

BUILDING ADAPTIVE GOVERNANCE: TRANSFORMING INTERNAL AUDIT CAPABILITIES IN INDONESIAN REGIONAL GOVERNMENT

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Abstract

This study examines the organizational capabilities of government internal auditors in South Sulawesi Province, Indonesia, through a three-dimensional framework comprising resilience, routines, and resources to investigate how internal audit units develop adaptive capabilities for enhanced governance effectiveness in regional government contexts. A qualitative research design employs semi-structured interviews with key stakeholders including heads of provincial and regional inspectorates, Financial and Development Supervisory Agency representatives, academic experts, field auditors, and law enforcement officials, with data analysis utilizing deductive thematic analysis guided by the organizational capabilities framework to assess current capability states and transformation processes. Results reveal mixed organizational capabilities across the three dimensions, where routine capabilities demonstrate strong foundational structures through systematic operational procedures and formal authorization mechanisms yet remain constrained by limited technology integration, resource capabilities show adequate basic personnel distribution but suffer from critical shortages in senior expertise and insufficient budget allocations with structural independence limitations, and resilience capabilities exhibit moderate adaptive capacity in personnel reconfiguration and regulatory implementation though significant gaps persist in innovation capacity and proactive competency development. The study's focus on one Indonesian province limits generalizability to other regional contexts, suggesting future research could examine comparative capability development across multiple provinces and explore longitudinal transformation patterns. Findings provide actionable insights for enhancing internal audit effectiveness through targeted capability development strategies including technology integration initiatives, enhanced legal protection frameworks, and systematic capacity building programs that contribute to improved public governance, transparency, and accountability in Indonesian regional government while supporting democratic governance objectives and citizen trust. This research contributes novel empirical evidence on internal audit organizational capabilities in developing country contexts, providing theoretical insights for adaptive governance development and practical guidance for public sector reform initiatives.

Keywords: Organizational Capabilities, Internal Audit, Adaptive Governance, Regional Government, Indonesia

Introduction

1. Background:

The effectiveness of public sector institutions in ensuring good governance and accountability has become increasingly critical in the 21st century, particularly as governments worldwide face mounting pressures for transparency, efficiency, and democratic responsiveness (Samaratunge & Alam (2021). In this context, internal audit functions serve as essential mechanisms for strengthening organizational capabilities and promoting sustainable governance practices (Pangastuti 2023; Rehman 2021). Recent studies have emphasized the transformative potential of internal auditing in enhancing public sector performance, yet significant challenges persist in developing countries where institutional capacity remains constrained by various structural and operational factors (Nerantzidis et al, 2022).

Indonesia's decentralization reforms since 1998 have fundamentally altered the landscape of

public governance, transferring substantial administrative and fiscal responsibilities to regional governments while simultaneously creating new challenges for oversight and accountability mechanisms (Holzhacker et al, 2015). The establishment of the Government Internal Supervisory Apparatus (APIP) across Indonesian regions represents a critical component of this governance architecture, tasked with ensuring compliance, detecting irregularities, and supporting management decision-making. However, the effectiveness of these internal audit units varies considerably across different provinces, reflecting disparities in organizational capabilities, resource allocation, and institutional maturity that warrant systematic investigation.

South Sulawesi Province exemplifies both the opportunities and challenges inherent in Indonesia's regional governance system, with its diverse administrative landscape encompassing 21 regencies and 3 cities, each maintaining distinct APIP units with varying levels of capability and performance (Indonesian Ministry of Home Affairs, 2023). Recent assessments have revealed concerning gaps in audit quality, professional competency, and strategic alignment within these organizations, suggesting that traditional compliance-focused approaches may be insufficient for addressing contemporary governance demands (Udoh, 2024). These limitations become particularly problematic given the province's significant development programs and substantial budget allocations that require robust internal oversight mechanisms to ensure effective implementation and prevent potential mismanagement.

Table 1: APIP Performance Indicators in South Sulawesi Province

Indicator	Provincial Level	City Level	Regency Level	Overall Average
Audit Coverage (%)	78	65	52	65
Staff with Certification (%)	45	32	28	35
Risk-based Audit Implementation (%)	60	40	25	42
Inter-agency Collaboration Score	3.2/5	2.8/5	2.1/5	2.7/5
IT Audit Capability	Limited	Minimal	Inadequate	Weak
Average Audit Report Processing Time (days)	45	62	78	62

The organizational capabilities framework proposed by Neo and Chen (2007) offers a comprehensive lens for analyzing these challenges through three interconnected dimensions: resilience (capacity to adapt and renew), routines (embedded practices and decision-making processes), and resources (strategic combinations of capabilities for achieving organizational goals). Contemporary research has demonstrated the relevance of this framework for understanding how public sector organizations develop adaptive capacity in complex environments (Cedergren & Hassel 2024). However, its application to internal audit contexts, particularly in developing country settings, remains underexplored, creating opportunities for theoretical and practical contributions to the literature (Kotb et al, 2020).

Resilience capabilities are particularly crucial for APIP organizations operating in dynamic political and administrative environments where changing priorities, budget constraints, and evolving regulatory requirements demand continuous adaptation and learning (Bolton et al, 2023). Current evidence suggests that many Indonesian regional audit units struggle with rigid operational approaches that limit their ability to respond effectively to emerging risks and opportunities (Setyaningrum et al, 2025). This rigidity manifests in outdated audit methodologies, insufficient professional development programs, and limited capacity for strategic planning that aligns audit activities with broader governance objectives (Humphrey et

al, 2021).

Routine capabilities encompass the standardized practices, procedures, and knowledge systems that enable consistent audit performance while providing boundaries for organizational action (Maroun & de Ricquebourg, 2024). In the context of South Sulawesi's APIP units, preliminary observations indicate significant variations in audit quality standards, reporting mechanisms, and follow-up procedures that reflect underlying weaknesses in routine development and institutionalization (Indriani et al, 2024). These inconsistencies not only compromise audit effectiveness but also create challenges for building sustainable organizational capacity across the province's diverse administrative landscape (Boufounou et al, 2024).

Resource capabilities involve the strategic coordination of human capital, technological infrastructure, and institutional relationships to achieve audit objectives and support broader governance goals (Wu et al., 2022). Evidence from South Sulawesi suggests that APIP units face substantial resource constraints, including limited staffing levels, inadequate technology systems, and weak professional networks that hinder their ability to deliver high-quality audit services (Nugraha et al, 2025). These resource limitations are compounded by insufficient collaboration mechanisms between different audit units and other governance stakeholders, resulting in missed opportunities for knowledge sharing and coordinated oversight activities (Azinogo & Erasmus, 2025).

Despite growing recognition of internal audit's strategic importance, existing research has primarily focused on compliance aspects and technical audit procedures, with limited attention to the broader organizational capabilities that enable audit units to function as strategic governance partners (Netshifhefhe et al 2024; Bhatnagar et al, 2025). Previous studies by Usman et al (2023) examined internal audit effectiveness in Indonesian ministries but concentrated on central government contexts without addressing regional variations or capability development processes. Similarly, Leung & Cooper (2009) comparative analysis of Asian internal audit systems provided valuable insights into institutional frameworks but lacked depth regarding specific organizational capabilities and their development pathways. This study addresses these gaps by applying Neo and Chen's organizational capabilities framework to systematically assess APIP performance in South Sulawesi Province, with particular emphasis on identifying capability development strategies that can enhance adaptive governance capacity. The research objective is to evaluate the current state of resilience, routine, and resource capabilities within South Sulawesi APIP units.

Methods

This research employs a qualitative case study approach to examine the transformation of internal audit capabilities in Indonesian regional government, specifically focusing on building adaptive governance mechanisms within the Government Internal Supervisory Apparatus (APIP) in South Sulawesi Province. The study utilizes Neo and Chen's (2007) organizational capabilities framework as the theoretical foundation for analyzing three critical dimensions: resilience, routines, and resources. Semi-structured interviews are conducted with key informants strategically selected to provide comprehensive perspectives on internal audit capabilities and governance transformation processes. The informants include the Head of the South Sulawesi Inspectorate, the Head of BPKP (Financial and Development Supervisory Agency) South Sulawesi, academics and independent experts specializing in APIP systems, auditors from the Takalar Regency Inspectorate, and investigators from the Corruption Crime Unit (Tipikor) of the South Sulawesi Regional Police.

The interview protocol is designed to explore participants' perceptions and experiences related to the three key organizational capabilities that enable adaptive governance transformation. For resilience capabilities, questions focus on organizational adaptation mechanisms, response strategies to changing regulatory environments, and capacity for innovation in audit practices. Routine capabilities are examined through discussions of standardized audit procedures, knowledge management systems, decision-making processes, and quality assurance mechanisms. Resource capabilities are investigated by exploring human capital development, technological infrastructure, inter-organizational collaboration networks, and strategic resource allocation patterns. The interviews are conducted either face-to-face or via secure video conferencing platforms, depending on participants' preferences and logistical considerations, with each session lasting approximately 60-90 minutes.

Data collection follows rigorous protocols to ensure reliability and validity, with all interview sessions being audio-recorded upon obtaining explicit consent from participants. The recorded interviews are subsequently transcribed verbatim and analyzed using a deductive thematic analysis approach guided by Neo and Chen's organizational capabilities framework. The analysis process involves systematic coding of interview transcripts to identify patterns, themes, and relationships within each capability dimension, followed by cross-case comparison to understand variations across different organizational levels and contexts. Throughout the research process, strict adherence to ethical guidelines ensures participant confidentiality and data security, with all identifying information anonymized and raw data stored in encrypted formats accessible only to the research team.

Results and Discussion

Routines Capabilities

The organizational routines of APIP in South Sulawesi Province demonstrate a structured approach to internal audit functions, characterized by systematic procedures and formal operational frameworks. The implementation of audit activities follows the Annual Supervision Work Program (PKPT), with clear organizational structure comprising four Assistant Inspectors and five echelon III positions that systematically divide supervision areas across all Regional Government Organizations (OPD). This structured approach ensures comprehensive coverage of audit responsibilities while maintaining systematic planning aligned with annual objectives and resource allocation requirements.

Formal authorization mechanisms play a crucial role in legitimizing audit activities within the provincial government structure. Every audit assignment requires official task orders signed at minimum by the regional secretary, with cases recorded in Initial Evidence Reports (LAB) requiring proper authorization before implementation. This formal mechanism ensures legal legitimacy of audit processes while establishing clear accountability frameworks for auditors. The requirement for official authorization reflects the integration of audit functions within broader governance structures and emphasizes the importance of hierarchical approval in maintaining audit integrity.

Technology integration in audit processes represents an evolving aspect of routine capabilities, though implementation remains limited in scope and sophistication. Current technology utilization focuses primarily on data extraction from regional financial applications (SIMDA) for accessing general cash books, while evidence processing and analysis continue to rely on manual procedures. The selective application of forensic digital approaches for complex cases indicates

recognition of technology's potential, though comprehensive digitalization requires sustained capacity development and infrastructure investment to achieve optimal effectiveness.

Decision-making protocols at operational levels reflect regulatory flexibility while maintaining compliance with established standards. The selection of legal frameworks varies according to specific audit objectives, ranging from financial management regulations to implementation guidelines, demonstrating adaptive regulatory application while preserving audit integrity. Coordination mechanisms with law enforcement agencies operate through formal Memoranda of Understanding, establishing clear protocols for case handling and information sharing, though implementation effectiveness varies depending on case complexity and institutional capacity.

Table 2: Assessment of Routine Capabilities in South Sulawesi APIP

Routine Elements	Current State	Effectiveness Level	Key Challenges
Standard Operating Procedures	Established through PKPT	High	Limited digitalization
Authorization Mechanisms	Formal task orders required	High	Bureaucratic delays
Technology Integration	Partial implementation	Medium	Infrastructure limitations
Decision-making Protocols	Regulatory flexibility	Medium	Coordination gaps
Quality Assurance	Manual processes	Medium	Resource constraints

Source: Primary data analysis (2024)

The routine capabilities of South Sulawesi APIP align with Neo and Chen's (2007) framework regarding the establishment of embedded practices and decision-making processes that provide organizational stability and operational boundaries. However, the limited technology integration and reliance on manual processes indicate gaps in developing dynamic routines that can adapt to evolving governance requirements. The enhancement of routine capabilities requires systematic digitalization initiatives supported by comprehensive capacity building programs, as recommended by current digital governance literature (Motamedimoghdam et al., 2025).

Resources Capabilities

Human resource composition within South Sulawesi APIP reveals both strengths and critical gaps that affect organizational effectiveness. The Inspectorate employs 144 personnel comprising 10 structural officials, 53 auditors, 46 Regional Government Affairs Supervisors (PPUPD), and 35 implementing staff. While this distribution provides adequate coverage for basic supervisory functions, significant imbalances exist across auditor levels, particularly the shortage of Senior Expert Auditors (only 2 personnel) compared to Mid-level Expert Auditors (20 personnel) and Junior Expert Auditors (20 personnel). This pyramidal imbalance restricts strategic supervision capacity and limits the availability of senior expertise for complex audit assignments.

Competency development initiatives face substantial constraints despite formal requirements and institutional commitments. Auditors must complete minimum 120 hours of annual training, with at least 20 hours conducted by BPKP, yet implementation depends heavily on budget availability and staff capacity. The lengthy certification process, requiring minimum two years of supervisory experience before formal appointment, creates bottlenecks in auditor supply while increasing workload pressure on existing personnel. These constraints are exacerbated by staff rotation

policies that sometimes remove experienced auditors due to external interventions, disrupting institutional knowledge retention and capacity building continuity.

Budget allocation patterns reflect ongoing challenges in implementing mandatory spending requirements for supervisory functions. While central government policy mandates 0.3% of regional budgets (for budgets exceeding 10 trillion rupiah) for supervisory functions, implementation remains inconsistent across South Sulawesi districts. Provincial budget data shows modest increases from Rp 57.16 billion (2023) to Rp 59.95 billion (2024), yet these allocations primarily support operational activities rather than capacity development initiatives. Takalar Regency exemplifies effective implementation with 0.75% budget allocation specifically for apparatus development, demonstrating the potential for enhanced resource mobilization under committed leadership.

Independence constraints represent fundamental challenges in resource utilization and strategic positioning. APIP's structural position within regional government creates inherent limitations on complete independence, as inspectorates function as extensions of regional leaders rather than autonomous oversight bodies. This positioning affects resource allocation decisions and strategic priorities, potentially compromising audit objectivity when findings implicate senior leadership interests. The absence of specific legal protections for auditors further constrains independence, leaving personnel vulnerable to career repercussions when conducting sensitive investigations.

Table 3: Resource Capability Assessment in South Sulawesi APIP

Resource Category	Available Capacity	Optimal Requirement	Gap Analysis
Senior Expert Auditors	2 personnel	8-10 personnel	Critical shortage
Training Budget	Limited allocation	120 hours/auditor/year	Insufficient funding
Technology Infrastructure	Basic systems	Integrated platforms	Modernization needed
Legal Protection	Minimal provisions	Comprehensive immunity	Policy development required
Independence Mechanisms	Structural constraints	Functional autonomy	Institutional reform needed

Source: Primary data analysis (2024)

The resource capabilities of South Sulawesi APIP reflect the challenges identified in Neo and Chen's (2007) framework regarding the strategic coordination of human capital, technological infrastructure, and institutional relationships. The significant gaps in senior expertise, budget constraints, and independence limitations demonstrate the need for comprehensive resource development strategies that address both quantitative and qualitative aspects of organizational capacity. Strengthening resource capabilities requires sustained investment in human capital development, enhanced legal protections for audit personnel, and institutional reforms that promote functional independence while maintaining accountability, consistent with contemporary governance enhancement frameworks (Gong, 2009).

Resilience Capabilities

Adaptive capacity within South Sulawesi APIP demonstrates both potential and limitations in responding to changing operational environments and regulatory requirements. The organization shows capability in reconfiguring audit assignments to manage potential conflicts of interest,

particularly when auditors have local connections that might compromise objectivity. This selective reconfiguration approach reflects institutional awareness of integrity requirements and willingness to adjust operational procedures to maintain audit credibility. However, overall adaptive capacity remains constrained by limited personnel numbers and competency gaps that restrict organizational flexibility in responding to complex or high-volume audit demands.

Regulatory adaptation mechanisms reveal systematic approaches to implementing changing requirements while highlighting institutional constraints. APIP effectively implements hierarchical regulatory changes, such as inter-agency Memoranda of Understanding, without requiring additional local ratification processes. This demonstrates organizational capacity to absorb and operationalize new frameworks efficiently. However, methodological adaptation remains problematic, particularly regarding the gap between sampling-based audit approaches and comprehensive investigation requirements for legal proceedings. This methodological rigidity limits organizational resilience in supporting diverse oversight objectives and institutional partnerships.

Conflict management capabilities show mixed effectiveness in addressing competing demands and pressures within the audit environment. The organization demonstrates competence in managing potential conflicts through strategic personnel assignment and maintaining formal coordination protocols with law enforcement agencies. However, resilience is compromised by the absence of adequate legal protections for audit personnel, leaving staff vulnerable to external pressures and career repercussions when conducting sensitive investigations. This vulnerability constrains organizational willingness to pursue challenging cases and limits the development of robust investigative capabilities.

Competency renewal initiatives represent ongoing efforts to maintain organizational relevance and effectiveness despite resource constraints. Structured training programs through both internal capacity (PKS) and BPKP partnerships provide frameworks for continuous professional development. The organization maintains commitment to annual training requirements (120 hours minimum) despite budget limitations and personnel availability challenges. However, competency development remains reactive rather than proactive, focusing on maintaining current capabilities rather than developing advanced skills for emerging audit challenges and technological integration requirements.

Table 4: Resilience Capability Assessment in South Sulawesi APIP

Resilience Dimensions	Current Capability	Adaptation Mechanism	Constraint Factors
Personnel Reconfiguration	Moderate	Selective assignment	Limited staff pool
Regulatory Adaptation	High	Hierarchical implementation	Methodological gaps
Conflict Management	Moderate	Formal protocols	Legal protection gaps
Competency Renewal	Moderate	Structured training	Resource limitations
Innovation Capacity	Low	Limited initiatives	Infrastructure constraints

Source: Primary data analysis (2024)

The resilience capabilities of South Sulawesi APIP partially align with Neo and Chen's (2007) framework regarding organizational capacity to reconfigure and renew routines and resources in

response to changing circumstances. While the organization demonstrates some adaptive capacity in personnel management and regulatory implementation, significant limitations exist in developing comprehensive resilience for complex governance challenges. The constrained innovation capacity and reactive approach to competency development indicate the need for more proactive resilience-building strategies that enhance organizational agility while maintaining audit quality and integrity. Developing organizational resilience requires systematic investment in advanced training programs, enhanced legal frameworks for auditor protection, and innovation initiatives that enable proactive responses to emerging governance challenges, as emphasized in contemporary organizational resilience literature (Stefánescu & Marin, 2025).

6.5 Conclusion

The assessment of organizational capabilities within South Sulawesi APIP reveals a mixed landscape of strengths and critical development needs across the three dimensions of Neo and Chen's framework. Routine capabilities demonstrate strong foundational structures through systematic operational procedures and formal authorization mechanisms, yet remain constrained by limited technology integration and manual processing approaches that restrict organizational efficiency and adaptability. Resource capabilities show adequate personnel distribution at basic levels but suffer from critical shortages in senior expertise, insufficient budget allocations for capacity development, and structural independence limitations that compromise audit objectivity and professional autonomy. Resilience capabilities exhibit moderate adaptive capacity in personnel reconfiguration and regulatory implementation, though significant gaps persist in innovation capacity, proactive competency development, and comprehensive response mechanisms for complex governance challenges. The findings indicate that while South Sulawesi APIP possesses fundamental organizational capabilities necessary for internal audit functions, transformational improvements in technology integration, resource investment, legal protection frameworks, and innovation capacity are essential for developing truly adaptive governance capabilities that can effectively support Indonesian regional government accountability and transparency objectives in an increasingly complex administrative environment.

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