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THE INFLUENCE OF FISCAL DECENTRALIZATION AND GOVERNMENT PERFORMANCE ON THE ACCOUNTABILITY OF FINANCIAL REPORTING: MODERATING ROLE OF INTERNAL CONTROL FINDINGS (AN EMPIRICAL STUDY ON PROVINCIAL, REGENCY, AND MUNICIPAL GOVERNMENTS IN SUMATRA AND JAVA ISLANDS IN 2022)

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Abstract

This study aims to analyze the influence of fiscal decentralization and government performance on the accountability of local government financial reporting, with findings of internal control as a moderating variable. The research focuses on provincial, regency, and municipal governments in the Sumatra and Java Islands for the year 2022. A quantitative research design with a causal approach is adopted and grounded in Signalling Theory. The study utilizes secondary data from 2022, obtained from the Audit Reports (LHP) published on the official website of the Audit Board of the Republic of Indonesia (BPK RI) and local government performance data (EKPPD) sourced from the official Open Data platform of the Directorate General of Regional Autonomy. The population includes all local governments in Sumatra and Java in 2022. A purposive sampling technique was applied, resulting in a total of 282 local governments as the final sample. Data analysis was conducted using binary logistic regression and moderated regression analysis (MRA) with SPSS version 30. The findings reveal that dependence on the central government has a negative effect, while government performance has a positive effect on the accountability of local government financial reporting. Fiscal independence does not significantly affect reporting accountability. Moreover, the findings of internal control weaknesses do not significantly moderate the relationship between fiscal decentralization or government performance and the accountability of local government financial reporting.

Keywords: accountability, financial reporting, fiscal decentralization, performance, internal control

INTRODUCTION

The regional autonomy and fiscal decentralization policies, which were officially implemented in 2001, have granted broader authority to local governments to independently manage and govern administrative affairs and community interests (Rindayati & Nikmah, 2024). The main objective of this decentralization is to optimize regional potential and achieve efficiency, effectiveness, transparency, and accountability in regional expenditure management, in accordance with Article 2 Paragraph (3) of the Republic of Indonesia Law Number 23 of 2014 on Regional Government (BPK RI, 2021). However, the implementation of regional autonomy still faces a number of issues, particularly related to capacity and capability gaps between regions in terms of finance, infrastructure, and human resources (Pratolo & Irmawati, 2020).

This gap creates significant differences between rapidly developing regions and those experiencing decline, where the underdeveloped areas often require financial support from the central government (Mudhofar & Tahar, 2016). The management of state finances, which is supposed to aim at improving the welfare of the community, is often misused by the authorities, resulting in the deterioration of financial conditions and disruption of public service stability (Oktaviani et al., 2020). This phenomenon is referred to as the practical gap or anomaly of the goals of government autonomy, exacerbated by indications of increased corruption cases and the lack of improvement in the quality of public services as a result of decentralization (Mudhofar & Tahar, 2016; Pratolo & Irmawati, 2020).

This condition emphasizes the urgency of reforming the regional financial system and governance through bureaucratic reform, in order to realize good and clean governance in line with the New Public Management (NPM) concept (Pratolo & Irmawati, 2020). One of the main pillars in realizing good governance is accountability (Fitri & Khotimah, 2022). Accountability is defined as the obligation of the central government, regional governments, and public institutions to present and report accountability through periodic financial statements (Fitri & Khotimah, 2022). The presentation of regional government financial statements (LKPD) must meet the criteria of relevance, reliability, comparability, and understandability in accordance with Government Regulation Number 71 of 2010 concerning Government Accounting Standards (SAP) (Vidyasari & Suryono, 2021). The audit opinion provided by the Financial Audit Agency (BPK) becomes an important indicator to assess the level of accountability in the management of regional government finances as outlined in the Audit Report (LHP).

An Unqualified Opinion (WTP) is the main objective for all government institutions because it reflects good accountability to stakeholders and the public (Badan Pemeriksa Keuangan Republik Indonesia, 2020). Based on the Summary of Semester Examination Results (IHPS) I of 2023 on the 2022 LKPD, a significant decline in the achievement of the Unqualified Opinion (WTP) by regional governments was identified, indicating a decrease in financial reporting accountability (BPK RI, 2023). The achievement of WTP opinions by provincial and city governments decreased by 6% and 5%, respectively. In fact, the achievement of city governments in 2022 only reached 91%, below the target of the National Medium-Term Development Plan (RPJMN) 2020–2024 of 93%. Fourteen out of 41 regional governments with a Qualified Opinion with Exception (WDP) are located in Sumatra, six in Java, and the Meranti Islands Regency in Riau received a Disclaimer Opinion (TMP) from the BPK (BPK RI, 2023).

The decline in the achievement of Non-WTP opinions in provincial and city regional governments, as well as the failure to meet the RPJMN 2020–2024 targets in city regional governments in 2022, is a crucial issue in the implementation of regional autonomy because it negatively impacts the accountability of regional government financial reporting. The BPK's opinion issued annually is an important indicator in assessing accountability, so if this issue is not addressed promptly, it can reduce public trust in the government (Pratolo & Irmawati, 2020). The year 2022 was chosen as the research period because, in that year, the performance assessment of regional government administration was resumed after being halted due to the COVID-19 pandemic, allowing for the observation of financial reporting accountability in the context of post-pandemic recovery. The focus of the research object is the regional governments in Sumatra and Java because the complexity of accountability issues in these areas requires a broader scope, and Sumatra has the highest number of regional governments that received a Non-WTP opinion based on the BPK's audit report.

This research provides a new perspective by making the performance of government administration an independent variable and adding the findings of Internal Control System weaknesses (SPI) as a moderating variable. The focus on SPI findings is based on the fact that there are still findings of internal control weaknesses by the BPK in various regions, reflecting the weakness of the control system and increasing the risk of inaccurate financial reports (Nasution et al., 2023). SPI findings reflect the level of failure of internal controls in preventing and detecting errors or deviations, which directly affects the quality and accountability of regional government financial reports. This approach makes the findings of SPI weaknesses an indicator of internal governance weaknesses, which are not merely components of the internal control system but reflect the quality of SPI implementation that can assess the extent to which internal control practices have been adequately executed (Firmansyah, 2024).

Another difference in this study lies in the use of binary logistic regression analysis methods to examine the influence on categorical dependent variables and in the selection of the scope of objects involving regional governments at the provincial, district, and city levels in the islands of Sumatra and Java. This differs from previous studies that showed variations in the use of moderating and independent variables related to financial reporting accountability, such as performance as a moderating variable (Dalimunthe et al., 2021; Mudhofar & Tahar, 2016; Saud & Trisha, 2020) and SPI as a moderating variable (Mulyanto et al., 2020; Fadila, 2024; Ananda, 2018) or independent (Muafiq & Chariri, 2023; Oktaviani et al., 2020;(Rasmini & Masdiantini, 2018).

This study aims to analyze the impact of the relationship between fiscal decentralization and government performance on the accountability of local government financial reporting, as well as the influence of SPI findings as a moderating variable. The results of this research are expected to provide contributions in the form of input and considerations for the government in order to improve the accountability of local government financial reporting, thereby achieving a corruption-free government and enhancing the quality of public services to the community. For the community, this research can provide information about the administration of local government and the significance of local government financial reporting accountability, so that it is hoped the community can continuously monitor the administration of local government.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

Fiscal decentralization provides space for regions to enhance their independence in development financing. Fiscal independence, measured by the ratio of Local Original Revenue (PAD) to total revenue, becomes an indicator of how far a region can stand without full dependence on central transfer funds (Muafiq & Chariri, 2023). Regions with a high level of independence tend to be more responsible in financial management because they have the incentive to maintain public trust through accurate and transparent financial reporting (Oktaviani et al., 2020). In the context of Signalling Theory, reliable financial reports serve as a positive signal to the public that the government is capable of managing public funds efficiently and responsibly. Research by Oktaviani et al. (2020), Mulyanto et al. (2020), and Ananda (2018) shows that regions with high PAD demonstrate better quality financial reports. Independent local governments are required not only to prepare financial reports formally but also to substantively account for them because reliance on internal funds encourages budget efficiency, compliance with SAP reporting, and the provision of information that can be verified by the public.

Based on the above description, the following hypothesis is formulated:

***H1: Regional autonomy has a positive effect on the accountability of local government reporting*.**

One form of fiscal support from the central government to the regions is through the balancing fund mechanism, which aims to reduce fiscal disparities and strengthen the regions' capacity to explore economic potential (Dalimunthe et al., 2021). However, the high level of regional dependence on central transfer funds actually indicates weak fiscal independence. This dependence impacts the low effectiveness of financial management, including in terms of planning, budgeting, and fund allocation (Fahriza & Riswati, 2023). Regions that are not fiscally independent often exhibit low accountability in financial reporting, as reflected in suboptimal audit opinions from the BPK (Rasmini & Masdiantini, 2018).

High dependence on the central government can reduce the intention of local governments to manage local resources effectively. Regions tend to focus only on administrative compliance with the central government rather than preparing accurate and transparent financial reports for the local community. As a result, reporting accountability becomes weak because the accountability that should be public is instead subordinated to the logic of vertical relationships with the center. This situation can create a moral hazard, which is the tendency to not optimize local revenue and weaken the quality of financial reports. When most of the regional revenue comes from balancing funds, the signal sent to stakeholders is negative, indicating low fiscal management capacity and minimal accountability (Nurjanah, 2025). These findings are supported by the research of Saud & Trisha (2020), Rani (2018), and Rachmat (2019), which consistently show that a high level of fiscal dependency negatively affects the quality of accountability in local government financial reports. Based on the above description, the hypothesis is formulated as follows:

H2: Dependence on the central government negatively affects the accountability of local government reporting.

The performance of government administration is a representation of the effectiveness and efficiency of public resource management to achieve development goals and community services. In the context of regional financial governance, good performance is reflected in the implementation of programs that are well-targeted, disciplined budgeting, and accurate and transparent financial reporting (Binawati & Badriyah, 2022). The measurement of public sector performance is not only oriented towards results but also towards the process of accountable financial management in accordance with regulations (Ananda, 2018). High government performance serves as a positive signal for stakeholders that the local government is capable of fulfilling its responsibilities well, including in financial reporting. When the local government demonstrates good performance, the public has higher expectations for transparency and financial accountability. This will encourage local governments to prepare financial reports in accordance with Government Accounting Standards (SAP), on time, and accountable.

Fadila's (2024) research shows that the performance of local government administration positively affects the accountability of financial reports, as reflected in the achievement of good audit opinions. Similar findings were presented by Oktaviani et al. (2020) and Pratolo & Irmawati (2020), who emphasized that the higher the performance of a region, the greater the likelihood of preparing quality financial reports and obtaining a WTP opinion from the BPK. This reinforces the view that good performance not only indicates program success but also reflects accountable financial governance. Based on the above description, the hypothesis is formulated as follows:

H3: The performance of government administration has a positive effect on the accountability of regional government reporting.

The Government Internal Control System (SPI) functions as an internal supervision mechanism aimed at ensuring that all processes of regional financial management run in accordance with regulations, efficiently, and accountably (Mulyanto et al., 2020). However, the effectiveness of the Internal Control System (SPI) in the regions cannot be measured solely by its existence; it needs to be reviewed through the findings of SPI weaknesses listed in the Audit Report (LHP) by the BPK. SPI findings refer to the number and types of internal control weaknesses identified by auditors in the system operated by the regional government. The numerous findings reflect weak supervision, weak control in transaction recording, and potential deviations in reporting.

The high number of findings of internal control weaknesses can undermine the positive impact expected from fiscal independence on accountability. Although a region has the ability to independently finance programs and activities, weaknesses in the internal control system will hinder the preparation of accurate and reliable financial reports. Conversely, regions with low SPI findings indicate that their control systems are relatively functioning well, thereby strengthening the relationship between independent financial management and the quality of accountable reports (Ananda, 2018; Nasution et al., 2023). In the context of Signalling Theory, a low SPI finding can serve as a positive signal to stakeholders that the financial reports presented are prepared based on a reliable system. Conversely, a high SPI finding serves as a negative signal that raises doubts about the validity and accountability of the reports. Thus, the findings of SPI weaknesses function as a moderating variable that can strengthen or weaken the relationship between fiscal independence and the accountability of local government financial reporting. Based on that foundation, the formulated hypothesis is:

H4: SPI findings moderate the influence of regional autonomy on the accountability of local government financial reporting.

Fiscal dependence on the central government describes a condition when most regional revenue comes from transfer funds such as the General Allocation Fund (DAU) and the Special Allocation Fund (DAK), rather than from local original revenue. When fiscal dependence is high, local governments tend to focus on meeting administrative requirements set by the central government and are less motivated to develop accountability in financial reporting to the public (Maggara et al., 2024). The accountability of financial reporting is prone to decline due to the lack of pressure from the local community on the quality of the reports prepared. To maintain accountability, an effective internal control system is needed. However, the effectiveness in the context of this research is not measured based on the existence of the SPI system but rather from the weaknesses of the SPI revealed by the BPK in the Audit Report (LHP).

The SPI findings indicate significant weaknesses in the implementation of internal controls, such as procedural inconsistencies, weak monitoring, and non-compliance with regulations. Numerous and recurring findings signal that the control system is not functioning effectively and poses a risk of unaccountable financial reports. When SPI findings are low, financial management can remain accountable because internal controls are functioning well. However, if SPI findings are high, the negative impact of fiscal dependence on accountability will become stronger due to weak control over public funds. The findings of SPI weaknesses serve as a moderating variable that determines whether fiscal dependence will have a significant or minor impact on the decline in financial reporting accountability. Based on that foundation, the formulated hypothesis is:

H5: SPI findings moderate the impact of dependence on the central government on the accountability of local government financial reporting.

The performance of regional government administration reflects the effectiveness, efficiency, and professionalism in managing public resources and carrying out government functions. Good performance indicates that local governments are capable of managing governmental affairs optimally, including in the aspects of planning, budgeting, and financial reporting. Local governments with high performance tend to have a stronger commitment to transparency and accountability, which will be reflected in more reliable financial reports (Klambu, 2024; Taradipa, 2017). The positive influence of performance on financial reporting accountability cannot stand alone without being supported by an effective internal control system. The effectiveness of the Internal Control System (SPI) cannot only be seen from its structure or procedures but is more clearly reflected in the findings of SPI weaknesses listed in the Audit Report (LHP) by the BPK. SPI findings are concrete evidence of weaknesses in the implementation of internal control, such as procedural non-compliance, weak supervisory activities, and the malfunctioning of internal reporting and communication systems.

If the findings of SPI weaknesses are high, then this signals that internal control in the financial reporting process is not functioning as it should. As a result, even though the performance of government administration shows high achievements, these results will not fully impact the improvement of financial reporting accountability. On the other hand, if the SPI findings are low, then the internal control system is functioning well and can strengthen the positive impact of performance on the quality of financial reports. SPI findings function as a moderating variable that strengthens or weakens the relationship between government performance and financial reporting accountability. Ananda's (2018) previous research showed that the internal control system has a moderating role on the influence of performance on accountability. Based on that foundation, the formulated hypothesis:

H6: SPI findings moderate the influence of government performance on the accountability of local government financial reporting.

Based on the proposed hypothesis, the research framework is presented in Figure 1.

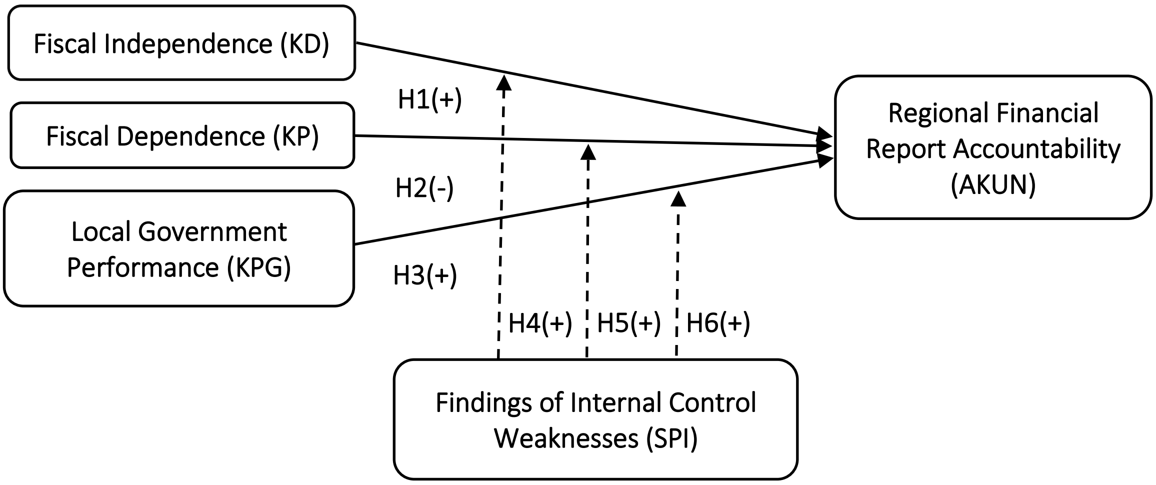

Figure 1. The Research Framework

RESEARCH METHODS

This research uses a causal quantitative approach aimed at examining the influence of fiscal decentralization and government performance on the accountability of local government financial reporting, with SPI findings as a moderating variable. The research object includes provincial, regency, and city local governments on the islands of Sumatra and Java in 2022. The sampling technique used is purposive sampling with the criteria of availability of financial report data and regional governments that have been given performance scores by the Ministry of Home Affairs, resulting in a sample of 282 regional governments. The data used are secondary data obtained from the Audit Report (LHP) on the LKPD published by BPK RI and the performance scores of regional government administration accessed through the official website of Open Data from the Directorate General of Regional Autonomy. The data analysis technique used in this study is binary logistic regression to test the direct influence between variables and Moderated Regression Analysis (MRA) to analyze the role of SPI findings as a moderating variable. Data were processed using SPSS version 30 software.

The dependent variable in this study is the accountability of local government financial reporting, measured using a dummy variable. A value of 1 (one) is assigned to local governments that receive an Unqualified Opinion (WTP) from the BPK, while a value of 0 (zero) is assigned to local governments that receive an opinion other than WTP. The independent variables consist of several indicators, namely fiscal decentralization proxied through the ratio of the degree of fiscal independence and the ratio of fiscal dependence. Fiscal independence is calculated from the comparison between Local Own Revenue (PAD) and total regional revenue, while fiscal dependence is calculated from the comparison between the amount of General Allocation Funds (DAU) and Special Allocation Funds (DAK) against total regional revenue. The variable for government performance is proxied through the score of the Evaluation of Regional Government Performance (EKPPD) provided by the Ministry of Home Affairs. The moderation variable is measured based on the number of SPI weakness findings.

RESULTS AND DISCUSSION

The results of this study are as follows:

Table 1.1 Descriptive Statistic

Descriptive Statistic					
Variable	N	Min	Max	*Mean*	Std. Deviasi
AKUN (Var. *Dummy*)	282	0	1	0,9300	0,2630
KD	282	0,02	0,73	0,1766	0,1386
KP	282	0,04	1,97	0,5656	0,1639
KPG	282	0,27	4,08	2,5237	0,5353
SPI	282	0	45	9,3700	5,8520

Explanation:
AKUN = Accountability of Regional Government Financial Reporting; KD = Regional Independence; KP = Dependence on the Central Government; KPG = Government Performance Implementation; SPI = Internal Control Weakness Findings.

Source: Research data processing, SPSS 30

Table 1.1 above indicates that:

1. Regional financial report accountability has a minimum value of 0 (zero) for regions that do not receive a WTP opinion and a maximum value of 1 (one) for regions that receive a WTP opinion, because the dependent variable is a dummy variable, has an average value (mean) of 0.9300 and a standard deviation of 0.2630.
2. Fiscal independence has a minimum value of 0.02 and a maximum value of 0.73. Fiscal independence has an average value (mean) of 0.1766 and a standard deviation of 0.1386.
3. Fiscal dependence has a minimum value of 0.04 and a maximum value of 1.97. Fiscal dependence has an average value (mean) of 0.5656 and a standard deviation of 0.1639.
4. Local government performance has a minimum value of 0.27 and a maximum value of 4.08. Local government performance has an average value (mean) of 2.5237 and a standard deviation of 0.5353.
5. Findings of internal control weaknesses (SPI) have a minimum value of 0 and a maximum value of 45. The average value (mean) is 9.3700 and the standard deviation is 5.8520.

Model Feasibility Test as follows:

Table 1.2 Hosmer &Lemeshow Test

Hosmer and Lemeshow Test		
Chi-square	df	Sig.
5,893	8	0,659

Source: Research data processing, SPSS 30

Based on the Hosmer and Lemeshow test results table above, it is known that the Chi-Square value is 5,893 with a significance probability of 0,659 (0,659 > 0.05) so it can be concluded that the model is fit and feasible to use.

Table 1.3 Test-2 Likelihood Logs

Iteration History[a,b,c]		
Iteration	-2 Log likelihood	Coefficients Constant
1	165,935	1,702
2	150,366	2,313
3	149,491	2,503
4	149,486	2,520

5	149,486	2,520

Source: Research data processing, SPSS 30

Table 1.4 Test-2 Likelihood Logs

Iteration History[a,b,c,d]				
Iteration	-2 Log likelihood	Coefficients		
		KD	KP	KPG
1	155,287	-1,469	-0,960	0,657
2	131,084	-2,843	-1,833	1,357
3	127,725	-3,491	-2,277	1,773
4	127,596	-3,599	-2,372	1,870
5	127,595	-3,602	-2,376	1,875
6	127,595	-3,602	-2,376	1,875

Source: Research data processing, SPSS 30

Based on the-2 Log Likelihood comparison table above, there is decresion in the initial -2 Log Likehood (block number=0) from 149,486 to 127,595 at the initial -2 Log Likehood (block number=1). This decresion data indicates that the regression model used is good or fits.

R-Square Test (Coefficient of Determination) Table as follows:

Table 1.5 Cox & Snell and Nagelkerke R-Square Test

Model Summary		
-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
127,595[a]	0,075	0,182

Source: Research data processing, SPSS 30

Based on the R-Square test, the-2 Log Likelihood value is 127,595 with a Cox and Snell R-Square test value of 0.075 and a Nagelkerke R-Square test of 0.182. The table shows the results with a Nagelkerke R-Square value of 0.182 (18,2%), indicating that the remaining 81,8% is influenced by other factors not examined in this study.

Simultaneous Test as follows:

Table 1.6 Omnibus Test of Model Coefficients Non-Moderated

Omnibus Tests of Model Coefficients			
	Chi-square	df	Sig.
Step	21,891	3	<0.001
Block	21,891	3	<0.001
Model	21,891	3	<0.001

Source: Research data processing, SPSS 30

Based on the Omnibus Test of Model Coefficients Non-Moderated table, the significance value is <0.001. The value is greater than 0.05, so it can be concluded that the variables of Regional Autonomy, Dependence on the Central Government, and Government Performance simultaneously affect the Accountability of Regional Government Financial Reporting.

T-Test as follows:

Table 1.7 Logistic Regression Analysis Partial Test

Variables in the Equation			
	B	df	Sig.
KD	-3,602	1	0,120
KP	-2,376	1	0,058

KPG	1,875	1	<0.001
Constant	0,146	1	0,898

Explanation:
AKUN = Accountability of Regional Government Financial Reporting; KD = Regional Independence; KP = Dependence on the Central Government; KPG = Government Administration Performance.

Source: Research data processing, SPSS 30

Based on the Logistic Regression Analysis Partial Test table, it can be seen that the Regional Autonomy variable shows a coefficient of -3.602 with a significance value of 0.120. This significance value > 0.05, so it can be concluded that the Regional Autonomy variable does not affect the Accountability of Regional Government Financial Reporting. The Dependency on the Central Government variable shows a coefficient of -2.376 with a significance value of 0.058. This significance value > 0.05, so it can be concluded that the Dependency on the Central Government variable does not affect the Accountability of Regional Government Financial Reporting. The Government Performance variable shows a coefficient of 1.875 with a significance value of <0.001. This significance value < 0.05, so it can be concluded that the Government Performance variable positively affects the Accountability of Regional Government Financial Reporting.
Moderating Test as follows:

Table 1.8 Moderating Regression Analysis Test

Variables in the Equation			
	B	df	Sig.
KD	-11,028	1	0,023
KP	-4,242	1	0,026
KPG	3,266	1	0,001
SPI	-0,014	1	0,944
KD*SPI	0,704	1	0,071
KP*SPI	0,201	1	0,305
KPG*SPI	-0,128	1	0,110
Constant	0,104	1	0,964

Explanation:
AKUN = Accountability of Regional Government Financial Reporting; KD = Regional Independence; KP = Dependence on the Central Government; KPG = Government Administration Performance; SPI = Internal Control Weakness Findings.

Source: Research data processing, SPSS 30

$Ln\left(\frac{P\ (AKUN=1)}{1-P\ (AKUN=1)}\right) = 0{,}104 + -11{,}028KD + -4{,}242KP + 3{,}266KPG + -0{,}014SPI + 0{,}704(KD\ x\ SPI) + 0{,}201(KP\ x\ SPI) +$ -0,128(KPG X SPI) +e..........................ie (1)

The regression data above shows that:

1) The Regional Autonomy variable shows a negative coefficient of -11.028 with a significance of 0.023, which is less than 0.05. This indicates that Regional Autonomy negatively affects the Accountability of Regional Government Financial Reporting. Therefore, the first hypothesis (H1) is rejected.
2) The variable Dependence on the Central Government shows a negative coefficient of -4.242 with a significance of 0.026, which is less than 0.05. This indicates that Dependence on the Central Government has a negative impact on the Accountability of Regional Government Financial Reporting. Therefore, the second hypothesis (H2) is accepted.

3) The Government Administration Performance variable shows a positive coefficient of 3.266 with a significance of 0.001, which is less than 0.05. This indicates that Government Administration Performance has a positive effect on the Accountability of Regional Government Financial Reporting. Therefore, the third hypothesis (H3) is accepted.
4) The interaction variable between Regional Independence and SPI shows a coefficient of 0.704 with a significance of 0.071, which is greater than 0.05. This indicates that SPI is unable to moderate the influence of Regional Independence on the Accountability of Local Government Financial Reporting. Therefore, the fourth hypothesis (H4) is rejected.
5) The interaction variable between Dependence on the Central Government and SPI shows a coefficient of 0.201 with a significance of 0.305, which is greater than 0.05. This indicates that SPI is unable to moderate the influence of Dependence on the Central Government on the Accountability of Local Government Financial Reporting. Therefore, the fifth hypothesis (H5) is rejected.

The interaction variable between Government Performance and SPI shows a coefficient of -0.128 with a significance of 0.110, which is greater than 0.05. This indicates that SPI is unable to moderate the influence of Government Performance on the Accountability of Regional Government Financial Reporting. Thus, the sixth hypothesis (H6) is rejected.

a. The Influence of Regional Autonomy on the Accountability of Local Government Financial Reporting

The first hypothesis (H1) states that fiscal autonomy has a positive effect on the accountability of local government financial reporting. However, the test results show the opposite direction, namely that fiscal autonomy actually has a negative effect, so H1 is not supported. The higher the fiscal independence of a region, the more it potentially decreases the accountability of financial reports (Dalimunthe et al., 2021). This indicates that an increase in PAD does not always reflect an improvement in governance and the presentation of financial reports in an accountable manner.

Some regional governments with high PAD have not been able to manage finances efficiently and accountably, among other reasons due to weak human resource quality, the unavailability of adequate financial information systems, and low technical ability in preparing financial reports (Sukanda, 2018). The increase in revenue without strengthening the oversight system has the potential to trigger manipulation and corruption, as evidenced by ICW's findings that regional ASN occupy the top position as perpetrators of corruption (Anandya & Easter, 2023). Theoretically, these results indicate that the Signalling Theory has not been functioning ideally in local government. The increase in PAD, which should be a positive signal for the public, instead turns into a negative signal because it is not accompanied by adequate transparency and accountability (Rasmini & Masdiantini, 2018). These findings are consistent with the research of Dalimunthe et al. (2021), but contradict the findings of Mulyanto et al. (2020), Muraiya, (2018), Ananda (2018), and Mudhofar & Tahar (2016) which state a positive relationship between fiscal independence and financial report accountability.

b. The Influence of Dependence on the Central Government on the Accountability of Regional Government Financial Reporting

The second hypothesis (H2) states that dependence on the central government negatively affects the accountability of regional government financial reporting. The test results indicate that this hypothesis is supported, where the higher the level of fiscal dependence of a region on transfer funds from the central government, the lower the tendency of that region to prepare financial reports in an accountable manner (Saud & Trisha, 2020).

High fiscal dependency weakens the motivation of regions to establish good governance. This is because the allocation of transfer funds is not based on the quality of financial reporting performance, but rather on fiscal needs or equity. As a result, there are not enough strong incentives for regions to prepare financial reports that are transparent, timely, and in accordance with standards. Local governments are more focused on fulfilling administrative obligations to the central government, rather than being accountable to the public at large. Dalimunthe et al. (2021) assert that the weak control and evaluation from the central government over the use of transfer funds do not encourage local governments to improve the quality of reporting. This situation is exacerbated by the low Local Own Revenue (PAD), which reduces the community's contribution to the budget. As a result, social control from the community is also weak and does not sufficiently pressure the local government to prepare financial reports in an accountable manner. Theoretically, these findings reflect the failure of local governments to convey positive signals to the public through their financial reports. When regions are heavily dependent on the central government, fiscal responsibility to the local community becomes blurred. This results in weak, or even negative, accountability signals because local governments do not feel compelled to demonstrate transparent financial performance. These results are in line with the research by Saud & Trisha (2020) and strengthen the empirical evidence that the higher the fiscal dependence of the region, the lower the level of accountability in its financial reporting.

c. The Influence of Government Administration Performance on the Accountability of Regional Government Financial Reporting

The third hypothesis (H3) states that government administration performance has a positive effect on the accountability of regional government financial reporting. The test results show that this hypothesis is supported, meaning that the better the government's performance in carrying out governmental functions, public services, and regional development, the higher the tendency for the preparation of accountable financial reports (Oktaviani et al., 2020).

The performance of government administration reflects the managerial capacity and bureaucratic effectiveness in formulating policies, managing budgets, and providing quality services. High-performing local governments tend to demonstrate a commitment to the principles of good governance, characterized by transparency, accountability, and the timely preparation of financial reports in accordance with accounting standards (Mudhofar & Tahar, 2016). Good performance also serves as a means of conveying positive signals to the public and external stakeholders that the local government is capable of managing finances transparently and responsibly. High-quality financial reports serve as an important legitimizing tool in building public and supervisory institution trust (Pratolo & Irmawati, 2020). In this context, the higher the quality of performance, the stronger the accountability signal conveyed through financial statements (Oktaviani et al., 2020).

This result reinforces the findings of Fadila (2024), Ananda (2018), and Pratolo & Irmawati (2020), which state that good performance encourages local governments to produce transparent and accountable financial reports. Therefore, performance not only reflects administrative results but also serves as a driving factor for the emergence of financial accountability as a form of responsibility towards the mandate of regional autonomy.

d. The Influence of Regional Autonomy on the Accountability of Regional Government Financial Reporting with SPI Findings as a Moderating Variable

The fourth hypothesis (H4) states that the findings of SPI weaknesses can moderate the influence of fiscal independence on the accountability of regional government financial reporting. However, the test results show that this hypothesis is not supported. This means that the SPI findings do not have any influence in strengthening or weakening the relationship. This failure of moderation indicates that the high number of SPI weaknesses reflects the suboptimal implementation of internal controls in many regions, particularly on the islands of Sumatra and Java in 2022. Based on (BPK RI, 2023), 53% of SPI weaknesses occur in budget execution controls, from planning to reporting. This indicates that SPI has not yet functioned effectively as a risk mitigation system or governance enhancer.

The low fiscal independence, averaging only 18%, also impacts the limited space for SPI to function substantively. In a tight fiscal situation, SPI tends to be administrative and formalistic, rather than an instrument that promotes financial transparency and accountability. Even autonomous regions may not necessarily have internal controls aligned with the principles of good governance (Arsandi, 2022). This weakness in SPI indicates that the internal oversight function has not been able to produce positive signals to the public or oversight institutions. In the perspective of Signalling Theory, this condition reflects the failure of local governments to demonstrate a commitment to accountability. The weak capacity of human resources, the high incidence of corruption post-decentralization, and the low fiscal participation of the community further deteriorate the effectiveness of SPI. These findings are consistent with the research of Fadila (2024) and Zaen & Achyani (2023), but contradict the results of Mulyanto et al. (2020) and Ananda, (2018), which previously indicated that SPI could positively moderate similar relationships.

e. The Influence of Dependence on the Central Government on the Accountability of Regional Government Financial Reporting with SPI Findings as a Moderating Variable

The fifth hypothesis (H5) states that SPI weakness findings can moderate the influence of dependence on the central government on the accountability of regional government financial reporting. However, the test results show that this hypothesis is unsupported, meaning that the high or low SPI findings do not strengthen or weaken the relationship (Fadila, 2024).

The average fiscal dependency of regions in Sumatra and Java in 2022 reached 57%, while the average number of SPI findings per region reached 9, indicating weak internal control quality. These findings reflect that most SPI are only implemented administratively, not substantively. Weaknesses in budget execution controls revealed through SPI findings contribute to increased audit risk and low reliability of financial reports (Indriani & Siswantoro, 2023). In the context of Signalling Theory, weak SPI fails to strengthen the signal of accountability, especially in areas that heavily rely on central funds. When SPI fails to ensure transparency and procedural compliance, the financial reports presented become less credible in the eyes of the public. High fiscal dependence without effective SPI leads to weak internal and external pressure on accountability, and the financial signals conveyed through the reports become unclear or negative (Choliq, 2023). These results are consistent with Fadila (2024), who concluded that SPI findings do not play a moderating role in the relationship between fiscal dependency and financial reporting accountability.

f. The Influence of Government Performance on Regional Government Financial Reporting Accountability with SPI Findings as a Moderating Variable

The sixth hypothesis (H6) states that SPI weakness findings moderate the influence of government performance on financial reporting accountability. However, the test results indicate that this hypothesis is not supported. This means that the high or low findings of SPI do not influence the strengthening or weakening of the relationship between performance and financial reporting accountability (Fadila, 2024).

Ideally, an effective SPI should strengthen the relationship between performance achievements and the quality of financial reporting, as good organizational performance requires oversight that supports transparent governance (Ananda, 2018). However, empirical conditions show that the average performance of local governments is still low (2.52), while the average number of SPI findings reaches 9 per region, indicating a weak internal control system. The high SPI findings indicate that SPI has not yet been integrated into the performance evaluation and reporting processes. SPI is more administrative than substantive, not providing assurance on the reliability of the generated financial information, even when performance improves (Indriani & Siswantoro, 2023). In other words, when internal controls are not functioning effectively, performance achievements do not automatically result in accountable financial reports.

In the context of Signalling Theory, this finding reflects the failure of SPI to strengthen the positive signal of performance to the public and regulatory bodies. The information generated from the performance process is not supported by a strong control system, resulting in the credibility of financial reporting remaining low. These results are consistent with Fadila (2024) and Zaen & Achyani (2023), who state that the findings of SPI weaknesses are not significant in moderating the relationship between performance and the accountability of local government financial reporting.

CONCLUSION

Based on the test results of this study, the first hypothesis (H1) is rejected as regional independence does not affect the accountability of local government financial reporting, the second hypothesis (H2) is accepted as dependence on the central government negatively affects the accountability of local government financial reporting, the third hypothesis (H3) is accepted as government performance positively affects the accountability of local government financial reporting, the fourth hypothesis (H4) is rejected as SPI, proxied by the number of SPI findings, is unable to moderate the influence of regional independence on the accountability of local government financial reporting, the fifth hypothesis (H5) is rejected as SPI, proxied by the number of SPI findings, is unable to moderate the influence of dependence on the central government on the accountability of local government financial reporting, the sixth hypothesis (H6) is rejected as SPI, proxied by the number of SPI findings, is unable to moderate the influence of government performance on the accountability of local government financial reporting. The Regional Government (Provinces, Districts, and Cities in Sumatra and Java Islands) is expected to ensure accountability in every activity, enhance PAD transparency and human resource capacity, and manage central transfer funds efficiently and responsibly. It is also important to improve public service performance and strengthen the function of the Internal Control System (SPI) to be more proactive and integrated with performance evaluations. Meanwhile, subsequent researchers are advised not to use SPI as a moderating variable, but rather SAKIP, to expand the fiscal decentralization proxies beyond independence and dependence, to extend the period and broaden the research objects, to add other independent variables that influence accountability, and to consider cross-disciplinary fiscal decentralization proxies for more comprehensive results..

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