

The Effectiveness of Internal Supervision of Regional Budget Performance and its Influence on Regional Economic Growth in South Buru District

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Abstract

Keywords:

effectiveness of internal supervision, supervision findings, budget performance, regional spending, indirect spending, capital spending, economic growth

Internal supervision of regional financial management is one of the factors that plays an important role in improving regional financial performance, especially in the aspect of Regional Expenditure. On the other hand, the dynamics of regional spanning realization are the main determinant of regional economic growth, especially for the regions with weak fiscal capacity support. Therefore, efforts to improve regional spending performance by increasing the effectiveness of internal regional financial supervision are absolutely necessary.

The purpose of this study is to analyze the effectiveness of internal financial supervision on budget performance and its influence on regional economic growth in South Buru Regency, for the LKPD years 2011 to 2024. For this purpose, the study uses multiple regression analysis supported by annual secondary time series data obtained from publications of the South Buru Regency Central Statistics Agency, and from the Maluku Representative Office of the Republic of Indonesia Audit Board.

The results of this study indicate that variations in the number of supervisory findings (TPI) have a significant negative effect on regional budget performance (KAD), while variations on Follow-up actions according to recommendations (TLSR) have a positive effect but not statistically significant. Based on the results of the simultaneous F Test, the influence of variations in these two factors, TPI and TLRSR on regional budget performance is not statistically significant, which is confirmed by the estimated value of the determination coefficient R² of 0.338 which indicates that the effectiveness of internal supervision has not had an effective influence on regional budget performance. In another section, the results of this study show that variations in direct/capital spending (BLM) during the observation period had a significant positive effect on variations in regional economic growth. In addition, according to the results of the F Test, these two variables have a significant influence on regional economic growth with a coefficient of determination R² of 0.751.

PENDAHULUAN

For most regions in Indonesia, the government's role in regional development remains dominant and highly regarded. This is based on the strong correlation between regional budget performance and economic growth, particularly in regions with minimal private investment and a heavy reliance on transfers from the central government.

South Buru Regency is one of the regions with a fiscal condition that is highly dependent on fund transfers from the central government, especially the General Allocation Fund (DAU)

and the Special Allocation Fund (DAK) in financing regional development to improve community welfare through improving regional economic growth performance. With the region's still very high dependence on budget supplies from the central government, it requires this region to continue to strive to consistently improve its budget performance. In fact, the budget performance in this Regency during the period 2011 to 2024 tends to decline as indicated by a decrease in the realization rate of Regional Expenditures which fell from 92.73% in 2011 to 89.6% in 2024 with an average decrease of -0.26% per year. This decline in budget performance is suspected to have affected the performance of the regional economy which is characterized by a declining rate of economic growth with various implications for the welfare of the people in this region, as seen in table 1 below.

Table 1. Economic Growth, Real Income Per Capita
And the Poverty Level of the Regency Population
South Buru 2012 – 2024

Year	Welfare Indicators		
	Economic growth (%)	Real Income per Capita (Rp Million)	Population Poverty Rate (%)
(1)	(2)	(3)	(4)
2012	5,195	10,467	18.29
2013	5,368	10,871	17.05
2014	6,251	11,350	16.59
2015	6,770	11,896	17.58
2016	6,179	12,413	16.86
2017	6,127	10,681	16.83
2018	6,016	11,060	16.31
2019	5,881	11,650	16.13
2020	-0.012	11,829	15.75
2021	3,497	11,959	15.89
2022	5,523	12,540	14.75
2023	4,587	12,894	15.28
2024	4,967	14,130	14.91

Source: BPS. Strategic Data for South Buru Regency
2012-2024

The data in table 1 above informs of a decline in the economic performance of the South Buru Regency area which is indicated by a decline in the economic growth rate from 5.19% in 2011 to 4.97% in 2024, even though it had previously reached a relatively high figure of 6.77% in 2015. This declining economic performance then has an impact on the welfare conditions of the people of this area who do not appear to have experienced significant changes as indicated by an increase in real income per capita and a slow decline in poverty levels. Several studies, including Hasnah Arif (2023), Binawati Enita, Badriyah Nurul (2022) and Alfred Magay, Arni Karina (2025) show that one of the factors that has a statistically significant influence on regional budget performance is the effectiveness of internal supervision. Meanwhile, there are also a number of studies on the influence of budget performance or realization on regional economic growth, such as studies conducted by Berliani (2016), Maulid C. Lelly et al. (2021) and Rhaysya A Habibani, et

al. (2025) which concluded that there is a significant positive influence of regional spending realization, especially capital spending on regional economic growth.

In practice, this supervisory function is carried out by the Regional Inspectorate in collaboration with the Indonesian Supreme Audit Agency (BPK RI) Provincial Representative, where regional financial performance usually improves when this internal supervisory function has been carried out effectively. At least, there are 2 (two) main indicators to measure the effectiveness of internal supervision that are strongly correlated with regional budget performance. These two factors are the Number of Internal Supervisory Findings (TPI) and Follow-up on Supervisory Finding Recommendations by Regional Financial Management Officials that are in accordance with the contents of the recommendations or abbreviated as Follow-up According to Recommendations (TLSR). The fewer Internal Supervisory Findings and/or the higher the ratio of TLSR to Supervisory Finding Recommendations (TLSR/RTP), the more effective the internal supervisory function implemented by the Regional Inspectorate in coordination or cooperation with the BPK RI Provincial Representative. For the case of South Buru Regency, based on the results of the monitoring of the BPK RI of Maluku Province on the follow-up of Supervisory Findings Recommendations, it is indicated that the effectiveness of internal supervision in this region tends to decline, indicated by a decrease in the TLSR/TPI ratio from 0.86 in 2011 to 0.54 in 2024. This decline, in fact, is also followed by a decrease in the level of realization of regional expenditure from 92.73% to 89.6% for the same period. This condition is strongly suspected to be a factor causing the BPK RI's opinion on the LKPD of South Buru Regency to not reach Unqualified Opinion (WTP).

Based on the description of the relationship between the effectiveness of internal supervision, regional financial performance and the achievement of economic growth above, a study to analyze the relationship between these three variables, especially for the scope of South Buru Regency, needs to be conducted.

Literature review

In regional financial or budget management, effective implementation of the oversight function is essential to ensure compliance between implementation and the established budget plan, as well as compliance by budget managers or users with applicable financial management regulations. Supervision itself can be defined as an activity carried out continuously or sustainably to observe, understand, and examine each implementation of a particular activity, so as to prevent or correct errors (Halim and Iqbal, 2013). Supervision can also be defined as all actions and activities to ensure that the implementation of an activity does not deviate from the objectives and processes of activities aimed at ensuring that regional government runs efficiently and effectively in accordance with plans and provisions of applicable laws and regulations. In addition, Siagian (1990) also states that supervision can be defined as a process of observing the implementation of all organizational activities to ensure that all work being carried out is in accordance with predetermined plans. Based on these definitions, it can be stated that regional financial or budget supervision is all actions carried out by official government oversight organizations on regional financial or budget management to prevent and correct various deviations in budget use, and create compliance with applicable financial management regulations.

In Indonesia, this oversight function is carried out internally by a number of internal supervisory institutions such as the Inspectorate, the Government Internal Supervisory Apparatus

(APIP), the Internal Supervisory Unit (SPI), and the Financial and Development Supervisory Agency (BPKP). In addition, there is the Supreme Audit Agency (BPK) of the Republic of Indonesia and the Provincial BPK Representatives which function as external auditors to examine the Central and Regional Government Financial Reports, as well as issue opinions on the Government and Regional Financial Reports (LKPD), which can be in the form of:

- a. Not expressing an opinion (Disclaimer)
- b. Fair with exceptions (WDP)
- c. Unqualified opinion (WTP).

This opinion reflects the performance of regional financial management, particularly in terms of budget utilization or regional spending. Regions with a WTP opinion on their Regional Budget Report (LKPD) are regions with better financial management than regions with WDP and Disclaimer LKPD status. Similarly, regions with a WDP opinion on their LKPD are regions with better financial management than regions with a disclaimer opinion. In practice, this budget performance measurement can be measured by the level of regional spending realization in a given fiscal year.

Studies on the effectiveness of internal oversight, budget performance, and economic growth have been conducted by a number of researchers. Berliani (2016) examined the effect of financial performance on economic growth and its implications for the welfare of the people of Majalengka Regency, using descriptive and verification analysis methods. The results of the analysis showed that financial performance had a significant simultaneous effect on both economic growth and public welfare in Majalengka Regency. Binawati Enita and Badriyah Nurul (2022) examined the effect of regional financial oversight, accountability, and transparency of regional financial management on local government performance in Magelang Regency. Based on the results of multiple linear regression tests, it was concluded that the regional financial oversight variable had a significant effect on local government performance. Conversely, the financial management accountability variable and the financial management transparency variable did not have a significant effect on local government performance in Magelang Regency. Hasnah Arif (2023) examined the effect of internal oversight on budget absorption in Southeast Sulawesi Province, specifically aimed at explaining the influence of internal audit, internal review, and internal evaluation on budget absorption in Southeast Sulawesi Province. The results of this study indicate that: there is a significant influence between Internal Audit, Internal Review and Internal Evaluation on the realization of budget absorption, meaning that there is a difference between Internal Audit, Internal Review and Internal Evaluation conducted once a year with audits conducted more than once a year on budget absorption. Haziza, et al (2024), examined the influence of Budget Function and Supervisory Function on Regional Financial Performance at the Sigi Regency DPRD Secretariat, The type of research used is quantitative research with a descriptive approach using primary data sourced from 47 respondents. The data analysis technique used in this study uses the SPSS version 22 application computer program. This study shows that there is an influence of the budget function on regional financial performance at the Sigi Regency DPRD Secretariat. Furthermore, there is an influence of the supervisory function on regional financial performance at the Sigi Regency DPRD Secretariat. The budget function and the DPRD supervisory function simultaneously influence regional financial performance at the Sigi Regency DPRD Secretariat.

Pratama Wahyu Anak Agung Putu Agung et al (2024) examined the Influence of Regional Financial Supervision, Accountability and Participation in Budget Preparation on Regional

Government Performance in the form of a case study on the Regional Apparatus Organization of Tabanan Regency. The results of this study indicate that regional financial supervision does not affect the performance of local governments in the Regional Apparatus Organization of Tabanan Regency, while accountability and participation in budget preparation have a positive and significant effect on Regional Government performance. Margaret Lolu, et al (2024), examined the influence of Accountability, transparency and Internal Supervision of Financial Management on Regional Financial Performance of Rote Ndao Regency, where data analysis related to the relationship between variables was carried out quantitatively using descriptive statistical analysis tools and inferential statistics. The results of the study showed that partially, accountability and internal supervision each had a significant effect on regional financial performance, while transparency in financial management did not have a significant effect on regional financial performance. Alfred Magay, Arni Karina (2025), examined the influence of Internal Supervision Effectiveness, Budget Planning and Implementation of Accounting Systems on the Financial Performance of the Regional Government of Jayapura City. The results of this study indicate that the Effectiveness of Internal Supervision has a significant negative effect on the Financial Performance of Regional Governments; Budget Planning has a significant positive effect on the Financial Performance of Regional Governments; and the Implementation of Accounting Systems also has a significant positive effect on the Financial Performance of the Regional Government of Jayapura City. In general, the results of this study confirm that the financial performance of regional governments is the result of a complex interaction process between Internal Supervision, Budget Planning, and the Implementation of regional financial accounting systems. Yohana F. Angi, Cicilia A. Tunga (2024) conducted a case study on the Influence of Regional Financial Supervision on the Effectiveness of Budget Management of the Regional Government of Belu Regency for the period 2017 to 2017. The results of their study indicate that Regional Financial Supervision has a positive effect on the Effectiveness of Budget Management of the Regional Government of Belu Regency. Syahriful Ahyar et al (2025), analyzed the effectiveness of the Indonesian Audit Board in supervising Regional Financial Management in Indonesia through research on the Influence of BPK Supervision on Regional Financial Management. Using qualitative analysis methods and secondary data from available documents and reports, this study shows that despite the BPK's efforts to improve accountability and transparency, significant challenges remain, including low compliance with recommendations and external factors. Maulid C. Lelly et al. (2021), examined the effect of government spending on economic growth in Indonesia using time series data from 2005 to 2019, where the research hypothesis test and statistics were carried out using the Multiple Linear Regression method. The results of their study indicate that components of central government spending including personnel/staff expenditure, materials, capital, interest payments, subsidies, and social assistance simultaneously have a significant effect on Indonesia's economic growth. Putra Windu (2020) examined budget efficiency and its effect on the economic growth of regencies/cities in West Kalimantan Province. The results of his study showed that there was a significant and positive relationship between budget efficiency and GRDP growth. Putri A Rizky et al (1997) conducted a study on the effect of regional spending on economic growth and poverty in regencies/cities in Jambi Province, using the Panel Data Regression Method with 3 (three) approaches, namely: the Commonded Effect, Fixed Effect, and Random Effect approaches. The results of the analysis showed that: The effect of regional spending on the economic growth of regencies/cities in Jambi Province is negative and insignificant. Meanwhile, the influence of regional spending on poverty levels is positive and

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METODE

This study aims to analyze the effectiveness of internal oversight on budget performance and its impact on regional economic growth in South Buru Regency. The variables studied include internal oversight effectiveness, regional budget performance, and regional economic growth. Specifically, internal oversight effectiveness is proxied by two indicators: the number of Internal Oversight Findings (TPI) and Follow-up on Supervisory Findings in Accordance with Recommendations (TLSR). The Budget Performance variable is proxied by three indicators: the Level of Regional Expenditure Realization, the Realization of Indirect Expenditure or Operating Expenditure (BTLO), and the Realization of Direct Expenditure or Capital Expenditure (BLM). Finally, the Economic Growth variable is proxied by Gross Regional Domestic Product (GRDP). The functional relationship between these variables is formed in two research models, namely:

Model I: $KAD = f(TPI, TLSR)$ and Model II: $GRDP = f(BTLO, BLM)$

with a multiple linear regression econometric model as follows:

$$\text{Equation I : } KAD_t = \alpha_0 + \alpha_1 TPI_t + \alpha_2 TLSR_t + \epsilon$$

$$\text{Equation II: } GRDP_t = \beta_0 + \beta_1 BTLO_{t-1} + \beta_2 BLM_{t-1} + \mu$$

Where : α_0 and β_0 = Constant

α_1 and α_2 = TPI and TLSR regression coefficients

β_1 and β_2 = BTLO and BLM regression coefficients

The data for all observed variables are secondary annual time series data from 2011 to 2024, published by BPS and the Regional Apparatus Organizations related to this study. To ensure data stability and/or normality, a number of variables with large-scale data such as GRDP, BTLO and BLM or those with strong indications of instability such as TPI are transformed into Natural Logarithm (ln) values. Furthermore, specifically for the GRDP, BTLO and BLM variables, the First Difference value will also be calculated to increase the stability of the data. As is customary, for each regression model estimation result built, in addition to t-tests and F-tests to statistically prove the hypothesis, autocorrelation tests and multicollinearity tests will also be conducted to determine the validity and efficiency of the model prediction results.

HASIL DAN PEMBAHASAN

Based on the regression estimation of equation I, the following results were obtained:

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	4,776	0.118		40.38	0		
	TPI	-0.081	0.036	-0.587	-2,243	0.046	0.878	1,139
	TLSR	0.006	0.098	0.017	0.064	0.95	0.878	1,139

Dependent Variable: KAD

F Statistic/Count (Significant)	F	=2,810 (0.010)
Correlation Coefficient	R	=0.582
Coefficient of Determination	R ²	=0.338
Durbin-Watson Test	DW	=1,561

The estimation results of model I above show that:

- 1) The TPI variable has a negative and significant effect on KAD at the significance level, $\alpha = 0.05$ and a regression coefficient value of -2.243. This means that if the number of Internal Supervisory Findings increases by 1%, then regional budget performance will experience a decrease of -2.245%.
- 2) The TLSR variable has a positive effect on regional budget performance (KAD) but is not statistically significant at the significance level $\alpha = 0.05$ and the regression coefficient value is 0.064.
- 3) Together, the TPI and TLSR variables have a statistically significant effect on KAD at the significance level $\alpha = 0.05$.
- 4) Changes in TPI and TLSR can explain 33.8% of changes in Regional Budget Performance (KAD). The remaining 66.20% is explained by other variables not included in the model.
- 5) The estimation results of model I do not contain multicollinearity problems (Tolerance value = 0.878 or > 0.10 and VIF value = 1.139 or < 10), nor do they contain autocorrelation problems (DW Test = 1.561), so it can be considered valid and efficient.

Next, for equation II, the regression estimation results are:

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
2	(Constant)	,050	,003		16,673	,000		
	BTLOt-1	,001	,013	,012	,056	,956	,588	1,700

	NOT YET_{t-1}				4,03 4			1,70 0
		,032	,008	,875		,003	,588	

Dependent Variable: GRDP

F Statistic/Count (Significant)	F	= 13.588 (0.002)
Correlation Coefficient	R	=0.867
Coefficient of Determination	R ²	=0.751
Durbin-Watson Test	DW	=1,765

The estimation results of model I above show that:

- 1) The BTLOt-1 variable has a positive effect on Economic Growth (GRDPt) but is not statistically significant at the significance level, $\alpha = 0.05$ and the regression coefficient value is 0.012.
- 2) The BLMt-1 variable has a significant positive effect on Economic Growth (GRDPt) at a significance level of $\alpha = 0.05$ and a regression coefficient value of 0.875. This means that if Direct/Capital Expenditure increases by 1% in the previous year, economic growth or GRDP in the current year will increase by 0.875%.
- 3) Together, the variables BTLOt-1 and BLMt-1 have a statistically significant effect on GRDP at a significance level of $\alpha = 0.05$.
- 4) Changes in BTLOt-1 and BLMt-1 can explain 75.10% of changes in Regional Economic Growth (GRDP). The remaining 24.90% is explained by other variables not included in the model.

The estimation results of model I do not contain multicollinearity problems (tolerance value = 0.588 or > 0.1 and VIF value = 1.700 or < 10), nor do they contain autocorrelation problems (DW Test value 1.765), so it can be considered valid and efficient.

CONCLUSION

To increase the effectiveness of internal supervision to improve budget performance and regional economic growth, the South Buru Regency Government can take the following steps:

Improving the capabilities and quality of Human Resources through increasing training and development of internal supervisory HR capabilities, as well as improving the quality of internal supervisory HR recruitment.

Improving the quality of the internal control system through the development of an effective and efficient internal control system, as well as increasing the use of information technology in internal control,

Improved coordination and cooperation between internal audit units and other units within the organization, as well as cooperation with external parties, both auditors such as the BPK and regulatory makers (executive and legislative institutions).

Increased focus on risk by identifying and analyzing the most significant risks within the organization and increasing the focus of internal controls on high-risk control areas.

Increased transparency in the internal oversight process and accountability of internal oversight to management and stakeholders

Increased use of information technology to improve the efficiency and effectiveness of internal supervision, as well as increased use of data analysis in internal supervision.

Increasing the role of evaluation and monitoring of the effectiveness of internal supervision

Increased use of evaluation and monitoring results to improve the effectiveness of internal supervision.

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