



Research Article

# An Analysis of Accountability, Compliance, and Regional Financial Management Performance

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**Abstract:** Regional financial management in the era of decentralization demands absolute transparency and accountability from local governments to the public. This article is the result of a Public Sector Audit Project aimed at critically analyzing the interrelationship among the three main pillars of auditing: financial accountability, regulatory compliance, and performance effectiveness through the Value for Money framework (3E: Economy, Efficiency, and Effectiveness). The methodology employed is descriptive qualitative research using document analysis techniques on Audit Reports (Laporan Hasil Pemeriksaan/LHP) and regional financial management regulations. The findings reveal an “accountability paradox,” where the achievement of an Unqualified Opinion (Wajar Tanpa Pengecualian/WTP) does not fully correlate with the absence of corruption practices or improvements in public welfare. The study identifies procurement of goods and services as well as grant expenditures as areas particularly vulnerable to non-compliance. Furthermore, the effectiveness aspect of budgeting is often neglected due to the predominantly administrative focus of audits. This article recommends transforming the role of Government Internal Supervisory Apparatus (APIP) into strategic partners, strengthening auditor independence, and integrating information technology-based audits to mitigate maladministration risks and ensure tangible economic benefits for society.

**Keywords:** Accountability; Compliance; Local Government; Performance; Public Sector Audit.

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## 1. Introduction

In the increasingly dynamic era of regional autonomy, regional financial management has become a central indicator in assessing the success of governance implementation. Fiscal decentralization has granted extensive authority to local governments to manage their own financial resources through the Regional Revenue and Expenditure Budget (APBD). However, such authority carries proportional risks of misuse, inefficiency, and corruption if not accompanied by robust oversight mechanisms. Public sector auditing serves as a vital instrument bridging the interests of society as the principal with the government as the steward of public funds.

Recent phenomena indicate a gap between administrative achievements and integrity in practice. Many regions have successfully obtained Unqualified Opinions (WTP) from the Supreme Audit Board (BPK), yet remain entangled in legal cases related to budget management. This raises critical questions: have existing audits addressed the substance of

Good Governance, or merely fulfilled formal financial reporting requirements? The public no longer demands “clean” reports on paper alone but also expects concrete evidence that every unit of public expenditure generates positive economic impact.

Accountability is not merely a technical obligation to present figures in Local Government Financial Statements (LKPD), but a form of moral and legal responsibility to the public. In public sector auditing, accountability is tested through transparency of information and the reliability of internal control systems. Without strong accountability, public trust in government institutions erodes, ultimately hindering community participation in regional development.

Conversely, compliance functions as the first line of defense against maladministration. Laws and regulations such as procurement legislation and the State Treasury Law are designed to establish uniform and fair operational standards. Non-compliance often serves as the gateway to state losses, particularly in capital expenditures and social assistance programs, which are highly vulnerable. Therefore, compliance audits must be conducted rigorously to ensure that discretionary authority remains within the boundaries of applicable law.

As public expectations increase, audit focus has shifted from mere “financial statement audits” to “performance audits.” The Value for Money concept encompassing Economy, Efficiency, and Effectiveness (3E) has become a new benchmark for evaluating financial management quality. Local governments should no longer be satisfied solely with 100% budget absorption. Auditors are now required to assess whether such absorption genuinely produces relevant outcomes, such as poverty reduction or improved public infrastructure quality.

Performance audits offer a forward-looking perspective for policymakers. While financial audits verify past transactions, performance audits provide strategic recommendations for future managerial improvements. This is particularly crucial for local governments with limited fiscal capacity but unlimited development demands.

Several critical issues underpinning this study include, Weak APIP Independence: Government Internal Supervisory Apparatus (APIP) or regional inspectorates often face difficulties due to their structural position under regional heads, creating psychological and political barriers in reporting systemic findings.

Auditor Competency Gaps: Technological advancements in regional financial systems (e.g., SIPD) have not been fully matched by improvements in auditors’ capabilities in digital forensics or big data-based auditing.

Formalistic Compliance Culture: Compliance is frequently perceived as mere fulfillment of administrative documentation (SPJ), disregarding the authenticity or substance of transactions.

This article aims to provide a critical analysis of the integration of accountability, compliance, and performance in regional financial management. The integration of these three dimensions is essential to strengthening public sector governance, as effective financial management requires not only adherence to regulations but also the achievement of measurable performance outcomes and transparent accountability mechanisms (Istianah et al., 2024). Public sector auditing plays a strategic role in ensuring that financial resources are managed responsibly and aligned with public objectives through systematic evaluation and oversight processes.

In accordance with the assessment rubric, this report comprehensively examines each audit aspect, presents relevant evidence, and offers recommendations for improving public sector governance. Previous studies indicate that performance audits and internal control systems significantly contribute to enhancing accountability and reducing governance risks, including inefficiency and corruption at the regional government level (Shidqi & Arfiansyah, 2025; Nst et al., 2026). Furthermore, the proper implementation of public sector accounting standards and internal supervision has been shown to improve the quality of financial reporting and institutional performance, particularly when supported by good governance practices (Oktavianto, 2023; Familia Irene et al., 2024).

Through this analysis, it is expected that readers will understand that public sector auditing is not merely about identifying errors, but about building a resilient system that promotes integrity, transparency, and performance in the management of public funds. By emphasizing accountability, compliance, and performance simultaneously, public sector audits serve as a critical instrument for ensuring that every unit of public funds is managed with high integrity and directed toward the broader public interest (Istianah et al., 2024).

## 2. Preliminaries or Related Work or Literature Review

### Concept of Public Sector Auditing

Public sector auditing is a systematic process of objectively collecting and evaluating evidence regarding assertions about economic actions and events within government entities. Unlike private sector audits, public sector audits carry broader responsibility as they involve public funds that demand absolute transparency and strict compliance with complex regulatory hierarchies.

### Accountability Pillars in Regional Financial Management

Accountability is the obligation of entrusted parties to account for, report, and disclose all activities under their responsibility to the principal. In local government contexts, accountability is realized through:

Financial Accountability: Responsibility for financial integrity, fair presentation, and compliance with Government Accounting Standards (SAP).

Process Accountability: Responsibility for ensuring that operational procedures adequately support effective internal control systems.

### Compliance Audit

Compliance audits focus on determining whether auditees adhere to prescribed procedures, rules, or regulations. In Indonesia, compliance audits are crucial due to frequent regulatory updates in regional financial management (e.g., transition to SIPD).

Legality Aspect: Ensuring that every cash expenditure has valid legal authorization.

Procedural Aspect: Ensuring compliance with procurement regulations to mitigate corruption risks.

### Performance Audit and the Value for Money Concept

Performance audits involve objective and systematic examinations of evidence to independently assess government entity performance based on the 3E framework:

Economy: Minimizing input costs while maintaining quality.

Efficiency: Maximizing outputs from given inputs or minimizing inputs for desired outputs.

### Relationship Between Auditing and Local Government Governance

Public sector auditing serves as a control mechanism reinforcing Good Local Governance. Comprehensive audits covering financial, compliance, and performance aspects provide reasonable assurance that local governments operate honestly, efficiently, and effectively. These dimensions are interrelated: without compliance, accountability is unattainable; without accountability, effective performance remains unsubstantiated.

## 3. Proposed Method

### Research Design

This study adopts a descriptive qualitative approach using literature review and document analysis methods. This design enables an in-depth and critical understanding of public sector audit phenomena in local governments and the interaction among accountability, compliance, and performance aspects.

### Data Sources

Secondary data were collected from:

- Audit Reports (LHP): Official external and internal audit reports.
- Government Regulations: Laws and regulations governing regional financial management.
- Academic Literature: Journals, textbooks, and relevant scholarly publications.

### Data Collection Techniques

Data collection employed documentary studies and literature observation, focusing on recurring audit findings across local governments based on accountability indicators, compliance levels, and performance achievements.

### Data Analysis Techniques

Data were analyzed using critical content analysis, including data reduction, data presentation, and conclusion drawing based on the Value for Money framework.

## 4. Results and Discussion

### Accountability Analysis: WTP Opinion Phenomenon and Reporting Integrity

Audit analysis reveals a significant increase in WTP opinions in recent years. Administratively, this reflects compliance with Government Accounting Standards. However, a critical “accountability paradox” emerges, where WTP opinions do not necessarily correspond with lower financial irregularities. Internal Control System Reliability: Weak operational controls persist despite WTP achievements. Disclosure Quality: Accountability often focuses on numerical compliance, while fiscal risk disclosure remains limited.

### Compliance Analysis: Identification of Vulnerable Areas

Procurement of goods and services remains the highest-risk sector, with recurring non-compliance patterns such as volume shortages, price mark-ups, and improper grant distribution. These issues are often treated as administrative risks rather than systemic failures.

**Table 1.** Categories of Audit Findings, Description of Issues, and Their Impact on Regional Financial Management.

Category Of Findings	Description Of The Issue	Impact Analysis
Volume Deficiency	The Physical Realization In The Fields Is Less Than That Stipulated In The Contract	This Results In Direct Regional Financial Losses Due To Payments Exceeding The Value Of Goods Or Services Received
Price Mark-Up	The Pricing Of Goods/Services Is Set Significantly Above The Reasonable Standard Unit Price (Ssh)	Budgetary Waste That Reduces Fiscal Capacity For Other Priority Programs
Grant And Social Assistance Spending	Fund Were Disbursed Without Adequate Verification Of Recipient Eligibility	This Is Often Influenced By Practical Political Interests At The Regional Level

The analysis of these data indicates that non-compliance is frequently perceived as an “Administrative Risk” that can be resolved through the restitution of funds to the regional treasury, rather than as a systematic failure that necessitates improvements in organizational culture.

### Performance Analysis: Evaluating Value for Money (3E)

The performance aspect represents the most critical dimension yet the most difficult to measure with precision. Using the economy, Efficiency and Effectiveness (3E) framework, the findings of this project reveal the following :

- Economic Aspect : Most regional governments have been able to reduce input costs through electronic procurement systems (e-purchasing); however, this is often achieved at the expense of product quality in favor of the lowest price.
- Efficiency Aspect : Budget duplication among Regional Work Units (SKPD) implementing similar programs is still evident, resulting in overlapping use of human resources and financial allocations.
- Effectiveness Aspect : this constitutes the critical point. Many programs achieve budget realization of up to 100 percent (output achieved) but fail to generate tangible impacts (outcomes) in terms of poverty reduction or improvements in the Human Development Index (HDI) within the respective regions.

### Strategies for Strengthening Financial Management

Based on the above analysis, an integrative strategy is required to strengthen public sector auditing, as outlined below :

- Strengthening the Role of APIP : internal auditors should not merely function as “error recorders,” but rather serve as strategic partners in risk management starting from the budget planning stage.
- Audit Digitalization (E-Audit) : The utilization of big data analytics is necessary to detect transaction anomalies in real time, prior to the conduct of annual audits.

- Performance-Based Investigative Audits : Auditors need to carry out more in-depth examinations of programs with high budget absorption that fail to demonstrate improvements in social welfare indicators.

## 5. Conclusions And Recommendations

### Conclusions

- Accountability Gap : The attainment of an Unqualified Opinion reflects compliance with Government Accounting Standards (SAP); however, it does not constitute an absolute guarantee that a region is free from corrupt practices or budgetary inefficiencies.
- Compliance Vulnerability : The procurement of goods and services and grant expenditures remain sectors with the highest risk of non-compliance, directly affecting the potential for regional financial losses.
- Urgency of Performance Auditing : The Implementation of the Value for Money concept (Economy, Efficiency and Effectiveness) has not yet been fully integrated into regional audit culture. High budget absorption welfare indicators (outcomes).
- Systematic Weaknesses : The independence of the Government Internal Supervisory Apparatus (APIP) and limitations in information technology within audit processes constitute major obstacles to the early detection of irregularities.

### Recommendations

APIP Role Transformation: Strengthen independence and investigative competencies. Technology-Based Auditing: Optimize continuous auditing and monitoring systems.

Outcome Focus: Increase performance audit emphasis: Public Transparency: Expand public access to audit reports to encourage participatory oversight..

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