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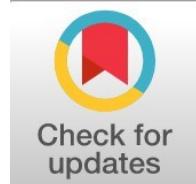
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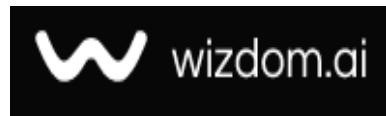
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Audit Findings, Follow-Up, and Financial Reporting Quality Fail to Reduce Corruption

Desriani Hadi, desrianihadi94@gmail.com (*)

Faculty of Economics and Business, Universitas Lampung, Indonesia

Einde Evana, eindeevana57@gmail.com

Faculty of Economics and Business, Universitas Lampung, Indonesia

Fajar Gustiawaty Dewi, fajar.gustiawaty@feb.unila.ac.id

Faculty of Economics and Business, Universitas Lampung, Indonesia

(*) Corresponding author

Abstract

General Background Corruption in public sector institutions remains a persistent governance challenge in Indonesia despite extensive external audit mechanisms. **Specific Background** The Supreme Audit Agency conducts audits of ministries and institutions, producing audit findings and follow-up recommendations intended to strengthen accountability and transparency through financial reporting. **Knowledge Gap** Prior empirical studies report inconsistent evidence on whether audit findings and follow-up actions are associated with corruption, particularly when financial reporting quality is positioned as a mediating mechanism. **Aims** This study examines the direct and indirect relationships between audit findings, follow-up on audit results, and corruption, with financial reporting quality as an intervening variable, within the framework of agency theory. **Results** Using panel data from 132 ministry and institutional observations during 2021–2023, the findings show that audit findings are negatively associated with financial reporting quality, while audit follow-up is positively associated with financial reporting quality. However, audit findings, audit follow-up, and financial reporting quality show no significant direct relationship with corruption, and financial reporting quality does not mediate these relationships. **Novelty** This study provides rare empirical evidence that financial reporting quality does not transmit the role of audit mechanisms into corruption control within Indonesian ministries and institutions. **Implications** The results indicate that audit processes and reporting improvements primarily function as administrative accountability tools and are insufficient as standalone instruments for addressing corruption in the public sector.

Highlights:

- Audit observations are associated with lower standards of governmental financial statements.

- Recommendation completion is linked to improved compliance with accounting standards.

- Reporting mechanisms do not explain variations in misconduct cases across institutions.

Keywords: Audit Findings, Follow-Up, Quality of Financial Statements

Introduction

Corruption is a major problem facing many countries, including Indonesia. Its presence not only negatively impacts governance and the private sector but also threatens the country's economic and financial stability.One of the greatest dangers to a country's economic growth and financial stability is corruption.This definition includes various practices such as bribery, extortion, embezzlement, bribery, and conflicts of interest.[1]. In the last three years, it has been shown that Indonesia has experienced a rising trend in its corruption rankings in the Corruption Perception Index (CPI), where the higher the ranking, the greater the increase in corruption in Indonesia.

The issue of corruption in Indonesia is a never-ending topic of discussion. The Corruption Eradication Commission (KPK) shares statistical data on Corruption Crimes (TPK) in Indonesian Government Agencies. Figure 1.2 shows that in the last three years, Corruption Crimes (TPK) in Ministries/Institutions in Indonesia have experienced a significant upward trend. Based on the data in the figure above, there are three government entities that show an increasing trend in corruption cases (TPK) in the last three years, namely Ministries/Institutions with a total of 97 cases, State/Regional-Owned Enterprises (BUMN/BUMD) with 54 cases, and Provincial Governments with 43 cases. Thus, the most Corruption Crimes (TPK) that occur and show a significant increase every year are in government agencies within the Ministry/Institution environment. The Corruption Eradication Commission (KPK) uncovered various corruption cases involving Ministries/Institutions in Indonesia. These cases include allegations of extortion and gratification at the Ministry of Agriculture involving Minister of Agriculture Syahrul Yasin Limpo with a value of IDR 44.5 billion, corruption in a railway project at the Ministry of Transportation with evidence equivalent to IDR 2.823 billion, as well as a case of gratification and money laundering by a former official of the Directorate General of Taxes which resulted in the deposit of IDR 40.5 billion into the state treasury. In addition, the Attorney General's Office also named the former Minister of Trade as a suspect in a sugar import corruption case that caused state losses of up to IDR 578 billion. The series of cases shows the persistence of corrupt practices within Ministries and Institutions in Indonesia. The issuance of an audit opinion by the BPK is to evaluate the conformity of the presentation of Financial Report items with Government Accounting Standards (SAP). With an Unqualified Opinion, central and regional institutions can convey their accountability as entities to their stakeholders, namely the public or society.[2].
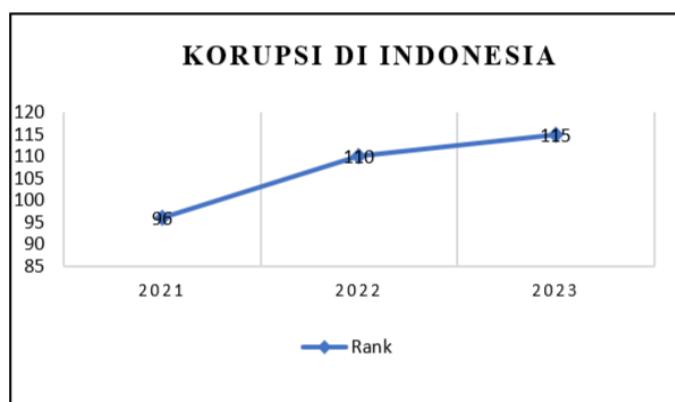

Figure 1. Corruption Perceptions Index

The Audit Board of Indonesia has issued 84 unqualified opinions and 4 qualified opinions in 2021, 82 unqualified opinions and 1 qualified opinion in 2022, and 82 unqualified opinions and 3 qualified opinions in 2023 for audits of Ministry/Institutional Financial Reports.

Cohen and Sayag's research confirms that the quality of financial reports plays a crucial role in promoting good governance and preventing misuse of public resources [3]. However, previous research findings have shown inconsistent results regarding the relationship between audit opinions and levels of corruption. Several studies have stated that a good audit opinion (Unqualified) reflects accountability and the quality of financial reports [4], but is not always directly proportional to low levels of corruption. Audit opinions do not influence corruption because many corrupt practices, such as bribery and gratuities, are not reflected in financial reports [5], [6].

Differences in results were also found in the variables of audit findings and follow-up to audit results. Sawyer et al. stated that audit findings play an important role in increasing accountability and transparency in the public sector [7]. However, empirical research shows mixed results. Rini and Damiati found that audit findings have no effect on corruption because most findings relate to weaknesses in the internal control system and administrative problems [8]. Conversely, there is a positive relationship between audit findings and the number of corruption cases [6], [9].

Similarly, follow-up on audit recommendations has not shown a consistent impact on corruption [10], although it has been shown to have an impact on improving the quality of financial reports [11]. Theoretically, the quality of financial reports still has strategic value for stakeholders and is in line with agency theory in reducing information asymmetry and conflicts of interest [12] [13].

High-quality financial reports reflect transparency and accountability, thus strengthening the influence of audit findings and follow-up actions in curbing corruption[14] [15]. Conversely, low-quality financial reports have the potential to weaken the

effectiveness of both mechanisms. To date, limited research has examined the influence of audit findings and follow-up actions on corruption, with financial report quality as a mediating variable, particularly in the Indonesian public sector[16]. Therefore, this study aims to fill this gap by examining the direct and indirect effects of audit findings and follow-up actions on corruption through financial report quality in relation to agency theory[17] [18].

Literature Review

1. Agency Theory

In the public sector, the public acts as the principal who mandates the government as an agent to manage state finances and provide public services[19] [20]. The main problems in this relationship are conflicts of interest and information asymmetry, where agents have greater access to information than principals, thus potentially acting opportunistically, including manipulating financial reports and engaging in corruption [21] [22].

2. Corruption

Corruption is the abuse of power or authority for personal gain or for the benefit of others, which is detrimental to the country's finances or economy [23]. Corruption takes various forms, such as bribery, embezzlement, extortion, conflicts of interest, and nepotism. In the context of the public sector, corruption is seen as an extraordinary crime that hinders accountability, reduces the quality of governance, and damages public trust.

3. Audit findings

Audit findings are material issues identified during the audit process and need to be communicated to the audited entity as a basis for improving performance and governance [24]. In auditing government financial reports, BPK audit findings generally include weaknesses in the internal control system and non-compliance with laws and regulations [25]. Weaknesses in the internal control system include weaknesses in accounting and reporting controls, budget implementation, and internal control structures. Meanwhile, non-compliance with laws and regulations includes findings of state losses, potential losses, revenue shortfalls, and administrative findings. The high number of audit findings reflects weak accountability and increases the risk of irregularities and corruption.

4. Follow-up on Examination Results

Audit follow-up (TLHP) is an entity's response to the BPK's recommendations to correct weaknesses found in state financial management. Based on U[26], entities are required to follow up on audit recommendations and the BPK assesses the appropriateness of their implementation. TLHP is an important indicator of the government's commitment to transparency, accountability, and performance improvement [22]. Effective TLHP is not only administrative in nature, but also reflects substantive improvements in policies and procedures. Consistent implementation of follow-up can prevent the recurrence of errors, improve the quality of financial reports, and minimize the opportunity for corruption [27];[28].

5. Quality of Financial Reports

The quality of government financial reports refers to the level of fulfillment of qualitative characteristics as stipulated in [29] concerning Government Accounting Standards, namely relevance, reliability, comparability, and understandability. Quality financial reports reflect compliance with SAP, completeness of disclosure, and the effectiveness of the internal control system [30]. From an agency theory perspective, quality financial reports serve as the primary means of reducing information asymmetry between agents and principals. Transparency and reliability of financial information enhance the public's ability to assess government performance and narrow the space for opportunistic behavior. Therefore, the quality of financial reports not only reflects administrative performance, but also plays a strategic role in strengthening public accountability and preventing corrupt practices.

Hypothesis Development

Based on agency theory and literature review, the hypothesis is formulated as follows:

1. The Impact of Audit Findings on the Quality of Financial Reports

Based on agency theory, audit findings reflect information asymmetry and weak accountability of the agent (government) in public financial management. The more audit findings, the greater the indication of non-compliance with accounting standards and weak internal control systems. This condition impacts the quality of financial reports, reflected in material errors and a lower probability of obtaining an unqualified opinion.

H1: Audit findings have a negative impact on the quality of financial reports.

2. The Impact of Audit Result Follow-Up on the Quality of Financial Reports

Audit follow-up (TLHP) represents the agent's commitment to responding to auditor recommendations and correcting financial management weaknesses. From an agency theory perspective, TLHP serves to reduce information asymmetry and increase accountability. The higher the TLHP completion rate, the better the quality of the resulting financial reports because past errors can be prevented.

H2: Follow-up of audit results has a positive effect on the quality of financial reports.

3. The Impact of Audit Findings on Corruption

Audit findings indicate violations, non-compliance, and potential state losses, often related to corrupt practices. In agency theory, a high number of audit findings reflects opportunistic behavior from agents due to weak oversight. Therefore, the greater the number of audit findings, the greater the likelihood of corruption.

H3: Audit findings have a positive effect on corruption.

4. The Impact of Follow-Up on Audit Results on Corruption

An effective TLHP reduces the scope for agents to commit irregularities by increasing oversight and the risk of sanctions. Within the framework of agency theory, sound audit follow-up serves as a control mechanism that suppresses moral hazard and corrupt behavior.

H4: Follow-up of audit results has a negative effect on corruption.

5. The Influence of Audit Findings on Corruption through the Quality of Financial Reports

Audit findings do not always have a direct impact on corruption, but this influence can be mediated by the quality of financial reporting. Unaddressed audit findings tend to degrade the quality of financial reporting, thereby increasing information asymmetry and opening up opportunities for corruption. Therefore, financial reporting quality acts as a mediating variable in this relationship.

H5: Audit findings have an indirect positive effect on corruption through the quality of financial reports.

6. The Influence of Follow-Up on Audit Results on Corruption through the Quality of Financial Reports

A sound TLHP encourages improvements in accounting systems and enhances the quality of financial reports. Quality financial reports strengthen transparency and accountability, thereby reducing the potential for corruption. In agency theory, the quality of financial reports serves as a mediating mechanism linking TLHP to reduced corruption.

H6: Follow-up of audit results has an indirect negative effect on corruption through the quality of financial reports.

7. The Influence of Financial Report Quality on Corruption

High-quality financial reporting reduces information asymmetry between agents and principals and increases transparency and public accountability. Conversely, low-quality financial reporting creates room for manipulation and irregularities. Therefore, the better the quality of financial reporting, the lower the level of corruption.

H7: The quality of financial reports has a negative effect on corruption.

Methods

This research is quantitative descriptive. It consists of three variables: Audit Findings and Follow-Up on Audit Results as the independent variables, Corruption as the dependent variable, and Financial Report Quality as the intervening variable. The data sources and subjects in this study are secondary data, including:

1. Corruption data that occurred in Ministries/Institutions in Indonesia from 2021 to 2023 obtained from the Corruption Eradication Commission Report.

2. Financial Reports of Indonesian Ministries/Institutions that have been audited by the Republic of Indonesia Audit Board (BPK RI) for 2021 to 2023.

3. Audit Result Report (LHP) on the Financial Reports of Ministries/Institutions for 2021 to 2023.

The research population used in this study was 91 Ministries/Institutions obtained from the Republic of Indonesia's Audit Board. The data used were Financial Reports and Audit Result Reports (LHP) on the annual Central Government Financial Report, obtained from the websiteFor the period 2021 to 2023, the sample used in this study met criteria aligned with the objectives and hypotheses of the study. In this case, referring to the criteria used in sampling, the researcher chose a purposive sampling technique [3]. Sampling was determined according to certain criteria, the following sample criteria were met in this study, namely:

a. Ministries/Institutions that have recorded data on corruption cases during the period 2021 to 2023 based on the Corruption Eradication Commission (KPK) Report,

b. Ministries/Institutions that prepare and present Financial Reports that have been audited by the Republic of Indonesia Audit Board (BPK RI) for 2021 to 2023, and

c. Ministries/Institutions that have an Audit Result Report (LHP) on the Ministry/Institution's Financial Report for the period 2021 to 2023.

The sample in this study comprised all government agencies within ministries/institutions. The study covered data from 2021 to 2023. Purposive sampling was used to determine the sample, resulting in 132 individuals meeting the criteria in Table 1 below:

Table 1. Sample criteria

No.	Sample Criteria	Number of Samples
1.	Audit Report (LHP) on the Financial Reports of Ministries/Institutions of the Republic of Indonesia for the 2021 periodup to you2023.	273
2.	Ministries/Institutions of the Republic of Indonesia that underwent organizational restructuring during the 2021 periodup to you2023.	(30)
3.	Ministries/Institutions of the Republic of Indonesia that are not presentavailabilityAudit Result Report (LHP) data on the official website of the Audit Board of Indonesia (BPK) for the 2021 periodup to you2023.	(6)
4.	Ministries/Institutions of the Republic of Indonesia that experienced limited data availability in the Audit Result Report during the 2021 periodup to you2023.	(105)
	Number of samplesIndonesian Ministries/Institutions	132

Operational Definition and Measurement of Variables

FINDINGS = Total number of audit findings found in the Ministry/Institution

Measurement of variable X2 which is the Follow-up to Examination Results,

$$TLHP = \frac{Total\ TLHP\ from\ BPK\ in\ accordance\ with\ recommendations}{Number\ of\ TLHP\ recommendations\ given\ by\ the\ BPK} \times 100\%$$

The dependent variable in this study is corruption, which is called Y. The measurement of this variable is using corruption cases recorded by the Corruption Eradication Commission (KPK).[1]using data from the Corruption Eradication Commission (KPK) from 2021 to 2023, measured with a dummy value of 1 (one) if a corruption case occurred in a Ministry/Institution and 0 (zero) if there was no corruption case in the Ministry/Institution during the research year. The intervening variable in this study is the quality of financial reports, measured by the results of the audit opinion of the Republic of Indonesia Audit Board on the Financial Reports of Ministries/Institutions. This variable is measured based on the audit opinion issued by the Audit Board (BPK) in the Central Government Financial Report. Measurement is carried out with a dummy variable of audit opinion, namely "1" (one) for ministries/institutions that received an Unqualified Opinion (WTP) and "0" (zero) for ministries/institutions that received other opinions [12].

Hypothesis Testing

In panel data regression analysis, there are three models that can be used to understand the relationships between variables. Each model provides a unique perspective on the influence of these variables, allowing researchers to choose the approach that best suits the characteristics of the panel data they are dealing with. By considering the strengths and weaknesses of each model, the selection of a panel data regression model can be more precise and contextual. To determine the most appropriate model for estimating panel data regression, three tests are used: the Chow Test, the Lagrange Multiplier (LM) Test, and the Hausman Test.

Results and Discussion

A. Results

Based on table 2. the Chow test can be seen that the Prob value*Cross-section*F is as big as0.1776 > 0.05, then the Common Effect Model is better than the Fixed Effect Model or the one chosen is the Common Effect Model2. So the Hausman test was not carried out and continued with the testLagrange multiplier.

1. **Selection of Panel Data Regression Estimation Techniques**

Table 2. Chow Test Results

Table Chow Test Results of Sub-Structural Model I

Redundant Fixed Effects Tests			
Equation: Untitled			
Cross-section fixed effects test			
Effects Test	Statistics	df	Prob.
Cross-section F	1.264335	(43.86)	0.1776

Cross-section Chi-square	64.667966	43	0.0179

Based on table 3. Hausman Sub-Structural II test, it can be seen that the Prob valueas big as0.2842 > 0.05, then the Random Effect Model is better than the Fixed Effect Model or the one chosen is the Random Effect Model2. Then continue with the testLagrange multiplier.

2. Panel Data Regression Analysis

Panel data regression analysis aims to test the influence of independent variables on company value as the dependent variable, using several sample companies over several time periods. The following table shows the results of the panel data regression analysis used to analyze the t-test.

3. Hausman Test Results

Table 3. Hausman Sub-Structural Test II

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Cross-section random effects test			
Test Summary	Chi-Sq. Statistic	Chi-Sq. df	Prob.
Random cross-section	3.797066	3	0.2842

Based on Table 4. Panel Data Regression Analysis of Sub-Structural I, the model selection in sub-structural I uses the Common Effect Model (CEM). Based on the table above, the regression formula can be explained:

$$Zit = 0.894322 - 0.002259\ X1it + 0.000411\ X2it + e$$

The constant value is0.894322, if the variableAudit Findings (X1) and Follow-up on Audit Results (X2)) the value is constant or 0, then the variableQuality of Financial Reports (Z) the value is0.894322.Beta coefficient value of the variableAudit Findings (X1) as big as-0.002259,If the value of other variables is constant and the Audit Findings variable (X1) increases by 1 unit, then the Financial Report Quality variable (Z) will decrease by 0.002259. The beta coefficient value of the Examination Results Follow-up variable (X2) is 0.152078, if the value of the other variables is constant and the Examination Results Follow-up variable (X2) increases by 1 unit, then the variableQuality of Financial Reports (Z)will experience an increase of0.152078.

4. F Test and Coefficient of Determination Test (R2).

Table 4. Regression Analysis of Sub-Structural Panel Data I

Dependent Variable: Z				
Method: Panel Least Squares				
Date: 09/29/25 Time: 22:17				
Sample: 2021 2023				
Periods included: 3				
Cross-sections included: 44				
Total panel (balanced) observations: 132				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.894322	0.055373	16.15086	0.0000
X1	-0.002259	0.001108	-2.039541	0.0434
X2	0.152078	0.067119	2.265818	0.0251
Root MSE	0.199383	R-squared		0.083773
Mean dependent variable	0.954545	Adjusted R-squared		0.069568
SD dependent var	0.209092	SE of regression		0.201688
Akaike info criterion	-0.341722	Sum squared residual		5.247484
Schwarz criterion	-0.276203	Log likelihood		25.55362
Hannan-Quinn criter.	-0.315098	F-statistic		5.897374
Durbin-Watson stat	1.411375	Prob(F-statistic)		0.003542

Based on table 5, the results of the path analysis test can be explained as follows:

Direct influenceAudit Findings (X1) on the Quality of Financial Reports (Z) amounted to-0.002259.Direct influenceFollow-up of Audit Results (X2) on the Quality of Financial Reports (Z) amounted to0.152078. Direct influenceAudit Findings (X1) regarding Corruption (Y) amounted to0.003036. Direct influenceFollow-up of the results of the examination (X2) regarding corruption (Y) amounted to-0.201798. Direct influenceThe Quality of Financial Reports (Z) against Corruption (Y) is-0.144207. Indirect influenceAudit Findings (X1) regarding Corruption (Y) through the Quality of Financial Reports (Z) amounted to0.000326 and the total influence is 0.003362. Indirect influenceFollow-up of Audit Results (X2) regarding Corruption (Y) through the Quality of Financial Reports (Z) amounting to-0.021931 and the total influence is -0.223729.

5. **Path Analysis Test Results**

Table 5. Path Analysis Test Results

Track	Direct Influence	Indirect Influence	Total Influence
X1 --> Z	-0.002259		
X2 --> Z	0.152078		
X1 --> Y	0.003036		
X2 --> Y	-0.201798		
Z --> Y	-0.144207		
X1 --> Z --> Y		0.000326	0.003362
X2 --> Z --> Y		-0.021931	-0.223729

B. Discussion

1. **The Impact of Audit Findings on the Quality of Financial Reports**

The results of the first hypothesis test (H1) indicate that audit findings negatively impact the quality of ministries'/institutions' financial reports. This means that the more audit findings disclosed by the Supreme Audit Agency (BPK) in their audit report (LHP), the lower the quality of the ministries'/institutions' financial reports. Conversely, a lower number of audit findings indicates that the preparation of financial reports is more in line with government accounting standards, a better internal control system, and a higher level of compliance with laws and regulations, thus improving the quality of financial reports.

Based on agency theory, audit findings can be understood as an indicator of weak oversight mechanisms for agents, which ultimately negatively impact the quality of financial reports. The higher the number of audit findings, the greater the likelihood that the financial statements presented contain material errors. In other words, a high number or severity of audit findings indicates that agents are not performing their function optimally in preparing transparent, accountable financial reports in accordance with government accounting standards, thus not producing quality financial reports.

The results of this study are in line with those conducted by [14], which showed that audit findings significantly and negatively affect the quality of financial reports. Therefore, the more audit findings in a ministry/institutional financial report audit, the less likely it is to obtain an unqualified opinion.

2. **The Impact of Audit Result Follow-Up on the Quality of Financial Reports**

The results of the second hypothesis test (H2) indicate that Audit Result Follow-Up (TLHP) has a positive effect on the quality of Ministry/Institutional Financial Reports. This means that the higher the level of completion of follow-up on BPK recommendations, the better the quality of the resulting financial reports. Conversely, a low percentage of follow-up indicates that the problems identified by the auditor have not been fully resolved, thus tending to lower the quality of the financial reports.

Conceptually, the TLHP reflects the extent to which ministries/institutions take seriously the BPK's findings and recommendations. When auditor recommendations are promptly and appropriately acted upon, various weaknesses such as misstatements, non-compliance, and weaknesses in internal control systems can be corrected. These improvements then contribute to the presentation of more reliable, relevant, and standard-compliant financial reports, for example through restructuring asset records, improving budgeting and spending procedures, and strengthening internal oversight mechanisms.

Thus, the results of this study confirm that the TLHP plays a crucial role in improving the quality of public sector financial reporting. Ministries/institutions that consistently and disciplinedly follow up on BPK recommendations tend to minimize the recurrence of similar findings in subsequent periods, thus improving the quality of financial reports. These findings also indicate that the audit process does not stop at the issuance of the LHP but is effective when accompanied by management's commitment to follow up on all recommendations on an ongoing basis.

The results of this study are in line with those conducted by [15], who stated that follow-up audit results are a form of entity response to auditor recommendations to correct identified weaknesses. The higher the level of follow-up completion, the better the quality of the resulting financial reports.

3. **The Impact of Audit Findings on Corruption**

The results of the third hypothesis test (H3) indicate that audit findings have no effect on corruption in ministries/institutions. This means that the audit findings indicate that the number of findings identified by the BPK from the Audit Result Report (LHP) does not reflect or influence the level of corruption in ministries/institutions. This can be explained by the characteristics of the audit findings themselves, where most audit findings, especially those related to weaknesses in the internal control system, are not always violations that cause state losses, but rather administrative errors or technical deficiencies in the preparation of government financial reports.

In addition, this study shows that the audit mechanism as part of the external monitoring system has not been able to effectively reduce agency problems between principals and agents who have a tendency to act opportunistically when there is information asymmetry and weak supervision.3Audit findings are essentially designed to reduce this asymmetry by detecting errors and irregularities. However, the lack of impact of audit findings on corruption in this study indicates that audit findings have not been able to exert sufficient disciplinary pressure on agents to prevent corrupt acts.

This research is in line with that conducted by[17] that tAudit findings do not impact corruption levels because the weaknesses in the internal control systems identified in the findings generally do not constitute violations that result in material losses, but rather are more administrative in nature in the administration of government finances. Corruption cases frequently uncovered in Ministries/Institutions are not through audit findings, but through other mechanisms such as sting operations, public reports, or purposeful audits. Audit findings are also obtained after financial reports have been compiled and submitted to the Supreme Audit Agency (BPK), so delays, inaccurate recording, human error, or misrepresentations in financial reports can emerge as findings without being directly related to corrupt practices. This condition often gives rise to findings in the form of misstatements, disorderly asset administration, or late submission of reports that are irrelevant to the act of corruption, thus explaining why audit findings did not significantly impact corruption levels in this study.

4. The Impact of Follow-Up on Audit Results on Corruption

The results of the fourth hypothesis test (H4) indicate that the Audit Result Follow-Up (TLHP) has no effect on corruption in ministries/institutions. This indicates that the level of completion of BPK audit recommendations has not been directly able to reduce the level of corruption. In other words, even though audit recommendations have been followed up administratively, this does not necessarily reflect substantive improvements in financial management behavior and control of corrupt practices. The follow-up carried out can be formal, administrative, or simply fulfilling reporting obligations without being accompanied by fundamental changes to the system, procedures, or organizational culture.

Ministries/Institutions in their position as agents tend to emphasize administrative compliance with audit recommendations in response to demands for accountability.3However, this compliance has not been fully accompanied by a strong commitment to structural reform and substantive improvements. This situation has prevented the Audit Result Follow-Up from optimally acting as an effective control instrument in limiting opportunistic agent behavior, including corrupt practices.

These results indicate that the audit process does not necessarily have a strong impact on corruption prevention simply through the implementation of follow-up recommendations. Although audit recommendations have been followed up and the completion rate of TLHP in Ministries/Institutions is relatively high, this does not automatically reflect success in closing gaps for irregularities, correcting weaknesses, or substantively increasing accountability. Thus, TLHP cannot be considered an effective instrument for controlling corruption in the public sector, because the follow-up actions taken tend to be administrative in nature and have not been able to reduce the opportunities for abuse of authority and budget in subsequent periods.

The results of this study differ from those conducted by [18], which stated that follow-up on audit results influences provincial corruption levels in China. The more audit recommendations followed up by the government, the lower the level of corruption. This difference in results may be due to differences in institutional context, oversight systems, and the effectiveness of sanctions enforcement between China and Indonesia.

5. The Influence of Audit Findings on Corruption through the Quality of Financial Reports

The results of the fifth hypothesis test (H5) indicate that audit findings do not indirectly influence corruption through financial report quality, thus financial report quality does not act as a mediating variable in this relationship. Although audit findings are proven to influence financial report quality, this influence does not extend to the level of corruption.

Simply put, although numerous audit findings reflect weaknesses in financial management and accounting compliance, these conditions do not automatically impact corruption levels through the mechanism of financial reporting quality. Improvements or declines in financial reporting quality, as reflected in audit opinions, are not strong enough to explain variations in corruption levels across ministries/institutions in the Republic of Indonesia.

Corrupt practices are not always directly reflected in formal indicators of financial report quality. Corruption can occur through various methods that do not visibly affect the presentation of financial reports, or even through administrative manipulation to maintain the appearance of fairness and quality. On the other hand, audit findings related to administrative weaknesses, procedural non-compliance, or accounting errors do not necessarily result in corruption recorded in corruption case data. Therefore, the results of this study indicate that corruption prevention and control efforts cannot rely solely on improving the quality of financial reports. While financial report quality remains crucial for accountability and transparency, corruption control requires other, more direct and substantive instruments, such as strengthening internal control systems, effective enforcement of sanctions, transparency in procurement processes, improving the integrity of government officials, and optimizing follow-up on audit findings.

This study also offers novelty because it examines the mediating role of Financial Report Quality on the relationship between Audit Findings and Corruption, a study that has rarely been empirically tested, particularly in the context of Ministries/Institutions. Most previous studies have focused more on the influence of Audit Findings on financial performance, financial report quality, or public service quality, with Financial Report Quality being the outcome or mediating variable on administrative performance. In these studies, improvements in financial report quality have been shown to translate audit findings into improvements in the quality of operational and administrative public services. This difference confirms that the effectiveness of Financial Report Quality as a mechanism for transmitting the influence of Audit

Findings depends heavily on the type of outcome analyzed. Financial report quality tends to be effective in bridging the influence of audit findings on administrative performance and public services, but has limitations when used to explain or suppress corrupt behavior that generally occurs through informal and hidden mechanisms. Thus, this study makes a new contribution by broadening the understanding that financial reporting mechanisms are more relevant for improving administrative performance, but are not yet sufficient as an instrument for controlling corruption, thereby enriching the literature on public sector auditing and corruption control.

6. The Influence of Follow-Up on Audit Results on Corruption through the Quality of Financial Reports

The results of the hypothesis testing indicate that the Follow-Up of Audit Results (TLHP) does not have an indirect effect on Corruption through the Quality of Financial Reports, so that the Quality of Financial Reports does not act as a mediating variable in the relationship between TLHP and Corruption. This finding indicates that although TLHP has been proven to have a positive effect on the Quality of Financial Reports, the increase in reporting quality has not been able to effectively reduce the level of corruption in Ministries/Institutions.

In agency theory[3]TLHP is a control mechanism designed to reduce information asymmetry between principals and agents and limit opportunistic agent behavior through system improvements, compliance, and accountability in financial reporting. Normatively, the obligation to follow up on recommendations from the BPK audit results has been regulated in[4]on the Audit of State Financial Management and Accountability, which requires audit entities to follow up on BPK recommendations as a form of accountability to the public. The TLHP's success in improving the quality of financial reports demonstrates that the agency responds to audit recommendations administratively and technically, particularly in improving presentation, compliance with accounting standards, and disclosure of financial information. However, these improvements in financial report quality are not necessarily accompanied by substantive behavioral changes directly related to corrupt practices. The principles of public financial management require order, compliance, efficiency, effectiveness, transparency, and accountability. However, fulfilling these principles through the presentation of quality financial reports does not automatically reduce corrupt behavior if it is not supported by adequate oversight and enforcement.

The insignificant indirect effect of TLHP on corruption through financial report quality indicates that financial report quality functions more as a formal accountability tool than as a direct instrument for controlling corrupt behavior. However, it may not be able to suppress opportunistic behavior without effective oversight and enforcement. Furthermore, TLHP in Indonesian public sector audit practice is often more oriented toward fulfilling administrative recommendations than addressing the root causes of governance and integrity problems.[5]. This condition causes TLHP to successfully improve the quality of financial reports procedurally, but its impact on reducing corruption is limited. This is in line with the agency theory perspective, which emphasizes that control mechanisms will be effective in suppressing opportunistic agent behavior if accompanied by firm and credible consequences for non-compliance, not solely by improving the reporting system. Thus, the results of this study indicate that although TLHP plays an important role in improving the quality of financial reports as mandated by state financial regulations, the mediating role of financial report quality in the relationship between TLHP and corruption is not empirically proven. This finding confirms that efforts to eradicate corruption in the public sector cannot rely solely on improving the quality of financial reporting and compliance with BPK audit recommendations, but require strengthening oversight mechanisms, law enforcement, and a sanctions system that can directly suppress opportunistic agent behavior.[3].

The results of this hypothesis also have novelty value because they examine the mediating role of Financial Report Quality in the relationship between Audit Result Follow-Up (TLHP) and Corruption, which to date has been relatively rarely tested empirically, especially in the context of Ministries/Institutions. The results show that although TLHP contributes to improving the quality of financial reports, this improvement has not been proven to be able to reduce the level of corruption indirectly, so that financial report quality does not play a role as a mediating variable. The policy implications of these findings indicate that efforts to strengthen TLHP need to be directed not only at improving compliance and the quality of financial reporting, but also at strengthening the accompanying oversight and enforcement systems. Thus, state financial management policies are expected to encourage integration between reporting, oversight, and law enforcement mechanisms so that TLHP not only produces formal accountability but also has a real impact on preventing corruption in the public sector.

7. The Influence of Financial Report Quality on Corruption

The results of the seventh hypothesis test (H7) indicate that financial report quality has no effect on corruption in ministries/institutions. This means that statistically, changes in financial report quality, whether improving or declining, are not significantly related to corruption levels. In other words, entities with high-quality financial reports (e.g., receiving higher opinions) do not necessarily have lower levels of corruption, and vice versa.

Substantively, these findings indicate that financial report quality indicators are inadequate to capture or reflect the level of corruption occurring within a ministry or agency. Financial report quality generally measures aspects of compliance with accounting standards, regularity of recording, completeness of disclosure, and the effectiveness of internal control systems from a reporting perspective. Meanwhile, corrupt practices often involve patterns and methods that do not directly affect the "face" of financial reports, such as mark-ups, fictitious procurement, collusion in contracts, or abuse of authority packaged in such a way as to appear to comply with administrative procedures.

These results also suggest that financial reports formally deemed to be of good quality are not necessarily completely free from corruption risks. Corruption may occur during the planning, budgeting, and program implementation stages, which are difficult to detect solely through reporting quality indicators. Furthermore, law enforcement, the integrity of the apparatus, organizational culture, the effectiveness of internal and external oversight, and leadership commitment to anti-corruption may play a more direct role than simply the quality of financial reports.

Thus, the findings of this study provide important implications: corruption eradication efforts cannot rely solely on improving the quality of financial reports. While reliable and accountable financial reports remain essential as a foundation for public transparency, controlling corruption requires a more comprehensive approach, such as strengthening internal control systems, ensuring transparency in procurement processes, involving public oversight, enhancing the integrity and ethics of government officials, and implementing firm and consistent follow-up on audit findings.

Conclusion

Based on the results of path analysis and hypothesis testing, it can be concluded that audit findings have a negative effect on the quality of financial reports. The more audit findings revealed by the BPK in ministries/institutions, the quality of financial reports tends to decline. Audit findings have no effect on corruption. Audit findings have not been proven to have an effect on the level of corruption in ministries/institutions. Follow-up of audit results has no effect on corruption. Audit findings have no effect on corruption, either directly or through the quality of financial reports. TLHP has no effect on corruption, either directly or through the quality of financial reports. The quality of financial reports has no effect on corruption.Further research is recommended to add variables that are more directly related to corruption, such as apparatus integrity, internal control effectiveness, budget transparency, and internal oversight quality, as well as using more diverse corruption indicators to make the measurement more comprehensive.

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