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Challenges in Oversight Budget Allocation and Disclosure of Irregularities by Local Government Inspectorates in Indonesia

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ABSTRACT
Regional financial management is an important component in realizing good and clean governance. In Indonesia, regional internal oversight is carried out by the Regional Inspectorate as the Government Internal Supervisory Apparatus (APIP). To strengthen this function, the Ministry of Home Affairs has established a mandatory policy on the minimum budget allocation threshold in the Regional Revenue and Expenditure Budget (APBD) for oversight programs. However, increased realization of the oversight budget has not always been followed by a decrease in BPK audit findings. These findings include weaknesses in the Internal Control System and non-compliance with statutory regulations. This condition indicates that regional financial management problems remain, even though internal oversight by APIP has been implemented. This study examines the relationship between the budget realization of the Regional Inspectorate Oversight Implementation Program and the number of BPK audit findings in provincial governments. This study uses a quantitative approach with panel data regression and a one-year lag. Data were obtained from the Financial Statements of Provincial Regional Inspectorates for 2021-2023 and BPK Audit Reports on Regional Government Financial Statements (LKPD) for the following years, 2022-2024, covering 20 provinces and 60 province-period observations. The results show that oversight budget realization has no significant relationship with the number of BPK audit findings next year. This finding indicates that increasing oversight budget realization in the current year is not yet sufficient to be associated with fewer BPK audit findings in the following year, particularly when budget allocation has not been directed toward substantive oversight outcomes.

1. Introduction

Regional financial management plays an important role in realizing good, transparent, and accountable governance (Suryana & Akla, 2020). In the context of regional autonomy, local governments are expected not only to manage public resources efficiently but also to ensure that financial management processes comply with regulations and support public accountability (Dzagah et al., 2025; Yuesti et al., 2022). Internal oversight therefore becomes a critical mechanism

for preventing control weaknesses, detecting irregularities, and improving governance quality before deficiencies are identified by external auditors (Yamin et al., 2022).

The Indonesia Fraud Survey 2025, published by the Association of Certified Fraud Examiners (ACFE) Indonesia Chapter, shows that the government sector still occupies the highest position in terms of vulnerability to occupational fraud, with an impact reaching 15%. The survey further reports that whistleblowing contributes 53.24% to fraud detection, whereas internal audit contributes only 19.18% (ACFE Indonesia Chapter, 2025). These findings raise concerns regarding the effectiveness of internal oversight mechanisms and highlight the importance of evaluating whether resources allocated to oversight activities are associated with better governance outcomes. The Regional Inspectorate, as the Government Internal Oversight Apparatus (APIP), has a mandate to ensure that the internal control system functions properly and that compliance with statutory regulations can be maintained. To strengthen this role, the Ministry of Home Affairs introduced a mandatory minimum allocation policy for oversight programs through several regulations (Peraturan Menteri Dalam Negeri Nomor 64 Tahun 2020 Tentang Pedoman Penyusunan Anggaran Pendapatan Dan Belanja Daerah Tahun Anggaran 2021, 2020; Peraturan Menteri Dalam Negeri Nomor 27 Tahun 2021 Tentang Pedoman Penyusunan Anggaran Pendapatan Dan Belanja Daerah Tahun Anggaran 2022, 2021; Peraturan Menteri Dalam Negeri Nomor 84 Tahun 2022 Tentang Pedoman Penyusunan Anggaran Pendapatan Dan Belanja Daerah Tahun Anggaran 2023, 2022). From a theoretical perspective, this policy is consistent with the Resource-Based View, which argues that organizational resources can improve organizational capability and performance when managed effectively (Wernerfelt, 1984). Adequate oversight budgets are expected to support audits, reviews, monitoring activities, competency development, and oversight infrastructure, thereby strengthening internal control and reducing governance deficiencies. Normatively, an increase in the oversight budget is expected to strengthen the implementation of the Regional Inspectorate's functions. However, Budget Maximization Theory suggests that larger budgets do not necessarily lead to better organizational outcomes when resource utilization is oriented toward administrative compliance rather than substantive performance improvement (Niskanen, 1971). Consequently, greater oversight spending may not automatically translate into more effective oversight or fewer external audit findings.

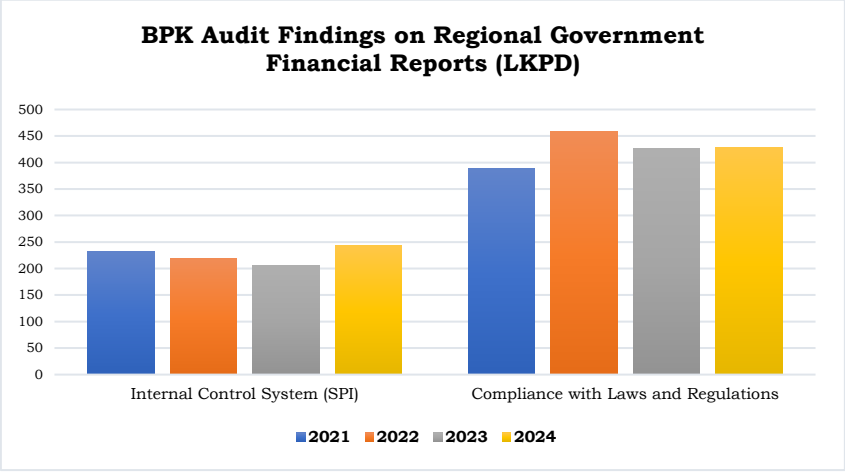

Figure 1. Findings on weaknesses in the Internal Control System (SPI) and non-compliance with statutory regulations in 34 provinces in Indonesia during the 2021–2024 period.

The Audit Report (LHP) issued by BPK on the Local Government Financial Statements (LKPD) is one of the important indicators for assessing the quality of regional financial management. During 2021–2024, BPK reported 2,601 audit findings across 34 provinces, consisting of 899 findings related to weaknesses in the Internal Control System (SPI) and 1,702 findings related to non-compliance with statutory regulations. The dominance of non-compliance findings indicates that governance problems persist despite the existence of internal oversight mechanisms. Non-

compliance findings, which accounted for 65.44% of total findings, show that internal oversight still faces challenges in ensuring compliance with statutory regulations. Previous studies similarly reported recurring weaknesses in local government governance, including ineffective implementation of SPIP policies, limited follow-up of BPK recommendations, and persistent control deficiencies (Luqyana & Abdullah, 2021; Rante, 2023). These findings suggest an inconsistency between the intended role of internal oversight and the governance outcomes reflected in external audit results. On the other hand, the mandatory policy on the oversight budget has encouraged increased funding support for the Regional Inspectorate. Data from 20 provinces indicate that oversight budget realization increased substantially between 2021 and 2023. Nevertheless, the increase in budget realization was not consistently accompanied by a reduction in BPK audit findings. This empirical inconsistency raises questions regarding whether oversight budget support is actually associated with improvements in governance outcomes.

Previous studies have extensively discussed the effectiveness of local government internal oversight through various aspects, such as APIP capability, SPIP maturity, follow-up on audit recommendations, Inspectorate independence, and the use of information technology. However, studies specifically examining the relationship between oversight budget realization and subsequent BPK audit findings remain limited. Existing studies have either focused on oversight quality as a determinant of audit findings (Amalia & Ritonga, 2016) or on oversight budgets as determinants of inspectorate performance (Marentek et al., 2019). Consequently, empirical evidence regarding whether oversight budget support is associated with governance problems identified by external auditors remains scarce.

To address the limitations of previous research, this study positions the budget realization of the Oversight Implementation Program as the independent variable and the number of BPK audit findings as the dependent variable. Using a one-year lag approach, oversight budget realization during 2021–2023 is linked to BPK audit findings during 2022–2024. This study contributes by providing empirical evidence on the relationship between oversight budget realization and external audit findings, while also evaluating whether mandatory oversight budgeting policies are associated with substantive oversight outcomes rather than merely fulfilling administrative allocation requirements.

Literature Review and Hypothesis Development

Hypothesis development in this study is based on two theoretical perspectives, namely budget maximizing theory and the resource-based view. Budget maximizing theory explains that bureaucrats tend to maximize the budget of their work units because the success of public organizations is often measured by the size of the budget managed, rather than by the efficiency and performance outcomes achieved (Niskanen, 1971). In the context of regional oversight, this theory indicates that an increase in the oversight budget does not always guarantee a decrease in the number of audit findings if the budget is used more to fulfill administrative targets, spending routines, or formal compliance with regulations.

On the other hand, the resource-based view explains that adequate organizational resources, when effectively managed, can improve organizational capability and performance (Wernerfelt, 1984). In the context of the Regional Inspectorate, the realization of the oversight budget can be viewed as a financial resource that supports the implementation of the oversight function. If the budget is used optimally to improve APIP competence, expand the scope of oversight, improve audit quality, strengthen reviews and evaluations, and improve the internal control system, then an increase in the oversight budget has the potential to be associated with a decrease in the number of BPK audit findings in the subsequent period.

Various studies show that resource strengthening can support the quality of internal control, improve the quality of financial statements, and strengthen the performance accountability of local governments. Such strengthening can be carried out through increased financial resources (Lobo & Zhao, 2013), improved human resource capability and competence (Mahmud et al., 2024; Mediaty et al., 2025), strengthened internal control systems (Adebayo & Ilesanmi, 2020; Mahmud et al., 2024; Mediaty et al., 2025; Sudarlan et al., 2024), adequate size and capacity of the oversight unit

(Yousefi Nejad et al., 2024), and the use of information technology (Haliah et al., 2025; Sofyani et al., 2020; Sudarlan et al., 2024). In this study, the realization of the oversight budget is positioned as a financial resource that can support oversight effectiveness, but such effectiveness still depends on the quality of management and the results orientation of budget use. Based on the theoretical foundation, the hypotheses in this study are formulated as follows:

H_0: There is no significant relationship between the realization of the oversight budget and the number of BPK audit findings in the following year.

H_1: There is a significant relationship between the realization of the oversight budget and the number of BPK audit findings in the following year.

2. Methods

This study uses a quantitative research method with a panel data regression approach to examine the relationship between the realization of the Regional Inspectorate's oversight budget and the number of BPK audit findings in provincial governments in Indonesia. Panel data regression was selected because the data used in this study combine two dimensions, namely cross-sectional data across provinces and time-series data over several observation periods, thereby enabling the analysis to capture variations in characteristics across provinces as well as changes in oversight conditions over time.

This study utilizes secondary data with an observational design. This study does not apply random assignment, experimental control, or any specific causal identification strategy. Therefore, the results of the analysis are not intended to prove a cause-and-effect relationship, but rather to examine the pattern of the statistical relationship between the realization of the Regional Inspectorate's oversight budget and the number of BPK audit findings.

This research model uses a one-year lag approach, in which the realization of the oversight budget in the current year (t) is examined in relation to the number of BPK audit findings in the following year (t+1). The use of a one-year lag is based on the consideration that the relationship with the oversight budget is not always directly visible in the current fiscal year. The oversight budget realized in a given year is used to finance oversight activities, non-oversight activities, and oversight facilities and infrastructure. These oversight activities include routine oversight performance, oversight of national priorities, bureaucratic reform assistance, and integrity enforcement. In addition, the oversight budget is also used to support non-oversight activities, such as continuing professional education through education and training as well as technical guidance for APIP, including the provision of facilities and infrastructure that support the implementation of the oversight function. Therefore, the results of activities implemented in the current year are more likely to be reflected in the quality of oversight and audit findings in the subsequent period.

The data used in this study are secondary data obtained from two sources. First, data on the budget realization of the Oversight Implementation Program were sourced from the financial statements of the Provincial Regional Inspectorates. Budget realization was selected because it shows the funds actually used to carry out oversight activities, not merely the budget planned in the budget implementation document. Second, data on the number of audit findings were obtained from BPK Audit Reports on the Local Government Financial Statements of provincial governments. The audit findings used in this study include findings related to weaknesses in the Internal Control System and non-compliance with statutory regulations. These two types of findings were selected because they reflect weaknesses in governance, control, compliance, and potential irregularities in regional financial management.

Data Collection

The unit of analysis in this study consists of provincial governments in Indonesia. Provincial governments were selected because Provincial Inspectorates perform regional internal oversight functions. These institutions are responsible for monitoring accountability and compliance in financial management. Provincial governments are also subject to external audits conducted by BPK annually. The sample in this study was determined using a purposive sampling technique,

namely sample selection based on provinces that had complete data on oversight budget realization and audit findings throughout the observation period. Of the 34 existing provinces, only 20 provinces met these criteria. The analysis period consists of three year-pair observations, namely the realization of the 2021 oversight budget in relation to audit findings in 2022, the realization of the 2022 oversight budget in relation to audit findings in 2023, and the realization of the 2023 oversight budget in relation to audit findings in 2024. Thus, the number of observations in this study is 60 province-period observations.

The selection of the research period was based on the consideration that, since the 2021 fiscal year, the nomenclature of the Oversight Implementation Program in Regional Inspectorates has been standardized based on Minister of Home Affairs Decree Number 050-3708 of 2020 concerning the Results of Verification and Validation of the Updating of Classification, Codification, and Nomenclature of Regional Development Planning and Finance (Keputusan Menteri Dalam Negeri Nomor 050-3708 Tahun 2020 Tentang Hasil Verifikasi Dan Validasi Pemutakhiran Klasifikasi, Kodefikasi Dan Nomenklatur Perencanaan Pembangunan Dan Keuangan Daerah, 2020). Previously, program names across regions varied, making data comparison and aggregation difficult. Therefore, data prior to 2021 were not used in this study. In addition, the use of the latest data is expected to increase the relevance of the research results to the actual conditions of regional oversight and financial accountability. Data on oversight budget realization for 2024 were also not used as an independent variable because audit findings on the 2025 fiscal year LKPD were not yet fully available at the time this study was conducted.

The independent variable in this study is the Budget Realization of the Provincial Regional Inspectorate Oversight Implementation Program. This variable indicates the amount of budget actually realized by the Provincial Regional Inspectorate in implementing the oversight program. The greater the realization of the oversight budget, the greater the financial resources allocated to support the implementation of the local government internal oversight function. The dependent variable in this study is the number of BPK audit findings in the following year. This variable indicates the number of findings related to weaknesses in the Internal Control System and non-compliance with statutory regulations stated in the BPK Audit Report. The higher the number of audit findings, the greater the indication of control weaknesses, non-compliance, or irregularities in regional financial management.

The use of one independent variable in this study is based on the focus of examining the direct relationship between the budget realization of the Oversight Implementation Program and the number of BPK audit findings in the following year. A model approach with a similar direct relationship between variables has been applied in research examining the relationship between the quality of the review of SKPD financial statements by the DIY Inspectorate and the number of BPK audit findings. The results of that study showed a correlation coefficient of -0,949 with a significance value of 0,026, indicating that review quality has a strong and significant negative relationship with the number of BPK audit findings (Amalia & Ritonga, 2016). Referring to that study, this research uses the number of BPK audit findings as the dependent variable and the realization of the oversight budget as the independent variable to examine the relationship between variables. In accordance with the research variables and the one-year lag approach used, the panel data regression model in this study is formulated as follows:

$$AUDIT\ FINDINGS_{i,t+1} = \beta_0 + \beta_1 BUDGET\ REALIZATION_{i,t} + \varepsilon_{it}$$

Description:

$AUDIT\ FINDINGS_{i,t+1}$	: The number of BPK audit findings in the i-th provincial government in the following year.
$BUDGET\ REALIZATION_{i,t}$	: The budget realization of the Oversight Implementation Program in the i-th Provincial Regional Inspectorate in the current year.
β_0	: Constant.
β_1	: Regression coefficient that indicates the direction and magnitude of the relationship between oversight budget realization and the number of BPK audit findings.
ε_{it}	: *Error term.*

With this model, this study examines whether the realization of the oversight budget in a given year is related to the number of BPK audit findings in the following year. If the coefficient β_1 is negative, then an increase in the realization of the oversight budget tends to be associated with a decrease in the number of audit findings. Conversely, if the coefficient β_1 is positive, then an increase in the realization of the oversight budget tends to be associated with an increase in the number of audit findings. However, this relationship can only be stated as statistically proven if the probability value is less than 0,05.

In panel data regression, three model approaches can be used, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). To determine the most appropriate model, this study uses several stages of testing, namely the Chow Test, Hausman Test, and Lagrange Multiplier Test.

The Chow Test is used to choose between the Common Effect Model and the Fixed Effect Model. The hypotheses in this test are as follows:

H_0: The appropriate model is the Common Effect Model.

H_1: The appropriate model is the Fixed Effect Model.

The decision-making criterion in the Chow Test is that if the probability value is greater than 0,05, then H_0 is accepted, so the model used is the Common Effect Model. Conversely, if the probability value is less than 0,05, then H_0 is rejected and the model used is the Fixed Effect Model.

The Hausman Test is used to choose between the Fixed Effect Model and the Random Effect Model. The hypotheses in this test are as follows:

H_0: The appropriate model is the Random Effect Model.

H_1: The appropriate model is the Fixed Effect Model.

If the probability value is greater than 0,05, then H_0 is accepted, so the model used is the Random Effect Model. Conversely, if the probability value is less than 0,05, then H_0 is rejected and the model used is the Fixed Effect Model.

The Lagrange Multiplier Test is used to choose between the Common Effect Model and the Random Effect Model. The hypotheses in this test are as follows:

H_0: The appropriate model is the Common Effect Model.

H_1: The appropriate model is the Random Effect Model.

If the probability value is greater than 0,05, then H_0 is accepted, so the model used is the Common Effect Model. Conversely, if the probability value is less than 0,05, then H_0 is rejected and the model used is the Random Effect Model.

After the best model is determined, classical assumption tests are conducted to assess the feasibility of the regression model. The classical assumption tests used include the multicollinearity test, heteroscedasticity test, autocorrelation test, and normality test. If the selected model is the Random Effect Model, then classical assumption testing is not required because the Random Effect Model is a Generalized Least Square (GLS) estimation method. The GLS technique is believed to address time-series autocorrelation as well as correlation across cross-sections (Tambun & Sitorus, 2024).

Data analysis

Hypothesis testing in this study is conducted using the t-test or partial test on the selected panel data regression model. This test is used to determine whether the realization of the oversight budget is significantly related to the number of BPK audit findings in provincial governments. In other words, the t-test is used to determine whether an increase or decrease in the realization of the oversight budget is associated with changes in the number of BPK audit findings in provincial governments.

The decision-making basis in the t-test is determined by examining the t-statistic value, t-table value, and probability value. If the t-statistic value is greater than the t-table value or the

probability value is < 0,05, then H_0 is rejected and H_1 is accepted. This means that the realization of the oversight budget is related to the number of BPK audit findings. Conversely, if the t-statistic value is smaller than the t-table value or the probability value is > 0,05, then H_0 is accepted and H_1 is rejected. This means that the realization of the oversight budget is not related to the number of BPK audit findings. The entire data processing and analysis process in this study was conducted using EViews 14 software.

3. Results

The results of data collection from 20 provinces in Indonesia show that the realization of the Provincial Regional Inspectorate's oversight budget generally increased during the 2021–2023 period. Table 1 presents the initial data before the formation of one-year lag pairs. As shown in Table 1, the total realization of the oversight budget increased from Rp123.161.913.056 in 2021 to Rp127.530.148.130 in 2022, and increased again to Rp144.316.260.029 in 2023. This condition indicates an increase in funding support for the implementation of the oversight function in most provinces during the 2021–2023 period.

Table 1. Realization of the Regional Inspectorate's Oversight Budget and BPK Audit Findings in Provincial Governments in Indonesia, 2021–2023

Province	Realization of the Regional Inspectorate's Oversight Budget						Audit Findings		
	2021		2022		2023		2021	2022	2023
Aceh	Rp	7.431.900.725	Rp	5.711.584.871	Rp	5.529.454.852	22	14	19
West Sumatra	Rp	3.985.376.391	Rp	4.481.294.436	Rp	3.522.230.740	12	27	29
Riau	Rp	4.174.426.447	Rp	7.283.071.284	Rp	8.528.525.035	38	28	13
Jambi	Rp	5.512.712.020	Rp	6.832.215.815	Rp	10.699.805.837	37	23	23
Lampung	Rp	4.034.710.458	Rp	5.459.614.172	Rp	5.210.341.834	29	21	21
Special Capital Region of Jakarta	Rp	4.353.405.000	Rp	7.675.167.000	Rp	11.829.787.500	38	45	40
West Java	Rp	27.287.366.130	Rp	24.511.528.746	Rp	28.525.768.589	17	14	17
Banten	Rp	5.407.193.910	Rp	4.006.769.780	Rp	2.173.117.819	18	15	8
Central Java	Rp	4.650.618.511	Rp	6.190.874.964	Rp	6.383.283.450	7	10	17
Special Region of Yogyakarta	Rp	5.162.485.600	Rp	6.124.075.991	Rp	5.904.469.077	7	13	11
Bali	Rp	2.393.910.347	Rp	1.717.088.288	Rp	3.228.858.039	12	9	13
West Nusa Tenggara	Rp	2.588.390.678	Rp	2.019.931.105	Rp	1.577.401.470	13	13	18
East Nusa Tenggara	Rp	7.414.989.645	Rp	3.652.831.000	Rp	2.958.167.353	16	11	12
West Kalimantan	Rp	4.399.616.242	Rp	7.174.834.396	Rp	7.020.525.355	15	20	23
Central Kalimantan	Rp	4.439.155.935	Rp	7.784.353.980	Rp	7.504.745.253	24	21	25
North Kalimantan	Rp	2.681.760.376	Rp	2.996.730.899	Rp	4.104.638.514	16	20	19
Central Sulawesi	Rp	2.400.418.400	Rp	3.160.674.925	Rp	5.875.528.750	16	20	15
South Sulawesi	Rp	8.681.931.480	Rp	9.867.755.087	Rp	12.686.841.057	18	25	24
West Sulawesi	Rp	4.719.506.864	Rp	3.630.972.394	Rp	4.023.307.353	13	20	9
Maluku	Rp	11.442.037.897	Rp	7.248.778.997	Rp	7.029.462.152	17	19	23
Total	Rp	123.161.913.056	Rp	127.530.148.130	Rp	144.316.260.029	385	388	379

Source: (1) Regional Inspectorate Financial Statements and (2) Audit Reports on Local Government Financial Statements

On the other hand, the number of findings related to weaknesses in the Internal Control System and non-compliance with statutory regulations showed fluctuating developments. Total audit findings were recorded at 385 cases in 2021, increased to 388 cases in 2022, and then decreased to 379 cases in 2023. Several provinces showed a consistent pattern between an increase in oversight budget realization and a decrease in the number of audit findings, such as Riau, with budget realization increasing from Rp4.174.426.447 in 2021 to Rp7.283.071.284 in 2022 and Rp8.528.525.035 in 2023, followed by a decrease in the number of audit findings from 38 cases in 2021 to 28 cases in 2022 and 13 cases in 2023. However, this pattern did not occur evenly. In several provinces, an increase in oversight budget realization was not followed by a decrease in the number of audit findings. In general, this condition shows that the increase in oversight budget realization has not been consistently followed by a decrease in the number of audit findings across

all provinces in Indonesia. Figure 2 below shows the trend of increasing oversight budget realization and fluctuations in the number of audit findings.

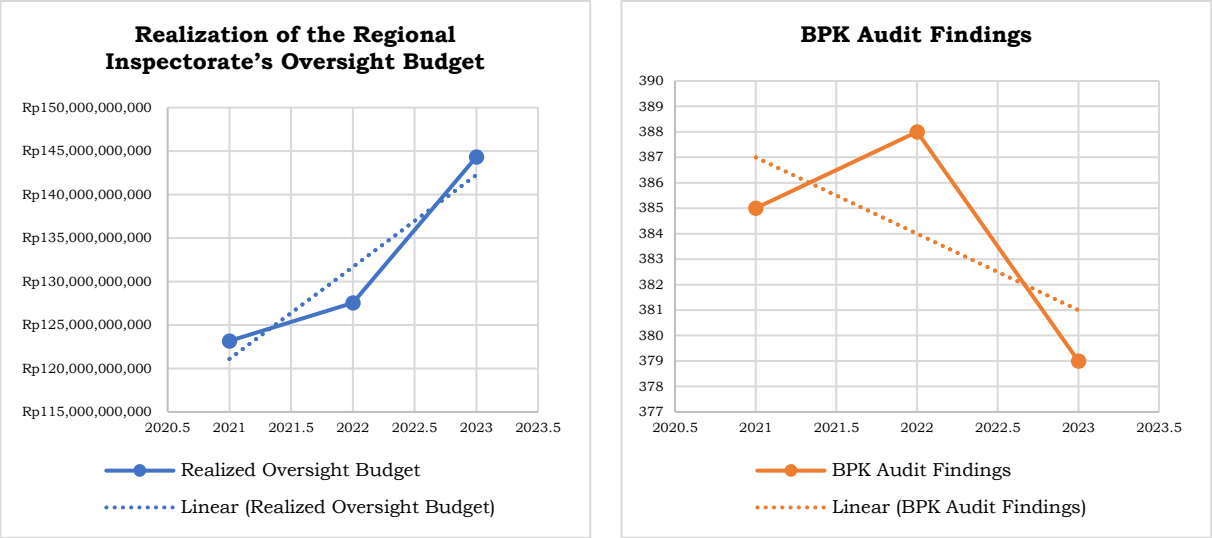

Figure 2. Trend of Inspectorate Oversight Budget Realization and BPK Audit Findings in Local Governments in Indonesia, 2021–2023

Descriptive Statistical Results

Descriptive statistics are used to describe the initial characteristics of the data used in the lagged panel model, including the mean, minimum value, maximum value, and level of dispersion of the variables of oversight budget realization and BPK audit findings, as presented in Table 2. The average realization of the oversight budget from 60 observations is Rp6.583.472.020,25, with a standard deviation of Rp5.318.115.361,10. The relatively large standard deviation indicates that oversight budget realization has high variation across provinces during the observation period. This is also reflected in the minimum value of Rp1.577.401.470 and the maximum value of Rp28.525.768.589, which indicate a fairly wide range of oversight budget realization and differences in the funding capacity of the oversight function across provinces during the observation period.

For the BPK audit findings variable, the mean value was recorded at 19,72 cases, with a standard deviation of 8,81 cases. The minimum value of 7 cases and the maximum value of 55 cases indicate that the number of audit findings has a fairly wide range across provinces during the observation period. Overall, the descriptive statistical results show that oversight budget realization and the number of audit findings have considerable variation across the 60 observations. This variation provides the basis for further analysis through panel data regression to examine whether an increase in oversight budget realization in a given year is related to the number of BPK audit findings in the following year.

Table 2. Results of the Descriptive Statistical Test of the Oversight Budget Realization Variable (X) and the Number of Audit Findings (Y)

	Oversight Budget Realization (X)	Audit Findings (Y)
Minimum	1577401470	7
Maximum	28525768589	55
Mean	6583472020,25	19,72
Std. Deviation	5318115361,10	8,81
Observations	60	60

Source: Output EViews 14, 2026.

Panel Data Regression Model Selection

Before hypothesis testing was conducted, the most appropriate panel data regression model was first selected. In panel data regression, three models can be used, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). Model selection was carried out through the Chow Test, Hausman Test, and Lagrange Multiplier Test.

Table 3. Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	9,114883	(19,39)	0,0000
Cross-section Chi-square	101,633183	19	0,0000

Source: Output EViews 14, 2026.

The Chow Test is used to determine the more appropriate model between the Common Effect Model and the Fixed Effect Model. The Chow Test results show a probability value of 0,0000. This value is smaller than the significance level of 0,05, so H_0 is rejected and H_1 is accepted. Thus, the more appropriate model to use based on the Chow Test is the Fixed Effect Model.

Table 4. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0,159602	1	0,6895

Source: Output EViews 14, 2026.

The Hausman Test is used to determine the more appropriate model between the Fixed Effect Model and the Random Effect Model. The Hausman Test results show a probability value of 0,6895. This value is greater than the significance level of 0,05, so H_0 is accepted. Thus, the more appropriate model to use based on the Hausman Test is the Random Effect Model.

Table 5. Lagrange Multiplier Test Results

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	31,32649	1,222213	32,54871
	(0,0000)	(0,2689)	(0,0000)

Source: Output EViews 14, 2026.

The Lagrange Multiplier Test results show a probability value of 0,0000. This value is smaller than the significance level of 0,05, so H_0 is rejected and H_1 is accepted. Thus, the more appropriate model to use based on the Lagrange Multiplier Test is the Random Effect Model.

Therefore, based on this series of tests, the best model used in this study is the Random Effect Model. This model is then used to examine the relationship between oversight budget realization and the number of BPK audit findings in the following year. Because the best model used in this study is the Random Effect Model, classical assumption testing is not required, as the Random Effect Model is a Generalized Least Square (GLS) estimation method. The GLS technique is believed to address time-series autocorrelation as well as correlation across cross-sections (Tambun & Sitorus, 2024).

Hypothesis Testing Results

After the Random Effect Model was established as the best model, the analysis was continued with panel data regression. The independent variable in this study is the Regional Inspectorate's oversight budget realization (X), while the dependent variable is the number of BPK audit findings in the following year (Y). The panel data regression results are presented in Table 6 below.

Table 6. Panel Data Regression Results Using the Random Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	18,25847	2,546990	7,168646	0,0000
X	2,21E-10	2,69E-10	0,821879	0,4145

Source: Output EViews 14, 2026.

Based on the regression results, the coefficient of oversight budget realization of 2,21E-10 indicates a positive direction of relationship with the number of BPK audit findings. However, the probability value of 0,4145 is greater than 0,05, so this relationship is not significant.

Table 7. Calculation of the t-Table Value

Description	Value
Number of observations (n)	60
Number of independent variables (k)	1
Degree of freedom (df) = n - k - 1	58
Probability	0,05
t-Table	2,00172

Source: Data Processed, 2026.

Based on Table 7, the degree of freedom value is obtained from the number of data points minus the number of independent variables and the constant, namely df = n - k - 1. With 60 data points and 1 independent variable, the value obtained is df = 60 - 1 - 1 = 58. With a probability value of 0,05, the t-table value used is 2,00172.

Table 8. Hypothesis Testing Results

Variable	t-Statistic	t-Tabel	Prob.
X	0,821879	2,00172	0,4145

Source: Data Processed, 2026.

Based on Table 8, the t-statistic value of the oversight budget realization variable is 0,821879, which is smaller than the t-table value of 2,00172. In addition, the probability value of 0,4145 is greater than 0,05. Thus, H_0 is accepted and H_1 is rejected. This result shows that oversight budget realization does not have a significant relationship with the number of BPK audit findings in the following year.

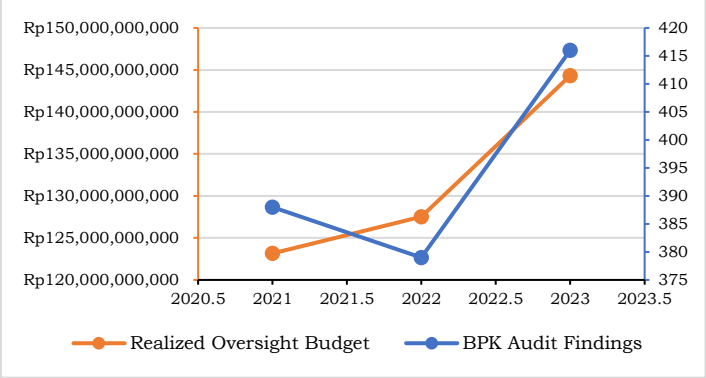

Figure 3. Time Series of Oversight Budget Realization for 2021-2023 and the Number of BPK Audit Findings in the Following Year, 2022-2024

Based on Figure 3, the time series of oversight budget realization and audit findings shows that, although oversight budget realization in the current year (t) tended to increase from 2021 to 2023, the number of audit findings in the following year (t+1) did not show a consistent downward trend. In fact, the number of audit findings in 2024, which was associated with the 2023 budget realization, showed an increase again after previously experiencing a decline. This pattern is consistent with the hypothesis testing results in Table 8, which show that oversight budget realization does not have a significant relationship with the number of BPK audit findings in the following year.

4. Discussion

The Relationship Between the Inspectorate's Oversight Budget and BPK Audit Findings

In this study, the number of BPK audit findings is used as a proxy to describe the level of problems in regional financial management, particularly those related to weaknesses in the Internal Control System and non-compliance with statutory regulations. The use of this indicator is based on the understanding that BPK audit findings are the results of external audits of local government financial statements, and therefore reflect problems that are still identified after the internal

oversight process by APIP has been carried out. Thus, a lower number of BPK audit findings can be interpreted as one indication that the functions of internal oversight, prevention, detection, and improvement are operating more effectively. Conversely, a higher number of BPK audit findings may indicate that there are still control and compliance weaknesses that have not been adequately addressed before the external audit is conducted.

To strengthen APIP capacity, the Ministry of Home Affairs established a mandatory policy on oversight budget allocation through Minister of Home Affairs Regulations. This policy is designed in a progressive-regressive manner based on regional fiscal capacity, with regions that have smaller expenditure budgets required to allocate a higher percentage to ensure that the oversight function is maintained. Ideally, an increase in oversight budget realization should be associated with a decrease in the number of BPK audit findings, because a lower number of BPK audit findings can be interpreted as an indication that the internal oversight function has been carried out properly. However, the increase in oversight budget realization during the 2021-2023 period was not consistently followed by a decrease in the number of BPK audit findings across all provinces in Indonesia. Although some regions showed a consistent pattern, such as Riau, which experienced an increase in oversight budget realization accompanied by a decrease in BPK audit findings, this condition did not occur evenly across all provinces in Indonesia. In several other provinces, an increase in oversight budget realization was not followed by a decrease in the number of BPK audit findings. This condition indicates that an increase in oversight budget realization is not always directly proportional to an increase in the effectiveness of oversight itself. This phenomenon raises an important question regarding whether greater oversight budget realization is truly related to a decrease in the number of BPK audit findings.

The results of hypothesis testing in this study show that the budget realization of the Provincial Regional Inspectorate Oversight Implementation Program is not proven to have a significant relationship with the number of BPK audit findings in the following year. This is based on a probability value of 0,4145, which is greater than the significance level of 0,05, as well as a t-statistic value of 0,821879, which is smaller than the t-table value of 2,00172. Thus, the null hypothesis (H_0), which states that there is no significant relationship between oversight budget realization and the number of audit findings in the following year, is accepted, while the alternative hypothesis (H_1), which states that there is a relationship, is rejected. In addition, the regression coefficient shows a positive direction of relationship of 2,21E-10. However, because this relationship is not statistically significant, the direction of this coefficient is not strong enough to be concluded as a convincing relationship pattern. This result shows that an increase in oversight budget realization has not demonstrated a strong statistical relationship with a decrease in the number of BPK audit findings.

The results of this study can be interpreted through the perspective of budget maximizing theory, which explains that budget increases in public organizations are not always directly proportional to performance improvement if budget management remains oriented toward administrative fulfillment (Niskanen, 1971). The policy on the minimum allocation of the oversight budget stipulated in Minister of Home Affairs Regulations, although designed to strengthen oversight capacity, has not been statistically proven to have a relationship with the decrease in BPK audit findings. This condition indicates that increased budget support is not automatically related to a decrease in the number of external audit findings. Thus, an increase in the oversight budget needs to be viewed not only from the perspective of allocation fulfillment, but also from how the budget is managed and directed to strengthen the internal control system.

This result can also be understood through the concept of organizational slack. Additional budgets in public organizations do not always result in improved performance if these additional resources are not managed with a clear outcome orientation. Resource stability and increases can reduce the effectiveness of public institutions when they are not accompanied by adequate performance management (Chang, 2021). In the context of this study, an increase in oversight budget realization is not necessarily related to a decrease in BPK audit findings if the budget is used more to fulfill routine activities, administrative obligations, or supporting expenditures that do not directly strengthen the prevention of SPI weaknesses and non-compliance.

In addition, oversight effectiveness is also influenced by institutional capacity and the quality of oversight implementation. Inadequate capability of oversight human resources, limited supporting facilities and infrastructure, minimal use of information technology in the oversight process, low follow-up on BPK recommendations, and weak independence of the Regional Inspectorate can limit the effectiveness of local government internal oversight (Luqyana & Abdullah, 2021; Polidu et al., 2020; Prabowo & Supardal, 2025; Prawira, 2025; Surya et al., 2024). Thus, the insignificant relationship between oversight budget realization and the number of BPK audit findings indicates that the oversight budget needs to be understood as a supporting resource whose effectiveness depends on institutional capacity, governance, and the quality of oversight implementation.

In addition, the Indonesia Fraud Survey 2025 also strengthens the interpretation that formal internal audit has not yet become the most dominant detection mechanism in uncovering irregularities. The data show that whistleblowing contributed 53,24% to case disclosure, while internal audit contributed only 19,18% (ACFE Indonesia Chapter, 2025). This gap indicates that an increase in the oversight budget is not sufficient if it is not accompanied by improvements in internal audit quality, the use of complaint information, follow-up on findings, and a more responsive early detection system. Thus, the ACFE data support the results of this study that oversight effectiveness cannot be assessed only from the size of the budget, but also from APIP's ability to transform budget support into more substantive mechanisms for preventing and detecting irregularities.

Although the hypothesis testing results show that the relationship between oversight budget realization and the number of BPK audit findings is not statistically significant, the time series analysis in Figure 3 shows a fluctuation pattern that needs attention. During the observation period, oversight budget realization tended to increase, especially in 2023, but this increase was not consistently followed by a decrease in the number of BPK audit findings in the following year. In fact, the number of audit findings in 2024, which was associated with the 2023 budget realization, showed an increase again after previously experiencing a decline. This condition indicates that the relationship between oversight budget realization and the number of audit findings is dynamic and may be influenced by various external factors. One factor that may have contributed to this condition is the post-COVID-19 pandemic transition period from 2021 to 2022, which was marked by adjustments to work mechanisms and restrictions on physical activities, both in the implementation of internal oversight by the Regional Inspectorate and in external audits by BPK. These adjustments may have affected the scope and intensity of audits, so the relatively lower number of BPK audit findings in certain periods does not necessarily fully reflect an improvement in the quality of regional financial management, but may also have been influenced by limitations in audit implementation during the transition period. As government activities and audit processes returned to normal, the number of BPK audit findings again showed an increasing tendency, even though the realization of the Regional Inspectorate's oversight budget increased.

Thus, without synergy between financial resources, such as the allocation of the oversight budget, and other supporting factors, an increase in oversight budget realization is not necessarily associated with a significant decrease in the number of BPK audit findings. The results of this study emphasize that strengthening oversight effectiveness requires more than merely fulfilling budget allocation requirements, as it also includes a shift in focus from administrative compliance toward achieving tangible outcomes in regional financial management.

5. Conclusion

This study empirically examines the relationship between the budget realization of the Regional Inspectorate Oversight Implementation Program and the number of BPK audit findings in provincial governments in Indonesia. The panel data regression results using the Random Effect Model with a one-year lag approach show that oversight budget realization does not have a significant relationship with the number of BPK audit findings in the following year. Thus, an increase in oversight budget realization has not shown a strong statistical relationship with a decrease in the level of regional financial management problems reflected in BPK audit findings.

These results show that budget increases in public organizations are not always directly proportional to performance improvement. From the perspective of budget maximizing theory, the size of the budget managed by a public organizational unit does not necessarily produce better performance achievements if budget use remains oriented toward administrative fulfillment, routine activities, or formal compliance with regulations (Niskanen, 1971). In the context of this study, greater oversight budget realization is not sufficiently associated with a decrease in the number of BPK audit findings if budget use has not been directed toward improving oversight quality. Therefore, the mandatory policy on the oversight budget needs to be evaluated not only from the perspective of allocation fulfillment, but also from the achievement of more substantive oversight outcomes, such as APIP capability, SPIP maturity, the quality of the internal control system, and the use of information technology. This study is constrained by limited variables, sample coverage, and observation period. Future studies should incorporate governance, institutional, and technological factors using broader panel data to provide a more comprehensive understanding of determinants influencing BPK audit findings.

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