

# Compliance Risk Analysis in the Internal Supervision by Government Internal Supervisory Apparatus (APIP)

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## ABSTRACT

This study aims to identify compliance risks in internal supervision conducted by the Government Internal Supervisory Apparatus (APIP) at Ministry X and develop effective mitigation strategies. The population comprises employees engaged in internal supervision activities at the ministry. Using purposive sampling, five participants with at least 10 years of experience in internal supervision and a deep understanding of the ministry's business processes were selected. This qualitative research adopts a case study approach, collecting data through in-depth interviews and Focus Group Discussions (FGDs). The research identifies compliance risks in three key activities: audits, financial statement reviews, and budget plan reviews. The main causes of these risks are unbalanced workloads, time pressures, and insufficient resource allocation, which hinder adherence to standard procedures. The FGDs provided insights into mitigating these risks through prioritizing tasks in audit procedures, forming specialized audit and review teams based on workload and competency, and improving coordination among oversight units to ensure balanced distribution of tasks. The study concludes that applying these mitigation strategies can enhance the quality of internal supervision and reduce compliance risks, thereby improving the overall effectiveness of APIP's oversight functions and contributing to better governance within public institutions. The findings offer valuable recommendations for improving supervision practices in the public sector.

**Keywords:** Compliance Risk, Government Internal Supervisory Apparatus (APIP), Internal Supervision, Public Sector, Risk Mitigation

## INTRODUCTION

Risk management has become a cornerstone of modern organizational governance, applicable to both public and private sectors. A structured risk management process enables organizations to direct and control the risks they face, thereby making more informed decisions based on potential impacts on corporate value (Vorst, Priyarsono, & Budiman, 2018). In the context of government, attention to risk management has been increasing alongside the growing complexity, uncertainty, and volatility of the environment (VUCA). This rapid change demands that government organizations take a more serious approach to implementing comprehensive and systematic risk management practices to create and protect organizational value (Priyarsono, et al., 2023).

However, the implementation of risk management in the public sector, particularly in Indonesia, still faces numerous challenges. Various studies have shown that the application of risk management in government institutions has not yet been fully effective. Factors such as lack of understanding, low awareness, and limited resources are the main barriers to optimal implementation (Ahmad, 2019). Furthermore, data from the Financial and Development Supervisory Agency (BPKP) indicate that most government institutions have not succeeded in conducting adequate risk assessments (Kamal, BPKP, & Unida, 2020). This condition creates a gap

between regulatory expectations and the reality on the ground, potentially disrupting the effectiveness of internal supervision.

In government management, internal supervision in public sector institutions, especially those conducted by the Government Internal Supervisory Apparatus (APIP) in ministries, plays a crucial role in ensuring that every policy and program implemented by public institutions complies with applicable regulations and standards. This supervision is carried out through audit activities, reviews, monitoring, evaluation, and other supervisory activities. One of the main aspects supervised by APIP is compliance, where government institutions are expected to perform their functions and duties according to established laws, regulations, and guidelines. A critical issue faced by APIP is the high number of findings and recommendations from the Supreme Audit Board (BPK) directed at work units within the ministry. The numerous findings of non-compliance with regulations and the recommendations that need to be followed up indicate that the supervision conducted has not been optimal (Keuangan, 2023).

In carrying out these supervisory duties, APIP often faces various compliance risks that can affect the effectiveness and efficiency of internal supervision and the quality of the outcomes achieved. External challenges such as cases of corruption, collusion, and nepotism (KKN) (Wardhaningrum & Kartika, 2020), as well as ineffective financial management, and internal challenges such as limited human resources and budget allocations disproportionate to the supervisory tasks, are significant risks faced. Therefore, compliance risks often become a major challenge affecting the effectiveness of supervision. Non-compliance with standard procedures can reduce the quality of supervision and damage the credibility of the resulting reports. This phenomenon highlights a gap in supervisory practices that requires further attention.

With the increasing complexity and dynamics of the supervisory environment, there is an urgent need to adopt more effective risk management approaches in internal supervision. This study seeks to address this challenge by exploring compliance risk mitigation strategies within internal supervision activities in the public sector. The research will focus on how APIP can develop strategies that not only fulfill regulatory requirements but also enhance supervisory effectiveness and governance. Previous studies have largely focused on general risk management, while this research will contribute new insights by concentrating on compliance risks in the context of internal supervision in the public sector. Therefore, the main objective of this study is to identify compliance risks in internal supervision, analyze the root causes, and formulate better mitigation strategies. The results of this research are expected to make a significant contribution to improving the effectiveness of internal supervision and helping the government achieve more transparent, accountable, and corruption-free governance.

## LITERATURE REVIEW

### Previous Research

Previous research highlights the critical importance of risk management in public organizations. Risk management serves as a crucial tool for preventing or mitigating financial losses and enhancing service quality. Any weaknesses in risk management can negatively impact financial management and the results of annual audits (Meyer, Meyer, & Kot, 2017).

Furthermore, the consequences of ineffective risk management on organizational operations have also been emphasized. Deficiencies in risk management can lead to serious repercussions for organizational performance, including effects on audits and governance (Blue, Barzideh, & Abhari, 2020). A key aspect of risk management is the strategic role of internal auditors in supporting the risk management process. Internal auditors not only act as monitors but also serve as change agents who help organizations adapt to evolving risk dynamics (Weekes-Marshall, 2020).

Other research has focused on the role of the Government Internal Supervisory Apparatus (APIP) in the public sector. APIP plays a strategic role in ensuring compliance with regulations and standards, while also being expected to serve as change agents that drive the creation of added value in public products or services. Hence, APIP's role is vital in maintaining good governance and achieving clean government (Mujiastono, Mardiansyah, & Wiwaha, 2019).

In a study on risk assessment in government agencies, it was found that it is crucial to consider the most significant risks during the assessment process and to design appropriate mitigation

strategies. Effective risk management enables government agencies to achieve optimal outcomes and enhance operational efficiency (Kamal, BPKP, & Unida, 2020).

In comparison, a study on risk management within public financial systems highlighted that sound risk management practices help organizations achieve better outcomes by reducing the likelihood and impact of undesirable risks (Achmad, Rosdiana, & Nurmantu, 2018).

### METHODS

This study adopts a qualitative approach, employing a case study method focused on internal supervision conducted by the Government Internal Supervisory Apparatus (APIP) within Ministry X. This approach was chosen to facilitate an in-depth exploration of the causes of compliance risks in internal supervision and to formulate more effective mitigation strategies (Alani & Mahjoob, 2021). The study encompasses oversight activities such as the review of budget plans, financial report reviews, and audits within the relevant institutions.

The research participants consist of employees at Ministry X who are key personnel involved in internal supervision activities. The sampling technique employed is purposive sampling, whereby participants were selected based on their relevance and expertise in risk management and internal supervision. The sample includes five individuals with positions aligned with the structure of the supervisory task force, chosen based on the following criteria:

- 1) Employees with a minimum of 10 years of experience in internal supervision,
- 2) Individuals with a deep understanding of the institution's business processes,
- 3) Personnel with experience in implementing risk management within the context of supervision.

Primary data for this study was directly collected from these participants through in-depth interviews and Focus Group Discussions (FGDs). The participants are experts and practitioners with extensive experience in internal supervision and risk management. Primary data collection was conducted via interviews, utilizing brainstorming techniques to identify compliance risks, their causes, and impacts. The formulation of risk mitigation strategies was conducted through FGDs. Both interviews and FGDs were held with participants selected based on their experience and expertise.

The data analysis technique employed is descriptive. The stages of analysis involve processing the primary data from interviews to identify potential compliance risks that may arise in internal supervision, analyzing their root causes and impacts, and subsequently formulating mitigation strategies through FGDs with the participants. The data were analyzed to ensure that the proposed strategies are effective in reducing compliance risks. This study aims to make a significant contribution to the development of improved compliance risk mitigation strategies in the public sector.

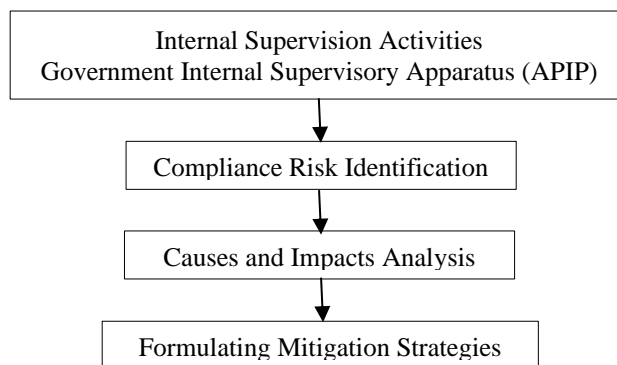


Chart 1. Research flow

### RESULTS

Compliance risk refers to the risk arising from the failure of an organization or external parties to adhere to or implement applicable laws and regulations. This study identified three compliance risk cases that occurred across three internal supervision activities: audits, financial statement reviews, and budget plan reviews. These results were obtained through a systematic process

involving risk identification, analysis of causes and impacts, and the formulation of mitigation strategies through Focus Group Discussions (FGD).

The risk identification process began with in-depth interviews with five respondents selected based on their relevance and experience in internal supervision. Brainstorming techniques were employed during the interviews to explore potential compliance risks in the supervision activities. The interviews revealed that compliance risks occurred in three main activities: audits, financial statement reviews, and budget plan reviews

Once the risks were identified, further analysis was conducted to understand the underlying causes and their impacts. For example, in audit activities, non-compliance was caused by time constraints faced by the audit team, where multiple tasks had to be completed simultaneously. This created a risk of undetected issues, leading to suboptimal audit outcomes. Similarly, in financial statement reviews and budget reviews, the primary cause of non-compliance was disproportionate workloads, both in terms of time and human resources. This resulted in inaccurate reviews, which could reduce the credibility of the reports.

Through FGD sessions with experts, mitigation strategies were formulated for each analyzed risk. In audit activities, the proposed mitigation strategy involved setting priorities in the work procedures, ensuring a clear audit focus, and implementing tiered reviews to minimize the potential for non-compliance. For the financial statement and budget reviews, the mitigation strategies included forming review teams based on workload and competence, and coordinating with other oversight units to augment the audit staff with additional reviewers

Based on the identification, analysis, and formulation of mitigation strategies, it was found that compliance risks in internal supervision had a significant impact on organizational performance, particularly in the accuracy of audit and review results. The implementation of the proposed mitigation strategies is expected to reduce these risks and enhance the effectiveness of internal supervision by APIP.

Table 1. List of identified compliance risks, causes, impacts, and proposed mitigation strategies

Activity	Risk	Cause	Impact	Risk Mitigation
Audit	Non-compliance of the audit team with audit procedures/work steps	Limited audit time due to multiple concurrent tasks	Potentially undetected issues	Prioritizing work procedures, focusing the audit scope, and conducting tiered reviews
Financial Report Review	Non-compliance of the review team with financial report review procedures	Review auditors handling multiple assignments simultaneously	Unreliable and inaccurate review results, potentially damaging credibility	Assigning review teams according to workload and competence, and coordinating across supervisory units to obtain auditor resources for review tasks
Budget Plan Review	Non-compliance of the review team with budget plan review procedures	Disproportionate workload (inadequate time and human resources relative to the number of work units to be reviewed, or review auditors handling multiple assignments simultaneously)	Unreliable and inaccurate review results, potentially damaging credibility	Assigning review teams according to workload and competence, and coordinating across supervisory units to obtain auditor resources for review tasks

Source: Data processed from interviews and FGD

## DISCUSSION

Non-compliance during audit activities arises when the audit team fails to consistently adhere to established procedures and work steps. This risk can manifest at various stages of the audit

process, from planning and execution to reporting. When the audit team does not follow the expected methods and standard procedures, the quality of the audit outcomes may decline, and the credibility of the audit process itself can be jeopardized. A primary cause of this non-compliance often relates to the time constraints faced by the audit team. When the team is confronted with multiple audit tasks simultaneously, they are forced to operate under tight time pressures. Inadequate resource allocation, whether in terms of personnel or technical expertise, may also lead the team to compromise on thoroughness during the audit. As highlighted by Abdillah et al. (2020), in their effort to meet deadlines, the audit team might be tempted to skip crucial procedures or take shortcuts that deviate from the standard.

As highlighted by Meyer et al. (2017), the impact of non-compliance with audit procedures can be substantial. When audit teams fail to adhere to established steps, they may overlook critical issues within the organizational unit, such as potential deviations, errors, or even indications of fraud. This non-compliance can result in audit reports that are invalid or inaccurate, which in turn could mislead decision-making at the management level. Consequently, it is not only the audit outcomes that are at stake, but also the reputation of the audit team and the trust that the organizational unit places in the audit process as a whole. These findings are consistent with research by Kholifahtul and Sari (2021), as well as Broberg et al. (2017), who note that time pressures can significantly degrade the quality of audits performed by auditors. However, this situation may differ from the findings of Rosiana et al. (2019) regarding audits conducted by Public Accounting Firms (KAP) in the private sector. Such differences may be attributed to the varying levels of business complexity between the public and private sectors..

To address this risk, the audit work program (PKA) prepared by the team leader is often insufficiently effective as it tends to be too broad and general. Thus, setting clear priorities within the work procedures and audit focus becomes crucial. The audit team must first identify the most critical areas to be audited and allocate resources and time with priority on those areas. This mitigation approach is supported by the study of Amaraneyssa and Amin (2024), which states that focusing on the most significant factors enhances audit quality. The use of a tiered review mechanism is also essential to ensure that each audit step has been properly followed. Moreover, the audit team should be trained in better workload management and receive management support to avoid excessive dual assignments. By implementing these mitigation measures, the audit team is expected to consistently adhere to work procedures and reduce the risk of failing to detect existing issues.

Compliance risks are also evident in the review processes, both in financial statement reviews and budget plan reviews, representing a significant risk that can undermine the quality of oversight. These risks arise when reviewers fail to adhere to established procedures or work steps, often due to disproportionate workloads. Review auditors frequently face multiple assignments simultaneously, forcing them to manage various tasks within limited timeframes. This situation is exacerbated by insufficient time and human resource allocation compared to the number of units that need to be reviewed, making it challenging for reviewers to perform their duties optimally. These findings are consistent with the study by Manurung et al. (2018), which suggests that increasing workload reduces auditors' ability to detect errors in their tasks, ultimately diminishing the quality of their performance.

The consequences of non-compliance with procedures are highly significant (Meyer, Meyer, & Kot, 2017). When review procedures are not properly followed, the resulting review outcomes may become unreliable and inaccurate, ultimately undermining the credibility of the entire review process (Kholifahtul & Sari, 2021) (Broberg, Tagesson, Argento, Gyllengahm, & Mårtensson, 2017). Review results that do not accurately reflect the actual condition of the work unit can lead to inappropriate or even incorrect recommendations, potentially impacting the performance of the work unit and the organization as a whole. Furthermore, if the review outcomes are deemed untrustworthy, the reputation of APIP as an internal supervisory body could also be at risk.

To minimize this risk, a well-structured and comprehensive mitigation approach is required. One effective measure is forming a review team, where members are selected based on workload and their respective competencies to enhance performance efficiency. This aligns with the findings of Weekes-Marshall (2020). It is also crucial to ensure careful planning of assignments, allowing

each reviewer sufficient time to complete their tasks according to established procedures. Furthermore, coordination between supervisory units is vital to ensure the availability of auditors as reviewers, so that the workload can be distributed more evenly. This way, each reviewer can focus on their designated tasks without being overburdened by disproportionate additional responsibilities, ultimately improving the quality and reliability of the review results.

Applying the research of Meyer et al. (2017) with a deep understanding of risk management can significantly assist in identifying and assessing risks more effectively, thereby reducing the likelihood of substantial losses. The implementation of these findings is crucial for enhancing the compliance of audit and review teams with established work procedures. By improving compliance, APIP can ensure that the audit and review processes are conducted according to expected standards, thus elevating the quality and credibility of supervisory outcomes. Further research is needed to explore how effective workload management can be applied in audit and review teams. Case studies from other organizations that have successfully managed workloads can offer valuable insights for implementation in institutions.

### CONCLUSION

This study successfully identified three major compliance risks in internal oversight activities: non-compliance with audit procedures, financial statement reviews, and budget plan reviews. The primary causes of these compliance failures are unbalanced workloads, time constraints, and inadequate resource allocation. The consequences of non-compliance are significant, including the potential for undetected errors, diminished credibility of oversight results, and damage to the reputation of APIP as an internal supervisory body.

To address these risks, the study emphasizes the importance of implementing comprehensive mitigation strategies. These strategies include establishing clear priorities in work procedures, forming audit and review teams based on workload and competencies, and enhancing coordination between supervisory units to ensure a more balanced workload distribution (Ahmad, 2019). Through these measures, it is expected that the quality and reliability of oversight results will improve, and compliance risks will be minimized.

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