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THE EFFECT OF INTERNAL AUDIT AND SUPERVISION ON TRANSPARENCY OF VILLAGE FUND BUDGET MANAGEMENT WITH PUBLIC ACCOUNTABILITY AS A MODERATION STUDY IN BANGGAI REGENCY

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Abstract:

This study aims to analyze the influence of internal audit and supervision on transparency in Village Fund budget management, with public accountability as a moderating variable. The increasing allocation of Village Funds demands transparent and accountable management to minimize the potential for irregularities. This research was conducted in Banggai Regency, Central Sulawesi Province, with village governments as the analysis unit.

The research method used was a quantitative survey approach. Primary data were obtained from questionnaires distributed to village officials and relevant parties involved in Village Fund management. Data analysis techniques used multiple linear regression and Moderated Regression Analysis (MRA) to test the role of public accountability as a moderating variable.

The results indicate that internal audit and supervision have a positive effect on transparency in Village Fund budget management. Furthermore, public accountability has been shown to strengthen the influence of internal audit and supervision on transparency. These findings suggest that transparency in Village Fund management will be more optimal if supported by an internal audit system, effective supervision, and a high level of public accountability. This research is expected to serve as a reference for local governments in improving village financial governance.

Keywords: internal audit, supervision, transparency, public accountability

BACKGROUND

Increasing the allocation of Village Funds is a strategic government policy to promote village development and independence. However, the large amount of funds managed by villages also increases the risk of misappropriation if not balanced with transparent and accountable financial management. Transparency is a crucial principle of good governance because it allows the public to access information, assess village government performance, and monitor the use of Village Funds.

Various studies have shown that internal audits and supervision play a crucial role in increasing the transparency of village financial management. Internal audits serve as an internal control mechanism to ensure compliance with regulations and prevent budget misappropriation, while supervision is carried out by government internal supervisory officials, the Village Consultative Body, and the community as a form of administrative and social control. However, the effectiveness of these two mechanisms is not always optimal, especially when community participation and involvement are low.

In Banggai Regency, despite the implementation of audit and supervision policies, transparency in Village Fund management still faces various challenges, particularly low public accountability and community participation in oversight. This situation demonstrates that internal audits and supervision cannot always stand alone in promoting transparency. Therefore, public accountability is seen as a crucial factor that can strengthen the influence of internal audits and supervision on transparency in Village Fund budget management. This research was conducted to examine this relationship and to address the limitations of previous research which rarely places public accountability as a moderating variable, particularly in the context of Banggai Regency.

THEORETICAL FRAMEWORK

This research is based on Good Governance Theory, which emphasizes the principles of transparency, accountability, participation, and oversight in public financial management. In the context of village government, these principles are crucial given the large size of the Village Fund and Village Fund Allocation managed and the high risk of budget misuse if not balanced by adequate control mechanisms.

Village Fund and Village Fund Allocation

Village Funds are funds sourced from the State Budget (APBN) transferred to villages through the district/city APBD and used to finance governance, development, community development, and village community empowerment. Meanwhile, Village Fund Allocation (ADD) is a fund sourced from the balancing funds received by districts/cities and allocated to villages as a form of financial support for village governance.

The large size of the Village Fund and ADD requires village governments to implement transparent and accountable financial governance. Fund management without effective internal control and oversight has the potential to lead to inefficiency, irregularities, and a decline in public trust in the village government.

Transparency in Village Fund Management

Transparency in Village Fund management is defined as the village government's openness in providing information regarding budget planning, implementation, and accountability to the public. Transparency enables the public to understand how Village Funds and Village Allocation Funds (ADD) are allocated, used, and accounted for, thus serving as an important instrument in preventing corruption and enhancing public trust.

From a Good Governance perspective, transparency is the result of an effective control and oversight system. High transparency reflects open information, public access to financial reports, and good communication between the village government and the community.

Internal Audit
Internal audit is an internal control mechanism that aims to assess compliance with regulations, the effectiveness of the internal control system, and the reliability of village financial management. Based on Internal Control Theory and the COSO framework, internal audit functions as a structural mechanism capable of promoting transparency and reliability of financial information. Effective internal audit is expected to increase transparency in Village Fund and Village Allocation Fund management through consistent follow-up on findings and recommendations.

Supervision
Supervision includes formal and informal oversight conducted by the Government Internal Supervisory Apparatus (APIP), the Village Consultative Body (BPD), and the community. From an Agency Theory perspective, oversight plays a role in mitigating conflicts of interest between the village government as agent and the community as principal. Effective oversight encourages village officials to manage Village Funds in an orderly manner, comply with regulations, and openly disclose budget information.

Public Accountability
Public accountability reflects the extent to which the village government is accountable for the management of Village Funds and Village Allocation Funds (ADD) to the community through information transparency, community involvement, and performance evaluation. Within the framework of Public Accountability Theory, public accountability acts as a moderating variable that can strengthen or weaken the influence of internal audits and oversight on transparency. High levels of public accountability enable audit and oversight results to be not only administrative but also openly followed up and subject to public scrutiny.

METHOD
This research employed a quantitative approach with a survey method. The study population comprised all village governments in Banggai Regency. The sample was determined using a purposive sampling technique, with respondents consisting of village officials, BPD members, and relevant parties involved in Village Fund management.

Primary data were obtained through the distribution of questionnaires structured based on indicators of internal audit, supervision, transparency, and public accountability. Instrument validation was conducted through validity and reliability tests. Data analysis used multiple linear regression to test the direct effect and Moderated Regression Analysis (MRA) to examine the role of public accountability as a moderating variable.

RESULT
Instrument quality testing demonstrated that all statement items in the internal audit, supervision, transparency, and public accountability variables were valid and reliable. Classical assumption tests, including normality, multicollinearity, and heteroscedasticity tests, indicated that the data were normally distributed, with no multicollinearity, and no evidence of

heteroscedasticity. Therefore, the regression model used in this study met the statistical assumptions and was suitable for further analysis.

Regression Model Without Moderating Variables

The results of the multiple linear regression analysis on the model without moderating variables indicate that internal audit and supervision simultaneously have a significant effect on transparency in Village Fund budget management. The coefficient of determination (R^2) of 0.802 indicates that 80.2% of the variation in transparency can be explained by internal audit and supervision, while the remaining 19.8% is influenced by factors outside the research model. The Adjusted R^2 value of 0.800 indicates that the model has stable and strong explanatory power.

Partially, internal audit has a positive and significant effect on transparency, with a regression coefficient of $B = 0.543$, a t-value of 13.187, and a significance level of $p = 0.000$. This indicates that improving internal audit quality will increase transparency in Village Fund budget management.

Supervision also has a positive and significant effect on transparency, with a coefficient of $B = 0.370$, a t-value of 9.606, and a $p = 0.000$, indicating that the more intensive the supervision, the higher the level of transparency in village budget management.

Regression Model with Moderating Variables

After including the moderating variable of public accountability and the interaction between the variables, the coefficient of determination increased to $R^2 = 0.836$, with an Adjusted R^2 of 0.832. This increase in value indicates that the presence of moderating variables strengthens the model's ability to explain variations in transparency in Village Fund management by up to 83.6%.

The results of the Moderated Regression Analysis (MRA) indicate that internal audit remains a positive and significant influence on transparency, with a coefficient of $B = 0.754$ and $p = 0.000$. However, the interaction between internal audit and public accountability (X1M) shows a coefficient of $B = –0.016$ with $p = 0.057$, thus being declared insignificant. This indicates that public accountability does not moderate the influence of internal audit on transparency.

Conversely, the interaction between oversight and public accountability (X2M) shows a positive and significant influence on transparency, with a coefficient of $B = 0.019$, a t-value of 2.172, and $p = 0.031$. These findings indicate that the influence of oversight on transparency is stronger when supported by a high level of public accountability.

DISCUSSION

The research results show that internal audit has a positive and significant impact on transparency in Village Fund budget management. This finding indicates that effective internal audit can improve the transparency of village financial information, both at the planning, implementation, and accountability stages. From the perspective of Internal Control Theory and the COSO framework, internal audit functions as a control mechanism that ensures regulatory compliance and increases the reliability of financial reports. Therefore, the better the internal audit implementation, the higher the level of transparency in Village Fund management. This finding aligns with the principles of Good Governance, which prioritize transparency as an outcome of an effective internal control system.

This study also found that supervision has a positive and significant impact on transparency in Village Fund budget management. Supervision conducted by the Government Internal Supervisory Apparatus (APIP), the Village Consultative Body (BPD), and the community serves as a control instrument that encourages village officials to act in accordance with regulations and disclose budget information openly. Within the Agency Theory framework, supervision serves to minimize conflicts of interest between the village government, as the agent, and the community, as the principal. These findings suggest that intensive and continuous supervision can improve compliance and transparency in Village Fund management. However, the results of a Moderated Regression Analysis (MRA) indicate that public accountability is unable to moderate the effect of internal audit on transparency. This finding indicates that the effectiveness of internal audit in increasing transparency is determined more by formal and structural mechanisms than by the level of public involvement. Internal audit continues to operate according to established standards and procedures, so its effect on transparency is relatively independent of the level of public accountability. This situation suggests that internal audit at the village level tends to be administrative and technocratic.

Conversely, this study found that public accountability moderates the effect of oversight on transparency in Village Fund budget management. This suggests that oversight is more effective in increasing transparency when accompanied by community involvement and awareness in the Village Fund management process. Public accountability encourages village governments to be not only administratively compliant but also transparent in providing information to the public. This finding aligns with Public Accountability Theory, which emphasizes the importance of government accountability to the public as a means of strengthening transparency and public trust.

Overall, the results of this study indicate that transparency in Village Fund management is influenced not only by formal control mechanisms such as internal audit and oversight, but also by the context of public accountability. The integration of effective internal audits, strong oversight, and high public accountability is the main key to realizing transparent and accountable village financial governance, especially in Banggai Regency.

CONCLUSION

This study aims to analyze the influence of internal audit and supervision on transparency in Village Fund budget management, with public accountability as a moderating variable in Banggai Regency. Based on the analysis and discussion, it can be concluded that internal audit and supervision play a crucial role in enhancing transparency in Village Fund budget management. Effectively implemented internal audits can promote information transparency and regulatory compliance, while supervision serves as a control mechanism that ensures orderly and transparent Village Fund management.

The results also show that public accountability does not moderate the influence of internal audit on transparency, indicating that internal audit tends to be structural and administrative in nature, making its influence on transparency relatively independent of the level of public involvement. Conversely, public accountability has been shown to strengthen the influence of supervision on transparency in Village Fund management. These findings demonstrate that public involvement and control play a crucial role in enhancing the effectiveness of supervision.

Overall, transparency in Village Fund management will be optimal if supported by strong internal audit, effective supervision, and high levels of public accountability. This research provides practical implications for local and village governments to strengthen internal control systems and encourage public participation to achieve transparent and accountable village financial governance.

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