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# INTERNAL AUDITOR'S ROLE IN ENHANCING FINANCIAL ACCOUNTABILITY IN INDONESIAN PUBLIC HIGHER EDUCATION

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## ABSTRACT

Financial accountability in Indonesian BLU polytechnics — institutions managing State Budget allocations under Public Service Agency status — remains a persistent governance challenge. Recurring financial irregularities, documented by Indonesia's Supreme Audit Board (BPK RI), highlight significant weaknesses in public financial governance. This study explores how internal auditors can improve financial accountability in these institutions, where such irregularities signal major governance issues. Although Government Regulation No. 60 of 2008 (SPIP) mandates Internal Supervisory Units (SPI), there is little empirical data on how internal audit effectiveness influences financial accountability in this setting. Using Agency Theory (Jensen & Meckling, 1976) and Stewardship Theory (Davis et al., 1997), this research assesses whether internal audit effectiveness—measured through monitoring, assurance, and consulting activities aligned with IIA (2024) standards—predicts financial accountability outcomes in Indonesian BLU polytechnics. A quantitative survey was conducted from March to June 2025, involving 30 respondents—leaders and internal auditors—from 12 BLU polytechnics, with responses on a five-point Likert scale. Data analysis included simple linear regression and validation via interviews and document review. Results reveal a strong positive correlation between internal audit effectiveness and financial accountability, underscoring the importance of monitoring, assurance, and consulting in strengthening financial governance. Nonetheless, structural deficiencies remain, with inadequate financial risk assessment and no formal system linking internal audit to risk management frameworks. Indonesian polytechnics urgently need integrated internal audit and risk management systems compliant with SPIP regulations and BLU standards. Priorities include enhancing SPI mandates and improving auditors' financial risk analysis skills to minimize state financial losses. This study provides systematic empirical evidence on the internal audit–financial accountability relationship in Indonesian BLU polytechnics, contributing to knowledge of public-sector auditing and financial governance and informing institutional reforms in developing countries.

**Keywords:** internal audit effectiveness, financial accountability, public sector governance, risk management, BLU polytechnics, SPIP regulations, vocational higher education, developing countries

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## INTRODUCTION

Effective governance is fundamental to ensuring the financial health and long-term sustainability of public institutions. In the context of public higher education, sound governance directly influences financial accountability, the efficient allocation of public resources, and institutional credibility among stakeholders (Abbott, 2004). Indonesian polytechnics, as state-owned higher education institutions, manage significant public funds disbursed through the State Budget (APBN) and Regional Budget (APBD). The quality of financial governance in these institutions has far-reaching economic implications, including the risk of financial mismanagement, budget inefficiency, and potential state financial losses. The Supreme Audit Board of Indonesia (BPK) has consistently identified recurring findings of financial irregularities in public universities, underscoring the urgent need for stronger governance mechanisms (BPK RI, 2023). Government

Regulation No. 60 of 2008 on the Government Internal Control System (SPIP), particularly Articles 13–17, mandates that leaders of central and regional government institutions integrate risk management principles to optimize resource utilization and achieve organizational objectives. In this regulatory environment, internal auditors occupy a strategic position in strengthening financial governance and accountability.

Financial accountability in the public sector refers to the obligation of government entities to demonstrate responsible stewardship of public funds, not merely legal compliance, but also economic efficiency and value for money (Bovens, 2007). Internal auditing has emerged as a critical mechanism for upholding this accountability. The Institute of Internal Auditors (IIA, 2024) defines internal audit as "an independent and objective consulting and assurance activity designed to add value and improve organizational operations." This definition underscores the dual function of internal audit: providing assurance that financial controls and risk management systems are functioning as intended, and offering consulting services that improve financial decision-making and resource efficiency. Ishak et al. (2019) further emphasized that internal audits are vital tools for internal control, helping organizations maintain effective controls, adhere to regulations, and improve operations. By doing so, the internal audit directly supports the achievement of financial accountability goals, ensuring that public funds are allocated, used, and reported transparently and in an accountable manner.

In Indonesian polytechnics, internal audits are carried out by the Internal Supervisory Unit (Satuan Pengawasan Intern/SPI). These institutions are entrusted with the management of substantial government budget allocations (DIPA) and, in the case of Public Service Agencies (BLU), are granted greater financial autonomy to generate and manage their own revenues. This financial autonomy increases both the complexity of financial governance and the magnitude of fiduciary risk. Despite their critical role, SPI functions in Indonesian polytechnics have demonstrated limited effectiveness, primarily due to weak internal controls, unclear delineation of responsibilities, and inadequate risk management processes (Fitriyah, 2016). Recurring audit findings, including budget absorption inefficiencies, procurement irregularities, and inadequate financial reporting, represent not only compliance failures but also tangible economic losses for the state. The inability to effectively manage financial risks undermines public trust and impedes the fulfillment of the institution's educational and economic development mission.

Risk management is a cornerstone of sound financial governance. In the public higher education sector, financial risks, including budget overruns, fraud, misallocation of funds, and non-compliance with financial regulations, can have significant economic consequences. Turcanu (2021) notes that internal control and audit frameworks in higher education help institutional leaders fulfill their financial stewardship responsibilities by guiding institutions toward their objectives. Risk management is a shared responsibility among university leaders, management, and internal auditors. As the third line of defense in the Three Lines of Defense model, internal auditors oversee management through audits that ensure financial risks and internal controls are effectively managed (Roussy & Rodrigue, 2018). They also support management in fulfilling risk oversight roles by examining, assessing, reporting, and recommending improvements to the risk management system (Indarti, 2017). Therefore, integrating risk management with financial governance processes is essential for protecting institutional assets, ensuring the reliability of financial reporting, and maintaining the economic efficiency of public spending.

Despite the recognized importance of internal audit in supporting financial accountability, significant challenges persist in translating this function into practice. There is often a disconnect between internal auditors' mandate to support good financial governance and their actual work programs (Leung et al., 2011). The dual responsibilities of internal auditors, covering both compliance assurance and management consulting, can create role confusion that undermines audit effectiveness (Leung et al., 2011). Furthermore, the role of internal audit in risk management is complicated by the presence of alternative governance mechanisms. For instance, a designated risk manager or a separate risk management unit may oversee risk management activities, reducing the involvement of internal audit (Goodwin-Stewart & Kent, 2006). In the Indonesian public sector context, this ambiguity is particularly pronounced: SPIP regulations broadly assign risk management responsibilities to organizational leadership, yet practical implementation often defaults to SPI without clear mandates, resources, or methodological frameworks. This structural ambiguity has direct implications for the quality of financial risk oversight and, ultimately, for institutional financial performance.

The growing involvement of internal audit in Enterprise Risk Management (ERM) further complicates its role in financial governance. While participation in ERM can add value by providing a comprehensive view of institutional financial risks, it may also threaten the independence and objectivity of internal auditors — a tension with direct implications for audit quality and financial accountability (de Zwaan et al., 2011). The IIA has established guidelines defining the appropriate scope of internal audit involvement within ERM, specifying which activities preserve auditor independence and which may compromise it. Internal audit involvement in ERM includes evaluating the organization's risk appetite in relation to its financial strategy, reviewing risk-related policies and procedures, and assessing the adequacy of its financial risk responses.


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These activities are critical in ensuring that financial risks are identified, quantified, and managed in ways that protect public resources and enhance fiscal discipline (Ekawati et al., 2020). In the context of public higher education, where institutions are held to strict financial accountability standards by regulators, oversight bodies, and the public, the effective integration of internal audit into ERM is a matter of both governance quality and economic prudence.

The effectiveness of internal audit in enhancing financial accountability is also contingent upon the auditor's competence, particularly in financial analysis and risk quantification. Internal auditors with expertise in quantitative methods and financial risk management are increasingly involved in executing risk management procedures (Crawford & Stein, 2004). Their active participation shapes the risk management process, especially when they bring accounting and financial analysis backgrounds that complement institutional risk frameworks. For an internal audit to be truly effective, the organization must formally recognize its strategic importance and ensure that auditors can maintain independence and impartiality (El-Sayed Ebaid, 2011). Adherence to the IIA's International Standards for the Professional Practice of Internal Auditing serves as a critical quality benchmark, enabling management and oversight bodies to evaluate internal audit's contribution to financial governance objectives (Zaman & Sarens, 2013). Engagement in risk management consulting, including assessments of financial control design and operating effectiveness, is recognized as an essential internal audit role that strengthens financial governance and encourages more rigorous risk management practices across the institution (Cular et al., 2020).

Despite the theoretical and regulatory emphasis on the internal auditor's role in supporting financial accountability and risk governance, empirical evidence on how this role is executed in Indonesian public higher education, particularly polytechnics, remains limited. Most existing studies focus on the private sector or on large public universities, leaving a significant gap in understanding how internal audit contributes to financial governance in the vocational higher education sector, which operates under distinct budgetary constraints and regulatory requirements. This study addresses that gap by examining the role of internal auditors in enhancing financial accountability in Indonesian polytechnics. The findings are expected to yield practical insights for policymakers, institutional leaders, and internal audit practitioners seeking to strengthen public-sector financial governance and reduce the economic costs of financial mismanagement in higher education institutions.

## LITERATURE REVIEW

### Financial Accountability in the Public Sector: Theoretical Foundations

Financial accountability constitutes one of the most fundamental principles of public sector governance. In its broadest sense, financial accountability refers to the obligation of public officials and institutions to account for the use of public funds, demonstrate that resources have been utilized efficiently and effectively, and submit to scrutiny by authorized oversight bodies and the general public (Bovens, 2007; Schillemans & Bjurstrøm, 2020). This concept is rooted in democratic governance theory, which holds that public institutions, as stewards of collective resources, bear a fiduciary duty to citizens as the ultimate principals in the principal-agent relationship (Van Slyke, 2007).

Two dominant theoretical frameworks underpin the analysis of financial accountability in public institutions: Agency Theory and Stewardship Theory. Agency Theory posits that accountability problems arise from information asymmetry between principals (e.g., government, parliament, the public) and agents (e.g., institutional managers) who may act self-interestedly and not always align with the principals' interests (Jensen & Meckling, 1976). In this framework, internal audit functions as a monitoring mechanism that reduces information asymmetry, deters opportunistic behavior, and provides principals with reliable financial information (Hay & Cordery, 2018). Stewardship Theory, on the other hand, assumes that managers are intrinsically motivated to act in the best interests of the organization and its stakeholders (Davis et al., 1997; Schillemans & Bjurstrøm, 2020). Under this perspective, internal audit serves not merely as a watchdog but as a collaborative partner that helps management discharge its stewardship responsibilities more effectively, aligning individual behavior with organizational financial objectives.

In the context of Indonesian public higher education, both frameworks are applicable. Polytechnics as Public Service Agencies (BLU) operate under a dual accountability obligation: adhering to government financial regulations while simultaneously pursuing financial sustainability through revenue-generating activities. This dual obligation creates a complex accountability environment in which the internal auditors' role becomes particularly critical. The Supreme Audit Board of Indonesia (BPK RI) consistently documents financial irregularities in public higher education institutions, including inefficiencies in budget absorption, procurement noncompliance, and inaccurate financial reporting (BPK RI, 2023). These findings represent tangible manifestations of accountability failures with direct economic consequences, including state financial losses, suboptimal public service delivery, and erosion of institutional credibility.

## Financial Governance in Public Higher Education

Financial governance in public higher education encompasses the systems, processes, and structures through which institutions plan, allocate, control, and report on financial resources (Johnsen, 2019). Effective financial governance is distinguished by three core attributes: transparency in financial reporting, accountability in resource utilization, and integrity in financial decision-making (OECD, 2020). In the public sector, these attributes are not merely organizational virtues but legal obligations governed by a comprehensive regulatory framework.

In Indonesia, the financial governance of public higher education institutions is anchored in several key regulatory instruments. Government Regulation No. 60 of 2008 on the Government Internal Control System (SPIP) establishes the foundational requirements for internal control, risk management, and internal audit in all government entities, including state universities and polytechnics. Law No. 17 of 2003 on State Finance and Law No. 1 of 2004 on State Treasury further define the financial management obligations of public institutions. For polytechnics with BLU status, Minister of Finance Regulation No. 220/PMK.05/2016 governs financial management standards, granting BLU institutions greater flexibility while imposing stringent accountability requirements (Ministry of Finance RI, 2016).

The economic significance of financial governance in Indonesian polytechnics is substantial. These institutions collectively manage billions of rupiah in annual budget allocations (DIPA) drawn from the State Budget (APBN), supplemented by BLU revenues from tuition fees, research grants, and service activities. Weaknesses in financial governance, such as inadequate internal controls, poor budget planning, or ineffective risk management, can lead to budget inefficiencies. These unabsorbed funds must be returned to the state treasury, procurement irregularities, and ultimately, diminished economic value from public investment in vocational higher education (BPK RI, 2023; Pratama & Salim, 2025). The financial and economic stakes of governance quality in this sector are therefore high, both for the institutions themselves and for the broader national interest in developing a skilled and productive workforce through quality vocational education.

## Internal Audit in Public Sector Financial Governance

The Institute of Internal Auditors (IIA, 2024) defines internal audit as an independent, objective assurance and consulting activity designed to add value and improve organizational operations by systematically evaluating and enhancing the effectiveness of risk management, control, and governance processes. This definition positions internal audit as both a monitoring mechanism and a value-adding partner in organizational governance — a dual function with particular relevance in the public sector, where institutions bear fiduciary obligations to citizens and oversight bodies (Hay & Cordery, 2018; Johnsen, 2019).

Lenz and Hahn (2015), in a comprehensive synthesis of the empirical internal audit effectiveness literature, established that high-quality internal audit functions, characterized by auditor competence, independence, and adherence to professional standards, are systematically associated with stronger financial controls, fewer financial irregularities, and better governance outcomes across diverse organizational settings. In the public sector, specifically, Mulyany et al. (2024) demonstrated that internal audit effectiveness is the primary driver of fraud prevention and strengthening internal controls in Indonesian local government institutions. Castanheira et al. (2010) further showed that risk-based internal auditing, a methodology that prioritizes audit resources according to financial risk significance, produces substantially stronger financial governance outcomes than compliance-oriented approaches.

The evolution of internal audit from a compliance-focused function to a strategic governance partner is well-documented in the literature. Bou-Raad (2000) traced the expansion of the internal audit's mandate from asset protection and compliance verification to value-adding consulting and risk advisory services. Hass et al. (2006) demonstrated that this expanded mandate, encompassing both assurance and consulting roles, makes internal audit a proactive, client-focused function that directly addresses control, risk, and governance challenges. However, Leung et al. (2011) cautioned that this dual mandate can create role confusion, undermining audit effectiveness when institutional structures and mandates are insufficiently clear.

## Enterprise Risk Management (ERM)

Risk Governance (RG) represents an advanced iteration of Enterprise Risk Management (ERM), encompassing the risk oversight responsibilities of the board of directors and the audit committee. Stein (2019) reported that the European Commission initially introduced RG within the context of science and society as a macro-social transformation. In 2003, the International Risk Governance Council (IRGC) commenced activities to promote RG awareness through a policy-oriented framework designed to prevent unforeseen macro-political and economic instability, extending its focus beyond micro-organizations (Stein, 2019; van Asselt & Renn, 2011). However, following the 2008 financial crisis, the emphasis of


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RG shifted towards the micro-organizational level, particularly within financial institutions. RG is defined as a framework in which the board of directors and management establish, monitor, and ensure adherence to risk tolerances and limits, and identify, measure, and manage risks.

RG maintains core elements of traditional risk management by emphasizing internal control objectives like operational efficiency, reporting, and compliance. Nonetheless, it occasionally neglects larger corporate strategy (Hassan et al., 2022; Stein, 2019). Internal auditors now go beyond merely verifying controls; they serve as consultants who enhance value by aligning with organizational goals, managing enterprise risks, and evaluating the effectiveness of internal controls.

Furthermore, the IIA (2004) offers guidance on best practices for internal audit within an organization's ERM framework. The IIA (2009) clarifies that the primary function of internal audit in ERM is to deliver assurance and consulting services. Assurance services encompass: (a) assessing the design and effectiveness of the risk management process; (b) assessing whether risks are correctly evaluated; (c) evaluating the risk management process; (d) evaluating reporting on the status of key risks and their controls; and (e) reviewing the management of key risks, including the effectiveness of controls and other responses to those risks.

From a financial governance perspective, the IIA's ERM framework positions internal audit as a critical link between risk identification and financial decision-making. When internal auditors assess financial risks, such as material misstatement risk in financial reports, fraud risk, or budget overrun risk, they provide institutional leadership with the information needed to make economically sound decisions about resource allocation and risk mitigation. This risk-informed financial governance approach is particularly relevant in the public sector, where the consequences of poor financial risk management extend beyond the institution, affecting public service delivery and national economic efficiency (Lenz & Hahn, 2015; Mujalli, 2024).

The entire role of the internal auditor is shown in Figure 1 (IIA, 2024)

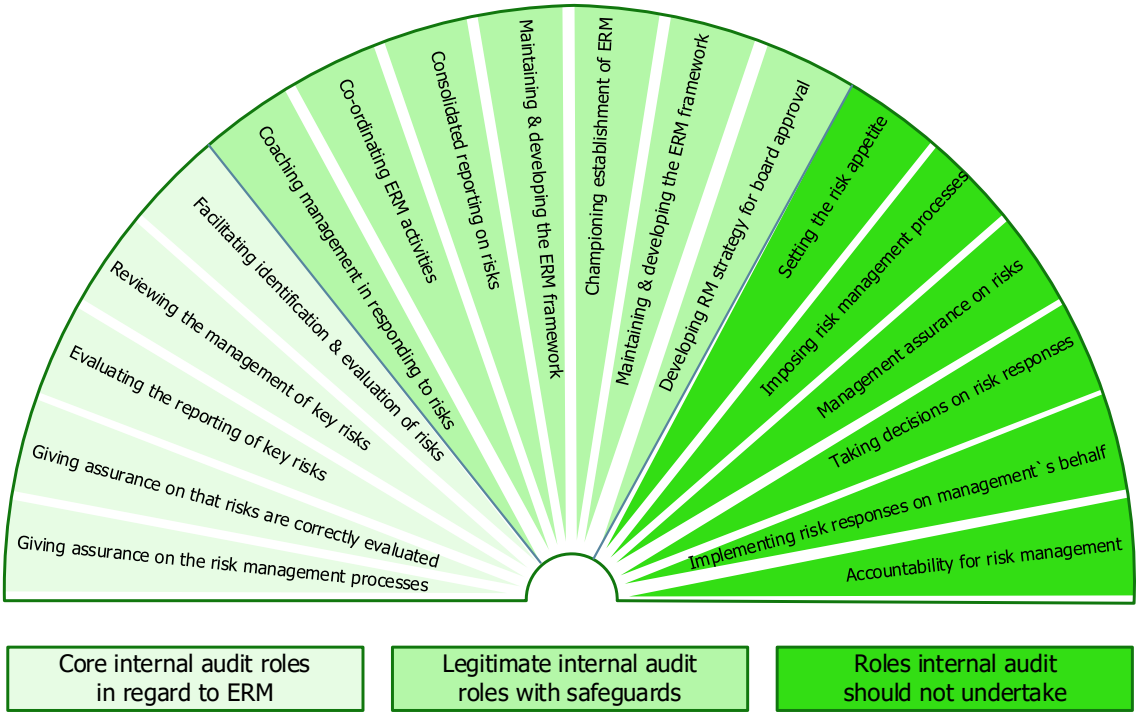


**Figure 1. The role of internal auditor-ERM.** *(Source: IIA, 2004, 2009, 2024)*

## Risk Management Principles and Financial Risk in Public Institutions

Risk management involves a focused and coordinated effort within an organization to identify, assess, and mitigate risks (Ramadhan et al., 2020; Susilo & Kaho, 2018). According to ISO 31000:2009, its purpose is to create and maintain value by enhancing performance, fostering innovation, and helping achieve objectives (Putra & Chan, 2017; Wicaksono, 2020). The ISO 31000 standard also outlines essential principles that support effective risk management. ISO 31000:2018 introduces eight core principles aimed at creating and protecting value, highlighting that strong risk management shields organizations from threats while allowing them to seize opportunities (Hardjomidjojo et al., 2022; Institute of Risk Management, 2018).

In the context of public higher education, financial risks are among the most consequential categories of organizational risk. Financial risks in this sector include: (1) budget risk — the risk of under-absorption or misallocation of DIPA funds, resulting in economic inefficiency; (2) fraud and corruption risk — the risk of financial crimes including procurement fraud, fictitious transactions, and asset misappropriation; (3) reporting risk — the risk of inaccurate or misleading financial statements that undermine accountability and investor or stakeholder confidence; and (4) compliance risk — the risk of penalties, sanctions, or reputational damage arising from non-compliance with financial regulations (COSO, 2017; Hardjomidjojo et al., 2022). Effective risk management of these financial risks is directly linked to institutional financial performance, the quality of BPK RI's audit opinions, and the institution's long-term financial sustainability.

Lundqvist (2015) emphasized the importance of integrating risk management with corporate governance to align traditional risk management with strategic planning. This development transformed ERM into a comprehensive framework that integrates risk management and governance, enabling organizations to manage risks better and coordinate responses with their strategic goals (Beasley et al., 2023; Horvey & Ankamah, 2020). In the public higher education context, this integration means aligning financial risk management with institutional strategic plans, budget planning cycles, and performance accountability frameworks, creating a coherent governance system in which financial risks are managed proactively rather than reactively.

### Internal Audit and Financial Accountability: Empirical Evidence

Empirical research consistently demonstrates that the quality of internal audit functions is positively associated with financial accountability outcomes in public sector institutions. Lenz and Hahn (2015), in their synthesis of the empirical internal audit effectiveness literature, identified internal audit quality, measured by auditor competence, independence, and adherence to professional standards, as the key determinant of internal audit's contribution to organizational governance and financial control. High-quality internal audit functions are associated with fewer financial irregularities, stronger internal controls over financial reporting, and better compliance with financial regulations.

In the Indonesian public sector, Mulyany et al. (2024) found that internal audit functions play a key role in preventing fraud and strengthening internal controls within local government institutions. Their study demonstrated that internal audit effectiveness, particularly in risk assessment and monitoring, significantly reduces the incidence of financial irregularities. Similarly, Pratama and Salim (2025), analyzing BPK RI audit findings across Indonesian ministries, identified internal control weaknesses as the primary driver of financial non-compliance, underscoring the critical importance of effective internal audit in preventing state financial losses.

At the international level, Hay and Cordery (2018) documented the economic value of public sector audit through a comprehensive literature review, concluding that effective public sector audit creates measurable economic value by deterring financial mismanagement, improving the efficiency of resource allocation, and enhancing public trust in government institutions. These findings are directly applicable to the Indonesian polytechnic context, where BPK RI audit opinions serve as a critical signal of financial governance quality, affecting institutional reputation, stakeholder confidence, and access to government funding.

The relationship between internal audit quality and financial reporting quality is further supported by Castanheira et al. (2009), who found that risk-based internal auditing, a methodology that prioritizes audit resources according to the financial significance of risk, is associated with stronger financial controls and more reliable financial reporting. For Indonesian polytechnics, adopting a risk-based internal audit approach would represent a significant improvement over the predominantly compliance-based audit model currently practiced by most SPI units (Fitriyah, 2016), with direct positive implications for financial accountability outcomes.

### Challenges to Internal Audit Effectiveness in Public Higher Education

Despite the theoretical and empirical case for strong internal audit functions, significant challenges impede the effectiveness of internal audit in public higher education institutions, particularly in developing country contexts. These challenges operate at multiple levels — structural, resource-related, and cultural — and have direct implications for the quality of financial governance.

At the structural level, the dual mandate of internal audit, providing both compliance assurance and management consulting, creates inherent tensions that can undermine audit effectiveness (Leung et al., 2011). When internal auditors are simultaneously responsible for evaluating the adequacy of financial controls and providing advisory services to improve those controls, questions arise about auditor independence and objectivity. This tension is particularly acute in Indonesian


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polytechnics, where SPI units are typically small, under-resourced, and organizationally positioned in ways that may compromise their independence from institutional management (Fitriyah, 2016).

At the resource level, internal audit effectiveness is constrained by limitations in auditor competence, particularly in financial risk analysis and quantitative assessment methods. Crawford and Stein (2004) found that internal auditors with strong financial and quantitative backgrounds are better equipped to execute risk management procedures and provide financially meaningful audit findings. In the Indonesian polytechnic context, where many SPI staff may have generalist rather than specialist financial risk backgrounds, this competency gap represents a significant challenge to the quality of financial risk oversight.

At the cultural level, the effectiveness of internal audit in supporting financial accountability depends on the organizational culture's receptiveness to audit findings and recommendations. In institutions where financial governance is not prioritized by leadership, internal audit recommendations, even when technically sound, may be systematically ignored, resulting in recurring audit findings and persistent weaknesses in financial controls (BPK RI, 2023; Hazaea et al., 2025). This cultural dimension of internal audit effectiveness is increasingly recognized as a critical determinant of whether internal audit's contribution to financial governance translates into actual improvements in financial accountability outcomes.

### Research Gap

Despite the extensive theoretical and empirical literature on internal audit effectiveness and financial accountability in the public sector, a significant gap remains in the evidence base for Indonesian BLU polytechnics. Existing studies either focus on the private sector, on large public universities, or on local government institutions, leaving the vocational higher education sector, with its distinctive BLU financial governance framework and regulatory obligations, largely unexamined. Furthermore, prior Indonesian studies have predominantly used compliance-oriented measures of audit effectiveness rather than financially-grounded measures that directly capture the contribution of internal audit to financial risk governance and accountability outcomes. This study addresses both gaps by providing the systematic quantitative evidence of the internal audit–financial accountability relationship in Indonesian BLU polytechnics, using financial governance dimensions explicitly aligned with BPK RI audit quality, DIPA efficiency, and SPIP compliance.

### Hypothesis Development

Building on the theoretical framework and the literature reviewed in Section 2, this study proposes that internal audit effectiveness, operationalized through monitoring, assurance, and consulting dimensions, positively influences financial accountability outcomes in BLU polytechnics through three mechanisms. First, effective monitoring reduces the probability of undetected financial control failures, directly improving the quality of financial risk management. Second, effective assurance increases the reliability of financial reporting and the quality of BPK RI audit opinion outcomes. Third, effective consulting builds institutional capacity for financial risk governance, improving the integration of risk management with financial strategy and the systematic use of risk-based approaches to audit planning.

The empirical literature consistently supports this directional prediction. Lenz and Hahn (2015) established the positive association between internal audit quality and financial governance outcomes across organizational contexts. Mulyany et al. (2024) demonstrated its relevance in the Indonesian public sector. Castanheira et al. (2010) showed that risk-based auditing produces stronger financial accountability outcomes than compliance-based alternatives. Based on this theoretical reasoning and empirical evidence, the following hypothesis is formally proposed:

**H1:** *Internal Audit Effectiveness has a significant positive effect on Financial Accountability in Indonesian Polytechnics.*

We describe the development of the hypothesis within the conceptual framework in Figure 2, which posits that internal auditors' effectiveness as an internal supervisory unit has three primary roles: monitoring, assurance, and consulting. Financial Accountability has four dimensions: financial risk assessment, financial risk mitigation, financial accountability, and governance integration.

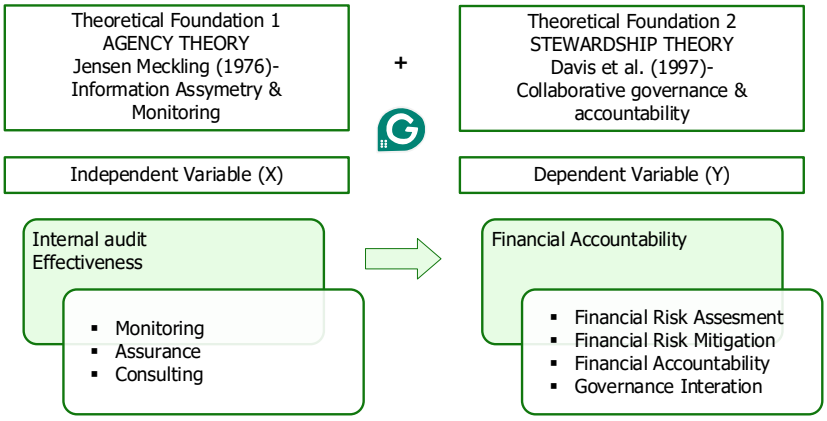


**Figure 2. Conceptual framework.**

## AIMS AND OBJECTIVES

This study aims to examine the role of Internal Audit Effectiveness, measured through monitoring, assurance, and consulting activities, in enhancing Financial Accountability and Risk Governance within Indonesian Public Service Agency (BLU) polytechnics. Based on Agency Theory and Stewardship Theory, the study explores how effective internal audit functions contribute to improved financial governance outcomes, such as financial risk management, regulatory compliance, and the efficient use of public budgets (DIPA), within the framework of Government Regulation No. 60 of 2008 (SPIP) and BLU financial management standards (PMK No. 220/PMK.05/2016).

This study has several specific objectives:

1. To evaluate the effectiveness of Internal Audit in Indonesian BLU polytechnics by examining monitoring (financial control oversight and follow-up on BPK RI audit findings), assurance (accuracy of financial statements and regulatory compliance), and consulting (financial risk advice and governance improvement recommendations), in accordance with IIA Global Internal Audit Standards (2024).
2. To assess the current state of financial accountability and risk governance in Indonesian BLU polytechnics across four areas: financial risk assessment (identification of risks related to budget, fraud, and reporting); financial risk mitigation (effectiveness of responses and integration of the risk register with budget planning); financial accountability (quality of BPK RI audit opinions and DIPA absorption efficiency); and governance integration (alignment of audit and risk management systems with SPIP and BLU standards).
3. To analyze the direction, magnitude, and statistical significance of the impact of Internal Audit Effectiveness on Financial Accountability in Indonesian BLU polytechnics using simple linear regression analysis, and to test the hypothesis that internal audit effectiveness has a significant positive effect on financial accountability outcomes ($H_1$).

## METHODS

### Research Design

This study employs a quantitative descriptive research design, supplemented by qualitative validation, to systematically measure the relationship between internal audit effectiveness and financial accountability, and to provide contextual depth through interviews and document review (Creswell & Creswell, 2018). The quantitative approach is appropriate for testing the directional hypothesis proposed in the previous section and for producing generalizable evidence across the population of Indonesian BLU polytechnics.

### Population, Sample, and Respondents

The target population comprises all state polytechnics in Indonesia with BLU status as of 2024 — a population chosen because BLU institutions face substantially greater financial governance complexity than non-BLU polytechnics, as they must manage both APBN allocations and self-generated revenues under stringent Ministry of Finance accountability requirements (PMK No. 220/PMK.05/2016). Purposive sampling was employed to select 12 BLU polytechnics, ensuring geographic representation across Java, Sumatra, Bali, and eastern Indonesia, as well as variation in institutional size and BLU


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maturity. A total of 30 respondents participated: 17 institutional leaders (56.7%, including Directors and Deputy Directors for Finance) and 13 SPI staff (43.3%). The majority held Master's degrees (63.3%) and had more than 10 years of professional experience (43.3%), indicating a high level of familiarity with institutional financial governance processes.

### Research Instrument

The primary data collection instrument is a 29-item structured questionnaire. The instrument was developed through a four-source grounding process: (1) IIA Global Internal Audit Standards (2024) for the three IA effectiveness dimensions; (2) ISO 31000:2018 Risk Management framework for financial risk assessment and mitigation dimensions; (3) Government Regulation No. 60 of 2008 (SPIP) for financial accountability and governance integration dimensions; and (4) PMK No. 220/PMK.05/2016 for BLU-specific financial governance indicators. All items are measured on a five-point Likert scale anchored at 1 = Strongly Disagree and 5 = Strongly Agree. Table 2 presents the complete structure of the instrument. Section A comprises 19 items measuring Internal Audit Effectiveness (X) across monitoring (6 items), assurance (7 items), and consulting (6 items) dimensions. Section B comprises 10 items measuring Financial Accountability (Y) across financial risk assessment (3 items), financial risk mitigation (3 items), financial accountability (2 items), and governance integration (2 items) dimensions. The questionnaire was distributed electronically via Google Forms. Qualitative data were collected through structured interviews and review of institutional audit reports, BPK RI audit findings letters (LHP), and risk registers. Table 1 shows the instrument's structure: variables, dimensions, and item distribution.

**Table 1. Instrument structure: variables, dimensions, and item distribution.** *(Source: Authors' elaboration based on IIA (2024), ISO 31000:2018, PP No. 60/2008, and PMK No. 220/2016)*

| Var. | Dimension | Indicators | Items | Scale | Grounding Standard |
|---|---|---|---|---|---|
| X | Monitoring | Financial control oversight; DIPA realization evaluation; follow-up on BPK RI findings | 6 | 1–5 Likert | IIA (2024) |
| X | Assurance | Financial statement reliability; BLU regulatory compliance; internal control adequacy | 7 | 1–5 Likert | IIA (2024) |
| X | Consulting | Financial risk advisory; SPIP implementation support; governance improvement recommendations | 6 | 1–5 Likert | IIA (2024); ISO 31000:2018 |
| Total items — Internal Audit Effectiveness (X) | | | 19 | | |
| Y | Financial Risk Assessment | Budget risk (DIPA); fraud risk; reporting risk identification | 3 | 1–5 Likert | ISO 31000:2018; COSO (2017) |
| Y | Financial Risk Mitigation | Adequacy of risk responses; risk register integration with budget planning | 3 | 1–5 Likert | ISO 31000:2018 |
| Y | Financial Accountability | BPK RI audit opinion quality (WTP); DIPA absorption efficiency; financial reporting transparency | 2 | 1–5 Likert | PP No. 60/2008 (SPIP) |
| Y | Governance Integration | Integrated audit–risk system; SPIP alignment; BLU risk maturity level | 2 | 1–5 Likert | PMK No. 220/2016 |
| Total items — Financial Accountability (Y) | | | 10 | | |
| **Grand Total (X + Y)** | | | **29** | | |

### Validity, Reliability, and Analytical Methods

Construct validity was assessed using Pearson Product-Moment Correlation against the critical r-table value of 0.361 ($\alpha$ = 0.05, n = 30). Internal consistency reliability was assessed using Cronbach's Alpha. Normality of the regression residuals was verified using a histogram and a Normal Probability Plot (P-Plot).

Reliability tests evaluate a questionnaire's consistency over time, indicating stable answers, while validity tests assess whether the questionnaire accurately measures what it is intended to measure. According to Ghozali (2018), a reliable questionnaire produces consistent responses, and a valid one accurately reflects the measured variables. Furthermore, participant data analysis involved checking indicator variables, such as normality, using histograms and p-plots.

Simple linear regression was employed as the primary analytical method to test the directional hypothesis that Internal Audit Effectiveness (X) has a significant positive effect on Financial Accountability (Y). The regression equation is specified as:

$$\hat{Y} = \alpha + \beta X + \varepsilon$$

Where $\hat{Y}$ = predicted Financial Accountability score; α = constant (y-intercept); β = unstandardized regression coefficient for Internal Audit Effectiveness; X = Internal Audit Effectiveness score; and ε = error term. The model was estimated using Ordinary Least Squares (OLS) in SPSS Version 25.

## RESULTS

### Descriptive Statistics

Table 2 presents descriptive statistics for both variables. Internal Audit Effectiveness (X) recorded a mean per-item score of 4.46, with the assurance dimension scoring highest (4.52), followed by consulting (4.44) and monitoring (4.41) — all categorized as high. Financial Accountability (Y) recorded a mean per-item score of 4.39, with the financial accountability sub-dimension highest (4.47) and financial risk assessment lowest (4.28), suggesting relatively greater challenges in systematic financial risk identification. Both overall scores indicate that respondents hold consistently high perceptions of internal audit and financial governance practices across the 12 BLU polytechnics.

**Table 2. Descriptive Statistics by Variable and Dimension.** Note: High = Mean/Item ≥ 4.00. Category based on Likert scale interpretation (1–5). *(Source: SPSS 25 output; authors' elaboration (2025). Mean/Item = Total Mean ÷ Number of Items)*

| Variable | N | Min | Max | Mean | Std. Dev. | Mean/Item | Cat. |
|---|---|---|---|---|---|---|---|
| Internal Audit Effectiveness (X) | 30 | 29 | 95 | 84.80 | 11.874 | 4.46 | High |
| ▪ Monitoring | 30 | — | — | — | — | 4.41 | High |
| ▪ Assurance | 30 | — | — | — | — | 4.52 | High |
| ▪ Consulting | 30 | — | — | — | — | 4.44 | High |
| Financial Accountability (Y) | 30 | 26 | 50 | 43.93 | 5.139 | 4.39 | High |
| ▪ Financial Risk Assessment | 30 | — | — | — | — | 4.28 | High |
| ▪ Financial Risk Mitigation | 30 | — | — | — | — | 4.35 | High |
| ▪ Financial Accountability | 30 | — | — | — | — | 4.47 | High |
| ▪ Governance Integration | 30 | — | — | — | — | 4.46 | High |

### Validity and Reliability

Table 3 presents the results for validity and reliability. All 29 questionnaire items returned Pearson Correlation coefficients exceeding the critical r-table value of 0.361, confirming construct validity. For Internal Audit Effectiveness, item correlations ranged from 0.394 (X.10) to 0.937 (X.17), with the strongest correlations concentrated in the assurance and consulting dimensions, confirming that financial risk advisory and financial control oversight are the most central components of internal audit effectiveness as perceived by BLU polytechnic practitioners. For Financial Accountability, item correlations ranged from 0.556 (Y.3: reporting risk identification) to 0.841 (Y.8: budget absorption efficiency), with the relatively lower correlation for Y.3 reflecting variability in respondents' understanding of financial reporting risk — consistent with qualitative evidence of limited depth in risk assessment. Cronbach's Alpha values of 0.967 (X) and 0.909 (Y) substantially exceed the 0.70 threshold (Ghozali, 2018), confirming excellent internal consistency reliability for both scales.

**Table 3. Validity and reliability summary.** Note: r-table = 0.361 (n = 30, α = 0.05, two-tailed). Cronbach's α threshold > 0.70 (Ghozali, 2018). *(Source: SPSS 25 output (2025))*

| Variable | Items | Pearson r range | Cronbach's α | Result |
|---|---|---|---|---|
| Internal Audit Effectiveness (X) | 19 | 0.394 – 0.937 | 0.967 | Valid & Reliable ✓ |
| Financial Accountability (Y) | 10 | 0.556 – 0.841 | 0.909 | Valid & Reliable ✓ |

### Normality Test

Normality of the regression residuals was assessed using a histogram and a P-Plot (Figures 3 and 4). The histogram displayed a distribution that closely approximated the normal curve, and the P-Plot showed data points aligned with the diagonal reference line, confirming that the normality assumption of the OLS regression model is satisfied (Ghozali, 2018).


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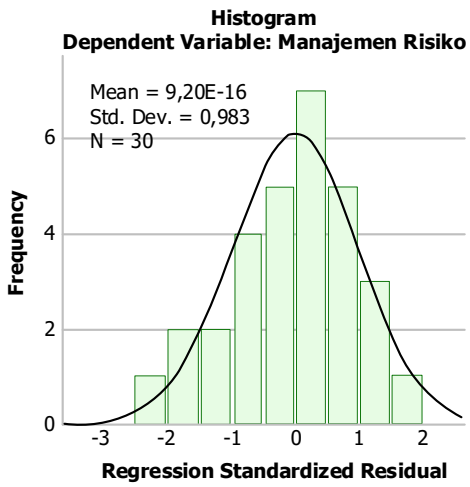


**Figures 3 Histogram.** *(Source: SPSS 25)*

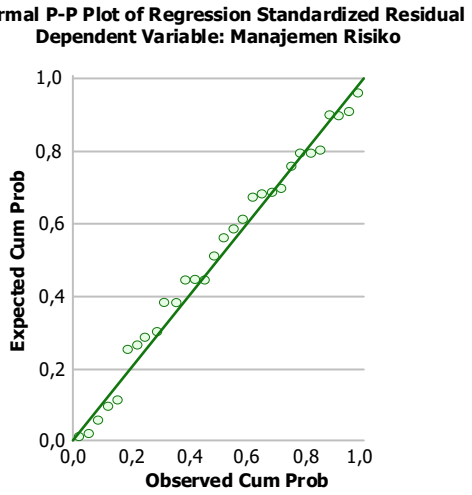


**Figure 4. Probability Plot (P-plot).** *(Source: SPSS 25)*

## Regression Analysis and Hypothesis Testing

Table 4 presents the regression results. The model returned a Pearson Correlation coefficient of R = 0.843, indicating a strong positive linear association between Internal Audit Effectiveness (X) and Financial Accountability (Y). The $R^2$ value of 0.710 indicates that 71.0% of the variance in Financial Accountability is explained by Internal Audit Effectiveness — a substantial explanatory power confirming the central role of internal audit as a driver of financial governance quality. The Adjusted $R^2$ of 0.700 confirms the robustness of this explanatory power after accounting for sample size.

The regression coefficient for Internal Audit Effectiveness is positive and highly statistically significant ($\beta = 0.365$, $t = 8.289$, $p = 0.001 < 0.001$), providing strong empirical support for Hypothesis 1. Each one-unit increase in Internal Audit Effectiveness is associated with a 0.365-unit increase in Financial Accountability, holding other factors constant. The constant ($\alpha = 12.998$, $p = 0.002$) reflects the baseline level of financial accountability attributable to mandatory BLU regulatory compliance independent of SPI effectiveness. Accordingly, $H_1$ is supported.

**Table 4. Simple linear regression analysis results.** Note: R = 0.843; $R^2$ = 0.710; Adjusted $R^2$ = 0.700; Std. Error of Estimate = 2.814. Regression equation: $Y = 12.998 + 0.365X + \varepsilon$. ** p < 0.01; *** p < 0.001. Dependent Variable: Financial Accountability (Y). *(Source: SPSS 25 output (2025). Dependent Variable: Financial Accountability (Y))*

| Variable | B (Unstd.) | Std. Error | t-statistic | Sig. | Result |
|---|---|---|---|---|---|
| Constant (α) | 12.998 | 3.767 | 3.450 | 0.002** | — |
| Internal Audit Effectiveness (X) | 0.365 | 0.044 | 8.289 | 0.001*** | $H_1$ Supported ✓ |

## Qualitative Findings

Interviews and document reviews identified three key themes across all 12 polytechnics. First, while risk management is universally recognized as a strategic priority by institutional leaders, consistent with high quantitative perceptions, the systematic operationalization of financial risk strategies within institutional processes remains underdeveloped. Second, a document review of institutional risk registers and the BPK RI LHP revealed that risk assessment is predominantly compliance-oriented, focusing on regulatory adherence rather than on quantitative financial risk analysis. Budget risk (DIPA under-absorption) and fraud risk are the most commonly identified financial risks, but mitigation strategies lack quantification of their financial impact. Third, across all 12 polytechnics, SPI audit planning and institutional risk management operated largely in parallel, with risk registers not systematically used to inform audit priority-setting, and audit findings not consistently incorporated into them. This structural disconnect represents the most critical financial governance gap identified by the study.

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# DISCUSSION

## Internal Audit as a Driver of Financial Accountability

The confirmation of $H_1$, that internal audit effectiveness has a significant positive effect on financial accountability ($\beta = 0.365$, $R^2 = 0.710$, $p < 0.001$), provides robust empirical support for positioning SPI as a primary institutional financial governance mechanism in BLU polytechnics. This finding is consistent with Lenz and Hahn (2015) and Mulyany et al. (2024), and extends their evidence to the Indonesian BLU vocational higher education context. From an Agency Theory perspective (Jensen & Meckling, 1976), the strong explanatory power of the model ($R^2 = 0.710$) confirms that information asymmetry between government principals and institutional management agents is a significant financial governance challenge in BLU polytechnics, one that effective internal audit substantially reduces by providing independent financial oversight and reliable governance information. From a Stewardship Theory perspective (Davis et al., 1997), the high perceived consulting dimension (mean = 4.44) indicates that management values SPI's advisory role as a capacity-building resource rather than merely a compliance imposition.

The remaining 29% of unexplained variance reflects the influence of contextual moderating factors — organizational culture, leadership, financial governance commitment, regulatory environment, and SPI competency — identified qualitatively in this study. This finding underscores that internal audit effectiveness is necessary but not sufficient for sound financial governance; it must be complemented by a supportive institutional culture and adequate governance infrastructure to translate into improved financial accountability outcomes fully.

## Evolution of Financial Risk Awareness

The high overall Financial Accountability mean score (4.39) demonstrates that risk management is recognized as a strategic priority among BLU polytechnic leaders and auditors, directly contradicting Tufano (2011) and Yudianti & Suryandari (2015), who argued that Indonesian higher education leaders lack an understanding of risk management. This positive shift likely reflects the cumulative impact of SPIP implementation mandates, Ministry of Finance BLU risk-maturity assessment requirements, and increasing BPK RI scrutiny of the financial governance of public higher education. However, the critical distinction between awareness and practice, highlighted in qualitative findings, remains a significant governance challenge: high awareness has not yet produced the systematic financial risk management processes, quantitative risk assessment capabilities, or integrated audit-governance systems needed for rigorous financial accountability.

## Critical Governance Gaps and Economic Consequences

Three critical structural deficiencies constrain the translation of internal audit effectiveness into optimal financial accountability outcomes. First, the financial risk assessment sub-dimension recorded the lowest mean score (4.28), with qualitative evidence confirming inadequate depth in financial risk quantification, leaving BLU institutions exposed to unquantified budget, fraud, and reporting risks with direct economic consequences. The BPK RI's consistent documentation of DIPA under-absorption in public higher education reflects this failure: without systematic budget risk assessment, institutions cannot proactively prevent the return of unspent allocations to the state treasury — a direct cost of inadequate financial governance. Second, the absence of a formal, integrated audit-risk management system in all 12 sampled polytechnics represents a structural governance gap with predictable financial consequences: audit resources are allocated based on compliance schedules rather than on financial risk significance, resulting in recurring BPK RI findings that persist across audit cycles. Third, only 36.7% of SPI respondents hold professional audit certifications—a human capital deficit that limits the financial risk analysis and quantitative assessment capabilities required for rigorous financial risk governance (Crawford & Stein, 2004; El-Sayed Ebaid, 2011).

## Policy Implications

At the institutional level, BLU polytechnic leaders should reorient SPI functions from compliance-oriented audit to financial risk-based governance models, developing integrated audit-risk management systems that formally link SPI annual audit plans with institutional risk registers, and investing in SPI professional development through QIA/CIA certification and ISO 31000:2018 training. At the national policy level, the Indonesian Ministry of Education and the Ministry of Finance should strengthen BLU governance requirements to explicitly mandate integrated audit-risk systems, minimum SPI competency standards, and periodic external quality assessments aligned with IIA standards, thereby creating regulatory incentives for financial governance reform across the BLU polytechnic sector. These reforms represent a high-return public investment: stronger financial governance in BLU polytechnics directly reduces state financial losses, improves the quality of BPK RI audit opinions, and enhances the economic efficiency of public investment in Indonesia's vocational education system.


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## CONCLUSIONS

This study investigated the role of internal auditors in enhancing financial accountability in Indonesian BLU polytechnics through a quantitative survey of 30 respondents across 12 institutions. The central hypothesis ($H_1$) was supported: regression analysis confirmed a strong, statistically significant positive relationship between internal audit effectiveness and financial accountability ($\beta = 0.365$, $t = 8.289$, $p < 0.001$, $R^2 = 0.710$), establishing internal audit, through its monitoring, assurance, and consulting functions, as a critical driver of financial governance quality. At the same time, three structural deficiencies constrain financial governance outcomes: inadequate financial risk-assessment capabilities, the absence of integrated audit-risk management systems, and SPI's human capital limitations. These findings carry important implications for institutional governance reform and national policy development, contributing original empirical evidence to the public-sector auditing and financial governance literature in the developing-country context.

### Limitations

This study has four principal limitations. First, the sample of 12 BLU polytechnics (n = 30) limits statistical power and generalizability to non-BLU institutions or other types of public higher education. Second, financial accountability is measured through perceptual survey responses, which may be subject to social desirability bias; objective financial indicators (BPK audit opinion quality, DIPA absorption rate) were not incorporated. Third, the cross-sectional design precludes causal inference about the direction of the relationship. Fourth, contextual moderating variables — organizational culture and leadership commitment — were identified qualitatively but not formally tested in the model, leaving 29% of the variance unexplained.

### Future Research

Future research should: (1) expand the sample to all BLU public higher education types — universities, institutes, and polytechnics — enabling cross-institutional comparison; (2) incorporate objective financial outcome indicators (BPK audit opinion quality, DIPA absorption rates, BLU risk maturity levels) as dependent variables, moving beyond perceptual measures; (3) employ longitudinal panel data designs to establish causal direction and measure the return on investment of governance reforms; (4) formally test organizational culture and leadership commitment as moderating variables using PLS-SEM to explain the remaining variance; and (5) extend the comparative analysis to ASEAN economies, including Malaysia, Thailand, and Vietnam, to generate cross-national evidence on internal audit–financial accountability relationships in developing countries public higher education contexts.

Additional information

## AUTHOR CONTRIBUTIONS

*All authors have contributed equally.*

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## CONFLICT OF INTEREST

*The Authors declare that there is no conflict of interest.*

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## РОЛЬ ВНУТРІШНЬОГО АУДИТОРА В ПІДВИЩЕННІ ФІНАНСОВОЇ ПІДЗВІТНОСТІ В ДЕРЖАВНІЙ СИСТЕМІ ВИЩОЇ ОСВІТИ ІНДОНЕЗІЇ

Фінансова підзвітність в індонезійських політехнічних інститутах BLU, які керують асигнуваннями державного бюджету в статусі агентств із надання публічних послуг, залишається постійним викликом для управління. Повторні фінансові порушення, задокументовані Вищою аудиторською радою Індонезії (BPK RI), висвітлюють значні слабкі місця в управлінні державними фінансами. У цьому дослідженні розглянуто, як внутрішні аудитори можуть покращити фінансову підзвітність у цих закладах, де такі порушення свідчать про серйозні проблеми в управлінні. Хоча Постанова уряду № 60 від 2008 року (SPIP) передбачає створення внутрішніх підрозділів нагляду (SPI), існує мало емпіричних даних щодо того, як ефективність внутрішнього аудиту впливає на фінансову підзвітність у цьому контексті. Використовуючи теорію агентських відносин (Jensen & Meckling, 1976) та теорію управління (Davis et al., 1997), це дослідження оцінює, чи ефективність внутрішнього аудиту — вимірювана через діяльність із моніторингу, забезпечення та консультування, що відповідає стандартам IIA (2024), — дозволяє передбачити результати фінансової підзвітності в індонезійських політехнічних інститутах, що мають статус BLU. Від березня по червень 2025 року було проведено кількісне опитування, у якому взяло участь 30 респондентів — керівників і внутрішніх аудиторів — із 12 політехнічних інститутів BLU, які давали відповіді за п'ятибальною шкалою Лікерта. Аналіз даних включав просту лінійну регресію та валідацію за допомогою інтерв'ю й аналізу документів. Результати показують сильну позитивну кореляцію між ефективністю внутрішнього аудиту й фінансовою підзвітністю, підкреслюючи важливість моніторингу, забезпечення та консультування для зміцнення фінансового управління. Проте структурні недоліки залишаються, зокрема недостатня оцінка фінансових ризиків і відсутність офіційної системи, що пов'язує внутрішній аудит із системами управління ризиками. Індонезійські політехнічні інститути терміново потребують інтегрованих систем внутрішнього аудиту й управління ризиками, що відповідають нормам SPIP і стандартам BLU. Пріоритетами є розширення повноважень SPI та вдосконалення навичок аудиторів з аналізу фінансових ризиків для мінімізації фінансових втрат держави. Це дослідження надає систематичні емпіричні дані щодо взаємозв'язку між внутрішнім аудитом і фінансовою підзвітністю в індонезійських політехнічних інститутах BLU, сприяючи поглибленню знань про аудит у державному секторі та фінансове управління, а також надаючи інформацію для інституційних реформ у країнах, що розвиваються.

**Ключові слова:** ефективність внутрішнього аудиту, фінансова підзвітність, управління в державному секторі, управління ризиками, політехнічні інститути BLU, положення SPIP, професійна вища освіта, країни що розвиваються

**JEL Класифікація:** M42