

Risk Management and Government Internal Control System (SPIP) on Government Financial Performance

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Abstrak

Studi ini mengkaji pengaruh manajemen risiko dan Sistem Pengendalian Intern Pemerintah (SPIP) terhadap kinerja keuangan pemerintah daerah di Indonesia. Penelitian ini menggunakan data dari pemerintah provinsi, kabupaten, dan kota untuk periode 2021–2022, menghasilkan sampel akhir sebanyak 1.080 observasi yang dipilih secara purposive sampling. Melalui analisis regresi linier berganda, hasilnya menunjukkan bahwa manajemen risiko dan SPIP memiliki pengaruh positif yang signifikan terhadap peningkatan kinerja keuangan pemerintah daerah. Temuan ini menyoroti perlunya penguatan manajemen risiko dan mekanisme pengendalian internal untuk mencapai tata kelola keuangan yang lebih transparan, akuntabel, dan efisien di seluruh daerah, yang pada akhirnya meningkatkan capaian fiskal daerah. Studi selanjutnya disarankan untuk memperluas cakupan dengan mengikutsertakan pemerintah daerah dengan konteks ekonomi dan geografis yang beragam untuk mendapatkan perspektif yang lebih komprehensif. Selain itu, mengintegrasikan faktor eksternal seperti kondisi sosial, kebijakan daerah, dan mengadopsi metode kualitatif seperti wawancara atau observasi lapangan dapat memberikan wawasan yang lebih mendalam tentang implementasi SPIP dan manajemen risiko.

Kata Kunci: Kinerja Keuangan Pemerintah; Manajemen Risiko; Sistem Pengendalian Intern Pemerintah (SPIP)

Abstract :

This study investigates the influence of risk management and the Government Internal Control System (SPIP) on the financial performance of local governments in Indonesia. The research employs data from provincial, regency, and city governments for the 2021–2022 period, resulting in a final sample of 1,080 observations selected using purposive sampling. Through multiple linear regression analysis, the results reveal that both risk management and SPIP have a significant positive effect on enhancing local government financial performance. These findings highlight the necessity of strengthening risk management and internal control mechanisms to achieve more transparent, accountable, and efficient financial governance across regions, ultimately improving local fiscal outcomes. Future studies are recommended to broaden the scope by including local governments with varying economic and geographic contexts to gain a more comprehensive perspective. Additionally, incorporating external factors such as social conditions, local policies, and adopting qualitative methods like interviews or field observations could provide deeper insights into SPIP and risk management implementation.

Keywords: Government Financial Performance; Risk Management; Government Internal Control System (SPIP)

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INTRODUCTION

Government financial performance plays a crucial role in ensuring the sustainability and effectiveness of national budget management. This performance reflects the government's ability to plan, manage, and allocate financial resources efficiently to achieve national development objectives. However, challenges remain in the implementation of bureaucratic reform and local financial management, particularly related to weak oversight mechanisms, which often lead to consumptive behavior, inefficiency, and a lack of transparency within local governments (Setyasih, 2023). In addressing the challenges of achieving optimal financial performance, risk management and the Government Internal Control System (SPIP) play a highly crucial role. Risk management helps identify and mitigate potential risks associated with inefficiencies in budget management, such as fund misappropriation and improper budget allocation. Several studies have suggested that government financial performance is influenced by various factors, including the quality of risk management and the effectiveness of internal control system (Rubi & Fitra, 2025). In addition, effective and efficient local financial management can support the achievement of sustainable regional development. Sustainable regional development which encompasses sectors such as education, health, and infrastructure contributes significantly to improving the overall quality of life of the community (Vivian et al., 2024). Empirical evidence provided by subsequent studies, such as those conducted by Umami Khikmah et al., (2024) Further research also indicates that transparency, accountability, and internal control systems have a positive influence on the quality of local government financial reports. Several studies, such as those conducted by Agustiningtyas et al., (2020) .found that good governance and the Government Internal Control System (SPIP) have a significant positive effect on the quality of local government financial reports. Pane (2018) Further research also indicates that transparency, accountability, and internal control systems have a positive influence on the quality of local government financial reports. Several studies, such as those conducted by previous researchers, found that good governance and the Government Internal Control System (SPIP) have a significant positive effect on the quality of local government financial reporting. Moreover, other studies found that the implementation of an effective internal control system can reduce fraudulent behavior, which in turn enhances the quality of financial reporting and improves public service delivery. In addition, Yurika Aulia et al., (2024) also emphasize the importance of transparent and accountable financial management, which can reduce the likelihood of errors in budget management and improve the efficiency of resource utilization within the public sector. However, a research gap remains in that previous studies were largely confined to local-level analyses, necessitating an expansion to a national scale in order to provide a more comprehensive and contextually relevant understanding of financial governance across Indonesia. Therefore, this study aims to analyze the role of risk management and the Government Internal Control System (SPIP) in improving government financial performance at the national level across Indonesia, as well as to examine the influence of these two factors on the effectiveness of national budget management. Furthermore, this study seeks to explore the impact of transparency and accountability in budget management on efficiency and the quality of public service delivery, while also identifying external factors that may affect the effectiveness of

internal control systems in public financial management in the future. Accordingly, the research questions of this study are as follows: (1) Does risk management play a role in improving local government financial performance? (2) Does the Government Internal Control System (SPIP) contribute to enhancing local government financial performance?

The Law No. 23 of 2003 on Regional Government stipulates that local governments are granted autonomy to regulate and manage their respective regional affairs. Accordingly, government financial performance refers to the government's ability to plan, manage, and allocate financial resources effectively to support the achievement of predetermined development objectives. Ella Priskila (2023) In addition, sound financial performance reflects the effectiveness and efficiency of fund management, which in turn contributes to improving the quality of public services and achieving national development goals. To realize this commitment, local governments strive to achieve these objectives through the guidelines set by the Financial and Development Supervisory Agency (BPKP), as stipulated in the Government Regulation of the Republic of Indonesia No. 60 of 2008 on the Government Internal Control System (SPIP), which requires every government institution to implement risk management as an integral component of its internal control efforts. Effective risk management can enhance the quality of public financial management and reduce the likelihood of errors in budget administration (De, 2018) Properly implemented risk management can prevent waste and errors in budget utilization. Law No. 17 of 2003 on State Finance emphasizes the importance of oversight in public financial management, thereby requiring that internal control systems be capable of minimizing the risk of budget misuse and enhancing the efficiency of fund allocation. Marfo Oduro & Cromwell (2018) This study examines the importance of the internal control system in the public sector, particularly within local governments, and how this system can help prevent fraud while enhancing the transparency and accuracy of financial reporting.

The regulation ensures that every government institution adheres to the principles of accountability in the use of public funds and clearly outlines how these two elements are integrated to ensure their effectiveness and efficiency (Setiawan et al., 2024). The existing phenomena, such as weak oversight and inaccuracies in financial reporting, highlight the need for stricter regulations and more effective implementation to achieve optimal financial performance. Therefore, the enforcement of clear and stringent regulations will strengthen the role of the Government Internal Control System (SPIP) in promoting more transparent, accountable, and efficient public financial management, ultimately leading to improved financial performance of local governments in Indonesia.

Several key findings and contributions of this study can be summarized as follows. First, the study demonstrates that effective risk management has a positive influence on government financial performance. The implementation of a structured risk management framework enables local governments to be more proactive in identifying and managing potential risks that may hinder the efficient use of budgetary resources. This leads to more transparent and accountable financial management, which in turn enhances local government financial performance as expected. The results of this study contribute to the development of previous research, such as that conducted by Rachmatus Solikhah (2019) which analyzed the role of risk management in improving the financial performance of local

governments Furthermore, several studies have found that a high level of SPIP (Government Internal Control System) capability reflects a correspondingly strong capacity, thereby making the oversight function of risk management and internal control more effective in managing local government finances. This, in turn, positively impacts government financial performance, enabling it to achieve the expected outcomes. The results of this study also contribute to the development of previous research, such as that conducted by (Indriasih, 2014) dan (Stie et al., 2020) which analyzed the role of SPIP in improving government financial performance.

Previous studies have primarily focused on the quality of risk management and internal control systems in the short term, without considering their long-term impact on public financial management. This study offers a novel contribution by analyzing the impact of risk management and the Government Internal Control System (SPIP) on the financial performance of local governments in Indonesia. Therefore, the objective of this research is to conduct an in-depth analysis of the influence of risk management and SPIP on government financial performance in Indonesia, as well as to explore how transparency, accountability, and efficiency in budget management contribute to improving the quality of public services and achieving sustainable regional development.

Based on data from 2021–2022, with a total sample of 1,080 observations consisting of provincial, regency, and city governments, this study generally finds that risk management significantly influences the sustainability of government financial performance. In addition, the findings indicate that the Government Internal Control System (SPIP) plays an important role in enhancing government financial performance. However, this study has several limitations that should be acknowledged. First, the temporal limitation restricts the understanding of how changes in risk management and internal control policies may affect financial performance over the long term. Second, this study does not yet account for other external factors that may influence public financial management, such as social conditions, economic circumstances, and local policy variations.

LITERATURE REVIEW

Contingency theory

Contingency theory suggests that an organization's effectiveness depends on its ability to adapt to both external and internal factors. In the context of internal control and risk management within government institutions, this theory posits that internal control systems and risk management practices must be tailored to the specific conditions of the organization in this case, the government to enhance financial performance. Therefore, governments with strong internal control systems and effective risk management are more likely to succeed in managing public finances efficiently and effectively. *Lawrence & Lorsch (1967)* An adaptive internal system enables an organization to respond more effectively to changes and challenges from both external and internal environments, which, in turn, enhances financial performance. *Burns & Stalker (1961)* also highlighted how contingency theory can be applied within organizations to adjust their structures and processes in response to continuously changing external environments. This study emphasizes the importance of organizational adaptation to dynamic environments to improve operational effectiveness and overall performance. *Donaldson (2001)* further

developed the concept of contingency theory in the context of modern organizations, asserting that organizational effectiveness depends on how the structure is aligned with both internal and external factors. His work suggests that there is no one-size-fits-all structural solution for organizations; rather, decisions must be made based on specific contextual conditions. Similarly, Fiedler (1964), through his contingency model of leadership, demonstrated that leadership effectiveness depends on situational factors, including the relationship between leaders and followers, task structure, and the leader's position of power.

Agency Theory

This theory explains the relationship between the principal (the government as the authority holder) and the agent (civil servants or officials managing public finances). Without an effective internal control system, agents may act in their own self-interest rather than for the public good. Risk management and internal control systems play a critical role in mitigating moral hazard and information asymmetry, thereby enhancing transparency and accountability in governmental financial performance. (Jensen & Meckling, 1976). Fama & Jensen (1983) further developed agency theory by emphasizing how oversight over agents can be more effectively conducted through clear decision-making structures. They argued that a strong monitoring system and well-designed incentive mechanisms are key to minimizing conflicts between principals and agents. Additionally, Eisenhardt (1989) in her article *Agency Theory: An Assessment and Review*, provides a comprehensive overview of agency theory applications across various fields, including public finance and government organizations. Eisenhardt asserts that control and incentive mechanisms can reduce divergences between agent and principal interests, thereby improving accountability and transparency in resource management.

System Theory

Von Bertalanffy (1950) in his book *An Outline of General System Theory*, posited that an organization or institution is a system composed of interrelated and mutually influencing elements. Systems theory emphasizes the importance of interactions among various organizational components to achieve shared objectives. In the context of public financial management, this theory suggests that internal control systems and risk management must work collaboratively to support financial efficiency and effectiveness. Kast & Rosenzweig (1972) in their work *General Systems Theory: Applications for Organization and Management*, explained that organizational systems consist of multiple interacting components. They argued that a failure in one component of the system could have negative consequences for the entire organization. Therefore, it is essential to ensure that all components, including internal control and risk management, function properly to enable the organization to operate effectively. Furthermore, Checkland (1981), in *Systems Thinking, Systems Practice*, advanced systems theory in the context of organizational management. He emphasized that organizations should be viewed as open systems interacting with their external environment. In this framework, risk management and internal control systems are integral parts of a larger system that must be aligned with the dynamics of the external environment to achieve organizational objectives, including optimal financial performance.

Risk Management and Its Effect on Governmental Financial Performance

The implementation of risk management within government organizations has increasingly become a primary concern due to growing demands for transparency, accountability, and efficiency in public financial management. According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2004), risk management is a process carried out by management and all employees, designed to identify potential events that may affect the entity and to manage them so that risks remain within acceptable risk tolerance levels. In the context of government, a structured risk management approach assists organizations in anticipating and responding swiftly to uncertainties that impact budget utilization and financial performance outcomes. This perspective is reinforced by Vitters (2017), who emphasizes the importance of integrating internal control systems with Enterprise Risk Management (ERM). Such integration leverages the capabilities of internal controls to create more effective risk responses, which in turn strengthens the achievement of organizational objectives, including financial goal.

The study conducted by Rachmatus Solikhah (2019) indicates that risk management has a significant and positive effect on the financial performance of local governments, as it enables stakeholders to be more proactive in managing potential risks that could hinder budget realization and regional asset management. Similarly, Irianto & Amirya (2024) found that the effective implementation of risk management can enhance the efficiency and effectiveness of budget utilization, despite challenges such as limited understanding and awareness of risk management practices.

From the perspective of contingency theory, the effectiveness of financial performance largely depends on how an organization adapts its risk management practices to the external and internal environmental conditions it faces Yudanto & Pesudo (2020) In other words, government organizations that implement risk management in accordance with the specific characteristics and challenges of their regions are likely to be more adaptive and resilient in achieving their financial targets.

Based on the discussion above, the first hypothesis (H1) of this study is formulated as follows:

H1 : Risk management has a positive effect on governmental financial performance.

Internal Control System and Its Effect on Governmental Financial Performance

An effectively implemented Government Internal Control System (SPIP) plays a critical role in ensuring that budgetary and financial resource management within government organizations is conducted efficiently, transparently, and accountably. SPIP functions to identify and manage risks, as well as to ensure that established policies and procedures are consistently followed across all government institutions. A strong SPIP implementation can reduce the risk of errors in budget management and prevent the misuse of public funds, which are often sources of inefficiency and financial waste at the local government level. Proper management of SPIP ensures stricter oversight of public fund utilization, including asset management and budget

monitoring. Consequently, SPIP enhances transparency in financial reporting and provides assurance that financial processes are conducted in accordance with applicable regulations. This, in turn, contributes to increased public trust in local governments, as citizens can observe that regional finances are managed prudently and in line with good governance principles.

Research conducted by (Hafizha, 2020) indicates that regions with an effective internal control system tend to exhibit better financial performance. This system ensures that every budgetary expenditure can be accounted for clearly and accurately. Furthermore, a study by Habibullah et al., (2024) also highlights the importance of SPIP in reducing the risk of fraud in regional financial management, which ultimately improves overall governmental financial performance. The effective implementation of SPIP not only helps to prevent irregularities and errors in budget management but also enhances the government's capacity to plan and allocate funds more efficiently. This, in turn, positively impacts the achievement of regional development goals. Therefore, it can be concluded that a well-functioning Government Internal Control System (SPIP) enhances governmental financial performance, as reflected in more efficient, accountable, and transparent financial management, contributing to the realization of sustainable and prosperous regional development objectives.

Based on the discussion above, the second hypothesis (H2) of this study is formulated as follows:

H2 : The Government Internal Control System (SPIP) has a positive effect on governmental financial performance.

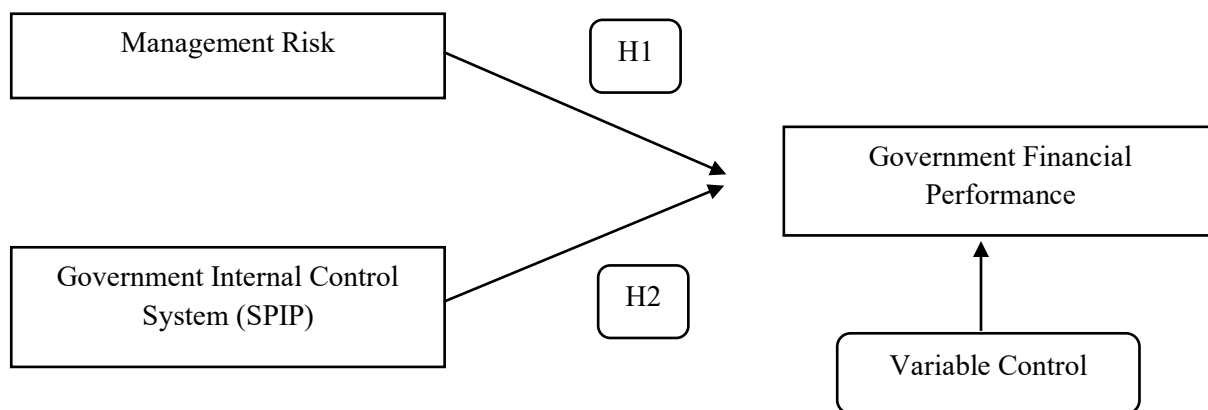


Figure 1. Framework Of Thinking

Source: Processed by the researcher (2025)

RESEARCH METHOD

Data Collecting Method

The data used in this study consist of local government data from provinces, regencies, and cities, covering 542 regions during the period 2021–2022. Based on the purposive sampling method, it was found that two regions lacked Risk Management data, resulting in a final sample of 1,080 observations, or 99.63% of the total sample.

Data on Risk Management were obtained from financial reports provided by the Financial and Development Supervisory Agency (BPKP). The Government Internal Control System (SPIP) was measured using budgetary function data, which includes the five main elements of internal control: control environment, risk

assessment, control activities, information and communication, and monitoring. These data sources provide an overview of SPIP implementation across various levels of local government.

For Government Financial Performance, data were sourced from BPK financial performance reports and budget realization reports, which provide information related to the management of regional budgets and locally generated revenue (PAD). Other variables, such as Age of Local Government and Administrative Status of Local Government, were measured using data from the Ministry of Home Affairs, which records the establishment year and administrative status (province or city) of each local government. Geographical Location was determined based on the division of Indonesia's islands, also recorded by the Ministry of Home Affairs. Finally, the Human Development Index (HDI) was obtained from the Ministry of Home Affairs, encompassing data on health, education, and per capita income for each region.

Empirical Model and Variable Operationalization

The empirical model used in this study can be expressed as follows:
fiskalmandiriit = $\beta_0 + \beta_1\text{bpkpmriit} + \beta_2\text{bpkpspipit} + \beta_3\text{agesit} + \beta_4\text{munit} + \beta_5\text{islandit} + \beta_6\text{ipmit} + \epsilon$ (1)

The variables used in this study consist of *bpkpmriit*, *bpkpspipit*, *agesit*, *munit*, *islandit*, and *ipmit*. The main dependent variable, *fiskalmandiriit*, represents the level of fiscal independence of local governments, which is measured by the ratio of total locally generated revenue (PAD) to total regional revenue. A higher ratio reflects a higher degree of fiscal autonomy, indicating that the region has greater financial independence in managing its own resources, while a lower ratio suggests that the region remains financially dependent on external funding sources. This measurement provides an overview of the government's ability to manage financial resources effectively without excessive reliance on external assistance such as loans or foreign aid. The assessment of this variable is expressed on a scale ranging from 0 to 100.

The variable *bpkpmriit* serves as a measure of the government's capability to identify, assess, and mitigate potential risks that may hinder development progress and the welfare of society. Meanwhile, *bpkpspipit* functions to evaluate the extent to which the internal control system within government institutions ensures that operational activities are conducted effectively, efficiently, and in alignment with the organization's predetermined goals. Together, these two variables capture the strategic role of risk management and internal control mechanisms in improving public financial performance.

Furthermore, several control variables are included in this study, namely *agesit*, *munit*, *islandit*, and *ipmit*, each of which provides contextual information about the characteristics of local governments. The variable *agesit* represents the age of the local government during the 2021–2022 period, measured by the total number of years since its establishment up to 2022. The variable *munit* denotes the administrative status of the local government, categorized as "2" for provincial governments, "1" for city governments, and "0" otherwise. The *islandit* variable identifies the geographical location of the local government, where a value of "1" indicates regions located on Java Island, and "0" represents regions located outside Java Island. Lastly, *ipmit* stands for the Human Development Index (HDI), which is

used as a control variable to reflect the overall level of human development in a given region. These control variables, some of which are measured using the natural logarithm (Ln) of total assets, help account for variations in local characteristics that may influence the relationship between the independent variables and fiscal performance.

Table.1 Variable Operationalization and Data Sources

Name	Operationalisation Variable	Data Source
bpkpmri_{it}	Is measured using a Likert scale of 1-5. This scale is ordinal because it ranks levels from low to high, but the intervals between ranks cannot be precisely quantified	BPKP financial reports
bpkpspip_{it}	Is measured using a Likert scale of 1-5 based on the five elements of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Since the data reflect perceptions with ordered levels, it is considered ordinal.	Budget Function Data
fiskalmandiri_{it}	is measured using the ratio of local own-source revenue (PAD) to total revenue	BPK financial performance reports and budget realization reports
ages_{it}	Represents the age of local governments in 2021-2022, measured as the number of years since the establishment of the local government until 2021-2022.	Ministry of Home Affairs
mun_{it}	is measured using a dummy variable: 2 for provincial government, 1 for city government, and 0 for others.	Ministry of Home Affairs
island_{it}	is measured using a dummy variable for islands: 1 for Java Island and 0 for other islands.	Ministry of Home Affairs
ipm_{it}	is measured based on the average of three main dimensions: health (life expectancy), education (average years of schooling and expected years of schooling), and standard of living (per capita income).	Ministry of Home Affairs

Source: Processed by the researcher (2025).

RESULTS AND DISCUSSION

Descriptive Statistics

Table 2. Descriptive Statistics of Variables

Variabel	Obs	Mean	Std. dev	Min.	Max.
fiskalmandiri_{it}	1.080	14.03	12.48	.28	80.39
bpkpspip_{it}	1.080	02.54	06.22	0	3
bpkpmri_{it}	1.080	01.64	06.15	0	3
ages_{it}	1.080	44.68	23.99	7	72

Variabel	Obs	Mean	Std. dev	Min.	Max.
mun_{it}	1.080	02.98	05.79	0	2
island_{it}	1.080	02.20	04.14	0	1
ipm_{it}	1.080	70.22	06.26	32.84	87.69

Notes: fiskalmandiriit represents the level of fiscal independence of local governments, measured using the ratio of total locally generated revenue (PAD) to total revenue. A higher ratio indicates greater fiscal independence, whereas a lower ratio signifies that the region is still financially dependent. bpkpmriit functions to identify and mitigate various risks that may hinder regional development and public welfare. bpkpspipit ensures that government operational activities are conducted efficiently, effectively, and in accordance with predetermined objectives. fiskalmandiriit (as a dependent variable) reflects the extent to which local governments can manage their financial resources independently without relying significantly on external funding sources, such as debt or foreign aid. This indicator is assessed on a 0–100 scale. munit represents the administrative status of the local government, measured using categorical coding: “2” for provincial governments, “1” for city governments, and “0” otherwise. agesit refers to the age of the local government in 2021–2022, measured by the number of years since the establishment of the local government up to 2022. islandit represents the geographical location of the local government, measured as a dummy variable: “1” if the local government is located on Java Island, and “0” if located outside Java Island. ipmit is the Human Development Index (HDI), used as a control variable to represent the level of human development within a region.

Source: Secondary Data, STATA-17 Output (Processed, 2025)

Table 2 provides a comprehensive descriptive statistical summary for each variable analyzed in this study. The mean value of the variable fiskalmandiriit is 14.03, indicating that, on average, the local governments included in the sample are still relatively fiscally dependent. The standard deviation of 12.48, with a minimum value of 0.28 and a maximum value of 89.39, reflects substantial variability in fiscal independence across regions. The mean of bpkpspipit is 2.54 with a standard deviation of 6.22, suggesting that the average SPIP index from BPKP remains relatively low, with significant variation among regions. The minimum value of 0 and maximum value of 3 indicate disparities in SPIP implementation across local governments. The mean of bpkpmriit is 1.64, showing that the average level of internal control maturity among local governments is moderate. With a minimum of 0, a maximum of 3, and a standard deviation of 6.15, the results reveal a high degree of variation in internal control maturity levels.

The agesit variable has a mean of 44.68, meaning that the average age of the local governments in the sample is approximately 45 years, suggesting that most of these regions have been established for a considerable period. The standard deviation of 23.99, with a minimum value of 7 and a maximum of 72, indicates a wide range of institutional ages among local governments. The munit variable has a mean of 2.98, implying that most of the sampled entities are city or provincial governments. With a minimum of 0, a maximum of 2, and a standard deviation of 5.79, this shows considerable variation in the types of local government entities included.

The islandit variable has a mean of 2.20, indicating that most samples come from regions located outside Java Island. This relatively high mean, along with a standard deviation of 4.14 and minimum and maximum values of 0 and 1 respectively (as this is a dummy variable), shows regional diversity in the dataset. Finally, the ipmit variable has a mean of 70.22, suggesting that, on average, the Human Development Index (HDI) of the sampled regions is relatively high. The standard deviation of 6.26, with a minimum of 32.84 and a maximum of 87.69, indicates a considerable disparity in human development across local governments in Indonesia.

Table 3. Correlation Analysis of Variables

	bpkpm ri_{it}	bpkps pip_{it}	fiskalm andiri_{it}	ages_{it}	mun_{it}	island_i t	ipm it
bpkpmri_{it}	1.0000						
bpkpspip_i	0.3144**	1.0000					
t	*						
	0.0000						
fiskalman diri_{it}	0.2407**	0.3849*	1.0000				
	*	**					
	0.0000	0.0000					
ages_{it}	0.2330**	0.3429*	0.3886**	1.0000			
	*	**	*				
	0.0000	0.0000	0.0000				
mun_{it}	0.1290**	0.1916*	0.6568**	0.0875	1.0000		
	*	**	*	***			
	0.0000	0.0000	0.0000	0.0000			
island_{it}	0.0870**	0.2534*	0.4264**	0.4577	0.4264	1.000	
	*	**	*	***	***	0	
	0.0042	0.0000	0.0000	0.0000	0.1618		
ipm_{it}	0.2470**	0.4584*	0.5456**	0.3400	0.4147	0.242	1.00
	*	**	*	***	***	6***	00
	0.0000	0.0000	0.0000	0.0000	0.0000	0.000	
						0	

Number of observations: 1,080

The operational definitions of variables are described in Table 1.

*** denotes significance at the 1% level ($p < 0.01$)

Source: Secondary Data, STATA-17 Output (Processed, 2025)

Table 3 presents the correlation analysis among the main variables used in this study. The correlation between bpkpmriit (risk management) and bpkpspipit (internal control system) is 0.3144, indicating a moderate positive relationship between risk management and the internal control system. This suggests that the better the internal control system, the higher the effectiveness of risk management. The correlation between fiskalmandiriit (fiscal independence) and bpkpmriit is 0.2407, also showing a positive but weaker relationship, implying that stronger risk management practices are associated with higher fiscal independence across local governments.

The variable agesit (age of local government) shows a correlation of 0.2330 with bpkpmriit, indicating a weak positive association, where older local

governments tend to have higher fiscal independence levels, possibly due to accumulated institutional experience. Meanwhile, *munit* demonstrates a stronger correlation of 0.6568 with *fiskalmandiri_{it}*, suggesting a significant relationship between regional characteristics (such as size or population density) and fiscal independence. Regions with larger populations tend to exhibit better fiscal capacity and autonomy.

Furthermore, *island_{it}* shows a positive correlation of 0.4264 with *fiskalmandiri_{it}*, indicating that regions located on separate islands face distinctive financial management challenges, though some demonstrate stronger fiscal independence. Lastly, *ipmit* (Human Development Index) exhibits a moderately strong correlation of 0.4584 with *fiskalmandiri_{it}*, suggesting that regions with higher human development levels generally achieve better fiscal independence due to stronger social and economic foundations.

Table. 4 Hypothesis Testing Results

Variabel	Expected Sign	<i>fiskalmandiri_{it}</i>
Cons		-22.436 0.000
<i>bpkpmri_{it}</i>	H1 : (+)	1.102*** 0.005
<i>bpkpspip_{it}</i>	H2 : (+)	1.540*** 0.000
<i>ages_{it}</i>	(+/-)	0.060*** 0.000
<i>mun_{it}</i>	(+/-)	11.760*** 0.000
<i>island_{it}</i>	(+/-)	8.634*** 0.000
<i>ipmit</i>	(+/-)	0.322*** 0.000
Prov > f		0.0000
Adj R_Square		0.6565
Obs		1.080

Penjelasan operasionalisasi variabel pada tabel 1

*** = Nilai P signifikan 1%

Source: Secondary Data, STATA-17 Output (Processed, 2025)

The table above presents the results of hypothesis testing on the variables influencing regional fiscal independence (*fiskalmandiri_{it}*). The Adjusted R-Square value of 0.6565 indicates that the regression model explains approximately 65.65% of the variation in regional fiscal independence, while the remaining portion is explained by factors outside the model. The Prob > F value of 0.0000 ($p < 0.01$) signifies that the overall model is statistically significant, implying that the independent variables collectively contribute substantially to improving the fiscal independence of local governments.

In greater detail, the results show that the variables *bpkpmriit* (quality of government financial reporting) and *bpkpspipit* (effectiveness of the internal control system) have a positive and significant effect on regional fiscal independence at the 1% significance level ($p < 0.01$). This suggests that the better the quality of financial reporting and the internal control system of a region, the higher its level of fiscal independence. Additionally, the variables *agesit* (age of local government), *munit* (social issues), *islandit* (geographical characteristics), and *ipmit* (Human Development Index) also exert significant influences on fiscal independence, each demonstrating a positive direction consistent with their coefficient values. This study is consistent with the findings of Irianto & Amirya (2024), Habibullah et al., (2024) who stated that risk management and the Government Internal Control System (SPIP) have a positive and significant influence on governmental financial performance.

CONCLUSION

The acceptance of the first hypothesis, which indicates that risk management has a positive effect on government financial performance, is supported by various previous studies emphasizing the importance of an effective risk management system in enhancing public financial transparency and accountability (Irianto & Amirya, 2024) This finding also aligns with previous research that highlights how the identification and mitigation of risks can optimize budget utilization and prevent financial leakages within the public sector (Okanga & Boniface, 2016) Furthermore, the second hypothesis, which demonstrates that the internal control system has a significant effect on government financial performance, is consistent with studies that analyze the critical role of robust internal controls in maintaining the integrity of financial reporting (Umami Khikmah et al., n.d research also reveals that a well-implemented internal control system can reduce the potential for fraud and improve efficiency in state budget management (Habibullah et al., 2024)

The results of this study indicate that risk management and the Government Internal Control System (SPIP) have a positive and significant effect on the financial performance of local governments in Indonesia. This finding demonstrates that the effective implementation of risk management can minimize potential budget deviations and enhance efficiency in public financial management. Similarly, a well-implemented SPIP plays a crucial role in strengthening internal supervision, promoting transparency, and ensuring accountability in the use of public funds. The research model also shows a strong explanatory power, with an Adjusted R^2 value of 0.6565, indicating that the model explains approximately 65.65% of the variation in the financial performance of local governments in Indonesia.

The implications of this study emphasize the importance of strengthening local financial governance through the integrated implementation of risk management and SPIP. Local governments need to enhance their human resource capacity and institutional infrastructure in financial supervision and reporting to create a more effective, efficient, and sustainable budget management system. Furthermore, the findings provide valuable insights for policymakers, particularly in designing strategies to improve regional fiscal independence through the application of good governance principles, transparency, and public accountability. Thus, risk

management and SPIP can serve as strategic instruments to improve the quality of public services and support regional economic development.

Nevertheless, this study has several limitations. First, the use of data covering only two years (2021–2022) restricts the ability to analyze the long-term effects of risk management and SPIP implementation on government financial performance. Second, this study does not take into account external factors—such as social, economic, and regional policy conditions—that may influence the effectiveness of internal control systems. Therefore, future research is recommended to extend the observation period, include additional external variables, and incorporate qualitative approaches to obtain a deeper understanding of the dynamics of government financial performance in Indonesia.

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