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Local Government Financial Performance: The Role of Audit Findings, Capital Expenditure, and Follow-Up Actions on BPK Recommendations

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ABSTRACT

This study examines the effectiveness of Follow-up actions on BPK recommendations in explaning the relationship between audit findings, capital expenditure, and local government financial performance. This quantitative study aims to examine the effect of audit findings and capital expenditure on financial performance, with follow-up actions on BPK recommendations serving as a mediating variable. The sample consisted of regencies and cities in West Kalimantan during the 2021-2024 period, with a total of 56 observations, to examine the influence of local government financial performance. Data obtained from local government financial reports and semiannual audit reports published by the BPK were analyzed using WarpPLS. The results indicate that audit findings and capital expenditure do not affect the follow-up of recommendations, yet they significantly influence financial performance. Furthermore, follow-up actions have no significant effect on financial performance and fail to act as a mediator. This study concludes that BPK's follow-up recommendation mechanism has not yet served as an effective corrective tool.

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INTRODUCTION

The implementation of good governance relies heavily on transparent and accountable local government financial management, as regulated under Law No. 15 of 2004 concerning the Audit of State Financial Management and Accountability (BPK RI, 2004). To strengthen accountability in public financial management, the Supreme Audit Agency (BPK) conducts audits of local government financial statements. These audits serve as an essential mechanism for assessing the extent to which local governments their responsibilities in managing public resources. Financial performance reflects the effectiveness of local government financial management in managing revenues, expenditures, and other fiscal resources efficiently, effectively, and responsibly. Most local governments have consistently received unqualified audit opinions, but the BPK still identifies audit findings on weaknesses in local government financial management. However, an unqualified audit opinion does not necessarily indicate the absence of weaknesses in financial governance practices. Therefore, follow-up actions on BPK recommendations represent an important aspect in addressing audit findings and improving the quality of local government financial management. A similar condition can be

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observed in West Kalimantan Province, where local governments have obtained unqualified audit opinions. At the same time, the BPK has continued to report audit findings requiring corrective actions and proper implementation through follow-up on BPK recommendations (Badan Pemeriksa Keuangan, 2025).

According authors Novita Sari Naibaho & Kurnia Shanti, (2022), audit findings in local governments are primarily caused by weaknesses in the internal control system, inadequate resource management, significant misstatements, and non-compliance with applicable regulations. These audit findings are of major concern because they can reveal inefficiencies or irregularities that could negatively affect local government financial performance. Follow-up actions on BPK recommendations are a systematic effort to address audit findings, enhance financial management procedures, and improve accountability at the local government level. The responsibility to follow-up on BPK recommendations is specifically regulated in Article 20 of Law No. 15 of 2004, which states that the authoried officials are required to carry out the recommendations within 60 days after receiving the audit report. The extent of follow-up implementation of BPK recommendations reflects the commitment of local governments to improve the quality of financial management and to address weaknesses found in the audit process (Putra & Sentosa, 2021).

Local government financial performance is also influenced by capital expenditure management, in addition to audit findings and follow-up actions on BPK recommendations. The efficiency of capital expenditure allocation is an indicator of the ability of local governments to effectively use financial resources while promoting regional development and increasing the quality of public services. Capital expenditure is the money set aside for purchasing fixed assets that will benefit more than one fiscal year (Tumboimbela et al., 2025). Such expenditure is expected to help improve the quality of public services and to meet the goals of regional development. However, capital expenditure management has not always been done properly and efficiently. In 2022, the BPK audited the West Kalimantan Provincial Government and found that 28 capital expenditure projects costing Rp2,540,103,068.48 were not in compliance with applicable requirements. The problems discovered were a lack of scope of work, price variance, delays resulting in fines for late payments, and errors in calculation of unit prices. These results suggest that the management of capital expenditure is still a big concern. Weaknesses in capital expenditure management can obstruct the attainment of local government financial performance targets.

The relationship between audit findings, capital expenditures, the follow-up of recommendations issued by the BPK, and the financial performance of local governments can be explained through agency theory. According to Jensen & Meckling, (1976), an agency relationship arises when a principal delegates authority to an agent to perform specific tasks and make decisions on the principal's behalf. In the public sector, the public serves as the principal by entrusting local governments, as agents, with the responsibility of managing public resources and finances in an effective, efficient, and accountable manner. However, information asymmetry and differences in interests between the two parties may give rise to agency problems (Banjar Nahor et al., 2021). Therefore, effective oversight mechanisms are essential to ensure that local governments fulfil the responsibilities entrusted to them in an accountable manner. In this regard, the audit of the BPK, the findings of the audits, the execution of capital expenditures and the follow-up actions on BPK recommendations of the Agency are essential mechanisms of control and evaluation. These strategies help strengthen accountability in local financial management and, eventually, improve the financial performance of local governments.

There are many studies on the influence of audit findings and capital expenditures on the financial performance of local governments. The results, however, are still inconclusive. Audit findings have an effect on the financial performance of local government (Sedek & Kusumawati, 2024), however Agintha, (2024) arrived at a different conclusion.

Similarly, capital expenditures were found to have a significant effect on financial performance by (N. Maharani et al., 2025), while other studies reported no significant relationship (B. Maharani et al., 2024; Pangestu, 2023) In addition, only a limited number of studies have investigated the follow-up on BPK recommendations as a mediating variable (Iriawan & Usaid, 2025) further found that neither audit findings nor local government expenditures significantly affect the financial performance of local governments.

The conflicting findings reported in earlier research indicate that the relationships among audit findings, capital expenditure, follow-up on BPK recommendations, and the financial performance of local governments warrant further investigation. Inconsistencies indicate that the impacts and linkages among these factors are not yet fully understood. In addition, empirical studies evaluating these linkages in the regencies and municipalities of West Kalimantan Province are very sparse. Therefore, this study intends to analyse the influence of audit findings and capital expenditures on the financial performance of local governments, with BPK recommendations as mediating variables, in regencies and municipalities in West Kalimantan Province.

Audit findings show differences between the actual conditions of financial management and applicable standards or regulations (Jatimekar, 2018). This difference could be due to deficiencies in the internal control system, noncompliance with regulations, inaccuracies in financial reporting, or other irregularities (Junaedi & Nugraha, 2025). The more important the audit findings, the more important it is for local governments to take corrective action and follow up on BPK's suggestions. Previous research Fadhilsyah et al., (2025) suggests that audit findings have a substantial effect on the follow-up on BPK recommendations.

H1: Audit Findings influence Follow-Up on BPK Recommendations.

Capital expenditure is the expenditure of local government on the purchase of fixed assets that will provide benefits in the long term, used for more than 1 accounting year, and used to increase local assets or wealth including costs of maintenance in subsequent periods (Halim, 2018). Capital expenditure is generally connected with the acquisition of assets and building projects with large budgets and complex procurement procedures (Saputra & Kurniawati, 2025). These situations may result in the risk of non-compliance with applicable requirements if Capital expenditure is not adequately managed. Therefore, the follow-up on BPK suggestions is needed as a corrective mechanism. Previous studies have shown that capital expenditure affects the follow-up on BPK recommendations.

H2: Capital Expenditure influences Follow-Up on BPK Recommendations.

The audit findings revealed weaknesses in the internal control systems and breaches of the relevant laws and regulations. These situations show that there are still hurdles in the financial administration of local government that may negatively affect its financial performance. The aggregate of important audit findings reveals that financial governance in local administrations is inadequate, which can erode public confidence and weaken governmental accountability (Iriawan & Usaid, 2025). (Sedek & Kusumawati, 2024) found that the audit outcome influenced the discrepancy of local government financial performance.

H3: Audit Findings influence local government Financial Performance.

Capital expenditure plays an important role in generating fixed assets that support the implementation of government functions and the delivery of public services (Padang & Padang, 2023). The allocation of capital expenditure is closely associated with the improvement of public services, as it is expected to enhance the utilization of local assets and strengthen service delivery to the community (Angelina et al., 2020). Previous research conducted by N. Maharani et al., (2025) found that capital expenditure influences local

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government financial performance.
H4: Capital Expenditure influences local government Financial Performance.

Follow-up on BPK recommendations reflects local governments' efforts to address audit findings identified by the BPK by resolving weaknesses in financial management. Effective implementation of follow-up on BPK recommendations can strengthen internal control systems, improve regulatory compliance, and encourage more transparent, orderly, and accountable financial management practices (Junaedi & Nugraha, 2025). However, previous research by Iriawan & Usaid, (2025) indicates that the implementation of follow-up on BPK recommendations does not necessarily have a significant effect on improving local government financial performance.
H5: Follow-Up on BPK Recommendations influences local government Financial Performance.

The audit findings generally indicate serious weaknesses in the management of financial statements that require corrective efforts, as noted in the BPK recommendations (Junaedi & Nugraha, 2025). Theoretically, following up on BPK suggestions is an important corrective tool for minimising the negative impact of audit findings on financial performance. However, a new empirical study by Iriawan & Usaid, (2025) indicates that follow-up on BPK recommendations may not be a sufficient mediator of the association between audit findings and local government financial performance.
H6: The follow-up on BPK recommendations mediates the effect of audit findings on local government financial performance.

Investment is a vital catalyst for the region's progress, contributing to the development of key infrastructure and the betterment of public services (Rustiyani & Barus, 2023). Effective capital expenditure can boost local revenue and strengthen the financial performance of local governments. On the other hand, if budget execution is not sufficiently focused, it can lead to large differences and operational inefficiencies (Padang & Padang, 2023). Therefore, it is necessary to ensure strict oversight of the implementation of BPK ideas to realise accountability in capital expenditure management, thereby encouraging better local financial performance.
H7: The follow-up on BPK recommendations mediates the effect of capital expenditure on local government financial performance.

Based on the hypotheses, the conceptual framework is as follows.

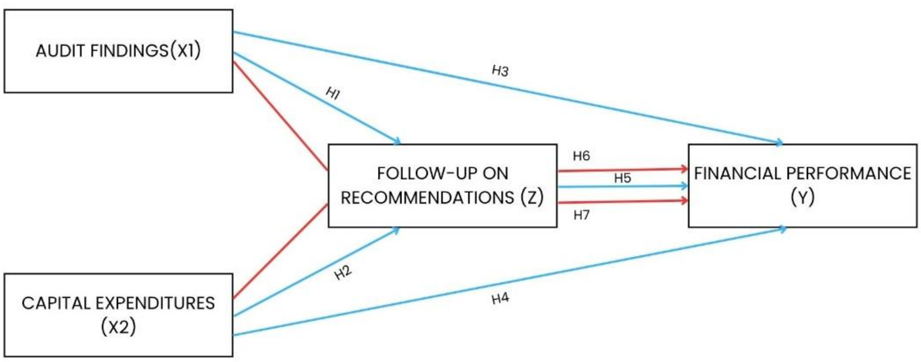

Figure 1. Conceptual framework
Source: Data processed by researchers (2026)

METHODS

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This study employs a quantitative methodology to examine the impact of audit findings and capital expenditure on financial performance, with the follow-up on BPK recommendations serving as a mediating variable. Data concerning capital expenditure and financial performance were obtained directly from the local government financial reports of each region. Metrics on audit findings and follow-up on BPK recommendations were extracted from the BPK's Semiannual Audit Findings Summary. The population and sample for this study encompass all regency and city governments in West Kalimantan Province over the 2021–2024 observation period. The research employs a mediation model in which Audit Findings and capital expenditure serve as independent variables, Financial Performance is the dependent variable, and follow-up on BPK recommendations serves as the mediating variable .

The independent variables in this study are audit findings and capital expenditure. The audit findings are measured by the natural logarithm of the total nominal value of findings issued by the BPK in Rupiah (Tania Angela et al., 2023). Similarly, capital expenditure is measured by applying the natural logarithm to the total capital expenditure of regencies and cities in West Kalimantan, expressed in Rupiah (Pangestu, 2023). The mediating variable is the follow-up on BPK recommendations. The assessment is carried out based on the ratio of the recommendations implemented in line with the auditor's instructions to the total recommendations submitted by the BPK (Iriawan & Usaid, 2025). Finally, financial performance is employed as the dependent variable, measured by the fiscal independence ratio, which is defined as the proportion of local own-source revenue to total transfer revenue (Mahmudi, 2019).

PLS-SEM executed via WarpPLS for data analysis due to its suitability for complex structural models involving mediation and its ability to handle potential non-linear relationships among constructs. The data analysis and hypothesis testing were performed beginning with assessing the measurement model (outer model) to evaluate the validity and reliability of the study constructs. In this step, outer loadings, collinearity statistics (Variance Inflation Factor/VIF), composite reliability, Cronbach's alpha, and Average Variance Extracted (AVE) were evaluated. Then, the structural model (inner model) was examined to evaluate the relationship patterns among variables and the model's explanatory power for the research constructs. This stage was carried out by testing R-Square, Predictive Relevance, Effect Size, path coefficients and indirect effects to confirm the mediating impact of the follow-up on BPK suggestions in the research model.

RESULTS AND DISCUSSION

Table 1. Descriptive statistics

Variable	N	Mean	Std. Deviation	Minimum	Maximum
Audit Findings	56	21.205	0.91	19.405	22.892
Capital Expenditures	56	26.17	0.447	25.254	27.231
Follow-up on Recommendations	56	61.372	19.475	20.29	91.304
Financial Performance	56	13.268	10.877	4.329	46.561

Source: Data processed by researchers (2026)

Descriptive data of 56 observations of regencies and cities in West Kalimantan Province are shown in Table 1. The mean value of the audit findings was 21.205 and the standard deviation was 0.910 whereas the mean value of the capital expenditure was 26.170 with a standard deviation of 0.447. The standard deviations of these variables are minor relative to their means, thus we can conclude that the distributions of audit results and capital expenditure data are quite stable across the regions examined. However, the

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pattern of follow up of BPK proposals and financial success is different. The average score of the follow-up of BPK suggestion is 61.372, with a standard deviation of 19.475, the minimum score of 20.290 and the maximum score of 91.304. The average financial performance was 13.268, with a standard deviation of 10.877, a minimum value of 4.329, and a maximum value of 46.561. The wide range and larger standard deviation for these two variables reflect considerable variability in the execution of follow-up on BPK recommendations and in financial performance among the researched local governments.

Table 2. Outer Model

Variable	Loading Factor	Composite Reliability	Cronbach Alpha	AVE	VIF
Audit Findings	1.000	1.000	1.000	1.000	1.000
Capital Expenditures	1.000	1.000	1.000	1.000	1.000
Follow-up on Recommendations	1.000	1.000	1.000	1.000	1.000
Financial Performance	1.000	1.000	1.000	1.000	1.000

Source: Data processed by researchers (2026)

The results of the assessment of the measuring model (outer model) prove that all research constructs, audit findings, capital expenditures, follow-up on BPK recommendations, and financial performance meet the requisite validity and reliability standards in full. As for convergent validity, the outer loading values are 1.000 for all variables, which are well above the minimum requirement of 0.70. In accordance with these findings, the reliability of constructs is strong. The Composite Reliability and Cronbach's Alpha for all latent variables were 1.000, which is significantly above the normal threshold of 0.70. This accuracy is also supported by the Average Variance Extracted (AVE) value of 1.000, indicating that each construct has a high ability to explain the variation in its indicators, well above the retention criterion of 0.50. In addition, the results of the Collinearity Statistics (VIF) test showed a VIF of 1.000 for all indicators, confirming the absence of multicollinearity in the research model. A VIF value of 1.000 indicates that the indicators are independent of each other and not excessively correlated. This ensures that the model estimation process is free from bias. A construct is considered valid and reliable if it achieves the criteria of outer loading ≥ 0.70, AVE ≥ 0.50, VIF < 5.00, and both Composite Reliability and Cronbach's Alpha ≥ 0.70 (Hair et al., 2021). Therefore, all constructs in this study are considered appropriate for proceeding with the investigation of the structural model (inner model).

Table 3. Path Coefficient

	Path coefficient	p-value
Audit Findings → Follow-up on Recommendations	-2.839	0.349
Capital Expenditures → Follow-up on Recommendations	-4.672	0.448
Audit Findings → Financial Performance	-3.118	0.048
Capital Expenditures → Financial Performance	9.954	0.002
Follow-up on Recommendations → Financial Performance	-0.102	0.151

Source: Data processed by researchers (2026)

The outcome analysis shows that audit findings had no significant effect on follow-up on BPK recommendations, with a path coefficient of –2.839 and a p-value of 0.349. The data imply that the increase in the number of audit findings does not necessarily lead to better follow-up on BPK recommendations. This is in accordance with research by Iriawan & Usaid, (2025), which states that the effectiveness of follow-up actions is more influenced by factors such as the commitment of local government, administrative capacity, coordination between units, and technical capacity to implement recommendations in accordance with existing regulations. This situation shows that local governments do not always respond to the BPK's supervision as an external control mechanism in the ideal manner predicted by agency theory. This leaves space for ongoing agency difficulties and knowledge asymmetry in local financial management.

The analysis shows that capital expenditure does not have a significant effect on the follow-up of BPK recommendations, with a path coefficient of -4.672 and a p-value of 0.448. The result suggests that the size of capital expenditure is not enough to drive the resolution of the BPK's recommendations. Although capital expenditure is frequently associated with high-risk activities during the audit process, the variation in the resolution of recommendations appears to be more heavily influenced by the quality of internal controls, the completeness of supporting documentation, the commitment of local government work units, and the promptness of the administration in addressing audit findings. Viewed through the lens of agency theory, the size of the capital expenditure budget does not necessarily reflect the quality of governance or the effectiveness of accountability mechanisms. Consequently, the resolution of audit recommendations is determined more by the local government's commitment and management quality than by the total volume of capital expenditure under its management.

The results of the analysis demonstrate that the effect of audit findings on financial performance is considerably negative, with a path coefficient of -3.118 and a p-value of 0.048. The data reveal that the more audit findings there are, the poorer the financial performance of local governments. Essentially, the results show systematic failures in internal controls, non-compliance with statutory laws, and persistent problems in financial administration that erode efficiency, accountability and the overall quality of local financial management. This result is consistent with research by Sedek & Kusumawati, (2024), which states that audit findings from the BPK financial performance when they indicate substantial lack of integrity in financial statements. Agency theory posits that audit outcomes facilitate equity between principals and agents by supplying essential information for oversight. Diminished administrative oversight directly affects the fiscal performance of local governments, as an increase in audit findings signals poor financial stewardship and higher agency expenses.

The analytical results show that capital expenditure has a significant positive effect on financial performance, with a path coefficient of 9.954 and a p-value of 0.002. The findings show that the government's financial performance is positively correlated with increases in capital expenditure, mainly due to the purchase of fixed assets, the promotion of infrastructure development, and the improvement in the quality of public services. These results are consistent with the findings of Desky et al., (2023) and N. Maharani et al., (2025), which indicate that capital expenditure enhances financial performance through strategic investment in local assets and public infrastructure. From an agency theory standpoint, smart management of capital expenditure demonstrates the government's ability, as an agent, to use public resources transparently and accountably. Good management of this kind promotes the principal's confidence and ultimately enhances the financial performance of local governments in general.

With a p-value of 0.151, the analysis results indicate that follow-up on the BPK's recommendations does not have a significant effect on financial performance, as evidenced by a path coefficient of -0.102. This finding is consistent with the research by Iriawan & Usaid, (2025), which highlights that compliance with the BPK's recommendations has not yet translated into measurable improvements in financial performance. The lack of significance in this relationship can be explained by the fact that local governments often treat the follow-up process as a mere administrative formality rather than as a substantive effort to address weaknesses in financial management. In practice, local governments tend to prioritize meeting formal requirements such as submitting supporting documents or

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settling financial obligations to comply with audit follow-up provisions. Consequently, although these actions demonstrate compliance with the audit process, administrative resolutions do not always address operational inefficiencies or structural weaknesses in local financial management. Thus, improvements in local government financial performance do not automatically enhance the quality of follow-up on BPK recommendations, as the effectiveness of such follow-up is more influenced by local governments' ability to strengthen internal control systems, engage in institutional learning, and ensure a commitment to implementing recommendations at the managerial and operational levels. Consequently, follow-up on BPK recommendations that is focused solely on administrative compliance has not yet had a substantive impact sufficient to improve the overall efficiency, effectiveness, and fiscal capacity of local governments.

Table 4. Indirect Effect

Mediation Process	Sobel Z-value	p-value
Audit Findings → Follow-up on Recommendations → Financial Performance	0.734	0.463
Capital Expenditures → Follow-up on Recommendations → Financial Performance	0.653	0.514

Source: Data processed by researchers (2026)

Table 4 presents the indirect effect testing, demonstrating that follow-up actions on BPK recommendations fail to mediate the relationship between audit findings and financial performance (Sobel Z-value = 0.734, p-value = 0.463), as well as the relationship between capital expenditure and financial performance (Sobel Z-value = 0.653, p-value = 0.514). From a theoretical standpoint rooted in agency theory, the follow-up mechanism was initially expected to function as a vital internal control channel. Ideally, this oversight mechanism is intended to transmit the corrective effects of audit findings and the strategic monitoring of capital expenditure directly into improved financial performance by mitigating information asymmetry and reducing agency costs between the public (principal) and the local government (agent).

However, the non-significant mediation findings indicate a distinct decoupling between procedural compliance and tangible financial governance improvements. The inability of follow-up actions to serve as a mediator suggests that local governments often treat the resolution of BPK recommendations as merely an administrative obligation rather than a substantive corrective action. In practice, local authorities tend to prioritize fulfilling formal requirements to meet the 60-day statutory deadlines, such as submitting overdue documents, clarifying reporting formats, or settling minor financial restitutions. Crucially, this administrative completion is rarely followed by fundamental improvements in internal controls, asset management, or overall governance architecture. Consequently, while the follow-up compliance rate may appear high on paper, it does not actually resolve the underlying operational inefficiencies or the root causes of the audit findings, as evidenced by the recurring financial management issues across local governments in West Kalimantan.

This empirical evidence ultimately leads to a stronger theoretical argument: formality administrative compliance is inherently insufficient to act as a transmission mechanism for enhancing financial performance. Because follow-up actions are largely confined to remedial paperwork and superficial compliance, they lack the structural capacity to channel the impacts of audit findings or capital expenditure into a more resilient financial performance. Instead, variables such as capital expenditure enhance financial performance directly through the tangible acquisition of public assets and infrastructure development, entirely bypassing the administrative constraints of the audit follow-up process. Therefore, the mechanism of following up on BPK recommendations has not yet functioned effectively as a strategic mediator in local government financial governance.

Table 5. R-Square and Predictive Relevance

Variable	R^2	Q^2
Follow-up on Recommendations	0.037	0.037
Financial Performance	0.216	0.216

Source: Data processed by researchers (2026)

R-square for Follow-up on BPK Recommendations is 0.037, as shown in Table 5. This means that the variance in the follow-up of BPK recommendations is explained by 3.7% by audit findings and capital expenditure. In comparison, the remaining 96.3% of the variance is explained by factors outside the research model. These findings are consistent with the preceding results in Table 2 and demonstrate that the number of audit findings and the size of capital expenditure do not appropriately reflect the execution of recommendations. Other factors, such as the dedication of regional leadership, the competence of government officials, inter-unit coordination, and the strength of internal control mechanisms, likely have a greater impact on the effective resolution of these proposals.

The R-squared value for the financial performance variable is 0.216. This means that the simultaneous effect of audit findings, capital expenditure, and follow-up on the BPK recommendations on Financial Performance is 21.6%. In comparison, the remaining 78.4% is influenced by other variables not included in the research model. This means that the model has low explanatory power, but it still has a measurable contribution from the investigated variables. Moreover, the Q-squared values for Follow-up on BPK suggestions (0.037) and financial performance (0.216) are greater than 0. This shows that the research model has sufficient predictive significance. The model's overall predictive power is moderate.

Table 6. Effect Size

Relationship between variable	f^2	Interpretasi
Audit Findings → Follow-up on Recommendations	0.017	Small
Capital Expenditures → Follow-up on Recommendations	0.011	Small
Audit Findings → Financial Performance	0.081	Medium
Capital Expenditures → Financial Performance	0.176	Medium
Follow-up on Recommendations → Financial Performance	0.032	Small

Source: Data processed by researchers (2026)

The results of the structural model testing support that the effect size of the relationship between audit findings and the follow-up on BPK recommendations is 0.017, and the impact size of the path between capital expenditure and the follow-up on BPK recommendations is 0.011. Both values are in the minor group, indicating that these variables make minimal contributions to the explaination of the implementation of the BPK's recommendations. Similarly, the association between the follow-up on BPK advice and financial performance is categorised as minor, with an impact size of 0.032. Meanwhile, the association between audit findings and financial performance is 0.081, and the relationship between capital expenditure and financial performance is 0.176, both of which are characterised as moderate. The finding shows that the strongest contribution to the model is the association between capital expenditure and financial performance, and the other paths in the study framework are less informative.

In general, the data analysis shows that audit findings and capital expenditure are more effective at explaining the diversity in financial performance than follow-up on BPK recommendations. The audit findings relate to financial performance, as they indicate internal control, regulatory compliance, and overall accountability in financial management within local government. At the same time, capital expenditure affects financial performance, as its allocation enables the creation of productive assets and increases the capacity to deliver public services. In contrast, follow-up on BPK suggestions was not shown to play a strong role as a dependent variable influenced by audit findings and capital expenditure, or as a mediating variable linking the two to financial performance. Hence, the rates of their completion alone cannot be used to properly assess the success of the BPK' s recommendations. Instead, the assessment should take into account the depth of corrective improvements, the sustainability of actions taken, and the efficacy of these efforts in addressing the root causes of issues within local government financial management.

CONCLUSION

The empirical findings of this study indicate that neither audit findings nor capital expenditure significantly affects follow-up actions on BPK recommendations. However, both variables exert a significant direct effect on local government financial performance. Conversely, follow-up actions on BPK recommendations do not influence financial performance and fail to mediate the relationship between audit findings, capital expenditure, and the financial performance of local governments. These results highlight that the follow-up mechanism has not yet demonstrated a significant mediating role in the observed research model.

These findings offer critical insights for key stakeholders in public financial management, including the BPK, local government inspectorates, regional heads, financial-management officials, and policymakers responsible for public accountability. Because the administrative completion of recommendations does not inherently translate into substantive financial improvements, it is strongly recommended that BPK and local governments shift their evaluation paradigm. Rather than merely measuring recommendation-completion percentages to fulfill statutory deadlines, BPK needs to strengthen the monitoring of follow-up quality, track recommendations iteratively, and evaluate the root causes of recurring governance weaknesses. Concurrently, local governments must focus on strengthening their internal control systems and improving the quality and effectiveness of capital expenditure allocations. By prioritizing these structural improvements, the follow-up mechanism can evolve from a procedural compliance tool into a strategic trigger for enhancing regional financial performance.

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