Economic and Business Horizon

ISSN: 2963-2765

Economic and Business Horizon
Volume: 05
Issue: 06
Year: 2026
Page: 1091-1104

Citation:
Rismanto, A., & Muhyarsyah. (2026). Internal control and regulatory compliance influence audit opinions in Ministry of Finance Public Service Agencies. *Economic and Business Horizon*, *5*(6), 1091-1104.

Internal Control and Regulatory Compliance Influence Audit Opinions in Ministry of Finance Public Service Agencies

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Abstract

Public Service Agencies (BLUs) operate with greater financial flexibility while remaining accountable for public resources, making effective internal control, regulatory compliance, and fraud prevention important for financial accountability. This study examines the effects of the internal control system, regulatory compliance, and fraud on audit opinion among seven BLUs under the Ministry of Finance in 2025. The study used a quantitative approach with purposive and convenience sampling, including 97 respondents from accounting, finance, general affairs, human resources, and internal audit units. Data were collected through an online questionnaire and analyzed using Partial Least Squares–Structural Equation Modeling (PLS-SEM), including measurement and structural model evaluations and bootstrapping. The results show that the internal control system has a positive and significant effect on audit opinion, while regulatory compliance also has a positive and significant effect. In contrast, fraud has a negative but insignificant effect on audit opinion. The model explains 76.6% of the variance in audit opinion. These findings imply that strengthening internal control and regulatory compliance can support financial accountability and favorable audit outcomes in BLUs.

Keywords

Audit Opinion, Compliance, Fraud, Internal Control System, Public Service Agency.

1. Introduction

An audit opinion is an independent auditor's professional assessment of whether financial statements comply with applicable accounting standards and fairly present an entity's financial position, operating results, and cash flows (Arens et al., 2023). In the public sector, audit opinions strengthen financial accountability by assessing the reliability and compliance of government financial reporting. Previous studies by Fitriana et al. (2020) and Kamilah et al. (2024) indicate that internal control and regulatory compliance affect audit outcomes in government entities. Therefore, reliable government financial reporting requires adequate internal control systems and consistent compliance with applicable regulations.

However, government entities do not consistently receive the highest audit opinion. Audit outcomes may vary when weaknesses in internal control, regulatory compliance, or the reliability of financial information affect the auditor's ability to obtain sufficient and appropriate evidence. The importance of internal control in supporting reliable financial reporting is emphasized by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), while the Government Internal Control System framework also requires government institutions to establish control activities that support effective, efficient, accountable, and compliant financial management (Government of the Republic of Indonesia, 2008; COSO, 2013). Empirical evidence from Fitriana et al. (2020), Yusuf and Gustiana (2022), and Kamilah et al. (2024) indicates that internal control systems and regulatory compliance are associated with government audit opinions. These findings suggest that differences in audit opinions may reflect variations in organizational control and governance practices.

The issue is particularly relevant to Public Service Agencies (*Badan Layanan Publik*/BLUs), which manage public resources while receiving greater flexibility in financial management to support public service delivery. This flexibility is intended to improve efficiency, effectiveness, and professionalism while maintaining accountability and transparency. Under Ministry of Finance Regulation Number 129/PMK.05/2020, as amended by Number 202/PMK.05/2022, BLUs are granted flexibility in managing revenues, expenditures, and operational activities but remain subject to financial governance and accountability requirements (Ministry of Finance of the Republic of Indonesia, 2022). The greater flexibility provided to BLUs must be matched by effective internal controls, regulatory compliance, and mechanisms to prevent and detect fraud.

Fraud is a significant governance risk that can undermine the reliability of financial information and public accountability. The ACFE (2024) identifies occupational fraud as a major organizational risk that causes financial losses and threatens organizational integrity. In Indonesia, this concern is illustrated by the corruption case involving BLU BAKTI under the Ministry of Communication and Informatics, in which 16 individuals were named suspects and state losses were estimated at up to IDR 8 trillion (CNN Indonesia, 2023). Although this case does not establish a direct relationship with audit opinion, it highlights the consequences of fraud and governance weaknesses, warranting consideration when examining factors associated with audit opinion.

Within this broader framework, the Ministry of Finance oversees seven independent BLUs, namely the Indonesia Endowment Fund for Education (LPDP), State Asset Management Agency (LMAN), Government Investment Center (PIP), State Finance Polytechnic STAN (PKN STAN), Plantation Fund Management Agency (BPDP), Environmental Fund Management Agency (BPDLH), and Indonesian Development Cooperation Fund (LDKPI). These entities perform diverse functions, including education, asset management, investment, and managing environmental, plantation, and development funds. Their diverse

responsibilities and financial flexibility make effective internal control and regulatory compliance particularly important for ensuring accountable financial management. This governance context also aligns with the broader public-sector emphasis on accountability, control maturity, and integrity in government institutions (Financial and Development Supervisory Agency, 2021; Ministry of Administrative and Bureaucratic Reform of the Republic of Indonesia, 2024).

Against this background, examining factors associated with audit opinion is relevant to understanding financial accountability among BLUs under the Ministry of Finance. This study therefore aims to empirically examine the effects of the internal control system, regulatory compliance, and fraud on audit opinion among employees of the seven BLUs under the Ministry of Finance in 2025. Specifically, the study investigates whether effective implementation of the internal control system, adherence to applicable regulations, and fraud-related conditions are associated with audit opinion. By focusing on BLUs within the Ministry of Finance, this study contributes empirical evidence on the relationship between organizational control and governance factors and audit outcomes in public-sector entities operating under a flexible financial management framework.

2. Literature Review and Hypothesis Development

2.1. The Effect of Internal Control System on Audit Opinion

The Internal Control System (ICS) is a process implemented by the board of directors, management, and all organizational personnel to provide reasonable assurance that organizational objectives related to operations, reporting, and regulatory compliance are achieved (COSO, 2013). The ICS comprises five main components: control environment, risk assessment, control activities, information and communication, and monitoring activities. In the context of BLUs, effective ICS implementation is particularly important because the government and society, as principals, entrust organizational stewards with managing public resources. Under Stewardship Theory by Donaldson and Davis (1991), the relationship between principals and stewards is based on trust and goal alignment, whereby stewards are expected to manage organizational resources responsibly and in accordance with public interests. Accordingly, an effective ICS can strengthen accountability and support reliable financial reporting.

Empirical evidence indicates that a strong ICS contributes positively to financial reporting quality. Akbar and Choiriah (2025) found that effective internal controls positively influence financial reporting quality, while Sukma and Hidayah (2023) reported a positive and strong effect of internal control implementation on financial reporting quality. Furthermore, Yusuf and Gustiana (2022) found that the internal control system has a positive and significant effect on audit opinion, noting that weaknesses such as inaccurate recording and inadequate reporting systems may reduce the likelihood of obtaining an unqualified opinion. These findings suggest that stronger internal controls can support more reliable financial reporting and favorable audit outcomes.

H1: The internal control system has a positive and significant effect on audit opinion.

2.2. The Effect of Regulatory Compliance on Audit Opinion

The relationship between regulatory compliance and audit opinion in BLUs can be understood through the perspective of New Public Management (NPM), which emphasizes the adoption of private-sector management practices in public organizations to improve public service quality and accountability in the use of public resources (Utama & Yuniasih, 2021; Savitri & Herliansyah, 2022). In this context, regulatory compliance primarily refers to adherence to external laws and regulations

applicable to BLUs, whereas the internal control system focuses more on internal organizational requirements, such as Standard Operating Procedures (SOPs) and internal policies, which are reflected in control activities (Kristianto & Putri, 2021; Herdiati et al., 2023). Kieso et al. (2020) state that compliance requires transactions, recognition, measurement, presentation, and disclosure in financial statements to conform to applicable accounting standards and regulations, thereby ensuring that financial information is reliable, relevant, and fairly represented.

The importance of regulatory compliance is also reflected in the audit process. The Audit Board of the Republic of Indonesia (*Badan Pemeriksa Keuangan*/BPK) conducts financial audits based on the State Financial Audit Standards (*Standar Pemeriksaan Keuangan Negara*/SPKN), established under BPK Regulation Number 1 of 2017. Auditors are required to examine compliance with laws and regulations that directly and materially affect financial statement presentation and to assess whether financial statements comply with applicable accounting standards. Empirical evidence supports this relationship, as non-compliance with laws and regulations reduces the likelihood of obtaining an unqualified opinion (Fitriana et al., 2020). Similarly, compliance with Financial Accounting Standards (*Standar Akuntansi Keuangan*/SAK) and minimal material misstatements positively and significantly affect audit opinion (Lasdin & Ratnawati, 2023).

H2: Regulatory compliance has a positive and significant effect on audit opinion.

2.3. The Effect of Fraud on Audit Opinion

Fraud refers to an intentional act involving the misuse of position, authority, assets, or organizational resources for personal gain, which can result in organizational losses (ACFE, 2024). Unlike error, fraud is distinguished by intentional conduct aimed at deceiving or misleading other parties (Arens et al., 2023). The Fraud Hexagon Theory provides a comprehensive framework for explaining the factors underlying fraudulent behavior, comprising pressure, opportunity, rationalization, competence, arrogance, and collusion (Wahyuni & Akbar, 2026). In government work units, including BLUs, weaknesses in internal control and inadequate regulatory compliance may create opportunities for fraud. Empirical evidence indicates that pressure, competence, opportunity, rationalization, arrogance, and collusion simultaneously influence financial statement fraud (Yulianti & Muhyarsyah, 2022). In addition, auditor risk assessment, understanding of industry characteristics, and knowledge sharing significantly influence internal auditors' investigative expertise (Julaidi & Fadjarenie, 2023).

Fraud prevention is also supported through the development and evaluation of Integrity Zones toward Corruption-Free Areas and Clean and Serving Bureaucratic Areas, as regulated under the Minister of Administrative and Bureaucratic Reform Regulation Number 5 of 2024. Through this framework, government units are encouraged to establish transparent systems that prevent corruption and fraud while strengthening public-oriented services (PANRB, 2024). Fraud may undermine the reliability and fairness of financial reporting, potentially affecting the auditor's assessment of financial statements. Previous research also indicates that external pressure and changes in directors significantly influence financial statement fraud, suggesting that organizational and governance conditions can contribute to fraud risk. Accordingly, the presence or prevention of fraud may be relevant to the audit process and the resulting audit opinion.

H3: Fraud has a significant effect on audit opinion.

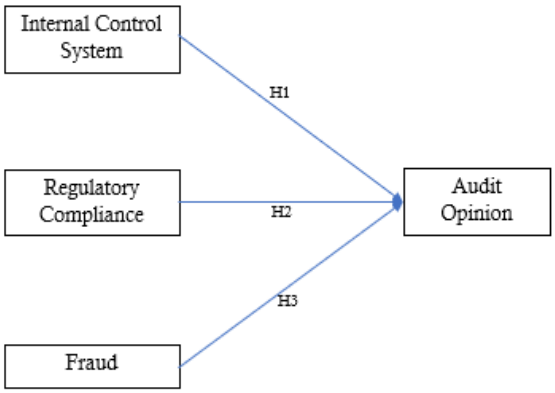


Figure 1. Conceptual Framework

Figure 1 illustrates the relationships between the internal control system, regulatory compliance, fraud, and audit opinion. The framework proposes that the internal control system (H1), regulatory compliance (H2), and fraud (H3) directly influence audit opinion, indicating that effective internal controls, regulatory compliance, and fraud-related factors may affect the auditor's assessment and final opinion.

3. Methods

This study employed a quantitative descriptive research design to examine the effects of the internal control system, regulatory compliance, and fraud on audit opinion. Descriptive research is used to identify the characteristics or values of one or more independent variables without comparing or relating them to other variables, whereas quantitative research is based on positivist principles and involves systematic data collection and statistical analysis to test predetermined hypotheses (Sugiyono, 2019; Creswell & Creswell, 2023). The research was conducted among BLUs under the Ministry of Finance, with seven BLUs serving as the research setting: LPDP, LMAN, PIP, PKN STAN, BPDPKS, BPDLH, and LDKPI.

The population comprised employees working in the seven BLUs under the Ministry of Finance. Respondents were selected using purposive and convenience sampling techniques. Purposive sampling was applied based on specific respondent characteristics relevant to the research objectives, particularly employees working in accounting, finance, general affairs, human resources, and Internal Audit Units (*Satuan Pengawasan Intern*/SPI). These units were selected because their functions are closely related to financial management, internal control, regulatory compliance, and organizational oversight. Convenience sampling was subsequently employed to select respondents who were readily accessible and willing to participate in the study. The questionnaire was distributed online, and the researchers periodically monitored the response process to facilitate data collection. This procedure resulted in 97 valid respondents being included in the analysis.

The study examined three independent variables: internal control system, regulatory compliance, and fraud, and one dependent variable, audit opinion. The internal control system was measured through five dimensions: control environment, risk assessment, control activities, information and communication, and monitoring. Regulatory compliance was measured through compliance with laws and regulations, frequency of violations, and reporting and documentation. Fraud was measured through pressure, opportunity, rationalization, capability, and integrity zone. The questionnaire items for the independent variables were assessed using a five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree). Audit opinion was measured using a five-point ordinal scale based on the type

of audit opinion, ranging from 1 for disclaimer of opinion, 2 for adverse opinion, 3 for qualified opinion, 4 for unqualified opinion with an explanatory paragraph, and 5 for unqualified opinion.

The study utilized both primary and secondary data. Primary data were collected through questionnaires distributed to employees of the selected BLUs, while secondary data consisted of published audited financial statements and publicly available information related to fraud and regulatory compliance. The data were analyzed using Partial Least Squares–Structural Equation Modeling (PLS-SEM). The analysis included descriptive statistics, measurement model (outer model) evaluation, and structural model (inner model) evaluation (Hair et al., 2021). The outer model was assessed through convergent validity using outer loadings and Average Variance Extracted (AVE), discriminant validity using the Fornell–Larcker criterion, and construct reliability using Cronbach's Alpha and Composite Reliability. The inner model was evaluated using R-square (R^2) and bootstrapping to assess the significance of the hypothesized relationships.

4. Results

A total of 97 valid respondents participated in this study, representing employees from seven BLUs under the Ministry of Finance. The respondents were distributed across the seven BLUs and various organizational units relevant to financial management, internal control, regulatory compliance, and organizational oversight. The characteristics of the respondents based on BLU and unit/division are presented in Table 1.

Table 1. Respondent Characteristics

Characteristics	Category	Frequency	Percentage
BLU Name	Government Investment Center (PIP)	25	25.8%
	Indonesian Development Cooperation Fund (LDKPI)	20	20.6%
	Plantation Fund Management Agency (BPDP)	16	16.5%
	Indonesia Endowment Fund for Education (LPDP)	11	11.3%
	State Finance Polytechnic STAN (PKN STAN)	10	10.3%
	Environmental Fund Management Agency (BPDLH)	8	8.2%
	State Asset Management Agency (LMAN)	7	7.2%
Unit/Division	Others	24	24.7%
	Human Resources (HR)	20	20.6%
	Internal Audit Unit (SPI)	18	18.6%
	Finance	13	13.4%
	Accounting	12	12.4%
	General Affairs	10	10.3%

Table 1 shows that the 97 respondents were distributed across seven BLUs, with the largest proportion from PIP (25.8%), followed by LDKPI (20.6%) and BPDP (16.5%). Respondents from LPDP, PKN STAN, BPDLH, and LMAN accounted for 7.2%–11.3%. By organizational unit, the largest proportion came from Others (24.7%), followed by HR (20.6%) and SPI (18.6%), while finance, accounting, and general affairs accounted for the remaining respondents. The distribution demonstrates that the study included respondents from all seven BLUs and various organizational units. This composition represents employees involved in functions

relevant to financial management, internal control, regulatory compliance, and organizational oversight.

Table 2. Descriptive Statistics Variable

Variable	N	Minimum	Maximum	Mean	Std. Dev.
Internal Control System (X1)	97	1.00	5.00	4.08	0.90
Regulatory Compliance (X2)	97	1.00	5.00	4.07	0.92
Fraud (X3)	97	1.00	5.00	4.05	0.91
Audit Opinion (Y)	97	1.00	5.00	4.18	1.01

Table 2 presents the descriptive statistics, which indicate generally high levels across all study variables. The internal control system recorded a mean of 4.08 (SD = 0.90), suggesting that internal control practices were perceived as well implemented, with relatively consistent responses. Regulatory compliance had a mean of 4.07 (SD = 0.92), with scores ranging from 1.00 to 5.00, indicating generally high compliance with applicable regulations and operating standards. Fraud recorded a mean of 4.05 (SD = 0.91). Because the instrument was positively worded to measure fraud prevention and anti-fraud commitment, the result indicates strong perceived implementation of these practices. Audit opinion showed the highest mean of 4.18 (SD = 1.01), with scores ranging from 1.00 to 5.00, reflecting generally favorable perceptions of audit opinion.

Table 3. Validity and Reliability

Variable	Item	Outer Loading	AVE	Cronbach's Alpha	Composite Reliability
Internal Control System (X1)	SPI1	0.795	0.582	0.943	0.943
	SPI2	0.912			
	SPI3	0.851			
	SPI4	0.806			
	SPI5	0.829			
	SPI6	0.899			
	SPI7	0.702			
	SPI8	0.815			
	SPI9	0.836			
	SPI10	0.783			
	SPI11	0.793			
	SPI12	0.805			
	SPI13	0.809			
	SPI14	0.899			
	SPI15	0.743			
	SPI16	0.875			
	SPI17	0.738			
	SPI18	0.822			
	SPI19	0.861			
Regulatory Compliance (X2)	KEP1	0.837	0.680	0.928	0.929
	KEP2	0.783			
	KEP3	0.811			
	KEP4	0.857			
	KEP5	0.782			
	KEP6	0.890			
Fraud (X3)	FRD1	0.788	0.593	0.975	0.975
	FRD2	0.894			
	FRD3	0.786			
	FRD4	0.865			
	FRD5	0.788			
	FRD6	0.834			
	FRD7	0.912			

Variable	Item	Outer Loading	AVE	Cronbach's Alpha	Composite Reliability
	FRD8	0.695			

As presented in Table 3, the outer loading values for the internal control system (X1), regulatory compliance (X2), and fraud (X3) constructs were generally above the minimum acceptable threshold of 0.70. For the internal control system, SPI2 had the highest loading, at 0.912. Meanwhile, KEP6 recorded the highest loading for regulatory compliance at 0.890, while FRD7 recorded the highest loading for fraud at 0.912. Item FRD8 recorded a loading of 0.695, marginally below 0.70 but close to the recommended threshold. The outer loading results indicate that the indicators adequately represent their respective constructs, supporting convergent validity.

Based on Table 3, all constructs have AVE values above the recommended threshold of 0.50. Regulatory compliance recorded the highest AVE at 0.680, indicating that the construct explains 68% of the variance in its indicators on average. The AVE values for the internal control system (0.582) and fraud (0.593) also exceeded the minimum criterion. Furthermore, Cronbach's Alpha values were 0.943, 0.928, and 0.975 for the internal control system, regulatory compliance, and fraud, respectively, while composite reliability values were 0.943, 0.929, and 0.975. All values exceeded 0.70, indicating satisfactory construct reliability. The measurement model met the required convergent validity and reliability criteria and was suitable for subsequent structural model evaluation.

Table 4. Fornell-Larcker Criterion

Variable	Fraud	Regulatory Compliance	Audit Opinion	Internal Control System
Fraud	0.770			
Regulatory Compliance	0.690	0.825		
Audit Opinion	-0.075	-0.104	1.000	
Internal Control System	0.692	0.821	-0.091	0.763

Based on Table 4, the square roots of the AVE, represented by the diagonal values, are compared with the correlations among the constructs to assess discriminant validity. The square root of the AVE for fraud is 0.770, exceeding its correlations with regulatory compliance (0.690), audit opinion (-0.075), and the internal control system (0.692). Regulatory compliance has a diagonal value of 0.825, which is greater than its correlations with audit opinion (-0.104) and the internal control system (0.821). However, the square root of the AVE for the internal control system (0.763) is lower than its correlation with regulatory compliance (0.821). Therefore, the measurement model does not fully satisfy the Fornell–Larcker criterion, indicating a potential discriminant validity issue between regulatory compliance and the internal control system.

Table 5. Coefficient of Determination

Indicator	Value
Variable	Audit Opinion
R-Square	0.766
R-Square Adjusted	0.759
Information	Strong

Based on Table 5, the structural model evaluation shows that the R-square (R^2) value for the dependent variable, audit opinion, is 0.766, with an adjusted R-square value of 0.759. This indicates that 76.6% of the variance in audit opinion can be jointly explained by the three independent variables, namely the internal control

system, regulatory compliance, and fraud, while the remaining 23.4% is explained by other factors outside the research model. Based on PLS-SEM criteria, an R^2 of 0.766 is considered strong, as it exceeds the 0.67 threshold and indicates substantial explanatory power for audit opinion.

Table 6. Hypothesis Testing

Variable Relationship	Path Coefficient	t-statistic	p-values	Conclusion
Internal Control System→ Audit Opinion	0.636	2.981	0.003	Significant (H1 Accepted)
Regulatory Compliance→ Audit Opinion	0.419	2.506	0.012	Significant (H2 Accepted)
Fraud→ Audit Opinion	-0.173	0.937	0.349	Not Significant (H3 Rejected)

Based on Table 6, the path coefficient for the relationship between the internal control system and audit opinion was 0.636, with a t-statistic of 2.981 and a p-value of 0.003. Since the t-statistic exceeds 1.96 and the p-value is below 0.05, the relationship is positive and statistically significant. Therefore, H1 is accepted, indicating that the internal control system has a positive and significant effect on audit opinion. Similarly, the relationship between regulatory compliance and audit opinion produced a path coefficient of 0.419, a t-statistic of 2.506, and a p-value of 0.012. These results also satisfy the specified significance criteria, supporting H2 and indicating that regulatory compliance has a positive and significant effect on audit opinion. In contrast, the relationship between fraud and audit opinion yielded a negative path coefficient of -0.173, with a t-statistic of 0.937 and a p-value of 0.349. Because the t-statistic is below 1.96 and the p-value exceeds 0.05, the relationship is not statistically significant. Thus, H3 is rejected, indicating that fraud does not have a statistically significant effect on audit opinion in the observed sample.

5. Discussion

The internal control system has a positive and significant effect on audit opinion among BLUs. This finding confirms that a more effective internal control system is associated with more favorable audit opinions among BLUs under the Ministry of Finance. Accepting this hypothesis indicates that the internal control system is an important component in strengthening the reliability of financial reporting. When internal control mechanisms are properly designed and implemented, the accuracy, transparency, and compliance of financial reporting with Government Accounting Standards (*Standar Akuntansi Pemerintah*/SAP) can be enhanced. These conditions provide external auditors with greater assurance about the reliability of financial statements and can support more favorable audit opinions, including an unqualified opinion.

This finding is consistent with Stewardship Theory proposed by Donaldson and Davis (1991), which underpins this study. Unlike Agency Theory, which emphasizes managerial opportunism and the need for monitoring mechanisms, Stewardship Theory assumes stewards are generally responsible and motivated to serve principals' interests, represented here by the government and the public. Within BLUs under the Ministry of Finance, internal control can therefore function not merely as a restrictive mechanism but as a governance instrument that helps stewards prepare accountable financial reports. The finding also supports Yusuf and Gustiana (2022) and Akbar and Choiriah (2025), who reported a positive relationship between internal control implementation and audit opinion. A systematic and consistently implemented internal control system can help mitigate the risk of material misstatements and support reliable financial reporting.

Regulatory compliance also has a positive and significant effect on audit opinion, supporting this hypothesis. This relationship may reflect the highly regulated nature of the Ministry of Finance, where adherence to accounting principles, SOPs, and state treasury regulations is emphasized. Consistent regulatory compliance helps ensure financial transactions are properly recorded and accurately presented, reducing the likelihood of material findings and supporting reliable financial reporting assessed by external auditors. From an NPM perspective, this finding reflects the importance of performance, efficiency, professionalism, and accountability in public-sector management. Although BLUs are provided with greater flexibility in financial management, they are still expected to comply with public financial regulations and SAP. The finding is also consistent with Fitriana et al. (2020) and Lasdin and Ratnawati (2023), who found that regulatory compliance can reduce the risk of maladministration and support the reliability of financial reporting in accordance with applicable audit standards. Thus, regulatory compliance remains important for maintaining accountable financial management while exercising the financial flexibility granted to BLUs.

In contrast to the first two hypotheses, testing H3 on the relationship between fraud and audit opinion resulted in rejection. The statistical findings indicate that fraud does not significantly affect audit opinion among BLUs under the Ministry of Finance. This result by Hikam et al. (2021) suggests that perceived fraud potential and mitigation are not directly associated with variations in audit opinion within the observed BLUs. One possible contextual explanation may relate to the implementation of anti-fraud and integrity initiatives, including the Integrity Zone program toward Corruption-Free Areas (*Wilayah Bebas dari Korupsi*/WBK) and Clean and Serving Bureaucratic Areas (*Wilayah Birokrasi Bersih dan Melayani*/WBBM), which are intended to strengthen organizational controls and integrity (PANRB, 2024). However, these initiatives should be viewed as a possible contextual explanation rather than a demonstrated causal explanation of the nonsignificant relationship.

From a theoretical perspective, this finding can be interpreted through Stewardship Theory and Public Accountability Theory. Stewardship Theory emphasizes that organizational managers and employees may prioritize organizational objectives and public interests over personal gain, while Public Accountability Theory emphasizes maintaining public trust through transparent and responsible management of public resources. The finding is also consistent with Kini et al. (2021), who reported in the public sector that transparency and audit opinion were not directly associated with fraud or corruption. The nonsignificant result therefore suggests that variations in audit opinion cannot be adequately explained by the measured fraud construct alone. The findings indicate that the internal control system and regulatory compliance significantly explain audit opinion, whereas fraud shows no statistically significant relationship with audit opinion in the observed BLUs.

6. Conclusion

The findings demonstrate that the internal control system and regulatory compliance have positive and significant effects on audit opinion among BLUs under the Ministry of Finance, whereas fraud has a negative but statistically insignificant effect. The internal control system produced the stronger significant relationship ($\beta = 0.636$; $p = 0.003$), followed by regulatory compliance ($\beta = 0.419$; $p = 0.012$), while fraud was not significant ($\beta = -0.173$; $p = 0.349$). The structural model also shows strong explanatory power, with an R^2 of 0.766, meaning the three variables jointly explain 76.6% of the variance in audit opinion. These results highlight the

importance of organizational control and compliance mechanisms in supporting favorable audit outcomes.

The findings have practical implications for BLU management, particularly in strengthening internal control procedures, ensuring regulatory compliance, and maintaining reliable financial reporting. Although fraud was not significantly associated with audit opinion, anti-fraud mechanisms should remain integral to governance to safeguard accountability and organizational integrity. This study has several limitations. First, the sample comprised 97 respondents from seven BLUs, selected through purposive and convenience sampling, which may limit generalizability. Second, reliance on questionnaire responses may introduce subjective assessments. Third, the Fornell–Larcker results indicate a potential discriminant validity issue between regulatory compliance and the internal control system, suggesting that these constructs may not be sufficiently distinct in the measurement model. Future research should use larger, more diverse samples, probability-based sampling where feasible, and longitudinal or mixed-methods approaches. Further studies could also examine additional variables, including audit findings, follow-up of audit recommendations, human resource competence, and governance, while refining the measurement instruments to improve construct distinctiveness and provide a more comprehensive explanation of variations in audit opinion.

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