

The Impact of Accountability and Transparency on Financial Management: The Role of Internal Control Systems as a Moderating Variable at the Buleleng Regency Social Service

Ni Wayan Novi Budiasni¹, Nyoman Nuning Surya Indrayani²

Sekolah Tinggi Ilmu Ekonomi Satya Dharma^{1,2}

n.budiasni@gmail.com

ABSTRACT

This study examines the role of the internal control system as a moderating variable between accountability and transparency in financial management. The analysis was conducted using a structural equation modeling (SEM) approach, specifically the Partial Least Squares (PLS) variant. Data collection involved distributing 95 surveys to employees of the Social Office in Buleleng Regency. The hypothesis testing results indicate that accountability and transparency variables have a direct, positive, and significant effect on financial management. Similarly, testing with the internal control system as a moderating variable shows its role in strengthening the relationship between accountability and transparency in financial management. Thus, the internal control system functions as a mediator between accountability and transparency variables in financial management.

Keywords : Accountability, Transparency, Financial Management, Internal Control System

1. Introduction

The APBD budget of a government agency can be known from the financial reports of the government agency. Therefore, regional governments need to be accountable for all forms of allocation of financial resources that they use openly as seen from the financial reports they make. The Buleleng Regency Social Service must pay great attention to financial management because the Social Service has an important role in implementing policies in the Social sector, implementing evaluations and reporting in the Social sector. Therefore, it is important to report accountable and good financial management to maintain the sustainability of the organization. The following is the financial report data at the Buleleng Regency Social Service, namely as follows:

Table 1. Recapitulation of Regional Revenue and Expenditure Budget Realization Reports at the Buleleng Regency Social Service from 2019 to 2022

| Number | Year | Fiscal | Realization | % |
|--------------|---------------------------|---------------------------|------------------|-------|
| 1 | 2019 | Rp9.900.520.000 | Rp9.776.732.619 | 98,73 |
| 2 | 2020 | Rp6.221.995.000 | Rp6.142.392.481 | 99,70 |
| 3 | 2021 | Rp8.118.283.547 | Rp7.953.559.038 | 99,93 |
| 4 | 2022 | Rp16.543.149.701 | Rp12.751.733.662 | 73,27 |
| Total | Rp. 40.783.948.248 | Rp. 36.624.417.800 | | |

Source: Buleleng Regency Social Service (2024)

Based on Table 1 above, the realization of the regional income and expenditure budget at the Buleleng Regency Social Service from 2019 to 2022 shows notable fluctuations. Over the past four years, the total budget allocated to the Social Service amounted to IDR 40,783,948,248, while the realized expenditure was IDR 36,624,417,800, leaving a discrepancy of IDR 4,159,530,448 between the budget provided and funds utilized. The highest budget realization occurred in 2021, achieving 99.93%, with a total budget of IDR 8,118,283,547 and realized expenditure of IDR 7,953,559,038. However, in 2022, the lowest realization rate was recorded

at 73.27%, with a total budget of IDR 16,543,149,701 and realized expenditure of IDR 12,751,733,662.

This financial discrepancy may stem from several factors, including suboptimal planning of activities by the Social Service and the return of unutilized funds to the regional treasury due to unclaimed assistance. Such inefficiencies highlight the need for restructuring program and activity designs in subsequent years to improve financial management and better serve disadvantaged communities. Effective financial management within an organization, such as the Buleleng Regency Social Service, requires careful attention to financial accountability and transparency.

According to Sukmawati and Nurfitriani (2019), accountability is essential for ensuring values such as efficiency, effectiveness, reliability, and predictability. It is a concrete, legally mandated process involving specific steps to address relevant issues. Adequate accountability encompasses proper planning, organizational structure, and effective methods to ensure activities are carried out efficiently. Research by Riberu and Asyik (2023) further supports this, demonstrating that accountability positively and significantly impacts financial management. Organizations with strong accountability practices are more likely to achieve effective financial management.

In addition to accountability, government institutions like the Buleleng Regency Social Service must prioritize transparency in budget utilization. Sukmawati and Nurfitriani (2019) argue that transparency has a positive and significant effect on financial management. Transparency involves providing open and honest financial information to the public, ensuring that citizens are fully informed about government accountability in managing entrusted resources. Transparency fosters public trust and supports efficient financial management within organizations, as noted by Putra and Indraswarawati (2021).

Transparency in budget usage helps organizations maintain accurate financial reports and ensures accountability to the public. Achieving such transparency requires a robust internal control system, which plays a critical role in maximizing accountability and transparency in budget management.

An effective internal control system provides management and employees with the confidence to achieve organizational goals through efficient operations, reliable financial reporting, asset protection, and compliance with laws and regulations (Sinulingga, Simanjuntak, & Ginting, 2022). Research by Riberu and Asyik (2023) highlights the importance of internal control systems in facilitating accountability and improving financial management. The system encompasses key components such as the control environment, risk assessment, activity monitoring, and communication.

Accountability supported by an internal control system ensures that financial management is carried out effectively, efficiently, and transparently. This, in turn, enhances the organization's financial reporting. Amin (2020) emphasizes the importance of transparency in fostering clean, transparent, and responsible governance of regional finances. Transparency involves providing open and honest financial information to the public, affirming their right to full awareness of how the government manages its entrusted resources.

This comprehensive approach to accountability and transparency, supported by a robust internal control system, is vital for improving financial management and maintaining public trust in government institutions.

2. Literature Review

Accountability in Financial Management

Accountability refers to the obligation of an entity to explain and justify the results of its decisions and actions to stakeholders (Alzeban, 2020). In the context of public financial management, accountability involves the government's or public institutions' responsibility to

explain the use of public funds and resources in a clear and accountable manner. Accountability in financial management is expected to reduce misuse of funds and ensure transparency in budget utilization (Bananuka et al., 2018).

Transparency in Financial Management

Transparency refers to the extent to which information regarding decisions and financial activities is accessible to the public and stakeholders. Fajaruiddin (2021) emphasizes that transparency in local government financial management is a key factor in building public trust in government. Transparency not only includes openness in financial reporting but also involves openness in the decision-making processes and the allocation of financial resources. Transparency ensures that financial operations are conducted with integrity and scrutiny, thus enhancing accountability.

Internal Control Systems

Internal control refers to the processes designed to ensure the reliability of financial reporting, compliance with laws and regulations, and the effectiveness and efficiency of operations. The importance of internal control systems in improving financial management has been widely recognized. Kabuye et al. (2019) discuss how internal control systems contribute to better financial performance by ensuring the accuracy of financial data and preventing fraud. Moreover, internal controls are essential for ensuring timely and accurate financial reporting, which is crucial for decision-making and accountability (Noviani & Hendarsyah, 2020).

The Role of Internal Control in Enhancing Accountability and Transparency

The interaction between internal control, accountability, and transparency is crucial in the public sector. A robust internal control system strengthens accountability by ensuring that financial information is accurate, reliable, and available for scrutiny. This, in turn, enhances transparency, as stakeholders can trust that the financial data provided reflects the true financial status of an entity (Muraleetharan, 2018). In cases where financial management is transparent and accountable, internal control systems help ensure that these processes are effectively implemented and monitored.

The Moderating Role of Internal Control Systems

The moderating role of internal control systems is significant in influencing the relationship between accountability, transparency, and financial management outcomes. As demonstrated by Amin (2020), the internal control system acts as a moderating variable that enhances the effectiveness of accountability and transparency in managing public finances. This is because internal controls help ensure that financial transactions are accurately recorded and reported, thus supporting the overall financial management process.

3. Research Methods

This investigate was conducted at the Buleleng Rule Social Benefit. which is found on Jl. Veteran No.7, Paket Agung, Kec. Buleleng, Bali 81118. The sorts of information utilized in investigate incorporate essential information and auxiliary information. Respondent information was collected by disseminating surveys to 95 representatives comprising of 26 gracious hiring workers and 69 contract representatives at the Buleleng Rule Social Benefit. The test is decided utilizing likelihood or non-probability examining methods. Likelihood testing could be a inspecting strategy that gives each component (part) of a populace an rise to opportunity to be chosen as a part of the test (Sugiyono, 2016). The information was handled utilizing the Halfway Slightest Squares (PLS) investigation tool using SmartPLS form 3 computer program. PLS may be a strategy for understanding auxiliary condition models (SEM) and is more

appropriate in this case compared to other SEM methods. The following is a picture of the research model:

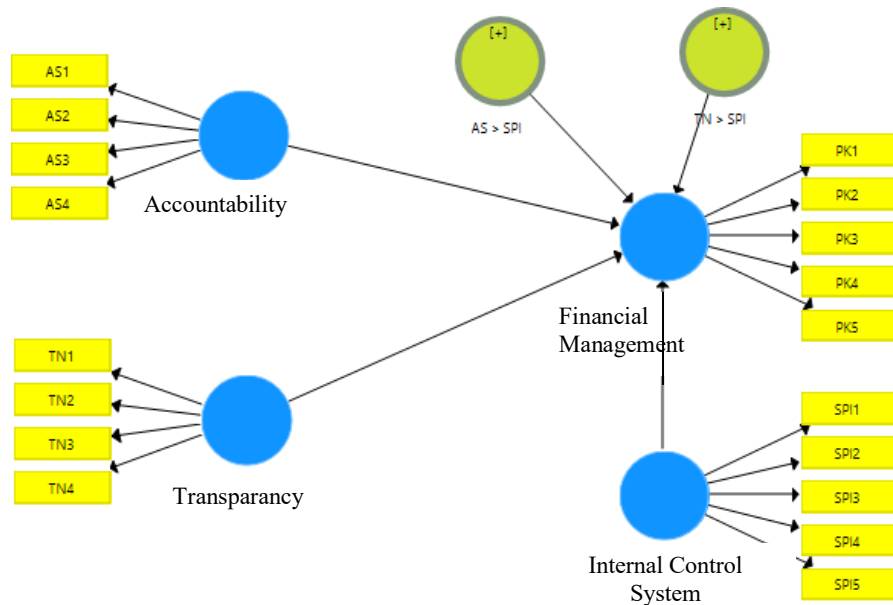


Figure 1. Research Structural Model

In accordance with the picture above, there are four (4) variables with their respective indicators. The accountability variable with the indicator initials AS and the transparency variable with the indicator initials TN are exogenous variables. Meanwhile, internal system control with the initial indicator SPI is a moderating variable and financial control variable with the initial indicator PK is an endogenous variable. The following hypotheses can be prepared according to the research model:

- H1. Accountability influences financial management at the Buleleng Regency Social Service
- H2. Transparency influences financial management at the Buleleng Regency Social Service
- H3. Accountability influences financial management by implementing an internal control system as a moderating variable at the Buleleng Regency Social Service
- H4. Transparency influences financial management by implementing an internal control system as a moderating variable at the Buleleng Regency Social Service
- H5. The internal control system influences financial management at the Buleleng Regency Social Service

3. Results and Discussion

The data analysis technique using the Partial Least Square (PLS) analysis tool consists of two stages, namely the outer model and inner model stages. The outer model stage includes validity and reliability tests. Meanwhile, the inner model stage consists of hypothesis testing and checking the analysis path values.

Outer Model

Convergent Validity

According to Ghazali (2018), a reflective measure is said to be high if it has a correlation of 0.70 or higher with the variable being measured. However, loading values between 0.50 and 0.60 are considered sufficient for research in the early stages of measurement scale development. In this research, the SmartPLS output for factor loading gives the following results:

Table 2. Outer Loading Values

| Indicator | Accountability | AS > SPI | Financial Management | Internal Control System | TN > SPI | Transparency |
|-----------|----------------|----------|----------------------|-------------------------|----------|--------------|
| AK > SPI | | 1,125 | | | | |
| AS1 | 0,802 | | | | | |
| AS2 | 0,798 | | | | | |
| AS3 | 0,814 | | | | | |
| AS4 | 0,808 | | | | | |
| PK1 | | | 0,763 | | | |
| PK2 | | | 0,766 | | | |
| PK3 | | | 0,860 | | | |
| PK4 | | | 0,920 | | | |
| PK5 | | | 0,886 | | | |
| SPI1 | | | | 0,727 | | |
| SPI2 | | | | 0,773 | | |
| SPI3 | | | | 0,873 | | |
| SPI4 | | | | 0,919 | | |
| SPI5 | | | | 0,870 | | |
| TN1 | | | | | | 0,786 |
| TN2 | | | | | | 0,786 |
| TN3 | | | | | | 0,818 |
| TN4 | | | | | | 0,722 |
| TN > SPI | | | | | 1,087 | |

Source: Buleleng Regency Social Service (2024)

Based on the outer loadings table, it can be explained that all the indicators in the research, namely the variables of accountability, transparency, internal control system and financial management, are said to be valid, this is because all indicator values for the research variables have a value greater than 0.70. The accountability variable indicators (AS) are 0.802, 0.798, 0.814, 0.808. The transparency variable indicator (TN) is 0.786, 0.786, 0.818, 0.722. The internal control system variable indicators (SPI) are 0.727, 0.773, 0.873, 0.919, 0.870. The financial management (PK) variable indicators are 0.763, 0.766, 0.860, 0.920, 0.886. Meanwhile, for accountability > internal control system, namely 1.125 and transparency > internal control system, namely 1.087.

Discriminat Validity

Discriminant validity is carried out to ensure that each concept of each latent variable is different from other variables. The results of the discriminant validity test were obtained as follows:

Table 3. Discriminant Validity Values

| Variabel | Accountability | AS > SPI | Financial Management | Internal Control System | TN > SPI | Transparency |
|-------------------------|----------------|----------|----------------------|-------------------------|----------|--------------|
| Accountability | 0,805 | | | | | |
| AS > SPI | -0,524 | 1,000 | | | | |
| Financial Management | 0,905 | -0,590 | 0,841 | | | |
| Internal Control System | 0,866 | -0,591 | 0,962 | 0,835 | | |
| TN > SPI | -0,615 | 0,846 | -0,579 | -0,574 | 1,000 | |
| Transparency | 0,799 | -0,594 | 0,839 | 0,790 | -0,598 | 0,779 |

Source: Buleleng Regency Social Service (2024)

Table 4. Average Variance Extraced (AVE)

| Variabel | Average Variance Extraced |
|-------------------------|---------------------------|
| Accountability | 0,649 |
| AS > SPI | 1,000 |
| Financial Control | 0,708 |
| Internal Control System | 0,698 |
| TN > SPI | 1,000 |
| Transparency | 0,607 |

Source: Buleleng Regency Social Service (2024)

Based on table 4 above, it can be seen that the AVE value of the accountability variable is 0.649. The transparency variable has a value of 0.607. Internal control system variable with a value of 0.698. Financial management variable with a value of 0.708. Accountability variable > internal control system with a value of 1,000. Transparency variable > internal control system with a value of 1,000. Based on the AVE table, it is known that all research variables have values above 0.50, from this it can be stated that all research variables are valid.

Composite Reability

This table shows the composite reliability and Cronbach alpha values for all variables.

Table 5. Composite Reliability and Cronbach Alpha Values

| Variabel | Cronbach's Alpha | Composite Reliability |
|-------------------------|------------------|-----------------------|
| Accountability | 0,819 | 0,881 |
| AS > SPI | 1,000 | 1,000 |
| Financial Management | 0,895 | 0,923 |
| Internal Control System | 0,889 | 0,920 |
| TN > SPI | 1,000 | 1,000 |
| Transparency | 0,783 | 0,860 |

Source: PLS 3.0 Processed Results (2024)

Based on Table 5, we show that all variables in this study produce Cronbach alpha values greater than 0.60 and composite reliability greater than 0.70. The Cronbach alpha value of the accountability variable is 0.819 and Composite Reliability is 0.881. The Cronbach alpha value for the transparency variable value is 0.783 and Composite Reliability is 0.860. The internal control

system variable has a Cronbach alpha value of 0.889 and Composite Reliability of 0.920. The Cronbach alpha value of the financial control variable is 895 and Composite Reliability is 0.923. Accountability variable value > The internal control system uses Cronbach Alpha and a Composite Reliability score of 1,000. The variable value Transparency > Internal Control System uses Cronbach Alpha and a Composite Reliability score of 1,000. Based on the explanation above, it can be concluded that all variables in this research meet the requirements for reliability.

Inner Model

Internal or structural model testing is carried out to determine the relationship between variables. Structural Model Research The significance and R-squared value of the model is determined using the R-squared test of the dependent variable t and the significance of the structural path parameter coefficients.

| Table 6. R-Square Value | |
|-------------------------|----------|
| Variabel | R-Square |
| Financial Management | 0,955 |

Source: PLS 3.0 Processed Results (2024)

Based on Table 6, it shows that the R-squared value of the financial management variable is 0.955. Based on this, the percentage of the R-squared value for the financial control variable is 95.5%, while 4.5% is influenced by other variables such as employee abilities, the accounting system used, or the supervision carried out. PLS uses simulation to perform statistical tests on each relationship. In this case, the bootstrap method is carried out using an example. The bootstrapping test also aims to minimize non-normality problems in research data. The results of the bootstrap test with PLS analysis are as follows:

| Table 7. Path Coefficients Values | | | |
|--|---------------------|-----------------------------|----------|
| Variabel | Original Sample (O) | T Statistics (O/STDEV) | P-Values |
| Accountability > Financial Management | 0,260 | 3,637 | 0,000 |
| AS > SPI > Financial Management | 0,062 | 2,091 | 0,037 |
| Internal Control System > Financial Management | 0,635 | 8,236 | 0,000 |
| TN > SPI > Financial Management | 0,082 | 2,188 | 0,029 |
| Transparency > Financial Management | 0,142 | 3,745 | 0,000 |

Source: PLS 3.0 Processed Results (2024)

The test results show that accountability significantly influences financial management, with a t-statistics value of 3.637, indicating a direct effect on financial practices. Transparency also positively impacts financial management, as evidenced by a t-statistics value of 3.745, helping agencies make informed budget decisions. Furthermore, accountability's influence on financial management is significantly moderated by the internal control system (t-statistics = 2.091, p = 0.037), suggesting that an effective internal control system enhances the role of accountability. Similarly, the internal control system strengthens the positive effect of transparency on financial management (t-statistics = 2.188, p = 0.029). Finally, the internal control system itself has a significant positive impact on financial management (t-statistics = 8.236, p = 0.000), highlighting its importance in optimizing financial practices. These findings suggest that accountability, transparency, and internal control systems all contribute significantly to improving financial management at the Buleleng Regency Social Service.

Discussion

The findings of this study highlight the significant effects of accountability, transparency, and the internal control system on financial management at the Buleleng Regency Social Service. Accountability was found to have a positive and significant effect on financial management, indicating that a well-defined and transparent set of procedures in managing public funds contributes directly to better financial governance. This aligns with the research by Alzeban (2020), which states that accountability is a fundamental element that affects public sector financial management by ensuring that public funds are managed according to defined rules and regulations.

Transparency also plays a significant role in improving financial management. A transparent financial management system enables the agency's leaders to make better-informed decisions about budget allocations, helping to ensure the efficient and effective use of resources. Fajaruddin (2021) explains that transparency in financial management allows stakeholders to understand how funds are being allocated and used, which helps to enhance public trust and support.

Furthermore, the study reveals the importance of the internal control system in moderating the relationship between accountability, transparency, and financial management. The internal control system strengthens the positive effects of both accountability and transparency, ensuring that financial activities are carried out according to the established policies and procedures. Kabuye et al. (2019) emphasized that an effective internal control system contributes to improving financial performance by ensuring that financial operations are properly monitored, mitigating risks, and maintaining compliance with regulations.

This finding is consistent with the research by Amin (2020), which highlights that internal control systems act as a moderating factor, reinforcing the effectiveness of transparency and accountability in improving financial management. The internal control system ensures that both transparency and accountability are implemented properly, leading to more efficient financial operations. It helps minimize the risk of fraud, mismanagement, and non-compliance, thereby optimizing the use of resources.

The study also supports the notion presented by Noviani and Hendarsyah (2020), who argue that the internal control system is a critical determinant of successful financial management. Without a well-functioning internal control system, the goals of transparency and accountability cannot be fully achieved, as financial management processes may lack the necessary oversight and checks.

Thus, it can be concluded that accountability and transparency, when supported by a robust internal control system, significantly enhance the quality of financial management at the Buleleng Regency Social Service. These elements work together to ensure that financial resources are managed in a way that is efficient, effective, and compliant with applicable rules and regulations.

4. Conclusion

The findings of this study indicate that the internal control system plays a significant moderating role in enhancing the effect of accountability and transparency on financial management at the Buleleng Regency Social Service. Specifically, an effective internal control system strengthens the relationship between transparency and accountability in financial practices, thus contributing to better financial management outcomes. Based on these results, it is recommended that the Buleleng Regency Social Service prioritize the implementation of a robust internal control system. While accountability and transparency are fundamental to effective financial management, their full potential can only be realized when supported by a comprehensive and well-structured internal control system.

Future studies could explore how different types of internal control mechanisms influence various aspects of financial management, such as budgeting, reporting accuracy, and fraud prevention, in other local government agencies. Additionally, examining the impact of external factors, such as government regulations and technological advancements, on the effectiveness of internal control systems could provide deeper insights into improving public sector financial management. Comparative studies between regions with differing levels of internal control implementation could also offer valuable lessons on best practices for optimizing accountability and transparency in financial management.

References

- Alzeban, A. (2020). The impact of accountability and transparency on public sector financial management: Evidence from Saudi Arabia. *International Journal of Public Administration*, 43(6), 486–497. <https://doi.org/10.1080/01900692.2020.1726587>
- Amin, K. (2020). Pengaruh partisipasi masyarakat, transparansi dan akuntabilitas terhadap pengelolaan keuangan desa dengan sistem pengendalian intern sebagai variabel moderasi: Studi kasus Kecamatan Bengkalis. *Jurnal Ilmu Administrasi Bisnis*, 9(2), 134–146. <https://doi.org/10.22146/jiab.12345>
- Bananuka, J., Nkundabanyanga, S. K., Nalukenge, I., & Kaawaase, T. K. (2018). Internal audit function, audit committee effectiveness and accountability in the Ugandan statutory corporations. *Journal of Financial Reporting and Accounting*, 16(1), 138–157. <https://doi.org/10.1108/JFRA-05-2017-0063>
- Egbunike, F. C., & Okoro, G. E. (2018). Audit firm characteristics and audit quality: The Nigerian experience. *International Journal of Business and Social Science*, 9(1), 47–57. <https://doi.org/10.30845/ijbss.v9n1p7>
- Fajaruiddin, F. (2021). Konsep transparansi dalam pengelolaan keuangan daerah. *Seminar Nasional Teknologi Edukasi Sosial Dan Humaniora*, 1(1), 662–671. Retrieved from <https://www.examplelink.com>
- Harafonna, C. N., & Indriani, M. (2019). Pengaruh sistem keuangan desa terhadap akuntabilitas dengan pengelolaan keuangan desa sebagai variabel intervening. *Jurnal Ilmiah Mahasiswa Ekonomi Akuntansi*, 4(2), 359–373. Retrieved from <https://www.examplelink.com>
- Kabuye, F., Kato, J., Akugizibwe, I., & Bugambiro, R. S. (2019). Internal control systems, working capital management and financial performance of supermarkets. *Cogent Business & Management*, 6(1), 1573524. <https://doi.org/10.1080/23311975.2019.1573524>
- Muraleetharan, P. (2018). Internal control and its impact on financial performance of organizations in Jaffna district. *Journal of Business and Management*, 20(4), 32–37. Retrieved from <https://www.examplelink.com>
- Noviani, A., & Hendarsyah, D. (2020). Ketepatan waktu pelaporan keuangan: Sistem pengendalian internal dan sistem informasi pengelolaan keuangan daerah. *Jurnal Akuntansi, Ekonomi Dan Manajemen Bisnis*, 8(2), 206–213. <https://doi.org/10.36496/jaemb.v8i2.513>
- Nkundabanyanga, S. K., & Okwee, A. (2018). Internal audit function, audit committee effectiveness and accountability in the Ugandan statutory corporations. *Journal of Financial Reporting and Accounting*, 16(1), 138–157. <https://doi.org/10.1108/JFRA-05-2017-0063>
- Othman, R., & Ali, N. (2019). Impact of internal control and risk management on the financial performance of Takaful and conventional insurance companies in Malaysia. *Journal of Islamic Accounting and Business Research*, 10(4), 575–590. <https://doi.org/10.1108/JIABR-12-2017-0103>

- Putra, P. D. S., & Indraswarawati, S. A. P. A. (2021). Pengaruh pengawasan keuangan daerah, transparansi pengelolaan keuangan daerah dan akuntabilitas terhadap kinerja pemerintah daerah Kabupaten Klungkung. *Widya Akuntansi Dan Keuangan*, 3(1), 79–92. Retrieved from <https://www.examplelink.com>
- Riberu, M. A. R., & Asyik, N. F. (2023). Pengaruh akuntabilitas, transparansi, dan pengawasan terhadap pengelolaan keuangan. *Jurnal Ilmu Dan Riset Akuntansi (JIRA)*, 12(8). Retrieved from <https://www.examplelink.com>
- Sari, R. N., & Suryono, B. (2019). The effect of internal control and individual morality on accounting fraud tendency. *Journal of Accounting and Investment*, 20(2), 234–248. <https://doi.org/10.18196/jai.v20i2.7221>
- Sinulingga, P. S. B., Simanjuntak, A., & Ginting, M. C. (2022). Pengaruh penerapan sistem pengendalian intern pemerintah, sistem akuntansi keuangan daerah, pemanfaatan teknologi informasi, dan kompetensi aparatur terhadap kualitas laporan keuangan pemerintah daerah (Studi kasus pada Dinas Kesehatan Kabupaten Karo). *Jurnal Manajemen*, 8(1), 89–106. Retrieved from <https://www.examplelink.com>