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Exploring key determinants of internal control weaknesses and non-compliance using audit findings in Indonesian ministries

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ABSTRACT

Indonesian ministries face challenges in maintaining a strong internal control system, as demonstrated by BPK Audit findings that identified significant internal control weaknesses that led to substantial non-compliance incidents across ministries. This study examines key factors behind the weaknesses of the Internal Control System (ICS) and the non-compliance cases identified in Indonesian ministry audits from 2020 to 2022. Using a path analysis within the Structural Equation Modeling framework, we analyze the effects of age, size, budget realization, non-tax state revenue, and audit follow-up results. Our findings show that higher budget realization and non-tax state revenue contribute to ICS weakness, while younger ministries face greater ICS risks but fewer non-compliance cases. Strong audit follow-up helps reduce the number of non-compliance cases, highlighting its role in improving compliance. The study emphasizes the importance of robust internal controls and effective FUAR implementation in mitigating compliance risks and enhancing governance. It also provides new insights into the relationship between ministry characteristics, ICS weaknesses, and non-compliance cases, contributing to stronger financial management in the public sector.

KEYWORDS:
Internal control; audit finding; non-compliance

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INTRODUCTION

In the Indonesian government structure, ministries serve as key pillars of executive authority, functioning directly under the leadership of the President, as stipulated in Article 17 of the 1945 Constitution. As of 2025, Indonesia has 48 ministries, each tasked with formulating, implementing, and evaluating national development policies within its respective domain. These ministries act as the main executors of government programs and are entrusted with managing significant portions of the State Budget (APBN). Each ministry is obligated to establish sound financial management practices and implement effective internal control systems to mitigate risks associated with inefficient resource use and non-compliance. Furthermore, ministries must adopt internal control mechanisms aligned with the Government Internal Control System (SPIP), as mandated by Government Regulation Number 60 of 2008. In fulfilling these responsibilities, ministries operate not only as policy-making bodies but also as financial stewards, where their internal governance capacity plays a crucial role in ensuring the effectiveness, integrity, and credibility of Indonesia's public sector.

As ministries function as both executors of government policies and stewards of state finance, their activities are subject to external oversight to ensure accountability and transparency. Article 23E of the 1945 Constitution establishes Indonesia's Supreme Audit Institution, Badan Pemeriksa Keuangan Republik Indonesia (BPK), as an independent body mandated to audit the management and accountability of state finances. As part of this mandate, BPK audits ministries to ensure that the executive, acting as both budget user and policy implementer, is held accountable to the public and the legislature. This institutional arrangement reinforces the system of checks and balances within Indonesia's democratic governance framework. Through financial audits, BPK aims to assure that ministries manage public resources in compliance with applicable laws, regulations, and good governance principles, as guided by BPK Regulation Number 1 of 2017 on State Financial Audit Standards.

Audits can enhance the quality of financial reports directly and indirectly by promoting transparency and continuous improvement in public sector financial management. Transparency and accountability are inherently interconnected—accountability cannot be achieved without transparency, which serves as its foundation (Mabillard & Zumofen, 2017). Audit opinions influence how local governments present financial information to demonstrate their responsibility in managing public funds, thereby increasing public trust in the government's commitment to community welfare (Istianah et al., 2024). While public audits have long been a feature of government oversight, their purpose often reflects a tension between internal management control, typically advocated by treasury bodies, and broader public accountability, a view generally supported by audit institutions (Hay & Cordery, 2018). The urgency for strong governance mechanisms in public administration arises from persistent issues such as fraud, inefficiency, corruption, weak internal controls, and inadequate financial management (Aziz et al., 2015).

BPK's audit findings reveal that ministries frequently encounter significant challenges in maintaining robust internal control systems. Between 2020 and 2022, BPK identified major internal control weaknesses that led to substantial non-compliance incidents across several ministries. For example, in 2021, the Ministry of Health had ineffective internal budgeting controls and procurement processes in managing COVID-19 emergency funds (BPK RI, 2022a). Similarly, in 2022, the Ministry of Communication and Information Technology lacked proper oversight of non-tax revenue management, resulting in irregularities in its Universal Service Obligation program (BPK RI, 2023b). These cases underscore the urgent need to strengthen ministries' internal control

systems and governance practices, which are essential to improving financial accountability, regulatory compliance, and public trust in government (Aziz et al., 2015; Istianah et al., 2024).

Table 1 shows that the number of Internal Control System (ICS) cases in Indonesia's ministries declined from 2020 to 2022. However, during the same period, the number of non-compliance cases increased by over 25%, with the total financial value of non-compliance exceeding IDR 1 trillion. Interestingly, the number of Unqualified Opinions issued by the BPK also rose, suggesting a possible correlation between improved audit oversight and the reduction in ICS-related findings.

Table 1. Audit Opinion, ICS, and Non-Compliance Cases

Year	Number of Ministries	Unqualified Opinion	Audit Findings		
			Internal Control System Cases	Non-Compliance Cases	Non-Compliance (million IDR)
2020	34	94.12%	544	204	589,440.53
2021	34	94.12%	498	209	2,721,757.63
2022	34	97.06%	490	257	1,147,130.92

Source: *BPK RI (2020, 2021, 2022b, 2023a)*

To obtain reasonable assurance regarding the fairness of ministries' financial statements, BPK evaluates weaknesses of the ICS and non-compliance cases, following the Indonesian State Financial Audit Standards 2017. These standards emphasize that one of BPK's primary objectives is to enhance accountability, transparency, economy, efficiency, and effectiveness in state financial management through constructive recommendations and effective follow-up. They also aim to improve compliance with laws and regulations governing the management and accountability of state finances. Therefore, it is essential to assess whether BPK's audit recommendations are effective in addressing the weaknesses uncovered during audits.

To this end, BPK conducts follow-ups on audit results assessments to evaluate both the quality of its recommendations and the extent to which audited entities respond to audit findings. The assessment measures whether the entities implement corrective actions based on BPK's advice and whether those actions are aligned with the problems identified in the audit. As shown in Table 2, the increasing trend in follow-ups on audit results completion over recent years reflects not only the relevance and clarity of BPK's recommendations but also the growing commitment of audited entities to address audit issues. This follow-up mechanism supports the continuous improvement of governance, as mandated by the State Financial Audit Standards.

Table 2. Follow-up on Audit Results of Ministries in Indonesia

Year	Number of Ministries	Total Audit Findings	Total Recommendation	Number of Follow-ups	Percentage of Follow-up
2020	34	25,846	54,280	36,265	**66.81%**
2021	34	27,083	57,969	40,219	**69.38%**
2022	34	28,804	62,695	43,760	**69.80%**

Source: *BPK RI (2020, 2021, 2022b, 2023a)*

From 2020 to 2022, Indonesia faced significant governance challenges, particularly as ministries adjusted to the demands of managing the COVID-19 crisis and the subsequent recovery phase. These conditions amplified the critical need for a robust internal control system to ensure regulatory compliance and financial accountability. During this period, BPK played a crucial supervisory role by auditing ministries to reinforce internal controls and improve adherence to applicable laws and regulations. BPK auditors are tasked with understanding each ministry's internal control environment, including how its risk management supports organizational

objectives (BPK, 2017).

According to COSO (2013), internal controls are mechanisms established by an entity's board of directors, management, and other personnel to provide reasonable assurances that the entity is achieving its operational, reporting, and compliance objectives. Effective ICSs are not only essential to public confidence but also serve to mitigate allegations of mismanagement, nepotism, or cronyism (Aziz et al., 2015). Evaluating the effectiveness of an ICS requires management to judge whether relevant principles are addressed, that the system's components are present and functioning, and that the components are working together (COSO, 2013). Both internal monitoring and external audit feedback are valuable inputs in this assessment. Effective ICSs are critical in the public sector for enhancing accountability and ensuring compliance with laws and regulations. The quality and integrity of these control systems significantly influence public sector governance.

This study aims to identify the key factors contributing to weaknesses in ministries' internal control systems and the frequency of non-compliance cases revealed by BPK audits. Notably, a declining trend in ICS findings contrasts with an increase in non-compliance cases. Revisiting variables highlighted in prior studies also becomes necessary, particularly those linking internal control and compliance to the quality of financial statements.

Literature Insights

A range of prior studies has established connections between entity-level characteristics, ICS, and non-compliance findings. Pertiwi and Wibowo (2022) studied 34 Indonesian ministries (2015–2019). They showed that increased audit findings correlate with lower financial statement quality, while follow-up on audit results contributes to better public service delivery in line ministries. Zakaria (2023) analyzes 224 financial reports (2017–2019) across 86 ministries and identifies solvency and revenue effectiveness ratios as significant factors influencing audit opinions, among other variables such as liquidity and expenditure efficiency. Tiurmaida et al. (2021) reviewed 74 ministries and revealed that audit findings reduced financial statement quality, but follow-up on audit results had a positive impact.

The relationship between institutional age and the occurrence of non-compliance cases is moderated by ICS quality. While older institutions may benefit from established procedures and experienced personnel, these advantages do not inherently guarantee compliance. The maturity and effectiveness of an institution's ICS play a pivotal role in ensuring adherence to laws and regulations. Research by Rosita et al. (2020) highlights that the maturity level of a government's internal control system positively impacts the quality of financial reporting. This suggests that regardless of an institution's age, the development and implementation of a robust ICS are crucial for compliance and financial integrity. Therefore, the ICS functions critically as a moderating variable, mediating the extent to which institutional maturity translates into improved regulatory compliance, emphasizing the necessity for continuous assessment and adaptive strengthening of internal controls in public institutions.

Adha et al. (2019) examined 11 units within the Ministry of Public Works and Housing (PUPR). They found that total asset size is positively associated with the strength of ICS, while budget complexity has a negative association, although significance testing was not conducted. Din et al. (2017) analyzed 288 local government financial reports between 2011 and 2014, highlighting that follow-up on audit results positively influences audit opinions and indirectly reduces financial losses. These findings suggest that follow-up actions partially mediate the relationship between audit recommendations and improve financial accountability. Similarly, Setyaningrum (2017) emphasized the role of auditor quality and legislative oversight in strengthening follow-up on audit

results. Pamungkas et al. (2019), in their analysis of 135 local governments (2016–2017), confirmed a positive correlation between ICS weaknesses and non-compliance cases. Their study indicates that governments with weak internal controls are more prone to statutory violations, while consistent follow-up on audit results helps mitigate both ICS weaknesses and non-compliance.

This study focuses on the period from 2020 to 2022, as this recent time span allows this study to capture the unique governance dynamics influenced by the COVID-19 pandemic, circumstances not fully explored in previous research. These circumstances may yield results distinct from those of earlier studies due to new financial management and compliance challenges that ministries faced during that time. Focusing specifically on ministries ensures higher data consistency, making the findings more relevant and representative than broader samples involving diverse government entities. Additionally, by integrating multiple influential variables from prior studies, this research seeks to validate, refine, or expand on established relationships between internal control systems, audit follow-up, and compliance performance in Indonesia's central government institutions.

Hypothesis Formulation

This study formulates several hypotheses to examine the determinants of ICS weaknesses and non-compliance cases in Indonesian ministries. Older ministries are presumed to possess more established governance structures and institutional routines, which are expected to contribute to more mature internal control systems. Accordingly, we hypothesize that ministry age is negatively associated with ICS weaknesses (H1). Conversely, larger ministries, as indicated by total asset size, tend to have more complex operations, potentially introducing greater risks to internal control effectiveness. Therefore, we expect a positive relationship between ministry size and ICS weaknesses (H2).

Additionally, ministries generating higher non-tax state revenue (NTSR) often manage more diverse and complex income streams, which may create challenges in control and oversight. Thus, NTSR is hypothesized to be positively associated with ICS weaknesses (H3). Similarly, ministries with higher expenditure levels typically deal with complex budgeting and financial processes, increasing the potential for internal control issues. Hence, we expect a positive relationship between expenditure and ICS weaknesses (H4). Effective follow-up on audit recommendations is a corrective mechanism, helping ministries address identified internal control deficiencies. Ministries implementing these recommendations are expected to show fewer weaknesses in their control systems. Therefore, follow-up on audit results is hypothesized to be negatively associated with ICS weaknesses (H5).

In addition to ICS-related hypotheses, we consider how these variables affect non-compliance outcomes. Ministries with greater institutional age are likely to have better compliance mechanisms due to longer exposure to regulatory frameworks and more experience in governance. Hence, ministry age is expected to negatively affect the number of non-compliance cases (H6). Similarly, follow-up on audit recommendations is hypothesized to reduce non-compliance cases (H7), as effective audit remediation improves adherence to regulations.

Moreover, ICS weaknesses are expected to be positively associated with non-compliance cases (H8). Weak internal controls impair a ministry's ability to detect and prevent violations, thus increasing the likelihood of compliance failures. Finally, we hypothesize that the effects of age, size, NTSR, expenditure, and follow-up on non-compliance cases are mediated by the ministry's internal control system (H9). In other words, a robust ICS can moderate the relationship between these factors and non-compliance, serving as a safeguard that enhances compliance outcomes.

RESEARCH METHOD

Framework and Research Design

This study examines the factors influencing ICS weaknesses and regulatory non-compliance cases (NCCASE) in Indonesian ministries. The research adopts a quantitative approach using secondary data and path analysis to investigate both direct and mediated effects among institutional characteristics, internal control systems, and audit results. A structural equation modeling (SEM) path analysis framework is constructed to test the relationships between variables, including the mediating role of ICS.

The conceptual model incorporates five independent variables—ministry age (AGE), total assets (SIZE), non-tax state revenue (NTSR), total expenditure (EXPENDITURE), and follow-up on audit recommendations (FUAR)—to examine their direct effects on ICS and NCCASE. Table 3 describes the variables used and their measurements.

Table 3. Description of the Variables

Symbols	Variables	Measurement	Description
AGE	Ministry's Age	Year	Ministry's Year Since Establishment
SIZE	Total Asset	Rupiah	Ministry's Total Asset–31 December
NTSR	Non-Tax State Revenue	Rupiah	Ministry's Annual Realized Non-Tax State Revenue
EXPENDITURE	Total Expenditure	Rupiah	Ministry's total expenditure annually
FUAR	Completion	Percentage	Completion of Follow-up on BPK's Audit Results (TLHP)
ICS	Internal Control System Case	Number of cases	ICS Case based on BPK's Audit Result
NCCASE	Non-compliance Cases	Number of cases	NC Case based on BPK's Audit Result

Data Collection and Analysis Method

The unit of analysis is Indonesia's central government ministries. A total of 34 ministries were observed over a three-year period (2020–2022). The data are sourced from publicly available secondary datasets, namely: The Summary of Audit Results (IHPS) for the first semester of 2021, 2022, and 2023; including Monitoring Lists of Follow-Up to BPK Audit Recommendations (TLHP); and the Audit Results of the Ministry's Financial Statements for Fiscal Years 2020, 2021, and 2022 by BPK RI. This study applies path analysis, a variant of Structural Equation Modeling (SEM), using IBM SPSS Amos version 29. Maximum Likelihood Estimation (MLE) is employed to estimate model parameters, appropriate for datasets with 100–200 observations and normally distributed variables (Waluyo, 2016). The equation used in this analysis is as follows:

$$\sqrt{ICS} = \alpha + (\alpha_1 Ln\_AGE) + (\alpha_2 Ln\_SIZE) + (\alpha_3 Ln\_NTSR) + (\alpha_4 Ln\_EXPENDITURE) + (\alpha_5 FUAR) + \varepsilon$$

$$\sqrt{NCCASE} = \beta + (\beta_1 \sqrt{ICS}) + \varepsilon$$

Each variable is transformed using a method appropriate to the data type to get closer to the normal distribution. Specifically, we use the natural logarithm (Ln) of AGE, SIZE, Non-Tax State Revenue (NTSR), and EXPENDITURE, and take the square root of ICS and NCCASE. FUAR is not transformed. Figure 1 illustrates the pathways between the variables while research framework presented in the Appendix.

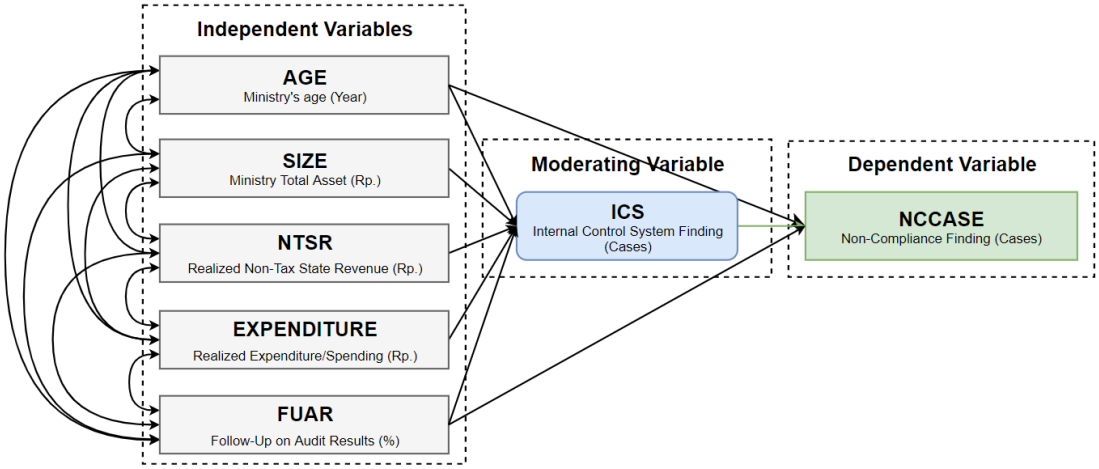

Figure 1. Pathways between the independent, moderating, and dependent Variables

RESULT AND DISCUSSION

Descriptive Statistics and Model Fit

Table 4 presents the descriptive statistics for all variables used in this study. On average, the standard deviation across all variables is 1.74. The variable with the highest variability is non-tax state revenue, with a standard deviation of 3.63 and a mean of 26.23. As the moderating variable, ICS displays a lower standard deviation of 1.70, indicating less dispersion among ministries. The non-compliance case variable also shows below-average variation, with a standard deviation of 1.24. These variations reflect the differing levels of financial complexity and internal control practices across the ministries.

Table 4. Descriptive Statistics

Variable	Total Obs	Min	Max	Mean	Std. Deviation
AGE	102	2.94	4.34	4.04	0.52
SIZE	102	23.85	35.34	30.11	2.89
NTSR	102	19.39	32.86	26.23	3.63
EXPENDITURE	102	25.98	32.97	29.26	2.08
FUAR	102	41%	100%	71%	0.13
ICS	102	0	9	3.48	1.70
NCCASE	102	0	5	2.24	1.24
Average					1.74

We conducted a model fit assessment using AMOS version 29 to evaluate the suitability of the model for hypothesis testing. Table 5 summarizes the goodness-of-fit indices. All parameters meet or exceed the recommended thresholds, confirming that the measurement model is a good fit for the observed data. The results confirm that the model is well-fitted and valid for further hypothesis testing. Specifically, the low RMSEA and high values for GFI, AGFI, and other indices indicate an excellent model fit.

Table 5. Model Fit Assessment Results

Goodness of Fit Parameter Indices	Description	Measurement Model Result	Recommended Value	Conclusion
Normalized Chi-Square	Chi-Square/Degree of Freedom	0.767	≤ 2	Data Fit
Probability	p-value, Significance of Chi-Square Test	0.52	≥ 0.05	Data Fit
GFI	Goodness-of-fit index	0.994	≥ 0.9	Data Fit
AGFI	Adjusted goodness-of-fit	0.941	≥ 0.9	Data Fit
RMSEA	Root-mean-square error of the approximation	0.000	≤ 0.08	Data Fit
TLI	Tucker-Lewis Index	1.01	≥ 0.9	Data Fit
NFI	Normed Fit Index	0.996	≥ 0.9	Data Fit
RFI	Relative Fit Index	0.97	≥ 0.9	Data Fit

Hypothesis Testing Results

The next analysis stage involves path analysis to test the hypothesized relationships between the independent, mediating, and dependent variables. The results, including path coefficients and significance levels, are visually represented in Figure 3 and discussed in the following section.

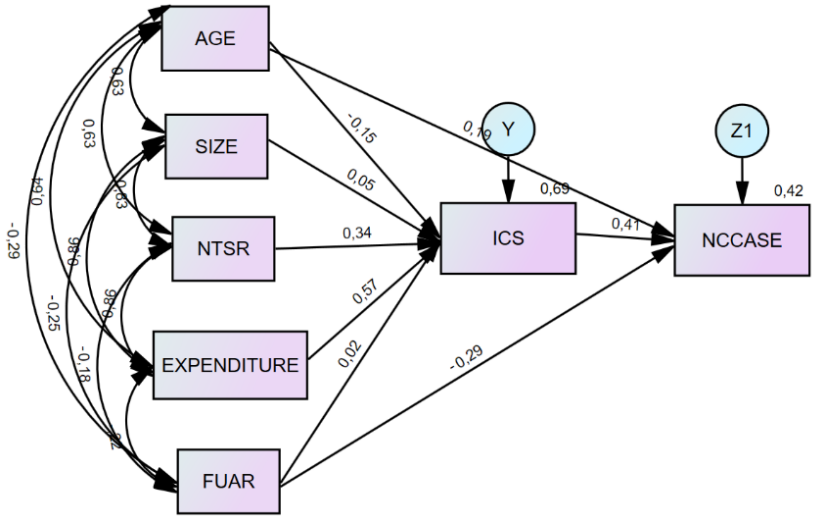

Figure 2. Results of SEM Analysis using the AMOS 29 Application for Standardized Estimates

In this study, only the variables AGE and FUAR are directly tested for their relationship with NCCASE, as both are conceptually linked to regulatory compliance outcomes. The variable AGE reflects institutional maturity and accumulated governance experience, which may influence a ministry's ability to comply with regulations. Meanwhile, FUAR captures the ministry's responsiveness to audit findings, which directly impacts its compliance behavior.

In contrast, variables such as SIZE, NTSR, and EXPENDITURE are theorized to influence compliance outcomes indirectly through the effectiveness of ICS. These variables reflect the complexity of financial and operational management within ministries, which, if not well-managed through strong ICS, may increase the risk of non-compliance. Hence, these variables are tested using ICS as a mediating factor, aligning with theoretical frameworks and previous empirical studies (Pamungkas et al., 2019; Setyaningrum, 2017).

After determining the relationship coefficients between variables, hypothesis testing is conducted based on the type of variable involved. For independent variables, we use the Standardized Regression Weights Coefficient, while for dependent variables, we analyze results using Squared Multiple Correlations (R^2). The significance of each relationship is assessed using

the β coefficient (Estimate), Critical Ratio (CR), and p-value for each path. A summary of these results, including standardized regression weights, standard errors, CR values, and p-values, is presented in Table 6.

Table 6. Standardized Regression Weights Result in Direct Correlation

Hypothesis	B (estimate)	Standard Error	Critical Ratio	P value
H1	−0.146	0.249	−1.938	0.053
H2	0.054	0.069	0.455	0.649
H3	0.343	0.055	2.925	0.003
H4	0.567	0.104	4.434	***
H5	0.023	0.748	0.39	0.697
H6	0.19	0.213	2.147	0.032
H7	−0.287	0.746	−3.614	***
H8	0.405	0.063	4.729	***

The β coefficient represents the expected change in the dependent variable resulting from a one-unit increase in the independent variable, assuming all other variables remain constant. A positive or negative sign on the coefficient indicates the direction of the relationship. The standard error (SE) reflects the degree of variability or uncertainty in the coefficient estimate, with smaller SE values indicating more precise estimates. The critical ratio (CR), calculated by dividing the coefficient by its SE, functions similarly to a z-score or t-statistic and measures how far the estimate deviates from zero. A CR greater than 1.96 or less than -1.96 indicates statistical significance at the 5% level. The p-value shows the probability that the observed relationship could occur under the null hypothesis (i.e., no effect). A p-value below 0.05 is statistically significant, and values marked with *** represent extremely small probabilities (approaching zero). Figure 4 summarizes and categorizes the hypothesis testing results.

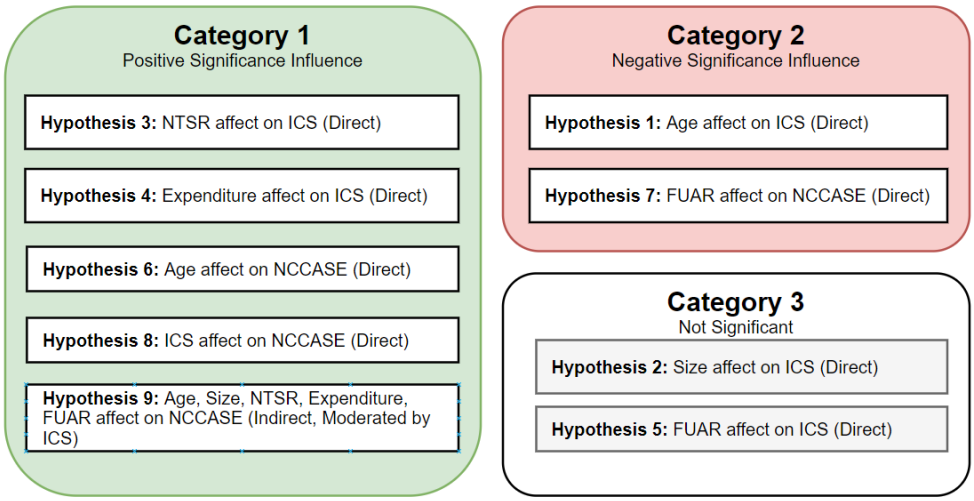

Figure 4. Results and Categorization of Hypotheses

Direct correlation and interpretations

The result of testing H1, AGE negatively affects ICS (β = -0.146, p = 0.053). The p-value is slightly above the 0.05 threshold, suggesting a weak but noteworthy relationship. This finding contrasts with the initial expectation that older ministries, due to institutional maturity, would have stronger internal control systems. Instead, it raises questions about whether age correlates with outdated practices or systemic inertia that weaken internal controls over time. Notably, this result

must also be interpreted alongside H6 and H8, which show that older ministries still experience higher non-compliance, and ICS is positively and significantly associated with non-compliance cases. This combination implies that ministries with weaker ICS experience more non-compliance cases, reinforcing the need to revisit and validate the assumptions behind H1. The results align with Adha et al. (2019), who noted that rigid structures and legacy practices in older institutions increase non-compliance risks. Similarly, Otoo et al. (2023) find that while established control activities can enhance internal control systems, they can become outdated without regular updates to current compliance standards, to preserve the strengths of their internal controls while reducing non-compliance risks.

The second hypothesis (H2) posits that a ministry's total assets (SIZE) positively influence ICS weaknesses due to increased operational complexity. However, the result ($\beta = 0.054$, $p > 0.05$) indicates an insignificant relationship. Similarly, the fifth hypothesis (H5), which tests the effect of follow-up on audit results (FUAR) on ICS, showed no significant relationship with ICS ($\beta = 0.023$ and $p > 0.05$). These results indicate that neither the size of a ministry's assets nor the rate of audit follow-up significantly impacts ICS performance. Consequently, we reject both H2 and H5. The results also suggest that control effectiveness is influenced more by management practices and oversight than by asset size or follow-up actions. This aligns with Adha et al. (2019), who emphasize the role of management in maintaining control quality. Although Pamungkas et al. (2019) find a stronger link between FUAR and ICS, Alzeban (2019) suggests that compliance with internal audit standards primarily enhances financial reporting quality rather than directly strengthening internal control structures.

Testing H3 and H4, both NTSR ($\beta = 0.343$, $p < 0.05$) and expenditure ($\beta = 0.567$, $p < 0.05$), have significant positive effects on ICS, indicating that higher financial activity can increase the complexity of operations and thus lead to more internal control weaknesses. The results suggest that larger financial inflows and budgets raise control challenges. Higher revenue adds complexity, straining controls, as noted by Zakaria (2023) and supported by Pertiwi and Wibowo (2022) and Adha et al. (2019), who observe that more revenue raises financial reporting risks, often resulting in control lapses. Regarding expenditures, Pertiwi and Wibowo (2022) find that larger budgets introduce operational complexity that demands advanced oversight. Meanwhile, Grossi et al. (2015) highlight that large expenditures can cause "control overload," complicating oversight and increasing potential failures. These findings underscore the need for ministries with high revenue and expenditure to enhance internal controls and implement strict budgetary oversight to manage the added complexity.

The results of testing H6 indicate a positive direct relationship between AGE and NCCASE ($\beta = 0.19$, $p = 0.032$), suggesting that older ministries tend to face higher risks of non-compliance. This finding appears counterintuitive, particularly when considered alongside the earlier result that older ministries report fewer weaknesses in their ICS. The apparent contradiction highlights a critical issue: while older ministries may have long-established ICS frameworks, these systems may no longer be sufficiently effective or responsive to current regulatory demands. One primary goal of an ICS is to achieve compliance with regulations; persistent compliance issues despite robust ICS frameworks indicate potential inadequacies or gaps in existing control practices (INTOSAI, 2019). These inadequacies may stem from outdated control mechanisms that have not evolved alongside changes in governance practices or regulatory requirements (Pamungkas et al., 2019). Prior studies underscore the need for continuous evaluation and timely updates of internal controls to maintain their effectiveness in dynamic environments (Aziz et al., 2015). This finding suggests a valuable direction for future research, specifically, investigating how the frequency and effectiveness of ICS

updates influence compliance outcomes in mature institutions.

The H7 testing result shows that FUAR negatively affects NCCASE (β = -0.287, $p < 0.001$), affirming that ministries with higher follow-up on audit results tend to experience fewer regulatory violations. This finding aligns with Setyaningrum (2017) and Din et al. (2017), who highlight that rigorous follow-up on audit recommendations reinforces accountability and mitigates compliance risks by addressing identified weaknesses. Supporting this perspective, Lenz and Hahn (2015) emphasize that continuous monitoring and follow-up on audit recommendations improve the effectiveness of internal controls and governance practices. Similarly, Agyei-Mensah (2019) finds that a structured and consistent follow-up process helps prevent recurring issues and enhances overall compliance. These findings suggest that FUAR serves not only as a reactive tool but also as a proactive governance mechanism that enables ministries to address audit concerns and reduce the likelihood of non-compliance systematically.

Meanwhile, H8, testing the relationship between ICS and non-compliance cases (β = 0.405, $p < 0.05$), indicates a significant positive effect—ministries with more ICS weaknesses tend to experience higher non-compliance. Weaknesses in ICS directly and indirectly affect NCCASEs, reinforcing the finding that ineffective controls contribute to regulatory breaches. This aligns with Setyaningrum (2017), who shows that a robust ICS reduces compliance risks. Similarly, Donelson et al. (2017) find that internal control weaknesses are associated with an increased risk of financial reporting fraud, highlighting the importance of effective controls in preventing non-compliance. Entities with weaker internal controls typically experience more frequent compliance violations, whereas a robust ICS enhances organizational resilience by closely aligning operational processes with regulatory standards. These findings underscore the critical role of an effective ICS in increasing regulatory compliance and mitigating non-compliance risks (Zhang, 2020).

Indirect effects and the moderating role of ICS

H9 explores whether the ICS moderates the relationship between age, size, NTSR, expenditure, and FUAR with NCCASE. The results show that FUAR exhibits the strongest indirect influence on NCCASE through expenditure (23%) and NTSR (13.9%), suggesting that ministries with higher audit follow-up rates and complex financial operations may still face increased non-compliance risks if internal controls are weak. In contrast, SIZE (2.2%) and FUAR (0.9%) show minimal indirect effects, though still with positive coefficients.

However, AGE (–5,9%) was the only variable with a negative indirect relationship to NCCASE, meaning its effect through ICS contradicts its direct positive influence. This indicates a suppression or reversal effect, where older ministries, although positively associated with compliance issues directly, may actually reduce non-compliance when ICS is strengthened. This finding underscores the moderating role of ICS in mitigating or reshaping the influence of institutional characteristics on compliance outcomes.

Overall, the findings confirm that ICS moderates the relationship between organizational attributes and regulatory violations. Specifically, ICS can amplify the beneficial effects of age and follow-up on audit results by strengthening governance through institutional maturity and effective follow-up practices. At the same time, it mitigates the compliance risks associated with larger size, increased NTSR, and higher expenditure by managing the operational complexity they entail. These findings are consistent with Pamungkas et al. (2019), who emphasize the role of strong ICS in reducing non-compliance, particularly in entities with complex financial structures. They also align with Koutoupis and Malisiovas (2023) also Hiebl (2024), who confirm that effective internal control systems help manage risks linked to organizational size and financial complexity.

CONCLUSION

This study uses a quantitative approach, assessing how ministry characteristics—including age, size, non-tax state revenue, expenditure, and follow-up on audit results—influence ICS weaknesses and the occurrence of non-compliance cases. The findings highlight that ministries with higher expenditures and non-tax state revenue face greater ICS weaknesses, indicating that financial complexity increases control challenges and indirectly heightens non-compliance risks. Ministry age also plays a dual role: while younger ministries tend to have weaker ICS, older ministries are more prone to non-compliance, likely due to outdated control frameworks. Follow-up on audit results demonstrates a strong negative relationship with non-compliance, affirming its critical role in addressing audit findings and strengthening accountability. Conversely, ministry size and follow-up on audit results show no significant direct effect on ICS, suggesting that governance quality outweighs structural factors.

These findings offer practical implications for ministries in Indonesia and elsewhere. Ministries should prioritize strengthening their ICS mechanisms, particularly those with increasing financial inflows and operational complexity. Budget oversight and internal controls should evolve in tandem with economic growth to prevent governance lapses. The BPK's role in monitoring and ensuring that audit recommendations are implemented should be further reinforced, which is instrumental in improving compliance outcomes.

While this study provides significant insights, its reliance on secondary data limits the depth of analysis, particularly regarding qualitative dimensions such as the role of human resources and regulatory nuances in shaping the effectiveness of an ICS. Future research should incorporate primary data collection to explore these qualitative aspects and identify additional variables influencing ICS and non-compliance outcomes. Such studies could also investigate sector-specific dynamics within ministries to offer tailored solutions for improving governance and accountability. This research underscores the complex interplay between financial management, internal controls, and compliance in the public sector. By addressing identified weaknesses and embracing a proactive approach to audit follow-up, Indonesian ministries can enhance governance, foster public trust, and set a benchmark for financial accountability in an evolving administrative landscape.

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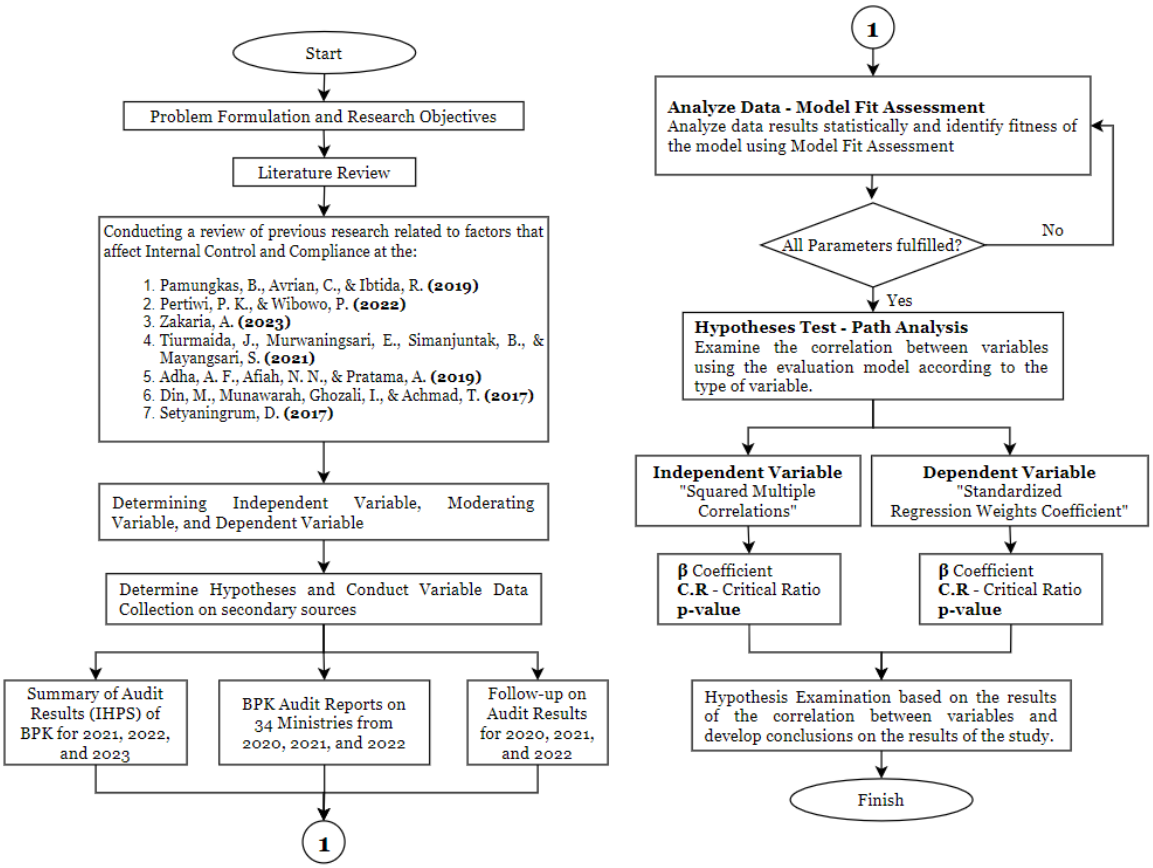
APPENDIX

Research Framework




Control Environment
Risk Assessment
Control Activities
Information & Communication
Monitoring Activities
NON-COMPLIANCE