



Strengthening Regulations on Audit Committees to Prevent State Financial Losses in the Management of the East Java Province APBD

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Abstract: Regional financial management is crucial component of the state financial system , which must be conducted transparently , accountably , and in accordance with the principles of good governance . However , in practice , the management of the Regional Revenue and Expenditure Budget (APBD) still faces various problems , such as budget irregularities , weak internal control systems , and low oversight effectiveness . This study aims to analyze the importance of strengthening regulations regarding audit committees to prevent state financial losses in the APBD in East Java Province . The research method used is normative legal research with a statutory and conceptual approach . The results show that the existence of an audit committee as an independent oversight mechanism can improve the quality of internal control and transparency of regional financial management . Therefore , it is necessary to strengthen regulations regarding audit committees in local governments to prevent potential state financial losses and increase accountability in APBD management ..

Keywords: audit committee, regional finance, APBD, financial supervision, state losses

INTRODUCTION

Fiscal decentralization in Indonesia grants regional governments broad authority to manage regional finances through the Regional Budget (APBD). This policy aims to improve public services and community welfare through more effective and efficient management of financial resources at the regional level. The implementation of regional autonomy is supported by various regulations, such as Law Number 23 of 2014 concerning Regional Government and Law Number 33 of 2004 concerning Fiscal Balance between the Central and Regional Governments (Kementerian Keuangan, 2022).

Regional financial management must be carried out in an orderly, transparent, and accountable manner , in accordance with the principles of good governance. This principle is affirmed in Government Regulation Number 12 of 2019 concerning Regional Financial Management, which states that regional financial management must be carried out effectively, efficiently, transparently, and responsibly, in accordance with laws and regulations (Pemerintah Republik Indonesia, 2019).

However, in practice, regional budget management still faces various problems, such as weak internal oversight, delays in regional financial reporting, and the potential for budget irregularities. Research shows that regional financial oversight and the timeliness of regional budget management significantly influence the quality of regional government financial reports and the audit opinions issued by external auditors.(Soekanto, 2007)

Furthermore, various studies have shown that regional budget leakage remains a serious problem in public financial governance in Indonesia. Some studies even suggest that regional budget leakage can reach around 40% of the total regional budget (APBD) due to weak oversight systems and corrupt practices at the regional level.(Paranata, 2022).

One important instrument for improving the effectiveness of financial oversight is the establishment of an audit committee. An audit committee is an independent committee established by the organization's leadership to provide strategic advice on internal oversight, financial reporting, and follow-up on audit findings.

The existence of an audit committee is crucial for ensuring the proper functioning of internal control systems and preventing irregularities in regional financial management. Therefore, strengthening regulations regarding audit committees in regional governments, particularly in the management of the regional budget (APBD) in East Java Province, is a strategic step in preventing state financial losses and increasing accountability in public financial management.

RESEARCH METHOD

This research uses a doctrinal or normative legal research approach, namely research that positions law as a norm or rule contained in legislation, legal doctrine, and various relevant scientific literature. Doctrinal legal research aims to examine the consistency, systematics, and application of legal norms within a legal system in order to find legal arguments for a particular problem (Marzuki, 2005).

In doctrinal legal research, analysis is conducted through a study of primary legal materials in the form of laws and regulations relating to state financial management and regional financial oversight, such as Law Number 17 of 2003 concerning State Finance, Law Number 23 of 2014 concerning Regional Government, and Government Regulation Number 12 of 2019 concerning Regional Financial Management. In addition, this research also uses secondary legal materials in the form of books, scientific journals, and research results that discuss regional financial oversight and the role of audit committees in the government's internal control system.

The collection of legal materials is carried out through library studies (*research*) by exploring various legal documents and scientific literature relevant to the research topic. The legal materials obtained were then analyzed qualitatively through legal interpretation and legal argumentation to examine the importance of strengthening regulations regarding audit committees in preventing state financial losses in the management of the Regional Budget in East Java Province (Soekanto, 2007).

RESULTS AND DISCUSSION

Regional Financial Management and Potential State Losses

Regional financial management is an integral part of the state financial system implemented by regional governments in the context of governance and public services. This management includes the entire process of planning, implementation, administration, reporting, and accountability of regional finances as outlined in the Regional Revenue and Expenditure Budget (APBD). In the Indonesian legal system, regional financial management is regulated, among others, in Law Number 17 of 2003 concerning State Finance, Law Number 1 of 2004 concerning State Treasury, and Government Regulation Number 12 of 2019 concerning Regional Financial Management, which emphasizes that regional financial management must be carried out in a transparent, accountable, effective, and efficient manner in accordance with the principles of good governance. (Situngkir, 2021).

The implementation of regional autonomy grants broad authority to local governments to manage financial resources independently. Through fiscal decentralization policies, local governments are expected to improve public welfare by utilizing the regional budget (APBD) as a regional development instrument. However, this extensive authority also poses challenges in the form of the risk of budget

mismanagement if not balanced by an effective oversight system and adequate internal control mechanisms (Santoso dkk., 2023).

Good regional financial management depends heavily on the effectiveness of internal control systems and the quality of public financial governance. Internal control systems play a role in ensuring efficient budget use, complying with laws and regulations, and preventing financial irregularities. Research shows that weaknesses in internal control systems in regional governments can increase the risk of irregularities in budget management and lead to state financial losses (Sari & Darmastuti, 2023).

In practice, various problems are still frequently encountered in regional financial management in Indonesia. These problems include weak oversight, low human resource capacity of regional financial managers, and mismatches between budget planning and implementation. These conditions can lead to inefficient use of regional budgets and potentially lead to state financial losses if not promptly addressed through effective oversight mechanisms (Situngkir, 2021).

Furthermore, oversight of regional budget (APBD) management plays a crucial role in maintaining regional financial accountability. Effective oversight can prevent budget misuse and ensure that budget use aligns with regional development goals. Empirical research shows that regional financial oversight significantly impacts the effectiveness of local government budget management, suggesting that stronger oversight leads to more effective regional financial management (Suri dkk., 2024).

Potential state financial losses in regional financial management can also arise from various audit findings indicating inefficiency, ineffectiveness, and misappropriation of funds. Research shows that regional governments have encountered a significant number of findings related to state losses, even reaching thousands of cases with significant losses. These findings indicate that regional financial management still faces various challenges in terms of governance and financial accountability (Jaya dkk., 2024).

In the context of external oversight, the Supreme Audit Agency (BPK) plays a crucial role in ensuring the accountability of regional financial management. Through audits of regional government financial reports, the BPK can identify various irregularities or weaknesses in budget management and provide recommendations for improvement to local governments. The audit process aims not only to identify errors but also to improve the quality of regional financial governance through recommendations for system improvements (Ahyar dkk., 2025).

In addition to external oversight, internal oversight is also a crucial factor in preventing state financial losses. The government's internal control system (SPIP) is designed to ensure that regional financial management is orderly and in accordance with applicable laws. The existence of an effective internal control system has been shown to negatively impact regional financial losses, meaning that the better the internal control system, the lower the likelihood of state financial losses (Ompusunggu dkk., 2024).

Furthermore, transparency and accountability in regional financial management are also crucial factors in preventing state losses. Transparency allows the public to more openly monitor regional budget use, while accountability requires regional governments to be accountable to the public for all budget use. Research shows that transparency and the quality of regional financial reporting are closely linked to the effectiveness of regional government financial governance (Badewin dkk., 2025).

Thus, sound regional financial management requires synergy between a strong internal control system, effective external oversight, and transparency in regional budget management. Without adequate oversight mechanisms, regional budget management has the potential to lead to various irregularities that can harm state finances and hinder regional development. Therefore, strengthening regulations, increasing the capacity of government officials, and optimizing the oversight system are crucial steps to prevent state financial losses in regional financial management.

The Role of the Audit Committee in Regional Financial Supervision

accountable governance . Within the state financial management system, regional governments are obligated to ensure that the Regional Budget (APBD) is used effectively, efficiently, and in accordance with applicable laws and regulations. To achieve this, a robust oversight mechanism is required through various institutional instruments, one of which is the audit committee. The audit committee serves as an independent oversight mechanism that assists organizational leaders in monitoring the integrity of financial reports and compliance with accounting standards and applicable regulations (Kartamulja, 2009).

Conceptually, the audit committee is part of an organization's governance mechanism, serving to improve the quality of oversight of financial reporting, internal control systems, and the audit process. Research shows that the audit committee plays a crucial role in ensuring compliance with accounting standards and increasing the transparency of an organization's financial reporting. Through this function, the audit committee can help prevent irregularities or manipulation in the preparation of financial statements (Amalia & Suryono, 2016).

In the public sector context, the role of the audit committee is inseparable from the government's internal control system. According to Government Regulation Number 60 of 2008 concerning the Government Internal Control System (SPIP), internal control is a continuous process carried out by management and employees to provide reasonable assurance that organizational goals are being achieved, including the reliability of financial reporting and compliance with laws and regulations. Within this framework, the audit committee can serve as an oversight tool that strengthens the implementation of SPIP within local governments.

The audit committee's role in regional financial oversight is also related to efforts to improve the effectiveness of internal oversight conducted by the Government Internal Supervisory Apparatus (APIP). The audit committee can provide strategic recommendations to regional leaders regarding the implementation of internal audits, follow-up on audit findings, and evaluation of the internal control systems implemented within regional government organizations. Thus, the audit committee serves not only as an administrative oversight body but also as a strategic advisor in managing regional financial risks.

Furthermore, the audit committee also plays a role in ensuring that the audit recommendations of external audit institutions, such as the Supreme Audit Agency (BPK), can be effectively followed up by local governments. BPK audit results typically include audit opinions, findings, conclusions, and recommendations aimed at improving accountability and transparency in state financial management. Implementation of these audit recommendations is a key indicator of improving the quality of local government financial reports (Mahmudah & Riyanto, 2016).

The existence of an audit committee can also improve the quality of local government financial reporting by overseeing the financial statement preparation process. Research shows that governance mechanisms involving an audit committee can improve the integrity of financial reports and strengthen an organization's internal control system. This is because the audit committee's function is to independently review financial reports and oversee the relationship between internal and external auditors (Ulinuha & Putikadea, 2025).

In practice, the effectiveness of an audit committee in overseeing regional finances is greatly influenced by several factors, including the independence of audit committee members, professional competence, and the frequency of meetings and coordination with internal and external auditors. An audit committee with members with adequate financial and auditing backgrounds will be better able to optimally carry out its oversight function , particularly in evaluating financial reports and assessing the effectiveness of the organization's internal control system (Amalia & Suryono, 2016).

Strengthening the role of audit committees in regional financial oversight is a strategic step in increasing accountability and transparency in regional budget management. Audit committees can serve as an independent oversight mechanism that supports the implementation of the government's internal control system and enhances the effectiveness of oversight of regional financial use. Therefore, strengthening regulations regarding audit committees within regional governments is necessary to ensure these institutions can play an optimal role in preventing state financial losses and improving the quality of regional governance.

The Urgency of Strengthening Audit Committee Regulations in Regional Governments

Strengthening regulations regarding audit committees in local governments is a crucial issue in efforts to improve accountability and transparency in public financial management. Within the state financial management system, local governments have significant authority through the Regional Budget (APBD). This authority requires an effective oversight system to ensure efficient, transparent, and non-discretionary use of the budget. Public sector audits play a strategic role in ensuring accountability in local government financial management and increasing transparency in government financial reporting (Nasution dkk., 2026).

In the context of modern governance, the existence of an audit committee is a crucial instrument in an organization's oversight system. Audit committees provide independent assessments of the financial reporting process, the effectiveness of internal control systems, and the relationship between internal and external auditors. In the public sector, audit committees provide a means for government organizations to obtain independent review of government financial reports and their internal control systems.

The urgency of strengthening audit committee regulations is also related to the increasing complexity of regional financial management. Regional autonomy has given local governments greater responsibility for budget planning, implementation, and accountability. Without strong oversight, this complexity has the potential to lead to various irregularities in regional financial management. Research shows that a strong internal control system and management support for the internal audit function can improve the effectiveness of oversight within local governments (Mahmudah & Riyanto, 2016).

Furthermore, the existence of an audit committee is also closely related to efforts to prevent fraud or financial irregularities. Research on organizational governance shows that the simultaneous roles of the audit committee, internal control, and internal audit significantly influence fraud prevention efforts within an organization (Gusnardi, 2011).

On the other hand, the quality of internal audits in the public sector is also greatly influenced by the competence, independence, and professionalism of auditors. Various studies have shown that these factors significantly influence the quality of internal audits produced by government oversight agencies. (Rajafi dkk., 2024).

In Indonesian regional government practice, the internal oversight function is essentially carried out by regional inspectorates through the Government Internal Control System (SPIP). However, this oversight often faces various limitations, such as limited resources, institutional independence, and suboptimal follow-up on audit results. Therefore, the existence of an audit committee can strengthen the internal oversight function by providing an independent perspective in the evaluation of regional financial management (Sinlaeloe dkk., 2026).

Strengthening audit committee regulations in local governments can also improve the effectiveness of the relationship between internal and external auditors, particularly during audits conducted by the Supreme Audit Agency (BPK). Audit committees can act as a liaison, ensuring that audit recommendations are effectively implemented by local governments. In the organizational governance literature, audit committees are known to play a role in evaluating an organization's financial and operational performance and providing strategic recommendations to its leadership (Muslih, 2020).

Based on these various studies, strengthening regulations on audit committees in local governments is a strategic step in increasing accountability in regional financial management. Stronger regulations are needed to define the position, authority, independence, and working mechanisms of audit committees within the regional government structure. With a clear regulatory framework, audit committees can function optimally in overseeing regional budget (APBD) management, preventing potential state financial losses, and promoting transparent and accountable regional governance.

CONCLUSION

The management of the Regional Revenue and Expenditure Budget (APBD) is an important part of the state financial system that must be implemented transparently, accountably, and in accordance with the principles of good governance. Although the legal framework for regional financial management has been regulated through various laws and regulations, in practice, various problems are still found, such as weak internal supervision, potential budget irregularities, and suboptimal regional financial control mechanisms that can cause state financial losses. In these conditions, the existence of an audit committee has a strategic role as an independent oversight mechanism that can increase the effectiveness of the internal control system and ensure that APBD management is carried out in accordance with applicable legal provisions.

Therefore, strengthening regulations regarding audit committees in local governments is a crucial step in preventing state financial losses and increasing accountability in regional budget management, particularly in East Java Province. This regulatory strengthening should include clearer provisions regarding the institutional status of audit committees, the competency and independence standards of their members, and their authority to evaluate and oversee regional financial management. With stronger regulations and an effective oversight system, audit committees are expected to play an optimal role in increasing transparency, strengthening regional governance, and promoting more accountable and sustainable regional financial management.

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