



Do Transparency and Accountability Improve Village Fund Management Performance? Examining the Moderating Role of Internal Control Systems

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Abstract: This research investigates how transparency and accountability shape the performance of village fund management, while also assessing the contingent role of internal control systems. Rather than treating governance mechanisms as isolated factors, this study positions internal control as a contextual variable that may alter the effectiveness of transparency and accountability practices. A quantitative explanatory design was adopted, involving 100 respondents consisting of village officials, members of the Village Consultative Body, and community representatives in Tana Tidung Regency. Empirical analysis was carried out using Partial Least Squares–Structural Equation Modeling (PLS-SEM) through SmartPLS 4 to evaluate both direct and interaction effects. The findings reveal that transparency does not exhibit a statistically meaningful contribution to performance outcomes, indicating that information openness alone may not guarantee effective fund management. In contrast, accountability demonstrates a significant positive influence, confirming its central role in ensuring responsible governance. Furthermore, the internal control system shows a dual function: it directly enhances performance and simultaneously moderates the relationships among variables. Interestingly, it reinforces the linkage between transparency and performance, yet attenuates the effect of accountability, suggesting the emergence of excessive control dynamics. These results indicate that governance mechanisms in village fund management do not always produce linear performance outcomes, particularly when control mechanisms interact differently with transparency and accountability. This study contributes to public sector accounting literature by highlighting the conditional and context-dependent role of internal control systems in local governance.

Keywords: Transparency; Accountability; Village Fund Management Performance; Internal Control System

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INTRODUCTION

The management of village funds represents a crucial policy instrument aimed at fostering inclusive development and enhancing economic resilience at the grassroots level in

Indonesia. Following the enactment of fiscal decentralization through village fund allocation, the government has intensified efforts to expand village autonomy while simultaneously promoting balanced regional development. Nevertheless, the growing volume of village funds has introduced increasing challenges in managing public finances at the village level. Existing empirical studies emphasize that the success of village fund management is not merely determined by financial capacity, but more importantly by the quality of governance practices, particularly transparency and accountability (Sofyani et al., 2022; Siregar & Badrudin, 2023). In this regard, transparency facilitates access to relevant financial information for stakeholders, whereas accountability ensures that fund utilization can be properly justified both procedurally and in substance.

At the global level, transparency and accountability are widely acknowledged as foundational elements of good governance and key drivers of public sector performance (OECD, 2021). Prior empirical findings demonstrate that greater transparency contributes to reducing information asymmetry between governments and citizens, which in turn strengthens public trust and improves policy effectiveness (Cucciniello et al., 2020). On the other hand, accountability operates as a governance mechanism that directs public officials to perform their duties in accordance with established standards and regulatory provisions (Bovens, 2021). However, within the Indonesian public sector context, including at the village level, the practical implementation of these principles continues to encounter various structural and socio-cultural constraints, such as inadequate human resource competencies and limited community engagement (Putra et al., 2023).

Although theoretical perspectives strongly support the positive association between transparency, accountability, and financial management performance, empirical evidence remains mixed. Several studies indicate that transparency does not always produce a significant impact on performance, particularly when the disclosed information fails to be effectively utilized by stakeholders (Arifin et al., 2022). This situation suggests the existence of a disparity between formal transparency and its substantive realization. Conversely, accountability tends to show a more stable and consistent relationship with performance outcomes, as it is inherently embedded within structured reporting and evaluation mechanisms (Rahman & Prasetyo, 2023). Such inconsistencies highlight the necessity for a more integrative analytical approach to better capture the interaction among transparency, accountability, and performance in village fund management.

One governance mechanism frequently proposed to address these issues is the implementation of robust internal control systems (ICS), which are expected to align transparency and accountability with performance outcomes. Internal control systems comprise several essential components, including control environment, risk assessment, and control activities, all designed to ensure the effective and efficient achievement of organizational objectives (COSO, 2017). Empirical evidence suggests that well-established internal control systems can significantly improve the quality of financial governance by reducing the likelihood of irregularities and strengthening adherence to regulatory requirements (Mulyani et al., 2022).

Moreover, the role of internal control systems extends beyond functioning as an independent determinant, as they may also act as a moderating variable that influences the strength of relationships among governance constructs. For example, Hidayat and Kusumawati (2023) demonstrate that internal control systems enhance the relationship between

transparency and public sector performance by ensuring that disclosed information is meaningfully incorporated into decision-making processes. Likewise, Prabowo et al. (2022) find that internal control systems reinforce the effectiveness of accountability through structured monitoring and evaluation mechanisms.

Despite these positive roles, the effectiveness of internal control systems is not always linear. Some studies suggest that overly rigid control mechanisms may constrain organizational flexibility and potentially diminish the effectiveness of accountability practices (Wijaya & Nugroho, 2023). This condition, commonly referred to as the over-control effect, indicates that excessive emphasis on procedural compliance may divert attention from achieving substantive performance outcomes. As a result, the moderating function of internal control systems becomes context-dependent and requires further empirical validation, particularly in the setting of village fund management.

Although prior research has extensively explored the relationships among transparency, accountability, and financial management performance, most studies have positioned internal control systems solely as independent variables rather than examining their moderating role. In addition, empirical findings remain inconsistent, especially regarding the influence of transparency on performance, where some studies report positive effects while others do not find significant relationships (Sari et al., 2022; Firmansyah et al., 2023). These inconsistencies reveal an important research gap and indicate the need for a more comprehensive framework that incorporates internal control systems as moderating variables.

Despite the growing body of literature on transparency, accountability, and financial performance, limited studies have simultaneously examined the moderating role of internal control systems in both relationships within a unified analytical framework. More importantly, prior research tends to focus on linear relationships, thereby overlooking the possibility of interaction effects that may produce different outcomes depending on governance contexts. This gap indicates the need for a more nuanced investigation that integrates internal control systems as a moderating variable to better explain inconsistencies in empirical findings.

In light of these considerations, this study seeks to analyze the influence of transparency and accountability on village fund management performance by incorporating internal control systems as a moderating variable. The primary contribution of this research lies in simultaneously examining the moderating effects of internal control systems on two key relationships: transparency–performance and accountability–performance, which remain relatively underexplored in the existing literature. Furthermore, this study provides empirical insights from border regions, which possess unique governance characteristics compared to other areas. Therefore, the findings are expected to contribute both theoretically to the advancement of public sector accounting literature and practically to support village governments in enhancing the effectiveness and sustainability of village fund management.

LITERATURE REVIEW

Transparency is widely recognized as a core element of public sector governance, emphasizing the provision of accessible and open information to stakeholders, particularly the community. Within the scope of village fund management, transparency is manifested through the availability of information concerning planning processes, budget execution, and financial reporting. Prior empirical findings suggest that transparency contributes to strengthening public trust while simultaneously encouraging community involvement in overseeing the

allocation of village funds (Oktavia & Biduri, 2024). In addition, the availability of relevant, accurate, and timely information has been shown to improve the overall quality of village financial governance (Astutik & Fitriyah, 2025). Nevertheless, the effectiveness of transparency is contingent upon both the capacity of the community to interpret the information provided and the commitment of village authorities to ensure its accessibility and relevance.

Accountability represents the responsibility of governing entities to justify resource utilization to stakeholders. In the context of village fund management, this concept extends across administrative, legal, and ethical dimensions, requiring village governments to produce financial reports that are both transparent and accountable (Abdallah et al., 2024). Empirical studies consistently indicate that accountability enhances financial management performance by fostering efficiency, effectiveness, and adherence to regulatory standards (Priantono & Vidiyastutik, 2022). Furthermore, accountability mechanisms play a significant role in mitigating risks of fund misappropriation and corruption through structured reporting and systematic supervision.

Village fund management performance serves as a critical measure of how effectively village governments manage financial resources in terms of efficiency, effectiveness, and economic value. Beyond financial indicators, performance is also evaluated based on its contribution to development outcomes and improvements in community welfare. Recent evidence highlights that strengthening transparency and accountability has a positive impact on rural development quality and societal well-being (Rosa & Karno, 2024). Consequently, this variable becomes essential in assessing the success of fiscal decentralization at the village level.

Internal control systems (ICS) refer to structured mechanisms designed to ensure that organizational processes operate in accordance with predetermined objectives. These systems incorporate key components such as the control environment, risk assessment procedures, and control activities aimed at minimizing risks, including errors and fraud. Empirical research demonstrates that effective internal control systems significantly contribute to improving village financial performance by enhancing both efficiency and effectiveness in fund management (Priantono & Vidiyastutik, 2022). Additionally, ICS strengthens accountability by reinforcing internal oversight and monitoring functions (Barus & Hariwibowo, 2024).

Recent scholarly discussions have expanded the role of internal control systems beyond that of independent variables, positioning them as moderating variables that influence the relationships among governance constructs. Sari et al. (2024) provide evidence that internal control systems can amplify the relationship between transparency and accountability in village fund management. This indicates that the presence of well-functioning control mechanisms ensures that disclosed information is not only available but also effectively utilized in governance processes.

However, the influence of internal control systems is not uniformly positive. Under certain circumstances, excessively stringent control mechanisms may limit organizational adaptability and obstruct effective policy implementation. Existing literature points out that an overemphasis on procedural compliance may shift attention away from achieving substantive performance outcomes (Abdallah et al., 2024). This condition reflects the complexity and context-dependent nature of the relationship between internal control systems and other governance variables.

H1: Transparency → Performance

Transparency in village fund governance facilitates public access to information related to financial utilization, thereby enabling greater societal oversight and encouraging improved administrative performance. From a governance standpoint, transparency reduces information asymmetry and strengthens public confidence in government institutions (Oktavia & Biduri, 2024). Empirical studies further confirm that transparency enhances financial management quality through the provision of reliable and timely information (Rosa & Karno, 2024). Increased stakeholder awareness tends to stimulate active participation in monitoring activities, which ultimately exerts pressure on public officials to improve performance outcomes.

H1: Transparency positively affects village fund management performance.

H2: Accountability → Performance

Accountability reflects the obligation of village authorities to justify the management of public funds to both the community and higher-level institutions. Within the framework of agency theory, accountability functions as a control mechanism ensuring that agents act in alignment with the interests of principals. Empirical evidence demonstrates that accountability significantly improves financial management performance by promoting efficiency, effectiveness, and regulatory compliance (Priantono & Vidiyastutik, 2022). Moreover, accountability strengthens reporting quality and oversight mechanisms, thereby reducing the risk of mismanagement and corruption (Abdallah et al., 2024).

H2: Accountability positively affects village fund management performance.

H3: Moderation of ICS on Transparency

Internal control systems play a critical role in ensuring that financial management processes adhere to established procedures and organizational goals. In relation to transparency, ICS can enhance the impact of transparency on performance by ensuring that disclosed information is not only accessible but also effectively integrated into decision-making processes. Empirical findings suggest that strong internal control systems improve the effectiveness of transparency through structured evaluation and monitoring mechanisms (Sari et al., 2024). This indicates that transparency alone may not be sufficient to improve performance without adequate control support.

H3: Internal control systems strengthen the effect of transparency on village fund management performance.

H4: Moderation of ICS on Accountability

Internal control systems also support accountability by strengthening monitoring and evaluation processes. However, the effectiveness of this role depends on the extent of control implementation. In some cases, overly rigid control systems may constrain organizational flexibility and reduce the effectiveness of accountability practices. Literature suggests that excessive control may shift focus toward procedural compliance rather than achieving meaningful performance outcomes, commonly referred to as the over-control effect (Abdallah et al., 2024). This indicates that the moderating role of internal control systems in the accountability–performance relationship is complex and may produce a weakening effect, particularly when control mechanisms become excessively rigid and prioritize procedural compliance over performance outcomes.

H4: Internal control systems weaken the effect of accountability on village fund management performance.

METHOD

The present study adopts a quantitative approach with a causal research design to investigate the relationships between transparency, accountability, and village fund management performance, including the moderating role of internal control systems. This approach enables the objective testing of hypothesized relationships using statistical inference (Creswell & Creswell, 2023). The causal design is employed to examine both direct and interaction effects among variables within the proposed framework (Hair et al., 2022).

The study population consists of individuals in Tana Tidung Regency who possess an understanding of village fund management, covering five sub-districts and 32 villages. This region is selected due to its characteristics as a border area, which presents unique governance challenges and thus provides a relevant empirical setting. The sampling technique utilized is incidental sampling, whereby respondents are selected based on accessibility and availability in the research context. The use of incidental sampling is justified by the exploratory nature of this study and the practical constraints in accessing respondents with relevant knowledge of village fund management. Although this technique may limit generalizability, it remains appropriate for capturing initial empirical insights in contexts where a sampling frame is not clearly defined.

A total of 100 respondents are included in the sample, which meets the minimum requirements for PLS-SEM analysis, typically ranging between 30 and 100 observations for moderately complex models (Hair et al., 2022). Primary data are collected through a structured questionnaire using a five-point Likert scale, ranging from strongly disagree (1) to strongly agree (5), to capture respondents' perceptions. The Likert scale is widely applied in quantitative social research due to its effectiveness in measuring attitudes and perceptions (Joshi et al., 2023).

The study variables consist of independent variables (transparency and accountability), a dependent variable (village fund management performance), and a moderating variable (internal control systems). Transparency is measured through indicators such as information disclosure, accessibility, and clarity (Oktavia & Biduri, 2024). Accountability is assessed through administrative responsibility, compliance, and reporting quality (Abdallah et al., 2024). Performance is evaluated using the value-for-money concept, including efficiency, effectiveness, and economy (Mardiasmo, 2022). Internal control systems are measured based on COSO components (COSO, 2017). The measurement instruments were developed based on established constructs from prior studies and adapted to the village governance context. A pilot test was conducted to ensure clarity and relevance of the questionnaire items. Furthermore, construct validity and reliability were statistically confirmed through the measurement model evaluation.

Data analysis is conducted using PLS-SEM with SmartPLS 4. This method is selected due to its flexibility in handling complex models, including moderating variables, and its minimal distributional assumptions (Hair et al., 2022; Henseler et al., 2022). The analysis involves two stages: measurement model evaluation and structural model evaluation. The measurement model assesses validity and reliability using outer loadings (>0.70), discriminant validity (Fornell-Larcker), and reliability indicators such as Cronbach's Alpha and Composite Reliability (>0.70) (Hair et al., 2022; Henseler et al., 2022).

The structural model evaluates relationships using path coefficients, t-statistics, and p-values obtained via bootstrapping. Hypotheses are accepted when $t > 1.96$ and $p < 0.05$. Model

quality is further assessed using R^2 , effect size (f^2), and predictive relevance (Q^2) (Hair et al., 2022; Henseler et al., 2022). To test moderation effects, interaction terms between internal control systems and the independent variables are constructed within the PLS-SEM framework. This approach allows for assessing whether ICS strengthens or weakens the relationships between variables, based on the significance and direction of interaction coefficients (Hair et al., 2022).

ANALYSIS AND DISCUSSION

The empirical analysis in this study was performed using the Partial Least Squares Structural Equation Modeling (PLS-SEM) technique with SmartPLS 4. The analytical procedure involved two sequential stages, namely the assessment of the measurement model (outer model) and the evaluation of the structural model (inner model), to ensure that the constructs met the required standards of validity, reliability, and explanatory robustness (Hair et al., 2022).

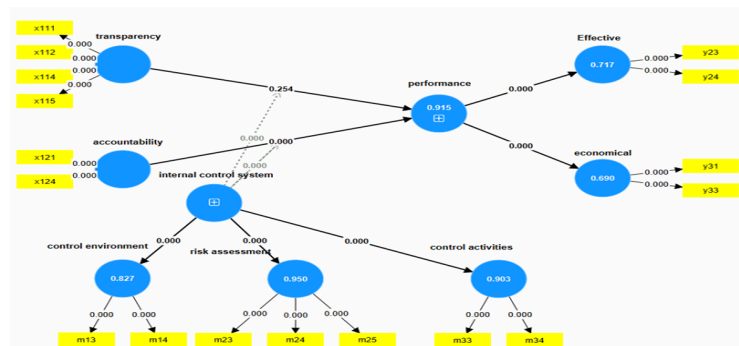


Figure 1. Research Model

Source: author, 2025

Measurement Model Evaluation

The assessment of the measurement model focused on three key aspects: convergent validity, discriminant validity, and construct reliability. During the evaluation process, indicators that did not satisfy the required statistical thresholds were excluded to improve model quality.

Table 1. results of outer loadings (convergent validity test)

Indicator	transparen cy	accountabili ty	performan ce	internal control system	Remark
x111 <- transparency	0,8517				Valid
x112 <- transparency	0,9540				Valid
x114 <- transparency	0,8902				Valid
x115 <- transparency	0,8524				Valid
x121 <- accountability		0,8563			Valid
x123 <- accountability		0,7624			Valid
x124 <- accountability		0,9223			Valid
y11 <- performance			0,7662		Valid
y11 <- efficiency			0,8535		Valid
y15 <- efficiency			0,8608		Valid
y15 <- performance			0,7848		Valid
y21 <- Effective			0,8544		Valid
y21 <- performance			0,8654		Valid

y22 <- performance			0,8325		Valid
y22 <- Effective			0,8331		Valid
y23 <- Effective			0,8807		Valid
y23 <- performance			0,7855		Valid
y24 <- Effective			0,8779		Valid
y24 <- performance			0,7978		Valid
y25 <- performance			0,8674		Valid
y25 <- Effective			0,8521		Valid
y31 <- performance			0,7985		Valid
y31 <- economical			0,9017		Valid
y33 <- economical			0,8893		Valid
y33 <- performance			0,7424		Valid
y35 <- economical			0,7686		Valid
y35 <- performance			0,8272		Valid
m12 <- control environment				0,8181	Valid
m12 <- internal control system				0,8169	Valid
m13 <- internal control system				0,8544	Valid
m13 <- control environment				0,9231	Valid
m14 <- control environment				0,9282	Valid
m14 <- internal control system				0,8627	Valid
m22 <- internal control system				0,8864	Valid
m22 <- risk assessment				0,9019	Valid
m23 <- internal control system				0,9189	Valid
m23 <- risk assessment				0,9572	Valid
m24 <- risk assessment				0,9698	Valid
m24 <- internal control system				0,9533	Valid
m25 <- risk assessment				0,9332	Valid
m25 <- internal control system				0,9242	Valid
m33 <- control activities				0,9555	Valid
m33 <- internal control system				0,9421	Valid
m34 <- control activities				0,9001	Valid
m34 <- internal control system				0,8763	Valid
m35 <- internal control system				0,8187	Valid
m35 <- control activities				0,8817	Valid

Source: author, 2025

It should be noted that some indicators appearing multiple times in the table reflect cross-loading values across different constructs rather than duplication errors. However, careful verification has been conducted to ensure that each indicator is uniquely assigned and appropriately interpreted within the model.

The final results indicate that all retained indicators across the constructs transparency, accountability, village fund management performance, and internal control systems achieved outer loading values exceeding 0.70. This demonstrates that the indicators possess strong convergent validity and are capable of representing their respective constructs accurately (Henseler et al., 2022).

Table 2. Cross loadings results (discriminant validity test)

Indica tor	transpare ncy	accountab ility	Effecti ve	economi cal	control environm ent	risk assessm ent	contro l activiti es	Rema rk
x111	0,851	0,739	0,695	0,601	0,647	0,677	0,711	Valid
x112	0,954	0,532	0,819	0,273	0,790	0,697	0,663	Valid
x114	0,890	0,244	0,766	0,122	0,775	0,738	0,646	Valid
x115	0,853	0,289	0,829	-0,039	0,752	0,752	0,615	Valid
x121	0,702	0,926	0,752	0,638	0,681	0,708	0,689	Valid
x124	0,270	0,901	0,419	0,802	0,331	0,400	0,473	Valid
y23	0,813	0,539	0,943	0,401	0,876	0,837	0,803	Valid
y23	0,813	0,539	0,943	0,401	0,876	0,837	0,803	Valid
y24	0,821	0,694	0,940	0,364	0,762	0,852	0,807	Valid
y24	0,821	0,694	0,940	0,364	0,762	0,852	0,807	Valid
y31	0,343	0,778	0,411	0,961	0,401	0,452	0,545	Valid
y31	0,343	0,778	0,411	0,961	0,401	0,452	0,545	Valid
y33	0,266	0,720	0,368	0,958	0,369	0,444	0,577	Valid
y33	0,266	0,720	0,368	0,958	0,369	0,444	0,577	Valid
m13	0,783	0,509	0,779	0,399	0,965	0,798	0,773	Valid
m13	0,783	0,509	0,779	0,399	0,965	0,798	0,773	Valid
m14	0,813	0,585	0,899	0,376	0,966	0,819	0,792	Valid
m14	0,813	0,585	0,899	0,376	0,966	0,819	0,792	Valid
m23	0,709	0,633	0,822	0,508	0,777	0,960	0,847	Valid
m23	0,709	0,633	0,822	0,508	0,777	0,960	0,847	Valid
m24	0,796	0,605	0,884	0,440	0,833	0,981	0,876	Valid
m24	0,796	0,605	0,884	0,440	0,833	0,981	0,876	Valid
m25	0,807	0,548	0,884	0,402	0,808	0,948	0,891	Valid
m25	0,807	0,548	0,884	0,402	0,808	0,948	0,891	Valid
m33	0,773	0,556	0,860	0,435	0,807	0,898	0,956	Valid
m33	0,773	0,556	0,860	0,435	0,807	0,898	0,956	Valid
m34	0,650	0,676	0,765	0,689	0,735	0,824	0,949	Valid
m34	0,650	0,676	0,765	0,689	0,735	0,824	0,949	Valid

Source: author, 2025

Table 3. results of construct reliability test

Indicator	Cronbach's alpha	Composite reliability (rho_a)	Remark
Effective	0,873	0,873	Reliabel

accountability	0,802	0,813	Reliabel
control activities	0,898	0,902	Reliabel
control environment	0,927	0,927	Reliabel
economical	0,913	0,914	Reliabel
internal control system	0,965	0,968	Reliabel
performance	0,809	0,809	Reliabel
risk assessment	0,961	0,961	Reliabel
transparency	0,912	0,938	Reliabel

Source: author, 2025

In terms of discriminant validity, each indicator exhibits a higher loading on its designated construct relative to other constructs, thereby fulfilling the required criteria. Additionally, reliability testing shows that all constructs have Cronbach's Alpha and Composite Reliability values above 0.70, confirming a high level of internal consistency (Hair et al., 2022). Based on these results, the measurement model is deemed suitable for further structural analysis.

Table 4. Part coefficient results

Indicator	Original sample (O)	T statistics (O/STDEV)	P values
transparency -> performance	0,091	1,140	0,254
accountability -> performance	0,351	4,722	0,000
internal control system -> control activities	0,950	79,834	0,000
internal control system -> control environment	0,909	43,737	0,000
internal control system -> performance	0,612	7,809	0,000
internal control system -> risk assessment	0,975	157,115	0,000
performance -> Effective	0,847	42,349	0,000
performance -> economical	0,830	17,615	0,000
internal control system x transparency -> performance	0,215	4,413	0,000
internal control system x accountability -> performance	-0,199	4,194	0,000

Source: author, 2025

Table 5. R square value

Indicator	R-square	R-square adjusted
Effective	0,717	0,714
control activities	0,903	0,902
control environment	0,827	0,825
economical	0,690	0,686
performance	0,915	0,911
risk assessment	0,950	0,949

Source: author, 2025

Table 6. F square value

Indicator	f-square
accountability -> performance	0,456
internal control system -> control activities	9,330
internal control system -> control environment	4,766
internal control system -> performance	1,014

internal control system -> risk assessment	18,941
performance -> Effective	2,530
performance -> economical	2,221
transparency -> performance	0,023
internal control system x transparency -> performance	0,229
internal control system x accountability -> performance	0,235

Source: author, 2025

The coefficient of determination (R^2) values reveal that the endogenous variables possess substantial explanatory power. The performance variable records an R^2 of 0.915 (Adjusted R^2 = 0.911), indicating that 91.5% of its variance is explained by the model. Among the internal control components, risk assessment shows the highest explanatory value (0.950; Adjusted R^2 = 0.949), followed by control activities (0.903; Adjusted R^2 = 0.902) and control environment (0.827; Adjusted R^2 = 0.825), all categorized as strong. The effectiveness variable yields an R^2 of 0.717 (Adjusted R^2 = 0.714), while the economy variable records 0.690 (Adjusted R^2 = 0.686), both indicating moderate to strong explanatory capacity. The minimal gap between R^2 and Adjusted R^2 suggests a stable model without overfitting.

Effect size (f^2) analysis indicates that accountability exerts a substantial influence on performance (0.456). Internal control systems demonstrate extremely strong effects on control activities (9.330), control environment (4.766), and risk assessment (18.941). Furthermore, internal control systems have a large direct effect on performance (1.014), while performance significantly affects effectiveness (2.530) and economy (2.221). In contrast, transparency shows only a marginal effect on performance (0.023).

For moderating effects, the interaction terms between internal control systems and transparency (0.229), as well as between internal control systems and accountability (0.235), fall within the moderate category. These results confirm that internal control systems play a meaningful moderating role within the model.

Structural Model Evaluation and Hypothesis Testing

Transparency does not significantly influence performance (coefficient = 0.091; p = 0.254), indicating that information disclosure alone is insufficient to improve outcomes. This finding aligns with prior studies (Arifin et al., 2022) and suggests that the effectiveness of transparency depends on how information is utilized by stakeholders.

This condition reflects what can be described as “pseudo transparency,” where information is formally available but lacks practical use in decision-making or oversight. In many village contexts, transparency is implemented through documentation or public displays that are not fully understood or utilized by the community (Putra et al., 2023). Therefore, the effectiveness of transparency depends not only on availability but also on relevance, clarity, and usability. Conversely, accountability demonstrates a positive and statistically significant impact on performance (coefficient = 0.351; t = 4.722; p = 0.000). This finding supports agency theory, which emphasizes the importance of accountability mechanisms in aligning the interests of agents and principals (Bovens, 2021). Strong accountability practices encourage professionalism and compliance with regulations, thereby directly improving financial management outcomes (Priantono & Vidiyastutik, 2022).

In addition, internal control systems show a significant direct effect on performance (coefficient = 0.612; p = 0.000), indicating their critical role in enhancing efficiency,

effectiveness, and economic value. This result is consistent with prior findings emphasizing the importance of internal controls in achieving organizational objectives through risk mitigation and systematic monitoring (Mulyani et al., 2022).

Moderating Role of Internal Control System

The analysis further highlights the dual moderating role of internal control systems. First, internal control systems strengthen the relationship between transparency and performance (interaction coefficient = 0.215; $p = 0.000$). This indicates that transparency becomes more impactful when supported by effective control mechanisms that ensure information is properly utilized (Sari et al., 2024).

Second, internal control systems weaken the relationship between accountability and performance (interaction coefficient = -0.199; $p = 0.000$). This negative interaction suggests the presence of an over-control effect, where excessive procedural rigidity reduces flexibility and limits the effectiveness of accountability practices (Wijaya & Nugroho, 2023). Under such conditions, compliance may be prioritized over actual performance outcomes.

This negative moderating effect can also be explained through the lens of organizational control theory, where excessive formalization may reduce adaptive capacity and limit managerial discretion. In such contexts, accountability mechanisms may become compliance-oriented rather than performance-oriented, thereby weakening their effectiveness.

Discussion and Implications

The findings provide important contributions to the literature on public sector accounting by demonstrating that internal control systems exhibit a dual or ambivalent role. Depending on how they are implemented, these systems may either enhance or constrain the effectiveness of governance mechanisms. This implies that the design and implementation of internal control systems should adopt a balanced approach, ensuring that control mechanisms support governance processes without creating excessive rigidity that may hinder performance.

Overall, the results confirm that accountability and internal control systems are primary drivers of improved village fund management performance. Meanwhile, transparency alone is insufficient unless supported by mechanisms that ensure the effective use of information. These findings emphasize the importance of integrating governance principles with well-designed control systems.

These findings suggest that governance mechanisms do not operate uniformly but are influenced by contextual and institutional factors. The limited role of transparency indicates the need to shift from symbolic disclosure toward substantive transparency that is actionable and understandable. Practically, village governments should prioritize capacity building and public literacy to ensure that disclosed information can be effectively interpreted and utilized by stakeholders.

CONCLUSION

Based on the empirical findings, several key conclusions can be drawn. First, transparency does not exhibit a significant effect on village fund management performance, indicating that formal disclosure alone is inadequate without effective utilization of

information. Second, accountability has a positive and significant impact on performance, confirming its central role in promoting efficiency, effectiveness, and compliance. Third, internal control systems directly enhance performance, highlighting their importance in ensuring the achievement of organizational objectives. Fourth, as a moderating variable, internal control systems strengthen the influence of transparency while weakening the effect of accountability. This demonstrates that the role of internal control systems is complex and context dependent. This study contributes by demonstrating that the effectiveness of governance mechanisms is contingent upon the interaction between control systems and contextual factors, offering a more nuanced understanding beyond traditional linear models.

Theoretical Implications

This study contributes to the development of public sector accounting by demonstrating that internal control systems function not only as monitoring tools but also as moderating variables influencing governance relationships. The identification of a negative moderating effect enriches the discourse on the over-control phenomenon within public organizations and extends the application of good governance and agency theory.

Practical Implications

Practically, the findings provide several important implications for village governments and related stakeholders. First, Transparency initiatives should focus on improving information quality and accessibility. Second, Accountability mechanisms should be strengthened through better reporting and evaluation systems. Third, Internal control systems should be implemented proportionally to avoid excessive rigidity.

Policy Implications

Policymakers are encouraged to design adaptive internal control frameworks tailored to local conditions. A balance between procedural compliance and performance orientation is necessary to ensure effective governance. Strengthening human resource capacity at the village level is also essential for successful implementation.

Limitations and Future Research

This study is subject to several limitations, including reliance on perception-based data and a limited geographical scope. Future research is recommended to adopt mixed method approaches and expand the study area. Additional variables such as human resource competence, community participation, and digital governance may also be explored.

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