

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

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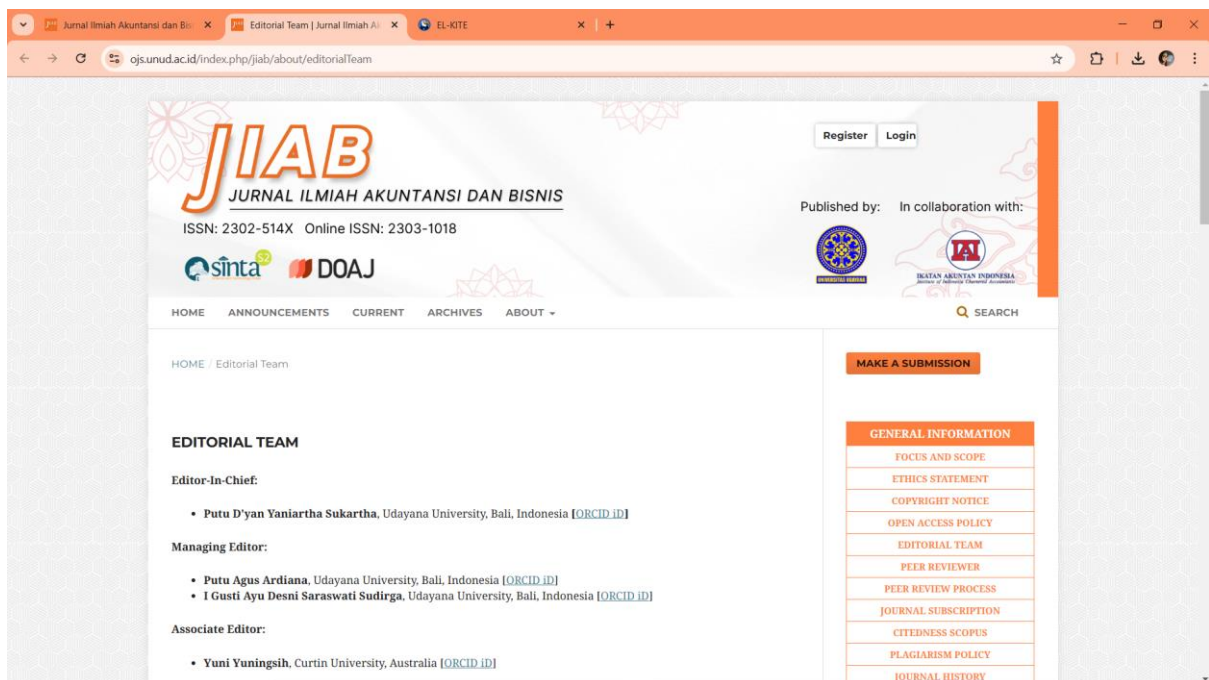
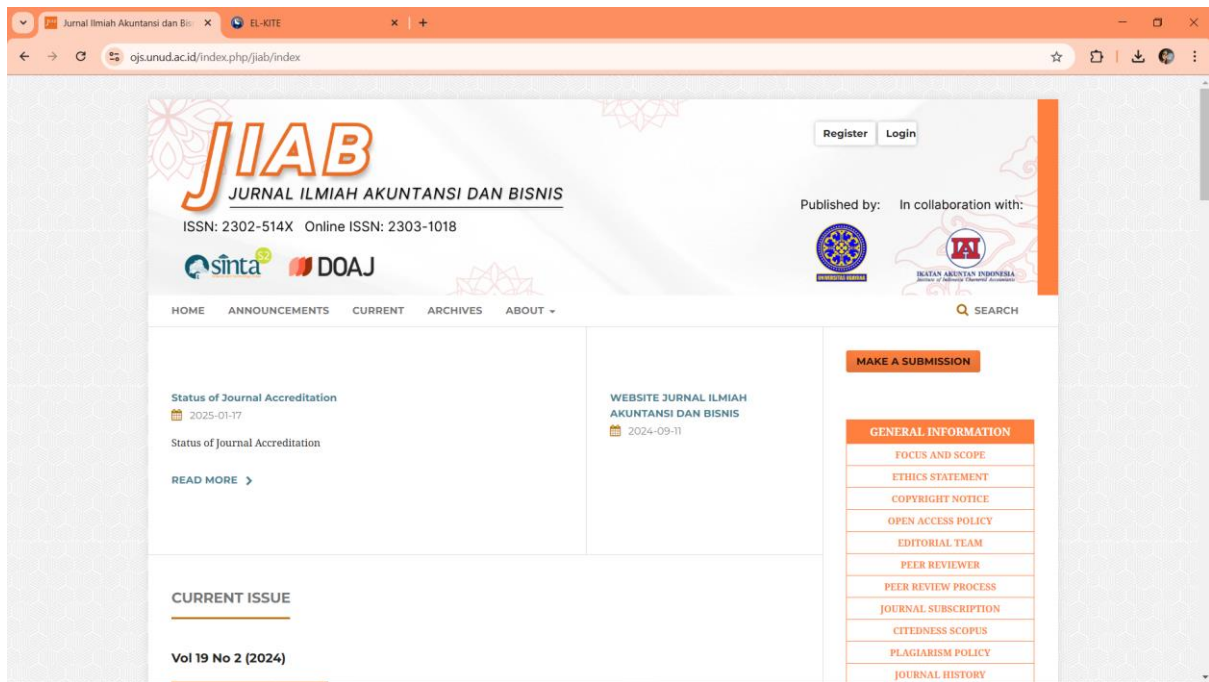
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Keywords: public service, opinion, audit findings, audit recommendations follow-up



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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.

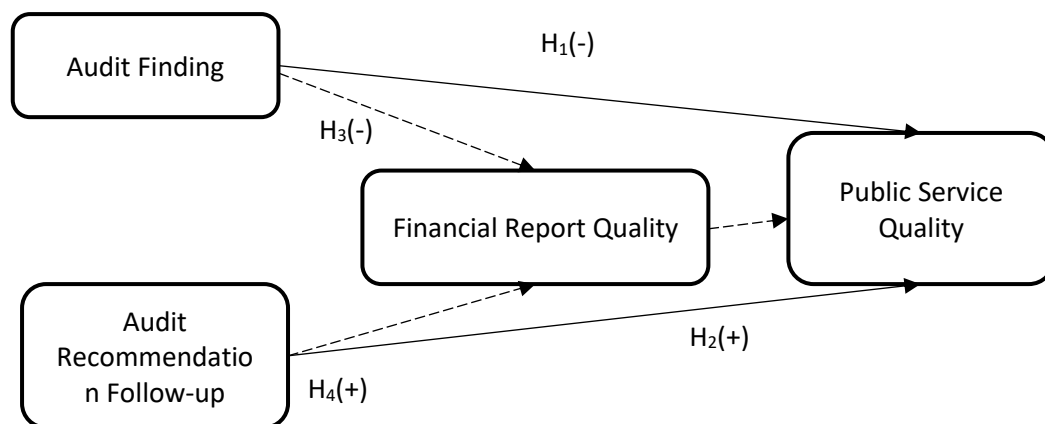


Figure 1 Research Framework

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

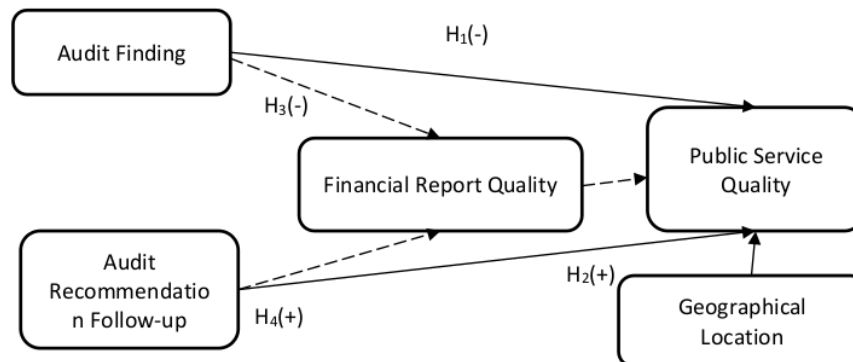


Figure 1 Research Framework

The independent variables in this study are **2** 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 **2** 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 **3** 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>

Do Audit Findings and Audit Recommendations Follow-up Affect The Quality of Public Services? 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 Online³⁵. 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 (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.

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.

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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).

42
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 ¹⁸ 2 and 2023 and Compliance Assessment Report for Public Service Implementation 2021 and ¹⁸ 2022

Based on Table 3, the probability value for the FO₄₀ 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 ³ 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%

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

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

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 (Pertwi & 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%.

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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