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Fixed Asset Audit of Health Center X by PAF Based on Findings of Depreciation Corrections for Equipment and Machinery

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ABSTRACT
This study examines depreciation corrections as indicators of weaknesses in fixed asset accounting policies within public sector financial reporting. A case study at Community Health Center X employs evidence from the Public Accounting Firm (PAF) audit and recent literature analysis to assess compliance with GASS standards. The findings reveal inconsistencies in recording depreciation and asset disposal, resulting in overstated asset values, distorted depreciation expenses, and delays in asset retirement. These conditions reduce the quality of financial statements, hinder budget efficiency, and potentially affect audit opinions. Key contributing factors include limited human resource capacity, inadequate asset information systems, and the absence of standardized disposal procedures. The study recommends the digitalization of asset management systems, the development of standardized SOPs for asset disposal, regular inventory and reconciliation, and capacity building for financial and asset officers. Implementing these measures is expected to enhance the quality of financial reporting, strengthen public accountability, and improve the legitimacy of local government financial governance.

Keywords: Fixed Assets, Public Financial Reporting, Depreciation Correction, Asset Disposal.

I. Introduction

The Community Health Center is one of the primary health service units, operating under the supervision of the local government through the District Health Service. Its primary responsibility is to provide prevalent, affordable, and sustainable primary health services for all levels of society. The Community Health Center not only provides curative services, but also orchestrates programs that promote preventive, curative, and rehabilitative services through public health efforts as well as personal health efforts. In carrying out its operations, the community health center is led by its head of community health. The leader is supported by health workers such as doctors, nurses, midwives, nutritionists, laboratory staff, and administrative staff, with the support of infrastructure in the form of service buildings, laboratories, inpatient rooms, and various medical and non-medical equipment, which are included in the community health center's fixed assets. In addition to serving patients directly, community health centers also implement various government health programs, such as vaccination, maternal and child health services, nutrition improvement, infectious disease management, and promoting clean and healthy living behaviors. As a public institution, community health

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centers have a duty to prepare accountability reports, whether it is an activity report or a financial report, which act as internal evaluation tools as well as a symbol of accountability to the local government, supervising agencies, and the general public. Therefore, the community health centers' reports must be transparent, accountable, and comply with existing rules.

Community Health Center X, as a primary healthcare facility, also shares the same characteristics, namely providing basic health services and implementing government health programs within its working area. To support these operational activities, Community Health Center X has considerable and diverse fixed assets, ranging from land and buildings to official vehicles, medical equipment, and non-medical equipment that serve as the main supporting facilities in providing health services to the community. These fixed assets are not only of economic value but also play a vital role in ensuring the continuity of health services, so their management must be carried out in an orderly, transparent, and accountable manner. To ensure that the management and reporting of fixed assets are carried out fairly in accordance with applicable accounting standards, a systematic and independent fixed asset audit is required. This audit aims to assess the validity, accuracy, and completeness of fixed asset information in the Community Health Center X financial statements, including verification of physical existence, legal ownership, and accurate asset valuation. In its implementation, the Public Accounting Firm (PAF) acts as an independent and objective external auditor to provide a professional opinion on the fairness of the presentation of financial statements. The results of this fixed asset audit are significant because they will affect the credibility of Community Health Center X's financial reports and the level of trust of stakeholders, including local government, health service providers, and the wider community.

During an audit by a Public Accounting Firm (PAF), findings regarding corrections to the depreciation of equipment and machinery indicated discrepancies between the methods, rates, or depreciation calculations applied by Community Health Center X and applicable accounting standards. These findings may arise due to various factors, including errors in estimating the useful life of assets, the use of inappropriate depreciation methods, or a lack of adequate understanding of regulations related to the depreciation of fixed assets. Audit findings related to corrections in the depreciation of fixed assets are significant because they have a direct impact on the value of assets reported and the depreciation expense recognized in the financial statements, thereby affecting the reported financial health. The implications of depreciation errors are not limited to financial statements, but can also affect management decisions regarding investments, asset replacements, and future budget planning. In addition, depreciation errors can also affect the audit opinion given by the PAF, which in turn can affect stakeholder confidence in the financial statements of Community Health Center X. Therefore, it is important for Community Health Center X to immediately follow up on these corrective findings by making the necessary adjustments and improving the internal control system related to the depreciation of fixed assets.

This research aims to analyze the inaccuracy of fixed asset accounting policies, particularly in the depreciation and disposal of assets, based on audit findings at Community Health Center X. It independently and objectively assesses the fairness of the presentation of Community Health Center X financial statements, particularly those related to the accumulation of depreciation of fixed assets on equipment and machinery, with reference to generally accepted accounting principles or relevant Government Accounting Standards Statement. This audit process involves gathering competent and relevant audit evidence through various procedures, including physical inspections of assets, reconciliations of accounting records, external confirmations, and analyses of supporting documents.

II. Literature Review and Hypothesis Development

2.1. Fixed Assets

Fixed assets are an important component in both public and private sector financial statements because they reflect tangible resources used to support operational activities and public services. In the

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context of government accounting, the recognition, measurement, and presentation of fixed assets are regulated explicitly in Government Accounting Standards Statement (GASS) No. 7. This standard emphasizes that fixed assets are tangible assets that have a useful life of more than 12 months, are used in government activities, and are not for sale in normal operations (GASC, 2025). This regulation requires reporting entities to record fixed assets at acquisition cost, including expenses incurred until the assets are ready for use. Accounting literature explains that fixed asset management is not only related to accounting records, but also to internal control systems and public asset management. Empirical studies have found that weaknesses in fixed asset recording often lead to audit findings, especially in local government agencies (Rahim & Basuki, 2024). The quality of fixed asset recording has a direct impact on the audit opinion of financial statements, so that suboptimal asset management practices can reduce the level of accountability of an entity.

From a global public sector accounting perspective, international standards such as the International Public Sector Accounting Standards (IPSAS 17) on Property, Plant, and Equipment serve as an important reference for many countries, including Indonesia, in drafting local regulations on fixed assets. Recent studies have shown that the adoption of IPSAS promotes consistency in the measurement of fixed assets and enhances the transparency of financial reports (Alessa, Saad, & Alshammari, 2024). By adopting accrual principles, fixed asset reporting can accurately reflect the government's actual financial position and support informed public decision-making. Overall, fixed assets play a strategic role in realizing transparency and accountability in state financial management. National regulations, as outlined in GASS No. 7, and international references, such as IPSAS 17, provide a clear normative framework for the accounting treatment of fixed assets. However, research findings still indicate significant challenges, including limited human resource competencies, weak asset management information systems, and issues with accurate asset inventory and valuation (Mourad & Hussainey, 2023). Therefore, efforts to enhance the capacity of the apparatus and strengthen the internal control system are necessary to support the improvement of public sector financial report quality.

Accumulated depreciation is an important aspect of fixed asset reporting because it shows the amount of depreciation that has been allocated over the useful life of the asset. The presentation of accumulated depreciation serves to display a more realistic recorded value of fixed assets in financial statements, thereby assisting in reliable information-based decision-making. The management of depreciation on local government fixed assets still faces challenges in terms of recording and accuracy, which impacts the transparency of financial statements (Fitriah & Dewi Sopiana, 2024). Additionally, the relationship between accumulated depreciation, capital expenditure, and personnel expenditure also affects regional financial independence. Capital expenditure that generates fixed assets must be accompanied by adequate depreciation calculations so as not to cause imbalances in regional financial management (Nafisya & Faiz, 2024). This shows that depreciation accumulation is not only related to technical accounting but is also closely related to fiscal sustainability. Additionally, the relationship between accumulated depreciation, capital expenditure, and personnel expenditure also affects regional financial independence. Capital expenditure that generates fixed assets must be accompanied by adequate depreciation calculations so as not to cause imbalances in regional financial management (Nafisya & Faiz, 2024). This shows that depreciation accumulation is not only related to technical accounting but is also closely related to fiscal sustainability.

2.2. Depreciation of Fixed Assets

Depreciation of fixed assets is the systematic allocation of the acquisition cost of tangible assets over their useful lives. It is a key component in presenting a realistic carrying amount in the balance sheet. In modern accounting practice, disclosure of the depreciation method, useful life, current period depreciation expense, and accumulated depreciation at the beginning/end of the period is required for reporting transparency (Anggraeni, Safitri, & Adekunle, 2024). Functionally, recording accumulated depreciation ensures that users of the report understand how much of the asset has been consumed and assists policy makers in planning asset replacement. The selection of depreciation methods (e.g., straight-line, double

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declining balance, or unit of production) and related policies regarding the estimation of useful lives and residual values directly affect the amount of depreciation expense recognized each period. Changes in these policies or estimates must be disclosed and justified so as not to obscure financial performance trends. A study (Anggraeni et al., 2024) emphasizes that the reform of fixed asset accounting highlights the need for robust information systems and internal controls to ensure the accuracy of depreciation calculations. In the context of the public sector in Indonesia, operational challenges persist, including incomplete inventory and inconsistent recording of acquisition dates, which result in depreciation calculations that do not accurately reflect the real condition of assets (Febriana & Nawawi, 2024). A similar finding was observed in a case study on fixed asset management in educational institutions, where asset card recording and economic life estimation still do not comply with Government Accounting Standards Statement (JABE, 2024). Both findings emphasize the importance of harmonizing depreciation methods in accordance with GASS so that public financial reports can be more reliable.

2.3. Audit Findings and Remedies

Audit findings are the results of an auditor's examination that reveal conditions, irregularities, control weaknesses, or misstatements in financial statements or program implementation that require the attention of management or interested parties. Audit corrections refer to quantitative or qualitative adjustments proposed by auditors to correct misstatements found, whether they are errors, omissions, or changes in accounting estimates. Recent literature places audit adjustments as an important indicator of audit quality because the frequency and materiality of adjustments reflect the auditor's ability to detect and enforce corrections to misstatements (Ghazali et al., 2024). Empirical studies in various jurisdictions show a positive relationship between the existence of audit adjustments and audit quality indicators such as auditor independence and effort (Alissa et al., 2024).

a. Audit Findings

Audit findings are typically classified into financial findings, such as errors in recording or measuring assets and liabilities; internal control findings, such as weaknesses in authorization and reconciliation; and compliance or operational findings, such as non-compliance with regulations or inefficiencies. This classification enables auditors and stakeholders to determine follow-up priorities and assess the materiality of necessary corrections. A recent bibliometric study reveals that internal control findings are often the primary focus because they have the potential to cause repeated misstatements if not adequately followed up (Alissa et al., 2024). Several factors that trigger audit findings include limited human resources, weak financial information systems, and inadequate documentation of transaction evidence. In addition, client pressure and auditor incentives also influence the decision on whether to enforce or ignore proposed corrections (DeFond et al., 2024). Experimental research shows that the practice of ignoring audit corrections can increase the risk of financial statements containing material misstatements. Uncorrected material findings have the potential to influence the auditor's opinion, ranging from a qualified opinion to an adverse opinion (GAO, 2024). In addition, recurring findings related to internal controls reduce public confidence and may trigger regulatory intervention. Recent research confirms that transparency in disclosing findings and follow-up actions contributes to increased organizational accountability and the prevention of recurring errors (SSRN, 2024).

b. Audit Remedies

Audit corrections include journal adjustments, account reclassifications, corrections to the measurement of assets/liabilities, and additional disclosures. In general, there are two types of remedies:

1) Remedies accepted and recorded by the entity before the report is finalized,
2) Rejected corrections are often used as an indicator of audit quality because they indicate a potential conflict of independence between the auditor and the client (Ghazali et al., 2024).

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Audit standards emphasize the auditor's obligation to evaluate findings, present evidence, and document all proposed corrections. If management rejects material corrections, auditors must consider the impact on the audit opinion (GAO, 2024). Empirical studies show that audit requirements for internal control can reduce the frequency of significant corrections, as entities are encouraged to address weaknesses earlier (DeFond et al., 2024). Some jurisdictions promote transparency by requiring disclosure of proposed audit adjustments, whether accepted or rejected. Recent research indicates that this disclosure reduces information asymmetry and enhances the credibility of reports (SSRN, 2024). New studies also indicate that audit adjustment patterns in an auditor's client portfolio can serve as an indicator of information flow and the depth of oversight (ScienceDirect, 2025).

2.4. Audit working papers (AWP)

The AWP is written evidence of the planning, implementation, and results of audits that support risk assessments, procedures, findings, and professional considerations of auditors. The 2024 literature confirms that the quality of the audit process, as reflected in the completeness and relevance of the AWP, is closely related to the effectiveness of both internal and external audit functions. The latest bibliometric study maps the shift in audit practices towards a more strategic and risk-focused approach. This shift requires more systematic audit documentation to bridge risk analysis, control, and governance, so that AWP acts as a narrative "network" that links audit objectives, evidence, and conclusions in a traceable manner. In addition, audit quality is greatly influenced by auditor competence and the strength of the internal control system, two factors that are usually "read" from the quality of the AWP. A 2024 study of large organizations shows that auditor competence and a good control environment improve audit quality and fraud prevention; implication: the AWP must be able to document the link between the competencies applied (e.g., selection of procedures, use of analytical techniques) and the test results and findings, thereby strengthening the auditor's professional justification. In other words, a comprehensive and structured AWP becomes the primary vehicle for demonstrating how competence and controls translate into adequate audit evidence. In the public/local government sector, the adoption of risk-based auditing also requires the AWP to focus more on the material risk cycle and proportional testing design. The 2024 findings show that the implementation of risk management and risk-based auditing improves fraud detection capabilities; consequently, AWP needs to narrate the risk trail clearly → audit response, → test results (e.g., risk matrix against procedures, reasons for sample size determination, and key controls documentation). This practice not only strengthens the audit trail but also facilitates cross-level review and quality control, which are core functions of the AWP.

2.5. Government Accounting Standards Statement (GASS)

Government Accounting Standards Statements (GASS) are guidelines compiled by the Government Accounting Standards Committee (GASC) and stipulated through the Minister of Finance Regulations as the basis for preparing government financial statements. GASS regulates various aspects of reporting, ranging from the presentation of financial statements, recognition of fixed assets and inventories, to revenue from non-exchange transactions. In the last two years, the Ministry of Finance has issued significant updates through PMK No.122 of 2024 concerning Accrual-Based GASS No.18 and PMK No.123 of 2024 concerning GASS No.19 regarding joint arrangements (Kementerian Keuangan Republik Indonesia, 2024a; 2024b). These updates affirm the Indonesian government's commitment to strengthening the accrual basis in financial reporting, thereby improving the quality of transparency and accountability in the public sector (Komite Standar Akuntansi Pemerintahan, 2025).

The changes to GASS are in line with international trends towards the adoption of International Public Sector Accounting Standards (IPSAS), which emphasize the use of accrual basis accounting. Scopus-indexed international studies show that the application of accrual accounting in the public sector contributes to increased transparency, accountability, and control of corrupt practices. However, the success of

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implementation is highly dependent on the readiness of human resources, accounting information systems, and institutional support (Alessa, Saad, & Alshammari, 2024). Thus, the direction of GASS policy in Indonesia not only follows global regulatory developments but also faces challenges similar to those of other developing countries in ensuring infrastructure readiness and institutional capacity.

Several recent studies emphasize that the adoption of accrual-based accounting standards in the public sector still faces obstacles at the implementation level. The main challenges include limited bureaucratic competence, gaps in the use of information technology, and difficulties in assessing and organizing public assets. A bibliometric analysis of Scopus publications also shows that the topic of public sector accounting, particularly accrual adoption and audit quality, has been a rapidly growing area of research in the last two years (Mourad & Hussainey, 2023; Rahim & Basuki, 2024). This fact confirms that strengthening human resource capacity and accounting systems is a crucial requirement for GASS to enhance the quality of government financial reporting.

III. Research Method

3.1. Research Types and Approaches

This study uses a qualitative descriptive approach. This approach was chosen because the study does not intend to test hypotheses or perform statistical calculations, but rather to provide a comprehensive overview of the condition of fixed asset recording and accounting treatment carried out by Community Health Center X based on the results of an audit conducted by PAF. The descriptive qualitative approach is considered appropriate because the research data consist of audit documents and audit working papers (AWPs), which are analyzed in depth to determine the extent to which the presentation of fixed assets complies with Government Accounting Standards Statements (GAS). Through this method, researchers can explain the facts, findings, and discrepancies found by auditors in the examination process, particularly those related to the accumulated depreciation account.

3.2. Time and Location of Research

This study was conducted at Community Health Center X, which was the subject of a fixed asset audit by PAF. The location of the study was chosen because community health centers are public service units that are required to prepare financial statements in accordance with applicable standards, so that the results of audits of their financial statements have both academic and practical value. The research period focused on auditing the financial statements as of December 31, 2024. In addition, the research also used records of physical inspections carried out on February 10, 2024. Thus, this research covers the period from the implementation of the inspection to the issuance of audit documents relevant to fixed asset accounts.

3.3. Research Objects

The object of this study is the fixed asset audit document conducted by PAF on Community Health Center X. The primary document used in this study is the Fixed Asset Audit Working Paper (AWP), which contains the following details:

a. The acquisition value of fixed assets, which reflects the acquisition costs of various asset groups.
b. Accumulated depreciation, which shows the depreciation charged to date at the end of the accounting period.
c. Book value of fixed assets, which is the difference between the acquisition cost and accumulated depreciation.
d. Physical inspection records, which document the actual condition of fixed assets in the field.

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3.4. Data and Data Sources

The data used is secondary data, which is data that is not obtained directly from field activities, but rather from existing documents. The secondary data in this study are in the form of Fixed Asset Audit working papers (AWP) compiled by auditors from PAF. Based on the AWP documents, it is known that:

a. The acquisition value of fixed assets is recorded at RP16, xxx, xxx, xxx.xx, consisting of land, equipment and machinery, buildings and structures, networks and installations, and other fixed assets.
b. Accumulated depreciation on fixed assets is recorded at RP7, xxx, xxx, xxx.xx.
c. The net book value of fixed assets after deducting accumulated depreciation is RP24, xxx, xxx, xxx.xx.

In addition, physical inspection records are also used as additional data sources to strengthen the analysis of asset existence and the accuracy of their recording in financial statements.

3.5. Data Gathering Technique

The data collection technique in this study used the documentation method. The documentation method involved directly examining audit documents produced by public accounting firms, particularly audit working papers. In this case, the researcher did not conduct interviews or direct observations of asset managers; instead, they focused on analyzing available data. The documentation process included:

a. Collect relevant fixed asset audit documents.
b. Read and understand the contents of the AWP, including details of fixed assets per account group.
c. Review the physical inspection records conducted by the auditor on February 10, 2024.
d. Identify findings related to the accuracy of calculations and recording of accumulated depreciation.

With this documentation technique, researchers obtain objective data because it is sourced from independent audits by public accounting firms.

3.6. Data Analysis Technique

The data analysis technique used was qualitative descriptive analysis. The audit data was analyzed by:

a. Data Reduction: Filtering and selecting important information from AWP, such as acquisition value, accumulated depreciation, book value, and physical inspection records.

b. Data Presentation: Compiling the data in an easy-to-understand narrative form facilitates the evaluation process of the accounting treatment applied.
c. Compliance Analysis: Comparing the audit results with the provisions applicable in the Government Accounting Standards Statement (GAS).
d. Drawing Conclusions: Conclude whether the presentation of fixed assets in the financial statements of Community Health Center X is in accordance with GAS or whether there are still corrections that need to be made.

3.7. Reasons for Choosing the Research Methodology

The qualitative descriptive method was chosen because this study aims to describe in depth the implementation of fixed asset audits and depreciation correction findings at Community Health Center X. The

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data used were secondary documents such as Audit working papers(AWP) and financial reports, which were more appropriately analyzed using a qualitative approach that emphasized the inteRPretation of the conformity of accounting practices with Government Accounting Standards Statement and their implications for the quality of financial reports.

3.8. Hypothesis

H1: There is a discrepancy in the recording of depreciation of fixed assets at Community Health Center X, which requires correction by the auditor.
H2: Corrections to accumulated depreciation have a significant effect on the fairness of the presentation of Community Health Center X's financial statements.
H3: Weak internal controls and delays in the disposal of fixed assets contribute to misstatements in the depreciation account.
H4: The application of depreciation and asset disposal policies in accordance with GASS No. 7 will improve the accuracy of financial statements and audit opinions.

IV. Results and Discussion

4.1. Remedies Findings on Depreciation

a. The results of the findings

The audit of fixed assets identified inconsistencies in depreciation treatment that affected the fairness of the carrying amount and current period expenses. Key findings included:

1) The useful life is unrealistic for some asset groups, resulting in depreciation charges per period that are too low/high.
2) Depreciation methods are inconsistent between periods/units.
3) Delays in recognizing depreciation on assets that are ready for use.
4) Idle/unutilized assets that are still depreciated without policy review.
5) Delays in discontinuing/disposing of assets, resulting in accumulated depreciation that does not reflect actual conditions.

Quantitative impact on financial statements: the correction increases the current period's depreciation expense, reduces the carrying amount of the related assets, and reduces retained earnings/equity, with adjustments presented prospectively for changes in estimates and retrospectively for prior period errors.

b. Overview

Depreciation adjustments must always comply with established accounting standards for non-financial assets, emphasizing the need for consistency in methods, periodic reviews of useful lives, and the termination of depreciation when assets are disposed of. Such compliance underscores the importance of inventory and valuation as the foundation of effective asset management. Recent empirical evidence further supports this view. A study published in the *Emerging Markets Review* (2024) demonstrates that compliance with and familiarity with fixed asset disclosure requirements can increase company value. Similarly, an article in *Public Money & Management* (2025) confirms the relationship between depreciation accounting practices and government asset management, while recent financial research also highlights the sensitivity of depreciation policies to investment incentives. Addressing the root causes of misstatements and inefficiencies requires standardized asset inventory and tagging systems, evidence-based applicable life policies reviewed annually, consistent depreciation methods across units with periodic reconciliations, and enhanced

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disclosures covering reconciliation of balances, valid life estimate changes, as well as idle or discontinued assets. Overall, depreciation adjustments play a crucial role in improving the reliability of book values, ensuring the relevance of period expenses, and strengthening accountability in asset management. Literature increasingly shows that these practices not only enhance the quality of financial reporting but also foster greater stakeholder confidence.

4.2. The Urgency of Fixed Assets in Public Institutions

a. Findings

An audit conducted by PAF on fixed assets at Community Health Center X found significant discrepancies between accounting records and the physical condition of the assets. Several assets, such as official vehicles and medical equipment, including Honda NF 125 D motorcycles, Honda NF 100 SLD motorcycles, and Toyota KF 60 ambulances, were damaged or no longer in use, but were still recorded as active and depreciated in the financial statements. This situation has resulted in an overstated depreciation accumulation and an understated asset book value of RP 1xx, xxx, xxx (based on the Audit Working Papers, 2024). Audit data also shows that the acquisition value of fixed assets is recorded at more than RP 16 billion, with accumulated depreciation of RP 7 billion, and a net book value of around RP 24 billion. The depreciation correction made by the auditor confirms weaknesses in the internal control system and depreciation accounting policy at Community Health Center X.

b. Overview

Fixed assets are central to the sustainability and credibility of public services, particularly in health institutions such as community health centers. Their proper management, recording, and depreciation are essential not only for financial accuracy but also for maintaining the trust of the public and stakeholders. The following five aspects highlight the urgency of accurate fixed asset accounting.

1) The Urgency of Fixed Assets in Public Service: Community health centers rely heavily on fixed assets such as buildings, vehicles, medical equipment, and laboratories. These assets carry both economic and service value, as they directly determine the smooth delivery of public health services. Errors in asset recognition and depreciation inevitably disrupt service quality and hinder operational effectiveness.
2) Transparency and Accountability: The case of depreciation corrections at Community Health Center X illustrates how weak asset recording undermines accountability in financial reporting. As emphasized by Diantimala & Wijayana (2024), compliance with fixed asset disclosure strengthens organizational credibility and enhances the value of public institutions. Therefore, asset audits become a critical tool for ensuring fiscal transparency and accountability.
3) Basis for Planning and Budget Efficiency: Depreciation policies that are inconsistent or inaccurate create inefficiencies in budget planning, particularly in asset procurement and disposal. The situation at Community Health Center X shows that delays in asset disposal complicate planning for timely replacement, thus affecting budget allocation and efficiency.
4) Relationship with Accounting Regulations: In Indonesia, fixed asset recognition and presentation are regulated in GASS No. 7 and reinforced by PMK No. 122/2024 under accrual-based standards. However, audit findings reveal operational challenges in implementing these rules. While the adoption of IPSAS enhances transparency, its effectiveness depends on the readiness of information systems and the competence of financial officers (Alessa, Saad, & Alshammari, 2024).
5) Impact on Public Trust and Audit Opinion: Material misstatements in fixed asset records can result in a downgrade of audit opinion from unqualified to qualified. Such outcomes not only reduce the reliability of financial statements but also erode the trust of the community and local government in the financial stewardship of health centers.

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4.3. Impact Analysis on Depreciate Remedies

a. Results

Based on an analysis of the AWP prepared by PAF for Community Health Center X as of December 31, 2024 (physical inspection on February 10, 2024), the auditor found adjustments (corrections) to the accumulated depreciation account in the equipment and machinery group. The total correction recorded was RP 1xx, xxx, xxx. Examples of assets subject to correction include Honda NF 125 D Motorcycles, Honda NF 100 SLD Motorcycles, and Toyota KF 60 Ambulances. These assets are no longer in physical use but are still subject to depreciation in the books.

b. Overview

Proper accounting and management of fixed assets are essential for ensuring the reliability of financial statements, compliance with government accounting standards, and maintaining public trust. The case of depreciation adjustments at Community Health Center X illustrates how weaknesses in recording practices can directly affect reporting quality and governance. The discussion below highlights five main dimensions of these findings.

1) Impact on Financial and Account Reports
Depreciation adjustments modify the carrying amount of fixed assets, ensuring that the balance sheet more accurately reflects their actual condition. At Community Health Center X, these adjustments corrected prior understatements and overstatements of asset positions and accumulated depreciation that were inconsistent with physical records. Since depreciation is a non-cash expense, retrospective corrections also influence the profit and loss statement or surplus/deficit report by altering recorded expenses and period results. In line with accounting provisions on estimate changes and error corrections, these impacts require transparent disclosure. Moreover, the findings highlight the importance of aligning depreciation policies with GASS/IPSAS requirements, particularly in terms of method selection, proper life determination, residual value, and timely asset disposal. Literature increasingly emphasizes that reforming fixed asset accounting practices is crucial to enhancing the quality of public reporting.
2) Internal Control and Operational Causes
Analysis of documents and AWP reviews reveals that the root causes of depreciation corrections stem from internal control weaknesses. Key issues include reliance on manual asset recording without integrated systems, a lack of routine disposal procedures, outdated and invalid life estimates, and inadequate documentation of asset transfers. These challenges align with international studies that demonstrate how inadequate information systems and weak internal controls contribute to errors in fixed asset measurement and reporting.
3) Audit Implications and Opinion Risk
The presence of material depreciation adjustments has direct consequences for external audit outcomes. If management fails to provide sufficient corrections or disclosures, auditors may issue modified opinions, such as qualified or adverse, depending on the severity of misstatements. Additionally, the recurrence of audit adjustments indicates deficiencies in asset management and internal controls, which reduces confidence in the reliability of financial statements and increases the institution's exposure to audit risk.
4) Managerial Implications and Recommendations
To address these weaknesses, several practical steps are recommended. First, implementing an integrated asset information system is essential to automate inventory, transfers, and depreciation calculations, thereby reducing errors and expediting disposal processes. Second, standardized disposal procedures should be established to ensure obsolete or damaged assets

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are promptly removed from the books. Third, annual reviews of depreciation estimates, carried out collaboratively between accounting staff and technical units, will improve accuracy. Fourth, capacity-building programs must be provided to enhance staff knowledge of GASS/IPSAS and internal audit practices. Finally, transparency must be strengthened through detailed disclosures in financial statements and proper documentation in audit working papers. These recommendations align with broader literature advocating for fixed asset policy reform and integrated asset management to improve reporting quality in the public sector.

5) Corrections as a Momentum for Governance Improvement
The corrections identified by the Public Accounting Firm (PAF) should not be viewed as mere technical adjustments but as opportunities for systemic reform. If followed by concrete actions such as system upgrades, clear SOPs for disposal, and staff training, these corrections can significantly enhance reporting accuracy, prevent adverse audit opinions, and improve budget planning and resource allocation. Recent studies confirm that robust asset information systems and strong governance practices are positively correlated with higher-quality public financial reporting.

In summary, the case of depreciation adjustments at Community Health Center X underscores the interconnectedness of financial accuracy, internal control systems, regulatory compliance, and public accountability. By transforming audit findings into a driver for change, the institution can strengthen governance, improve service delivery, and build greater trust with stakeholders.

4.4. Fixed Asset Internal Control Evaluation

a. Summary of Fixed Asset Audit Findings

The PAF audit of Community Health Center X's fixed assets for the period ending December 31, 2024, found significant corrections to the accumulated depreciation account for the equipment and machinery group. The correction amounted to approximately RP1xx, xxx, xxx (according to AWP). Several assets were physically unused (e.g., Honda NF 125 D Motorcycle, Honda NF 100 SLD, Toyota KF 60 Ambulance) but were still recorded and depreciated in the books.

b. Recording and Inventory System Conditions

Fixed asset recording is still done manually, and inventory is not conducted regularly, resulting in data on asset transfers, disposals, and physical conditions that are inconsistent with accounting records. This increases the risk of misstatement and delays in disposing of assets that are no longer usable.

c. Weaknesses in Depreciation and Write-off Policies

There are inaccuracies in the application of valuable lives and/or depreciation methods, resulting in the need for journal corrections by auditors. The asset disposal mechanism at the operational level is not yet systematic and documented.

d. Impact on Financial Statements and Audit Opinions

Material depreciation adjustments affect the carrying amount of assets, the amount of depreciation expense, and may potentially affect the audit opinion if not adequately addressed by management.

e. Overview

The findings of depreciation corrections and irregular asset inventories at Community Health Center X provide important insights into weaknesses in internal controls, the operational causes of misstatements, and their broader consequences for accounting accuracy and governance. These findings also underscore the

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need for implementing corrective measures and transparent disclosures to enhance financial accountability and maintain stakeholder trust.

1) Interpretation of Weak Internal Controls
   The audit results reveal that depreciation errors and irregular inventories stem from fundamental deficiencies in internal control elements. These include weak segregation of duties, incomplete documentation of transfers and disposal approvals, and heavy reliance on manual processes without the support of an integrated asset information system. Such weaknesses are consistent with prior research that identifies the quality of information systems and internal controls as the primary determinants of the accuracy of fixed asset reporting in the public sector.
2) Causes of False Depreciation
   Operationally, false depreciation arises when asset acquisition dates or residual values are unrecorded or incorrectly entered, when estimates of useful life are not periodically reviewed, and when assets that are damaged or no longer in use continue to be depreciated. Empirical studies confirm that the failure to update technical parameters and the lack of regular inventory checks are familiar sources of audit adjustments. These oversights contribute to the persistence of errors in both asset valuation and financial reporting.
3) Consequences for Accounting and Governance
   Incorrect depreciation has far-reaching implications. First, it undermines the accuracy of the balance sheet by causing understatements or overstatements in net asset values, which in turn compromises transparency. Second, it disrupts budget planning, as inaccurate data hinders timely asset replacement and distorts capital expenditure allocation. Third, and perhaps most critically, persistent errors can damage an organization's reputation and lead to a modified audit opinion, such as a qualified or disclaimer opinion, which significantly reduces stakeholder confidence in the financial statements.
4) Recommendations for Internal Control Improvement
   Addressing these weaknesses requires systematic reform. The implementation of an Asset Management Information System (SIMA) is essential for digitizing asset cards, integrating them with the general ledger, and applying asset lifecycle management to reduce manual errors. Annual physical inventories and reconciliations with accounting records must be institutionalized, with documented follow-up actions in place to ensure accuracy and completeness. Depreciation policies should be standardized across asset categories, with reviews conducted periodically—at least every two to three years or after significant changes. Strengthening segregation of duties is crucial to reducing the risks of negligence or manipulation. Meanwhile, capacity building through technical training on GASS/IPSAS standards, write-off procedures, and SIMA usage will enhance staff competence in asset management.
5) Audit Follow-up and Disclosure
   From an audit perspective, corrections accepted by management are considered reasonable improvements, while those rejected require evaluation of their materiality and formal reporting in the management letter. Furthermore, transparent disclosure of depreciation policies, changes in estimates, and internal control remediation efforts in the notes to the financial statements will enhance the credibility of reporting. Research indicates that the disclosure of remediation and follow-up actions contributes to building organizational trust and enhancing performance in the public sector.

In conclusion, the findings at Community Health Center X underscore that depreciation errors are not merely technical issues, but rather symptoms of more profound weaknesses in internal controls and governance practices. By addressing these challenges through integrated systems, standardized procedures,

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and transparent disclosures, institutions can improve the reliability of financial reports, safeguard audit opinions, and ultimately strengthen public trust in financial management.

4.5. Evaluation of Fixed Asset Disposal Policy: Between Regulation and Implementation

a. Asset Disposal Status at Community Health Center X

The AWP PAF analysis shows that several equipment and machinery assets are physically damaged, unproductive, or no longer in use, but are still recorded as active in the books as of December 31, 2024. Audit corrections to accumulated depreciation and/or proposed write-offs recorded material adjustments (the number and examples of assets listed in the AWP include motorcycles, ambulances, and specific medical equipment). These findings indicate delays or failures in the implementation of proper write-off procedures.

b. Compliance with Regulations (GASS / Local Policies)

From the AWP documents, it appears that the write-off practices in the field are not yet entirely consistent with the asset write-off principles stipulated in the latest GASS/PMK (e.g., requirements for release/sale/destruction and administrative requirements). Several cases show that technical documentation was not carried out, so that write-off decisions cannot be adequately traced.

c. Follow-up Process & Timeframe

Physical inventory and reconciliation to the ledger are not performed periodically or are not fully documented, resulting in an untimely determination of when assets should be written off. As a result, unproductive assets continue to depreciate and give rise to audit corrections. This indicates a gap between formal procedures (regulations) and operational practices.

d. Overview

The issue of asset disposal at Community Health Center X highlights the persistent gap between regulatory requirements and practical implementation. While modern standards require that disposals be based on technical evidence and correctly recorded and disclosed, in practice, various barriers, including limited technical capacity, manual administrative processes, and the absence of integrated systems, prevent compliance. These challenges mirror broader findings in public sector asset accounting reforms, where regulations often remain formal guidelines without effective operationalization.

1) The Gap Between Regulation and Implementation Practices
   Regulations such as GASS and IPSAS require that asset disposal be supported by technical proof demonstrating that the assets no longer provide economic benefits. They also mandate proper documentation and disclosure. However, Health Center X faces limitations in human and technical resources, continues to rely on manual processes, and lacks an integrated asset information system. As a result, regulatory expectations are not fully met, creating discrepancies between what is mandated and what is practiced.
2) Practical Causes of Disposal Delays
   Audit working paper (AWP) findings and literature reviews identify several root causes of untimely asset write-offs. First, the absence or weakness of technical evaluation procedures—such as the lack of formal assessment teams or condition documentation—prevents objective disposal decisions. Second, manual and fragmented processes delay the recording of asset transfers and complicate the authorization of disposal. Finally, limited staff competence in applying disposal standards further exacerbates delays. These issues are consistent with studies stressing the importance of reliable, real-time asset data for effective lifecycle management.

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3) Implications for Accounting and Governance
Delays in asset disposal have significant consequences for both accounting accuracy and governance. Assets that should be written off remain on the books, resulting in unrealistic asset values and depreciation expenses, which in turn require material audit adjustments. From a budgetary perspective, the retention of obsolete assets conceals actual replacement needs and distorts capital expenditure planning. Governance and accountability are also compromised, as incomplete disclosures and delayed disposals reduce transparency, affect audit opinions, and erode stakeholder trust.

4) The Role of Effective Policy and Institutional Capacity
Literature from 2023 to 2025 emphasizes that regulations such as GASS and IPSAS provide only a framework for implementation. Successful implementation requires institutional capability, robust business processes, and reliable information technology. Without these supports, regulatory reforms risk remaining symbolic rather than substantive. Empirical research recommends standardizing disposal processes, maintaining clear audit trails, and involving technical units in asset condition evaluations as critical enablers of effective asset management.

5) Recommended Follow-Up Measures
Drawing on both the AWP findings and recent studies, several measures are prioritized for Health Center X. These include standardizing disposal procedures with clear SOPs for criteria, authorization, and documentation; establishing a technical asset assessment team to provide evidence-based disposal recommendations; digitizing and integrating the asset management information system (SIMA) with the general ledger to ensure timely identification and removal of inactive assets; conducting annual inventories and reconciliations with proper supporting documentation; reviewing depreciation and disclosure policies in line with GASS/IPSAS; and strengthening human resource capacity through training in technical appraisal, accounting standards, and system usage. These steps align with broader recommendations for reforming asset management in the public sector.

In conclusion, the gap between regulations and their application in asset disposal at Health Center X underscores the importance of moving beyond compliance on paper to building real institutional capacity. By implementing standardized procedures, adopting digital systems, and enhancing staff competencies, public institutions can ensure that disposals are timely, accurate, and transparent, thereby improving both the quality of financial reporting and governance accountability.

4.6. The Impact of Policy on Financial Statement Quality and Public Trust

a. Results

The PAF audit of Community Health Center X's fixed assets showed that the implementation of accounting policies, particularly those related to depreciation and asset disposal, was not entirely consistent with applicable standards. Significant corrections to fixed asset accounts, especially accumulated depreciation, resulted in material adjustments to the financial statements. These results show that weak policy implementation reduces the reliability of financial statements. In addition, the lack of formal documentation on asset disposals has led to a negative perception among auditors and stakeholders regarding the accountability of asset management. As a result, public confidence in the transparency and financial governance of local governments has the potential to decline.

b. Overview

Accounting policies play a crucial role in ensuring the quality of financial statements in the public sector. Regulations such as the latest Government Accounting Standards (GASB) and the updated PMK provide a comprehensive normative framework, yet inconsistent implementation continues to create

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challenges in practice. One of the most evident consequences is a decline in the quality of financial statements. Non-compliance with fixed asset disposal policies frequently leads to overstated asset values and distorted depreciation expenses. Such practices diminish both the relevance and reliability of financial reporting. Moreover, material audit corrections, which often arise due to weak internal controls, directly affect not only the quality of financial statements but also the resulting audit opinions (DeFond et al., 2024). Beyond technical accuracy, these weaknesses carry broader implications for accountability and transparency. When significant corrections are made after audits, the public begins to question the credibility of government financial management. While the adoption of IPSAS and GASS was intended to strengthen transparency, its effectiveness is contingent on consistent and rigorous implementation at the operational level (Alessa, Saad, & Alshammari, 2024).

Poor financial reporting also has a direct impact on public trust. Inaccurate and opaque financial statements erode confidence in public institutions, since the credibility of government bodies is strongly linked to the precision and transparency of their reporting. Without firm adherence to established accounting policies, the perception of institutional integrity inevitably declines (Rahim & Basuki, 2024). At the same time, accounting policies should not be viewed solely as technical instruments but also as tools of legitimacy. Consistent implementation of policies strengthens the accountability function of financial statements, allowing them to serve as instruments of legitimacy that enhance the reputation and credibility of public organizations. In this way, policies serve a dual role: ensuring compliance with technical standards while also shaping public perceptions of government integrity (Tumija & Rachmadika, 2024).

V. Conclusion

This study reveals that the management and recording of fixed assets at Community Health Center X continue to face various obstacles, particularly related to inaccurate depreciation policies, delays in asset disposal, and weak internal controls. Corrections made by auditors confirm that there are significant differences between accounting records and the actual condition of assets. This has a direct impact on the quality of financial reports, ranging from overstating asset values and distorting depreciation expenses to the potential for a lower audit opinion. In addition, the weak implementation of GASS/IPSAS regulations is mainly due to limited human resource capacity, manual processes, and the absence of an integrated asset management information system. This condition not only affects the accuracy of the balance sheet and the efficiency of budget planning but also reduces public transparency and accountability. Therefore, strategic steps are needed in the form of asset system digitization, the formulation of clear SOPs for disposal, periodic inventory and reconciliation, and increased human resource capacity. With these governance improvements, the quality of financial reports can be improved, audit opinions can be better maintained, and public trust in public sector financial management can be strengthened.

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