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Assessing the Impact of the Audit Report on Allegations of Corruption Cases

Haryanto ✉ *Niken Latifatuz Zahra* [2] *Agung Juliarto* [3] *Wahyu Meiranto* [4]

✉ *Department of Accounting, Universitas Diponegoro, Semarang, Indonesia*
[2,3,4] *Department of Accounting, Universitas Diponegoro, Semarang, Indonesia*

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Corresponding author.
✉ haryanto@lecturer.undip.ac.id

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ABSTRACT

Purpose: This study examines the impact of the external audit results on the alleged corruption case.

Research Design and Methodology: The alleged corruption case is measured by the number of cases reported to the High Prosecutor's Office. The unit of analysis comprises alleged corruption cases in all regencies and municipalities in Central Java Province, with a total of 210 observations collected over six years from 2018 to 2023. Panel data regression is employed as the analytical method.

Findings and Discussion: The findings indicate that audit opinions and audit findings have a positive effect on alleged corruption cases. In contrast, follow-up actions on audit recommendations have a significant adverse effect on alleged corruption cases. These results suggest that audit opinions alone cannot serve as the primary indicator of the effectiveness of local government financial governance. Therefore, the findings of this study provide a basis for policymakers to enhance local government performance evaluation systems that not only emphasise favourable audit opinions but also focus on the effectiveness of audit follow-up and on strengthening internal control systems.

Implications: This study provides guidance on the effective implementation of audit recommendations, which can serve as a critical governance mechanism to mitigate corruption risks, improve the efficiency of public resource allocation, and reduce the economic costs associated with governance failures.

Introduction

Corruption is a significant problem in much of the developing world (Olken, 2007). Corruption remains a structural problem in the developing world, including Indonesia, despite ongoing efforts to improve regulations and strengthen law enforcement (Cheeseman & Peiffer, 2022; Zhang & Kim, 2018). In Indonesia, this condition is reflected in data from TII's 2022 Corruption Perceptions Index (CPI), which shows that the country continues to face serious challenges in combating corruption. Indonesia's CPI score in 2022 was 34 out of 100, placing the country 110th out of 180 surveyed countries. This score declined by 4 points compared with 2021, marking the sharpest decline since 1995 (TII, 2023). This deterioration suggests that existing policies and oversight mechanisms have not yet been sufficiently effective in significantly curbing corrupt practices. Therefore, the Indonesian government needs to undertake more systematic, integrated reforms, with particular emphasis on strengthening preventive mechanisms to address the fundamental causes of corruption (TII, 2023). Monitoring findings from nongovernment organization ICW throughout 2023 reveal a significant increase in the number of corruption cases and suspects compared to the previous year: 791 cases, with 1,695 individuals named as suspects by law enforcement agencies, and state financial losses totaling IDR 28.4 trillion (ICW, 2024).

Beyond the direct fiscal losses, corruption generates broader economic distortions by reducing the efficiency of public expenditure, discouraging investment, increasing transaction costs, and undermining the quality of public service delivery. These economic consequences may ultimately constrain regional economic growth and weaken local governments' capacity to achieve sustainable development objectives. From a political perspective, persistent corruption can erode public trust in government institutions, weaken democratic accountability, and diminish the legitimacy of public authorities, thereby reducing citizens' willingness to support government policies and participate in governance processes. Although the number of cases declined compared to earlier periods, the magnitude of state losses remains substantial, indicating serious economic consequences (ICW, 2024). In the same year, the Anti-Corruption Commission (KPK) handled 161 corruption cases, of which 53 involved regency and municipal government institutions, with gratification-related offenses constituting the most dominant case type. According to KPK data on corruption cases by region, Central Java Province ranked third nationally in 2023 (KPK, 2024).

These phenomena indicate that local governments, particularly at the regency and municipal levels, remain highly vulnerable to corruption. To achieve clean and integrity-based governance, the government has adopted two main approaches: preventive and repressive measures. Preventive efforts are carried out through the establishment of the Supreme Audit Institution of Indonesia (BPK), an independent, objective, and professional institution for auditing the state finances, as stipulated in Laws No. 15 of 2004 and No. 15 of 2006. Meanwhile, repressive measures are implemented through law enforcement actions against corruption offenses conducted by the KPK, as regulated under Law No. 30 of 2002.

As the external audit institution, BPK has a duty to promote accountability and transparency in regional financial management by auditing the government's financial statements (LKPD). Anticorruption audits conducted by BPK may deter corruption and signal to citizens that the state is proactively combating it (Barbabela, 2024). The results of BPK audits are documented in Audit Reports, which include audit opinions, audit findings, and recommendations for improvement (Lino et al., 2022; Jeppesen, 2018; Ahlenius, 2000). Audit opinions, particularly the Unqualified Opinion, have long been regarded as indicators of local governments' success in fairly presenting financial statements in accordance with government accounting standards. However, the widespread attainment of Unqualified Opinion is not necessarily accompanied by lower levels of alleged corruption.

This phenomenon is particularly important because ineffective oversight mechanisms may lead not only to governance failures but also to high economic and political costs. When financial reporting quality is perceived as disconnected from actual integrity practices, public resources become more vulnerable to misuse, reducing the effectiveness of government spending. Simultaneously, the inability of formal accountability mechanisms to detect or prevent corruption may weaken citizens' confidence in public institutions and undermine the credibility of local democratic governance.

This condition is evident in LKPD audit data for regency and municipal governments in Central Java Province for the 2018 to 2023 period, which show that most local governments received Unqualified Opinions, while corruption cases were predominantly found at the regency and municipal levels. This phenomenon indicates a gap between administrative compliance in financial reporting and integrity-based financial management practices. In other words, audit opinions tend to reflect the fairness of financial statement presentation, but do not necessarily capture the substantive quality of governance and the ethical behavior of government officials.

These conditions suggest that existing formal oversight mechanisms have not yet functioned effectively as instruments for corruption prevention. There are indications of a decoupling between the quality of financial reporting and clean governance practices (Rakhman & Wijayana, 2019; Gustavson & Sundström, 2018; Gustavson & Rothstein, 2013). Therefore, government audit outcomes should be evaluated more comprehensively, not only in terms of audit opinions, but also with respect to the characteristics of audit findings and the effectiveness of follow-up actions on BPK's recommendations in closing opportunities for irregularities (Ahlenius, 2000).

Several studies in developing countries that emphasize the role of auditing in combating corruption include those by Assakaf et al. (2018) and Ferraz & Finan (2011). The study by Assakaf et al. (2018) found that high-quality audit results help reduce corruption. A study by Assakaf et al. (2018), which conducted a literature review of public sector auditing in Asian and African countries, found that public sector auditing is often associated with reduced corruption in developing countries, although empirical evidence remains limited. In Brazil, research by Ferraz & Finan (2011) found that public audits can reduce corruption by local officials through electoral accountability mechanisms. Audit results reduce future corruption in local government through electoral accountability mechanisms, whereby published audit results before elections reduce the likelihood that corrupt regional heads will be re-elected. Audit results suppress corrupt behaviour by increasing the political costs for corrupt officials (Ferraz & Finan, 2011). In Indonesia, previous studies have highlighted the impact of government audit results on alleged corruption, yet the findings remain inconclusive. Studies by Naibaho & Shanti (2021) and Amyulianthy et al. (2022) found that audit opinions have an adverse effect on alleged corruption. In contrast, Isnadiva & Haryanto (2021) and Baldan & Haryanto (2024) reported that audit opinions have no significant impact. Regarding audit findings, studies by Naibaho & Shanti (2021), Amyulianthy et al. (2022), and Cinintya et al. (2022) found a positive effect on alleged corruption, whereas Baldan & Haryanto (2024) reported no significant relationship. Meanwhile, follow-up actions on audit results generally show an adverse impact on alleged corruption (Baldan & Haryanto, 2024; Amyulianthy et al., 2022; Cinintya et al., 2022; Naibaho & Shanti, 2021). However, several studies have reported contrasting findings (Cinintya et al., 2022; Budiman & Amyar, 2021).

These inconsistencies in empirical findings suggest that the impact of audit results and alleged corruption is complex and influenced by institutional contexts and regional characteristics (Paterson et al., 2019). In addition, limited public access to information about government performance weakens public oversight and may erode public trust in government. Therefore, further research is needed to examine the effects of audit opinions, audit findings, and follow-up actions on alleged corruption, particularly at the regency and municipal government levels.

This study is essential for providing more comprehensive empirical evidence on the role of government audit results as instruments of public accountability and mechanisms for preventing corruption. The findings are expected to contribute both theoretically to the add of public-sector accountability literature and, practically, to the formulation of more effective regional financial oversight policies aimed at sustainable corruption prevention. Furthermore, this study is relevant not only from an accountability perspective but also from broader economic and political perspectives. Understanding the effectiveness of government audit outcomes in preventing corruption is crucial for improving the efficiency of public resource allocation, safeguarding public finances, and supporting regional economic development. At the same time, stronger audit effectiveness may enhance institutional accountability, reinforce political legitimacy, and strengthen public trust in local government, all of which are essential foundations for sustainable and inclusive governance.

This study is essential for providing more comprehensive empirical evidence on the role of government audit results as instruments of public accountability and mechanisms for preventing corruption. The findings are expected to contribute to the literature on public-sector accountability, governance, and anti-corruption by advancing understanding of how external audit outcomes shape corruption control at the local-government level. Beyond its theoretical contribution, the study offers important policy implications for strengthening audit effectiveness and improving public-sector oversight. More broadly, the findings are relevant to both economic and political development, as effective audit governance can help minimize public resource leakage, improve government spending efficiency, strengthen institutional credibility, and foster greater public trust and democratic accountability in local government institutions.

Literature Review

Agency Theory

The basic concept of agency conceptualizes the principal-agent relationship as a contractual agreement that includes a mechanism for delegating decision-making authority. Through this relationship, the principal, as the mandating party, grants the agent authority to perform certain functions that represent the principal's interests (Jensen & Meckling, 1976; Tricker, 1984). In such contractual relationships, the principal and the agent have different interests, and such divergence of interests constitutes the primary source of agency conflict – agency problem (Tricker, 1984).

In the public sector context, Lane (2000) explains that agency theory can be applied by positioning the agent as the local government and the principal as society. Society grants local governments a mandate to manage public resources and implement development programs, while simultaneously demanding accountability for regional finances. However, this relationship is inherently vulnerable to information asymmetry, as local governments have substantially greater access to and control over information than the public, the principal.

This information asymmetry creates opportunities for local governments, as agents, to engage in opportunistic behaviour, including irregularities in regional financial management that may ultimately lead to alleged corruption offenses. Therefore, financial reporting serves as a crucial instrument of public accountability, reducing agency conflicts and mitigating information asymmetry. Transparency and accountability in financial reporting are expected to enhance public oversight of local government performance.

Beyond financial reporting, external oversight mechanisms, such as audits conducted by independent institutions, are a critical element of the agency theory framework. In this regard, the Supreme Audit Institution of Indonesia is an independent body responsible for auditing regional finances. The existence of BPK is expected to narrow the space for opportunistic behaviour, reduce information asymmetry between agents and principals, and prevent alleged corruption.

From a broader governance perspective, agency conflicts in the public sector generate not only accountability problems but also significant economic and political consequences. Opportunistic behaviour by public officials may lead to inefficient allocation of public resources, increased fiscal losses, and reduced effectiveness of public service delivery. Politically, persistent information asymmetry and weak accountability mechanisms can undermine citizens' trust in government institutions, weaken democratic accountability, and erode governmental legitimacy. Therefore, effective audit mechanisms are essential not only for reducing agency problems but also for supporting sustainable economic development and strengthening public confidence in government.

The Effect of Audit Opinion on Alleged Corruption

Financial audits conducted by the Supreme Audit Institution are a key accountability mechanism for local governments, ensuring transparent and responsible economic management. Baldan & Haryanto (2024) argue that audits serve as external oversight mechanisms intended to suppress corruption in the public sector. An Unqualified Opinion indicates that local government financial statements are fairly presented in accordance with standards of government accounting and reflect the adequate implementation of internal control systems.

From an agency theory perspective, the attainment of better audit opinions should reflect reduced opportunistic behaviour by agents and increased compliance with accountability principles. Accordingly, the better the audit opinion receives, the lower the level of alleged corruption. This argument is supported by empirical findings from Naibaho & Shanti (2021), which demonstrate that audit opinions have an adverse effect on alleged corruption and can serve as important indicators in assessing the quality of local government financial governance. From an economic perspective, high-quality financial reporting, as reflected in favourable audit opinions, may enhance the efficiency of public spending and strengthen investor confidence in local government management. Politically, favourable audit opinions can serve as signals of accountability and transparency, thereby strengthening the credibility and legitimacy of local government institutions. Consequently, better audit opinions are expected to be associated with lower corruption risks and improved governance outcomes.

H_1: *Audit opinion has a negative effect on the alleged corruption case.*

The Effect of Audit Findings on Alleged Corruption

Baldan & H. Haryanto (2024) argue that audit findings do not necessarily indicate corruption directly, but may serve as early signals of irregularities or fraud in regional financial management. A high number of audit findings indicates low accountability and regulatory compliance among local governments, as well as weak public financial governance (Kiswanto et al., 2019). Within the agency theory framework, such conditions indicate that control mechanisms fail to restrain agents' opportunistic behaviour. The more audit findings identified, the greater the likelihood of irregularities that may develop or potentially lead to alleged corruption offenses.

Empirical evidence from Amyulianthy et al. (2022) shows that more audit findings are associated with a higher likelihood of corruption. These findings are consistent with studies by Naibaho & Shanti (2021) and Nurfaidah (2022), which conclude that audit findings significantly affect the occurrence of alleged corruption. Thus, audit findings can be viewed as signals of deviant behavior by local governments as agents. A large number of audit findings may indicate weaknesses in governance systems that extend beyond administrative non-compliance. Economically, unresolved audit findings may increase the risk of public resource leakage, reduce expenditure efficiency, and impose additional fiscal burdens on local governments. Politically, the disclosure of extensive audit findings may weaken public confidence in government performance and intensify public scrutiny of elected officials. Therefore, a higher number of audit findings is expected to be associated with a greater likelihood of alleged corruption.

H_2: *Audit findings have a positive effect on the alleged corruption case.*

The Effect of Follow-Up Recommendations on Audit Results on Alleged Corruption

Follow-up actions on audit results represent a crucial stage in the audit process, as they determine the extent to which audit recommendations are implemented to address identified weaknesses. Liu & Lin (2012) emphasize that audit follow-up focuses on implementing recommendations to prevent similar issues from recurring and to improve the quality of public financial management.

From an agency theory perspective, a high level of audit follow-up reflects the agent's commitment to improving governance and reducing opportunistic behaviour. Kiswanto et al. (2019) state that the higher the level of audit follow-up conducted by local governments, the lower the likelihood of opportunistic actions by regional leaders. This view aligns with Naibaho & Shanti (2021), who argue that continuous improvement through audit follow-up is an effective mechanism for suppressing the potential for corruption.

Empirical research by Liu & Lin (2012) demonstrates that audit follow-up has an adverse effect on alleged corruption, whereby greater implementation of audit recommendations reduces the likelihood of corruption. This finding is further reinforced by studies by Amyulianthy et al. (2022), Isnadiva & Haryanto (2021), Baldan & Haryanto (2024), and Nurfaidah (2022), which consistently show that audit follow-up has a significantly adverse effect on alleged corruption. Effective implementation of audit recommendations may generate substantial economic benefits by improving public financial management, reducing inefficiencies, and minimizing losses arising from irregularities. Moreover, successful audit follow-up may strengthen institutional accountability, enhance the credibility of local governments, and foster greater public trust in governance processes. As a result, stronger implementation of audit recommendations is expected to reduce opportunities for corruption and contribute to both economic and political stability at the local government level.

H_3: *Follow-up recommendations on audit results have a negative effect on the alleged corruption case.*

Research Design and Methodology

The independent variables used in this study are audit opinion (AO), audit findings (TA), and follow-up actions on audit results (TL). Meanwhile, the dependent variable is alleged corruption offenses (DKOR). Table 1 presents the variable measurements.

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Table 1. Variables and Measurements

Variable	Measurement
Audit Opinion (AO)	Dummy variable (Unqualified Opinion = 1; other audit opinions = 0)
Audit Findings (TA)	The number of audit findings disclosed by the BPK's, consisting of findings on internal control weaknesses combined with findings on non-compliance with laws and regulations
Follow-Up Actions on Audit Results (TL)	The percentage of audit recommendations that have been implemented in accordance with BPK's recommendations divided by the total number of recommendations
Alleged Corruption Offenses (DKOR)	The number of alleged corruption cases at the stages of investigation, inquiry, and prosecution handled by the Provincial Prosecutor's Office

Population and Sample

Data obtained from Audit Reports issued by the Supreme Audit Institution of Indonesia (BPK), as well as data on alleged corruption offenses collected from the Provincial Prosecutor's Office of Central Java through formal information requests. The population consists of 35 local governments in Central Java Province, comprising 29 regencies and 6 municipalities, observed over the 2018–2023 period.

Analytical Method

This study applies using Eviews. Panel data combine time-series and cross-sectional data, with observations on different entities followed over the 2018–2023 period (Basuki & Prawoto, 2017). The regression equations are specified as follows:

$$DKORit = \alpha + \beta1OA,it + \beta2TA,it + \beta3TL,it + \upsilon it$$

Information:

DKOR : Alleged corruption offenses cases
OA : Audit opinion
TA : Audit findings
TL : Follow-up actions on audit results
I : Regency/municipality indicating the cross-sectional dimension
t : Time dimension
α : Intercept coefficient
β : coefficients
εit : Error term for entity i at time t

Findings and Discussion

Findings

The unit of analysis in this study consists of local governments at the regency/municipal level, totaling 35 regions. The observation period spans 2018 to 2023, with a total of 210 panel observations. The selection of the research object and period is based on the availability of consistent data and the high intensity of alleged corruption cases at the local government level in Central Java Province.

The results of the descriptive statistical analysis are shown in Table 2.

Table 2. Descriptive Statistics

	N	Min.	Max.	Mean	Std. Dev.
OA (X1)	210	0.000000	1.000000	0.990476	0.097356
TA (X2)	210	3.000000	39.00000	15.61429	8.041090
TL (X3)	210	0.129000	1.000000	0.85902	0.170926
DKOR (Y)	210	0.000000	20.00000	4.704762	2.979752

Based on Table 2, the audit opinion variable (OA) has a mean value of 0.990476, which is very close to one, indicating that the vast majority of regency and municipal governments in Central Java received an Unqualified Opinion during the observation period. The relatively low standard deviation (0.097356) suggests limited variation in audit opinions across local governments. The audit findings variable (TA) has a mean value of 15.61, with values ranging from 3 to 39 findings and a standard

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deviation of 8.04, indicating considerable variation in the extent of internal control weaknesses and regulatory non-compliance among local governments. The follow-up on audit recommendations variable (TL) has a relatively high mean value of 0.8590, suggesting that, on average, approximately 85.90% of audit recommendations were followed up on. However, the minimum value of 0.1290 and the standard deviation of 0.1709 indicate that substantial differences remain in the effectiveness of audit follow-up across local governments. Meanwhile, the alleged corruption variable (DKOR) has a mean of 4.70 cases, with a minimum of 0 and a maximum of 20 cases. The relatively high standard deviation (2.979752) indicates considerable variation in alleged corruption cases among regencies and municipalities, suggesting that corruption risks remain unevenly distributed across local governments in Central Java Province.

The descriptive statistics also reveal an interesting pattern. Although most local governments obtained Unqualified Opinions and reported relatively high levels of audit follow-up, substantial variation remains in audit findings and alleged corruption cases. This preliminary evidence suggests that favourable audit opinions alone may not adequately reflect the quality of governance or the risk of corruption. Instead, differences in internal control effectiveness and the implementation of audit recommendations appear to play a more important role in explaining variations in alleged corruption across local governments. These observations provide an initial indication of the relationships examined in the subsequent regression analysis.

In panel data regression analysis, selecting the appropriate estimation model is crucial to ensure accurate, efficient, and unbiased results.

Table 3. Chow Test Results

Effects Test	Statistic	d.f	Prob.
Cross-section F	5.961837	-34.172	0.0000

The results of the Chow test show that the cross-section F-statistic is 0.0000 < 0.05, indicating that the appropriate model for estimating the regression equation is the fixed-effects model. The Chow test is employed to determine whether the Fixed Effects Model (FEM) provides a significantly better fit than the Common Effects Model (CEM) or the pooled ordinary least squares (OLS) model. The null hypothesis states that the pooled model is adequate, implying that there are no individual-specific effects across cross-sectional units. Since the probability value of the cross-section F-statistic is lower than the 5% significance level (0.0000 < 0.05), the null hypothesis is rejected. This finding suggests that unobserved heterogeneity exists among the sampled firms, and these firm-specific characteristics significantly influence the dependent variable. Therefore, the Fixed Effects Model is preferred because it controls for time-invariant differences across firms, yielding more reliable and consistent parameter estimates.

Table 4. Hausman Test Results

Test Summary	**Chi-Sq. Statistic**	**Chi-Sq. d.f**	**Prob.**
Cross-section random	9.133712	3	0.0276

Based on Table 4, the p-value is 0.0276, which is < 0.05. Since the Hausman test result is significant (p-value < 0.05), the null hypothesis in favor of the Random Effects Model is rejected, and the Fixed Effects Model is selected as the most appropriate specification. Because the Hausman test has already identified the Fixed Effects Model as the preferred model, conducting the Lagrange Multiplier test is unnecessary. The Lagrange Multiplier test is required only when the Chow test indicates that the Common Effects Model cannot be rejected, and a comparison between the Common Effects Model and the Random Effects Model is still needed. The Hausman test is conducted to determine whether the Fixed Effects Model (FEM) or the Random Effects Model (REM) is more appropriate for panel data estimation. The null hypothesis states that the Random Effects Model is preferable because the individual effects are uncorrelated with the explanatory variables. Conversely, the alternative hypothesis suggests that the Fixed Effects Model should be used because such correlations exist. As shown in Table 4, the probability value of the Hausman test is 0.0276, which is below the 5%

significance level. Therefore, the null hypothesis is rejected, indicating that the individual-specific effects are correlated with the independent variables. Consequently, the Fixed Effects Model is considered more consistent and efficient than the Random Effects Model and is selected as the final estimation model for this study.

The test results indicate that the initial data distribution does not satisfy the normality assumption; therefore, transformations are applied to the variables of DKOR, OA, TA, and TL. Estimation is then performed using the Generalized Least Squares (GLS) method with Cross-section Weights and the White Period (Cross-section Cluster) covariance method. The use of the GLS method aims to improve estimation efficiency and produce more reliable statistical tests.

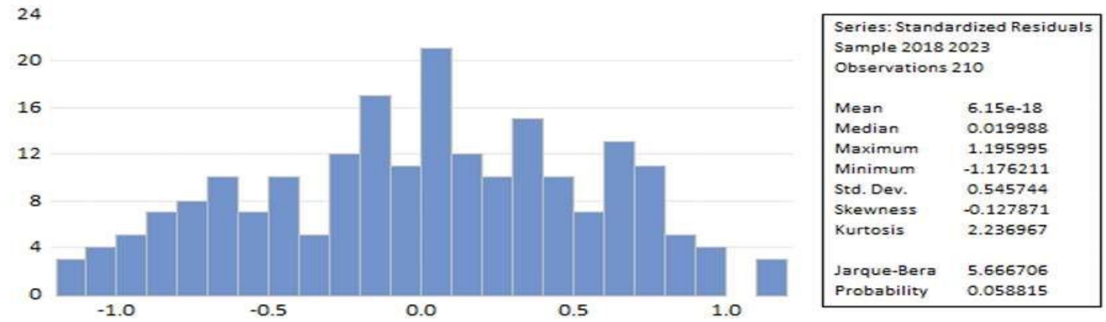

Figure 1. Jarque–Bera Normality Test Results

The Jarque-Bera normality test presented in Table 5, the p-value is 0.058825 > 0.05. Thus, the data are normally distributed (Ghozali, 2021). The Jarque–Bera normality test presented in Table 5 yields a probability value of 0.058825, which is greater than the 0.05 significance level. Accordingly, the null hypothesis of normality cannot be rejected, indicating that the residuals are normally distributed (Ghozali, 2021). This finding suggests that transforming the variables and adopting the GLS estimation approach effectively addressed the initial non-normality problem. The fulfilment of the normality assumption enhances the robustness of parameter estimation and supports the reliability of statistical inference derived from the regression model.

Table 5. Multicollinearity Test Results

	OA	TA	TL
OA	1.000000	-0.062795	0.056408
TA	-0.062795	1.000000	-0.082796
TL	0.056408	0.082796	1.000000

The results in Table 5 indicate that the correlation coefficients among the independent variables are substantially below the commonly accepted threshold of 0.80, suggesting the absence of multicollinearity in the model. This finding implies that audit opinion, audit findings, and follow-up on audit recommendations represent distinct dimensions of government audit outcomes and do not provide overlapping explanatory information. As a result, the estimated regression coefficients are unlikely to be distorted by collinearity issues, thereby enhancing the stability of parameter estimates and the reliability of hypothesis testing.

Table 6. Heteroscedasticity-Glejser Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.918454	1.142263	0.804065	0.4223
OA	0.427799	0.329952	1.296551	0.1962
TA	-0.219908	0.586093	-0.375211	0.7079
TL	-0.755621	1.084531	-0.696725	0.4868

The heteroskedasticity test is conducted using the Glejser test. The results in Table 6 show that the probability values for all independent variables exceed the 0.05 significance level, indicating the absence of heteroskedasticity in the regression model. This finding suggests that the residual variance is stable across observations and that the model satisfies the homoskedasticity assumption. The absence of heteroskedasticity enhances the efficiency of the parameter estimates. It reduces the risk of biased standard errors, thereby improving the reliability and validity of statistical inference derived from the regression analysis.

Table 7. Autocorrelation Test: Durbin-Watson (DW) Results

N (total observations)	210
K (independent variable)	3
a	5%
dL	1.2833
4-dL	2.7167
dU	1.6528
4-dU	2.3472
DW stat	2.163504

The autocorrelation test is conducted using the Durbin-Watson (DW) statistic. As shown in Table 8, the DW value of 2.163504 lies between the upper critical value (dU = 1.6528) and the upper bound of the non-autocorrelation region (4 − dU = 2.3472). Accordingly, the null hypothesis of no autocorrelation cannot be rejected, indicating that the regression model is free from serial correlation. Moreover, the DW statistic is relatively close to 2, suggesting that the residuals are randomly distributed and do not exhibit systematic patterns across observations. The absence of autocorrelation enhances the efficiency and consistency of the estimated coefficients, thereby increasing the reliability of statistical inference and hypothesis testing in the panel data regression model.

A hypothesis test is conducted after ensuring that the study data meet all classical assumption requirements. In hypothesis testing, panel data regression analysis uses the F-statistic, the t-statistic, and the R^2.

Table 8. Regression Test Results

Variable	Coefficient	Std. Error	t-Stat	Prob.
Constant	5.911980	1.480280	3.993824	0.0003
OA	0.193881	0.084704	2.288924	0.0284
TA	1.498972	0.606582	2.471177	0.0186
TL	-4.111126	1.492371	-2.754761	0.0094
Weighted Statistics				
R^2	0.549707	Mean	2.702688	
Adj R^2	0.452842	S.D.	1.414829	
S.E. of reg.	0.601586	Sum squ, res.	62.24785	
F-stat	5.674962	DW stat	2.163504	
Prob	0.000000			

The results of the regression analysis, the regression equation using the fixed effect model estimation, are as follows:

$$DKORit = 5.911980 + 0.193881OAit + 1.498972TAit - 4.111126TLit + \gamma it + \varepsilon it$$

The Fixed Effects Model accommodates differences in specific characteristics across local governments by allowing different intercepts (γ_i), thereby capturing unobserved heterogeneity. The coefficient of determination (R^2) of 0.549707 indicates that audit opinions, audit findings, and follow-up on audit recommendations can explain 54.97% of the variation in alleged corruption cases. Meanwhile, the adjusted R^2 of 0.452842 indicates that approximately 45.28% of the variation in alleged corruption cases is explained by the model's independent variables, with the remainder attributable to factors outside the scope of this study. The F-statistic value of 5.674962, with a probability of

0.0000, indicates that audit opinions, audit findings, and follow-up on audit recommendations have a significant effect on alleged corruption cases.

Overall, the results in Table 8 indicate that the regression model provides a satisfactory explanation of the determinants of alleged corruption cases in local governments. The significant F-statistic indicates that the independent variables jointly explain variation in alleged corruption cases. At the same time, the adjusted R^2 suggests moderate explanatory power, given the complexity of corruption as a multidimensional phenomenon influenced by institutional, political, economic, and organizational factors. The findings further indicate that different dimensions of audit outcomes affect corruption in distinct ways, highlighting the importance of examining audit opinions, audit findings, and audit follow-up simultaneously rather than relying on a single audit indicator. Consequently, the results reinforce the view that effective corruption prevention requires not only formal compliance, as reflected in audit opinions, but also substantive improvements in governance practices, including the resolution of audit findings and the implementation of audit recommendations.

Discussion

Audit Opinion and Alleged Corruption Cases

The hypothesis testing of the effect of audit opinion (OA) on alleged corruption cases (DKOR) shows that OA has a positive impact on alleged corruption cases in 35 regencies and municipal governments during the 2018–2023 period; an opposite direction relationship with the hypothesis (H1), therefore, the first hypothesis (H1) is rejected. This result indicates that a better audit opinion does not necessarily lead to fewer alleged cases of corruption. The findings in this study do not support the conclusion that audits affect corruption. This finding is consistent with Nurfaidah (2022), who argues that audit opinions—particularly the Unqualified Opinion do not always reflect the absence of corrupt practices; they may instead function as a form of administrative legitimation that conceals irregularities in budget management. This study is also consistent with Gong (2019), conducted in China, which shows that audit results are part of the accountability architecture and therefore contribute to public fund management. However, this does not mean that audit results automatically lead to accountability that prevents misappropriation or fraud (Gong, 2019). A study by Avis et al. (2018) in Brazil finds that being audited, or having audit results in the past, reduces future corruption by 8% and increases the likelihood of subsequent legal action by 20%.

This phenomenon can be explained by the concept of moral hazard, whereby audit opinions are used to project a positive bureaucratic image to the public and other stakeholders, even though corrupt practices may persist in secret. The limited time and scope of audit examinations, along with the fact that audit opinions focus solely on assessing the fairness of financial statement presentation in accordance with government accounting standards, mean that audit opinions are not designed to identify systemic and complex forms of corruption. Consequently, audit opinions tend to represent a normative response to external pressure rather than a substantive control instrument over deviant behaviour among government officials.

These findings indicate that audit opinions function more as a compliance-based accountability instrument than as an effective oversight mechanism (Marwanto & Soepriyanto, 2025). Local governments may meet formal administrative requirements for financial reporting without corresponding improvements in integrity and the quality of financial management. This condition creates opportunities for window-dressing practices, whereby financial statements are presented as formally fair but do not fully reflect financial management that is free of irregularities or fraud. As a result, favourable audit opinions may create a false sense of security among stakeholders, thereby weakening substantive oversight of corrupt practices.

Beyond its governance implications, this finding highlights the limitations of audit opinions as signals of institutional quality. Economically, the inability of favourable audit opinions to accurately reflect corruption risks may distort decision-making processes related to public investment, fiscal oversight, and resource allocation. Consequently, local governments may continue to experience inefficiencies and losses associated with hidden governance failures. Politically, the discrepancy between formal audit assessments and actual corruption outcomes may weaken institutional legitimacy and reduce public confidence in accountability systems. Such conditions can erode democratic accountability by limiting citizens' and stakeholders' ability to evaluate government performance using publicly available information accurately.

From an agency theory perspective, oversight mechanisms such as audit opinions are expected to suppress opportunistic behaviour by agents and reduce information asymmetry between agents and principals. The results show that favourable audit opinions do not necessarily indicate lower levels of alleged corruption, suggesting that their role is more symbolic than adequate as a control mechanism. This shows that audit opinions have not substantially reduced conflicts of interest and information asymmetry. These findings reinforce the arguments of Isnadiva & Haryanto (2021) and Budiman & Amyar (2021), who state that a favourable audit opinion does not guarantee that a regency or municipal government is free from corruption. Therefore, audit opinions cannot stand alone as a control mechanism; they must be supported by more in-depth, substantive oversight mechanisms to detect alleged corruption.

Audit Findings and Alleged Corruption Cases

The second hypothesis is tested, and audit findings have a significant positive effect on alleged corruption cases in 35 regencies and municipalities in Central Java Province during the 2018 to 2023 period. A regression result value of 1.498972 and a significance of 0.0186; thus, the second hypothesis (H2) is accepted. The regression analysis indicates that a 1% increase in audit findings is associated with a 1.498972-unit increase in alleged corruption cases, assuming other variables remain constant.

These results indicate that audit findings—particularly those related to weaknesses in internal control systems and non-compliance—serve as important indicators of serious problems in regional financial governance. The more findings disclosed by the Supreme Audit Institution (BPK), the stronger the indication of weak internal oversight systems and low regulatory compliance. Such conditions increase the likelihood of opportunistic behaviour, particularly in budget management and the implementation of local government programs and activities.

A high number of audit findings not only reflects administrative errors but also indicates structural failures in local government internal control systems. These failures adversely affect the quality of budget management and the overall level of local government accountability. Therefore, audit findings can serve as early indicators of potential corruption that law enforcement has not yet fully uncovered. Accordingly, audit findings serve as an early warning system for detecting and anticipating increases in alleged corruption cases.

Beyond their role as indicators of control weaknesses, audit findings reflect broader institutional vulnerabilities with significant economic and political consequences. Economically, persistent audit findings may indicate governance failures that contribute to public resource misallocation, budget inefficiencies, and reduced returns on public investment. These inefficiencies can ultimately constrain local economic development and diminish the quality of public service delivery. Politically, extensive audit findings may signal weaknesses in accountability and oversight institutions, thereby reducing institutional credibility and public confidence in government. In the long term, the accumulation of unresolved audit findings may weaken democratic accountability by limiting citizens' and stakeholders' ability to rely on government reporting and oversight mechanisms as accurate indicators of public-sector performance.

Follow-Up on Audit Recommendations and Alleged Corruption Cases

The third hypothesis (H3) is tested, and follow-up on audit recommendations (TL) has a significant negative effect on alleged corruption cases in 35 regencies and municipal governments in Central Java Province during the 2018 to 2023 period. This is indicated by a coefficient of −4.111126 with a significance level of 0.0094. These results suggest that audit recommendations reduce alleged corruption; therefore, H3 is accepted.

This adverse effect confirms that the effectiveness of government audits is determined not merely by the number of audit findings, but primarily by local governments' commitment to implementing recommendations issued by the Supreme Audit Institution (BPK). Optimal follow-up reflects the seriousness with which local governments address weaknesses in internal control systems, close loopholes for irregularities, and improve accountability. Although not all audit findings directly indicate corrupt behaviour, consistent and comprehensive implementation of all recommendations—including those related to corruption indicators—can serve as a preventive measure to help curb the escalation of alleged corruption cases.

These findings are consistent with those of Baldan & Haryanto (2024), who reported that alleged corruption decreased following the implementation of audit recommendations. By consistently implementing BPK recommendations, local governments can improve organizational performance, enhance governance quality, and prevent similar errors from recurring. Within the framework of agency theory, follow-up on audit recommendations serves as an effective control mechanism to suppress opportunistic behaviour by agents by increasing violation costs and through continuous monitoring. The higher the completion rate of audit recommendations, the narrower the opportunity for agents to exploit information asymmetry for personal gain. Therefore, TL is a key Instrument for strengthening public sector governance and preventing the sustained escalation of alleged corruption cases (Naibaho & Shanti, 2021; Kiswanto et al., 2019).

The findings also highlight important economic and political benefits arising from the effective implementation of audit recommendations. Economically, the successful follow-up of audit recommendations can reduce fiscal leakages, improve the efficiency of public expenditure, and strengthen the allocation of public resources toward development priorities. As governance weaknesses are addressed and internal controls are strengthened, local governments are better positioned to deliver high-quality public services and achieve sustainable regional development outcomes. Politically, effective audit follow-up demonstrates a commitment to accountability and responsiveness, enhancing the credibility of government institutions and strengthening public trust in local authorities. Consequently, the implementation of audit recommendations serves not only as a mechanism for corruption prevention but also as a means of reinforcing institutional legitimacy and improving the overall quality of democratic governance

Beyond reducing corruption risks, the effective implementation of audit recommendations has broader implications for economic and political governance. From an economic perspective, corrective actions undertaken in response to audit recommendations can enhance public-sector efficiency by reducing resource misallocation, minimizing financial losses, and improving the effectiveness of government spending. These improvements contribute to stronger fiscal performance and support long-term regional economic development. From a political perspective, the consistent implementation of audit recommendations strengthens accountability institutions and demonstrates governmental responsiveness to oversight mechanisms. Such responsiveness may enhance institutional credibility, reinforce governmental legitimacy, and foster greater public confidence in local government. Therefore, audit follow-up should be viewed not merely as an administrative obligation but as a strategic governance instrument capable of generating both economic value and political trust.

The findings also contribute to the broader governance literature by demonstrating that the effectiveness of audit follow-up, rather than audit opinions alone, constitutes a key institutional mechanism for constraining corrupt behaviour. Consequently, strengthening audit enforcement and corrective actions may generate substantial economic benefits through improved public sector efficiency and reduced leakage of public funds. Politically, enhanced responsiveness to audit recommendations can strengthen governmental accountability, increase institutional credibility, and foster greater public confidence in democratic governance, thereby contributing to the long-term sustainability of local government institutions.

Conclusion

This study analyzes the effects of audit opinions, audit findings, and follow-up on audit recommendations on alleged corruption cases in regency and municipal governments in Central Java Province during the 2018–2023 period. The results show that audit opinions have a positive impact on alleged corruption cases and an opposite direction relationship with the hypothesis (H1); therefore, the first hypothesis (H1) is rejected. This finding indicates that the attainment of an Unqualified Opinion may be utilized as a form of formalistic administrative legitimation, without substantively guaranteeing that local governments are free from corrupt practices. This condition reflects the presence of moral hazard, whereby compliance with financial reporting standards is not necessarily accompanied by integrity in financial management and deviant-free behaviour among public officials. Consequently, this finding does not fully align with agency theory predictions, which emphasize that oversight mechanisms, such as audit opinions, should suppress opportunistic behaviour by agents, including corruption.

Furthermore, audit findings have been shown to have a significant and positive effect on alleged corruption cases. A high number of audit findings reflects weak internal control, which ultimately increases the risk of irregularities and alleged corruption. Therefore, audit findings can serve as an early warning system for unresolved problems in regional financial governance that existing internal oversight mechanisms cannot yet fully address.

Meanwhile, follow-up on audit recommendations has a significant adverse effect on alleged cases of corruption. This finding confirms that the effectiveness of government financial audits is not determined solely by the number and quality of audit findings, but primarily by local governments' commitment and seriousness in implementing recommendations from the Supreme Audit Institution (BPK). Optimal follow-up plays a crucial role in closing loopholes for irregularities, improving weaknesses in internal control systems, and enhancing transparency and accountability in regional financial management. Overall, this study emphasizes the importance of substantive and continuous oversight—particularly by strengthening follow-up on audit recommendations—as an effective control mechanism within the agency theory framework to deter alleged corruption.

The practical implications of this study suggest that local governments should not rely solely on audit opinions as indicators of successful financial governance; instead, they should prioritize the quality of internal controls and the effectiveness of follow-up on audit recommendations in corruption prevention efforts. For the Supreme Audit Institution (BPK) and the Government Internal Supervisory Apparatus (APIP), these findings underscore the need to strengthen substance- and risk-oriented oversight and to enhance monitoring of the implementation of audit recommendations. In addition, these results can serve as a basis for policymakers to design local government performance evaluation systems that focus not only on achieving Unqualified Opinions but also on the extent of audit follow-up completion and improvements in internal control systems. The findings also suggest that performance evaluation systems for local governments should place greater emphasis on governance outcomes rather than solely on compliance-oriented indicators. Incorporating audit follow-up performance and internal control improvements into evaluation frameworks may provide stronger incentives for local governments to address governance weaknesses and reduce corruption risks

Theoretically, this study contributes to the agency theory literature in the public sector by demonstrating that formal oversight mechanisms, such as audit opinions, are not necessarily effective at suppressing opportunistic behaviour by agents unless accompanied by substantive oversight and adequate follow-up. These findings extend agency theory in the public-sector context by demonstrating that the effectiveness of accountability mechanisms depends not only on the existence of monitoring activities but also on the implementation of corrective actions that constrain opportunistic behaviour. Thus, this study underscores the need to broaden the agency theory perspective beyond mere oversight mechanisms to include the quality of implementation and institutional commitment to enforcing public accountability.

Beyond its implications for public-sector accountability, this study also highlights the broader economic and political significance of effective audit governance. From an economic perspective, the findings suggest that unresolved audit findings and weak follow-up mechanisms may contribute to resource misallocation, fiscal inefficiencies, and increased public financial losses associated with corruption. Conversely, the effective implementation of audit recommendations can strengthen public financial management, improve expenditure efficiency, and support sustainable regional development. From a political perspective, the findings indicate that audit effectiveness plays an important role in strengthening institutional accountability and maintaining public trust in government. When audit recommendations are consistently implemented, oversight mechanisms become more credible, governmental legitimacy is reinforced, and citizens are better able to evaluate government performance. Therefore, strengthening audit follow-up should be viewed not only as an administrative requirement but also as a strategic governance instrument to promote both economic development and democratic accountability at the local government level.

Limitations of this study: first, the data on the number of alleged corruption cases used in this study are sourced solely from the High Prosecutor's Office, due to the author's limited access to data. This condition may result in the incomplete coverage of corruption cases handled by other law enforcement institutions. Therefore, future studies are recommended to combine data from the High Prosecutor's Office, the Regional Police, and the Corruption Eradication Commission (KPK) to obtain a more comprehensive picture of alleged corruption. In addition, using more diverse data sources is expected to improve the accuracy of variable measurement and strengthen the validity and generalizability of the research findings. Future research may also incorporate political and institutional variables, such as political competition, electoral accountability, government transparency, and bureaucratic quality, to better explain variations in corruption across local governments. Examining these factors may provide a more comprehensive understanding of how audit outcomes interact with broader governance environments in shaping corruption risks.

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