

The Influence of APIP Capabilities in Optimizing Financial Audit Efficiency: Optimal Accountability

Muh Ikhsan Bua¹, Fikry Karim², Megawati³

¹Department of Economics and Business, University Tadulako, Indonesia

²Department of Economics and Business, University Tadulako, Indonesia

³Central Sulawesi Province Regional Research and Innovation Agency, Indonesia

Abstract

This study aims to analyze the influence of the capabilities of the Government Internal Supervisory Apparatus (APIP) in optimizing the efficiency of financial audits and reducing audit findings to achieve optimal accountability. The study was conducted by collecting annual report documents from the Financial and Development Supervisory Agency (BPKP), the Audit Board of the Republic of Indonesia (BPK), and the Ministry of Home Affairs (Kemendagri). A quantitative approach was used in this study, with data analysis involving 3,252 observations from various government agencies in Indonesia. The data collected included APIP capabilities, financial audit efficiency, and the number of audit findings. The mediating variable used in this study is the follow-up on audit recommendations. The results show that APIP capabilities have a significant impact on the efficiency of financial audits. Increasing APIP capabilities has been proven to significantly enhance audit follow-ups and reduce the number of audit findings. Additionally, the variables of organizational age and geographic factors also significantly affect audit efficiency and the number of audit findings, indicating that these factors are important in achieving better financial accountability. Conversely, the size of the agency negatively affects audit follow-ups and positively affects the number of audit findings. These findings underscore the importance of enhancing APIP competencies and capabilities as a primary strategy in improving the efficiency and accountability of financial audits in the public sector. This study provides significant contributions to the development of internal supervisory policies and the improvement of financial audit quality in Indonesia, as well as encouraging efforts to enhance public sector accountability.

Keywords: apip capabilities; financial audit efficiency; audit findings; accountability

1. Introduction

The optimization and efficiency of financial audits play a crucial role in enhancing accountability and governance in the public sector. This study aims to examine the influence of the capabilities of the Government Internal Supervisory Apparatus (APIP) in reducing the number of audit findings by focusing on the mediating role of audit follow-ups. Previous studies have investigated the impact of APIP on governance and operational efficiency of the government but have not extensively explored how audit follow-ups act as a mediator in this process.

This research fills this gap by evaluating how the effectiveness of audit follow-ups can mediate the relationship between APIP capabilities and the reduction of audit findings, thereby

supporting the creation of optimal accountability. In the context of improving the quality of internal supervision and audits, APIP capabilities are known to play an important role. The effectiveness of APIP in implementing efficient audit follow-ups is key to ensuring that audit recommendations are effectively applied, preventing recurring errors, and enhancing compliance with established standards.

Research by Yusup & Rahadian (2023) shows that improvements in APIP supervision significantly contribute to increased government efficiency. Furthermore, Furqan et al. (2023) state that well-planned funding initiatives, such as village funds, have had a positive impact on local development and resource management efficiency, illustrating the importance of effective resource management in the context of government financial supervision.

This study is expected to provide deeper insights into the mechanisms by which APIP capabilities impact the reduction of audit findings and to what extent audit follow-ups can mediate this effect. The findings from this research will not only enrich the existing literature but also provide practical recommendations for the government in designing and implementing more effective audit procedures. This will directly enhance accountability and increase public trust in government institutions in line with global and national demands for greater transparency and accountability in public management. Additionally, the results of this study can serve as a basis for more focused policy formulation to optimize the function of APIP, thereby providing more effective assurance and consultation to improve the government's internal control system.

The data used in this study includes information about audit findings from various government entities in Indonesia over the last five years. This data was collected from audit reports published by APIP and related documentation provided by the audited institutions. The main variable in this study is APIP capabilities, measured through indicators such as response speed to findings, the effectiveness of recommendations given, and the quality and depth of audits conducted. The mediating variable in this research is audit follow-up, analyzed based on the completeness and speed of recommendation implementation by the audited institution. Data analysis was conducted using regression models to assess the direct impact of APIP capabilities on the number of audit findings, as well as the mediating role of audit follow-ups in this relationship.

The results of the analysis show that APIP capabilities significantly influence the reduction of audit findings. Furthermore, audit follow-up has been proven to be a significant mediator in this relationship, indicating that the success in reducing audit findings depends not only on APIP capabilities but also on how effectively audit recommendations are implemented by the audited institution.

The limitations of this study lie in the variation in data quality across government agencies, which could affect the analysis results. Although efforts have been made to ensure data consistency, variations in reporting and auditing standards between agencies may affect the accuracy of the research results.

Additionally, this study only involves government entities in Indonesia, so the results may not be generalizable to other contexts or countries without appropriate adjustments. Future research can be expanded to include more samples and additional variables that may influence the effectiveness of audit follow-ups, such as organizational culture or relevant government policy changes. By understanding these limitations, future research can be designed to address

these shortcomings and provide deeper insights into the dynamics between internal audit capabilities, audit follow-ups, and audit findings reduction in the broader context of government governance.

The rest of this article will be divided into four sections: the second section will discuss the literature review and hypothesis development foundation; the third section will cover the research methods used; the fourth section will discuss the results of hypothesis testing; and the fifth section will discuss the conclusions and implications of the research results as well as limitations and suggestions for future research.

2. Literature Review

2.1 Internal Control Theory

Internal Control Theory emphasizes the importance of an internal supervisory system within an organization to ensure the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with applicable laws and regulations. According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO), internal control is a process carried out by an entity's management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the categories of operational effectiveness and efficiency, reliable financial reporting, and compliance with laws and regulations.

In the context of improving APIP capabilities, strong internal control minimizes financial and operational risks, reduces opportunities for non-compliance, and facilitates the identification and correction of operational and financial weaknesses. COSO identifies five main components of effective internal control:

1. **Control Environment:** This includes an organizational culture that emphasizes the importance of control and strong ethical norms. Top management plays a crucial role in demonstrating a commitment to integrity and ethical values.
2. **Risk Assessment:** Organizations need to conduct risk assessments to identify and analyze risks related to the achievement of operational, reporting, and compliance objectives, forming the basis for determining how these risks will be managed.
3. **Control Activities:** These include policies and procedures that ensure management's actions to address risks are effectively carried out.
4. **Information and Communication:** Relevant information systems must capture and communicate information in a form and timeframe that allows people to carry out their responsibilities.
5. **Monitoring:** Evaluations of internal control should be conducted continuously to assess the quality of control system performance over time.

2.2 Risk Management Theory

Risk Management Theory states that risk management is the process of identifying, analyzing, assessing, controlling, and preventing risks to an organization's capital and earnings. According to ISO 31000 (International Standard in Risk Management), risk management involves coordinating activities to direct and control an organization concerning risk. In the context of research related to APIP, effective risk management can reduce the likelihood of

issues uncovered in audit findings and mitigate potential losses or disruptions resulting from those risks.

Through effective follow-up on audit recommendations, organizations can implement preventive and corrective actions strategically to manage risks proactively. This process includes the following steps:

1. **Risk Identification:** Identifying what risks might affect the organization.
2. **Risk Assessment:** Analyzing risks concerning their likelihood of occurrence and impact on the organization.
3. **Risk Control:** Developing options and actions to increase opportunities and reduce threats to organizational objectives.
4. **Monitoring and Review:** This process includes monitoring risk control and risk management strategies for ongoing effectiveness and outcomes.

2.3 Agency Theory

Agency Theory describes the contractual relationship between the principal (owner) and the agent (manager), where the agent is expected to act in the best interests of the principal. According to Michael Jensen and William Meckling, who further developed this theory in 1976, agency problems arise from misalignment of interests between the owner and the manager and information issues (information asymmetry).

In the context of APIP supervision, enhancing capabilities can reduce information asymmetry between management and stakeholders and strengthen oversight mechanisms to ensure that management actions align with the organization's policies and objectives. This helps prevent fraud and promote good governance. These conflicts typically arise from differences in interests and information asymmetry:

1. **Agency Problems:** Occur when the agent does not act in the principal's best interests, often because the agent has more information not available to the principal.
2. **Conflict Reduction Mechanisms:** Include incentive contracts, restrictions, and oversight designed to ensure the agent acts in the principal's best interests.
3. **Agency Costs:** These are costs incurred to manage and address agency conflicts, including monitoring costs, bonding costs, and residual losses.

3. Material and Method

The Influence of APIP on FINDING

Enhancing supervisory capabilities is expected to reduce misalignment between government agency actions and public financial objectives, represented by a reduction in audit findings (Jensen & Meckling, 1976). APIP functions as an agent for stakeholders, including the public and the government, to ensure that government entities act in the best interests and comply with applicable regulations. With more effective APIP supervision, the management of government entities tends to be more cautious in performing their duties, theoretically reducing the likelihood of negative findings during audits.

APIP plays a crucial role in the risk management of government entities. By identifying financial and operational risks and recommending mitigation actions, APIP helps entities reduce potential issues that may be detected as audit findings. This activity aligns with good risk management principles that not only detect problems but also proactively prevent them.

Enhancing APIP's role is expected to contribute to reducing the number of audit findings through improved control mechanisms, effective risk management implementation, and increased accountability and transparency. This hypothesis underscores the assumption that more effective APIP in carrying out its role will significantly reduce violations, errors, and non-compliance often revealed through audit findings. The hypotheses can be detailed as follows:

H1. The Role of APIP Negatively Affects Audit Findings (FINDING)

The Influence of APIP on FOLUP

Internal control theory states that the strength and effectiveness of an internal supervisory system, represented here by APIP capabilities, enhance the implementation of audit recommendations, potentially reducing the frequency and severity of future audit findings (COSO, 2013). The existence of an effective supervisory system, as carried out by APIP, is crucial to ensure that organizational activities comply with established standards and regulations. APIP not only acts as a detector of deficiencies or deviations but also as a motivator and facilitator for continuous improvement.

With effective supervision, audited entities are more likely to implement the recommendations provided because they know the audit process is continuous and follow-up results will be assessed. In this context, the role of APIP in local government, often referred to as the "Regional Inspectorate," includes overseeing the implementation of follow-ups on BPK audit recommendations (Furqan et al., 2021). In the context of compliance, this theory suggests that organizations tend to be more compliant when they perceive competent and fair supervision. APIP, which plays an active role in auditing and providing constructive feedback, can reinforce compliance norms within government entities.

When APIP is actively involved in the audit process and provides clear guidance for improvement, there is a psychological drive for the audited entities to enhance their compliance with audit recommendations. The role of APIP can significantly influence the adoption of necessary changes to rectify identified weaknesses during audits. Effective APIP uses change management techniques to help organizations internalize necessary changes, making audit recommendations not just criticism but also opportunities for learning and growth.

This underscores the importance of APIP as a catalyst in strengthening the audit recommendation follow-up process. Therefore, it can be concluded that APIP's effectiveness in this role not only increases compliance with existing procedures and regulations but also supports a culture of continuous improvement and accountability in government management. The hypotheses can be detailed as follows:

H2. The Role of APIP Positively Impacts FOLUP

The Influence of FOLUP on Audit Findings (FINDING)

From the perspective of organizational capability theory, the effective implementation of audit recommendations resulting from high APIP capabilities is expected to facilitate the reduction of audit findings, implying that follow-up on audit recommendations plays an important mediating role in this relationship (Barney, 1991). Internal control theory emphasizes that effective controls and a good supervisory system are key to minimizing operational and financial risks.

In this context, effective FOLUP is expected to strengthen the internal control system by addressing deficiencies identified in previous audits. As explained by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in their internal control framework, "Organizations that are effective in implementing audit follow-ups are able to correct security gaps and operational weaknesses that directly contribute to reducing future audit findings" (COSO, 2013).

Compliance theory adds that organizations demonstrating high compliance with standards and regulations tend to experience fewer violations and audit findings. The effectiveness of FOLUP in this regard means that audit recommendations are not only viewed as formal requirements but also as an integral part of operational procedures that enhance compliance. Related research by Treviño and Weaver (2001) found that "Increased compliance as a result of effective audit recommendation follow-up can reduce the frequency and gravity of audit findings in subsequent examinations."

Therefore, it can be concluded that effective FOLUP negatively impacts audit findings by providing a better mechanism to address potential issues before they become significant findings in the audit. The hypotheses can be detailed as follows:

H3. FOLUP Negatively Impacts Audit Findings (FINDING)

Mediation of FOLUP on the Relationship Between APIP Capabilities and Audit Findings (FINDING)

Although APIP may have the resources, expertise, and authority to conduct effective audits, their actual impact on reducing audit findings largely depends on how well their recommendations are followed by the audited entities. This includes the expertise, tools, and resources that APIP uses to identify weaknesses and issues in the financial and operational management of government entities. Higher capabilities should allow APIP to provide more precise and effective recommendations.

Referring to the actions taken by the audited entities to address the deficiencies identified in APIP's audit reports, the effectiveness of FOLUP is greatly influenced by the clarity and feasibility of the recommendations provided and the commitment of the audited entities to improvement. In practice, if APIP capabilities are high but FOLUP is ineffective, the impact of APIP capabilities on reducing audit findings could be minimal. Conversely, if FOLUP is effective, high APIP capabilities can translate into a significant reduction in the number of audit findings.

H4. Audit Recommendation Follow-Up (FOLUP) Mediates the Relationship Between APIP Capabilities and the Number of Audit Findings (FINDING)

This study uses data from 548 local governments in Indonesia, including Regency/Municipality Governments from 2016 to 2021. However, due to the inclusion of 6 administrative regencies/municipalities, the final sample total is 542 observations as the study examines a five-year period, resulting in 3252 observations. All data used in this study are sourced from Indonesian government institutions, namely BPKP in the Performance Reports for APIP capability data, audit findings (FINDING), and audit recommendation follow-up (FOLUP).

Table 1. General Overview of Research Sample

DESCRIPTI ON	SAMPLE												JUM LAH	PER CEN T (%)
	20 16	%	20 17	%	20 18	%	20 19	%	20 20	%	20 21	%		
Panel A “Sample Determination Number of Regencies/Municipalities”														
Number of Regencies/Municipalities	54 8	10 0	54 8	10 0	54 8	10 0	54 8	10 0	54 8	10 0	54 8	10 0	3288	100
Administrative Regencies/Municipalities	6	1.0 9	6	1.0 9	6	1.0 9	6	1.0 9	6	1.0 9	6	1.0 9	36	6.57
Final Sample Number/Year	54 2	98. 91	54 2	98. 91	54 2	98. 91	54 2	98. 91	54 2	98. 91	54 2	98. 91	3252	93.43
Panel B “Descriptive Sample”														
Province	34	6	34	6	34	6	34	6	34	6	34	6	204	6
Regency	41 5	76. 6	41 5	76. 6	41 5	76. 6	41 5	76. 6	41 5	76. 6	41 5	76. 6	2490	76.6
Municipality	93	17. 2	93	17. 2	93	17. 2	93	17. 2	93	17. 2	93	17. 2	558	17.20
Total	54 2	10 0	54 2	10 0	54 2	10 0	54 2	10 0	54 2	10 0	54 2	10 0	3252	100
Based on Geographical Location of Local Government														
Java Island	11 9	22	11 9	22	11 9	22	11 9	22	11 9	22	11 9	22	714	22
Outside Java Island	42 3	78	42 3	78	42 3	78	42 3	78	42 3	78	42 3	78	2538	78
Total	54 2	10 0	54 2	10 0	54 2	10 0	54 2	10 0	54 2	10 0	54 2	10 0	3252	100
Total Sample 2016-2021												3252	100	

3.1 Design Study

To address the research problems and test the hypotheses, the empirical model in this study is as follows:

$$FOLUP_i = \beta_0 + \beta_1 BPKPAPI_i + \beta_5 AGES_t + \beta_7 ISLAND_t + \beta_8 MUN_t + \varepsilon_t \dots\dots\dots(1)$$

$$FINDING_i = \alpha_0 + \alpha_1 FOLUP_i + \alpha_2 BPKPAPI_i + \alpha_4 AGES_t + \alpha_6 ISLAND_t + \alpha_7 MUN_t + \varepsilon_t. (2)$$

The main variables in this study are APIP_t, FINDING_t, and FOLUP_t.

FOLUP_t is important for evaluating the effectiveness of audit efforts in producing sustainable improvements and ensuring compliance with established financial and operational standards. FOLUP measurement is done by calculating the percentage of audit recommendations that have been correctly implemented compared to the total number of recommendations given during a specific audit period. This measurement formula provides an

objective and quantifiable way to assess how responsive and proactive an entity is in addressing the findings and suggestions provided in the audit. This metric not only measures compliance but also indicates the entity's commitment to improvement and operational efficiency.

Using percentages in this FOLUP measurement allows standardized comparisons between entities or audit periods, providing a useful tool for BPKP and other related parties to assess the effectiveness and impact of their audit function. For example, a consistent increase in FOLUP percentage over time may indicate that an entity is effectively improving its internal control system and governance. Conversely, a low or decreasing percentage may indicate problems in internal mechanisms or inadequacies in follow-up recommendations.

FINDING_t, audit findings are measured as the total number of findings identified during the annual audit, covering various aspects such as recording errors, procedural violations, fund misuse, and failure to follow generally accepted accounting standards. These findings can range from minor to very serious, with different implications depending on the level and nature of the detected non-compliance or errors.

The use of this variable in research or fiscal evaluation is crucial as it provides an objective basis to assess the quality of regional financial governance. A high number of audit findings may indicate systemic problems in financial management and weak internal controls, while a lower number of findings could indicate improvements in compliance and the effectiveness of internal controls.

APIP_t, the APIP capability variable is measured on a scale of 1-5 where each level describes the progress and effectiveness in supervisory practices. Level 1 indicates that practices are still dependent on individuals without standardization. Level 2 shows that the audit process is structured with competent human resources support.

At level 3, APIP has complied with audit standards and produced oversight that ensures compliance, prudence, and effectiveness, capable of providing early warnings and enhancing risk management and governance. Level 4 indicates that APIP acts as a strategic partner within the organization, supporting the achievement of goals through effective oversight related to governance and risk management. Level 5, the highest level, indicates that APIP operates at an optimal level, providing full assurance on the effectiveness of operations, reliability of financial reporting, asset security, and compliance with laws and regulations.

Control variables in this study are, AGES_{it}, ISLAND_{it}, MUN_{it}, and SIZE_{it} is the variable size of the Local Government in the year measured using the natural logarithm (Ln) of the total assets value.

AGES_{it} is the variable age of the Local Government in the years 2018-2021, measured by the number of years since the establishment of the local government until 2021.

ISLAND_{it} is a variable of the geographical location of the Local Government measured using a dummy, "1" if the Local Government is located on Java Island and "0" otherwise.

MUN_{it} is a variable of the Local Government status measured using a dummy, "1" if the Local Government is a city and "0" otherwise.

SIZE_{it}, the size of the Local Government in the years 2016-2021, is measured by the natural logarithm (Ln) of the total assets of the Local Government.

Table 2. Variable Operationalization and Data Sources

Nama	Operasionalisasi Variabel	Sumber Data
FOLUP _{it}	Follow-Up Audit Recommendations measured by the percentage of audit recommendations that have been properly implemented divided by the total number of audit recommendations	Financial and Development Supervisory Agency (BPKP)
FINDING _{it}	Annual Audit Findings measured by the total number of audit findings during the audit process of Local Government Financial Reports	Financial and Development Supervisory Agency (BPKP)
BPKPAPIP _{it}	APIP Capability	Financial and Development Supervisory Agency (BPKP)
AGES _{it}	The age of the Local Government in the years 2016-2021, measured by the number of years since the establishment of the local government until the years 2018-2021	Ministry of Home Affairs
ISLAND _{it}	The geographical location of the Local Government measured by a dummy variable, "1" for Java Island, "0" otherwise	Ministry of Home Affairs
MUN _{it}	Local Government status measured by a dummy variable, "1" for City Government, "0" otherwise	Ministry of Home Affairs
SIZE _{it}	The size of the Local Government in the years 2016-2021, measured by the natural logarithm (Ln) of the total assets of the Local Government	Audit Board of the Republic of Indonesia (BPK)

3.2 Data Analysis

Descriptive Statistics

The descriptive statistical overview of the variables in this study can be seen in Table 3 below:

Table 3. Variable Descriptive Statistics

Description	Obs	Mean	Std. Dev.	Min	Max
Folup	3,252	79.00	12.69	16.3	100
Finding	3,252	21.82	9.82	0.00	114

BpkpApip	3,252	2.02	0.66	1.00	3
Mun	3,252	0.30	0.58	0.00	2
Island	3,252	0.22	0.41	0.00	1
Ages	3,252	41.68	24.03	2.00	71
size	3,252	4951.90	21906.78	457.9	544,505
Total Observation = 3,252					

The first variable, Folup, measures the effectiveness of audit recommendation follow-up with a percentage having a mean value of 79.00. This indicates that, on average, most audit recommendations are successfully implemented by the audited entities. The variation in the implementation of these recommendations is seen from the standard deviation of 12.69 and a range of values from 16.36 to 100, indicating significant variation in compliance with audit recommendations across entities.

The second variable, Finding, records the number of audit findings ranging from 0 to 114 with a mean of 21.82. These findings reflect errors or issues identified during audits, where higher values indicate more problems detected. The variability of audit findings can be influenced by various factors, including APIP capabilities measured in the BpkpApip variable. The BpkpApip score, describing APIP capabilities, is measured on a scale of 1 to 3 with a mean of 2.02. This shows that, on average, APIP capabilities are above the basic level but have not reached the highest level. Variations in these capabilities can help explain the effectiveness of audit recommendation follow-ups and the number of audit findings.

The variables Mun and Island may reflect certain demographic or administrative factors affecting audit outcomes, with mean values of 0.30 and 0.22, respectively. The variable Ages, which measures the age or duration of the entity's establishment with a mean of 41.68 years and a wide range, could be an important indicator showing the experience and maturity of administrative processes.

Finally, Insize_total, indicating the total size of the entity in logarithmic form, shows a very large range from 457 to 544505, indicating significant differences in operational scale among the audited entities. This size might correlate with operational complexity and challenges in managing finances and audits.

Table 4. Correlation Analysis of Variables

	finding	folup	bpkp pip	ages	mun	island	insize total
finding	1.0000						
folup	-0.2419* **	1.0000					
	0.0000						

bpkpap ip	- 0.1063* **	0.2584 ***	1.0000				
	0.0000	0.0000					
ages	- 0.0534* **	0.2473 ***	0.2055 ***	1.0000			
	0.0000	0.0000	0.0000				
mun	0.1617* **	0.0300 ***	0.1615 ***	0.0873 ***	1.0000		
	0.0000	0.0000	0.0000	0.0000			
island	-0.0887	0.3534 ***	0.0810 ***	0.4559 ***	0.0436 ***	1.0000	
	0.4082	0.0000	0.0000	0.0000	0.0000		
insizeto tal	0.1737* **	0.1543 ***	0.2099 ***	0.3907 ***	0.4670 ***	0.3560 ***	1.0000
	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	
Number of observations = 3,252							
***, ** = nilai P signifikan 1%, 5%							

Table 4 shows that all main variables in this study, such as variables FINDING_t, FOLUP_t, and APIP_t, have correlations with each other. As predicted in the previous section, APIP_t capabilities negatively correlate with audit findings FINDING_t and positively correlate with FOLUP_t, while the FINDING_t variable negatively correlates with FOLUP_t, and it is found that FOLUP_t does not act as a mediator. This indicates that FINDING is not only correlated with APIP capabilities and audit recommendation follow-ups FOLUP but also correlated with the size, age, and status of local government.

4. Result

Hypothesis Testing Results

Table 5. Hypothesis Testing Results

Variabel	Expected Sign	Individual Model Test		Full Model Test	
		FOLUP _t	FINDING _t	FOLUP _t	FINDING _t
1	2	3	4	5	6
_CONS		78.556***	-46.744***	78.556***	-46.744***
		0.000	0.000	0.000	0.000
FOLUP _t	(-)		-0.169***		-0.169*
			0.000		0.077
BPKPAPIP _t	(+/-)	4.341***	-1.432***	4.341***	-1.432***
		0.000	0.000	0.000	0.003
AGES _t	(+/-)	0.036***	-0.018**	0.036***	-0.018**
		0.000	0.019	0.000	0.018
MUN _t	(+/-)	-0.320	-1.405***	-0.320	1.405***

		0.424	0.000	0.423	0.000
ISLAND _t	(+/-)	9.598***	-1.622***	9.598***	-1.622*
		0.000	0.000	0.000	0.078
INSIZETOTAL _t	(+/-)	-0.413	2.985***	-0.413	2.985***
		0.221	0.000	0.221	0.000
Prob > chi2 / Prob > F		0	0	0	
Pseudo R2 / Adj R-squared		0.182	0.125		
Number of observations = 3.252					
***, **, * = P-value significant 1%, 5%, 10%.					

Table 5 column (3) shows that the BPKPAPIP_t variable positively affects FOLUP_t with a coefficient of 4.341, significant at the 1% level, meaning that the data used in this study supports H1, which means that the increase in BPKPAPIP_t capabilities can positively affect FOLUP_t. For testing H2, Table 5 column (4) shows that the BPKPAPIP_t variable negatively affects the FINDING_t variable with a coefficient of -1.432, significant at the 1% level, so it can be said that the data used in this study supports H2, meaning that every 1 level increase in BPKPAPIP_t will cause a reduction in FINDING_t by 71,6.

Table 5 column (4) shows that the FOLUP_t variable negatively affects FINDING_t with a coefficient of -0.169, significant at the 1 percent level. This result shows that the data used in this study supports H3, meaning that the increase in FOLUP_t can negatively affect FINDING_t. Meanwhile, the FOLUP_t variable cannot mediate between the FINDING_t variable and the BPKPAPIP_t.

Regarding the role of control variables in this research framework, the individual model test results in Table 5 column (3) provide a clearer picture that the variables significantly affecting the FOLUP_t variable are AGES_t with a coefficient of 0.036, positively affecting with significance at the 1% level, and ISLAND_t with a coefficient of 9.598, positively affecting with significance at the 1% level. Meanwhile, the MUN_t and INSIZETOTAL_t variables do not significantly affect the FOLUP_t variable. These research results show that in addition to BPKPAPIP capabilities, other variables such as regional age and geographical location also contribute to minimizing audit findings FINDING_t.

Meanwhile, the individual model test results in Table 5 column (4) show that the control variables significantly affecting the FINDING_t variable are AGES_t with a coefficient of -0.018, negatively affecting with significance at the 5% level, MUN_t with a coefficient of -1.405, negatively affecting at 1% significance, and ISLAND_t with a coefficient of -1.622, positively affecting at 1% significance, while the INSIZETOTAL_t variable has a positive influence with 1% significance.

These research results show that in addition to APIP capabilities, other variables such as regional age, regional size, geographical location, and local government status also contribute to minimizing audit findings FINDING. Moreover, the full model test results in Table 5 columns (5) and (6) show that the FOLUP_t variable does not act as a mediation variable for the APIP role to minimize audit findings FINDING.

5. Discussion

APIP plays a critical role in ensuring the integrity and operational effectiveness of government operations. Their main task is to monitor and evaluate the implementation of policies and management at all levels of government to ensure compliance with applicable regulations. APIP also plays an important role in preventing and detecting fraud and corruption, enhancing accountability and transparency, and ensuring responsible financial and asset management of the government through their audits and evaluations.

APIP provides recommendations for system improvements and performance monitoring and ensures that government agencies work efficiently and effectively. APIP also ensures compliance with public service standards and legislation while providing consultation and assistance in implementing internal controls and risk management (BPKP, 2023). Therefore, APIP must demonstrate a high level of professionalism to carry out their duties effectively and ensure that organizational goals are achieved appropriately.

Audit recommendation follow-up (FOLUP) is an essential component of financial supervision aimed at improving internal control, risk management, and organizational accountability. This process emphasizes the importance of control mechanisms as tools to secure assets and financial information and to promote adherence to established policies (Committee of Sponsoring Organizations of the Treadway Commission, 2013).

Through the effective implementation of corrective actions suggested in audits, organizations can minimize operational and financial risks while strengthening accountability to stakeholders. According to the continuous quality improvement model, audit follow-up is seen as an opportunity for continuous learning and improvement, supporting a proactive culture towards performance and transparency enhancement (Deming, 1986). Furthermore, this practice reduces agency conflicts by ensuring that management acts in the stakeholders' best interests (Jensen & Meckling, 1976), promoting good operational ethics and strengthening the organization's public reputation.

Enhancing the capabilities of the Government Internal Supervisory Apparatus (APIP) has a significant impact on reducing the number of audit findings while increasing the effectiveness of audit recommendation follow-ups. This reflects that higher capabilities in APIP lead to more effective oversight, in line with the principles of Internal Control Theory, emphasizing the importance of a strong control system for financial integrity and operational efficiency. Improvements in APIP capabilities lead to better internal control, which directly impacts reducing the likelihood of errors and non-compliance in the entity's operational activities.

Effective audit recommendation follow-up, also influenced by APIP capabilities, contributes to better risk management. This indicates that entities with good risk management tend to have fewer audit findings, indicating minimal financial and operational risks that could potentially cause harm (Risk Management Theory).

The research results also support Agency Theory, describing the importance of oversight mechanisms in ensuring that management acts in stakeholders' interests. The increase in APIP capabilities, followed by a reduction in audit findings, reflects the effective implementation of quality oversight that minimizes conflicts of interest and ensures transparency and compliance with regulations and standards.

Increasing APIP capabilities and the effectiveness of audit recommendation follow-up has significant implications for governance and financial supervision in government. Other factors such as the entity's age, geographical location, and entity size also contribute to the dynamics of oversight and audit effectiveness, indicating the need for an integrated and contextual approach in managing and supervising government finances.

This research highlights the need for continuous enhancement of internal supervisory capabilities to achieve better governance and reduce operational risks while also highlighting the importance of external factors influencing audit outcomes.

Based on the above discussion, it can be concluded that, in general, this research has empirically proven the relationship between APIP capabilities (BPKPAPIP), audit recommendation follow-up (FOLUP), and audit findings (FINDING). The first objective indicator is that local government accountability exceeds legal compliance, including effective resource management to achieve public goals.

Effective oversight, comprehensive audits, and consistent follow-up on audit recommendations enhance transparency and public trust, ensuring local government actions align with citizens' interests and promoting clean and efficient governance. -A. Thomas, "Public Sector Accountability: Enhance Transparency and Compliance in Local Governance" (2015).

6. Conclusion, Implication, and Recommendation

The results of this study overall indicate that strengthening internal oversight capabilities APIP BPKPAPIP_t and enhancing follow-up practices FOLUP_t play a crucial role in achieving optimal accountability in financial management. The findings underscore that improving internal oversight capabilities can directly reduce the number of audit findings. With a significant positive coefficient, BPKPAPIP_t proves to enhance the quality of follow-up on audit findings, which in turn contributes to the overall reduction of audit findings. This highlights the need for the government to prioritize strengthening oversight capacity to improve audit effectiveness.

Furthermore, the study emphasizes the importance of developing systematic and effective follow-up protocols. Although follow-up practices FOLUP_t do not mediate the relationship between BPKPAPIP_t and FINDING_t, improvements in follow-up practices still contribute to reducing audit findings. Therefore, the government should implement and reinforce clear and comprehensive follow-up protocols. These protocols should ensure that every audit finding is addressed promptly and adequately, thereby effectively resolving identified issues and enhancing financial accountability.

Additionally, the study reveals that regional factors, such as regional age, size, and geographic location, influence audit outcomes. This indicates that audit management strategies need to be tailored to the local context. The government should consider regional characteristics when designing and implementing audit and oversight policies. A context-sensitive approach can enhance the effectiveness of oversight and follow-up, addressing the specific challenges faced by each region.

By applying these recommendations strengthening oversight capabilities, developing effective follow-up protocols, and tailoring strategies to regional factors the government can improve transparency and accountability in financial management. Implementing these

measures will support achieving optimal accountability, ultimately improving public financial management and ensuring that financial resources are used efficiently and responsibly.

8. References

Yudanto, L. A., & Pesudo, D. A. A. (2020). Perception of civil servant's on APIP capability as moderating variable on the relationship between the implementation of SPIP and SAKIP (Study on Salatiga City Government). *The Indonesian Accounting Review*, 10(2), 183–199. <https://doi.org/10.14414/tiar.v10i2.2248>

Yusup, M., & Rahadian, Y. (2023). Evaluation of capability improvement of government internal control apparatus. *Riset Akuntansi Dan Keuangan Indonesia*, 8(1), 48–62. <https://doi.org/10.23917/reaksi.v8i1.19342>

Badan Pengawasan Keuangan dan Pembangunan. (2022, January 18). Penilaian Mandiri Kapabilitas APIP. Retrieved from <https://www.bpkp.go.id/berita/readunit/20/33607/5/penilaian-mandiri-kapabilitas-APIP->.

Furqan, A. C., Wardhani, R., Martani, D., & Setyaningrum, D. (2021). Financial reporting, public services and local executives' re-electability in Indonesia. *Cogent Business & Management*, 8(1), 1939229. <https://doi.org/10.1080/23311975.2021.1939229>

Kahar, A., Furqan, A. C., & Tenripada, T. (2023). The effect of budget, audit and government performance: Empirical evidence from Indonesian regional governments. *Economy of Regions*, 19(1), 289–298. <https://doi.org/10.17059/ekon.reg.2023.1.21>

Ningsih, D. A., Yazid, H., & Ramdhani, D. (2022). Effectiveness of the audit program, integrity and the government internal control system on prevention of fraud in the procurement of goods and services. *Journal of Applied Business, Taxation and Economics Research*, 1(6), 536–552

Jensen, M., & Meckling, W. (1976). Theory of the firm: Managerial behavior, agency costs, and ownership structure. *Journal of Financial Economics*, 3(4), 305–360. [https://doi.org/10.1016/0304-405X\(76\)90026-X](https://doi.org/10.1016/0304-405X(76)90026-X)

Treviño, L. K., & Weaver, G. R. (2001). Organizational justice and ethics program follow-through: Influences on employees' ethical behavior. *Business Ethics Quarterly*, 11(4), 651–671. <https://doi.org/10.2307/3857761>

Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17(1), 99–120. <https://doi.org/10.1177/014920639101700108>

Getie Mihret, D., & Wondim Yismaw, A. (2007). Internal audit effectiveness: an Ethiopian public sector case study. *Managerial Auditing Journal*, 22(5), 470–484.

Gilbert, D. U., & Rasche, A. (2008). Opportunities and problems of standardized ethics initiatives—a stakeholder theory perspective. *Journal of Business Ethics*, 82, 755–773.

HaoYue, L., & Loang, O. K. (2023). Impact of internal audit on sustainable development goals in China. *International Journal of Accounting*, 8(46), 168–185.

Hickmann, T., Biermann, F., Spinazzola, M., Ballard, C., Bogers, M., Forestier, O., Kalfagianni, A., Kim, R. E., Montesano, F. S., & Peek, T. (2023). Success factors of global goal-setting for sustainable development: Learning from the Millennium Development Goals. *Sustainable Development*, 31(3), 1214–1225.

Phan Thi Thanh Quyen, & Marina Ilyinichna Sidorova. (2022). The relationship between internal audit and sustainable development: Quantitative study. *The European*

