INKUBIS: Jurnal Ekonomi dan Bisnis
Volume 8, Issue 4, 3280-3295
e_ISSN: 2775-3913
https://inkubis.politeksci.ac.id/index.php/ink/index
DOI: doi.org/10.59261/inkubis.v8i4.532

Bureaucratic Reform and Regional Financial Management Quality in Relation to Audit Findings: The Moderating Role of Local Government Integrity

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Article Info:
Article history:
Received: September 8, 2026
Revised: September 29, 2026
Accepted: October 02, 2026
Available Online: November 03, 2026

Keywords:
Audit Findings;
Bureaucratic Reform;
Government Integrity;
Moderating Effect;
Regional Financial Management

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Abstract

Background: Indonesian local governments reported rising numbers of audit findings in 2021–2023 despite ongoing bureaucratic reforms. It remains unclear whether formal reform and financial-management assessments are associated with fewer findings, and whether institutional integrity modifies these associations.
Objective: To examine the associations of bureaucratic reform and regional financial-management quality with audit findings and evaluate whether government integrity moderates either association.
Methods: This observational quantitative panel study analyzed 381 of 508 Indonesian regency/city governments during 2021–2023 (1,143 government-year observations), using official secondary data. Fixed-effects panel regression and moderated regression analysis (MRA) assessed the relationships.
Results: Bureaucratic reform was positively associated with the number of findings (β = 0.694747, p = 0.0012); financial-management quality showed no statistically significant association (β = 0.024320, p = 0.0967). The reform × integrity interaction was negative and significant (β = −0.082746, p = 0.0229), whereas the financial-management quality × integrity interaction was not significant (β = −0.001859, p = 0.4507).
Conclusion: Higher-rated bureaucratic reform and regional financial management quality have not been associated with a corresponding reduction in the number of audit findings at the observed reference level, while integrity attenuated this positive association. The results do not establish that reform causes findings or that integrity makes the overall reform effect negative. Stronger process-level evidence and longer panel coverage are needed.

To cite this article: Maharani, R., Islahuddin, Yusmita, F., Darwanis, & Indayani. (2026). Bureaucratic reform and regional financial management quality in relation to audit findings: The moderating role of local government integrity. *INKUBIS: Jurnal Ekonomi dan Bisnis, 8*(4), 3280–3295. https://doi.org/10.59261/inkubis.v8i4.532

INTRODUCTION

Public sector entities are expected to strengthen financial accountability, administrative reform, and integrity; however, external audit findings continue to identify control weaknesses and non-compliance.Audits of government agencies conducted by financial audit institutions are an important factor in making changes to people's lives through audit results that provide an evaluation of how well public resources are used (Dobrowolski et al., 2025; Intosai, 2019). Audits also provide real benefits for improving state financial management and efforts to strengthen bureaucratic reform (Indonesia, 2025). In Indonesia, state financial audits are regulated in Law

No. 15 of 2004 concerning the Audit of State Financial Management and Responsibility and Article 23 of the 1945 Constitution, which states that the State Financial Audit Agency (BPK) is an Indonesian state institution authorized to examine the management and responsibility of state finances. Through the audit process, BPK publishes an audit report which contains audit findings. The findings of the BPK audit were obtained from testing compliance with the provisions of laws and regulations and a review of the weaknesses of the Internal Control System (SPI) in state financial management Djanegara, (2017) and Indonesia (2024) as stipulated in the Guidelines for the Implementation of BPK RI Financial Audits Number 4/K/1-XIII.2/7/2014 that the report on the results of internal control and compliance testing contains audit findings in government financial management. The BPK audit-finding totals illustrated in this manuscript rose from 6,965 (2021) to 7,661 (2022) and 8,078 (2023).The phenomenon of increasing audit findings can indicate problems with the implementation of bureaucratic reform and the quality of financial management that is not optimal, thus contributing to an increase in the number of continuous audit findings. Testing the relationship and influence between these variables is very important to be able to accurately identify the problems that occur. The trend of increasing audit findings can be seen in the following graphic image These national totals describe the reported volume of audit findings, not the audited panel's average or the materiality of each finding. Increases may reflect changes in audit coverage or detection as well as underlying compliance; the available secondary data cannot isolate these explanations.

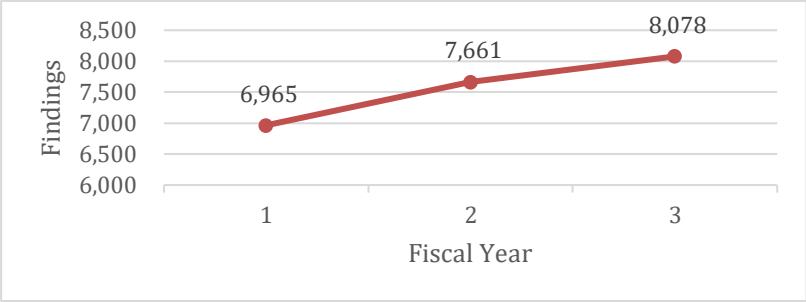


Figure 1. Fiscal year

Bureaucratic reform is a crucial problem in public sector studies (Hwang, 2019; Nugroho et al., 2024). In Indonesia, bureaucratic reform is an important thing that must be done, because one of the causes of crisis conditions and state instability is unprofessional bureaucracy such as services that are considered complicated in terms of requirements and procedures, uncertain time, inflated costs, limited resources, and low environmental, technical, and functional quality, (Pribadi & Kim, 2021; Tasi, 2022). Therefore, evaluation and bureaucratic restructuring need to be carried out in order to create a well-performing and accountable government through increased compliance with legislation and the effectiveness of SPI Tasi (2022) and Huber and McCarty (2004) so that it can reduce the number of audit findings. This is in line with the Presidential Regulation of the Republic of Indonesia Number 81 of 2010 concerning the Grand Design of Bureaucratic Reform 2010-2025, that in order to accelerate the achievement of good governance, bureaucratic reform is needed in all government sectors. In addition to Bureaucratic Reform, financial management in public sector entities is also one of the important systems that aims to mitigate or eliminate risks through the implementation of good financial management so as to ensure compliance with laws and regulations and contribute to reducing audit findings in terms of weaknesses in internal controls (Maksimović & Lunjić, 2020; Vuković Perduv et al., 2024). The quality of good public financial management is important because taxpayer communities in any country expect their public finances to be well managed, allocated effectively, used to provide quality services, and can provide a safe and stable environment in which people can live and prosper (CAPA, 2014). The assessment of the quality of local government financial management in Indonesia is regulated in the Regulation of the Minister of Home Affairs No. 19 of 2020 concerning the Measurement of the Regional Financial Management Index (IPKD). This regulation stipulates that the quality of local government financial management is assessed from several elements, namely budget, transparency, financial condition and reporting accountability.

Accordingly, the number of recorded audit findings is treated as the study's operational outcome rather than as a direct count of fraud, corruption, or financial loss. Reform ratings and financial-management scores may capture assessed administrative quality without identifying every irregularity detected by external auditors.

This study presents the integrity variable of local governments (pemda) as a moderation variable, to test whether integrity strengthens or weakens the influence of bureaucratic reform and financial management on audit findings. Based on the author's research, this approach has not been widely revealed in previous studies, which emphasize more on the direct relationship with administrative variables than with ethical variables (Alkaraan, 2018; Ko & Kai Leung, 2024; Nkundabanyanga & Nakyeyune, 2019; Payamta et al., 2025; Rohayatin & Abidin AS, 2023; Stevulak & Brown, 2011). Integrity was considered because several previous studies have shown that integrity has an effect on the success of bureaucratic reform and financial management on the level of audit findings on legal compliance and the effectiveness of SPI. Stevulak and Brown (2011) and Rohayatin and Abidin (2023) stated that an integrity-based approach is very important to ensure the success of government governance reform efforts so that it has a positive impact on the level of compliance with legal provisions. This is in line with the results of research by Kurniawati and Saprudin (2025), that integrity ethics are one of the important factors in bureaucratic reform to form the foundation of good governance. Good governance implies that public officials with integrity comply with legal standards that prioritize the public interest. Conceptually, integrity is modeled as a boundary condition: stronger ethical norms and resistance to opportunistic conduct could alter how administrative reform or financial-management quality relates to externally detected control and compliance findings. The interaction tests assess whether the association varies with integrity; they do not directly measure ethical conduct by individual officials.

Hay and Cordery (2020) and Pajković et al. (2023) in their research stated that agency theory can be applied to the public sector and has been used to explain issues related to financial reporting and auditing in public sector studies. According to Deegan (2023), agency theory focuses on the relationship between principals and agents that has a lot of uncertainty due to various information asymmetries. The element of information asymmetry results in the principal not having the same information as the agent about the actions taken by the agent, thus opening up opportunities for fraud. Information asymmetry may create opportunities for moral hazard, but an audit finding identifies a documented control weakness or non-compliance and does not, by itself, demonstrate opportunistic intent (Alal Maula & Wibowo P, 2022; Ali et al., 2024; El Mahdy & Hao, 2022). In this section, this study limits the discussion to three variables that are considered to affect the audit findings and their relationship with agency theory. The first variable is the quality of financial management, this variable plays an important role in minimizing agency problems because the better the quality of financial management, the less room for opportunistic behavior, so the number of audit findings tends to decrease (El Mahdy & Hao, 2022; Rini & Damiati, 2017). The second variable is bureaucratic reform, In the framework of agency theory, bureaucratic reform acts as a monitoring mechanism that suppresses moral hazard and has an impact on reducing fraudulent behavior such as corruption which can lead to audit findings (Muhardimansyah & Arza, 2025; Teguh, 2024; Yustia & Arifin, 2023). The last variable is integrity which reflects the ethical dimension in agency relationships. High integrity limits the agent's tendency to act opportunistic (Arce, 2011; Davidson, 2026). Agents with integrity will comply with regulations and manage public finances according to the principal's mandate, so that the risk of irregularities that are the object of audit findings can be reduced (Budiarto et al., 2023; Sandu, 2016). Thus, within the framework of agency theory, the quality of financial management, bureaucratic reform, and integrity function as complementary control mechanisms to reduce information asymmetry. The increase in these three factors is expected to reduce the number of audit findings, as well as strengthen the accountability of public financial management to principals. Within agency theory, bureaucratic reform may strengthen monitoring and accountability, financial-management quality may improve financial information and control procedures, and integrity may condition the use of both mechanisms. The observed number of findings also depends on detection and audit intensity, so the predicted negative relationships require empirical testing rather than assumption.

In contrast to previous studies that have discussed the implications of bureaucratic reform and financial management on government performance (Alkaraan, 2018; Indriani & Tinangon, 2024; Pribadi & Kim, 2021; Vuković Perduv et al., 2024), this study examines the impact of bureaucratic reform and financial management on audit findings by the government's external auditor, the Financial Audit Agency (BPK). The limitations of previous research on this topic are one of the reasons for researchers to conduct further exploration. Furthermore, in an effort to expand the scope of the study, this study selected all district/city governments in Indonesia as the population. This aims to ensure that the results of the research can be used more widely in providing an understanding of the relationship between audit findings, bureaucratic reform, financial management quality and government integrity. This research also offers a new contribution by adding integrity variables as a moderator of the relationship between these variables. By empirically examining the relationship between these variables, this study is expected to contribute to the development of theories in the management of public administration and government financial management, especially related to audit findings and the integrity of local governments. For local governments, the study is expected to be a feedback or consideration in improving the implementation of bureaucratic reform and the quality of government financial management so that it can minimize audit findings. Furthermore, for the supervisor, as a consideration in understanding the effectiveness of institutional factors that affect audit findings in the public sector. The specific gap addressed here is the limited joint evidence on externally recorded audit-finding counts, administrative and financial-management assessments, and whether government integrity changes either relationship across Indonesian regency/city governments. The contribution is a test of integrity as an agency-theoretic boundary condition rather than a claim that combining three variables is inherently novel. Specifically, this study estimates the direct associations of bureaucratic reform and financial-management quality with audit findings and tests both interactions with integrity over 2021–2023.

METHOD

This study was an observational quantitative panel study that examined associations and moderation effects. The type of data used in this study was panel data, which combined time-series and cross-sectional data. The study used secondary data collected from relevant official government websites. Because the study design relied on nonexperimental secondary data, the estimates were interpreted as conditional associations rather than causal effects. The unit of analysis was the local government-year.

The population of this study consisted of all regency/city local governments in Indonesia, totaling 508 entities. The sampling technique used was purposive sampling. Based on the predetermined sampling criteria, 381 local governments were included in the sample for the 2021–2023 period. Of the 508 regency/city governments in the population, 381 had the required observations for inclusion across 2021–2023, yielding 1,143 government-year records. This selection may have limited the generalizability of the findings if data availability was systematically related to governance or audit outcomes. The operational definitions of the variables used in this study are presented in Table 1.

Table 1
Operational Definition of Variables

Research Variables	Measurement	Source
Dependent variable:		
Audit Findings	The number of audit findings on financial statements listed in the BPK Semester Audit Results Overview report. Aminah et al. (2022) and Furqan et al. (2020) Findings are counted as recorded instances in the reported BPK audit results, irrespective of their financial materiality; the study does not equate each finding with established fraud.	Bpk.go.id

Research Variables	Measurement	Source
Independent Variables:		
Bureaucratic Reform	Bureaucratic Reform Index (IRB) set by the Ministry of State Apparatus Empowerment – Bureaucratic Reform (Menpan RB) (Suhartono & Raharjo, 2023; Widyastuti, 2022).	https://1data.menpan.go.id/
Quality of Regional Financial Management	The index of the evaluation results of the Regional Financial Management Index (IPKD) assessment in accordance with (Yanita et al., 2025).	https://bskdn.kemendagri.go.id/produk-hukum
Moderation Variables:		
Local Government Integrity	Index of the results of the assessment survey The local government integrity index by the KPK (Suhartono & Raharjo, 2023).	https://jaga.id

Sourced: processed data/information

Figure 1 presents a visualization of the theoretical framework of this study, which examined the associations of bureaucratic reform and the quality of regional financial management with audit findings, with local government integrity serving as a moderating variable.

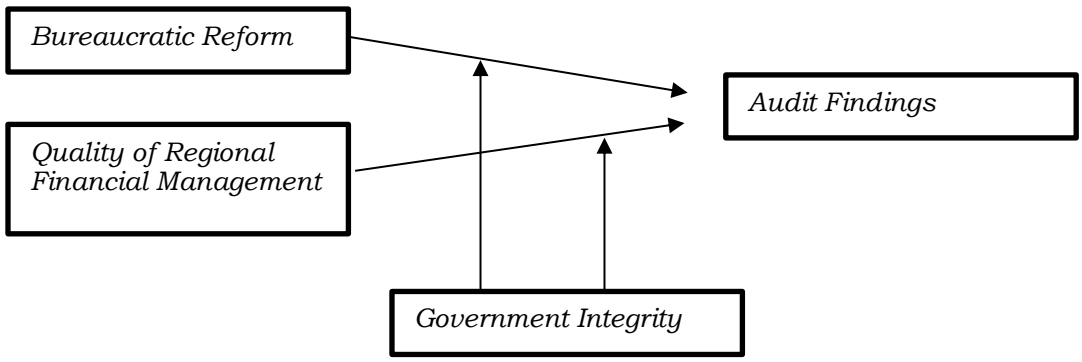


Figure 1. Conceptual Framework

The regression model used to test the direct relationships between the independent variables and the dependent variable was a multiple linear regression model, with the following equation:

Equation I:

$$TA_{it} = \alpha + \beta_1 BR_{it} + \beta_2 QRFM_{it} + \varepsilon_{it}$$

Meanwhile, to test the role of the moderating variable in the relationships between the independent and dependent variables, Moderated Regression Analysis (MRA) was used. Government fixed effects were included to account for unobserved time-invariant differences across districts and cities. The main-effect coefficients in the interaction model were conditional on the other interacting variable being zero; accordingly, the conditional associations were assessed at observed levels of local government integrity.

Equation II:

$$TA_{it} = \alpha + \beta_1 BR_{it} + \beta_2 QRFM_{it} + \beta_3 GI_{it} + \beta_4 (BR_{it} \times GI_{it}) + \beta_5 (QRFM_{it} \times GI_{it}) + \varepsilon_{it}$$

Legend:

TA	=	Audit Findings
α	=	Constant
β	=	Regression Coefficient

BR	=	Bureaucratic Reform
QRFM	=	Quality of Regional Financial Management
GI	=	Government Integrity
i	=	Local Government Data (i = 1, 2, 3,... i)
t	=	Year Data (t = 1, 2, 3,... t)
ε	=	Error Term

RESULTS AND DISCUSSION

Results

Descriptive statistical test

Descriptive statistics provide an initial overview of the data characteristics before conducting regression analysis to test the proposed hypotheses. A summary of the descriptive statistical analysis results for all variables in this study is presented in Table 2.

Table 2
Descriptive statistical test

Variabel	N	Mean	Max.	Min.	Std. Dev.
Number of Audit Findings	1143	13.38	29.00	2.00	4.72
Bureaucratic Reform Index	1143	3.46	7.00	2.00	1.02
Regional Financial Management Quality Index	1143	68.47	88.59	3.61	11.44
Government Integrity Index	1143	72.32	84.62	45.22	5.23

Source: Data processed with Eviews

The descriptive statistics indicate variation across governments and years: audit findings averaged 13.38 (SD = 4.72; range 2–29), whereas the reform, financial-management, and integrity indexes used different scales.

Panel data model test

Panel data regression can be performed using one of three estimation models: the Common Effect Model (CEM), the Fixed Effect Model (FEM), and the Random Effect Model (REM). A series of tests determines the most appropriate model to ensure accurate results. The results of these model selection tests are presented below.

Table 3
Chow test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.049642	(380,759)	0.0000
Cross-section Chi-square	807.127205	380	0.0000

Source: Data processed with Eviews

The Chow test analysis showed a probability of 0.0000 < 0.05. Therefore, based on the Chow test, the Fixed Effect Model (FEM) is the most appropriate model rather than the Common Effect Model (CEM).

Table 4
Hausman test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	69.848928	3	0.0000

Source: Data processed with Eviews

Based on the Hausman test results, the Chi-Square statistic was 69.848 with a probability of 0.0000 (< 0.05), indicating that the FEM is the most appropriate model. Based on the Chow and Hausman test results, the Fixed Effect Model is the appropriate model for this study; therefore, proceeding to the Lagrange Multiplier (LM) test is unnecessary, as it has already been determined

that the FEM is the selected model. The Chow and Hausman tests favor a government fixed-effects specification over the pooled and random-effects alternatives (both reported p = 0.0000). These tests support model choice under their assumptions but do not demonstrate that the estimates are robust to all forms of residual dependence or omitted time-varying confounding.

Multicollinearity test

Multicollinearity testing is a statistical procedure used to determine whether relationships exist among the independent variables in the constructed regression model. Ideally, variables should not exhibit multicollinearity, as its presence can compromise the stability of regression coefficient estimates by increasing standard errors and potentially reducing the reliability of the analysis results. The multicollinearity test results are presented in the Table 5

Table 5
Multicollinearity test

Variabel	Coefficient Variance	Uncentered VIF	Centered VIF
Bureaucratic Reform	0,022219	16,07325	1,300844
Quality of Regional Financial Management	0,000154	40,97115	1,112392
Government Integrity	0,000798	231,8502	1,205811

Source: Data processed with Eviews

The multicollinearity test results indicate that the centered VIF values are below the threshold of 10 (centered VIF < 10). This indicates no excessive linear relationships among the independent variables; therefore, the regression model used in this study is free of multicollinearity issues.

Heteroskedasticity test

The heteroskedasticity test ensures that the regression model satisfies the assumption of homoskedasticity, a condition in which residual variance remains constant across all observations. This factor affects the accuracy of the regression estimates. Table 6 presents the heteroskedasticity test results.

Table 6
Heteroskedasticity test

Heteroskedasticity Test:White			
Obs*R-Squared	26,82498	Prob. Chi-Square (17)	0,0607

Source: Data processed with Eviews

The reported White-test statistic (Obs*R^2 = 26.82498, p = 0.0607) does not reject the null at the 5% level under the reported test specification. However, the test is not documented as a panel-adjusted diagnostic for the selected fixed-effects model; therefore, it does not establish the absence of heteroskedasticity or serial/cross-sectional dependence in the panel.

Multiple linear regression analysis

To examine the influence of bureaucratic reform and the quality of regional financial management on audit findings, the researcher employed a regression analysis. The results of this regression analysis are presented in Table 7.

Table 7
Multiple Linear Regression Analysis

Variable	Coefficient	Std error	Sig
Constanta	9,305830		
Bureaucratic Reform	0,694747	0,214406	0,0012

Variable	Coefficient	Std error	Sig
Quality of Regional Financial Management	0,024320	0,014622	0,0967

Based on the data in Table 7, the resulting equation model is:
Audit Findings = 9,305830 + 0,694747 BR + 0,024320 QRFM + ε

In the reported model, bureaucratic reform had a positive coefficient for audit-finding counts (β = 0.694747, SE = 0.214406, p = 0.0012), contrary to the hypothesized negative direction. Financial-management quality also had a positive estimated coefficient, but its association was not statistically significant at 5% (β = 0.024320, SE = 0.014622, p = 0.0967). These are associations, not evidence that reform creates audit findings or that quality has no effect in every setting.

Moderated Regression Analysis (MRA)

Testing was conducted to examine the interaction effect between the moderating variable and the independent variable on the dependent variable. The results of this regression analysis are presented in Table 8.

Table 8
Moderated Regression Analysis

Variable	Coefficient	Std error	Significance
Constanta	-16,865449		
BR	6,810087	2,672249	0,0110
QRFM	0,155399	0,176818	0,3798
GI	0,361581	0,168228	0,0319
BR*GI	-0,082746	0,036298	0,0229
QRFM*GI	-0,001859	0,002464	0,4507

Based on the data in Table 8, the resulting equation model is:
Audit Findings = -16,865449 + 6,810087 BR + 0,155399 QRFM + 0,361581GI - 0,082746 (BR*GI) - 0,001859 (QRFM*GI) +ε

The reform × integrity interaction is negative and statistically significant (β = −0.082746, p = 0.0229), indicating that higher integrity attenuates the positive conditional association between reform scores and audit findings. The conditional reform slope is 6.810087 − 0.082746 × integrity, using the uncentered reported specification; its sign at any observed integrity level must be calculated rather than assumed. The financial-management quality × integrity interaction is also negative but not significant (β = −0.001859, p = 0.4507); there is no evidence of moderation of that association at the 5% threshold.

Discussions

The Impact of Bureaucratic Reform on Audit Findings

The positive association between reform scores and audit-finding counts is inconsistent with the predicted negative relationship; it does not establish that reform increases misconduct or that every finding represents fraud. Pertiwi and Wibowo (2022) explain that audit findings reveal weak internal control systems and regulatory non-compliance, leading to government financial losses and corruption. Furthermore, Maskur et al. (2025) note that bureaucratic reform assessments often amount to mere formalities, creating a gap between policy and practice; consequently, reform implementation in Indonesia has not effectively fostered corruption-free governance, as evidenced by the regulatory non-compliance and internal control weaknesses identified in audit findings.

These results align with previous studies, such as those by Salomo and Rahmayanti (2023) and Bustamin et al. (2022), which found that bureaucratic reform performance assessments across various levels of local government in Indonesia tend to be superficial formalities, allowing

high assessment scores to coexist with a persistently high number of audit findings. This study suggests that evaluating the success of bureaucratic reform implementation should not rely solely on regulatory aspects but must also consider organizational culture, political commitment, and organizational characteristics that shape institutional change. Another study by Rahman (2022) offers similar insights, concluding that while bureaucratic reform in Indonesia has shown positive progress, the local government level still requires serious attention due to the relatively high incidence of corruption in that sector. Yusriadi (2018) and Dahlan and Mulianingsih (2023) also notes that despite the progress made in bureaucratic reform, its overall implementation has yet to reach the ideal state envisioned. Although bureaucratic reform is designed to encompass all aspects of governance, its implementation has focused disproportionately on structural elements such as the formulation of standards, procedures, and operational protocols. Consequently, bureaucratic reform assessments tend to focus on meeting administrative requirements such as submitting various documents rather than driving substantive changes in governance. A competing interpretation is that governments with stronger reform procedures may also document, disclose, or undergo detection of more weaknesses. The present analysis lacks comparable audit-intensity measures and cannot distinguish this mechanism from incomplete reform implementation.

Furthermore, research by Seim and Søreide (2009) and Yustia and Arifin (2023) indicates that bureaucratic reform can have unintended consequences if it is not underpinned by a credible legal system, potentially leading to violations revealed in audit findings. Merely meeting reform requirements is insufficient to mitigate misconduct, whether stemming from bureaucratic complexity or simplification; addressing these issues requires credible law enforcement. While bureaucratic reform can yield positive results in institutions with credible legal systems, in institutions with weak law enforcement, the complexities of such reform may actually increase the incidence of violations. Beyond a robust legal framework, organizational cultural support, such as a commitment to integrity, is crucial to the success of bureaucratic reform in preventing misconduct (Nani et al., 2025).

From the perspective of Agency Theory, this situation arises because divergent interests and information asymmetry can lead agents to misuse their authority; theoretical opportunities for discrepancies between reported reform activity and actual implementation may remain. Consequently, audits serve as a monitoring mechanism to mitigate these agency conflicts by examining both documentation and actual execution to identify irregularities, which are then documented as audit findings.

However, these findings differ from those of Widyastuti (2022), who found that the Bureaucratic Reform Index led to fewer audit findings. Yustia and Arifin (2023) showed that bureaucratic reform significantly curbs fraudulent behavior. According to their research, bureaucratic reform not only focuses on government administration but also strengthens governance, thereby reducing the irregularities typically recorded in audit findings. Furthermore, research by Kahar and Furqan (2023) indicates that a high-performing bureaucracy leads to positive audit outcomes; in other words, the more effectively bureaucratic reform is implemented, the more favorable the audit results, as evidenced by fewer audit findings.

Based on test results and supporting prior research, the assessment of bureaucratic reform in Indonesia has not yet fully succeeded in significantly reducing audit findings. Although bureaucratic reform aims to improve governance, formalistic implementation is one plausible explanation, although the present data do not measure it directly. Therefore, measuring bureaucratic reform should not be limited to structural aspects but must also consider substantive factors, such as impact-based metrics, including the incidence of irregularities. These findings also underscore that bureaucratic reform alone is not necessarily sufficient to minimize audit findings unless supported by other substantial factors, such as credible law enforcement and organizational culture.

The Effect of the Quality of Regional Financial Management on Audit Findings

Theoretically, financial management quality is negatively correlated with audit findings. Better financial management implies a lower likelihood of compliance violations and supervisory weaknesses, which would otherwise manifest as audit findings reflecting financial management

quality (Dewi & Nugrahanti, 2025). However, this study's results do not align with that theoretical proposition. Regression analysis indicates that the quality of local government financial management does not affect audit findings.

This finding aligns with previous studies by Febriyanti and Zulkifli (2026), Noviyanti and Kiswanto (2016), and Dasmar and Basri (2020), which demonstrated that local government financial management performance either has no significant influence on the number of audit findings or exerts only a relatively minor impact. This is because the quantity of audit findings does not necessarily reflect material errors in financial management (Mainingrum et al., 2023). Furthermore, research by Wardoyo and Jatmiko (2024) indicates that financial management performance does not significantly impact fraudulent practices, which could lead to audit findings, because formal mechanisms for assessing financial management are insufficient to curb such practices; these mechanisms require support through more effective oversight implementation.

Other studies by Pamungkas and Ibtida (2018), Indriani and Tinangon (2024), and Salsabila and Wahyudi (2022) also find that financial management quality is uncorrelated with audit findings. These studies suggest one possible explanation: audit findings were measured solely by quantity, without considering their significance or materiality, which may have influenced the statistical results. A high number of findings does not necessarily indicate poor financial management quality, as findings may be administrative in nature and involve negligible material value. Conversely, a region with few audit findings does not necessarily possess high-quality financial management if the audit scope was limited.

Other researchers have reported different results. Research by Al Zahra et al. (2024) finds that regions with high-quality financial management, resulting in strong financial performance, can reduce the number of audit findings. This result aligns with findings from other studies by Furqan et al. (2020), Aminah et al. (2022), Tama and Adi (2018), and Pertiwi and Wibowo (2022), which argue that regional financial management performance is negatively associated with audit findings.

Thus, this study did not detect a statistically significant association between financial-management quality and the number of audit findings. This situation may arise because the number of findings does not always reflect the materiality of irregularities, and assessments of financial management quality may be merely formalistic; the measurement of quality is not yet substantially linked to actual financial management implementation or the effectiveness of oversight in a way that would directly reduce the volume and value of audit findings. Furthermore, aspects such as materiality and the specific characteristics of the audit findings have not been taken into account.

Local Government Integrity Moderates the Influence of Bureaucratic Reform on Audit Findings.

The negative reform × integrity interaction indicates that increasing integrity weakens the positive association between reform and audit findings; it does not establish an overall negative reform effect at all integrity levels. Rifa'i and Albetris (2022) explain in their research that bureaucratic reform is closely linked to two dimensions: organizational aspects and human resources (HR). The organizational dimension encompasses structure, organizational culture, and laws and regulations. Meanwhile, the HR dimension involves the knowledge, mindset, and integrity of civil servants; effective implementation of bureaucratic reform policies in this area relies heavily on personnel with integrity. Nani et al. (2025) reported similar findings, noting that although the government has adopted bureaucratic reform systems within Indonesia's institutional structure, a lack of shared commitment to implementing these systems, combined with low integrity, remains a significant obstacle. This study underscores the importance of ethical values, such as integrity that prioritizes the public interest, as a mechanism that strengthens bureaucratic reform systems in addressing governance irregularities. Amirulkamar et al. (2023) and Tasi and Syamsir (2021) state that bureaucratic reform is a government effort to prevent corruption, partly by instilling values of integrity within accountable governance. Thus, integrity plays a crucial role in enhancing the effectiveness of bureaucratic reform in curbing actions detrimental to the public, thereby contributing to fewer audit findings. In his findings, Mustafa (2025) recommends ethical leadership characterized by integrity as a means to address

harmful behaviors in the public sector.

Although integrity is important in preventing audit findings, it is generally insufficient to establish sustainable controls. Integrity is optimized when supported by consistent law enforcement, independent audits, public participation, adequate organizational capacity, and the application of firm and credible sanctions (Langnel, 2025; Trisnawati & Juwono, 2025). Thus, it can be concluded that government integrity moderates the impact of bureaucratic reform on the number of audit findings. In other words, higher integrity is associated with a smaller positive conditional slope of reform on audit findings, subject to the observed index range and model specificationby strengthening oversight and preventing irregularities; conversely, when government integrity is low, bureaucratic reform remains merely formalistic and fails to reduce the number of audit findings significantly. Efforts to enhance integrity require a strong commitment from all elements of government to build an administration capable of functioning optimally and preventing fraudulent practices that could otherwise result in audit findings. Using the reported coefficients, the conditional reform slope crosses zero at an integrity score of approximately 82.30 (6.810087/0.082746); because no simple-slope confidence intervals were reported, neither a statistically significant negative slope above that level nor a protective causal mechanism can be claimed.

Local Government Integrity Moderates the Influence of Regional Financial Management Quality on Audit Findings

The moderation regression results show that the government integrity variable does not significantly moderate the relationship between the quality of regional financial management and audit findings. The non-significant interaction means this sample does not provide sufficient evidence that integrity changes the relationship between financial-management quality and audit-finding counts; it does not demonstrate ineffective integrity implementation.The findings of this research are in line with Waromi and Kambuaya (2024), Kurniawan and Haliah (2024), and Afnisah and Muda (2025), who explain that organizational integrity is not always able to increase the effectiveness of financial management in preventing fraud if integrity valuesare only understood as an ethical concept without being implemented concretely. The failure of integrity in strengthening financial management can be caused by various factors, such as weaknesses in the design of the internal control system, inconsistent procedure implementation, and limited organizational capacity to detect increasingly complex fraud patterns. Therefore, integrity must be supported by a control infrastructure, organizational capacity, and effective monitoring mechanisms to close opportunities for detrimental actions. Another explanation for this condition was mentioned by Wibowo et al. (2026) in their research, which stated that government integrity plays a more direct role as a direct predictor of financial management on audit findings than as a moderator of the relationship between the quality of financial management and audit findings. Audit findings in local government are driven more by managerial behavior than by moral factors, and integrity acts as an additional factor that determines whether managerial capacity is sufficient to prevent irregularities that lead to audit findings.

Different research results were expressed by Ameyaw et al. (2024), who explained that integrity strengthens the effectiveness of financial management in preventing fraud through implementing compliance with regulations, internal controls, and transparent, accountable governance practices. Implementation of integrity values supported by risk management and the use of technology for supervision can improve organizations in detecting and preventing irregularities. Thus, the higher the integrity implemented in the organization, the more effective the quality of financial management will be in reducing the risk of fraud and maintaining accountability in financial management. Similar findings were reported by Hwang (2019), Alam and Johari (2018), and Wook et al. (2023), showing that in the public sector, integrity is a key element in supporting good financial governance. Applying integrity helps reduce operational irregularities in government administration.

This study concludes that strategy adjustments are needed to strengthen integrity assessment through integration mechanisms into a more systematic financial management process. The assessment results are used not only as an evaluation instrument but also as considerations in risk management, strengthening the internal control system, and supporting

local government in preparing measurable corrective action plans. The implementation of this integration is expected to be able to substantively strengthen the quality of financial management so that it has an impact on reducing the number and value of audit findings.

CONCLUSION

For 381 Indonesian regency/city governments observed in 2021–2023, bureaucratic reform scores were positively associated with audit-finding counts, whereas financial-management quality showed no statistically significant association. Integrity significantly attenuated the positive reform–findings association, but did not significantly moderate the financial-management relationship. The negative reform × integrity coefficient cannot be interpreted as proof that reform reduces findings at every integrity level. These conditional associations extend the application of agency theory by identifying an integrity-related boundary condition in public-sector oversight.

In practice, local governments and external auditors can use reform, financial-management, and integrity indexes alongside substantive audit evidence rather than relying on ratings alone. Because findings are counted without materiality weights, panel diagnostics and robustness specifications, also the 2021–2023 period is short, results should interpreted as conditional associations rather than causal effects. Future work should test finding severity, audit coverage, panel-robust standard errors, time effects, and the mechanisms linking integrity to monitoring outcomes.

ACKNOWLEDGEMENT

The authors would like to acknowledge the government institutions that provided publicly accessible secondary data used in this research, particularly the relevant official databases supporting the analysis of bureaucratic reform, regional financial management quality, government integrity, and audit findings. The authors also appreciate the academic and institutional support provided during the research process. This study did not receive any specific grant or financial support from public, commercial, or non-profit funding agencies.

AUTHOR CONTRIBUTION STATEMENT

All authors have their respective roles in contributing to conceptualization, research design, data collection, data analysis, interpretation of findings, and manuscript drafting.

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