

# The Influence of Local Financial Accountability, Transparency, and Supervision on Local Financial Management in the Local Financial Agencies and Assets of the Government of North Sumatra

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## ABSTRACT

The objective of this research is to examine and analyze the influence of regional financial accountability, transparency, and supervision on regional financial management in the Regional Finance and Asset Agency of North Sumatra Provincial Administration.

The sample are 119 respondents, taken by using purposive sampling technique. The data are processed by using SEM (Structural Equation Model) analysis through Lisrel 8.80 software.

The result of the research shows that regional financial accountability has a positive influence on regional financial management, transparency has a positive influence on regional financial management, supervision has a positive influence on regional financial management, and regional financial accountability, transparency, and supervision simultaneously have significant influence on regional financial management.

**Keywords:** regional financial management, regional financial accountability, transparency, supervision

## INTRODUCTION

Government Regulation (PP) Number 12 of 2019, Local Financial Management is a system that regulates the scope of regional

finances, which include regional taxes and levies, obligations, revenues, expenses, and regional assets that are managed by themselves or other parties, as well as the wealth of other parties controlled by the local government. In addition, this PP regulates the management of regional finances, APBD, preparation of APBD draft, APBD determination, implementation, and administration of APBD, Realization Reports, Accounting and Reporting on Local Government Finances, Preparation of APBD Accountability Draft, Regional Wealth and Regional Debt, Regional Public Service Agency, Settlement of regional financial losses, regional financial information, to the development and supervision of regional financial management.

The APBD channeled to the regional government is expected to provide additional energy for local governments to carry out development and empowerment to achieve a strong, advanced, independent, and prosperous government.

**Table 1. North Sumatra Provincial Government Budget Value 2019-2023**

No.	Year	Amount (Billion)
1.	2019	Rp 14 Billion
2.	2020	Rp 13 Billion
3.	2021	Rp 13 Billion
4.	2022	Rp 13 Billion
5.	2023	Rp 13 Billion

Source: Government of Province of North Sumatra

The APBD allocated in the end requires an institution with strong capacity and human resources (HR) in the regional government apparatus, the community involved, and the accompanying staff. However, the reality is that cases of misuse of funds are still found.

**Table 2. Regional Heads in North Sumatra Province involved in a corruption case in 2017-2021**

No	Position	Length of Service	Cases
1.	Regent of Pakpak Barat	2016-2021	It has been proven that bribes have been received in various projects amounting to IDR 1.2 billion.
2.	Regent of Labuhanbatu Utara	2010-2021	Bribes related to processing the 2017 APBN-P Special Allocation Fund (DAK) and 2018 APBN for North Labuhanbatu Regency will be committed in April 2020.
3.	Regent of Labuhanbatu	2016-2018	Related to projects at PUPR.
4.	Mayor of Tanjung Balai	2016-2021	Accept bribes by state officials regarding handling the Tanjung Balai Mayor's case for 2020-2021.
5.	Mayor of Medan	2015-2020	Bribery cases involving Medan City Government projects and positions in 2019.
6.	Regent of Langkat	2014-2018	Accepting bribes for procurement of goods and services.
7.	Governor of North Sumatra	2011-2015	Proven to have given bribes to state administrative justice in Medan and corrupted grants and social assistance worth IDR 4 billion.
8.	Regent of Tapanuli Tengah	2011-2016	It is proven to have received bribes related to the regional elections in Central Tapanuli amounting to IDR 1.8 billion.
9.	Regent of Mandailing Natal	2011-2014	Carry out bribes for the <i>Rengasoloman</i> Hospital construction project worth IDR 1 billion.
10.	Mayor of Medan	2010-2015	Abusing authority in using income allowance funds for South Tapanuli Regency Government officials worth IDR 1.5 billion.
11.	Regent of Batubara	2008-2018	Received gratification from partners in some Batubara Regency projects, amounting to IDR 8 billion.
12.	Regent of Nias Selatan	2006-2011	Committing bribes to state administration.
13.	Governor of Siantar	2005-2010	Misappropriating rehabilitation/maintenance funds for the public works department in the <i>Pematangsiantar</i> City APBD in 2007 amounting to IDR 343 billion.
14.	Vice Mayor of Medan	2005-2008	Committing criminal acts of corruption in the procurement of fire trucks in Medan and misuse of the APBD together with the Mayor of Medan.
15.	Regent of Nias	2001-2011	Misappropriation of earthquake and tsunami disaster management funds in Nias Regency amounting to IDR 3.8 billion.
16.	Mayor of Medan	2000-2008	Procurement of fire trucks with the Morita brand and misuse of the Medan City Government APBD for 2002-2006 amounting to IDR 12 billion.
17.	Regent of Langkat	1999-2008	Misappropriating regional treasury funds amounting to IDR 98.7 billion for personal interests.

Source: (IDN Times North Sumatra, 2022)

Corruption cases in the North Sumatra Provincial Government occurred because of the unfavourable work ethics seen from the case of the Mayor of Medan, who carried out acts of corruption. The case was repeated to the Deputy Mayor of Medan. The second factor is the influence of an unhealthy work environment, such as a large authority in the draft regulation related to the APBD, the granting of responsibilities to the regional head to compile the APBD, the attention and support of the previous government which is caught in a corruption case, and the cooperation of various parties. The last factor is the influence of negative organizational culture, plus control from the central government and the community in overseeing and utilizing regional funds, which is still far from what is expected. To supervise the financial statements that the Regional Government has made, the

Supreme Audit Agency (BPK) must examine the financial statements to provide opinions or opinions on the reasonableness of the financial information presented in the financial statements. Regional Government Financial Reports (LKPD), which received Fair without Exception (UO) and Fair with Exception (QO), generally have good internal control. Whereas LKPD gets an unnatural opinion (AO) and does not provide an opinion (DO) requires improvement of reporting and internal control.

**Table 3. Opinion on the Regional Government Financial Statements (LKPD) of the North Sumatra Provincial Government in 2017-2021**

YEAR	OPINION				TOTAL
	UO	QO	AO	DO	
2017	14	17	10	3	34
2018	18	13	0	3	31
2019	21	31	0	0	52
2020	24	10	0	0	34
2021	26	1	0	0	27

Source: BPK, 2022

Related to the implementation of the APBD, the BPK examined the financial statements of the North Sumatra Provincial Government in 2017-2021. In 2017, in 34 regions in North Sumatra Province, there were examinations of government financial statements, namely 14 (UO), 17 (QO), 10 (AO), and 3 (DO). In 2018, in 31 Regional Governments in North Sumatra Province, there was a disclosure of the examination of local government financial statements, namely 18 UO regional governments, 13 QO, and 3 DO. In 2019, in 52 local governments in North Sumatra Province, there was a disclosure of the examination of local government financial statements, namely 21 UO regional governments and 31 QO. In 2020, in 34 local governments, there were 24 UOs and 10 QOs. In 2021, in 27 local governments in North Sumatra Province, there was a disclosure of the examination of local government financial statements, namely 26 UO regional governments and 1 QO. LKPD that gets an unnatural opinion (AO) and does not provide an opinion (DO) occurs because the BPK finds weaknesses in the internal control system and reporting, errors in

recording, recording without supporting evidence, recording is not under the SAP, delay in the delivery of financial statements, bookkeeping systems, and unfavourable announcements, and the absence of qualified human resource support (HR).

Making and Handayani (2021) and Yassir et al. (2022) concluded that regional financial accountability affects regional financial management. The results of this study prove that the better accountability, the better regional financial management, in contrast to the results of Putra (2017), which concluded that regional financial accountability did not affect regional financial management.

Openness and freedom in obtaining information are the basic rights of society related to the interests of the public Aprianti et al. (2017). Hasugian et al. (2021) and Yassir et al. (2022) concluded that transparency affects regional financial management. Alfarizi's and Juniarti's (2020) research shows that transparency does not affect regional financial management.

Supervision can be formulated as a continuous process of activities to observe, understand, and assess each implementation of certain activities to prevent or correct errors and deviations. According to Putra (2017) and Yassir et al. (2022), Financial supervision affects regional financial management. At the same time, Amali and Eko (2021) show that supervision does not affect regional financial management.

Regional Financial Management is all activities that include planning, administration, reporting, accountability, and supervision of regional finances that must be managed in an orderly manner, obey the laws and regulations, and be effective, efficient, economical, transparent, and responsible by taking into account the principles of justice, propriety, and benefits for the Hanafiah et al. (2016) community. The success of regional financial management has a direct impact on the success of regional autonomy in efforts to realize good governance.

Based on the phenomenon that has been outlined, this research is entitled "The Effect

of Local Financial Accountability, Transparency and Supervision of Local Financial Management in the Regional Financial and Assets Agency of the North Sumatra Provincial Government."

## **LITERATURE REVIEW**

### **Local Financial Management**

Regional financial management is the whole activity which includes planning, implementation, administration, reporting, accountability, and regional financial supervision that is managed in an orderly manner, obeying the laws and regulations, effectiveness, efficiency, economical, transparent, and responsible by paying attention to the principle of justice, propriety, and benefits for the community (Siregar, 2015).

In this study, to measure the variables of regional financial management (Y) using the indicators contained in the study (Yassir et al., 2022), namely:

1. Orderly
2. Obey
3. Effective, efficiency, and economical
4. Benefits.

In the implementation of government affairs, local governments need a financial management system to measure performance and control the government so that the potential for deviations is getting smaller and the existence of legal clarity in the implementation of government. Financial management is an important thing that the government must consider because the success of development in the region is inseparable from the aspects of regional financial management that are managed with good management. To improve regional financial management, many things must be considered, and this study focuses on financial accountability, budget transparency, and financial supervision.

The results of research conducted by Auditya and Lismawati (2013), Purnama and Nadirsyah (2016), Alfarizi and Juniarti (2020), Making and Handayani

(2021), and Yassir et al. (2022) found that regional financial accountability had a significant positive impact on regional financial management.

The results of research conducted by Auditya and Lismawati (2013), Purnama and Nadirsyah (2016), Putra (2017); Ulya and Astuti (2018), Sriwijayanti (2018), Hasugian et al. (2021), and Yassir et al., (2022); states that transparency has a significant positive effect on regional financial management.

The results of research conducted by Purnama and Nadirsyah (2016), Putra (2017), Nasution (2019), Sriwijayanti (2018); Jatmiko (2020), Hasugian et al. (2021), Making and Handayani (2021), Yassir et al., (2022), Gultom (2023), and Alamsyah (2023) states that supervision has a significant positive effect on regional financial management.

Putra (2017), Amali and Eko (2021), and Binawati and Badriah (2022) stated that regional financial accountability had no significant effect on regional financial management.

While Hanafiah et al. (2016), Alfarizi and Juniarti (2020), Amali & Eko (2021), Making and Handayani (2021), and Binawati and Badriah (2022) state that transparency does not significantly affect regional financial management.

Hanafiah et al. (2016). Alfarizi and Juniarti (2020) and Amali and Eko (2021) state that supervision has no significant effect on regional financial management.

### **Local Financial Accountability**

Accountability is the obligation of the mandate holder to provide accountability, present, report, and express all activities and activities that are his responsibility to the trust that has the right and authority to request accountability (Mardiasmo, 2018). The implications of the theory of stewardship to this research explain the responsibility of the local government as an institution that can be trusted to act per the interests of the public by carrying out

its duties and functions appropriately, making financial accountability that is mandated to so that economic goals, public services, and community welfare can be achieved optimally. To carry out these responsibilities, Stewards (management and internal auditors) direct all their abilities and expertise in making internal control to produce quality financial information reports (Yassir et al., 2022).

This research is in line with research conducted by Auditya and Lismawati (2013), Purnama and Nadirsyah (2016); Hanafiah et al. (2016), Putra (2017), Ulya and Astuti (2018), Sriwijayanti (2018), Nasution (2019), Alfarizi and Juniarti (2020), Jatmiko (2020), Making and Handayani (2021), Yassir et al. (2022), Gultom (2023), and Alamsyah (2023) found that regional financial accountability had a significant positive impact on regional financial management.

### **Transparency**

Transparency means the availability of adequate, accurate, and timely information about public policy and the process of its formation. With the availability of information, the community can oversee government policy to provide optimal results for the community, preventing fraud and manipulation that will benefit one group (Yassir et al., 2022). Stewardship theory views organizational management as a service (stewards) that acts with full awareness and wisdom to benefit the organization by presenting information transparently to benefit the organization and information users.

This research is in line with research conducted by Auditya and Lismawati (2013), Purnama and Nadirsyah (2016), Putra (2017), Ulya and Astuti (2018), Sriwijayanti (2018), Nasution (2019), Jatmiko (2020), Hasugian et al. (2021), Yassir et al. (2022), Gultom (2023), and Alamsyah (2023) states that transparency has a significant positive effect on regional

financial management.

### Supervision

Supervision has an important role in the management process to guarantee everything goes as it should and according to time. Supervision is needed to determine whether the planning has been prepared in the APBD and can run efficiently, effectively, and economically according to the mandate, vision, mission, objectives, and targets of organizational operations. The theoretical implications in this study are that local governments supervise management behavior (stewardship) which are expected to be able to carry out this role. It is assumed that the government is obliged to provide a report on the Javanese APBD to the people in the form of LKPD that has been audited by the BPK, which is beneficial for those who need it and will later improve the performance of regional financial management.

The results of previous research conducted by Purnama and Nadirsyah (2016), Putra (2017), Nasution (2019), Sriwijayanti (2018), Jatmiko (2020), Hasugian et al. (2021), Making and Handayani (2021), Binawati and Badriah (2022), Yassir et al. (2022), Gultom (2023), and Alamsyah (2023) states that supervision has a significant positive effect on regional financial management.

### Framework

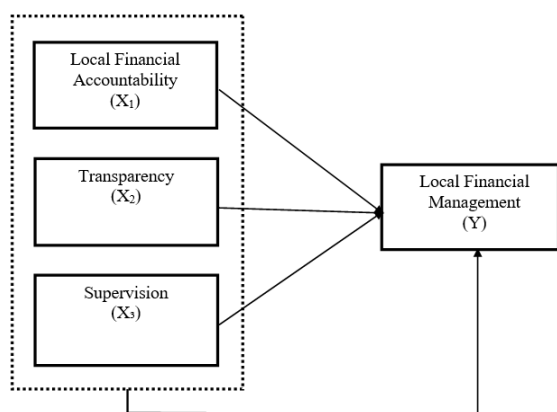


Figure 1. Framework

H1: Local financial accountability positively and significantly influences local financial management.

H2: Transparency positively and significantly influences local financial management.

H3: Supervision positively and significantly influences local financial management.

H4: Local financial accountability, transparency, and supervision simultaneously positively and significantly influence local financial management.

### MATERIALS & METHODS

The design of this research is a causal design, where it explores possible causal relationships that are possible in a way that depends on the perception of existing impacts and finds factors that might be a reason through specific information (Noor, 2014). The population used in this study was the SKPD (Regional Work Unit) Employee Financial and Asset Agency of the North Sumatra Provincial Government, totaling 119 people.

The sample is the section or sub-group of the population studied (Sugiyono, 2016). Therefore, the sample used in this study was the SKPD (Regional Work Unit) Employee Financial and Asset Agency of the North Sumatra Provincial Government, totalling 119 people. The sampling technique used in this study is the total sample (purposive sampling) method.

This research uses a Likert measurement scale. The Likert scale is a way to measure the attitude of the subjects requested to show their agreement or disagreement towards each statement in the questionnaire (Noor, 2014). This study uses data analysis with SEM (Structural Equation Modeling) through Lisrel 8.80 software.

This research was conducted at the Regional Financial and Asset Agency of the North Sumatra Provincial Government on Jalan Imam Bonjol No 61, Madras

Hulu, Medan Maimun District, Medan City, North Sumatra 20157.

## RESULT

### A. Data Instrument Test

#### Testing Model Measurement Of Validity And Reliability (Measurement Model Test)

Validity and reliability testing tests whether the indicator variables used are significant in reflecting construct or latent variables (convergent validity). Some sizes to be tested are as follows:

#### 1. Standardized Loading Factor (SLF)

Good convergent validity is shown by the high standardized loading factor (SLF) value. Hair (2010: 678) suggests SLF values  $\geq 0.5$ .

Table 4. SLF Values Based on Each Indicator

Latent Variable	Indicator	Standardized Loading Factor (SLF)
Y	Y1	0,8165
	Y2	0,8732
	Y3	0,7931
	Y4	0,7128
X <sub>1</sub>	X <sub>1.1</sub>	0,7810
	X <sub>1.2</sub>	0,5593
	X <sub>1.3</sub>	0,8454
	X <sub>1.4</sub>	0,8297
	X <sub>1.5</sub>	0,7850
X <sub>2</sub>	X <sub>2.1</sub>	0,9019
	X <sub>2.2</sub>	0,7813
	X <sub>2.3</sub>	0,8461
X <sub>3</sub>	X <sub>3.1</sub>	0,7586
	X <sub>3.2</sub>	0,7899
	X <sub>3.3</sub>	0,7220
	X <sub>3.4</sub>	0,6952
	X <sub>3.5</sub>	0,9335

Source: SEM Data Processing Results, 2023

Based on Table 4, all SLF values of each indicator  $> 0.5$ . It shows that good convergent validity has been achieved regarding SLF size.

#### 2. Construct Reliability (CR)

The Construct Reliability (CR) size also determines whether or not the convergent

validity exists. Hair (2010: 679) states that a CR value  $\geq 0.7$  includes good reliability, while a CR value between 0.6 and 0.7, including acceptable reliability, with a note of indicator variables, indicates good validity. CR size is calculated with the following formula (Hair, 2010 p. 679).

$$CR = \frac{(\sum_{i=1}^n SLF_i)^2}{(\sum_{i=1}^n SLF_i)^2 + (\sum_{i=1}^n e_i)}$$

#### 3. Average Variance Extracted (AVE)

While Hair (2010: 679) states that the value of Ave  $\geq 0.5$  shows Adequate Convergence, the size of the Average Variance Extracted (AVE) is calculated by the following formula:

$$AVE = \frac{\sum_{i=1}^n SLF_i^2}{\sum_{i=1}^n SLF_i^2 + \sum_{i=1}^n e_i}$$

Table 5. Testing of validity of Average Variance Extracted (AVE) and Reliability Construct Reliability (CR)

Latent Variable	Indicator	Standardized Loading Factor (SLF)
Y	Y1	0,8165
	Y2	0,8732
	Y3	0,7931
	Y4	0,7128
X <sub>1</sub>	X <sub>1.1</sub>	0,7810
	X <sub>1.2</sub>	0,5593
	X <sub>1.3</sub>	0,8454
	X <sub>1.4</sub>	0,8297
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	X <sub>3.3</sub>	0,7220
	X <sub>3.4</sub>	0,6952
	X <sub>3.5</sub>	0,9335

Source: SEM Data Processing Results, 2023

From the AVE, it is known that AVE value, it is known that the entire AVE value  $> 0.5$ , which means it has met the convergent validity of a good based on AVE size. While

based on the CR value, the entire CR > 0.7 value means that it has met a good convergent validity based on CR.

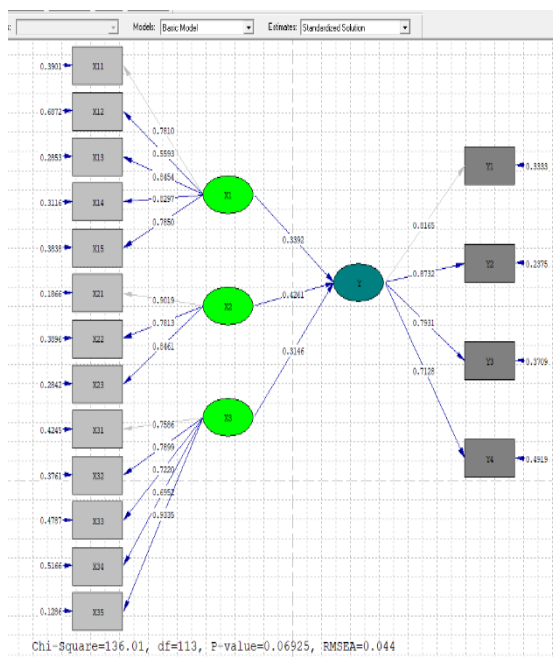
### Model Accuracy Test (Goodness of Fit)

Structural equation modeling (SEM) has no statistical test tool to measure or test the proposed hypothesis. Hair (1998) states that to measure whether or not or "suitability" of the proposed model, the researcher can conduct testing by referring to the Goodness of Fit index. Several indexes of Goodness of Fit and Cut-Off Value used in this study will be reviewed, which will later be used in testing whether a model can be accepted or rejected. The results of the index analysis of the Goodness of Fit are presented in Table 6 below:

**Table 6. Test The Overall Model**

The Size of The Matching	Value	Benchmark Value	Model Compatibility with Data
P-Value	0.06925	> 0.05	Yes
RMSEA	0.044	< 0.1	Yes
CFI	0.9640	> 0.9	Yes
IFI	0.9647	> 0.9	Yes
NNFI	0.9566	> 0.9	Yes
SRMR	0.04195	< 0.1	Yes

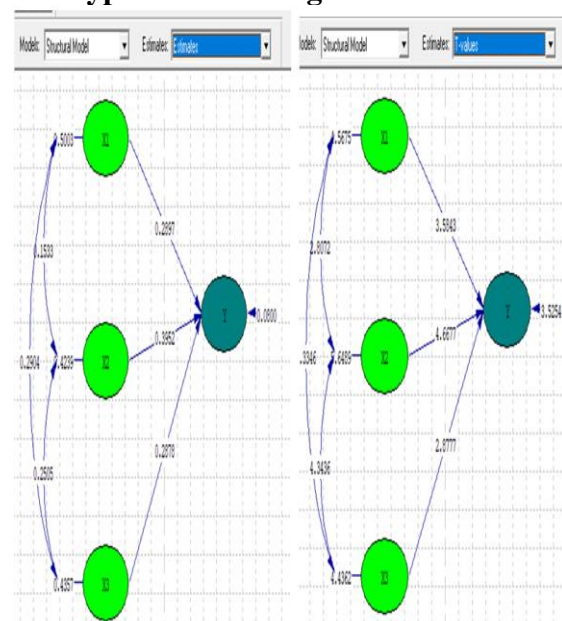
Source: SEM Data Processing Results, 2023



Source: SEM Data Processing Results, 2023  
Figure 2. Test The Overall Model Of The Model

Based on the results of the assessment test of the model (goodness of fit) above, it can be concluded that the SEM model as a whole has a good ability in terms of matching sample data (good fit) or shows the results of the estimated value that has entered according to the cut-off value criteria so that it can be concluded that The research model in this study has met the element of suitability or accuracy of the model so that further test steps can be taken.

### B. Hypothesis Testing



Source: SEM Data Processing Results, 2023

Figure 3. Path Coefficient (Path Coefficient) and Statistics t

The following structural equations equation:

Structural Equations

$$Y = 0.2897 \cdot X1 + 0.3952 \cdot X2 + 0.2878 \cdot X3, \text{ Errorvar.} = 0.07996, R^2 = 0.7808$$

(0.08081)	(0.08467)	(0.1000)	(0.02268)
3.5843	4.6677	2.8777	3.5254

Source: SEM Data Processing Results, 2023

**Table 7. Hypothesis Test Results**

No	Variable	t-Value	t-Table	Result
1.	Local Financial Accountability	3.5843	1.96	Significant
2.	Transparency	4.6677	1.96	Significant
3.	Supervision	2.8777	1.96	Significant

Based on the results of the structural measurement testing in each of the research

hypotheses above, it can be concluded that the entire hypothesis in this study is accepted because it has a T-value value greater than the t-table value. Figure 3 shows the diagram of the relationship path between Local Financial Accountability, transparency, and supervision of regional financial management.

Based on Figure 3 and Table 7 mentioned above show that the T-value (H1) value for Local Financial Accountability variables on Local Financial Management shows a value of 3,5843, the value is greater than the T-table value of 1.96 and the path coefficient value (path Coefficient) = 0.2897, thus it can be concluded that the zero hypotheses (H0) is rejected and receives an alternative hypothesis (H1) which means there is a significant influence between Local Financial Accountability on regional financial management.

The t-value (H2) value for transparency variables on Local Financial Management is 4,6677. The value is greater than the T-table value of 1.96. With a path coefficient value (path coefficient) = 0.3952, thus it can be concluded that the hypothesis is zero ( H0) and is rejected and receives an alternative hypothesis (H2), which means there is a significant influence between transparency on regional financial management. The T-value (H3) value for the supervision variable on Local Financial Management is 2,8777. The value is greater than the T-table value of 1.96 Path coefficient value (path coefficient) = 0.2878; thus, it can be concluded that the Null Hypothesis (H0) Rejected and received alternative hypotheses (H3), which means there is a significant influence between supervision of regional financial management.

It is known that the R-Square value of Local Financial Management (Y) is 0.7808, which means Local Financial Accountability (X<sub>1</sub>), Transparency (X<sub>2</sub>), and Supervision (X<sub>3</sub>) can influence Local Financial Management (Y) by 78.08%.

**Table 8. Simultaneous Effect Test**

		ANOVA <sup>a</sup>				
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	21.713	3	7.238	59.588	.000 <sup>b</sup>
	Residual	12.389	102	.121		
	Total	34.101	105			

a. Predictors: (Constant), Supervision (X<sub>3</sub>), Transparency (X<sub>2</sub>), Local Financial Accountability (X<sub>1</sub>)  
 b. Dependent Variable: Local Financial Management (Y)

**Source: SEM Data Processing Results, 2023**

Based on the results of simultaneous testing in Table 8, it is known that the SIG value. = 0,000 <0.05, then concluded that local financial accountability (X<sub>1</sub>), transparency (X<sub>2</sub>), and supervision (X<sub>3</sub>) together or simultaneously has a significant effect on Local Financial Management (Y).

## CONCLUSION

Based on the results of the data analysis that has been previously explained, to answer and find out research questions according to the research objectives, the following conclusions can be generated:

1. Local Financial Accountability has a positive effect on regional financial management.
2. Transparency has a positive effect on regional financial management.
3. Supervision has a positive effect on regional financial management.
4. Local Financial Accountability, transparency, and joint or simultaneous supervision significantly affect regional financial management.

## LIMITATIONS

This study has several limitations that need to be considered for further research. These limitations include:

1. Due to time and energy constraints, this research only examines the Regional Financial and Assets Agency of the North Sumatra Provincial Government. The results only reflect the conditions in the Regional Financial and Asset Agency of the North Sumatra Provincial Government.
2. The scope of this research is limited to



Local Financial Accountability variables, transparency, and supervision that affect regional financial management, so it is still possible to find other variables related to regional financial management.

## RESEARCH IMPLICATIONS

The results of the analysis of research data carried out in broad outlines have shown that the regional government must remain aware of misuse in the local government so that no impact can later be detrimental to the government itself and the community.

This research is expected to be beneficial for the Regional Financial and Asset Agency of the North Sumatra Provincial Government in detecting the causes of misappropriation in the local government so that the indication of misappropriation can be immediately detected and handled, supporting accountability in the use of the budget, presenting appropriate financial information, more transparent financial presentation for the community can Knowing the activities and performance that has been achieved, and increase supervision related to the accountability report of each predetermined budget.

### *Declaration by Authors*

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