dependen variabel, as seen below in Table 9. It showed that R square value is equal 0,593. That means independen variables in this study are able to explain the dependent variable (unqualified opinion) of 59.3% where the rest is 40.7% explained by outsider variables

Table 9. Result of Coefficient Determination Test

R	R Square	Adjusted R Square	Std. Error of Estimate
0.780 ^a	0.608	0.593	1.64182

a. Predictors: (constant), Conformity with GAS (X₁), Legal Compliance (X₂)
 Source: Data processing 2018

Statistical test F test showed in Table 10, it showed whether all the independent variable have simultaneous effects on the dependent variable.

Table 10. F Test Result ANOVA^b

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	217.176	2	108.588	40.284	0.000
Residual	140.169	52	2.696		
Total	357.345	54			

b. Dependent variable: Unqualified Audit Opinion
 Source: Data processing 2018

Table 11. T Test Results Coefficient^a

Model	Unstandardized Coefficient		Standardized Coefficient	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	12.177	2.367		5.144	0.000
Conformity_with_Acc.Standard(X ₁)	0.786	0.163	0.551	4.828	0.000
Legal Compliance (X ₂)	0.472	0.180	0.299	2.621	0.011

Source: Data processing 2018

Based on Table 11, regression model as follow:

$$Y=12.177+0.786X_1+0.472X_2$$

Test result of H1 shows that significance value is 0.000; where it is below 0.05. It shows that conformity with accounting standard has affected the acceptance of unqualified audit opinion. As well as test result of H2, shows that significance value is 0.011 where it is below 0.05. It means, Legal compliance has affected the acceptance of unqualified audit opinion

Discussion

The affect of conformity with accounting standard on the acceptance of unqualified audit opinion.

Conformity with accounting standard is one of the conditions used by SAA to provide unqualified audit opinion. GAS is the accounting principles applied in the preparation and presentation of government financial statements. Thus, the presentation of local government financial report should refer to GAS. Test results in this study indicate that H1 accepted because the value of $t\text{-arithmetic} = 4.828 > t\text{-table} = 2,009$. It shows that conformity with GAS affects the acceptance of unqualified audit opinion. That is, the conformity with GAS in presented financial report must be considered in order to produce a good quality of financial reports and can be accounted for.

East Nusa Tenggara Province and East Sumba District must have implemented GAS in the presentation of financial statements. Therefore, in the Inspection Result Report for the financial statements for fiscal year 2015 and 2016, does not contain any indication of non-compliance with GAS. The report can be obtained by accessing the official SAA website in relation to the provision of audit opinion for each local government.

The results of this study is strengthened by research conducted by Saputra (2015), where the results of his research indicate that the variable application of government accounting standards affect the quality of financial statements. Therefore, the better the accounting standards applied will be the better the quality of financial statements obtained. The results of this study are also in line with research conducted by Sunarti (2017). The result of the analysis shows that the implementation of GAS has an effect on the audit opinion. With the better implementation of GAS, the more qualified as well financial report generated and become a factor in obtaining a good audit opinion.

The affect of legislation compliance on the acceptance of unqualified audit opinion.

Compliance with legislation means in the presentation of financial statements, the government has complied with any applicable regulations. If the government has complied with the existing regulations, then the state financial management will be implemented properly and can produce financial reports that can be accounted for, so that the unqualified opinion can be obtained. Therefore, non-compliance with legislation may cause misstatements materially.

In this study H2 accepted, which means that the variable ligislation compliance affect the acceptance of unqualified audit opinion. It shows that compliance with legislation needs to be concern by every government

agency related to presentation of financial report.

Presentation of financial statements of East Nusa Tenggara Province and East Sumba District are in accordance with existing regulations. Therefore, non-compliance with legislation may cause misstatements materially. The results of this study are consistent with the research results of Rahmasari (2017). The result said the findings of compliance audit of legislation affect the level of disclosure in the financial statements. The greater the number of findings of compliance with legislation in the previous period, the disclosure level of the financial statements for the reporting year will be higher. The results of this study are also in line with Safitri and Darsono (2015) studies, which show the result that non-compliance with legislation negatively affects audit opinion. This indicates that the increasing number of findings of non-compliance with legislation, will further minimize the probability of unqualified opinion by SAA. That is, the better the compliance with the legislation, then the unqualified audit opinion can be obtained.

CONCLUSIONS

Based on the research conducted, it can be concluded as follows: (1) Conformity with accounting standard affects the acceptance of unqualified audit opinion, because the financial report presented has been in accordance with the existing GAS, so as to produce good financial statements and obtain unqualified opinions; (2) Compliance with legislation affects the acceptance of unqualified audit opinion, since non-compliance will cause materially misstatement that may affect the opinion for audit report.

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