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PERSISTENT NON-COMPLIANCE IN CONSTRUCTION CONTRACTS: COMPARATIVE INSIGHTS FROM CAPITAL EXPENDITURE AUDIT FINDINGS (2024-2025)

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Abstract

This study comparatively analyzes the determinants of non-compliance regarding physical volume shortages in capital expenditure construction contracts for Buildings/Structures and Roads/Networks/Irrigation for the 2024–2025 period in XYZ Regency. Employing a descriptive-comparative qualitative approach, this research integrates Agency Theory and the Theory of Planned Behavior (TPB) utilizing BPK RI audit reports (2025–2026) and SIPD-RI digital transaction logs. The results indicate that externally, contractors (agents) engage in adaptive moral hazard; Building project manipulations focus on spatial dimensions (hidden structure), whereas road projects exploit geographical distance (exposed structure). Internally, mitigation failures stem from officials' (principals') permissive attitude prioritizing formal handover documents (BAST) and curative recovery (STS), exacerbated by the end-of-year backloading effect in SIPD-RI that triggers control overload. This study recommends contract governance reconstruction through procurement scheduling reforms (early bidding), enhanced technical competence, and geospatial-based digital quality control.

Keywords: Agency Theory, Theory of Planned Behavior, Volume Shortage, SIPD-RI, Contract Governance

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INTRODUCTION

This section introduces the research topic, contextualizes the problem within the broader literature, and states the gap that the study addresses. It ends with clear research questions or hypot

Non-compliance in fulfilling the volume of construction contracts in the public sector is a crucial issue that degrades the efficiency of the realization of capital expenditure by local governments. Quantitatively, the absorption of the infrastructure budget often shows high performance, but qualitatively, the Audit Report of the Financial Audit Agency (LHP BPK RI) consistently still records material findings in the form of a lack of physical volume of contractual work (BPK RI, 2025; BPK RI, 2026). The phenomenon of persistence of these findings indicates a fundamental weakness in the internal control system and the integrity of the implementation of government goods/services procurement contracts (Pratama & Salim, 2025).

Based on the Summary of Semester Audit Results (IHPS) of BPK RI, findings of physical work volume shortages consistently rank among the most recurring types of non-compliance findings in LKPD audits across regions, with accumulated state losses that remain significant each year. This pattern appears consistently across regions and audit periods, indicating that the issue is not merely a local anomaly but a systemic weakness in the internal control of government procurement.

In order to dissect the dynamics of this deviation, a multidimensional analysis is needed that juxtaposes external factors from the service provider side and internal factors from the government bureaucratic side. From the external dimension, the contractual interaction between the government as the project owner (principal) and the contractor as the executor (agent) is analyzed using Agency Theory (Jensen & Meckling, 1976). This theory projects that agents tend to act opportunistically in order to maximize one-sided profits by taking advantage of technical information asymmetric gaps in the field. These opportunistic actions materialize in the form of moral hazards, where service providers adaptively engineer the physical volume of the building based on the difficulty level of detection by the principal.

Meanwhile, from the internal dimension, the persistence of this finding is closely related to the behavior control capabilities of regional apparatus which can be explained through the Theory of Planned Behavior (TPB) (Ajzen, 1991). The theory affirms that human actions are controlled by three cognitive determinants: attitudes, subjective norms, and perceived behavioral control. In the context of bureaucracy, the control of apparatus behavior is often paralysed due to systemic pressure on financial administration, such as the phenomenon of the accumulation of budget disbursements at the end of the fiscal year (backloading effect) recorded in the transaction logs of the Regional Government Information System of the Republic of Indonesia (SIPD-RI) (Ghaniyar & Qibthiyyah, 2021). This condition triggers extreme workloads that exceed the rational capacity limit of the apparatus (control overload), thereby weakening the substantive supervision function in the field.

Previous research has generally focused on the impact of procurement corruption on a macro scale (Astuti & Adrison, 2019) or weaknesses of SPI in general (Nurmalasari et al., 2025). The novelty of this research lies in the comparative approach across Capital Expenditure accounts (Buildings versus Roads, Networks, and Irrigation) by integrating the perspectives of agency (external) and TPB (internal) behavior simultaneously, and supported by empirical proof of SIPD-RI digital transaction logs. This study aims to analyze the characteristics of the modus operandi of

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volume non-compliance and formulate a preventive contract governance reconstruction strategy for local governments.

Research Gap and Contribution

While existing literature has separately examined Agency Theory applications in public procurement, TPB-based analyses of compliance behavior, and the systemic challenges of budget backloading, limited research has integrated these perspectives to analyze construction contract non-compliance in a comparative framework. Furthermore, the specific comparison between building construction (where manipulation targets *hidden structures*) and road construction (where manipulation exploits *exposed yet geographically dispersed structures*) represents a novel contribution.

This study addresses these gaps by simultaneously applying Agency Theory to analyze external contractor behavior and TPB to examine internal bureaucratic dynamics, while grounding the analysis in empirical evidence from SIPD-RI transaction logs. The comparative approach across capital expenditure accounts — buildings versus roads/infrastructure — provides nuanced insights into how different construction typologies create distinct opportunities for opportunistic behavior and require differentiated governance responses.

REVIEW OF LITERATURE

Agency Theory and Public Procurement Non-Compliance

Agency Theory, originally formulated by Jensen and Meckling (1976), provides a foundational framework for understanding contractual relationships wherein a principal delegates work to an agent who performs that work. The theory posits that agents, driven by self-interest, may engage in opportunistic behavior when information asymmetry exists between the principal and the agent, potentially leading to moral hazard and adverse selection.

In the context of public procurement, Agency Theory has been extensively applied to explain non-compliance behaviors. Kauppi and van Raaij (2015) utilized Agency Theory to examine maverick buying in governmental agencies — defined as non-compliance with centrally negotiated frame agreements. Their research revealed that agency problems arise not only because the agent possesses information unknown to the principal but also because the principal may hold information unavailable to the agent. Importantly, they found that guidance and training help reduce governmental employees' non-compliance, whereas output monitoring does not produce similar effects. This dual-lens perspective on principal-agent relationships offers critical insight into how both parties' information asymmetries contribute to procurement non-compliance.

Extending this framework to construction contracts, research has modeled the optimal transfer of construction risk in public works contracts through the lens of Agency Theory. The fundamental assumption underlying such models is that contractors (agents) will exploit informational advantages to maximize their private gains when oversight mechanisms are inadequate. This theoretical perspective is particularly relevant for analyzing volume shortages in construction projects, where technical specifications create natural information asymmetries that contractors can manipulate.

Theory of Planned Behavior and Public Sector Compliance

The Theory of Planned Behavior (TPB), developed by Ajzen (1991), posits that human action is guided by three cognitive determinants: attitude toward the behavior, subjective norms,

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and perceived behavioral control. TPB has been widely adopted to explain compliance behaviors across various public sector contexts.

Rahandiani, Ritonga, and Imansantosa (2024) applied TPB to analyze auditees' intentions to implement audit recommendations. Their qualitative findings revealed that while auditees' attitudes toward implementing audit recommendations significantly impact their intentions, subjective norms and perceived behavioral control can pose substantial barriers, diminishing commitment to the implementation process. The study identified five themes influencing auditee intentions: lack of engagement, unorganized organizational pathways, the role of decision-makers, mutual reluctance toward coordination, and gaps in knowledge and qualifications.

In the Indonesian public sector context, TPB has been employed to explain civil servant compliance behavior. Research examining spirituality within the TPB framework demonstrated that the model effectively explains compliance among government employees. Similarly, studies on taxpayer compliance have utilized TPB to analyze behavioral factors influencing compliance, finding that attitudes, perceived social norms, and perceived behavioral control collectively shape compliance intentions. These applications suggest that TPB provides a robust analytical lens for understanding why public officials may fail to enforce contract compliance, particularly when systemic pressures (such as year-end budget backloading) undermine perceived behavioral control.

Contract Compliance and Governance in Public Construction

Contract compliance in public construction projects represents a critical governance challenge, particularly in decentralized procurement environments. Research on infrastructure quality evaluation in decentralized road projects in Indonesia identified Procurement Governance Risk, Contract Compliance Risk, Project Supervision Risk, Resource Availability Risk, and Sociocultural Risk as significant determinants of infrastructure quality. The findings underscore the importance of strengthening governance, supervision, and contract compliance to improve infrastructure quality in decentralized construction settings.

In the Indonesian context, contractor compliance with procurement regulations has been shown to reduce the potential for corruption in construction projects. Community participation in public monitoring is also identified as important for detecting violations. Research on dominant risks in government building procurement has classified and mapped risks specific to public building construction, providing empirical evidence of the multifaceted challenges facing procurement oversight in Indonesia.

Contract administration procedures in government construction projects have also received scholarly attention. Studies analyzing the implementation of standard contract administration procedures have identified compliance levels with applicable regulations and examined obstacles to effective contract enforcement. The principle of legal certainty in state-budget-funded projects has prompted calls for reforming adaptive contract models and digital governance frameworks for public procurement in Indonesia.

Budget Implementation Dynamics and Control Overload

The phenomenon of year-end budget backloading (*backloading effect*) has been identified as a systemic challenge in Indonesian public financial management. The World Bank has asserted that developing countries, including Indonesia, encounter challenges in budget utilization characterized as "slow and back-loaded". Research on budget absorption in Indonesian local governments has

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identified factors causing suboptimal budget utilization, with year-end spending spikes representing a persistent pattern.

Mahardianingtyas (2018) examined the relationship between slow and back-loaded budget absorption patterns and government spending efficiency across Indonesian districts and municipalities. This body of research suggests that backloading creates significant administrative pressure on government officials responsible for procurement validation and contract oversight. When more than 60% of capital expenditure realization is concentrated in the final months of the fiscal year, as documented in the SIPD-RI transaction logs, the resulting *control overload* compromises the capacity for substantive physical inspection and quality assurance.

Digital Information Systems in Regional Government

The Regional Government Information System (*Sistem Informasi Pemerintahan Daerah*, SIPD) represents Indonesia's centralized digital platform for regional development planning, documentation, and administration. Developed by the Ministry of Home Affairs to replace the previous SIMDA system, SIPD aims to create an efficient, integrated platform for coordinating between central and regional governments.

Research on SIPD implementation has examined its effectiveness in budget planning processes across various regional governments. Studies have analyzed the budget planning process through SIPD at regional secretariats and legislative councils, identifying both benefits and implementation challenges. The system's role in regional revenue and expenditure budget planning has been documented, with research highlighting its function in facilitating coordination and documentation of regional development data.

However, the integration of financial validation functions within SIPD has created unintended consequences. When financial transaction logs reveal concentrated spending patterns — with capital expenditure disbursements heavily skewed toward year-end periods — the system's validation mechanisms may become overwhelmed, undermining the quality of oversight that the digital platform was designed to enhance.

Although Agency Theory and the Theory of Planned Behavior originate from different behavioral assumptions — opportunistic rationality on the part of the agent versus cognitive determinants on the part of the individual — the two frameworks are complementary when applied to public construction contracts: Agency Theory explains the contractor's incentive to manipulate volume, while TPB explains why internal control fails to detect or prevent it. However, prior studies (e.g., Kauppi & van Raaij, 2015; Rahandiani et al., 2024) have generally treated these two theories separately, and none has simultaneously tested their interaction within a single empirical case. Likewise, the literature on budget backloading and SIPD-RI implementation has largely examined administrative efficiency in isolation, without linking end-of-year disbursement spikes to the erosion of physical inspection capacity documented in audit findings. This unresolved gap — the absence of an integrated agency-behavioral lens grounded in digital transaction evidence — is the gap this study addresses.

Research Gap and Contribution

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building construction (where manipulation targets *hidden structures*) and road construction (where manipulation exploits *exposed yet geographically dispersed structures*) represents a novel contribution.

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RESEARCH METHOD

This study uses a qualitative approach with descriptive-comparative methods to uncover, map, and compare volume non-compliance patterns in two Capital Expenditure accounts (Yin, 2018). The focus of the research location is directed at the XYZ Regency Government with an observation deadline covering the 2024 and 2025 fiscal years. The use of regional identity is disguised in order to maintain the principle of confidentiality of public sector accounting data.

The descriptive-comparative approach was selected because the objective of this study is not to build new theory (as in case study or grounded theory designs) nor merely to catalogue document content (as in pure document analysis), but rather to systematically compare the modus operandi of non-compliance across two capital expenditure categories with distinct technical characteristics. This design allows the researcher to position the findings within two parallel units of analysis (Buildings versus Roads/Networks/Irrigation) and to draw systematic comparisons across the behavioral dimensions of both the agent (contractor) and the principal (government official) — a comparison that would be difficult to achieve through a single-case study design.

The data used in this study are digital secondary data and legal documents obtained through official institutional access. The main documents include the LHP BPK RI on the Regional Government Financial Statements (LKPD) of XYZ Regency for the period of 2025 and 2026, the Minutes of Handover (BAST) documents for work, proof of the Regional Treasury Certificate of Deposit (STS), and raw data transaction logs for the validation of the Fund Disbursement Order (SP2D) on the XYZ Regency SIPD-RI application for the 2024–2025 period.

The data analysis technique adopts an interactive model from Miles, Huberman, and Saldaña (2014) which consists of three systematic stages:

1. **Data Reduction:** Codify, select, and cluster volume shortage findings into Building Capital Expenditure posts as well as Road, Network, and Irrigation Capital Expenditure posts.
2. **Data Presentation (Data Display):** Compile the results of the reduction into a cross-theoretical comparative matrix (Agency Theory and TPB) to facilitate pattern drawing.
3. **Conclusion Drawing and Verification:** Confirming the pattern of actors' behavioral relationships with information system transaction log data to formulate a valid final conclusion.

RESULTS AND DISCUSSION

Typology of Volume Deficiency Findings

The typology below was derived through a two-stage data reduction process: (1) open coding of the finding narratives in the LHP BPK RI 2025-2026, identifying sentence-level units describing the location, type, and modus of volume shortage; and (2) grouping of codes into

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thematic categories based on shared technical characteristics (hidden versus exposed-but-dispersed dimensions). Of the total audit findings analyzed, a majority were categorized under the Building typology and the remainder under the Roads/Networks/Irrigation typology, with the exact case counts and coding categories reported in Table [x] to allow readers to evaluate the systematicity of the classification.

The results of the secondary data reduction showed that there was a difference in the characteristics of the physical volume deviation that contrasted between the two capital expenditure posts tested. These differences in the typology of physical deviations are crystallized into Table 1:

Table 1.
Characteristics of the Physical Volume Non-Compliance Mode of the Project

	Capital Expenditure on Buildings	**Capital Expenditure on Roads, Networks, & Irrigation**
Main Characteristics/Typology of Deviations	Manipulation of inner structural microcomponents (diameter of concrete ironing, volume of the foundation)	Deviation of macro dimensions of the outer surface, thin but even (thickness of asphalt overlay, width of road)
Field Exploitation Dimension	Dimensions of Space (Hidden Structure)	Distance Dimension (Exposed Structure)

In the Building Capital Expenditure account, the quantity deviation is internal and covered by other materials (*hidden structure*). On the other hand, in the Road, Network, and Irrigation Capital Expenditure account, quantity deviations are carried out in exposed areas (*exposed structures*) but are massively spread along the project path. These differences in the physical characteristics of objects underlie variations in the opportunistic calculations of actors in the field.

External Side Analysis: Opportunistic Behavior of Service Providers (Agency Theory)

Based on the framework of Agency Theory, the typological variation of the findings is empirical evidence of the existence of *moral hazard actions* of service providers (*agents*) driven by the exploitation of information asymmetry against local government supervision instruments (principal) (Jensen & Meckling, 1976). The service provider rationally measures the limitations of the physical detection capabilities possessed by the technical service supervisory team.

This interpretation is grounded in the finding narratives of the LHP BPK RI, which repeatedly document volume shortages concentrated in structural elements that are covered or embedded before the handover inspection (e.g., reinforcement bar dimensions, foundation depth, and concrete mix composition) rather than in visually exposed elements. This recurring pattern across audited cases, consistent with the information-asymmetry prediction of Agency Theory, provides the documentary basis for inferring that contractors calibrate the extent of volume manipulation to what routine visual supervision is unlikely to detect.

In building projects, because supervision at the final handover (BAST) generally only relies on external visual observation, contractors speculate to reduce the volume of reinforcing iron or foundations in the cast concrete (BPK RI, 2025). This requires destructive detection methods (*core*

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drill and sample disassembly) by an external auditor to prove it. Meanwhile, in road projects, contractors map that field supervisors have limited mobility to measure the entire length of the project continuously. Contractors take gaps by reducing the thickness of asphalt thinly (e.g., a few millimeters) consistently along kilometers (BPK RI, 2026). This pattern proves that *the moral hazard* of service providers moves adaptively following the physical weakness of the procurement object in order to maximize unilateral financial gains.

Internal Side Analysis: Regional Apparatus Behavior Control (TPB) and SIPD-RI Logs

The persistence of volume deviations from the external side cannot be separated from the collapse of the effectiveness of the bureaucracy's internal control. Through the lens of *the Theory of Planned Behavior* (TPB), this mitigation failure is influenced by three determinants of apparatus behavior (Ajzen, 1991).

First, attitudes towards the behavior of the apparatus are biased towards administrative formalities. The apparatus considers the project legally safe if the BAST formality file is met, and considers the post-audit physical findings to be curatively resolved through a refund via Letter of Deposit (STS) (Pratama & Salim, 2025). Second, *subjective norms* are in the form of institutional environmental pressures that require rapid budget absorption at the end of the year to avoid regional performance sanctions, thus forcing the PPK to relax the accuracy of physical testing for the sake of disbursement speed (Ghaniyar & Qibthiyyah, 2021).

Third, the weakening of perceived *behavioral control* is triggered by systemic factors of *control overload*. Empirical evidence of this condition is shown by the data of the budget disbursement transaction log on the SIPD-RI application of XYZ Regency for the 2024 and 2025 periods. The data confirms the extreme accumulation of SP2D capital expenditure issuance validation in the fourth quarter, where more than 60% of the total nominal realization accumulated in November and December (*backloading effect*). As a result, one PPK or Field Supervisor was forced to validate dozens of construction project packages completed at the same time. This *control overload* barrier is what paralyzes the capacity of the apparatus to conduct substantive physical testing in the field, thus facilitating the occurrence of a shortage of contract volume.

Comparative Synthesis and Recommendations of Contract Governance

Cross-paradigm synthesis shows that external information asymmetry and internal control paralysis due to *the backloading effect* of SIPD-RI interact to form a space for non-compliance. To provide a comprehensive overview of the combination of the root of field problems and the formulation of *contract governance recommendations*, the following is presented as an analytical recapitulation matrix in Table 2:

Table 2.
Contract Governance Problem Synthesis and Solutions Matrix

Behavioral Dimension	Existing Problem (Field Conditions)	Contract Governance Strategy Formulation	Target Regulatory Implications
Internal Side of Local Government (TPB)	Backloading effect of term disbursement on SIPD-RI triggers control overload at year-end. Permissive attitude relies on curative STS	Procurement Schedule Management through early auctions at the start of the fiscal year	Eliminates the risk of control paralysis due to simultaneous stacking of project packages.

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Behavioral Dimension	Existing Problem (Field Conditions)	Contract Governance Strategy Formulation	Target Regulatory Implications
	compensation and weak substantive physical-test competence.	(Presidential Decree No. 12 of 2021).	
Internal Side of Local Government (TPB)	—	Improvement of PPK Technical Competence and optimization of physical review by the pre-BAST Inspectorate.	Shifting the apparatus paradigm from formality-compensation compliance to quality-preventive compliance.
External Side of the Contractor (Agency Theory)	Exploitation of information asymmetry on hidden building structures and exposed geographical landscapes.	Digitization of Quality Control through integration of digital physical data and geospatial modules into the SIPD-RI application.	Closes the moral hazard agent gap through real-time transparency of physical condition data.

CONCLUSION

Based on a series of descriptive-comparative analyses across paradigms, this study concludes two essential points. Externally (Agency Theory), the finding of lack of volume is the result of *the moral hazard* of service providers who adaptively exploit information asymmetry based on the type of construction; buildings are manipulated on the internal structural aspect (*hidden structure*), while roads are manipulated on the aspect of geographical length (*exposed structure*). Internally (TPB), mitigation failures are caused by the permissive attitude of the apparatus who rely on compliance with file formalities and the recovery of regional treasury STS, which is exacerbated by the systemic phenomenon of *backloading effect* of year-end budget disbursement on the SIPD-RI application, thereby creating a paralysis of physical supervision control (*control overload*).

Suggestions

In order to reconstruct contract governance, it is recommended for the XYZ Regency Government to:

a) Implement early auction schedule management at the beginning of the fiscal year to prevent *backloading effects* in accordance with the mandate of Presidential Regulation Number 12 of 2021;
b) Improve the competence of PPK physical measurement techniques and require substantive review of the pre-BAST Inspectorate; and
c) Develop a geospatial digital-based quality control module integrated into the SIPD-RI financial validation log.

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For further research, it is recommended to expand the scope of testing to the Equipment and Machinery Capital Expenditure post and develop mixed research methods to statistically test the significance of the effect of backloading effect on the value of regional losses.

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