

Accountability and Transparency of Village Budget Management in Medan City: An Internal Auditor's Supervision Perspective

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ABSTRACT

This study aims to analyze accountability and transparency of village budget management in Medan City and evaluate the effectiveness of internal auditor oversight from the Medan City Inspectorate. Using a descriptive qualitative approach with literature review and field supervision phenomenon analysis, this study finds that the normative approach provides ideal direction for transparent and accountable governance during policy formulation. Meanwhile, positive agency theory explains economic behavior, administrative limitations of village apparatus, and information asymmetry challenges during implementation. The Inspectorate has fulfilled its role not only as quality assurance but also as a consulting partner through regular coaching and digital system strengthening. However, disproportionate audit area coverage compared to personnel numbers remains the main obstacle. This study concludes that synchronization between normative guidance and mitigation of positive obstacles is crucial for substantively accountable village budget governance

INTRODUCTION

Clean, transparent, and accountable public financial management is a key pillar in maintaining public trust in the functioning of local government. In the current era of regional autonomy, the commitment to achieving Good Public Governance has driven a shift in the locus of budgeting from a centralized approach at the department or SKPD level to direct delegation at the grassroots level, namely the *kelurahan*. The City Government of Medan, through its policy on the allocation of the Village Budget (*Dana Kelurahan*), grants *kelurahan* units the authority to manage budgets independently to accelerate the development of local infrastructure and community empowerment across the entire City of Medan (Peraturan Walikota Medan, 2025).

However, this direct allocation of funds to the *kelurahan* level did not emerge in a vacuum. Its implementation on the ground faces challenges such as complex governance structures, limited human resource capacity, and administrative risks. This is where the role of public sector oversight holds a vital position. The internal audit function carried out by the Medan City Inspectorate serves as a logical framework that provides oversight, ensuring that the management of the Village Budget is not arbitrary but operates in accordance with the principles of accountability and transparency.

In practice, the dynamic between the ideal vision of accountability normatively and the reality of implementation on the ground positively often gives rise to conflicts and intriguing phenomena in the City of Medan. From a normative perspective, which focuses on the ideal conditions of what should be done, budget managers at the village level are required to present precise and timely budget implementation reports, as well as transparently announce plans for fund usage through public information channels. This aligns with the primary objective of public sector accounting to mitigate the risk of budget irregularities or fraud.

However, when these ideal normative policies are implemented, real-world phenomena on the ground often reveal the operation of Agency Theory. The *kelurahan* acts as an agent mandated by the City Government of Medan and the community as the principal. The limited technical accounting competence of *kelurahan* financial managers, combined with challenges in adapting to a digital application-based government information system, often triggers information asymmetry and delays in the preparation of Accountability Reports or SPJ. Complaints from *kelurahan* officials regarding the complexity of reporting bureaucracy and concerns about administrative sanctions indicate the presence of economic and psychological behavioral responses that need to be mitigated. This clash between regulatory idealism during the rule-making stage and the reality of administrative capacity during the implementation stage underscores just how crucial the role of internal audit oversight is.

The Medan City Inspectorate exists not merely to dictate rules and examine for errors as a quality assurance function, but also to anticipate, analyze, and mitigate behavioral obstacles faced by budget implementers through its advisory role as a consulting partner. Based on this background and phenomena, this study aims to examine in depth the accountability and transparency of

village budget management in Medan City from the perspective of internal auditor supervision, as well as to evaluate the effectiveness of the supervisory function carried out by the Medan City Inspectorate in realizing good public governance at the grassroots level.

LITERATURE REVIEW

Public Sector Accountability and Transparency

Accountability in the context of the public sector can be defined as the obligation of the trustee (agent/government) to be accountable, present, report, and disclose all activities and operations under its responsibility to the principal (the public) (Mardiasmo, 2018). Accountability is not merely formal compliance with accounting rules, but rather a performance measurement tool that ensures every rupiah of public funds is used effectively and efficiently (Belkaoui, 2004).

Meanwhile, transparency is a principle of openness that enables the public to know and have access to the widest possible range of information regarding public financial management (Mardiasmo, 2018). Transparency acts as a prerequisite for accountability; without open information regarding budget planning, implementation, and evaluation, the public will lack a valid basis for assessing the government's accountability.

H1: The implementation of public sector accountability and transparency positively influences the quality of village budget management in Medan City.

Agency Theory in the Public Sector

An agency relationship occurs when one or more parties (principals) hire another party (agent) to provide a service and then delegate decision-making authority to that agent (Godfrey et al., 2010). In the context of village administration in the City of Medan, this agency relationship structure can be described as follows:

1. Primary Principal: The citizens of Medan and the City Government (Mayor/relevant departments) who hold public funds and expect optimal development outcomes;
2. Implementing Agent: The Village Head along with village officials (Treasurer/Secretary) as the parties authorized to manage the Village Budget operationally;
3. Internal Auditor (Inspectorate): Acts as an independent third party (mediator) to examine and oversee the agent's conduct to reduce information asymmetry (a condition where the agent possesses more information than the principal, which can trigger moral hazard) (Scott, 2015).

H2: Information asymmetry between principal and agent negatively affects the transparency of village budget reporting.

Normative and Positive Perspectives in Oversight

The normative approach is based on deductive reasoning that focuses on the question of how financial management and oversight ought to be practiced (what ought to be). In public governance, the normative perspective gives rise to legal rules, Standard Operating Procedures (SOPs), and ideal compliance indicators (Deegan, 2014). The positive approach uses inductive-empirical reasoning to answer the question why a particular practice or behavior occurs in the field (what is) (Watts & Zimmerman, 1986).

This approach analyzes the reality of budget enforcement officials' behavior and the structural constraints that affect the effectiveness of regulations (Watts & Zimmerman, 1990). In the implementation of sub-district budgets in the City of Medan, there are three key aspects of the positive approach that predict dynamics in the field: (1) Human Resource Capacity and Administrative Constraints; (2) Performance Pressure and Fear of Sanctions; (3) Limitations of Oversight Resources.

H3: Positive constraints in the field moderate the relationship between internal auditor supervision and village budget accountability.

Functions of the Government Internal Oversight Agency (APIP)

The Medan City Inspectorate, as the APIP, plays a strategic role in the local budget cycle. Based on the modern paradigm of public sector auditing, the functions of the APIP have transformed from merely acting as a watchdog into two primary roles:

1. Quality Assurance: Conducting compliance audits and performance audits to ensure that all village budget expenditures align with the Mayor's Regulations and applicable laws and regulations;
2. Consulting Partner: Providing technical guidance, assistance in preparing financial reports, and facilitating the resolution of administrative issues faced by sub-districts before reports are examined by external parties (BPK).

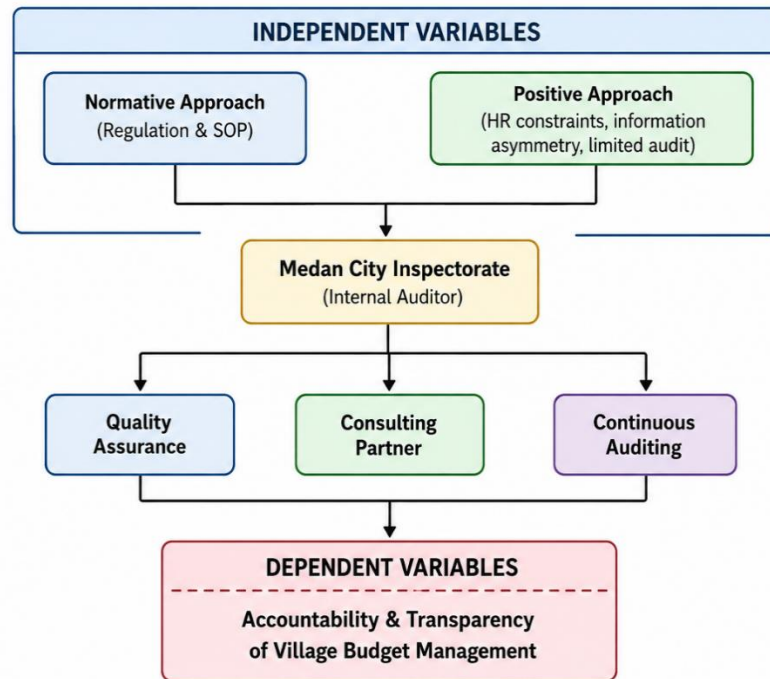


Figure 1. Independent Variables

METHODOLOGY

This study employs a qualitative approach with a descriptive-analytical research design. The descriptive qualitative approach was deliberately chosen to explore, understand, and systematically describe the phenomenon of governance—specifically, how accountability and transparency in the Village Budgets of Medan City are implemented from the perspective of oversight by the internal auditors of the Medan City Inspectorate. The research design focuses on literature review and document analysis (library research) combined with a critical examination of the empirical phenomenon of local government oversight, without conducting statistical hypothesis testing.

The data used in this study consists of secondary data collected from various official documents and relevant published theoretical scientific literature. Data sources are grouped into three main categories:

1. Regulations and Government Documents: The latest Medan Mayor's Regulation (Perwal) regarding guidelines for managing village funds, performance achievement reports from the Medan City Inspectorate, and published data on the implementation of the Medan City budget;
2. Theoretical Literature: Core textbooks on public sector auditing, government agency theory, and indicators of local government financial report accountability;
3. Related Scientific Articles: Previous public sector accounting research journals examining the effectiveness of APIP oversight, the governance of village/subdistrict funds, and administrative constraints on oversight at the local level.

Data collection was conducted through systematic documentation and literature review, following these stages: identification and search determining

relevant search keywords, screening to select credible journals and official reports, and data classification grouping literature data based on thematic clusters. The data analysis techniques applied are content analysis and critical comparative analysis using the Miles and Huberman model, which comprises three interactive stages: data reduction, data display, and conclusion drawing.

RESEARCH RESULT

Based on an analysis of regulatory documents and local financial implementation, the management of village budgets in the City of Medan has generally demonstrated a commitment toward fulfilling the principles of accountability. The accountability aspect is evidenced by the administrative obligation for each village to prepare periodic budget implementation reports and submit a Statement of Accountability (SPJ) regarding fund usage before the next installment can be approved by the City Government. However, viewed through the lens of positive agency theory, this implementation faces variations in quality on the ground. In sub-districts with staff possessing strong accounting competencies, reporting is timely. Conversely, in some other sub-districts, there is a phenomenon of delayed report preparation due to operational technical constraints in operating the digitally integrated local government accounting information system.

Table 1. Oversight Effectiveness Indicators

Indicators	Normative Target	Positive Reality
Reporting Timeliness	100% on time	Varies by village competence
SPJ Quality	Clean and accurate	Administrative errors occur
Transparency Media	Digital and physical	Physical only, not optimal
Auditor Coverage	All villages audited	Sample-based due to personnel limits

From the perspective of transparency, efforts toward information openness in the City of Medan are realized through the installation of infographic boards displaying budget implementation at sub-district offices so that residents can view them directly. Nevertheless, the dissemination of digital-based information (such as the publication of detailed village expenditure notes on the official website) still requires more consistent standardization, as not all villages have fully optimized local digital channels to publish detailed information on their budget usage to the public.

The Medan City Inspectorate has full authority to enforce oversight regulations governing the management of urban village funds. From a normative perspective, the Inspectorate designs rigorous audit instruments to ensure that no budget expenditures deviate from legal requirements (compliance audit). Every physical expenditure item, such as the construction of village ditches or

the repair of community facilities, is examined for consistency between planning documents and actual conditions on the ground (probity audit).
The formula for ideal supervision coverage is as follows:

$$S = (A_p / V_t) \times 100\% \dots\dots\dots (1)$$

Where S is supervision coverage percentage, A_p is number of auditor personnel, and V_t is total number of villages.

DISCUSSION

The implementation of accountability and transparency in the management of Village Budgets in the City of Medan is normatively supported by robust local regulations. However, in practice, the quality of reporting remains inconsistent, as it is directly influenced by the technical accounting competencies possessed by each village administrative unit. This finding supports the positive accounting theory proposed by Watts and Zimmerman (1986) which states that economic behavior and administrative constraints affect the implementation of accounting rules. The Medan City Inspectorate, as the internal auditor, has successfully transformed its supervisory role in a balanced manner, namely by performing a quality assurance function to ensure budget compliance while also prioritizing the role of a consulting partner through mentoring programs to minimize the risk of fraud findings at the village level. This finding is consistent with the modern public sector auditing paradigm articulated by Mardiasmo (2018) and Deegan (2014).

Analysis results indicate that the role of the Medan City Inspectorate has now shifted toward a more adaptive approach. Recognizing the risks of information asymmetry and competency limitations at the agency level (subdistricts), the Inspectorate no longer positions itself merely as an auditor seeking errors at the end of the fiscal year (watchdog). The Inspectorate optimizes its Consulting Partner function through pre-finalization assistance and regulatory outreach. Although the oversight mechanisms were designed ideally, the research findings identified several fundamental obstacles when these oversight functions were implemented in the City of Medan:

1. Human Resource Capacity Gap at subdistrict level;
2. Limited Auditor Staff on the Inspectorate side;
3. Information System Constraints.

CONCLUSIONS AND RECOMMENDATIONS

Based on the analysis and discussion presented, this study draws the following main conclusions. First, the implementation of accountability and transparency in the management of Village Budgets in the City of Medan is normatively supported by robust local regulations. However, in practice, the quality of reporting remains inconsistent, as it is directly influenced by the technical accounting competencies possessed by each village administrative unit. Second, the Medan City Inspectorate, as the internal auditor, has successfully transformed its supervisory role in a balanced manner, namely by performing a quality assurance function to ensure budget compliance while also prioritizing the role of a consulting partner through mentoring programs to minimize the risk of fraud findings at the village level. Third, the primary obstacles to optimizing this budget governance stem from the limited number of internal auditors at the Inspectorate, which is disproportionate to the number of sub-districts in the City of Medan, as well as challenges in adapting financial reporting information technology at the sub-district level.

Recommendations are as follows. For the Medan City Inspectorate, it is expected to begin developing and implementing an integrated digital-based oversight system (e-audit and continuous auditing), so that monitoring of sub-district budget implementation can be conducted periodically from a distance without being constrained by the limited number of personnel in the field. For the City Government and Village Officials, intensive and ongoing technical guidance on public sector accounting and local financial management should be provided to village treasurers and secretaries in the City of Medan to reduce the number of administrative errors in the preparation of SPJs.

ADVANCED RESEARCH

Each study has limitations; thus, this study acknowledges several limitations including the exclusive use of secondary data without primary data collection through interviews or direct observation, and the research locus limited only to Medan City. Future researchers are advised to expand the scope of their research using a quantitative approach or mixed methods to statistically test the effect of the Inspectorate's supervision intensity on the rate of reduction in administrative budget findings across all sub-districts in North Sumatra Province. Additionally, further research could incorporate surveys or in-depth interviews with village treasurers and inspectorate auditors to capture richer phenomenological data.

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