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Performance audit quality and the implementation of audit recommendations: The mediating role of perceived usefulness

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Abstract
The implementation of audit recommendations is a critical determinant of whether performance audits achieve their intended objective of improving public sector accountability and organizational performance. This study explores the mediating function of perceived performance audit usefulness and the impact of performance audit quality on the execution of audit recommendations. This study examines survey data from 48 respondents representing 28 local governments in Central Java Province, Indonesia, that were subject to performance audits conducted by the Audit Board of the Republic of Indonesia between 2020 and 2024, guided by Decision-Usefulness Theory and the Utilization-Focused Evaluation approach. Using Partial Least Squares-Structural Equation Modeling (PLS-SEM), the empirical results show that performance audit quality has a positive and significant impact on the implementation of audit recommendations as well as the perceived usefulness of performance audits.Perceived usefulness also has a significant positive effect on the implementation of audit recommendations and partially mediates the relationship between performance audit quality and recommendation implementation. These findings suggest that high-quality performance audits enhance auditees' perceptions of audit usefulness, thereby strengthening their commitment to implementing audit recommendations. This study emphasizes perceived usefulness as an important mechanism through which audit quality contributes to the effective utilization of performance audit results in the public sector.

Keywords: Performance audit quality, perceived usefulness of performance audits, implementation of audit recommendation, public sector, PLS-SEM

Introduction

A key measure of the success of performance audits and the general standard of public sector governance is the application of audit recommendations. Performance audits are intended to evaluate the efficacy, economy, and efficiency of government initiatives while offering suggestions to enhance public accountability, organizational performance, and governance. (BPK RI, 2017; INTOSAI, 2019). However, the value of these recommendations ultimately depends on whether audited entities implement them in a meaningful and substantive manner. Recommendations that are ignored or implemented merely to satisfy administrative requirements rarely produce substantive organizational improvements, increasing the likelihood of recurring audit findings, inefficient resource utilization, and weakened public accountability (Hazgui *et al*., 2022; Parker *et al*., 2020) [8, 14]. Recognizing the importance of recommendation implementation, Law No. 15 of 2004 and Audit Board (BPK) Regulation No. 2 of 2017 [3] require audited entities to implement audit recommendations, while BPK monitors the progress of their implementation.

Despite this regulatory mandate, the substantive implementation of audit recommendations remains a persistent challenge across public-sector organizations. International evidence indicates a considerable gap between the issuance of audit recommendations and their actual implementation. For example, the Australian National Audit Office reported that only 64% of performance audit recommendations in one ministry had been fully implemented (Australian National Audit Office, 2022) [2], while the National Audit Office of Tanzania found that only 22% of recommendations issued in 2020 [26] had been fully implemented (Tanzania National Audit Office, 2024) [17]. Similar challenges are evident in Indonesia. BPK monitoring data show that approximately 41% of audit recommendations issued during the 2020-2024 [5, 17] period had not been implemented adequately or remained unaddressed.

These results imply that the efficacy of performance audits is influenced not only by the quality of audit recommendations but also by how auditees respond to and implement those recommendations in practice.

Previous studies generally demonstrate that audit quality is crucial in encouraging the use of audit recommendations. High-quality audits tend to produce findings and recommendations that are clearer, more relevant, evidence-based, and actionable, thereby encouraging auditees to undertake corrective actions (Furqan *et al*., 2020; Pinondang *et al*., 2025; Rahandiani *et al*., 2024) [5, 16, 17]. Nevertheless, audit quality alone may not sufficiently explain why some organizations implement recommendations comprehensively while others exhibit only symbolic or administrative compliance. Ultimately, auditees determine whether audit findings provide sufficient value to justify organizational improvement. Consequently, the influence of audit quality on recommendation implementation may operate through auditees' evaluations of the usefulness of audit results rather than through a purely direct relationship.

This perspective is consistent with Decision-Usefulness Theory (DUT), which argues that information influences decision-making only when users perceive it as relevant and useful for reducing uncertainty and supporting corrective actions (Staubus, 2000) [25]. Within the context of

performance audits, high-quality audit processes are expected to generate credible, relevant, and actionable information that enhances auditees' perceptions of the usefulness of audit findings (Hay & Cordery, 2021 [7]; Reichborn-Kjennerud & Johnsen, 2018; Setyaningrum *et al*., 2025) [19, 22]. When audit recommendations are perceived as valuable for improving organizational performance, auditees are more likely to use them in planning, implementing, and monitoring corrective actions. Therefore, perceived usefulness represents a plausible explanatory mechanism through which audit quality influences the substantive implementation of audit recommendations.

Although previous studies have examined the relationships among audit quality, perceived usefulness, and the implementation of audit recommendations, these relationships have largely been investigated separately. Existing studies predominantly focus on the direct effect of audit quality on recommendation implementation or examine the usefulness of audit information without integrating both perspectives into a single explanatory framework (Furqan *et al*., 2020; Hay & Cordery, 2021; Reichborn-Kjennerud, 2013; Setyaningrum *et al*., 2025) [5, 7, 20, 22]. Moreover, studies in the Indonesian public sector commonly evaluate recommendation follow-up using administrative implementation status, which does not fully capture the extent to which recommendations are substantively incorporated into organizational practices (Rahandiani *et al*., 2024) [17]. Consequently, limited empirical evidence exists regarding the mechanism through which audit quality promotes the substantive implementation of audit recommendations, especially with regard to performance audits carried out by the Supreme Audit Institution of Indonesia.

By investigating the mediating role of perceived usefulness in the relationship between performance audit quality and the implementation of audit recommendations, this study addresses these theoretical and empirical gaps. The research concentrates on local governments in Central Java Province during the 2020 [5]-2024 period, a setting characterized by diverse organizational characteristics and varying experiences with performance audits. Unlike previous studies that rely primarily on administrative implementation status, this research conceptualizes recommendation implementation from a substantive perspective, encompassing implementation planning, consistency of execution, completeness, timeliness, and the adequacy of corrective actions (Setyaningrum *et al*., 2025) [22]. By incorporating entity size, financial independence, and previous audit opinion as control variables, this study seeks to provide more comprehensive empirical evidence regarding how performance audit quality promotes the implementation of audit recommendations and whether perceived usefulness explains this relationship.

Literature Review and Hypotheses Development

The study's theoretical underpinnings, the conceptual framework that shows how the research variables relate to one another, and the formulation of the research hypotheses are all presented in the part that follows.

Decision-Usefulness Theory, Utilization-Focused Evaluation and Implementation of Audit Recommendations

Decision-Usefulness Theory (DUT) argues that information influences decision-making only when users perceive it as relevant and reliable for reducing uncertainty and supporting appropriate actions (Staubus, 2000) [25]. Within the context of performance auditing, audit findings and recommendations represent decision-relevant information intended to assist public managers in improving organizational performance, strengthening governance, and enhancing public accountability (Bastian, 2014; Loke *et al*., 2016) [11]. However, the existence of high-quality audit information alone does not guarantee organizational improvement because its value ultimately depends on whether auditees use the information when making corrective decisions.

This perspective is complemented by the Utilization-Focused Evaluation (UFE) approach, which emphasizes that evaluations create value only when their intended users perceive the results as useful and subsequently apply them in practice (Patton, 1997; Shulha & Cousins, 1986) [15, 24]. As a result, auditees' assessments of the applicability, reliability, and practical utility of audit findings and recommendations are just as important to the success of performance audits as the technical quality of the audit process. When audit results are perceived as useful for addressing organizational problems, auditees are more likely to incorporate the recommendations into planning, implementation, and monitoring corrective actions (Parker *et al*., 2020; Pinondang *et al*., 2025) [14, 16]. Consequently, DUT explains how audit quality enhances perceived usefulness, whereas UFE explains how perceived usefulness encourages the substantive implementation of audit recommendations.

Theoritical Framework

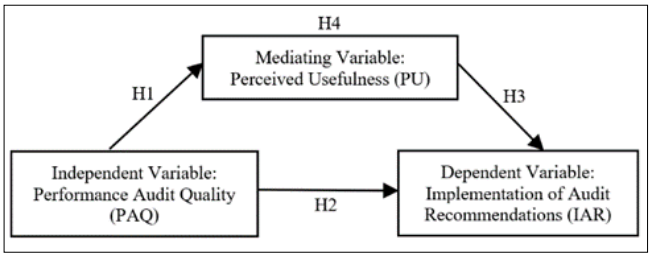


Fig 1: Theorical Famework

Hypotheses Development

The Effect of Performance Audit Quality on Perceived Usefulness

According to Decision-Usefulness Theory, the usefulness of information depends largely on its relevance and reliability (Staubus, 2000) [25]. Performance audits conducted in accordance with professional standards are expected to produce findings and recommendations that are evidence-based, clearly justified, and directly linked to organizational problems (Setyaningrum *et al*., 2025) [22]. Such characteristics enhance the credibility and relevance of audit information, enabling auditees to better understand organizational weaknesses and identify appropriate corrective actions. Empirical evidence further indicates that competent auditors, rigorous audit methodologies, and well-supported recommendations increase auditees' perceptions that audit results are useful for improving governance, internal control, and organizational performance (Raudla *et al*., 2016; Reichborn-Kjennerud, 2013) [18, 20]. Consequently,

it is expected that higher performance audit quality will enhance the perceived usefulness of performance audits.

H1: Performance audit quality has a positive effect on the perceived usefulness of performance audits.

The Effect of Performance Audit Quality on the Implementation of Audit Recommendations

It is expected that performance audit quality will influence both the characteristics of audit reports and the extent to which auditees implement audit recommendations. High-quality audits produce recommendations that are relevant, feasible, evidence-based, and clearly linked to the underlying organizational problems, making them easier for auditees to understand and implement (Furqan *et al*., 2020 [5]; Setyaningrum *et al*., 2025) [22]. Furthermore, rigorous audit processes strengthen the credibility of audit conclusions, increasing auditees' confidence that implementing the recommendations will contribute to organizational improvement. Previous studies consistently demonstrate that high-quality audits encourage greater implementation of audit recommendations because auditees perceive the recommendations as more practical and actionable (Pinondang *et al*., 2025; Rahandiani *et al*., 2024) [16, 17]. Therefore, performance audit quality is expected to positively influence the implementation of audit recommendations.

H2: Performance audit quality has a positive effect on the implementation of audit recommendations.

The Effect of Perceived Usefulness on the Implementation of Audit Recommendations

Decision-Usefulness Theory suggests that information is more likely to influence organizational decisions when it is perceived as useful by decision-makers (Staubus, 2000) [25]. This argument is reinforced by Utilization-Focused Evaluation, which proposes that evaluation findings create organizational impact only when intended users consciously utilize them in decision-making and organizational improvement (Patton, 1997) [15]. In the context of performance audits, perceived usefulness reflects the extent to which auditees believe that audit findings and recommendations provide practical value for improving governance and organizational performance (Reichborn-kjennerud, 2013) [20]. Auditees are more likely to incorporate audit recommendations into organizational planning and implement the recommended corrective actions when they perceive the recommendations as relevant and useful. Conversely, recommendations perceived as having limited practical value are more likely to receive only symbolic or administrative responses (Rahandiani *et al*., 2024 [17]; Reichborn-Kjennerud & Johnsen, 2018) [19]. Therefore, perceived usefulness is expected to positively influence the implementation of audit recommendations.

H3: Perceived usefulness of performance audits has a positive effect on the implementation of audit recommendations.

The Mediating Role of Perceived Usefulness

While performance audit quality may directly influence the implementation of audit recommendations, its effect is expected to occur primarily through auditees' perceptions of the usefulness of audit findings. High-quality audits generate information that is more relevant, reliable, and actionable, thereby increasing auditees' perceived usefulness of audit findings, as explained by Decision-Usefulness Theory (Staubus, 2000) [25]. Subsequently, Utilization-Focused Evaluation argues that information perceived as useful is more likely to be translated into organizational action because users recognize its value in supporting decision-making and performance improvement (Patton, 1997) [15]. Consequently, perceived usefulness functions as an explanatory mechanism through which performance audit quality promotes the substantive implementation of audit recommendations. This sequential relationship has also been supported by previous studies showing that audit quality enhances the usefulness of audit information, which subsequently encourages organizations to implement audit recommendations more effectively (Rahandiani *et al*., 2024 [17]; Reichborn-Kjennerud & Johnsen, 2018; Setyaningrum *et al*., 2025) [19, 22].

H4: Perceived usefulness mediates the relationship between performance audit quality and the implementation of audit recommendations.

Research Methodology

Population and Sample

The study population comprised all 35 district and municipal governments in Central Java Province. The sample was selected using purposive sampling. Only local governments that had undergone performance audits conducted by the Representative Office of the Audit Board of the Republic of Indonesia (BPK RI) between 2020 and 2024 [5, 17] were included. Based on these criteria, the final sample comprised 28 local governments represented by 48 respondents.

The unit of analysis was the local government, whereas data were collected from individual respondents using a single key informant approach. In order to represent the organizational conditions of the audited entities, respondents were chosen based on their direct involvement, knowledge, and responsibility related performance audits and the implementation of audit recommendations. (Krause *et al*., 2018; Montabon *et al*., 2018) [10, 13].

The hypotheses were tested using Partial Least Squares Structural Equation Modeling (PLS-SEM), which is appropriate for examining mediation relationships across latent dimensions assessed by several indicators (Hair *et al*., 2021) [6]. SmartPLS 4 was used for data analysis.

Variables and Their Measurements

This study operationalized three latent constructs: performance audit quality (PAQ), perceived usefulness (PU), and implementation of audit recommendations (IAR). A five-point Likert scale, with 1 representing "strongly disagree" and 5 representing "strongly agree," was used to measure each construct. The measurement tools were modified from well-known literature and placed in the context of Indonesia's public sector.

Performance audit quality (PAQ) represents auditees' perceptions of the effectiveness and quality of the audit process as well as the resulting audit report. Consistent with prior studies (Raudla *et al*., 2016; Reichborn-Kjennerud, 2013) [18, 20], the construct reflects the extent to which auditors conduct audits in accordance with professional standards, demonstrate competence, engage constructively with auditees, and produce clear and reliable audit reports. PAQ was measured using seven reflective indicators

adapted from Reichborn-Kjennerud (2013), Raudla *et al*. (2016), and Setyaningrum *et al*. (2025) [18, 20, 22].

Perceived usefulness (PU) represents the extent to which respondents believe that performance audit findings contribute to better organizational decision-making and performance improvement. Grounded in Decision Usefulness Theory (Staubus, 2000) [25], the construct captures the perceived usefulness of audit findings and recommendations in supporting organizational improvement (Patton, 1997; Van Loocke & Put, 2011) [12, 15]. PU was measured using six reflective indicators adapted from Reichborn-Kjennerud (2013) and Setyaningrum *et al*. (2025) [20, 22].

Implementation of audit recommendations (IAR) refers to the extent to which auditees implement, monitor, and sustain corrective actions based on performance audit recommendations. The construct reflects organizational commitment to addressing audit findings in a timely, consistent, and adequate manner to enhance organizational accountability (Aikins, 2012; Dain & Rahmat, 2017; Furqan *et al*., 2020; Setyaningrum *et al*., 2013) [1, 4, 5, 23]. IAR was measured using five reflective indicators adapted from Aikins (2012) and Dain and Rahmat (2017) [1, 4].

Research Model

Prior to the main survey, a pilot test assessed the questionnaire's validity and reliability. Since every measurement item satisfied the suggested validity and reliability standards, it was kept for the primary survey (Ghozali, 2021).

Partial Least Squares Structural Equation Modeling (PLS-SEM) is the quantitative method used in this research. Because PLS-SEM works well with comparatively small sample sizes and is well suited for investigating direct and mediated links among latent components evaluated using various indicators, it was chosen (Hair *et al*., 2021) [6].

There were two phases to the data analyzing process. In order to confirm the suitability of the measurement tools, the initial step involved assessing the measurement (outer) model. This evaluation included examining indicator reliability through outer loadings, assessing convergent validity using the Average Variance Extracted (AVE), establishing discriminant validity based on the Heterotrait–Monotrait Ratio (HTMT), and evaluating internal consistency reliability using Cronbach's alpha and Composite Reliability (Hair *et al*., 2021) [6].

The second stage involved evaluating the structural (inner) model by examining its explanatory power through the coefficient of determination (R^2), while the significance of the hypothesized relationships was assessed using the bootstrapping procedure. The path coefficients, t-statistics, and p-values derived from 5,000 bootstrap resamples were used to evaluate the direct and indirect impacts (Hair *et al*., 2021) [6]. Data processing and estimations were conducted using SmartPLS 4.

Result and Discussion

This section presents the empirical findings of the study based on the PLS-SEM analysis. Following a description of the respondents' characteristics and the descriptive statistics of the study constructs is the evaluation of the measuring model and structural model. Testing hypotheses and discussing the results in relation to the theoretical framework and earlier empirical research round out the part.

Respondent Characteristics

Table 1: Respondent Characteristic

Characteristic	Category	N	%
Position	Regional Secretary	1	2,08
	Head of Agency	5	10,42
	Secretary of Agency	13	27,08
	Head of Division	12	25,00
	Head of Subdivision	9	18,75
	Functional Officer	5	10,42
	Others	3	6,25
Educational Background	Bachelor's Degree	20	41,67
	Master's Degree	26	54,17
	Doctoral Degree	2	4,17
Performance Audit Experience	Once	11	22,92
	Twice	8	16,67
	Three times or more	29	60,42

The demographic details of the participants in this study are shown in Table 1. The respondents represented various organizational positions, educational backgrounds, and levels of experience in performance audits. Overall, they occupied positions directly related to the audited programs and the implementation of audit recommendations, indicating that they possessed the authority, knowledge, and experience required to provide informed assessments of the research constructs.

The respondent profile also indicates that most participants had advanced educational qualifications and considerable experience in performance audits. These characteristics support the appropriateness of the key informant approach adopted in this study, as the respondents were well qualified to evaluate the quality of performance audits, the perceived usefulness of audit results, and the implementation of audit recommendations.

Descriptive Statistic

Table 2: Descriptive Statistic

Construct	Items	Mean	Min	Max
PAQ	7	3.79	1	5
PU	6	3.97	1	5
IAR	5	4.00	1	5

The research constructs' descriptive statistics are shown in Table 2. On a five-point Likert scale, the mean scores varied from 3.79 to 4.00, demonstrating generally positive perceptions across all domains. The implementation of audit recommendations exhibited the highest mean score, followed by perceived usefulness of performance audits and performance audit quality. Overall, these results suggest that the respondents perceived performance audits as providing useful information for organizational improvement and reported a relatively high level of implementation of the resulting audit recommendations.

Measurement Model Assessment

Table 3: Measurement Model Assessment Result

Construct	Items	Cronbach's Alpha	Composite Reliability	AVE
PAQ	7	0,938	0,950	0,732
PU	6	0,927	0,943	0,735
IAR	5	0,956	0,966	0,850

The measurement model assessment results are summarized in Table 3. Every construct met the suggested standards for validity and reliability. Convergent validity was confirmed by AVE values above 0.50, while Cronbach's alpha and Composite Reliability scores exceeded 0.70, showing acceptable internal consistency reliability. Furthermore, every indication loading was greater than 0.70, indicating that the measurement items accurately reflected the corresponding structures.

Discriminant Validity Assessment (HTMT)

The study's empirical results based on the PLS-SEM analysis are presented in this part. The assessment of the measuring model and structural model comes after a description of the characteristics of the respondents and the descriptive statistics of the research constructs. Testing hypotheses and discussing the results in relation to the theoretical framework and earlier empirical research round out the part.

Table 4: HTMT Result

Construct	PAQ	PU	IAR
PAQ	—		
PU	0,797	—	
IAR	0,886	0,809	—

Note: *HTMT = Heterotrait–Monotrait Ratio.*

Structural Model Assessment

Table 5: Structural Model Assessment Result

Endogenous Construct	R^2	Interpretation
PU	0,573	Moderate
IAR	0,753	Substantial

By examining the structural model's coefficient of determination (R2), the explanatory power of the proposed model was evaluated. Table 5 shows that the model explains 75.3% of the variance in the implementation of audit recommendations and 57.3% of the variance in the perceived usefulness of performance audits. These values show moderate and high explanatory power, respectively, according to Hair *et al*. (2021) [6].

Hypothesis Test Result

Table 6: Hypothesis Test Result

Hypothesis	Relationship	β	*t*-value	*p*-value
H1	PAQ → PU	0.757	8.780	<0.001
H2	PAQ → IAR	0.614	3.777	<0.001
H3	PU → IAR	0.305	2.026	0.021
H4	PAQ → PU → IAR	0.231	1.714	0.043

Note: β = standardized path coefficient.

Table 6 summarizes the results of the hypothesis testing. Overall, the results provide support for all of the proposed hypotheses. The findings indicate that performance audit quality directly enhances both perceived usefulness and the implementation of audit recommendations. Furthermore, the association between performance audit quality and recommendation implementation is partially mediated by perceived utility, which also has a beneficial impact on the implementation of audit recommendations.

Hypothesis 1 is supported by the positive and substantial relationship between performance audit quality and perceived usefulness ($\beta = 0.757$, $t = 8.780$, $p < 0.001$). This finding suggests that audits conducted in accordance with professional standards and supported by sufficient evidence are more likely to produce information that auditees consider relevant, credible, and valuable for organizational improvement. Such evidence is consistent with the central proposition of Decision Usefulness Theory, which argues that information is more likely to support decision-making when it possesses relevant and reliable characteristics (Staubus, 2000) [25]. The result also corroborates previous studies demonstrating that audit quality enhances auditees' perceptions of audit usefulness through clear audit processes, competent auditors, and well-founded audit conclusions (Raudla *et al*., 2016; Reichborn-Kjennerud, 2013; Setyaningrum *et al*., 2025) [18, 20, 22].

The findings also support Hypothesis 2 by demonstrating that the implementation of audit recommendations is positively and significantly impacted by performance audit quality ($\beta = 0.614$, $t = 3.777$, $p < 0.001$). This conclusion suggests that credible, pertinent, and practically applicable results from high-quality performance audits aid in the execution of audit recommendations. Recommendations that are clearly supported by audit evidence and logically linked to identified organizational problems are more likely to be accepted and translated into corrective actions by auditees. This outcome is in line with other research showing that improved audit quality increases the relevance, credibility, and viability of audit findings, strengthening the adoption of audit recommendations. (Furqan *et al*., 2020; Pinondang *et al*., 2025; Setyaningrum, 2017) [5, 16, 21]

Perceived usefulness of performance audits also has a positive and significant effect on the implementation of audit recommendations ($\beta = 0.305$, $t = 2.026$, $p = 0.021$), supporting Hypothesis 3. This result indicates that auditees who perceive audit results as useful are more likely to implement the recommended improvements. The finding supports Decision Usefulness Theory, which emphasizes that information is more likely to influence organizational decisions when it is perceived as useful by decision makers (Staubus, 2000) [25]. It also aligns with the Utilization-Focused Evaluation approach, which argues that evaluation results generate greater organizational impact when intended users perceive them as relevant and beneficial (Patton, 1997) [15]. Similar findings have been reported by Reichborn-Kjennerud and Johnsen (2018) and Rahandiani *et al*. (2024) [17, 19], who discovered that organizational commitment to executing audit recommendations is significantly influenced by perceived utility.

Hypothesis 4 is supported by the indirect impact analysis, which shows that perceived usefulness significantly mediators the association between performance audit quality and the successful completion of audit recommendations ($\beta = 0.231$, $p = 0.043$). The significant direct and indirect effects indicate partial mediation, suggesting that performance audit quality contributes to recommendation implementation not only directly but also indirectly by strengthening auditees' perceptions of audit usefulness. This finding provides empirical support for the complementary roles of Decision Usefulness Theory (Staubus, 2000) [25] and the Utilization-Focused Evaluation approach (Patton, 1997) [15], both of which suggest that high-quality evaluation information is more likely to influence organizational action

when it is perceived as useful by its intended users. The result is also in line with previous evidence reported by Reichborn-Kjennerud (2013) [20], Reichborn-Kjennerud and Johnsen (2018), Setyaningrum *et al*. (2025), and Rahandiani *et al*. (2024) [17, 19, 22].

Conclusions

This study concludes that performance audit quality enhances both the perceived usefulness of performance audits and the implementation of audit recommendations in Indonesian local governments. The findings further indicate that perceived usefulness partially mediates this relationship, suggesting that high-quality performance audits promote the implementation of audit recommendations not only directly but also by strengthening auditees' perceptions of the usefulness of audit results.

These findings have important implications for BPK RI and other supreme audit institutions. Beyond ensuring compliance with professional auditing standards, performance audits should emphasize the development of relevant, evidence-based, and actionable recommendations that are perceived as useful by auditees, thereby encouraging more effective implementation of audit recommendations. The cross-sectional design of this study and its concentration on Central Java Province's district and municipal governments are its main limitations. Future research may extend this study by examining other public sector contexts, adopting longitudinal research designs, and adding other organizational elements that could affect how audit recommendations are carried out.

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