

Internal Control Systems and Follow-Up Audits of Financial Statement Quality with Government Governance as Moderating

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Abstract

Purpose: This study seeks to examine how weaknesses in internal control systems and follow-up on research results on the quality of local government financial reports, with good government governance serving as a moderating variable for the 2020-2023.

Methodology/approach: This research employs a quantitative approach, applies purposive sampling for data collection and utilizes PLS for the analytical testing.

Results/findings: Weaknesses in internal control systems are found to negative influence the quality of local government financial report. In contrast, follow-up actions on audit finding contribute positively to improving report quality. Furthermore, the implementation of good governance has been proven to lessen the negative impact arising from internal control defecies toward the quality of financial reports. Concurrently, it also reduces intensity of the association between audit follow-up actions and the overall quality of financial statements.

Conclusions: Weak internal controls reduce reporting quality, while audit follow-up improves reporting outcomes. GGG strengthens mitigation of SPI weaknesses but may weaken the effectiveness of TLHP when governance practices remain procedural rather than substantive. Strengthening substantive governance practices is crucial to improving reporting integrity.

Limitations: This study is limited to the period 2020-2023, covering only regency/city governments, and uses predicates for good governance, so the results do not fully represent the broader situation.

Contributions: This study expands the existing discourse on public sector accountability while providing practical guidance for local governments in enhancing the quality of financial statements by reinforcing internal controls, ensuring effective audit follow-up, and institutionalizing good governance practices.

Keywords: *Follow-up Completed, Good Government Governance, Internal Control System, Quality of Financial Statements*

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1. Introduction

Financial statements are an essential instrument for understanding an institution's financial position and performance achievements (Utami & Berliani, 2024). Government financial reports are structured report on the financial position, budget realization, cash flow and financial performance of a reporting entity (Juliyanti, 2023). The quality of local government financial reports reflects the accountability of public financial management and is a key indicator of successful governance (Andriansyah, Sudaryanti, & sari, 2022; Hartati & Dewi, 2024). Improving the quality of reporting depends not only on the

availability of financial information, but also on the effectiveness of control mechanisms and follow-up on audit findings. The presentation of a fair financial report is a reflection and result of better financial management ([Haryati, 2016](#)). The quality of government financial statements continues to improve along with the advancement of information technology ([Kusnadi, Oemar, & Supeno, 2022](#)). Good internal control is highly essential ([Nurmala Sari & Darmastuti, 2023](#)).

Every organization, whether in the public or private sector, need an effective internal control system to ensure that organizational goals are achieved efficiently and in accordance with applicable regulations ([Putra & Aziza, 2025](#)). In achieving its objectives, a control system is needed in an organization to ensure the implementation of effective and efficient organizational strategies ([Anisman, 2021](#)). An Internal Control System (ICS) is a fundamental instrument in ensuring the reliability of financial statements and preventing errors and fraud ([Sholihatun, Maslichah, & Mahsuni Wahid, 2022](#); [Triono & Dewi, 2020](#)). However, several studies show different results regarding the effect of ICS on the quality of financial reports. [Atharrizka, Nurjanah, and Andrianto \(2021\)](#) found that the implementation of ICS does not necessarily have a significant impact, while ([Andriansyah et al., 2022](#)) emphasized that the effectiveness of ICS remains an important factor in improving the quality of local government financial reporting. Internal control also functions as a means of monitoring resources within an organisation ([Prayoga & Martiah, 2025](#)).

The follow-up of audit findings represents the auditor's evaluation and recommendations regarding the actions necessary to improve efficiency and enhance performance, with the aim of correcting operational deficiencies that caused the identified problems and addressing the underlying management weaknesses ([Tania, Marsellisa, & Hera, 2023](#)). *Tindak Lanjut Hasil Pemeriksaan (TLHP)* conducted on the recommendation of the *Badan Pemeriksa Keuangan (BPK)* is also an important determinant in improving system weaknesses and enhancing reporting quality ([Imtinan & Hasibuan, 2021](#); [M. M. Lestari & Lestari, 2022](#); [Valentina, 2022](#)). The higher the rate of follow-up on audit findings, the stronger the commitment of local governments to upholding transparency and public accountability ([Pramana, Rukmini, Riningsih, Prihardina, & So, 2023](#)).

Both instruments cannot function effectively without the support of the principles of good government governance (ggg), which include transparency, accountability, participation, and government effectiveness ([Murwaningsari & Pakpahan, 2023](#); [Sarwono & Munari, 2022](#)). Ggg plays a role in ensuring that audit control and follow-up mechanisms are implemented not only administratively, but also substantively improve the integrity of public financial reporting. Although the *Wajar Tanpa Pengecualian (WTP)* on local government financial reports has improved every year ([Sunardi, 2021](#)), the upward trend in corruption cases at the district/city level indicates a gap between formal achievements and the substantive quality of local reporting and internal control systems is not yet sufficiently established, raising doubts about their impact on local government performance. In 2023, there were 53 cases at the district/city government level, or 39.92% of the 161 cases handled by the *Komisi Pemberantasan Korupsi (KPK)* throughout 2023. In 2022, there were 65 cases and in 2021 there were 46 cases ([Annur, 2024](#)).

Although most local governments have successfully obtained an *Wajar Tanpa Pengecualian (WTP)* from *Badan Pemeriksa Keuangan (BPK)*, the increase in corruption cases shows that the internal control systems implemented are still vulnerable and not yet fully effective. This incident demonstrates the importance of accountability, transparency, good internal control, and audit quality within an organization. The BPK, as the institution tasked *Laporan Hasil Pemeriksaan (LHP)*, plays a crucial role in assessing the quality of regional financial reports. The audits conducted by the BPK are not only intended to provide an opinion on financial reports, but also to identify weaknesses in the internal control system that could be exploited for corrupt practices. Although many regions have received a WTP opinion, this does not always reflect the actual situation, given the large number of reported corruption cases. This shows that the WTP opinion given by the BPK does not always guarantee that regional financial managements are carried out properly and free from irregularities. This raises questions about the effectiveness of the internal control system, the accuracy of follow-up on audit results, and the implementation of good governance in promoting reporting integrity. This study

analyzes the relationship between weaknesses in internal control systems and the implementation of follow-up actions on audits findings on the quality of local government financial reports, considering the extent to which the implementation of good governance affects this relationship. The study was conducted on district/city governments in Indonesia during the 2020-2023 period, providing an empirical picture of the dynamics of local financial management in an era of increasingly high accountability demands.

2. Literature Review and Hypotheses Development

2.1 Stakeholder Theory

The stakeholder theory according to [Freeman, Harrison, Wicks, Parmar, and de Colle \(2010\)](#) asserts that public organizations have an obligation to meet the expectations of various related parties, not just internal interests. Financial reports audited by the BPK provide several benefits for stakeholders ([Purba, Sitanggang, & Simalango, 2025](#)). In the public sector, stakeholder include the community, the legislature, auditors, and the central government, which demand transparency, accountability, and integrity in financial reporting. Recent studies reinforce that the fulfillment of stakeholder interests is highly dependent on the effectiveness of internal control systems, the completion of audits follow-ups, accountability, and integrity in financial reporting. Recent studies reinforce that the fulfillment of stakeholder interests is highly dependent on the effectiveness of internal control system, the completion of audits follow-ups, and the implementation of good governance ([Alsharari, 2024](#)). Thus, weak internal controls or non-compliance with audit recommendations will reduce public confidence in the quality of financial reports, while good governance strengthens this relationship by ensuring that stakeholder interests are protected through accountability and transparency.

2.2 Quality of Local Government Financial Reports

Financial reporting quality reflects the degree to which financial information is presented clearly, comprehensively, accurately, and in accordance with Government Accounting Standards as ([Labrague, Nwafor, & Tsaras, 2020](#)). *Laporan Keuangan Pemerintah Daerah (LKPD)* are regarded as relevant when the information disclosed provides predictive value and can assist users in anticipating future conditions ([Pramana et al., 2023](#)). In practice, this quality is commonly indicated by the audit opinion issued by the *Badan Pemeriksaan Keuangan (BPK)*, which signifies the reliability of financial information and serves as a foundation for legislative oversight as well as public decision-making. Furthermore [M.S \(2021\)](#) found that the quality of financial is influenced by the effectiveness of control systems and regulatory compliance in the Sri Lanka government sector found that financial reporting quality is significantly influenced by the effectiveness of internal control systems and adherence to regulatory frameworks within the Sri Lankan public sector.

2.3 Weaknesses in the Internal Control System

Peraturan BPK Nomor 2 Tahun 2017 emphasize that SPI is a continuous process to ensure the effectiveness of activities, asset security, and the reliability of financial reporting. However, BPK findings show that there are still many weaknesses in accounting controls, budget oversight, and non-compliance with procedures. SPI weaknesses increase the risk of misstatement and reduce the quality of reports. In a study conducted by [M.S \(2021\)](#), it was proven that weaknesses in SPI Weaknesses in the components of the internal control system-namely the control environment, risk assessment, control activities, information and communication, and monitoring are associated with a decline in the quality of government financial reporting. Empirical evidence from a study conducted by [Afifah S and Siswanto \(2025\)](#) further confirms that deficiencies in Internal Control over Financial Reporting (ICoFR) within government institutions directly affect the accuracy and overall quality of financial statements.

H1: Weaknesses in the control system have a negative impact on the quality of local government financial reports

2.4 Follow-up on Audit Result

Follow-up on audit result is a series of actions by regional apparatus organizations as a follow-up to recommendations issue by the *Badan Pemeriksaan Keuangan (BPK)*. This stage aims to ensure compliance with the provisions contained in the audit report recommendations issued by BPK. The

follow-up of audit findings is an obligation of local governments to implement the recommendations issued by the audit board of the *Badan Pemeriksa Keuangan (BPK)*. This obligation is regulated in law Number 15 of 2004 concerning the audit of state financial management and accountability and law number 15 of 2006 concerning the audit board of the republic of Indonesia, which mandate that every government institution must follow up on audit recommendations within the specified period. Thus, follow-up audit result in not only obligation but also an integral part of good financial management. It is hoped that effective follow-up will encourage more open, accountable, and responsible government financial management, thereby reducing irregularities in the future. Research conducted by [Maharani Putri, Triyuwono, and Virginia Nur \(2025\)](#) indicates that the effectiveness of audit follow-up actions significantly affects the quality of public sector reporting. Research conducted by [Valentina \(2022\)](#) shows a positive relationship between audit follow-up actions and financial reporting quality.

H2: Follow-up on audit results has a positive effect on the quality of local government financial reports

2.5 Good Government Governance

Good Government Governance is considered a crucial factor that influence the quality of financial reporting ([Pakpahan, Murwaningsari, & Mayangsari, 2022](#)). The application of good governance principles is very important for efficient financial management and the proper use of public resources. The application of these principles can enhance the quality of financial reports, thereby promoting transparency and accountability in public budget management. Thus, good governance not only strengthens public trust in local government but also supports improvements in the delivery of public services. Research by [Murwaningsari and Pakpahan \(2023\)](#); [Pakpahan et al. \(2022\)](#) The findings indicate that the implementation of good governance practices can mitigate the adverse effects of internal control system weaknesses on the quality of local government financial statements. Moreover, adherence to good governance principles enhances the positive contribution of audit quality to the improvement of financial reporting standards. In this context, effective governance not only reduces the negative consequences arising from internal control deficiencies but also strengthens the relationship between audit follow-up actions and audit quality. This shows that effective governance functions as an ethical and legal framework, as well as a crucial moderating element in improving accountability and the quality of financial reporting within the public sector.

H3: Good government governance can moderate the relationship between weaknesses in internal control systems and the quality of local government financial reports

H4: Good government governance can moderate the relationship between follow-up audits results and the quality of local government financial reports

The conceptual framework model can be illustrated as follow:

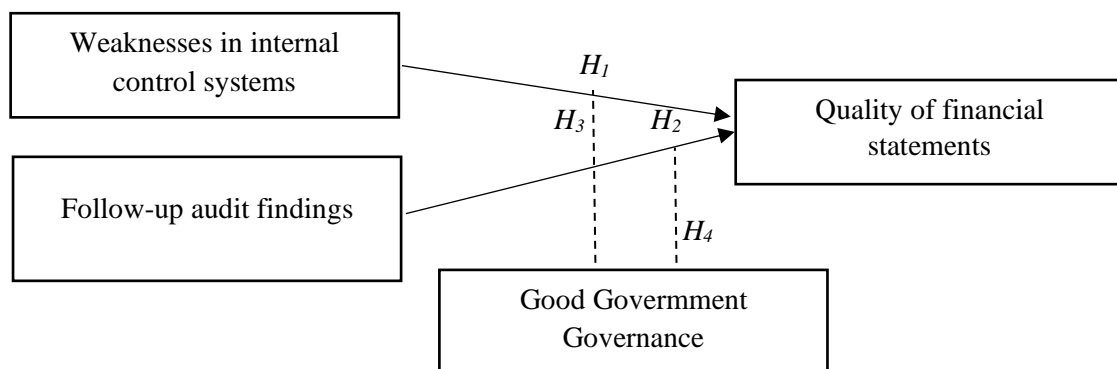


Figure 1. Research framework

3. Research Methodology

3.1 Research Population

The population is the entire subject of the research that has certain characteristic and is determined by the research to be studied and concluded [Sugiono \(2021\)](#). In line with this opinion, the populations of

this research comprise all regency and municipal governments in indonesia that issue financial statements and accountability reports. In total, the study population include 514 district and city governments throughout Indonesia that have financial reports and performance accountability documents for the 2020-2023 period. All of these entities were selected as the population because they are parties that have an obligation to submit audited LKPD and SAKIP reports as the basis for measuring research variables.

3.2 Research Sampel

A sample is a portion of a population that is considered capable of representing the characteristics of the population as a whole. This study used purposive sampling, which is a method of determining samples based on considerations of the entire observation period. Thus, the sample consisted of districts/cities that had complete data for the 2020-2023 period.

3.3 Operational Definition of Variables

An operational definition is an explanation of how a variable is defined and measured empirically so that it can be observed and analyzed quantitativelyzz (Sekaran & Bougie, 2016). This study uses four variables, each of which is operationalized as follows:

3.3.1 Financial Statement Quality

This study evaluates the accuracy of financial statements based on the audit result of the BPK assessments between 2020 and 2023. Audit opinions are important indicators that describe the accountability and quality of public sector financial statements. This variable is measured using the following ordinal scale:

$$WTP = 5, WTP - DPP = 4, WDP = 3, TW = 2, TMP = 1 \quad (1)$$

3.3.2 Weaknesses in the Internal Control System

The internal control system reflects the supervisory mechanism that ensures that the financial management process runs in accordance with the principles of reliability and compliance. This variable is measured by calculating the total number of internal control system weaknesses identified in the local government financial statement audit report for each local government. A higher value indicates a higher level of deficiencies in the internal control of local governments. This measurement refers to research conducted by Pakpahan et al. (2022).

3.3.3 Follow-up on Audit Results

Follow-up on audit results shows the level of responsiveness of local governments in addressing auditor recommendations. This variable is measured by applying the following percentage-based formula:

$$TLHP = \frac{\text{Follow-up According to Recommendations}}{\text{Number of Recommendations}} 100\% \quad (2)$$

A higher score reflects better performance in following up on audit recommendations. This measurement refers to research conducted by Valentina (2022).

3.3.4 Good Government governance

Good government governance reflects the quality of governance that is oriented towards accountability, performance, and effectiveness of public services. This study uses SAKIP scores as an indicator of local government governance performance. SAKIP scores are converted to an ordinal scale as follows:

$$AA = 7, A = 6, BB = 5, B = 4, CC = 3, C = 2, D = 1 \quad (3)$$

The higher the score, the better the quality of local government governance.

3.4 Data Analysis Techniques

The data analysis conducted in this study consists of descriptive statistics to examine the characteristics of each research variable, as well as Partial Least Squares (PLS) analysis to test the proposed hypotheses. The structural model for the financial reporting quality variable can be expressed as follows:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3M + \beta_4X_1M + \beta_5X_2M + \varepsilon \quad (4)$$

Wher:

- Y : Local government financial report quality
- X_1 : Control system weaknesses
- X_2 : Follow-up completed
- M : Good government governance
- $M*X_1$: Interaction result of M with X_1
- $M*X_2$: Interaction result of M with X_2
- b : Variabel X line coefficient
- a : Constanta value

4. Results and Discussion

4.1 Descriptive Statistics

This research applies descriptive statistical analysis to present the characteristics of each study variable, as reflected in the minimum, maximum, mean, and standard deviation values. Based on table 1, variable X_1 records a minimum value of 1 and a maximum value of 19, with a mean of 4.678 and a standard deviation of 2.655. These figures indicate a relatively wide dispersion of responses across regions. Variable X_2 , which is on a binary scale (0-1), has a mean of 0.486 and a standard deviation of 0.261, indicating that its distribution is relatively balanced between categories 0 and 1. Variable Y ranges from 1 to 5 with a mean score of 4.842 and a standard deviation of 0.565. These results suggest that the data are relatively concentrated around the average, indicating limited variability in responses, indicating that respondents' assessments tend to be high and not too varied. Meanwhile, variable M has a range of 1-7 with a mean of 3.814 and a standard deviation of 0.854, which describes moderate variation in the perceptions or conditions measured by this variable. Overall, the data shows a stable distribution pattern and is suitable for further analysis.

Tabel 1. Statistic deskriptif

Names	Min	Max	Mean	Standard Deviation
X_1	1	19	4.678	2.655
X_2	0	1	0.486	0.261
Y	1	5	4.842	0.565
M	2	6	3,814	0.854

4.2 Goodnes of Fit Model PLS

The Goodness of fit model PLS model is a statistical measure that shows how well a model fits the observed data. The R-Squared, Q-Squared, and SRMR values can be used to measure the goodness of fit of a PLS model.

Table 2. Model PLS Fit

Goodness of Fit Model Parameter				
Endogen Variabel	R-square	Adjusted R-square	Q-square	SRMR
Y	0.054	0.051	0.046	0.001

R-Square: 0.67 strong; 0.33 moderate; 0.19 weak. Q-Square: 0.02 small; 0.15 moderate; 0.35 large. SRMR; <0.08

An R-Square value of 0.054 suggests that the structural model explains only about 5.4% of the variance in the edogenous variable. This propotion is considered very low, indicating that the explanatory power of the independent variabel toward the dependen variabel remains limited.

The adjusted R-Square value of 0.051 offers a more precise estimate, as it accounts for the number of predictors included in the model. Since this value is nearly identical to the R-Square, it implies that the inclusion of additional independent variables does not substantially enhance the model's explanatory capability. Furthermore, the Q² value of 0.046 reflects the model's predictive relevance for the endogenous construct. Given its relatively small magnitude, the model's predictive performance can be regarded as weak. In contrast, the SRMR value of 0.001 indicates an excellent level of model fit, demonstrating that the discrepancy between the observed data and the estimated model is minimal.

4.3 Path Coefficient Evaluation

Figure 1 shows the results of the path coefficient assessment, which reveals that the PLS model estimation results with the bootstrapping strategy show all paths are significant with a P value <0.05. In Figure 2, we can see the values of the path coefficients of the variables we studied.

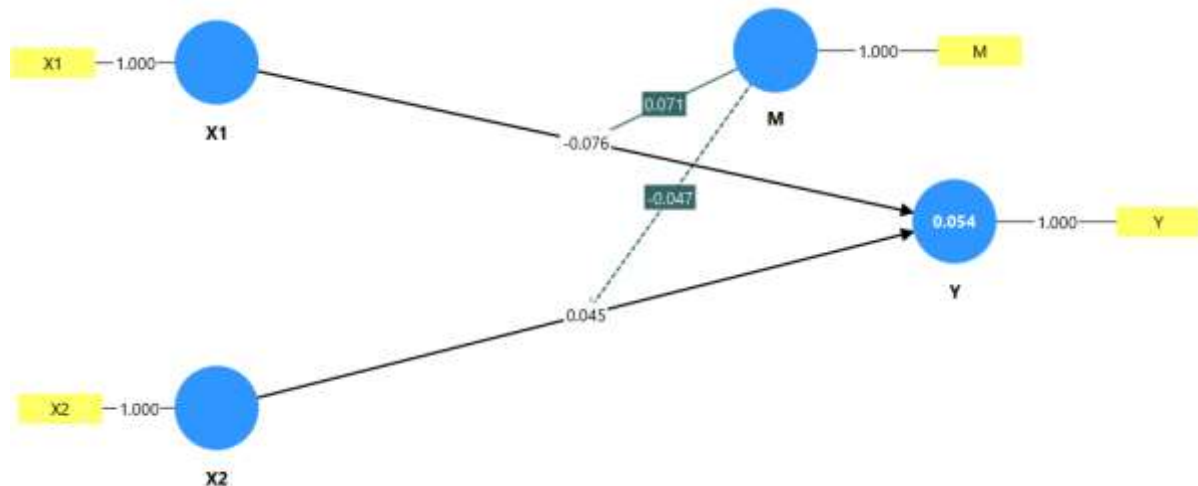


Figure 2. PLS model estimation results

4.4 Hypothesis Testing

Table 4. Significance test of influence

Path	Path Coefficient	T statistics (O/STDEV)	P-Values
$M \rightarrow Y$	0.173	6.830	0.000
$X_1 \rightarrow Y$	-0.076	3.055	0.002
$X_2 \rightarrow Y$	0.045	2.077	0.038
$M \times X_1 \rightarrow Y$	0.071	2.449	0.014
$M \times X_2 \rightarrow Y$	-0.047	2.182	0.029

Table 4 presents the hypothesis test findings:

1. The statistical analysis indicates that all structural paths in the model are significant at the 5 percent level (p -value < 0.05), implying each proposed relationship is empirically supported. The moderating variable (M) demonstrates a positive and significant influence on Y , as reflected by a path coefficient of 0.173 and a t -statistic of 6.830. This finding suggests that an increase in M is directly associated with an increase in Y .
2. In contrast, X_1 exhibits a negative relationship with Y , with a coefficient value of -0.076 and a t -value of 3.055, indicating that higher levels of X_1 tend to reduce Y . Meanwhile, X_2 shows a positive effect on Y , as evidenced by a coefficient of 0.045 and a t -statistic of 2.077, which implies that an increase in X_2 contributes to an improvement in Y , although the strength of the effect is relatively small. Beyond its direct influence, variable M also acts as a moderating factor in the relationship between X_1 and Y , between X_2 and Y . Moderation in the relationship between X_1 and Y strengthens the effect (positive), while moderation in the relationship between X_2 and Y actually weakens the effect of X_2 on Y (negative).

4.5 Discussion

4.1.1 Weaknesses in the Internal Control System have a Negative Effect on the Quality of Local Government Financial Reports

The results of this research reveal a significant relationship between deficiencies in the internal control system and the quality of local government financial reporting. The more weaknesses that arise in internal control, the greater the potential for various problems in the process of preparing local government financial statements, including inaccurate financial data, which can lead to errors in reporting and decision making. Weak internal control opens up opportunities for fraud and budget misuse. A strong internal control system and the identification of vulnerabilities will improve the quality of local government finances by increasing the accuracy of financial information recording and reporting, accelerating the process of preparing accountability reports, strengthening the internal control system to prevent irregularities, and increasing transparency and accountability, which will strengthen public trust in local financial management.

The validation of this hypothesis is in line with stakeholder theory, which asserts that local governments must recognize and address the interests of the many stakeholders involved in public financial management. When there are many weaknesses in the internal information system, this will harm various stakeholders. Conversely, a strong internal information system and minimal findings of weaknesses in the internal control system will benefit all stakeholders. Thus, in accordance with stakeholder theory, the stronger the local government's internal control system, the more optimal the fulfillment of the interests of all stakeholders. Previous studies reinforce [Pakpahan et al. \(2022\)](#) showing a significant and positive relationship between inadequate internal control systems and the quality of financial reporting in local governments. Internal control measures are crucial for the accuracy of local government financial reports. The effectiveness of internal control systems is closely related to the quality of the financial reports produced ([N. L. W. T. Lestari & Dewi, 2020](#)). Good internal control are more effective in preventing fraud than the finding of good auditors ([Kustiawan, 2016](#))

4.1.2 Follow-up on Audit Findings has a Positive Effect on the Quality of Local Government Financial Statements

This study indicates that follow-up on audits has a positive and significant effect on the quality of financial reporting. When local governments consistently implement the recommendations made by the *Badan Pemeriksa Keuangan (BPK)*, the quality of their financial reports also improves. Conversely, if audit findings are not properly followed up, the same problems may recur and even develop into more serious issues. Thus, financial reports become more effective and sustainable because risks can be minimized and stakeholder confidence is maintained. This finding is in line with stakeholder theory, which highlights the significance of organizations taking into account the interests of various parties influenced by their economic operations. When audit results are not properly followed up, this will harm various stakeholders. Financial information must be relevant to the interests and expectations of stakeholders in decision-making activities. Follow-up on audits ensures that financial reports present the information needed by stakeholders. Thus, consistent with stakeholder theory, the better an organization is at following up on audit results, the more optimally the interests of all stakeholders are fulfilled.

These result align with prior research conducted by [Pramana et al. \(2023\)](#), which demonstrates a positive and statistically relationship between audit follow-up actions and the quality of financial reporting. Similarly, [Imtinan and Hasibuan \(2021\)](#) argue that when local governments effectively implement the recommendations issued by the *Badan Pemeriksa Keuangan (BPK)*, the quality of their financial statements shows measurable improvement. This improvement can be attributed to the consistency of follow-up efforts over time, as timely responses to audit findings contribute to enhanced disclosure practices in subsequent reporting periods.

4.1.3 The Moderating Role of Good Governance in the Relationship Between Internal Control System Weaknesses and the Quality of Local Government Financial Reporting

The implementation of good governance principles can reduce the adverse impact of internal control system deficiencies on the quality of local government financial reporting. When this system functions optimally, errors can be reduced, fraud can be avoided, and financial data becomes more accurate and

reliable. And when good governance is functioning well, it is characterized by high transparency, clear accountability, responsiveness to change, and effectiveness in implementation. Under strong good governance, each component of the control system will function as it should. Employees will carry out procedures with discipline and improvements will be made continuously. This condition results in a significant enhancement its implementation of financial reporting quality, ensuring that the information presented becomes more relevant, reliable, comparable, and understandable. Conversely, when good governance practices are not effectively implemented, even a well-structured internal control system may not function optimally, will be hampered by a lack of leadership support and weak supervision, causing the control system to exist only on paper.

4.1.4 The Moderating Role of Good Governance in the Relationship Between Follow-up on Research Results and the Quality of Local Government Financial Reporting

This study shows that audit follow-up on the quality of financial reports, which is influenced by good governance, has a negative impact on the quality of financial reports. This may occur because local governments follow up on audit results only to carry out their duties or to meet administrative requirements, rather than because they genuinely want to improve their systems. They are busy preparing reports and documents as evidence of follow-up but do not actually fix the existing problems. Or perhaps it is because the limited capabilities of local employees are a major obstacle. According to [Pramana et al. \(2023\)](#), obstacles in implementing audit recommendations include a lack of understanding of follow-up procedures, the absence of established standard operating procedures, and a lack of human resources. It may also be because the culture of playing it safe is still strong, so that employees focus more on the completeness of documents than on actual improvements. This weakens good governance by reducing the correlation between follow-up audit results and the quality of financial reports. Good governance is viewed from the perspective of transparency through the publication of documents without regard to their quality, accountability that is trapped in administrative accountability mechanisms without evaluating their impact, and effectiveness that is measured based on the quantity of activities rather than the quality of the results. Follow-up on audit results, which aims to improve financial reports, ultimately reduces the quality of regional financial reports.

5. Conclusions

5.1 Conclusion

Deficiencies within the internal control system are empirically associated with a decline in financial reporting quality. As the magnitude of internal control weaknesses increases, the reliability and credibility of the financial statements produced by an entity tend to deteriorate. Conversely, the effective implementation of audit follow-up actions contributes positively to reporting quality, particularly when entities act upon recommendations issued by the *Badan Pemeriksa Keuangan (BPK)*. Furthermore, good governance serves a moderating function in this relationship. It reinforces the connection between internal control weaknesses and the quality of regional financial statements. However, at the same time, it reduces the strength of the influence exerted by audit follow-up actions on the quality of regional financial reporting.

5.2 Research Limitations

This research is subject to several limitations that should be taken into account. First, the findings of this study are constrained by scope of the study only covers the period 2020-2023, so the results obtained are not yet fully able to describe the long-term dynamics of the effect of deficiencies in the internal control system and follow-up on audit results on the quality of local government financial statements. Second, the research object is only focused on district/city level local governments. This limits the applicability of the findings to broader contexts, since the findings may not be entirely applicable to provincial governments or central agencies that have different financial management characteristics. Third, the moderating variable of good government governance is measured using predicates given to local governments, not direct numerical values. The use of categorical data may reduce the level of precision in the analysis, as the variations in detail between entities are not fully described. Therefore, the results of this study should be understood with these limitations in mind.

5.3 Suggestions and Directions for Future Research

Given the limitations of this study, the following recommendations are made for future research. First, extend the observation period to provide a more comprehensive picture of long-term dynamics. Second, expand the scope of the study to include provincial governments or central government agencies to enhance the generalizability of the results. Finally, use measures of good governance in the form of indices or numerical scores to ensure a more precise and in-depth analysis.

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Author Contributions

VS conceived the study, developed the research design, conducted data collection and analysis, and drafted the initial manuscript. FF supervised the entire research process, provided methodological guidance, conducted critical review and revision, and ensured the article's academic quality and suitability for publication.

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