

# The Effect of Fiscal Decentralization on Accountability with Corruption Prevention as A Moderating Variable: Study on Local Governments in Districts/Cities in Central Sulawesi

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## ABSTRACT

This study aims to analyze the effect of fiscal decentralization on accountability, with a focus on corruption prevention as a moderating variable, in the context of district / city governments in Central Sulawesi Province. Fiscal decentralization gives more authority to local governments in the management of financial resources, which is expected to increase the independence and efficiency of local budget management. However, without effective oversight mechanisms, fiscal decentralization has the potential to exacerbate corrupt practices at the local government level. In this study, accountability is identified as a key factor to ensure transparency in the implementation of fiscal decentralization, thereby reducing opportunities for corruption. The method used in this study is a quantitative approach with regression analysis, which combines financial data and survey outcomes from local officers in Central Sulawesi. It is expected that the results of this study will provide in-depth insight into the role of corruption prevention in moderating the relationship between fiscal decentralization and accountability, as well as generate policy recommendations to strengthen corruption-free and transparent governance in the local government. This research is intended to be a reference for policy makers in an effort to improve the effectiveness of fiscal decentralization in preventing corruption in local governments.

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## INTRODUCTION

Corruption is a major challenge in Indonesia's development and is often considered the main obstacle to creating a transparent and sustainable government. In the context of governance, corruption not only causes significant financial losses but also undermines public trust in the government, which in turn reduces the effectiveness of development policy implementation. Based on data released by the Corruption Eradication Commission (KPK), there has been an increase in the number of corruption cases involving state officials, both at the central and local levels (Nursini, 2019). This shows that the issue of corruption remains urgent to be addressed.

Despite various measures such as legislative reforms and the implementation of anti-corruption policies, Indonesia still ranks poorly on the corruption perception index, as recorded by Transparency International. The public is becoming increasingly skeptical of the government's integrity. This shows that progress in eradicating corruption and implementing policies is often ineffective and encounters various obstacles in the field (Alfada, 2019).

Fiscal decentralization is an important aspect of corruption prevention in Indonesia. By giving local governments greater authority in managing financial resources, fiscal decentralization is expected to increase the independence and capacity of local governments to address local issues. However, in practice, fiscal decentralization also often creates new challenges. Research shows that without strict supervision, fiscal decentralization can increase the potential for corrupt practices, especially in areas with weak supervision and accountability systems (Fatoni, 2020).

Corruption tends to arise in areas where there is an imbalance between the authority held by public officials and the supervision of the use of that authority. In this context, accountability is a key factor. When public officers are given significant authority without transparency and accountability, the opportunity for corruption increases. Reports show that regions with low levels of transparency in budget management have higher levels of corruption (Astuti et al 2024).

The National Audit Agency (BPK) plays an important role in overseeing the management of state finances, including at the local level following fiscal decentralization. The BPK ensures transparency and accountability in financial management by conducting financial statement audits, performance audits, and investigative audits. Through its recommendations, the BPK helps government agencies improve their budget management systems, which in turn prevents corrupt practices. If indications of criminal corruption are found, the BPK reports them to law enforcement agencies, such as the Corruption Eradication Commission (KPK), the Attorney General's Office, and the Police, for further action. The BPK not only functions as an auditing institution, but also as an institution that contributes to promoting corruption prevention through better accountability. The BPK plays an important role in strengthening the oversight and transparency systems at the local government level, which is crucial in the aftermath of fiscal decentralization. By ensuring that regional financial management is carried out properly, the BPK helps prevent abuse of authority that can lead to corruption.

As a concrete example of the implementation of effective fiscal decentralization and good financial supervision, the Central Sulawesi Provincial Representative Office of the National Audit Agency (BPK) has demonstrated its commitment to improving transparency and accountability in regional financial management. In the second semester of 2023, the BPK submitted 13 Audit Reports (LHP), including eight Performance Audit Reports and five Special Purpose Audit Reports (DTT). Performance audits were conducted on four districts: Buol, Tolitoli, Parigi Moutong, and Banggai Laut, with a focus on the management of the Regional Revenue and Expenditure Budget (APBD) to support national development. Additionally, the audits also covered water pollution control in Donggala and Poso Districts, as well as health services in the implementation of the National Health Insurance Program in Sigi and Tojo Una-Una Districts (bpk perwakilan provinsi sulteng 2024).

Through this audit, BPK not only assesses compliance with statutory regulations, but also provides recommendations for improvements to enhance internal control systems and transparency in regional financial management. Follow-up on these recommendations is an important indicator in assessing local government accountability. Effective implementation of audit recommendations can contribute to reducing the potential for corruption and improving the quality of regional financial management. Thus, the example of the Central Sulawesi Provincial Government shows how fiscal decentralization accompanied by good supervision from the BPK can improve accountability and prevent corruption at the local level.

Based on this, numerous studies have discussed the issue of corruption and its prevention; however, a significant gap remains in the literature regarding the relationship between fiscal decentralization, accountability, transparency, and public oversight in Indonesia. In particular, there is a lack of empirical analysis linking accountability and transparency theories to practices in the field. Existing research often focuses on normative aspects without providing a concrete picture of how these principles are applied in the context of decentralized local government systems. This gap is the focus of this study (Soeseno et al., 2024). This study aims to fill this gap by providing an in-depth analysis of how the BPK, as a supervisory institution, can promote accountability and transparency in local financial management after fiscal decentralization. This research is expected to present empirical evidence and develop a more comprehensive theoretical framework for understanding the relationship between decentralization, oversight, accountability, and the prevention of corruption (Rasmini & Masdiantini, 2018).

By developing a clear conceptual framework and understanding these contexts, this study will be able to offer policy recommendations that have the potential to improve the quality of financial management at the local level and enhance government integrity (Henny Yuningsih, 2022). This study is also expected to contribute to the literature and offer insights to policymakers and academics on the importance of implementing robust accountability and transparency mechanisms to reduce corruption (Alif & Hazmi, 2024).

## LITERATURE REVIEW

Agency Theory is a framework that explains the contractual relationship between two parties, namely the principal and the agent (MULIATI et al., 2021). In this context, the principal is an individual or group that grants rights and responsibilities to the agent to manage assets with the aim of making decisions in line with the principal's interests (Ali Wijaya et al, 2022). In the public sector in Indonesia, the agent is the public that grants authority to the government as the principal to carry out its duties and responsibilities. Therefore, the government is expected to act in accordance with the instructions given and be accountable for its performance (Kholmi, 2010).

In the context of government, this points to the need for strong accountability mechanisms to ensure that the government (principal) performs its duties in accordance with the expectations of the public (agent). In Indonesia, with decentralization and regional autonomy, the role of agency theory is increasingly relevant. Local governments act as principals who must understand and meet the needs of the local community represented by agents. In addition, transparency and public participation in the decision-making process are essential to reduce the potential for abuse of authority and increase the accountability of public officials.

The existing literature shows that the application of agency theory in the context of Indonesian government still requires more attention, especially in terms of supervision, evaluation, and law enforcement. Further research is needed to explore more deeply the dynamics of the principal-agent relationship in the public sector and to find effective strategies to strengthen government accountability and transparency (Ali Wijaya et al, 2022).

### Fiscal Decentralization

Fiscal decentralization has been a significant topic of debate in discussions on accountability and corruption at the local government level, including in Central Sulawesi Province. According to several studies, the results found are often inconsistent, with some arguments suggesting that fiscal decentralization can reduce corruption, while others suggest the opposite, that it can actually increase it. One explanation for this phenomenon is that increased local financial autonomy, often indicated by high Local Own-Source Revenue (PAD), can add complexity to local financial management, making oversight more difficult and creating opportunities for corrupt practices (Maria et al., 2019).

Decentralized structures that allow local officials to manage budgets more autonomously often increase the risk of abuse of power. Without effective oversight systems and strong transparency, this increased autonomy has the potential to lead to more abuse and corruption (Desva Fitriah, 2023). In this context, research by Maria et al, (2019) shows that fiscal decentralization in Indonesia is positively associated with opportunities for corruption at the local government level if it is not balanced with adequate internal controls.

According to Suryaningsih (2024), local governments with larger fixed assets and high administrative capacity tend to experience greater risk of corruption. This shows that without proper supervision, efforts to improve accountability can be hampered by the complexity caused by fiscal decentralization. Furthermore, the challenges in creating a system of transparency and public participation can create greater opportunities for corrupt practices. (Lumban Gaol et al, 2024) emphasizes that a lack of transparency and public participation can lead to inadequate corruption prevention efforts, which in turn exacerbates the accountability situation in local governments.

On the other side, there is also evidence showing that when fiscal decentralization is managed well, it can have a positive effect on economic growth, which in turn can support corruption prevention. For example, a study by Desva Fitriah, et al (2023) shows that fiscal decentralization with economic growth as a mediating variable affects regional income inequality, which in turn can increase accountability if managed properly. By strengthening control mechanisms and transparency in regional financial management, fiscal decentralization can provide opportunities to increase public involvement and improve governance. Overall, the challenges faced in improving accountability through fiscal decentralization in Central Sulawesi, as well as in other regions, require a holistic approach that includes strengthening internal control systems, increasing transparency and community involvement in regional

financial management, and reforming the existing regulatory structure (Marya et al, 2024) Therefore, the hypothesis proposed is:

H1: Fiscal decentralization has a positive effect on accountability in local government financial management.

### Corruption Prevention

Fiscal decentralization is the process of transferring authority and responsibility for managing government functions from the central government to local governments. The main objective of decentralization is to improve the delivery of public services through more local decision-making. This process is expected to increase accountability, as local governments, which are closer to the community, are expected to be more responsive to the needs and preferences of citizens. Research shows that fiscal decentralization is often associated with better public financial management, contributing to increased transparency and efficiency when conducted properly (Zeng, 2023). Additionally, decentralization aims to reduce the risk of corruption, as increased local governance can provide better oversight of financial processes.

However, the effectiveness of fiscal decentralization in promoting accountability can be hampered by corruption, which often thrives in environments with weak oversight mechanisms. Corruption undermines the objectives of decentralization by eroding public trust and limiting the efficient use of resources (Dzomira, 2017). Therefore, the role of corruption prevention becomes crucial in moderating the relationship between fiscal decentralization and accountability. Corruption prevention initiatives, such as strong auditing practices, transparency in financial reporting, and public participation in governance, can improve accountability by ensuring that local governments adhere to ethical standards and are accountable for their financial actions (Pavlova et al, 2018).

Furthermore, the literature shows that accountability mechanisms, including the establishment of internal audit units and the application of good governance principles, are essential for effective public financial management. A strong accountability framework supported by anti-corruption measures not only enhances the credibility of local governments but also builds a culture of transparency that further strengthens the objectives of fiscal decentralization (Ng'ambi et al., 2023). Thus, it can be concluded that corruption prevention not only helps address the challenges posed by corruption itself but also ensures that the benefits of fiscal decentralization can be translated into tangible accountability outcomes. Therefore, the hypothesis proposed is:

H2: Corruption prevention can moderate the relationship between fiscal decentralization and accountability in local government financial management.

## METHODS

### Fiscal Decentralization

The fiscal decentralization variable in this study is measured by the level of regional autonomy. The stronger the dependence on the central government, the smaller the region must have significant management accountability in the form of a solid audit opinion.

$$\text{Local Government Independence} = \frac{\text{Transfer Revenue}}{\text{Total Revenue}} \times 100$$

Transfer revenue refers to funds received by regions from the central government, such as balancing funds consisting of General Allocation Funds known as DAU and Special Allocation Funds known as DAK, while total revenue includes all sources of regional revenue, both from transfers and from original local government revenue, such as local taxes and retributions. The smaller the proportion of transfer revenue to total regional revenue, the higher the level of regional independence, indicating that the region can be more independent in managing its government finances without depending on funds from the central government. Conversely, if the level of dependence on the central government is still high, the region has low independence and needs to improve accountability in its local financial

management. Thus, the level of regional independence reflects the extent to which the region has the ability to manage resources independently, without relying entirely on fund allocations from the central government.

### Accountability

The disclosure of Local Government Financial Statements can be measured using a dummy approach based on the audit opinion given by the National Audit Agency (BPK). An unqualified opinion is given a value of 3, while a qualified opinion is given a value of 2, an adverse opinion is given a value of 1, and a disclaimer of opinion is given a value of 0. This method allows researchers to evaluate the effect of audit opinions on the quality of financial statements. Research shows that BPK opinions have a significant impact on the quality of financial reports, making dummy measurements an effective way to assess the accountability and transparency of local financial management (Wini Elkagiani et al., 2021).

Financial reports are a form of accountability for regional financial management that is accountable and transparent (Sukmawati Yuniar et al 2021);(Din et al, 2017). An unqualified opinion reflects good financial management, while a lower opinion indicates problems in management that need to be addressed immediately to prevent budget misuse and state losses.

### Corruption prevention

Corruption prevention is measured using the Monitoring Center for Prevention (MCP) from 2019 to 2023. The Monitoring Center for Prevention (MCP) is one method for evaluating and monitoring corruption prevention efforts carried out by various government institutions. MCP is a tool designed to measure the effectiveness of anti-corruption policies and programs in the public sector, as well as to assess the level of compliance with standards of transparency, accountability, and integrity in government. MCP provides assessments based on specific criteria that cover various indicators, such as anti-corruption policies, budget management transparency, strengthening of oversight systems, and community participation in corruption prevention efforts. The data collected from 2019 to 2023 is usually in the form of scores or rankings that reflect the extent to which institutions or local governments have prevented and eradicated corruption.

In its measurements, the MCP involves various institutions or related parties, including the government, the public, and the private sector, to evaluate the corruption prevention efforts that have been implemented. A higher MCP score indicates better efforts in mitigating the potential for corruption, while a lower score indicates weaknesses in government management that could open the door to corrupt practices. By using the MCP from 2019 to 2023, it is hoped that trends in the development or decline of corruption indicators from year to year will be visible. This evaluation is very important for formulating more effective policies for preventing corruption in the future.

**Table 1. Samples Criteria**

No.	Samples Criteria (Local Government)	Total
1	Banggai	5
2	Banggai Kepulauan	5
3	Banggai Laut	5
4	Buol	5
5	Donggala	5
6	Morowali	5
7	North Morowali	5
8	Parigi Moutong	5
9	Poso	5
10	Sigi	5
11	Tojo Una-Una	5
12	Tolitoli	5
13	Palu City	5
	Sample	65

Total Sample (2019 to 2023 Period)

13 x 5 = 65

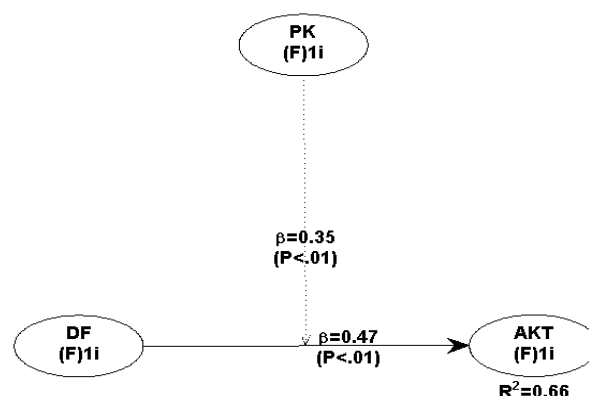
*Source: National Audit Agency Central Sulawesi Province (2025)*

## RESULT AND DISCUSSION

Fiscal decentralization has become one of the strategic policies in Indonesia that aims to improve the efficiency and effectiveness of financial resource management at the local level. By granting greater autonomy to local governments, it is expected that they can respond to the needs of local communities more quickly and appropriately. This process allows local governments to have broader authority in planning and managing budgets, so it is expected that the quality of public services and accountability of financial management can be significantly improved (Rachma Nugraha & Soebagyo, 2024).

However, a major challenge that often arises in the midst of efforts to implement fiscal decentralization is the high number of corruption cases. Corruption not only undermines public trust in government, but also weakens the capacity of local governments to manage budgets effectively. The emergence of rampant corrupt practices can hinder the achievement of regional development goals, reduce the quality of public services, and have a negative impact on people's welfare (Juanda et al. 2016). Therefore, the implementation of corruption prevention measures is crucial to ensure that fiscal decentralization not only functions as an empowerment instrument, but also as a driver of accountability in regional financial management. The following are the results of hypothesis testing:

### Inner Model Testing Hypothesis Results



Based on the test results, Fiscal Decentralization (DS) shows a positive and significant effect on Accountability (AKT), with a path coefficient  $\beta = 0.473$  and P value = 0.001. This indicates that an increase in fiscal decentralization can strengthen accountability in local financial management. In addition, Corruption Prevention (PK) as a moderating variable also has a positive and significant effect, with path coefficient  $\beta = 0.354$  and P value = 0.001, which strengthens the relationship between fiscal decentralization and accountability. This model explains 66% of the variability in accountability ( $R^2 = 0.660$ ), with Adjusted  $R^2 = 0.649$ , indicating that other factors also influence. The Q-Squared value = 0.742 indicates that the model has a strong predictability.

**Table 2. Determinant Coefficient (R2)**

Variable	Sign	Coefficient	P Value	Full Collin VIF
DS	+	0.473	0.001	2.387
MCP	+	0.354	0.001	
<i>R-Squared</i>		0.660		
<i>Adjusted R-Squared</i>		0.649		
<i>Q-Squared</i>		0.742		

Source: WarpPLS 8.0 (Processed by researchers, 2025)

Tests have been conducted to evaluate several other model fit indicators, including average path coefficient (APC), average r-squared (ARS), average adjusted r-squared (AARS), average block vif (AVIF), and average full collinearity vif (AFVIF), as seen in the following table.

**Table 3. Model Fit Test Results**

Model Fit and Quality Index	Index	P-Value	Criteria	Description
Average Path Coefficient (APC)	0.413	P<0.001	P < 0.05	Fit
Average R-Squared (ARS)	0.660	P<0.001	P < 0.05	Fit
Average Adjusted R-Squared (AARS)	0.649	P<0.001	P < 0.05	Fit
Average Block Vif (AVIF)	2.387	Acceptable If <= 5, Ideally <=3.3		Fit
Average Full Collinearity Vif (AFVIF)	3.284	Acceptable If <= 5, Ideally <=3.3		Fit
Tenenhaus Gof (GOF)	0.812	Small> 0.1, Medium > 0.25 Large> 0.36		Large

Source: WarpPLS 8.0 (Processed by researchers, 2025)

The results of testing the model fit presented in Table 3 show that the structural model used in this study meets the fit criteria and is reliable. Based on the testing results, the indices used to test model fit show values consistent with established standards. The Average Path Coefficient (APC) has a value of 0.413 with a P-value < 0.001, meeting the criterion of P < 0.05, indicating that the relationships between variables in this model are significant and the model is well-fitted. Furthermore, the Average R-Squared (ARS) is 0.660 and the Average Adjusted R-Squared (AARS) is 0.649, both with P values < 0.001, indicating that this model can explain 66% of the variability in accountability and is consistent with the fit criteria.

The results of the multicollinearity test also show an Average Block VIF (AVIF) of 2.387 and an Average Full Collinearity VIF (AFVIF) of 3.284, both of which are within the acceptable threshold (ideal ≤ 3.3), indicating that there are no collinearity issues among the constructs. Finally, the Tenenhaus GoF (GOF) value of 0.812 is in the Large category (greater than 0.36), indicating that this model has very good overall quality and fit. Overall, the results of this test provide empirical evidence that the structural model used in this study has a very good fit, with indicators showing adequate model quality for analyzing the effect of fiscal decentralization on accountability, with corruption prevention as a moderating variable.

The R<sup>2</sup> value of 0.660 indicates that approximately 66% of the variability in accountability can be explained by the combined effects of Fiscal Decentralization and Corruption Prevention. Although this model has a fairly strong explanatory power, the adjusted R<sup>2</sup> value of 0.649 indicates that there are still other factors that influence regional financial management, such as public participation, digital transparency, and internal control systems. Therefore, although this model provides a strong explanation,

other unobserved factors may also influence regional financial management and accountability.

Based on the test results, Fiscal Decentralization has a significant positive effect on Accountability in regional financial management. The test results show a path coefficient value of  $\beta = 0.473$  with a P value  $< 0.001$ , indicating that fiscal decentralization plays an important role in improving the efficiency and transparency of regional financial management. Decentralization gives greater autonomy to local governments to manage budgets, which in turn increases the capacity of regions to use resources more effectively and responsibly. These findings are consistent with previous research showing that fiscal decentralization can improve budget management and reduce dependence on the central government (Desva Fitriah et al, 2023);(Maria et al. 2019).

The second hypothesis tests the role of Corruption Prevention as a moderating variable in the relationship between Fiscal Decentralization and Accountability. The test results show that Corruption Prevention has a significant moderating effect, with an interaction coefficient  $\beta = 0.354$  and P value  $< 0.001$ . This indicates that corruption prevention efforts strengthen the relationship between fiscal decentralization and accountability. When corruption prevention is implemented effectively, fiscal decentralization becomes more effective in enhancing accountability, due to stricter oversight systems and higher transparency. For example, Wini Elkagiani et al. (2021) state that high accountability in financial management can reduce the space for abuse of authority, which in turn supports corruption prevention. Thus, corruption prevention plays a very important role in strengthening the benefits of fiscal decentralization.

A study by (Desva Fitriah et al, 2023) shows that fiscal decentralization with economic growth as a mediating variable affects regional income inequality, which in turn can increase accountability if managed properly. By strengthening control mechanisms and transparency in regional financial management, fiscal decentralization can provide opportunities to increase public involvement and improve governance.

Overall, the results of this study support both hypotheses. Fiscal decentralization has been shown to have a significant positive effect on accountability, with corruption prevention as a moderating variable that strengthens this relationship. These findings provide empirical evidence that fiscal decentralization can improve accountability, and that corruption prevention plays an important role in strengthening the effect of fiscal decentralization on local financial management. Therefore, to maximize the benefits of fiscal decentralization, corruption prevention must be fully integrated into regional financial management.

## CONCLUSION

Based on the results of this study, it can be concluded that Fiscal Decentralization (DS) shows a positive and significant effect on Accountability (AKT), with a path coefficient  $\beta = 0.473$  and P value = 0.001. This indicates that an increase in fiscal decentralization can strengthen accountability in local financial management. In addition, Corruption Prevention (PK) as a moderating variable also has a positive and significant effect, with path coefficient  $\beta = 0.354$  and P value = 0.001, which strengthens the relationship between fiscal decentralization and accountability. This model explains 66% of the variability in accountability ( $R^2 = 0.660$ ), with Adjusted  $R^2 = 0.649$ , indicating that other factors also influence. The Q-Squared value = 0.742 indicates that the model has a strong predictability.

This increased transparency helps reduce opportunities for budget misuse, which leads to a reduction in corrupt practices. Corruption prevention serves as a moderating variable that strengthens the relationship between fiscal decentralization and accountability. This means that while fiscal decentralization grants greater autonomy to local governments, corruption prevention implemented through strict oversight and the effective application of accountability principles will further strengthen the benefits generated by fiscal decentralization. Therefore, to maximize the benefits of fiscal decentralization, corruption prevention must be fully integrated into local financial management. Corruption prevention not only helps address the challenges posed by corruption itself but also ensures that the benefits of fiscal decentralization can be translated into tangible accountability outcomes. Increased accountability will strengthen oversight and promote greater transparency at every stage of budget management. When local financial management is conducted openly and accountably, the space for corrupt practices becomes more limited.

Overall, this study confirms that fiscal decentralization and accountability must be implemented simultaneously to ensure efficient, transparent, and corruption-free regional financial management. Fiscal decentralization can contribute to reducing corruption indicators, but this must be supported by an effective oversight system and the implementation of strong accountability principles. Effective corruption prevention will ensure that fiscal decentralization has a positive impact on improving the quality of regional financial management and reducing the space for budget and policy abuse.

The importance of these results lies not only in the theoretical understanding of the relationship between DS and accountability, but also in its practical implications. The implementation of effective corruption prevention, supported by a robust monitoring system, will enhance the outcomes of fiscal decentralization. This study emphasizes that to achieve effective financial management, it is crucial to integrate robust anti-corruption mechanisms into the local financial management framework. Therefore, this study makes a significant contribution to the literature on corruption by explaining how DS, accountability, and corruption prevention can be integrated into a comprehensive framework for local financial management.

## RECOMMENDATIONS

Based on the findings of this study, which show that fiscal decentralization and corruption prevention play an important role in accountability in regional financial management, it is recommended that future research use a qualitative approach with in-depth interviews with various parties directly involved in regional financial management and oversight, such as auditors, regional officials, and other relevant parties, to provide deeper insights into the mechanisms underlying the relationship between fiscal decentralization, corruption prevention, and accountability. This approach can help to explore more deeply the factors that influence regional financial management and accountability at the district/city level in Central Sulawesi Province.

In addition, further research can explore how the influence of fiscal decentralization on accountability and corruption prevention can vary across regions and across Indonesia. Thus, this qualitative research is expected to provide deeper insights into the dynamics of local financial management, as well as how fiscal decentralization and accountability can contribute more effectively to corruption prevention. This will contribute significantly to the development of more transparent, accountable, and corruption-free local financial management policies and practices.

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