



# Role of Preventive and Functional Control in Budget Control Effectiveness

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**Abstract.** The goal is that the government can control wastage of expenditure. Budgeting in order to prevent budget irregularities, such as irresponsibility to the budget, inappropriate budgets and others. There is a need for research to determine the impact of preventive and functional control on the effectiveness of budget control. The population of this research are 32 of the regional organizations of the Palembang city government. The data collection technique used a saturated sample technique by distributing questionnaires. SPSS is used in this study to perform multiple linear regression analysis. The test results show that preventive and functional controls have a strong effect on budgets that are controlled effectively. In this study shows that preventive control and functional control together have an effect on the effectiveness of budget control. The budget function achieved as a control tool is the effectiveness of the budget.

**Keywords:** Budget · Preventive Control · Functional Control

## 1 Introduction

As a control tool, the budget provides a detailed plan for government revenues and expenditures so that expenditures are made accountable to the public [1, 2]. Each government agency has a budget for operational activities that support the work activities of the government agency. The budget is very important to achieve good performance and participate in the government's role to serve the community. Especially in the realization of expenditures [3] that cannot be accounted for by the Palembang city offices, found weaknesses in internal control and non-compliance with laws and regulations as quoted from the Report on the Inspection Results of the Financial Audit Agency on the Palembang City Government Financial Report 2020.

Local government was also asked by the Corruption Eradication Commission to strengthen regional inspectorates, as reported by Media Indonesia by [4]. The regional inspectorate is a navigator for regional governments that must be empowered to oversee development programs. Inspectorates can also be used to assess the efficiency of local government management, allocated budgets, and local revenues. The deputy chairman

of the Corruption Eradication Commission also warned that local governments must refrain from wasting budgets and so that regional officials do not abuse their positions. The role of the regional inspectorate is considered important to monitor the potential for budget waste, prevent irregularities, and oversee regional development programs.

This research is modification of [5] with an update on the adjustment of research variables, namely functional control and focusing on the Palembang city government. In order to obtain accurate results, sampling was carried out on all regional organizations of the Palembang city government, and saw the results of each variable which varied.

## 2 Literature Review and Research Hypotheses

Preventive control according to [6] is supervision carried out before the start of the implementation of an activity, or before the occurrence of state financial expenditures. Preventing irregularities in the implementation of activities is the main objective of preventive control. Evidence [5, 7–11] that preventive control has a positive and strong effect on effective controlled budgets. However, according to [12, 13] preventive controls do not have a strong effect on the effectiveness of budgetary controls.

Especially the regional organization, basically carries out preventive control in order to prevent deviations in budget execution. Local governments will be burdened and disadvantaged if significant deviations occur, but budget implementation must continue [2, 14]. This explanation shows how closely related preventive oversight and budget effectiveness are. There is no longer a budget that is not accounted for and can create a budget that is right on target according to the plan if the existing budget is monitored for its use according to its designation. The effectiveness of a budget is closely related to preventive oversight. The effectiveness of budget control will increase along with good preventive control.

Functional control [11] affects the effectiveness of budget control. However, functional control [12] is not strong enough to create effective control plans. Functional supervision [15] is supervision by an institution or section that has supervisory roles and duties through inspection, testing, investigation, and assessment. The responsibility to ensure that supervision is carried out properly rests with the institution/agency/core that carries out the supervision through inspection, testing, assessment, monitoring, and evaluation. This activity [16] is to ensure that the government of a region runs in line with the planning and statutory regulations stipulated in order to realize state employees who are protected from corruption, cooperation, and differences in treatment.

Research hypothesis:

H1 : The effect of preventive control on effectiveness of budget control.

H2 : The effect of functional control on effectiveness of budget control.

H3 : The effect of preventive control and functional control on effectiveness of budget control.

## 3 Research Methodology

The data analyzed were the results of questionnaire answers to regional apparatus organizations in the city of Palembang, totaling 32 as listed in [17]. This study used a

saturated sample with five respondents, including Budget User Authority, Expenditure Treasurer, Commitment Making Officials, Financial Administration Officials-Regional Work Units, and Technical Implementation Officers of Activities.

The analytical instrument used is a multiple linear regression program using SPSS type 26. With this analytical method [18] a measure of the magnitude of the influence of the observed variables will be obtained. The multiple linear regression equations in this study are:

$$EBC = a + \beta_1 PC + \beta_2 FC + e \quad (1)$$

Description:

EBC : Effectiveness of budget control  
 a : Constant  
 $\beta_1, \beta_2$  : Regression coefficient  
 PC : Preventive control  
 FC : Functional control  
 e : error

The tests carried out include the classical assumption test (which consists of normality, multicollinearity, and heteroscedasticity tests) and hypothesis testing.

## 4 Result and Discussion

The results of the hypothesis test show that the preventive control variable has a sig value of 0.000 which is smaller than 0.05, meaning that the variable is significant and has a  $t_{\text{count value}} (4.490) > t_{\text{table}} (1.981)$ . The test results show that the preventive control variable has a positive and partially significant effect on the effectiveness of budget control. Thus, it is concluded that  $H_0$  is rejected or  $H_1$  is accepted. Preventive control which has the dimensions of granting approval, authorization, asset security, and segregation of duties affects the effectiveness of budget control. The better the preventive control on regional organization in the Palembang city government, the better the level of effectiveness of budget control, and it will happen the other way around.

This evidence supports [5, 7–11, 19] it was found that preventive controls have a strong influence on effective financial planning controls. The existence of preventive control is needed because it can prevent problems from arising so as to help achieve control over budget execution. Preventive control [20] is supervision carried out on an activity before the activity is carried out so that it is expected to prevent irregularities. This interpretation is in line with [21] which states that preventive control is a form of prevention of irregularities that can burden or harm the state.

Furthermore, the hypothesis test produces a functional control variable that has a significance of 0.003 which is less than 0.05, meaning that the variable is significant and has a  $t_{\text{count value}} (3.083) > t_{\text{table}} (1.981)$ . Evidence is obtained where functional control has a strong effect partially on the effectiveness of budget control. So, we will get the conclusion of rejecting  $H_0$  or accepting  $H_1$ . Therefore, functional control with the dimensions of supervision, assessment, investigation, and assessment has an effect

on the effectiveness of budget control. Increasing functional control, budget control will be more effective, and vice versa.

Functional control has an influence on the effectiveness of budget control [11]. Functional control [15] is the supervision carried out by the institution/agency/unit which has the duty and function of supervising through inspection, testing, investigation and assessment. Supervision carried out by the institution/agency/core which has the task of supervising through inspection, testing, assessment, monitoring, and evaluation. The following regression equation:

$$\text{EBC} = 7.495 + 0.251 \text{ PC} + 0.228 \text{ FC} + e \quad (2)$$

The regression equation obtained explained:

1. The value 7.495 indicates that the independent variable, namely preventive control and functional control, is 0, then the effectiveness of budget control is 7.495.
2. The preventive control variable has a value of + 0.251, indicating that there is a unidirectional relationship between this variable and the effectiveness of budget control. If the value of this variable increases by one point, the effectiveness of budget control will also increase by 25.1%.
3. Value + 0.228, indicating a unidirectional relationship between functional control variables and budget control effectiveness variables. If this value increases by one, then the value of the effectiveness of budget control will increase by 22.8%.

Furthermore, the hypothesis test result  $t_{\text{count}} > t_{\text{table}}$  ( $4.490 > 1.981$ ) and sig value  $< 0.05$  are the values of the preventive control. This shows that preventive control does not have a very strong effect on the effectiveness of budget control.  $T_{\text{count}} > t_{\text{table}}$  ( $3.083 > 1.981$ ) and sig  $< 0.05$  are the values of the functional control. This indicates that functional control has limited effect on the effectiveness of budget control.

The computed F of the F statistical test is 28.034, as seen in the results of the F statistical test. The  $F_{\text{table}}$  of 3.08 yielded the following results.  $H_1$  is acceptable because  $F_{\text{count}} > F_{\text{table}}$ .  $H_3$  is accepted based on the significant value in the F test being less than 0.05, which is 0.000, and the estimated  $F_{\text{value}}$  being  $28.034 > 3.08$  ( $F_{\text{table}}$ ). As a result, preventive control and functional control all have an impact on poverty.

Preventive control and functional control together have a positive and significant effect on the effectiveness of budget control. This can be said to have a significant positive effect, it is obtained that the calculated  $F_{\text{value}} > F_{\text{table}}$  ( $28.034 > 3.08$ ). In addition, seen also from the level of significance obtained 0.000 which means less than 5%. Thus, it can be stated that overall the independent variables have a positive and significant influence on the effectiveness of budget control. This means that  $H_0$  is rejected or  $H_1$  is accepted. An increase in adequate performance-based budgeting as well as preventive control and maximum functional control will increase the effectiveness of budget control for the regional organization in the Palembang city government. This is also supported by the results of the coefficient of determination test that has been carried out. The Adjusted R Square value is 0.334, meaning that the magnitude of the influence given by the preventive control and functional control on the effectiveness of budget control variables in the regional organization in the Palembang city government is 33.40 percent.

Overcoming obstacles and deviations [19, 21] can be carried out efforts such as detecting and controlling deviations and their consequences. Detecting fraud needs to be done in order to prevent waste, leakage, and irregularities in the use of authority, energy, money, and state-owned equipment, so that an orderly, clean, authoritative, successful and efficient apparatus can be developed. The element of overcoming these obstacles and irregularities, especially on the obstacles of human resources in the preparation of the budget for the regional organization in the Palembang city government has gone well. This is because the dimensions of overcoming obstacles and deviations as indicators that have the highest value are found in human resource constraints in the preparation of the budget.

## 5 Conclusion

In the Palembang city government, it was found evidence that an effectively controlled budget is very dependent on preventive control and functional control partially or simultaneously. As well as for further research, researchers can use the regional organizations in a larger and wider environment such as the regional organizations in South Sumatra province, use a direct interview approach to collect data, add other variables in research, and specifically for the functional control variable it should be distributed only to those who are related, namely inspectorate.

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