

Unveiling Budgetary Slack: How Internal Control Systems Mediate the Effects of Competence and Whistleblowing

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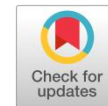
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Abstract

This study examines the effect of village apparatus competence and whistleblowing on budgetary slack, with the internal control system serving as a mediating variable. Employing a quantitative research design, the study applies the Structural Equation Modeling–Partial Least Squares approach to test both direct and indirect relationships among the variables. The sample for this study was determined using a census approach, encompassing all 226 villages in Jember Regency. Primary data were obtained through a structured questionnaire administered to a designated village official serving as a key informant, specifically those responsible for budgeting and financial management at the village level. The results indicate that the village apparatus competence and whistleblowing positively affect the effectiveness of the internal control systems. At the same time, both variables exert a negative effect on budgetary slack. Furthermore, the internal control systems negatively affect budgetary slack and partially mediate the relationships between village apparatus competence, whistleblowing, and budgetary slack. Theoretically, this study extends the Goal-Setting Theory by demonstrating that the alignment between budgetary objectives and actual outcomes in village governments depends on the integration of individual competence and ethical reporting mechanisms through an effective internal control system. Practically, the findings provide evidence-based insights for strengthening village financial governance through capacity building, robust internal controls, and accessible whistleblowing mechanisms.



Article History

Received:

September 16, 2025

Revised:

October 26, 2025

November 22, 2025

January 13, 2026

January 26, 2026

February 6, 2026

Accepted:

February 11, 2026

Keywords

Budgetary slack, internal control system, whistleblowing mechanism, public sector budgeting, village governance



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Introduction

Budgeting is a critical instrument for village governments to translate development priorities into concrete public programs and to ensure accountability in the use of village funds. However, budgetary slack remains a persistent issue in public-sector budgeting, particularly in decentralized governance settings (Anthony & Govindarajan, 2015; Cheliatsidou et al., 2023). In the context of Indonesian village governments, budgetary slack is often associated with limited administrative capacity, weak monitoring mechanisms, and opportunities for opportunistic behavior during budget formulation and implementation (Setiyowati et al., 2022).

Audit reports issued by the Audit Board of Indonesia (*Badan Pemeriksa Keuangan* or BPK hereafter) consistently reveal recurring findings related to village fund management across East Java, including Jember

Regency, particularly in the form of undocumented operational expenditures, overpayments in capital projects, weaknesses in internal control systems, and deficiencies in financial reporting (BPK Jatim, 2025; BPK RI, 2024). BPK observed incomplete accountability documents for grant, social assistance, and emergency expenditures; inflated or unimplemented capital projects due to volume discrepancies and price mark-ups; the absence of standard operating procedures and weak monitoring systems; and financial reports that are not supported by valid evidence. These findings are theoretically consistent with the concept of budgetary slack, as they reflect systematic gaps between planned budgets and actual implementation that arise from weak control and accountability mechanisms, allowing expenditures to deviate from real needs without timely detection.

From a theoretical perspective, Goal-Setting Theory (Locke & Latham, 1990) provides a relevant framework for understanding budgetary slack in village governments. In this study, the key elements derived from theory explicitly refer to village apparatus competence, whistleblowing mechanisms, and the internal control system. Village apparatus competence influences the quality of budget goal formulation by determining whether budget targets are based on accurate needs assessment or conservative estimations. Whistleblowing mechanisms function as an ethical feedback channel that increases accountability by signaling deviations from agreed budget goals. The internal control system then operates as a formal institutional mechanism that integrates competence and whistleblowing by monitoring budget implementation, enforcing compliance, and correcting irregularities (COSO, 2023). These elements interact in a causal sequence in which competence shapes goal setting, whistleblowing provides corrective feedback, and the internal control system ensures consistent enforcement. In contexts such as village governments in Jember Regency, where formal oversight is limited and social proximity is high, this interaction determines whether budget targets remain aligned with actual needs or evolve into budgetary slack.

Although prior studies have examined competence, whistleblowing, and internal control system in public-sector budgeting, most empirical evidence originates from central or regional governments, state-owned enterprises, or private organizations (Anggraini et al., 2023; Arkorful, 2022; Dewi & Latrini, 2023; Khan et al., 2022; Nurhayati et al., 2022). Rather than assuming direct applicability, this study adopts a conditional transferability perspective by specifying the institutional conditions under which findings from non-village contexts may be adapted to village governments. In organizations with strong formal oversight and standardized procedures, competence and internal control systems tend to operate as formalized mechanisms, while whistleblowing primarily complements existing monitoring structures. In contrast, Indonesian village governments are characterized by limited administrative capacity, strong social proximity among apparatus, and relatively weak external supervision. Under these conditions, competence becomes a critical determinant of how budgeting rules are interpreted and applied, whistleblowing functions as an informal control mechanism that substitutes for weak formal oversight, and internal control systems rely heavily on individual commitment rather than institutional enforcement. These distinctive conditions theoretically alter the interaction among competence, whistleblowing, and internal control systems, thereby shaping their collective influence on budgetary slack. Consequently, this study positions village governance not as a simple extension of prior contexts, but as a setting in which the effectiveness of governance mechanisms is contingent on local institutional characteristics.

Empirical findings on the mediating role of internal control systems remain mixed and context sensitive. Several studies conducted in regional governments and public organizations report that internal control systems significantly mediate the relationship between individual competence, ethical mechanisms, and budgeting outcomes by reducing information asymmetry and limiting discretionary behavior (Anggraini et al., 2023; Arkorful, 2022; Dewi & Latrini, 2023; Khan et al., 2022; Nurhayati et al., 2022). In contrast, other empirical studies, particularly in decentralized or low-capacity public organizations, find that internal control systems fail to function as effective mediators when they are weakly institutionalized, poorly enforced, or largely symbolic (Vian et al., 2022). In such contexts, formal controls do not prevent opportunistic behavior and may even coexist with persistent budgetary slack. These contrasting findings

indicate that the mediating role of internal control systems is not universal but highly dependent on institutional capacity, enforcement strength, and organizational context. However, empirical evidence testing this mediating mechanism within village governance settings remains scarce. This gap provides a clear empirical justification for examining the internal control system as a mediating variable in the village government context, as undertaken in this study.

This study is motivated by empirical evidence documented in audit reports issued by BPK and Local Government Financial Statements, which consistently indicate that budgeting practices in several villages in Jember Regency do not fully reflect actual community needs (BPK Perwakilan Jawa Timur, 2025; Pemerintah Kabupaten Jember, 2025; Radar Jember, 2025). For instance, the audit of the Jember Regency 2020 Local Government Financial Statements (LKPD) identified approximately IDR 107 billion in COVID-19-related emergency expenditures that lacked adequate accountability documentation, including substantial operational and material spending without valid supporting evidence. This case should be interpreted as an illustration of structural weaknesses in internal control and budget accountability rather than as a direct consequence of the pandemic itself, as such weaknesses allowed budget estimates to exceed realistic community needs (Solichah, 2025). Moreover, the trajectory of LKPD audit opinions shows fluctuations from disclaimer and qualified opinions in 2019–2020 to consecutive unqualified opinions during 2022–2024. Although this improvement reflects gradual progress, the audit reports continue to highlight unresolved issues related to budget control and accountability (Yunus, 2025).

Jember Regency was selected as the research setting because it empirically represents persistent structural challenges in village fund management, characterized by substantial fiscal allocations and recurring audit findings related to project irregularities and weaknesses in internal control systems during the 2019–2024 period (Yunus, 2025). The transition of audit opinions from disclaimer, adverse, and qualified opinions to consecutive unqualified opinions since 2022 indicates that village financial management previously suffered from serious internal control deficiencies. This condition was further reinforced by the request of the Regent of Jember in early 2025 for the BPK to conduct a special audit of village fund utilization following indications of budget inaccuracies across multiple villages, as well as by BPK recommendations emphasizing stricter control over procurement volumes and asset management (Radarindo, 2025; Solichah, 2025). From a theoretical perspective, this pattern of findings reflects conditions conducive to budgetary slack, in which weak internal control systems, limited village apparatus competence, and the constrained effectiveness of whistleblowing mechanisms allow systematic misalignment between planned budgets and actual needs. Accordingly, Jember Regency provides a strong empirical context for examining how village apparatus competence, whistleblowing, and internal control systems interact to influence budgetary slack in village governments. This study extends Goal-Setting Theory by demonstrating that alignment between budget objectives and actual needs in village governance depends on the interaction between apparatus competence and whistleblowing practices, with the internal control system functioning as the institutional mechanism that mediates this relationship. Practically, the findings offer evidence-based recommendations for strengthening village financial governance through targeted capacity-building initiatives, reinforcement of internal control procedures, and the development of safe and responsive whistleblowing mechanisms.

The novelty of this study lies in empirically examining the mediating role of the internal control system within the village government context, which remains underexplored in prior budgeting research, particularly under conditions of limited administrative capacity. Accordingly, this study aims to analyze the effect of village apparatus competence and whistleblowing on budgetary slack through the internal control system.

Literature Review and Hypotheses Development

Theoretical Framework

Goal-Setting Theory (Locke & Latham, 1990) explains how goal clarity, commitment, and feedback influence individual behavior and organizational performance. In public-sector budgeting, this theory

implies that accurate budget outcomes depend on both the cognitive ability of apparatus to set realistic targets and the existence of mechanisms that ensure adherence to these targets. Village budgeting represents a particularly relevant context for this theory, as it combines technical judgment with ethical decision-making under conditions of limited oversight (Azzardina, 2021; Mansor et al., 2022).

Within this framework, village apparatus competence reflects the cognitive capacity required to interpret regulations, assess community needs, and translate them into realistic budget allocations. Insufficient competence weakens goal clarity and increases estimation bias, thereby creating opportunities for budgetary slack (Suprapti et al., 2022). Whistleblowing complements this mechanism by providing ethical feedback that deters deviations from budget goals and increases the perceived risk of opportunistic behavior (Latan et al., 2021).

The internal control system functions as a structural mechanism of goal alignment. Through standardized procedures, monitoring, documentation, and corrective actions, the internal control system reduces discretionary behavior and ensures that budget implementation remains consistent with established goals (COSO, 2023). In village governments, where informal norms and close social ties often weaken formal oversight, the effectiveness of the internal control system becomes particularly critical (Puspita & Amalia, 2018).

Budgetary slack, intentional understatement of revenues or overstatement of expenditures (Previtali & Cerchiello, 2022), arises when cognitive weaknesses, ethical lapses, and structural deficiencies overlap. Empirical evidence shows that competence, whistleblowing, and internal control systems jointly influence the extent to which slack can occur in public budgeting (Suprapti et al., 2022). Competence shapes the accuracy of goal setting, whistleblowing shapes the ethical climate surrounding goal adherence, and the internal control system integrates both by ensuring procedural compliance.

Despite theoretical consensus on the importance of competence, whistleblowing, and internal control systems, empirical findings regarding their interaction remain fragmented and underexplored in village governance contexts. This study addresses this gap by empirically testing how competence and whistleblowing influence budgetary slack directly and indirectly through the internal control system in Indonesian village governments.

The Village Apparatus Competence and the Internal Control System

Goal-Setting Theory (Locke & Latham, 1990), posits that individuals with higher competence are better able to understand, internalize, and operationalize organizational goals. In the context of Indonesian village governance, competent apparatus possess the cognitive and technical capacities needed to interpret regulatory requirements, formulate accurate budget targets, and adhere to standardized procedures. These capabilities strengthen the functioning of the internal control system, which relies on consistent implementation of SOPs, effective monitoring, and compliance with financial regulations.

Empirical studies in Indonesian public-sector settings reinforce this mechanism, showing that higher apparatus competence improves procedural compliance, the quality of monitoring, and the reliability of internal controls (Lestari & Adi, 2021; Maharani & Susanto, 2021; Wahyudi et al., 2021; Zaitul et al., 2021). These findings are particularly relevant to village governments, where limited human resource capacity and weak administrative skills have been identified as contributors to internal control weaknesses and irregularities in village fund management (Setiyowati et al., 2022). Grounded in both theoretical mechanisms and empirical evidence within comparable Indonesian governance contexts, competence is expected to enhance the effectiveness of village-level internal controls.

H1. Village apparatus competence has a positive effect on the internal control system.

The Whistleblowing and the Internal Control System

Goal-Setting Theory emphasizes the importance of feedback mechanisms in sustaining goal commitment and ensuring behavioral alignment with organizational objectives (Locke & Latham, 1990). In the context of village financial governance, whistleblowing serves as a critical source of corrective feedback that alerts

authorities to deviations from budgetary goals, procedural violations, and unethical practices. When such feedback is available and credible, it reinforces adherence to budget targets and strengthens the institutional environment required for effective internal control.

Within Indonesian village governments, whistleblowing is particularly relevant due to widespread issues of accountability, discretionary decision-making, and the vulnerability of village fund management to irregularities. Empirical studies in related Indonesian public-sector contexts show that whistleblowing mechanisms enhance the effectiveness of internal controls by improving transparency, increasing reporting of violations, and encouraging corrective action (Amalia et al., 2025; Nurbiati et al., 2025; Okafor et al., 2020). These findings align with documented challenges in village administration, where weak oversight structures have enabled misreporting and misuse of funds, making whistleblowing an essential complement to formal control procedures. Based on the theoretical role of feedback in Goal-Setting Theory and empirical evidence supporting whistleblowing as an accountability-enhancing mechanism, it is reasonable to expect that whistleblowing will strengthen the functioning of internal controls at the village level.

H2. Whistleblowing has a positive effect on the internal control system.

The Village Apparatus Competence and Budgetary Slack

According to Locke and Latham (1990), Goal-Setting Theory asserts that goal clarity and accuracy depend on the cognitive capacity of individuals responsible for setting and executing organizational goals. In the context of village budgeting, competent apparatus possesses the analytical skills and regulatory understanding needed to formulate realistic budget targets and reduce estimation biases. When competence is low, goal setting becomes imprecise, increasing the likelihood of intentional budget overestimation or cost inflation, conditions that give rise to budgetary slack.

This mechanism is particularly relevant to Indonesian village governments, where the technical capacity of village apparatus has been repeatedly identified as a determinant of budgeting quality and vulnerability to misallocations of village funds. Empirical studies in Indonesian public-sector settings show that higher competence reduces errors in budget formulation, limits discretionary abuses, and increases the accuracy of financial planning (Febrianti & Amalia, 2024; Kardin & Firmansyah, 2024; Sugianto et al., 2020). These findings align with documented challenges in the village fund system, where insufficient administrative capacity among village apparatus has contributed to inaccuracies, inefficiencies, and irregularities in budgeting practices. Drawing on the theoretical mechanism of Goal-Setting Theory and empirical findings from similar Indonesian governance contexts, competence is expected to reduce the tendency of village apparatus to create budgetary slack.

H3. Village apparatus competence has a negative effect on budgetary slack.

The Whistleblowing and Budgetary Slack

Goal-Setting Theory emphasizes the importance of feedback in sustaining goal commitment and correcting deviations from established objectives (Locke & Latham, 1990). In village budgeting processes, whistleblowing serves as a form of corrective feedback that enables the detection of budget manipulation, cost inflation, and other behaviors that deviate from agreed-upon budget goals. The presence of a credible whistleblowing mechanism reduces opportunities for opportunistic actions, as apparatus become aware that deviations from budgetary objectives can be reported and subjected to scrutiny.

This theoretical mechanism is particularly relevant in Indonesia's village governance system, where discretionary authority in budget preparation and weak oversight structures have contributed to irregularities in the management of village funds. Empirical studies in Indonesian public-sector contexts demonstrate that whistleblowing reduces the likelihood of unethical financial practices by encouraging transparency and increasing the probability that deviant actions will be exposed (Ambarini & Mispiyanti, 2019; Bhilawa & Kautsar, 2018; Fitriani & Fisher, 2019; Khoerunnisa et al., 2023; Sari & Muliya, 2019). These findings correspond with village-level challenges such as misreporting, inflated expenditures, and

weak accountability that make whistleblowing a critical behavioral mechanism for reducing slack. Based on the feedback mechanism articulated in Goal-Setting Theory and supported by empirical evidence within comparable Indonesian administrative contexts, the whistleblowing mechanism is expected to reduce budgetary slack.

H4. Whistleblowing has a negative effect on budgetary slack.

The Internal Control System and Budgetary Slack

Goal-Setting Theory posits that achieving organizational goals requires not only individual capability and motivation but also structural mechanisms that provide continuous feedback and ensure goal congruence (Locke & Latham, 1990). The internal control system functions as such a structural mechanism by establishing procedures, monitoring activities, and corrective actions that align individual behavior with organizational budgeting goals. A strong internal control system reduces discretion in budget formulation and implementation, thereby limiting opportunities for intentional cost overestimation or revenue understatement that generate budgetary slack.

This mechanism is especially pertinent to Indonesian village governments, where weak internal controls such as incomplete SOPs, inadequate supervision, and inconsistent documentation have been repeatedly linked to irregularities in village fund management. Empirical studies within Indonesia's public-sector context show that robust internal controls enhance accountability, improve compliance with financial regulations, and significantly reduce the incidence of budget manipulation (Fitriyani & Ratmono, 2024; Mat et al., 2018; Tika, 2018). These findings align with challenges faced by village administrations, where deficiencies in internal oversight have facilitated budget deviations and misreporting. Based on the role of internal control system as a goal-alignment mechanism and supported by empirical evidence from relevant Indonesian settings, stronger internal controls are expected to reduce the likelihood of budgetary slack.

H5. The internal control system has a negative effect on budgetary slack.

Internal Control System in the Competence-Budgetary Slack Nexus

Beyond its direct influence, village apparatus competence affects budgetary slack indirectly through the internal control system. In the village government context, individual competence alone is insufficient to constrain opportunistic budgeting behavior if it is not embedded within formal procedures, monitoring mechanisms, and accountability structures. The internal control system functions as an institutional mechanism that translates the apparatus's technical knowledge and administrative skills into effective budget planning, implementation, and supervision. By formalizing competent behavior into standardized controls and oversight processes, the internal control system reduces discretion in budget formulation and implementation, thereby limiting the emergence of budgetary slack.

This mechanism is supported by empirical evidence showing that competence enhances internal control practices and, through stronger control structures, reduces irregularities in public budgeting (Aslam et al., 2023; Cheliatsidou et al., 2023; Kang, 2023). Studies in Indonesian public-sector contexts also indicate that village-level irregularities often arise when competent apparatus are not supported by adequate internal controls, demonstrating that competence alone is insufficient to reduce slack unless reinforced by a functioning internal control system (Amelia et al., 2025; Indriani et al., 2021; Sari et al., 2021; Suprpti et al., 2022). Based on these foundations, the internal control system is expected to mediate the effect of competence on budgetary slack.

H6. The internal control system mediates the negative effect of village apparatus competence on budgetary slack.

Internal Control System in the Whistleblowing-Budgetary Slack Nexus

Whistleblowing influences budgetary slack not only through direct deterrence effects, but also indirectly by strengthening the internal control system. In village governments characterized by close social relationships

and limited external oversight, whistleblowing mechanisms contribute to internal control effectiveness by enhancing information transparency, increasing detection of irregularities, and reinforcing accountability norms. The internal control system institutionalizes whistleblowing inputs by integrating reported information into corrective actions, monitoring processes, and control improvements. Through this mediation process, whistleblowing reduces budgetary slack by ensuring that detected deviations are systematically addressed rather than remaining informal or ignored.

However, the effectiveness of whistleblowing in reducing slack depends heavily on the internal control system, which institutionalizes feedback and ensures that reports of misconduct are processed through monitoring, verification, and corrective action. In Indonesian village governments where weak documentation, limited supervision, and varying administrative capacity frequently undermine accountability, internal control system becomes essential in translating whistleblower reports into operational improvements. Empirical studies in Indonesian public-sector settings indicate that whistleblowing strengthens accountability and reduces irregularities when supported by effective internal controls (Ambarini & Mispriyanti, 2019; Fitriani & Fisher, 2019; Sari & Muliya, 2019; Wahyudi et al., 2019). Meanwhile, previous research also shows that internal controls are critical in reducing slack by constraining discretion and enforcing compliance (Tika, 2018; Yee et al., 2018). Taken together, whistleblowing provides behavioral feedback that discourages budget manipulation, while the internal control system ensures that this feedback leads to corrective actions capable of reducing slack. Thus, the internal control system is expected to mediate the influence of whistleblowing on budgetary slack.

H7. The internal control system mediates the negative effect of whistleblowing on budgetary slack.

Research Method

Following Wardiwiyono et al. (2025), this study was classified as observational in nature, as the researchers solely collected data directly from the informant without administering any experimental treatment or intervention. It adopts a quantitative approach with a survey design to examine the causal relationships between village apparatus competence and whistleblowing on budgetary slack, with the internal control system serving as a mediating variable. This design is appropriate for testing a conceptual model involving multiple latent constructs and both direct and indirect relationships (Creswell & Creswell, 2022; Ghozali, 2021).

Data analysis was conducted using Structural Equation Modeling–Partial Least Squares (SEM-PLS hereafter). The selection of SEM-PLS is based on several methodological considerations (Hair et al., 2019). First, SEM-PLS is suitable for theory-driven models that are context-specific and are still under empirical development, particularly within village governance settings. Second, it allows for the simultaneous estimation of complex models involving latent variables and mediating effects. Third, this method is relatively robust to moderate sample sizes and does not require strict assumptions of multivariate normality, which are common challenges in village-level public-sector research. Therefore, the use of SEM-PLS in this study is not merely technical but reflects the alignment between the research objectives, model complexity, and data characteristics (Hair et al., 2019).

The sample of this study was selected using a census method involving 226 villages in Jember Regency. While all villages were included as units of analysis, the study did not survey all village apparatus, as each village was represented by only one apparatus. The use of one respondent per village is justified through a key informant approach, which targets individuals with the most comprehensive and authoritative knowledge of village financial management. This approach is methodologically appropriate because the unit of analysis is the village organization rather than individual perceptions, and the information required is technical, centralized, and not evenly distributed among the village apparatus. Respondents were selected based on the following criteria: (1) direct involvement in village budgeting, implementation, and financial reporting, (2) familiarity with the village's internal control system, and (3) a minimum of one year of experience in the relevant position.

Based on these criteria, respondents include village heads, village secretaries, or village financial officers. This approach is commonly applied in public-sector governance studies where the information required is technical, organization-specific, and cannot be reliably obtained from general respondents.

The study examines four latent variables: village apparatus competence, whistleblowing, internal control system, and budgetary slack. Each construct is measured using multiple indicators adapted from prior studies and adjusted to the village government context. The study employed a five-point Likert scale, with the questionnaire pilot-tested before full administration. Table 1 presents a summary of the operational definitions of each variable, along with the corresponding indicators and dimensions employed in the development of the questionnaire.

Table 1. The Operational Definition of Variables

| Variable | Operational Definition | Main Dimensions/Indicators | Source |
|------------------------------|---|---|---------------------------------|
| Village Apparatus Competence | The level of knowledge, skills, and attitudes of village apparatus required to manage village finances accurately and responsibly | Understanding, expertise, training, initiative, and employee code of ethics | (Vian et al., 2022) |
| Whistleblowing | Reporting mechanisms that enable village apparatus to report budgetary or financial misconduct in a safe and ethical manner | Structural aspects, operational aspects, care aspects, ethical responsibility, and role models | (Mansor et al., 2022) |
| Internal Control System | Processes and procedures designed to provide reasonable assurance regarding financial reporting reliability and regulatory compliance | Control environment, risk assessment, control activities, information and communication, and monitoring | (Previtalli & Cerchiello, 2022) |
| Budgetary Slack | The tendency of village apparatus to deliberately set budget targets that do not reflect actual needs or capabilities | Budget standards, budget behavior, tight budget, budget pressure, and budget efficiency | (Suprpti et al., 2022). |

Hypothesis testing was conducted using the bootstrapping procedure in SEM-PLS to evaluate the significance of path coefficients for both direct and indirect effects, based on the resulting t-statistics and p-values (Hair & Alamer, 2022). The structural model in this study specifies village apparatus competence and whistleblowing as exogenous variables, the internal control system as a mediating variable, and budgetary slack as the endogenous variable. The model is designed to capture both the direct effects of competence and whistleblowing on budgetary slack and their indirect effects through the internal control system. This specification is consistent with the research objectives and reflects a theoretical framework grounded in Goal-Setting Theory, which emphasizes the role of clear goals, feedback mechanisms, and institutional controls in shaping budgeting behavior. Accordingly, the model allows for systematic empirical testing of the proposed causal relationships using the SEM-PLS approach.

Results and Discussion

Jember Regency comprises 226 villages across 31 sub-districts, each with diverse characteristics ranging from agrarian communities to cottage-industry villages. While many rely on agriculture, others are developing potential such as MSMEs, trade, and creative industries. The Jember Regency Government continues to support village growth through development programs, infrastructure improvements, economic initiatives, and community empowerment efforts. The findings from the descriptive statistical analysis and SEM-PLS estimation are reported in Tables 2 through 6.

Table 2 shows that village apparatus in Jember Regency are predominantly male and largely fall within the productive age group, particularly 31–40 years. Their educational backgrounds range from senior high school to higher education, with a significant portion having completed at least a bachelor's degree. Most

respondents also possess substantial work experience, serving between 5 and 10 years or more. Collectively, these characteristics reflect a workforce with adequate maturity, educational competence, and experience factors that support their ability to effectively understand and implement internal control systems, whistleblowing mechanisms, and accountable budgeting practices.

Table 2. Respondent Characteristics

| Category | Value | Respondent | Percentage (%) |
|-------------------|--------------------|------------|----------------|
| Gender | Male | 158 | 69.9 |
| | Female | 68 | 30.1 |
| Age | 21 – 30 Years | 34 | 15 |
| | 31 – 40 Years | 88 | 38.9 |
| | 41 – 50 Years | 72 | 31.9 |
| | > 50 years | 32 | 14.2 |
| Educational Level | Senior High School | 92 | 40.7 |
| | Diploma | 54 | 23.9 |
| | Bachelor | 70 | 31 |
| | > Bachelor | 10 | 4.4 |
| Years of Service | < 5 Years | 48 | 21.2 |
| | 5 – 10 Years | 102 | 45.1 |
| | > 10 Years | 76 | 33.6 |
| Total | | 226 | 100 |

Source: Primary data processed (2025)

Table 3 shows that respondents report relatively high mean scores across all variables, with values ranging from 3.842 to 3.967 on a 2–5 scale, suggesting a generally favorable perception of the variables examined. Furthermore, the low standard deviations observed across the measures reflect a high degree of response consistency, indicating limited variability in participants’ assessments. Overall, the descriptive statistics reflect that village apparatus exhibit strong competence, supportive whistleblowing practices, effective internal control systems, and relatively low indications of budgetary slack.

Table 3. Descriptive Statistics Results

| | Village Apparatus Competence (X1) | Whistleblowing (X2) | Internal Control System (Z) | Budgetary slack (Y) |
|-----------|--------------------------------------|------------------------|--------------------------------|------------------------|
| Min | 2 | 2 | 2 | 2 |
| Max | 5 | 5 | 5 | 5 |
| Mean | 3.919 | 3.842 | 3.950 | 3.967 |
| Std. Dev. | 0.080 | 0.075 | 0.048 | 0.089 |

Source: Primary data processed (2025)

Table 4 indicates that all indicators for each construct show outer loading values above 0.70 and AVE values exceeding 0.50, thereby meeting the criteria for convergent validity. This confirms that all indicators reliably and accurately represent their respective constructs, ensuring that the measurement model is valid for subsequent analysis.

Table 4. Convergent Validity

| Latent Variable | Code | Indicator | Outer Loading | AVE |
|-----------------------------------|------|-------------------------------|---------------|-------|
| Village Apparatus Competence (X1) | X1.1 | Understanding | 0.824 | 0.731 |
| | X1.2 | Expertise | 0.716 | |
| | X1.3 | Training | 0.706 | |
| | X1.4 | Initiative | 0.724 | |
| | X1.5 | Employee Code of Ethics | 0.740 | |
| Whistleblowing (X2) | X2.1 | Structural Aspects | 0.719 | 0.758 |
| | X2.2 | Operational Aspects | 0.729 | |
| | X2.3 | Care Aspects | 0.734 | |
| | X2.4 | Ethical Responsibility | 0.706 | |
| | X2.5 | Role Models | 0.720 | |
| Internal Control System (Z) | Z1 | Control Environment | 0.746 | 0.719 |
| | Z2 | Risk Assessment | 0.737 | |
| | Z3 | Control Activities | 0.728 | |
| | Z4 | Information and Communication | 0.728 | |
| | Z5 | Monitoring | 0.714 | |
| Budgetary slack (Y) | Y1 | Budget Standards | 0.716 | 0.774 |
| | Y2 | Budget Behavior | 0.753 | |
| | Y3 | Tight Budget | 0.792 | |
| | Y4 | Budget Pressure | 0.767 | |
| | Y5 | Budget Efficiency | 0.771 | |

Source: Primary data processed (2025)

Based on the results presented in Table 5, all constructs exhibit cross-loading values significantly higher than the r -table threshold (0.266), indicating satisfactory discriminant validity. In addition, Cronbach's Alpha (CA) and Composite Reliability (CR) values for all constructs exceed the recommended cutoff of 0.70, confirming internal consistency reliability. Moreover, all VIF values are below 5, suggesting no multicollinearity concern. Accordingly, the measurement model demonstrates adequate validity and reliability and is suitable for subsequent structural analysis. After confirming the adequacy of the measurement model, the structural model was evaluated to assess its explanatory power, effect sizes, and predictive relevance.

Table 5. Results of Validity, Reliability and Multicollinearity Tests

| Variable | Cross Loading Value | R_{table} | CA | CR | VIF |
|-----------------------------------|---------------------|-------------|-------|-------|-------|
| Village Apparatus Competence (X1) | 0.910 | 0.266 | 0.759 | 0.787 | 2.892 |
| Whistleblowing (X2) | 0.828 | 0.266 | 0.755 | 0.730 | 2.747 |
| Internal Control System (Z) | 0.906 | 0.266 | 0.717 | 0.771 | 2.995 |
| Budgetary slack (Y) | 0.812 | 0.266 | 0.769 | 0.742 | |

Source: Primary data processed (2025)

Table 6 presents the R^2 , adjusted R^2 , f^2 , and Q^2 test results on structural models. The R^2 value of 0.857 for the Internal Control System indicates that village apparatus competence and whistleblowing jointly explain 85.7% of the variance in internal control effectiveness. Similarly, the R^2 value for Budgetary Slack shows that 85.7% of its variance is explained by village apparatus competence, whistleblowing, and the internal control system. The adjusted R^2 values, which closely correspond to the R^2 values, suggest stable explanatory power without overfitting. The f^2 value of 0.201 indicates a moderate effect size of the exogenous variables on the endogenous constructs. In addition, the Q^2 values of 0.979 for both endogenous variables demonstrate strong predictive relevance of the model. Overall, these results confirm that the proposed structural model exhibits adequate explanatory power and predictive capability, supporting its suitability for testing the hypothesized relationships in the village government context.

Table 6. Table of R², Adjusted R², f², and Q² Test Results on Structural Models

| Endogenous Construct | R ² | Adjusted R ² | f ² | Q ² |
|-----------------------------|----------------|-------------------------|----------------|----------------|
| Internal Control System (Z) | 0.857 | 0.855 | 0.201 | 0.979 |
| Budgetary slack (Y) | 0.857 | 0.856 | 0.201 | 0.979 |

Source: Primary data processed (2025)

To enhance clarity and interpretability of the SEM-PLS estimation results, Figure 2 presents a visualization of the estimated structural model, offering a comprehensive overview of the interrelationships among the study variables.

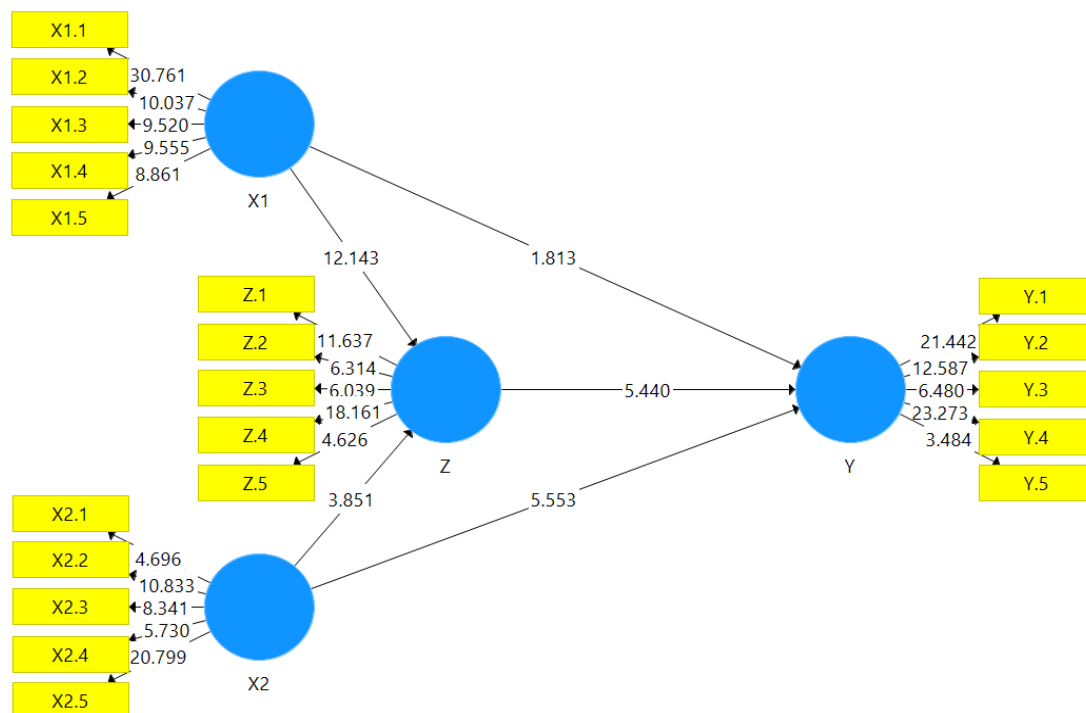


Figure 2. Result Test SEM-PLS

Source: Primary data processed (2025)

Figure 2 illustrates that village apparatus competence and whistleblowing are positively associated with the internal control system, while the internal control system is negatively related to budgetary slack. Visualization highlights the mediating role of the internal control system, indicating that the influence of competence and whistleblowing on budgetary slack is primarily transmitted through institutional control mechanisms. Compared to direct relationships, the indirect paths through the internal control system appear substantively stronger, underscoring the importance of formal control structures in mitigating budgetary slack in village governments. This pattern is consistent with Goal-Setting Theory, which emphasizes the role of clear rules, monitoring, and feedback in aligning organizational goals with actual outcomes. Figure 2 further depicts the path analysis results, which form the basis for testing the study's hypotheses. Table 7 summarizes these findings and indicates whether each hypothesis is supported.

Based on Table 7, the hypothesis test results indicate that all tested relationships are significant (p -value < 0.05). Specifically, village apparatus competence (X1) and whistleblowing (X2) have a significant positive effect on the internal control system (Z), while X1, X2, and the internal control system have a significant negative effect on budgetary slack (Y). Mediation analysis shows that the internal control system significantly mediates the effect of X1 and X2 on Y.

Table 7. Hypothesis Testing

| | Variables | Original Sample | Sample Mean | Std. Dev | T-Statistics | P-value | Decision |
|------------------------|--|-----------------|-------------|----------|--------------|---------|-----------|
| Direct Effect | | | | | | | |
| H1 | Village apparatus competence → internal control system | 0.718 | 0.720 | 0.063 | 11.328 | 0.000 | Supported |
| H2 | Whistleblowing → internal control system | 0.256 | 0.254 | 0.070 | 3.639 | 0.000 | Supported |
| H3 | Village apparatus competence → budgetary slack | -0.155 | -0.165 | 0.082 | 2.888 | 0.040 | Supported |
| H4 | Whistleblowing → budgetary slack | -0.281 | -0.277 | 0.051 | 5.541 | 0.000 | Supported |
| H5 | Internal control system → budgetary slack | -0.542 | -0.535 | 0.094 | 5.785 | 0.000 | Supported |
| Indirect Effect | | | | | | | |
| H6 | Village apparatus competence → internal control system → budgetary slack | -0.389 | -0.384 | 0.071 | 5.450 | 0.000 | Supported |
| H7 | Whistleblowing → internal control system → budgetary slack | -0.139 | -0.138 | 0.048 | 2.868 | 0.004 | Supported |

Source: Primary data processed, 2025

However, it should be noted that the direct effect of whistleblowing on budgetary slack (H4) with a path coefficient of -0.281 is larger than the indirect effect through the internal control system (H7) of -0.139. This indicates that some of whistleblowing's influence is "lost" through internal control system mediation, meaning the internal control system only partially accounts for the total effect of whistleblowing on budgetary slack.

The Effect of Village Apparatus Competence on the Internal Control System

The findings of this study indicate that Village Apparatus Competence has a positive and significant effect on the effectiveness of the internal control system, as shown by the positive path coefficient ($\beta = 0.718$; $p < 0.001$). This result suggests that higher levels of regulatory understanding, technical expertise, training experience, work initiative, and ethical compliance among village Apparatus contribute to more effective implementation of internal control mechanisms. This relationship is not merely empirical but is also theoretically grounded.

According to Goal-Setting Theory (Locke & Latham, 1990), control effectiveness depends on individuals' ability to understand organizational goals and translate them into consistent operational behavior. In village governance, the internal control system represents organizational goals in the form of procedures, rules, and monitoring mechanisms. Competent village apparatus possess the cognitive and technical capacity to internalize these goals and apply control procedures consistently, ensuring that internal controls function beyond formal compliance and are embedded in daily financial management practices.

The results also align with previous studies showing that technical and ethical competence improves internal governance quality. Studies by Lestari and Adi (2021), Maharani and Susanto (2021), Wahyudi et al. (2021), and Zaitul et al. (2021) consistently report that higher administrative capability increases compliance with SOPs, improves monitoring quality, and reduces vulnerabilities in public financial management. These studies reinforce the conclusion that competence is a foundational determinant of robust internal controls.

The relevance of this finding to the context of village governments in Jember Regency can be explained by the institutional characteristics of village administration, which remain highly dependent on

individual capacity. Internal control systems at the village level are often not fully institutionalized and operate under conditions of limited human resources and weak external oversight. Under such circumstances, the effectiveness of internal controls largely depends on the competence of the apparatus responsible for implementing them.

Moreover, village governments in Jember Regency are characterized by close social relationships and informal interactions among the apparatus, which may weaken formal control mechanisms. Goal-Setting Theory suggests that when external monitoring is limited, individual commitment to organizational goals becomes a critical behavioral regulator. Competent and ethically oriented village apparatus function as informal control agents (internalized control), helping to compensate for weak formal supervision and reinforcing compliance with financial management objectives.

Therefore, the positive relationship between village apparatus competence and the internal control system observed in this study reflects a logical interaction between individual capacity and the specific institutional conditions of village governance. This finding underscores that strengthening village apparatus competence is a fundamental strategy for enhancing internal control systems and improving financial governance in Jember Regency.

The Effect of Whistleblowing on the Internal Control System

The results of this study indicate that whistleblowing has a positive and significant effect on the effectiveness of the internal control system, with a path coefficient of 0.256 and a p-value of 0.000. This finding suggests that the presence of clear, accessible, and ethically supported reporting mechanisms enhances the functioning of internal controls in village financial management. Empirically, the results confirm that whistleblowing serves not only as a detection tool but also as an integral component of an effective internal control system.

From a theoretical perspective, this relationship can be explained through Goal-Setting Theory (Locke & Latham, 1990), which emphasizes the role of feedback in ensuring goal attainment. Within the internal control framework, whistleblowing operates as an ethical feedback mechanism that signals deviations from established goals and procedures. When the village apparatus has access to effective reporting channels and feels protected when using them, the internal control system becomes more responsive to risks and potential misconduct.

This finding is supported by previous empirical studies. Research by Amalia et al. (2025), Nurbiati et al. (2025), and Okafor et al. (2020) demonstrates that whistleblowing improves transparency and enhances the effectiveness of internal control systems in public-sector organizations. These studies consistently show that organizations with active reporting mechanisms have better monitoring quality, fewer undisclosed violations, and stronger institutional compliance. The present finding aligns with this literature by confirming that whistleblowing plays a vital role in strengthening the internal control system within the context of Indonesian village governance.

The relevance of this finding to the specific context of village governments in Jember Regency can be understood by considering the structural characteristics of village governance, including limited formal oversight and strong social proximity among the apparatus. In such environments, formal control mechanisms may be weakened by informal relationships that discourage reporting. Whistleblowing mechanisms that are structurally and ethically supported function as alternative control instruments, strengthening internal supervision beyond formal hierarchical controls.

Furthermore, internal control systems in village governments are often not fully institutionalized and rely heavily on individual behavior and leadership commitment. In the context of Jember Regency, the effectiveness of internal controls is therefore closely linked to the willingness of the apparatus to report irregularities and to the extent of protection provided to whistleblowers. The findings of this study indicate that when whistleblowing functions effectively, internal control systems are better able to detect, prevent, and respond to financial irregularities. In conclusion, the positive relationship between whistleblowing and the internal control system observed in this study reflects a logical interaction between ethical reporting

mechanisms and the institutional conditions of village governance. This finding underscores the importance of strengthening whistleblowing mechanisms as a strategic approach to enhancing internal control effectiveness and improving village financial governance in Jember Regency.

The Effect of Village Apparatus Competence on Budgetary Slack

The results of this study indicate that village apparatus competence has a negative and significant effect on budgetary slack, with a path coefficient of -0.155 and $p\text{-value} = 0.040$. This finding suggests that higher levels of regulatory understanding, technical expertise, training, initiative, and ethical compliance among village apparatus are associated with a lower tendency to create budgetary slack in village budgeting. This relationship is supported not only empirically but also theoretically.

Within the framework of Goal-Setting Theory (Locke & Latham, 1990), budgetary slack represents a deviation from established budget goals. The theory posits that clear, realistic, and well-understood goals reduce dysfunctional behaviors, including intentional budget manipulation. Competent village apparatus possess the cognitive and technical capacity to formulate accurate budget targets, understand the implications of deviations, and maintain consistency between budget planning and implementation. Consequently, competence functions as an internal behavioral control that constrains the creation of budgetary slack.

This finding is consistent with previous research showing that technical and ethical competence significantly reduces budgetary slack. Studies by Febrianti and Amalia (2024); Kardin and Firmansyah (2024); and Sugianto et al. (2020) indicate that apparatus with adequate knowledge and budgeting skills are better at formulating accurate financial plans and less inclined to engage in opportunistic behavior. These studies collectively support the view that competence is a key determinant in preventing misallocation, manipulation, and inefficiencies during budget preparation.

The relevance of this finding to the specific context of village governments in Jember Regency can be explained by the governance conditions at the village level, which are characterized by limited human resources and relatively weak formal oversight. Under such conditions, budgeting processes rely heavily on the individual capabilities of apparatus directly involved in budget preparation. Apparatus with lower competence may adopt conservative or defensive budgeting practices to reduce uncertainty and personal risk, thereby increasing the likelihood of budgetary slack. In contrast, competent apparatus is better able to assess actual village needs and prepare rational and realistic budgets.

Moreover, village governments in Jember Regency are marked by close social relationships and informal interactions among apparatus, which may foster tolerance toward inefficient budgeting practices. Goal-Setting Theory suggests that in environments with limited external monitoring, individual commitment to organizational goals becomes a critical behavioral regulator. Competent and ethically oriented village apparatus tend to exhibit stronger commitment to financial management objectives, enabling them to resist social pressure or personal interests that could lead to budgetary slack. In conclusion, the negative relationship between village apparatus competence and budgetary slack observed in this study reflects a logical interaction between individual capacity and the institutional characteristics of village governance. This finding highlights that strengthening village apparatus competence is a key strategy for reducing budgetary slack and improving the quality of village budgeting in Jember Regency.

The Effect of Whistleblowing on Budgetary Slack

The findings of this study indicate that whistleblowing has a negative and significant effect on budgetary slack, with a path coefficient of -0.281 and $p\text{-value} = 0.000$. This result suggests that more effective whistleblowing mechanisms within village governments are associated with a lower tendency among apparatus to create budgetary slack during the budgeting process. This relationship highlights the role of whistleblowing as a behavioral control mechanism in budget management.

From the perspective of Goal-Setting Theory (Locke & Latham, 1990), budgetary slack arises when budget targets deviate from organizational goals due to weak accountability or ambiguous performance

standards. The theory emphasizes that clear goals, strong commitment, and effective feedback mechanisms reduce dysfunctional behaviors, including budget manipulation. Whistleblowing functions as an ethical feedback mechanism that enhances accountability and reinforces alignment between individual behavior and organizational budgeting objectives.

This result is strongly supported by previous research. Studies by Ambarini and Mispriyanti (2019), Bhilawa and Kautsar (2018), Fitriani and Fisher (2019), Khoerunnisa et al. (2023), and Sari and Muliya (2019) consistently show that whistleblowing systems reduce opportunities for fraudulent behavior, budget manipulation, and unethical financial practices. Research in various public-sector contexts indicates that the presence of a credible whistleblowing mechanism significantly decreases the likelihood of slack because individuals anticipate greater oversight and accountability.

The relevance of this finding to the specific context of village governments in Jember Regency can be explained by the institutional characteristics of village administration, which include limited formal supervision and strong social proximity among apparatus. In such environments, budgetary slack is difficult to detect through hierarchical controls alone. Effective whistleblowing mechanisms increase the perceived likelihood of detection and reporting of budget deviations, thereby discouraging opportunistic budgeting behavior even within close-knit social settings.

Furthermore, village apparatus in Jember Regency often face pressure to adopt conservative or “safe” budgeting practices to minimize administrative risk or social conflict. In this context, whistleblowing serves as an informal control mechanism that strengthens commitment to realistic and accountable budget targets. Awareness of accessible and protected reporting channels encourages apparatus to align budget proposals more closely with actual needs and capabilities. In conclusion, the negative relationship between whistleblowing and budgetary slack observed in this study reflects a logical interaction between ethical reporting mechanisms and the governance conditions of village governments. This finding underscores the importance of strengthening whistleblowing systems as a strategic approach to reducing budgetary slack and improving the quality of village budgeting in Jember Regency.

The Effect of Internal Control Systems on Budgetary Slack

The results of this study indicate that internal control systems have a negative and significant effect on budgetary slack, with a path coefficient of -0.542 and a p -value of 0.000 . This finding suggests that more effective internal control systems within village governments are associated with a lower tendency for village apparatus to create budgetary slack during budgeting and budget implementation processes. This relationship highlights the role of internal controls as formal mechanisms that constrain opportunistic budgeting behavior.

From the perspective of Goal-Setting Theory (Locke & Latham, 1990), budgetary slack arises when there is a misalignment between established budget goals and the actual behavior of individuals involved in budget preparation. Internal control systems function to clarify objectives, establish performance standards, and provide continuous monitoring and evaluation. When budget goals are clearly communicated and reinforced through effective control procedures, village apparatus face fewer incentives to manipulate budget targets for personal or group interests.

This theoretical alignment is reinforced by empirical evidence. Studies by Fitriyani and Ratmono (2024), Mat et al. (2018), and Tika (2018) consistently demonstrate that robust internal control systems reduce financial misstatements, limit discretionary manipulation, and strengthen compliance with budgeting procedures. These works highlight that the internal control system forms the backbone of accountable public financial management, making it difficult for actors to inflate budget components or conceal unused allocations.

The relevance of this finding to the specific context of village governments in Jember Regency can be explained by the institutional conditions of village administration, which are characterized by limited external oversight and varying levels of human resource capacity. Under such circumstances, internal control systems serve as the primary mechanism for enforcing budget discipline. Control mechanisms such

as segregation of duties, adequate documentation, authorization procedures, and internal monitoring help restrict discretionary behavior in budget formulation and reduce the likelihood of budgetary slack.

Moreover, village governments in Jember Regency are characterized by close social relationships among apparatus, which may weaken informal controls and increase tolerance toward inefficient budgeting practices. Goal-Setting Theory suggests that in environments with strong social pressures and informal relationships, clear and consistently enforced formal systems are essential to maintain alignment with organizational goals. Effective internal control systems act as structural reminders of financial management objectives, thereby mitigating the risk of budgetary slack even within close-knit social settings.

In conclusion, the negative relationship between internal control systems and budgetary slack observed in this study reflects a logical interaction between formal control mechanisms and the governance characteristics of village governments. This finding underscores the importance of strengthening internal control systems as a strategic approach to reducing budgetary slack and improving the quality and accountability of village budgeting in Jember Regency.

Internal Control System in Village Apparatus Competence-Budgetary Slack Nexus

The findings of this study indicate that the internal control system mediates the effect of village apparatus competence on budgetary slack. The indirect effect coefficient of -0.389 with a T-statistic of 5.450 and a p-value of 0.000 indicates a strong and statistically significant mediation effect. This value is larger than the direct effect of competence on slack, which is -0.155 ($p = 0.040$). This result suggests that competence not only directly reduces budgetary slack but also indirectly influences it through the strengthening of internal control systems. In other words, the ability of competent village apparatus to reduce budgetary slack becomes more effective when their competence is translated into well-functioning internal control practices.

These statistical findings align with Goal-Setting Theory (Locke & Latham, 1990), this mediating relationship reflects a behavioral alignment mechanism between organizational goals and individual actions. Competent village apparatus is better able to understand financial management objectives and performance standards. The internal control system serves as a formal instrument that embeds these goals into daily practices through procedures, monitoring, and evaluation. When competence and internal controls operate together, opportunities for deviating from budgetary objectives are substantially reduced. Studies by Amelia et al. (2025), Indriani et al. (2021), Sari et al. (2021), and Suprapti et al. (2022) consistently show that competence contributes to ethical and accurate budgeting, but its effectiveness in preventing slack increases significantly when supported by strong internal control mechanisms. These findings reinforce the conclusion that the internal control system acts as a structural amplifier of competence in reducing slack.

The relevance of this finding to the specific context of village governments in Jember Regency can be explained by the institutional characteristics of village administration, which remains highly dependent on human resource quality. Internal control systems at the village level are often not fully institutionalized and tend to be procedural rather than substantive. Under such conditions, the effectiveness of internal controls depends heavily on the competence of the apparatus responsible for implementing them. Competent apparatus is more likely to apply control procedures meaningfully, ensuring that internal controls function as mechanisms to constrain budgetary slack rather than mere administrative requirements.

Furthermore, village governments in Jember Regency are characterized by strong social proximity and informal relationships among apparatus, which may weaken direct supervision. Goal-Setting Theory suggests that in environments with limited external monitoring, formal systems supported by individual competence play a crucial role in maintaining goal-aligned behavior. In this context, village apparatus competence enhances the effectiveness of internal control systems as structural safeguards against opportunistic budgeting behavior. In conclusion, the mediating role of the internal control system demonstrates that the influence of village apparatus competence on budgetary slack operates through a structured control mechanism. This result highlights that improving village apparatus competence must

be accompanied by strengthening internal control systems to effectively reduce budgetary slack and enhance the quality of village financial management in Jember Regency.

Internal Control System in Whistleblowing-Budgetary Slack Nexus

The findings of this study indicate that the internal control system mediates the effect of whistleblowing on budgetary slack. The indirect effect of whistleblowing through the internal control system is -0.139 , with a T-statistic of 2.873 and a p-value of 0.004, demonstrating statistical significance. This result suggests that whistleblowing not only directly constrains budgetary slack but also indirectly reduces it by strengthening the effectiveness of internal control systems. In other words, the influence of whistleblowing on budgeting behavior becomes more substantial when reported information is processed and acted upon through effective internal control mechanisms.

The interpretation aligns with Goal-Setting Theory (Locke & Latham, 1990), this mediating relationship highlights the critical role of feedback in aligning individual behavior with organizational budgetary goals. Whistleblowing functions as a feedback mechanism that reveals deviations from established budget objectives and procedures, while the internal control system serves as a formal structure that translates such information into corrective actions, monitoring, and enforcement. When these mechanisms operate in tandem, opportunities for opportunistic budgeting behavior and budgetary slack are significantly reduced.

Research by Ambarini and Mispiyanti (2019), Fitriani and Fisher (2019), Sari and Muliya (2019), and Wahyudi et al. (2019) shows that whistleblowing reduces manipulation and irregularities directly through deterrence effects, yet its impact becomes stronger when embedded within robust governance systems such as the internal control system. Empirical evidence indicates that reporting channels alone are insufficient unless the organization has procedures to act on the reported information, which explains why the direct coefficient remains higher than the mediated coefficient.

The relevance of this finding to the specific context of village governments in Jember Regency can be explained by the institutional characteristics of village administration, which include limited external supervision and strong social proximity among the apparatus. In such settings, whistleblowing often represents the primary channel for identifying budgetary irregularities. However, without an effective internal control system, whistleblowing reports may not be adequately followed up. The results of this study demonstrate that when internal control systems function effectively, whistleblowing information can be transformed into concrete corrective measures in village budgeting practices.

Furthermore, internal control systems in village governments in Jember Regency are still evolving and rely heavily on leadership commitment and individual accountability. Under these conditions, whistleblowing strengthens internal controls by increasing risk awareness and clarifying the consequences of budget deviations. Goal-Setting Theory suggests that consistent and actionable feedback enhances individuals' commitment to organizational goals. Accordingly, integrating whistleblowing into the internal control framework becomes a critical mechanism for reducing budgetary slack. In conclusion, the mediating role of the internal control system indicates that the effect of whistleblowing on budgetary slack operates through a structured control mechanism. This finding underscores that strengthening whistleblowing mechanisms must be accompanied by robust internal control systems to effectively reduce budgetary slack and improve village financial governance in Jember Regency.

Conclusion

This study concludes that village apparatus competence and whistleblowing significantly enhance the effectiveness of the internal control system, which in turn plays a crucial role in reducing budgetary slack. The findings further confirm that the internal control system partially mediates the effects of both competence and whistleblowing on budgetary slack, underscoring its central role as an institutional mechanism that aligns individual behavior with budgetary objectives. Overall, the results highlight that

competence, whistleblowing, and an effective internal control system collectively form the foundation for accountable and manipulation-resistant village financial management.

Theoretically, this study extends Goal-Setting Theory by demonstrating that the alignment between budgetary goals and actual outcomes in village governments depends on the integration of individual competence and ethical feedback mechanisms through an effective internal control system. The findings emphasize the contextual relevance of Goal-Setting Theory in small-scale public organizations, where formal oversight is limited and institutional controls play a critical role in shaping budgetary behavior.

Practically, the findings suggest that reducing budgetary slack in village governments requires an integrated governance approach rather than isolated capacity-building initiatives. Strengthening village apparatus competence must be accompanied by institutionalized internal control systems and supported by accessible and protected whistleblowing mechanisms. For local governments in Jember Regency, these results provide an empirical basis for designing governance reforms that simultaneously enhance human resource capacity, reinforce internal controls, and promote accountable village financial management.

This study is subject to several limitations that should be considered when interpreting the findings. First, the empirical analysis focuses exclusively on village governments in Jember Regency, which may limit the external validity of the results across different regional and institutional contexts in Indonesia. Second, the study relies on a cross-sectional survey design and uses a single key informant per village, which may introduce response bias and constrain the ability to draw strong causal inferences. Third, the proposed model examines village apparatus competence and whistleblowing as primary antecedents of budgetary slack, with the internal control system serving as a mediating mechanism; consequently, other potentially relevant organizational and contextual factors such as leadership dynamics, organizational culture, political incentives, and community oversight are not explicitly incorporated. Future research is therefore encouraged to adopt multi-respondent approaches at the village level, apply longitudinal or comparative research designs, expand the geographical scope, and integrate additional governance-related variables to enhance robustness, causal inference, and generalizability of findings on budgetary slack in local government settings.

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