



Global Journal of Business, Economics & Social Development



Review Article

A Review of Internal Control and Accountability of Regional Financial Management Literature

Arni Karina ¹, Muhammad Nur ¹, Molina Molina ¹ and Kumba Digdowiseiso ^{1,*}

¹ Faculty of Economics and Business, National University, 12520 Jakarta Selatan, Daerah Khusus Ibukota Jakarta, Indonesia; arni.karina@civitas.unas.ac.id (A.K.), m.nur@civitas.unas.ac.id (M.N.), molina@civitas.unas.ac.id (M.M.)

* Correspondence: kumba.digdo@civitas.unas.ac.id (K.D.)

Citations: Karina, A., Nur, M., Molina, M., and Digdowiseiso, K. (2023). A Review of Internal Control and Accountability of Regional Financial Management Literature. *Global Journal of Business, Economics & Social Development*, 1(2), 101-107.

Received: 24 August 2023

Accepted: 8 November 2023

Published: 30 November 2023

Abstract: Regional financial management is increasingly important in achieving development goals and maintaining regional economic stability. This study aims to examine the impact of internal control on regional financial management accountability through a systematic literature review approach in the realm of qualitative research. The results of this study reveal the complexity of the relationship between internal control, financial accounting systems, achievement of value for money, presentation of financial statements, accessibility of financial statements, implementation of good governance, and other factors that affect the accountability of regional financial management. Despite obstacles such as lack of understanding, lack of qualified human resources, and lack of support from local leaders, serious efforts to overcome these obstacles can help internal control run effectively. Overall, internal controls play a central role in creating an environment that supports more accountable and efficient regional financial management to ensure sustainable economic growth and the well-being of local communities.

Keywords: Internal Control, Accountability, Regional Financial Management, Review Literature.



Copyright: © 2023 by the authors. Submitted for possible open-access publication under the terms and conditions of the Creative Commons Attribution (CC BY) license (<https://creativecommons.org/licenses/by/4.0/>).

1. Introduction

Complex regional financial management plays a crucial role in ensuring overall economic stability, which involves the distribution and utilization of public resources in various development programs and projects. Maximizing economic and social benefits requires a high level of efficiency in managing public funds. To ensure integrity, public trust, and close monitoring of fund usage, it is crucial to maintain strict transparency and strong accountability. Internal control is a crucial basis in this situation, as it underpins the entire system. It raises important inquiries regarding the functions of supervision, separation of duties, and internal audit procedures in reducing the likelihood of funds being misused and enhancing accountability in regional financial management (Ludani et al., 2015). The aforementioned intricacy underscores the significance of conducting additional research and attaining a more profound

comprehension of the correlation between internal control and accountability within the realm of critical regional financial management.

Local governments have experienced notable transformations in their financial landscape in recent years. Technological advancements, changes in regulations, and growing public expectations for transparency and accountability have heightened the need for local governments to enhance their internal controls (Herawati, 2022). Technology plays a crucial role in the regional financial management process in today's digital age. It allows for automation, real-time monitoring, and more efficient reporting. However, it also brings about new challenges in safeguarding data security and managing cyber risks. Local governments must continually adjust to intricate accounting standards and enhance adherence to evolving tax regulations due to ongoing regulatory modifications. As public demands for transparency and accountability become stricter, local governments are under pressure to ensure that their internal control processes are effective in meeting public expectations for the responsible use of public funds and aligning with development goals.

Several crucial factors need to be elucidated regarding the influence of internal control on accountability in regional financial management. Internal control encompasses a variety of policies, procedures, and mechanisms that are specifically devised to guarantee the efficient, effective, and lawful utilization of public funds. Internal controls encompass a range of measures such as internal audits, segregation of duties, verification, monitoring, and other similar mechanisms (Arifudin et al., 2020). Given the evolving financial landscape and the growing need for strict compliance, it is crucial to recognize that internal control serves not only to mitigate the risk of fund misappropriation, but also as a significant factor in enhancing the performance of local government. By implementing efficient internal control measures, local governments can strategically plan and oversee budgets, minimize unnecessary expenditures, and optimize the utilization of resources.

Accountability in regional financial management encompasses various interconnected dimensions that are associated with internal control. This encompasses fiscal responsibility, wherein local governments are required to provide an account of the utilization of public funds to citizens and other stakeholders, aligning with the internal control objective of averting financial misappropriation. Moreover, accountability encompasses adherence to regulations and laws, which is a desired outcome of implementing efficient internal control. Hence, there exists a strong correlation between these two concepts (Pradita et al., 2019). Furthermore, enhancing transparency in financial reporting, as mandated by societal expectations for increased responsibility, can be achieved by implementing transparent and efficient internal control measures. Accountability relies on the capacity to respond to inquiries from different stakeholders, and this capacity is also contingent upon the effectiveness of internal controls in facilitating convenient and prompt access to pertinent data and information.

Given the intricate nature of the financial landscape in regional government and the continuous modifications taking place, it is crucial to have a comprehensive understanding of how internal control can impact accountability in regional financial management. Internal control has the potential to yield positive outcomes, such as enhancing the efficiency and transparency of regional financial management, which in turn fosters public trust and facilitates sustainable regional development. Nevertheless, the consequences can also be adverse if inadequate internal controls lead to the misappropriation of public funds, corruption, or failure to comply with legal requirements. Hence, when confronted with intricate obstacles like evolving regulations, technology advancements, and growing societal expectations, it becomes imperative to conduct a comprehensive examination of how internal controls can be enhanced to mitigate adverse risks and promote favorable outcomes. Internal controls are not only a safety device but also a crucial component in attaining sustainable development objectives and ensuring the prudent utilization of public resources to enhance the well-being of local communities.

2. Materials and Methods

The research methodology employed in this study is a Systematic Literature Review utilizing a qualitative research approach. A Systematic Literature Review is a rigorous approach used to systematically identify, assess, and integrate existing research on a specific subject (Arikunto, 2014). Within the scope of this study, scholars will assess the available literature to comprehend the influence of internal control on the accountability of regional financial management, with a focus on qualitative aspects. The research commences by identifying pertinent databases, including academic journals, books, government reports, and authoritative literature sources (Anggito & Setiawan, 2018). Subsequently, researchers will establish specific criteria for the inclusion and exclusion of literature to ensure the selection of relevant materials. The criteria for selection may encompass factors such as publication year, publication type, or language, depending on the specific requirements of the research. Subsequently, the researcher will conduct a comprehensive examination of the chosen literature. This encompasses the activities of perusing, gathering pertinent data, and evaluating the caliber of research incorporated in the literature.

During the analysis, the researcher will search for patterns, common discoveries, and fundamental concepts that arise from the literature being assessed. Researchers will employ a qualitative approach to gain a comprehensive understanding of how internal control can impact accountability in regional financial management. This study will investigate qualitative factors, such as organizational culture, internal communication, and existing policies that may influence this relationship. The outcomes of this Systematic Literature Review study will offer a comprehensive understanding of the influence of internal control on regional financial management accountability within a qualitative framework. The results can be utilized to offer enhanced policy recommendations to local governments for enhancing their internal control systems, thereby facilitating the attainment of development objectives and ensuring more effective and transparent financial management.

3. Results and Discussion

3.1. Results

Effective regional financial management is crucial for maintaining stability in regional economies. Regional governments bear a significant responsibility in ensuring that public funds are utilized efficiently and in alignment with the intended development direction. Internal control has become crucial in regional financial management due to the strong reliance on efficient and effective resource allocation for regional development and community welfare. Internal controls encompass a set of systems, policies, procedures, and practices specifically developed to oversee and regulate the utilization of public funds. These measures encompass internal audits, segregation of duties, verification, and rigorous monitoring (Luqyana & Islahuddin, 2022). Robust internal controls reduce the likelihood of fund misappropriation, deter corruption, and guarantee compliance with relevant laws and regulations governing regional financial operations. In this scenario, internal control serves as both an administrative tool and a determinant of accountability in managing regional finances.

Pahlawati (2018) reveals a strong and positive correlation between regional financial accounting systems and regional financial management accountability. These findings offer valuable insights in the realm of internal control. The significance of accounting systems in facilitating increased levels of accountability in regional financial management is emphasized by this statement. An effective accounting system is specifically designed to assist sub-districts in fulfilling their obligations and ensuring accurate financial reporting. An effectively integrated system will guarantee that each component functions in accordance with its assigned tasks and obligations, which is crucial for generating financial reports that adhere to government accounting standards. Furthermore, these findings provide additional evidence for the notion of stewardship, in which local authorities assume the role of guardians for principles of responsibility, and the accounting system serves as a means to facilitate transparent financial recording and reporting procedures.

Moreover, a study conducted by Durlak & DuPre (2008) in Siak Regency found that several factors, such as the adoption of a financial accounting system, availability of financial reports, implementation of internal control, and simultaneous implementation of good governance, greatly influence the accountability of regional financial management. This is a result of the strong correlation between these factors and the corresponding rise in accountability. Implementing an effective financial accounting system has the capacity to enhance the integrity of financial reports, thereby ensuring greater accuracy and reliability of financial information, ultimately leading to heightened accountability. Improved accessibility of financial reports facilitates stakeholder access to essential information, enhances transparency, and consequently, promotes greater accountability in regional financial management. Conduct in mitigate internal control measures mitigates the likelihood of errors and fraudulent activities in regional financial management, thereby enhancing the efficiency and efficacy of financial management. Simultaneously, the adoption of effective governance establishes a conducive atmosphere that facilitates sound and conscientious management of regional finances, with accountability serving as a pivotal component in regional financial management. These findings validate the intricate nature of the connection between these different components and underscore the significance of adopting a holistic strategy to enhance responsibility in regional financial administration.

The research conducted by Hong (2013) in Sukabumi Regency demonstrates a similar finding, which significantly contributes to our understanding of the factors that impact accountability in regional financial management. The findings emphasize the significance of two crucial factors: the government's internal control system's effectiveness and value for money performance. These factors play a vital role in enhancing accountability in regional financial management. The implementation of a robust internal control system is vital in minimizing the likelihood of errors and the improper use of funds, thus establishing a more solid basis for accountability. Conversely, value for money performance prioritizes the optimal utilization of public funds, guaranteeing that the outcomes achieved are proportionate to the resources invested. The integration of robust internal control mechanisms and the attainment of optimal cost-effectiveness

establish a solid foundation for enhanced accountability in the management of regional finances. This research further demonstrates the intricate nature of the connection between these factors within the framework of regional financial management. It reinforces the notion that endeavors to enhance accountability should encompass a comprehensive approach that encompasses internal factors and effective utilization of public resources.

The study conducted by [Chen et al. \(2020\)](#) in Klungkung Regency examines crucial factors that enhance comprehension of accountability in regional financial management. The findings of this study validate that several factors, including efficient internal control, attainment of value for money, proper presentation of financial reports, and easy accessibility of financial reports, contribute positively to enhancing accountability in regional financial management. Efficient internal control establishes a solid basis for preventing errors and misappropriation of funds, while demonstrating value for money confirms that the utilization of public funds aligns with anticipated outcomes. Delivering precise and punctual financial reports is a crucial component in establishing transparency and fostering public confidence. The availability of financial reports to stakeholders contributes to facilitating access to financial information, thereby empowering them to actively oversee and comprehend local financial administration. These findings indicate that accountability is not solely a singular obligation, but rather the outcome of the collaboration of multiple factors that contribute to the establishment of a conducive environment for enhanced regional financial management with greater accountability.

In summary, a collection of studies that specifically examine internal control and other variables that impact the responsibility of regional financial management offer profound understanding of the intricate connection between these components. The results of these studies demonstrate that various factors, including financial accounting systems, internal control, cost-effectiveness, presentation of financial reports, and availability of financial reports, collaborate to establish a conducive environment for enhancing regional financial management accountability. The intricacy of the situation mirrors the difficulties in overseeing regional finances in the face of multiple pressures and increasing demands. Hence, endeavors to enhance accountability in regional financial management necessitate a thorough and all-encompassing strategy, encompassing both internal and external factors, along with the implementation of good governance principles.

3.2. Discussion

Obstacles in enforcing internal control in regional financial management accountability are an essential component in the functioning of financial management in regional governments. As the intricacy of local government tasks and obligations in handling public funds escalates, internal control emerges as a crucial factor in guaranteeing the efficient, effective, and goal-aligned utilization of resources ([Yusuf & Kanji, 2020](#)). Nevertheless, the execution of internal control is frequently confronted with diverse obstacles in real-world scenarios. Hence, in order to attain a state of elevated accountability in the management of finances at a regional level, it is imperative to comprehend the prevailing obstacles and devise suitable remedies to surmount them. The presence of obstacles in the implementation of efficient internal control in regional financial management is a significant matter that demands careful consideration. An impediment that could potentially occur is a deficiency in comprehension and recognition of the significance of internal control ([Yogasworo & Suprayitno, 2020](#)). Occasionally, stakeholders in local government may lack a complete comprehension of the advantages of internal control in guaranteeing transparent and accountable financial management. To overcome these barriers and foster better understanding across the organization, it is crucial to enhance education and communication regarding the significance of internal controls.

Also, another substantial hindrance is the scarcity of proficient human resources ([Maulana, 2017](#)). Successful implementation of internal control necessitates skilled and proficient personnel to execute control duties. However, local governments frequently encounter challenges when it comes to recruiting and retaining personnel who possess the necessary skills and expertise. In order to surmount these challenges, it is crucial to implement human resource training and development as a vital measure to guarantee that staff possesses the requisite competencies to execute internal control responsibilities effectively. In addition, the absence of backing from regional authorities can pose a significant hindrance to the implementation of internal control ([Yogasworo & Suprayitno, 2019](#)). Insufficient backing from management can impede the successful implementation of robust internal control measures. Regional leaders must acknowledge the significance of internal control in attaining accountability in regional financial management and actively assist in its implementation. These obstacles are formidable hurdles to surmount, yet they are crucial factors that must be considered to attain accountability in regional financial management. Local governments must implement necessary measures, such as education, training, and leadership support, to overcome these challenges and ensure the efficient functioning of internal controls. By surmounting these challenges, regional financial management can enhance transparency,

effectiveness, and responsibility, thereby fostering the economic growth and well-being of local communities.

In addition to the hurdles encountered in establishing internal control for regional financial management accountability, there are substantial obstacles that need to be addressed. The task of efficiently executing internal control in regional financial management is a matter that requires significant consideration. Initially, the intricate nature of the regional financial management system may pose a hindrance (Widiani, 2019). Local governments frequently encounter intricate systems due to the need to manage multiple sources of income, expenditure, and projects. This can pose challenges in implementing internal controls and necessitates meticulous coordination to ensure the system functions by established standards. An additional noteworthy obstacle is the absence of assistance from local authorities (Lesmana & Damanik, 2022). Insufficient backing from management can hinder the successful implementation of efficient internal control measures. Regional leaders must acknowledge the significance of internal control in attaining accountability in regional financial management and actively assist in its implementation. The presence of an insufficient number of skilled personnel is a significant hindrance (Mulyanto et al., 2021). Successful implementation of internal control necessitates skilled and proficient personnel to execute control duties. Nevertheless, local governments frequently encounter challenges when it comes to attracting and retaining personnel who possess the necessary expertise and understanding.

Insufficient comprehension and recognition of the significance of internal control can pose a significant barrier (Sari et al., 2020). Occasionally, stakeholders in local government may lack a complete comprehension of the advantages of internal control in guaranteeing transparent and accountable financial management. Enhanced education and communication regarding the significance of internal controls can effectively surmount these obstacles and foster improved comprehension throughout the organization. In addition, the requirement to comply with progressively more rigorous regulations and standards can also pose a difficulty (Maghfira et al., 2021). Local governments may need to regularly modify their internal control systems in response to evolving regulations and guidelines, which can be a laborious and time-consuming process. An additional obstacle that must be surmounted is the occurrence of inaccuracies during the process of documenting financial reports. These errors may lead to discrepancies in financial reports, consequently compromising accountability. The inadequate execution of Standard Operating Procedures (SOPs) can hinder the establishment of efficient internal control (Yogasworo & Suprayitno, 2020). Inadequate or ambiguous Standard Operating Procedures can lead to confusion and mistakes in the control process. It is essential to consider the issues that occur in the control component, particularly in the aspect of application management. Malfunctioning application controls can disrupt the overall internal control system.

Given the recognition of the difficulties that arise when implementing efficient internal control in regional financial management, prompt action must be taken. Local governments should give top priority to training and education to enhance comprehension and consciousness regarding the significance of internal control across the organization. Active endorsement from regional leaders in this endeavor is also a crucial component in establishing a conducive atmosphere. In order to stay aligned with evolving regulations and more rigorous standards, it is crucial to regularly assess and revise systems, standard operating procedures (SOPs), and control processes. By surmounting these obstacles, internal control will operate efficiently, leading to the achievement of accountability in regional financial management. Ensuring efficient and transparent utilization of public funds is crucial, as it not only promotes sustainable regional development but also enhances community welfare.

4. Conclusion

Regional governments increasingly prioritize regional financial management as they grapple with the need to uphold regional economic stability and accomplish development objectives. Robust internal control is crucial in guaranteeing the effective utilization of public funds in compliance with relevant regulations. The findings of this literature review emphasize that internal control serves not only as an administrative instrument, but also has a significant impact on the overall accountability of regional financial management. This is particularly evident when considering its relationship with the financial accounting system, accessibility of financial reports, presentation of financial reports, achievement of value for money, and implementation. Effective administration and management of a governing body. Despite obstacles such as limited comprehension, insufficient backing from local authorities, and a shortage of skilled personnel, diligent endeavors to address these challenges through education, training, and leadership endorsement can facilitate the efficient implementation of internal control. Internal control is crucial for establishing a conducive environment that promotes responsible and efficient management of regional finances, thereby ensuring sustainable economic growth and the well-being of local communities.

Author Contributions: Conceptualization, A.K. and K.D.; methodology, A.K.; software, A.K.; validation, M.N., M.M., and K.D.; formal analysis, A.K.; investigation, A.K. and K.D.; resources, A.K.; data curation, M.N., M.M., and K.D.;

writing—original draft preparation, A.K. and K.D.; writing—review and editing, A.K., M.N., M.M., and K.D.; visualization, A.K.; supervision, K.D.; project administration, K.D.; funding acquisition, A.K. All authors have read and agreed to the published version of the manuscript.

Funding: This research received no external funding.

Institutional Review Board Statement: Not applicable.

Informed Consent Statement: Not applicable.

Data Availability Statement: Not applicable.

Acknowledgments: The authors would like to thank Universitas Nasional Jakarta, Indonesia, for supporting this research and publication. We would also like to thank the reviewers for their constructive comments and suggestions.

Conflicts of Interest: The authors declare no conflict of interest.

References

- Anggito, A., & Setiawan, J. (2018). *Metodologi penelitian kualitatif*. CV Jejak (Jejak Publisher).
- Arifudin, O., Juhadi, J., & Sofyan, Y. (2020). Pengaruh Sistem Pengendalian Internal dan Audit Internal terhadap Pelaksanaan Good Corporate Governance. *Jemasi: Jurnal Ekonomi Manajemen Dan Akuntansi*, 16(2), 17–32. <https://doi.org/10.35449/jemasi.v16i2.138>
- Arikunto, S. (2014). Quantitative, qualitative, and combination research methods (mixed methods). In *Bandung: Alfabeta*.
- Chen, H., Yang, D., Zhang, J. H., & Zhou, H. (2020). Internal controls, risk management, and cash holdings. *Journal of Corporate Finance*, 64, 101695. <https://doi.org/10.1016/j.jcorpfin.2020.101695>
- Durlak, J. A., & DuPre, E. P. (2008). Implementation Matters: A Review of Research on the Influence of Implementation on Program Outcomes and the Factors Affecting Implementation. *American Journal of Community Psychology*, 41(3–4), 327–350. <https://doi.org/10.1007/s10464-008-9165-0>
- Herawati, T. (2022). Pengaruh Sistem Pengendalian Intern Terhadap Kualitas Laporan Keuangan (Survei Pada Organisasi Perangkat Daerah Pemda Cianjur). *STAR*, 11(1), 1–14. <https://doi.org/10.55916/jsar.v11i1.44>
- Hong, H. (2013). Government websites and social media's influence on government-public relationships. *Public Relations Review*, 39(4), 346–356. <https://doi.org/10.1016/j.pubrev.2013.07.007>
- Lesmana, M. T., & Damanik, F. A. (2022). The Influence of Work Environment, Work Discipline and Motivation on Employee Performance. *International Journal of Economics, Social Science, Entrepreneurship and Technology (IJESET)*, 1(1), 36–49. <https://doi.org/10.55983/ijeset.v1i1.26>
- Ludani, M. M., Tampi, G. B., & Pombengi, J. D. (2015). Akuntabilitas Dalam Pengelolaan Keuangan Daerah (Suatu Studi Pada Dinas Pendapatan Daerah Kabupaten Banggai Kepulauan). *Jurnal Administrasi Publik*, 2(29), 1–9.
- Luqyana, L., & Islahuddin, I. (2022). Akuntabilitas Pengelolaan Keuangan Daerah: Apakah Aksesibilitas, Pengendalian Internal, dan Kompetensi Aparatur Mempengaruhinya. *Jurnal Ilmiah Mahasiswa Ekonomi Akuntansi*, 7(1), 83–94. <https://doi.org/10.24815/jimeka.v7i1.21068>
- Maghfira, G. A., Fakhri, M., Syarifuddin, S., Nurnida, I., & Kurnia, B. (2021). The effect of quality of work life and job stress toward organizational culture. *Proceedings of the International Conference on Industrial Engineering and Operations Management*, 2939–2947.
- Maulana, I. (2017). *Pengaruh Pemahaman Akuntansi, Pemanfaatan Sistem Informasi Akuntansi Dan Peran Internal Audit Terhadap Kualitas Laporan Keuangan (Studi Pada PT. Kereta Api Indonesia (Persero) Kota Bandung)*. Fakultas Ekonomi dan Bisnis Unpas Bandung.
- Mulyanto, M., Budiman, N. A., & Fahmi, M. N. (2021). Pengaruh Sistem Akuntansi Keuangan Daerah, Penyajian Laporan Keuangan Daerah, Aksesibilitas Laporan Keuangan Daerah, Dan Desentralisasi Fiskal Terhadap Akuntabilitas Pengelolaan Keuangan Daerah Dengan Sistem Pengendalian Internal Pemerin. *JBE (Jurnal Binkai Ekonomi)*, 6(1), 1–17. <https://doi.org/10.54066/jbe.v6i1.90>
- Pahlawati, A. (2018). *Pengaruh sistem pengendalian internal terhadap efektivitas pengelolaan keuangan daerah Kabupaten Ciamis*. UIN Sunan Gunung Djati Bandung.

-
- Pradita, K. D., Hartono, A., & Mustoffa, A. F. (2019). Pengaruh Tekanan Eksternal, Ketidakpastian Lingkungan, dan Komitmen Manajemen terhadap Penerapan Transparansi Pelaporan Keuangan. *ISOQUANT: Jurnal Ekonomi, Manajemen Dan Akuntansi*, 3(2), 87–100. <https://doi.org/10.24269/iso.v3i2.291>
- Sari, R. P., Mulyani, C. S., & Budiarto, D. S. (2020). Pentingnya Pengendalian Internal untuk meningkatkan Transparansi dan Akuntabilitas Pengelolaan Keuangan Daerah. *Jurnal Riset Akuntansi Mercu Buana*, 6(1), 1–10. <https://doi.org/10.26486/jramb.v6i1.697>
- Widiani, R. Y. (2019). *Pengaruh Penerapan Anggaran Berbasis Kinerja Dan Efektivitas Pengendalian Internal Terhadap Akuntabilitas Kinerja Instansi Pemerintah Daerah (Survei Pada Badan Pengelolaan Keuangan Daerah (Bpkd) Kabupaten Bandung Barat)*. STIE Ekuitas.
- Yogasworo, N. A., & Suprayitno, S. (2019). Sistem Pengendalian Internal dan Kualitas Informasi pada Sistem Informasi Keuangan Daerah. *EQUITY*, 22(2), 109–138.
- Yogasworo, N. A., & Suprayitno, S. (2020). Sistem Pengendalian Internal dan Kualitas Informasi pada Sistem Informasi Keuangan Daerah. *EQUITY*, 22(2), 109–138. <https://doi.org/10.34209/equ.v22i2.1249>
- Yusuf, M., & Kanji, L. (2020). Effect of internal audit and accounting information system on the effectiveness of internal control. *ATESTASI: Jurnal Ilmiah Akuntansi*, 3(2), 120–125.