International Journal of Business Management and Economic Review

Vol. 8, No. 03; 2025

ISSN: 2581-4664

REGIONAL FINANCIAL MANAGEMENT IN THE GOVERNMENT OF KUTAI TIMUR REGENCY BASED ON LAW NUMBER 23 OF 2014

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http://doi.org/10.35409/IJBMER.2025.3677

ABSTRACT

This study examines regional financial management in the government of Kutai Timur Regency based on Law Number 23 of 2014. Using Structural Equation Modeling (SEM) and a sample of 108 civil servants (ASN) from the local government, the research analyzes the impact of financial management, accountability, and transparency on the quality of financial statements and financial performance. The results show that regional financial management, accountability, and transparency each have a positive and significant influence on the quality of financial statements. These three variables also positively affect the financial performance of local governments. Additionally, the quality of financial statements significantly contributes to improving financial performance and acts as a partial mediator in the relationships among the studied variables. These findings underline the importance of strengthening internal financial governance, ensuring transparency, and enhancing reporting quality. Local governments are encouraged to optimize their financial information systems (such as SIPKD), improve internal oversight, and develop the capacity of their financial personnel through regular training.

Keywords: Regional Financial Management, Accountability, Transparency, Financial Performance, Quality of Financial Statements, Structural Equation Modeling, Local Government, Kutai Timur.

1. INTRODUCTION

Effective financial management in regional governments plays a critical role in ensuring the success of public service delivery and achieving development goals. In Indonesia, the decentralization policy as stipulated in Law Number 23 of 2014 on Regional Government mandates that local governments be responsible for managing their finances in a transparent, accountable, and efficient manner. This regulation reinforces the principle of good governance in public financial management.

Despite the legal framework in place, challenges persist in the implementation of financial governance at the regional level. Issues such as weak accountability, lack of transparency, and low-quality financial reporting continue to hinder the performance of local governments. These shortcomings not only reduce the effectiveness of public spending but also erode public trust in government institutions.

The Kutai Timur Regency Government, like many other local administrations, is required to

Vol. 8, No. 03; 2025
ISSN: 2581-4664

prepare high-quality financial reports that comply with government accounting standards (SAP) and support accurate decision-making. However, the extent to which financial management practices, accountability mechanisms, and transparency contribute to report quality and overall financial performance remains under-researched, particularly in the context of decentralized governance.

This study aims to analyze the influence of regional financial management, accountability, and transparency on the quality of financial statements and the financial performance of the Kutai Timur Regency Government. Employing Structural Equation Modeling (SEM) with a sample of 108 civil servants (ASN), this research also investigates the mediating role of financial statement quality in enhancing financial outcomes. The findings are expected to provide empirical evidence for improving financial governance in local governments and strengthening public sector performance in Indonesia.

1.1 Research Problem

Although legal frameworks emphasize good governance, many regional governments in Indonesia still face obstacles in managing public finances effectively. The persistent issues of low-quality financial reporting, limited accountability, and inadequate transparency in local budget execution raise critical questions about the factors influencing financial performance. Specifically, there is limited empirical research that simultaneously examines the direct and mediating effects of financial management practices on performance outcomes in the context of local governments. In Kutai Timur Regency, these concerns necessitate an in-depth investigation to determine whether financial management, accountability, and transparency lead to improved financial statement quality and, ultimately, better financial performance.

1.2 Research Objectives

The objectives of this study are to:

1. Analyze the influence of regional financial management, accountability, and transparency on the quality of financial statements in Kutai Timur Regency.
2. Examine the impact of financial management, accountability, and transparency on the financial performance of the local government.
3. Investigate the mediating role of financial statement quality in the relationship between the independent variables and financial performance.

1.3 Significance of the Study

This study offers both theoretical and practical contributions. Theoretically, it enriches the literature on public financial management by providing empirical evidence on how governance variables influence financial outcomes in decentralized government settings. Practically, the findings provide actionable insights for policymakers and regional administrators to strengthen financial accountability and transparency. The results may serve as a reference for improving internal financial controls, optimizing financial information systems, and enhancing the capacity of government personnel involved in financial reporting. Ultimately, this research supports the broader goal of improving fiscal discipline and public trust in regional governments.

2. LITERATURE

2.1 Regional Financial Management

Regional financial management refers to the process of planning, implementing, controlling, and evaluating all financial activities conducted by local governments to fulfill their public service obligations effectively and efficiently. According to Law No. 23 of 2014 on Regional Government in Indonesia, financial management must be carried out under the principles of transparency, accountability, efficiency, and responsibility. Good financial management is crucial for achieving sound fiscal performance and delivering value to the public.

2.2 Accountability

Accountability is the obligation of public officials to report, explain, and be answerable for the consequences of decisions made on behalf of the public. In public financial management, accountability is essential to ensure that resources are used following legal and ethical standards. According to Bovens (2007), accountability contributes to trust in government and helps reduce corruption. Strong accountability mechanisms lead to accurate and timely financial reporting, which reflects the government's commitment to responsible governance.

2.3 Transparency

Transparency refers to the openness of government processes, policies, and financial information that allows stakeholders to access and assess them. In the context of regional financial management, transparency ensures that financial decisions and budget allocations are visible to the public and oversight institutions. According to Hood (2001), transparent governance reduces the risk of misuse of funds and promotes efficient allocation of resources.

2.4 Quality of Financial Statements

The quality of financial statements is determined by characteristics such as relevance, reliability, comparability, and understandability. High-quality financial reporting is essential for decision- making and for demonstrating the government's fiscal responsibility. Compliance with Government Accounting Standards (SAP) is critical to ensuring the accuracy and consistency of financial reports.

2.5 Regional Financial Performance

Regional financial performance reflects the government's ability to manage resources effectively to achieve development objectives. Indicators often include budget realization, efficiency ratios, and financial independence. According to Mardiasmo (2009), good financial performance is influenced by effective financial management practices, strong internal controls, and reliable financial reporting.

2.6 Theoretical Framework

This study is grounded in the theory of good governance, which emphasizes the principles of transparency, accountability, participation, and rule of law in managing public resources. The theory supports the idea that well-managed financial systems and transparent reporting mechanisms lead to better financial performance. The research also adopts the input-process-output model, where financial management (input), reporting quality (process), and financial

ISSN: 2581-4664

performance (output) are interconnected.

Based on the literature review and the formulated hypotheses, a conceptual framework has been developed to guide the testing of these hypotheses. Figure 1 illustrates the proposed relationships that will be examined in this study.

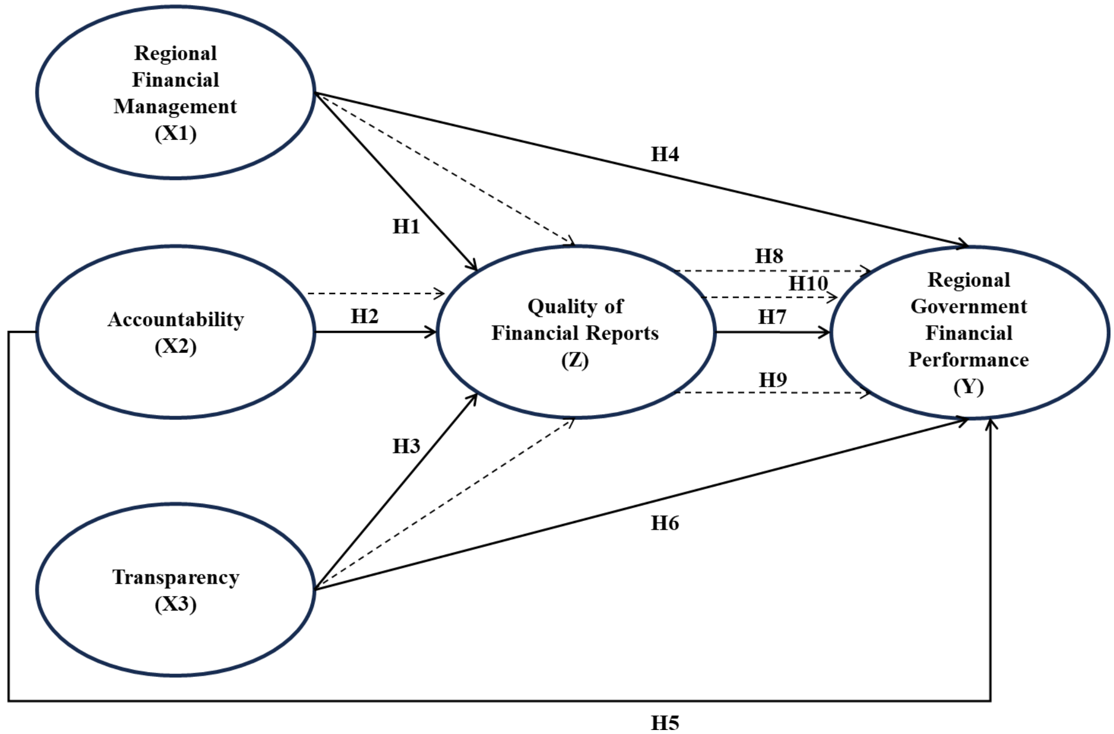


Figure 1. Conceptual Framework

2.7. Interrelationship Between Variables

2.7.1. The Relationship Between Regional Financial Management and Financial Report Quality in the Regional Government of East Kutai Regency

Findings by Hida et al. (2024) indicate that although the financial report quality at the Regional Financial and Asset Management Agency (BPKAD) of Bandung City is in good condition, there are delays in reporting. The application of Government Accounting Standards (SAP) and the Government Internal Control System (SPIP) significantly affects financial report quality, while good governance does not have a significant effect. Therefore, it is recommended to periodically develop the implementation of SAP and SPIP, while also paying attention to good governance aspects to achieve more holistic improvements.

Research by Vidyasari and Suryono (2021) shows that: (1) Accountability in Regional Financial Management has a positive and significant effect on the quality of local government financial reports, and (2) Regional Financial Accounting Systems positively and significantly affect the quality of local government financial reports.

2.7.2. The Relationship Between Accountability and Financial Report Quality in the Regional Government of East Kutai Regency

Research by Moresca et al. (2024) finds that accountability has a significant positive effect on financial report quality. Internal control systems also significantly influence report quality. However, the internal audit function does not moderate the effect of accountability on financial report quality, nor does it moderate the influence of internal control systems.

Arnova and Lestari (2024) found that transparency has a positive and significant impact on financial report quality, while accountability currently has no effect. Their study underscores the importance for local governments to produce financial reports that are both accountable and transparent to improve decision-making, oversight, and public trust. This research contributes to the improvement of financial management system effectiveness.

2.7.3. The Relationship Between Transparency and Financial Report Quality in the Regional Government of East Kutai Regency

Research by Papra and Inapty (2024) concludes that the use of the Village Financial System (Siskeudes), human resource competence, and transparency each have partial and significant effects on financial report quality. However, internal control does not mediate the effect of Siskeudes usage on financial report quality. On the other hand, internal control mediates the effect of both human resource competence and transparency on financial report quality.

The study by Muhamad Muslih and Oktavia Isanur Maghfiroh (2023) shows that the implementation of high-quality independent variables significantly affects financial report quality. Additionally, high-quality reports are strongly influenced by good governance. The implication is the necessity for local governments to implement SAP effectively and uphold principles of good governance to produce high-quality financial reporting outcomes.

2.7.4. The Relationship Between Regional Financial Management and Regional Financial Performance in the Regional Government of East Kutai Regency

Adawiyah (2024) demonstrates that Regional Financial Management has a significant partial effect on local government performance (p-value = 0.000 < 0.05). Internal audit also has a significant partial effect on performance. Both variables (Regional Financial Management and Internal Audit) together significantly influence regional financial performance.

Findings from Widajatun and Kristiastuti (2020) reveal that regional financial supervision and accountability in financial management affect regional financial performance, whereas financial transparency does not. However, all three variables — financial supervision, accountability, and transparency — simultaneously influence performance.

2.7.5. The Relationship Between Accountability and Regional Financial Performance in the Regional Government of East Kutai Regency

Research by Pera et al. (2024) supports that financial oversight and accountability in financial management influence local government financial performance, while transparency does not. Yet, jointly, all three variables affect financial performance.

Mulia (2023) reports: (1) accountability and supervisory functions have a positive and significant effect on financial performance, with a significance level below 0.05 ($p < 0.05$), and a positive parameter coefficient of +0.312; (2) value-for-money has a positive but insignificant impact (p = 0.057), with a coefficient of +0.245. Furthermore, the moderating role of government accounting standards can strengthen the effect of accountability, supervision, and value-for-money on financial performance.

2.7.6. The Relationship Between Transparency and Regional Financial Performance in the Regional Government of East Kutai Regency

Again, Pera et al. (2024) emphasize that while financial supervision and accountability affect financial performance, transparency in financial management does not. However, when combined, all three variables simultaneously affect regional financial performance.

2.7.7. The Relationship Between Financial Report Quality and Regional Financial Performance in the Regional Government of East Kutai Regency

Amelia (2024) shows that the implementation of internal control systems and local revenue positively affect local government performance, but surprisingly, financial report quality negatively affects performance. Nonetheless, all three — internal control, local revenue, and financial report quality — significantly influence financial performance.

Meanwhile, Pratama and Nugrohoseno (2022) report that performance-based budgeting, financial report quality, and budget goal clarity all have partial positive and significant effects on financial performance. Collectively, these variables also have a positive joint effect.

2.7.8. The Mediating Role of Financial Report Quality Between Regional Financial Management and Financial Performance in the Regional Government of East Kutai Regency

Hutauruk et al. (2024) reveal that the ability to prepare financial statements, financial literacy, and financial inclusion each positively and significantly affect financial management behavior in MSMEs. However, the ability to prepare financial statements and financial literacy have a positive but insignificant effect on MSME financial performance. Financial inclusion and financial management behavior significantly influence financial performance. Interestingly, financial management behavior mediates the effect of financial statement preparation ability and financial literacy on performance, but not the effect of financial inclusion.

2.7.9. The Mediating Role of Financial Report Quality Between Transparency and Financial Performance in the Regional Government of East Kutai Regency

Lubis and Lufriansyah (2024) underline the significant influence of accounting information systems and financial report quality on MSME performance. Moreover, they highlight the mediating role of financial report quality in the relationship between accounting systems and performance, especially in the context of Kisaran Barat District, Asahan Regency. This insight reinforces the importance of robust accounting systems and high-quality financial reporting in boosting operational outcomes and performance.

2.7.10. The Mediating Role of Financial Report Quality Between Accountability and Financial Performance in the Regional Government of East Kutai Regency

The study by Azzindani and M. Irwan (2020) revealed that the implementation of SIMDA (Regional Management Information System) influences the quality of financial reports and that good government governance mediates the effect of local government apparatus performance on the quality of financial reports. Another finding from this research indicated that the performance of local government apparatus positively affects the realization of good governance, although good government governance does not mediate the relationship between the implementation of SIMDA and the quality of local government financial reports.

3. MATERIALS AND METHODS

This study employs a quantitative research approach using Structural Equation Modeling (SEM) to analyze the relationships among variables. The research population consists of civil servants (ASN) working in the government of Kutai Timur Regency. A total of 108 respondents were selected as the sample through purposive sampling, ensuring participants have relevant knowledge and involvement in regional financial management.

Data were collected using a structured questionnaire, which included measures of Regional Financial Management, Accountability, Transparency, Quality of Financial Reports, and Financial Performance. The questionnaire items were adapted from validated instruments in previous studies and adjusted to fit the local government context.

The data analysis was conducted in several stages. First, validity and reliability tests were performed to ensure the measurement instruments were appropriate. Next, SEM was applied to test the hypothesized relationships between variables and to assess the model's goodness of fit, following criteria suggested by Kock (2010, 2014, 2015). This method allows simultaneous examination of direct and indirect effects, including the mediating role of financial report quality.

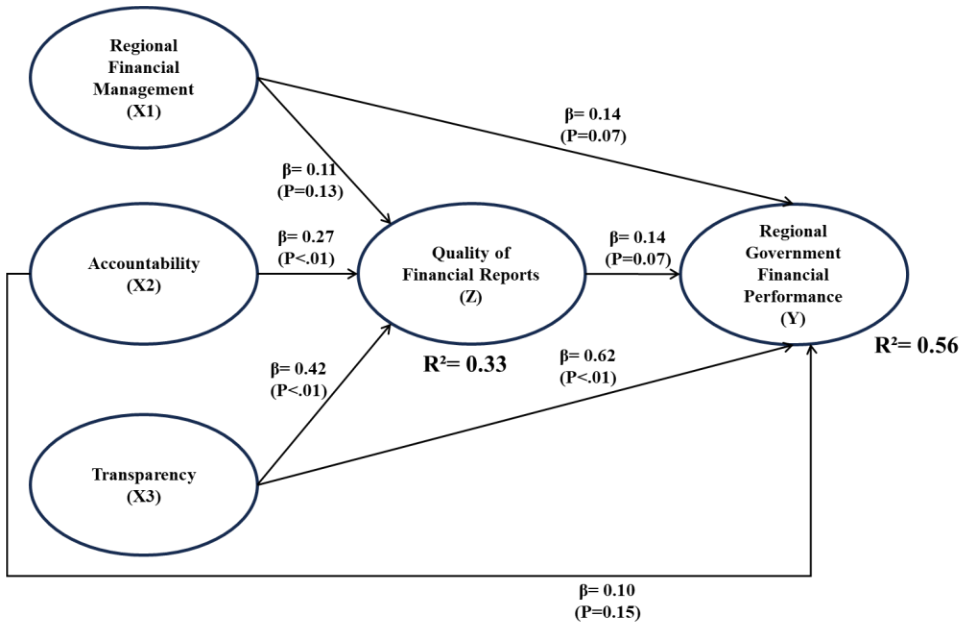
Ethical considerations were maintained by ensuring the confidentiality and voluntary participation of respondents. The study aimed to provide empirical evidence on the impact of financial management practices on government financial performance in Kutai Timur Regency.

4. RESULTS FINDINGS AND DISCUSSION

Analysis Results

Model Fit and Quality Indices

1. Average path coefficient (APC)=0.255, P=0.001
2. Average R-squared (ARS)=0.444, P<0.001
3. Average adjusted R-squared (AARS)=0.426, P<0.001
4. Average block VIF (AVIF)=1.183, acceptable if <= 5, ideally <= 3.3
5. Average full collinearity VIF (AFVIF)=1.829, acceptable if <= 5, ideally <= 3.3
6. Tenenhaus GoF (GoF)=0.553, small >= 0.1, medium >= 0.25, large >= 0.36
7. Sympson's paradox ratio (SPR)=0.857, acceptable if >= 0.7, ideally = 1
8. R-squared contribution ratio (RSCR)=0.973, acceptable if >= 0.9, ideally = 1
9. Statistical suppression ratio (SSR)=1.000, acceptable if >= 0.7
10. Nonlinear bivariate causality direction ratio (NLBCDR)=0.929, acceptable if >= 0.7



Notation
X1: Accountability X2: Transparency
Z: Good Governance
Y: Financial Management in Village Government

5. CONCLUSION AND RECOMMENDATION

Conclusion

Based on the analysis using Structural Equation Modeling (SEM) with a sample of 108 ASN in the Kutai Timur Regency Government, several key findings emerged. Regional Financial Management, Accountability, and Transparency have significant positive effects on the Quality of Financial Reports. In turn, the Quality of Financial Reports significantly mediates the relationship between these factors and the Financial Performance of the local government. This indicates that improving financial management practices and governance mechanisms can enhance the accuracy and reliability of financial reporting, which ultimately contributes to better government financial performance.

Recommendation

1. For Government Practitioners:

It is recommended that the Kutai Timur Regency Government continues to strengthen the implementation of Regional Financial Management systems, particularly by enhancing accountability and transparency mechanisms. Regular training and capacity-building programs for ASNs related to financial management and reporting should be prioritized to improve the quality of financial reports.

2. For Policy Makers:

Policies that support the development and implementation of integrated financial management information systems such as SIMDA should be promoted to streamline financial processes and reporting accuracy. Additionally, reinforcing good governance principles will help ensure sustainable improvements in financial performance.

3. For Future Research:

Further research can expand the scope by incorporating additional variables such as internal audit effectiveness, stakeholder participation, and technological innovations in financial management. Longitudinal studies are also suggested to observe the impact of implemented recommendations over time.

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