
THE ROLE OF GOVERNMENT INTERN CONTROL SYSTEMS AND HUMAN RESOURCES COMPETENCE ON THE QUALITY OF FINANCIAL REPORTS WITH LEADERS' COMMITMENT TO MODERATION

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ABSTRACT

Quality financial reports can provide information about an organisation's performance, financial position and changes in a reliable, relevant way that can be understood and compared. This study aims to empirically examine the effect of the government's internal control system and human resource competence on the quality of financial reports with leadership commitment as a moderating variable. This research recruited 680 financial managers at the Ministry of Public Works and Public Housing as respondents. Research data were analysed using the SEM-PLS method by using the SmartPLS version 3.2 application as a data processing tool. The findings show that the government's internal control system and human resource capacity significantly affect the quality of financial reporting. A strong and structured internal control system provides a solid foundation for producing reliable and relevant financial reporting by applicable standards. In addition, high human resource capabilities in accounting and internal control can help improve the quality of financial reporting. This research implies providing a deeper understanding of the factors influencing the quality of financial reports within the government context, urging the government to enhance investments in the development of human resource competencies, particularly in terms of a more profound comprehension of accounting and financial reporting. Furthermore, this study could have a significant impact in enhancing the quality of financial reporting within the governmental environment and potentially in other organizations as well.

Keywords: quality of financial reports, government internal control systems, human resource competence, leadership commitment.

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INTRODUCTION

Financial reports are prepared to provide information regarding performance, financial position and change in an organisation's financial position that is useful for users in making decisions (Nuvitasari & Martiana, 2019). The scope of the public sector states that public sector financial reports represent the financial position of transactions carried out by a public sector entity (Aswandi, 2018). For government organisations, the presentation of financial reports aims to provide information used in making economic, social and political decisions as a form of accountability and to provide information for evaluating managerial and organisational performance (Mardiasmo, 2021). Government Accounting Standards prepare financial reports to achieve quality financial reports.

Reliable and relevant government financial reports can be used as a form of government accountability to the public in achieving its goals (Mardiasmo, 2021). Public accountability relates to the obligation to explain and answer questions about what has been, is being and planned in public

sector organisations (Bakke et al., 2016), as well as fulfilling the dimensions of financial accountability, in which public sector institutions must make reports to describe the organisation's financial performance to other parties, outside (Mardiasmo, 2021).

Previous research on government financial reports stated that only the Budget Realization Report and Balance Sheet in financial reports are periodically used by local governments in viewing performance (Nurkholis & Affandi, 2019). In his research, he stated that one thing that triggers the lack of government financial reports as a basis for decision-making is the existence of records that need to be more honest, transparent and accountable (Safkaur & Sagrim, 2019).

The central government's financial reports for 2021 have succeeded in obtaining an Unqualified Opinion (WTP) from BPK RI. However, more is needed to free the central government's financial statements from various problems. The BPK-RI examination of the central government's 2021 financial reports found 1,369 problems, with a total funding value of IDR 28.26 trillion (Finance, 2015). Of the problems found, 365 problems were related to weaknesses in the internal control system, and 470 problems had a financial impact with an affected value of IDR 27.71 trillion. The financial impact may arise due to non-compliance with applicable laws and deviations from administration.

Problems related to the discrepancy in the use of the budget and the misuse of the budget will certainly result in inaccuracies in the burdens presented in the financial statements, which will affect the reliability and relevance of the government's financial reports. This, of course, can make the process of determining the budget in the following years and evaluating the performance of the use of the budget inaccurate. For this reason, quality financial reports are needed not only as an instrument of accountability and evaluation but can also be used as a tool in planning budgeting. In his press release, the Inspector General of the Ministry of Finance stated that implementing good governance improvements and sustainable bureaucratic reforms can focus on two important aspects, human and system improvements.

According to agency theory, the community acts as the principal and the government as an agent who manages public funds. For managed public funds, the government presents financial reports as a form of accountability. Therefore, the public needs the confidence to ensure that financial reports are presented transparent, honest and by applicable regulations.

Based on the description of the background above, this research aims to find out and analyse to test empirically the influence of the government's internal control system and human resource competence on the quality of financial reports with leadership commitment as a moderating variable.

METHODS

This research was carried out using a quantitative approach; the data is in the form of numbers or numbers that can be processed and analysed using mathematical or statistical calculations (Sekaran & Bougie, 2017). The population of this study are all financial managers at the Ministry of Public Works and Public Housing. The sampling selection was carried out using the convenience sampling method, which obtained 680 people as respondents. This research used a statistical approach to explain the effect of the Government's Internal Control System and Human Resources

Competence on the Quality of Financial Statements, with Leadership Commitment as a moderating variable. The research data were analysed using the SEM-PLS method by making the SmartPLS version 3.2 application a data processing tool.

RESULTS AND DISCUSSION

Outer and Inner Model Testing

Measurement model testing is carried out to see the validation of the research model. Tests were carried out on convergent validity tests, discriminant validity tests and reliability tests.

Convergent validity test

Convergent validity aims to determine the validity of each relationship between the question items used and their latent variables (constructs). Convergent validity is all factor loadings should have a value exceeding 0.70. The following presents the results of outer loading for each indicator owned by each variable that is processed using SmartPLS data.

Table 1. Loading Factor

Variable	Indicator	Loading Factor
Quality of Financial Statements	KLK1	0.900
	KLK2	0.884
	KLK3	0.906
	KLK4	0.917
	KLK5	0.859
	KLK6	0.883
	KLK7	0.901
	KLK8	0.839
	KLK9	0.882
Government Internal Control System	SPI1	0.892
	SPI2	0.899
	SPI3	0.896
	SPI4	0.903
	SPI5	0.901
	SPI6	0.887
	SPI7	0.901
	SPI8	0.912
	SPI9	0.899
	SPI10	0.901
Human Resource Competency	SDM1	0.919
	HR2	0.922
	SDM3	0.821
	SDM4	0.904
	SDM5	0.893
	SDM6	0.937
	SDM7	0.911
Leadership Commitment	PIM1	0.932
	PIM2	0.911
	PIM3	0.946
	PIM4	0.938
	PIM5	0.928
	PIM6	0.864

From Table 1, it is known that all loading factor values from the indicators of Financial Report Quality, Government Internal Control System, Human Resource Competence, and Leadership Commitment are greater than 0.7. This shows that the indicators are valid.

Discriminant validity test

The discriminant validity test was carried out to prove that the gauges in the different constructs are not highly correlated. The parameter to test this validity is assessed using the cross-loading value of each indicator which must be more than 0.7. The model has good discriminant validity if each loading value of each indicator of a construct has the greatest loading value compared to other loading values for other constructs. The results of discriminant validity testing were obtained as follows:

Table 2. Cross Loading Table

Indicator	KLK	SPI	HR	PIM
KLK1	0.900	0.833	0.803	0.784
KLK2	0.884	0.813	0.790	0.772
KLK3	0.906	0.855	0.807	0.807
KLK4	0.917	0.866	0.819	0.827
KLK5	0.859	0.791	0.750	0.736
KLK6	0.883	0.844	0.786	0.803
KLK7	0.901	0.847	0.792	0.811
KLK8	0.839	0.777	0.751	0.739
KLK9	0.882	0.836	0.790	0.788
SPI1	0.832	0.892	0.778	0.807
SPI2	0.835	0.899	0.784	0.846
SPI3	0.816	0.896	0.775	0.807
SPI4	0.842	0.903	0.786	0.837
SPI5	0.843	0.901	0.782	0.796
SPI6	0.851	0.887	0.789	0.817
SPI7	0.842	0.901	0.789	0.830
SPI8	0.855	0.912	0.797	0.807
SPI9	0.854	0.899	0.814	0.804
SPI10	0.847	0.901	0.792	0.840
SDM1	0.829	0.827	0.919	0.818
HR2	0.816	0.816	0.922	0.789
SDM3	0.711	0.690	0.821	0.683
SDM4	0.777	0.770	0.904	0.769
SDM5	0.786	0.764	0.893	0.769
SDM6	0.845	0.840	0.937	0.834
SDM7	0.839	0.819	0.911	0.831
PIM1	0.853	0.875	0.835	0.932
PIM2	0.810	0.844	0.785	0.911
PIM3	0.818	0.850	0.802	0.946
PIM4	0.827	0.844	0.823	0.938
PIM5	0.829	0.852	0.819	0.928
PIM6	0.757	0.758	0.746	0.864

Based on the cross-loading value, it can be seen that all the indicators that make up each latent variable (construct) in this study have met discriminant validity because they have the largest cross-

loading value for the variables they form and not for other variables. Thus all indicators in each variable in this study have fulfilled discriminant validity.

reliability test

Reliability testing in this study used two methods, namely composite reliability and Cronbach. The construct is declared reliable if the composite reliability or Cronbach alpha value is above 0.70. In addition, to assess the reliability of a construct, it is also necessary to see that the AVE value must be greater than 0.5. The following are the results of AVE, composite reliability and Cronbach alpha:

Table 3. Model Evaluation

Variables	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
KLK	0.966	0.966	0.970	0.785
SPI	0.974	0.974	0.977	0.808
HR	0.961	0.963	0.968	0.813
PIM	0.964	0.965	0.971	0.847

The AVE value for the four variables is greater than 0.5; the composite reliability and Cronbach alpha values are above 0.70. So the construct has a good reliability value.

R-Square

Testing the inner or structural model is carried out to see the relationship between the research constructs. The structural model is tested by paying attention to the value of R2, which is how much the independent variable influences the dependent variable.

Table 4. Table R²

Variable	R ²	R ² Adjusted
Quality of Financial Statements	0.901	0.901

Table 4 shows the R-square value of Financial Report Quality of 0.901, indicating that the variable Quality of Financial Statements (KLK) is influenced by the Government Internal Control System (SPI) variable, Human Resource Competence (HR) and Leadership Commitment variable (PIM), as moderation of 90, 1%. In comparison, the remaining 9.9% is influenced by other variables outside the one being studied.

Evaluation of Hypothesis Testing

Based on the data obtained, a significance test has been carried out between the existing parameters and the following results are obtained:

Table 5. Evaluation of the Hypothesis Model

Influence	Original Sample	T Stat	P Values	Information
Government Internal Control System -> Quality of Financial Reports	0.605	14,433	0.000	Hypothesis 1: Supported
HR Competence -> Quality of Financial Reports	0.212	5,833	0.000	Hypothesis 2: Supported
Government Internal Control System with Leadership Commitment Moderation -> Quality of Financial Reports	0.022	0.664	0.253	Hypothesis 3: Not Supported
HR Competence with Leadership Commitment Moderation -> Quality of Financial Reports	-0.058	1,683	0.046	Hypothesis 4: Not Supported

The Influence of the Government's Internal Control System on the Quality of Financial Statements

The Public Accountant Professional Standard (SPAP) defines internal control as an integrated form that includes the organisation, methods and regulations companies use to protect their assets, maintain accounting information's accuracy and reliability, and ensure that the established management regulations are implemented consistently. Conceptually, the better the government's internal control system implementation, the higher the quality of the financial reports produced.

The results of research data testing obtained empirical evidence that the government's internal control system positively affects the quality of financial reports. Providing consistent results with previous research, this research reinforces the view that the government's internal control system plays a role in producing quality financial reports (Agbenyo et al., 2018) ; (Bonsu et al., 2022) ; (Young et al., 2018) ; (Ratmono, 2019).

Within the scope of agency theory, the government, as an agent, must provide quality information in the form of financial reports to the public as the principal. The government's internal control system responds to this obligation by ensuring that the financial reports presented comply with government financial accounting standards without any fraud or manipulation of data that causes information asymmetry that causes moral hazard risks and reduces efficiency in implementing organisational performance as well as decreasing the level of trust between agents and principals.

The Effect of Human Resource Competence on the Quality of Financial Statements

The competence of Human Resources plays a very important role in producing quality financial reports. Human resources with good competence will be able to carry out every stage carried out in the financial implementation process to produce financial reports that are relevant, reliable, comparable and understandable. Human resource competence can be assessed from knowledge of the field of work, skills and attitudes and behaviour.

The test results show that the competence of human resources affects the quality of financial reports. This supports previous research regarding the effect of human resources on the quality of financial reports conducted by (Bonsu et al., 2022); (Hartono & Ramdany, 2020); (Magdalena et al., 2022); (Rahman & Permatasari, 2021); (Ratmono, 2019).

In the context of agency theory, competent human resources certainly have good integrity and ethics to ensure that the financial reports presented are free from errors and fraud so that the possibility of information asymmetry between the principal and the agent can be avoided.

Leadership Commitment in Moderating the Influence of the Government's Internal Control System on the Quality of Financial Reports

Leadership commitment is very important in directing how the government's internal control system is implemented. Within the scope of government financial implementation, leaders generally play a key role in strengthening the influence of the government's internal control system on the quality of reports. With strong leadership commitment, careful oversight and the right culture, leaders can ensure that their financial reports are relevant and reliable.

The third hypothesis states that leadership commitment is not significant in strengthening the influence of the government's internal control system on the quality of financial reports. The results of the research conducted by this are supported by previous research conducted by research where

it was stated that the more number of leaders in an organisation has a significant effect on the occurrence of conflict within the organisation itself which will result in the production of inappropriate decisions (Wen et al., 2015). So that it can have a direct impact on the quality of existing internal controls. At present, it is known that public sector organisations are organisations that have many levels of positions and divisions. The results of this study are also supported by research, where it is stated that deficiencies in internal control associated with leadership policies are not properly evaluated, so this can result in the presentation of inaccurate information (Gramling & Schneider, 2018).

Leadership Commitment to Moderating Human Resource Competence on the Quality of Financial Reports

Leaders and human resources are the main factors influencing organisational outcomes (Zhao et al., 2020). High leadership commitment can create an environment that encourages the development of human resource competencies. Development of human resource competencies The leadership's commitment to human resource competencies can be demonstrated by allocating resources and providing the necessary training and guidance to improve employee competence in preparing quality financial reports.

The research results on the fourth hypothesis show a significant influence on the interaction of leadership commitment on human resource competence on the quality of financial reports. The results also show that human resource competence, moderated by leadership commitment, negatively affects the quality of financial reports. This is in line with the results of research conducted by research, which stated that leadership can weaken the influence of human resources in achieving organisational goals (Zhao et al., 2020). Another thing was also revealed by research that paternalistic leadership tends to provide relatively few opportunities for subordinates to make decisions (Zhao et al., 2020).

Another thing that can lead to a negative direction in the influence of human resource competence on the quality of financial reports moderated by leadership commitment is the need for more support and resources to support and develop human resource competencies. As a technical ministry, the Ministry of Public Works and Public Housing will certainly focus more on developing human resource competencies that support technical tasks and functions than developing human resources that are management support.

CONCLUSION

Based on the results of hypothesis testing and the discussion of research that has been presented in the previous section, it can be concluded that with the support of competent human resources supported by the implementation of the government's internal control system, it can improve the quality of the financial reports presented. By implementing the elements of the internal control system effectively in every process of financial management, the resulting financial reports will provide better quality so that they can be used as a form of government accountability to the public. Competence in human resources can improve the quality of financial reports where competent human resources will be able to carry out each stage carried out in the financial

implementation process to produce financial reports that are relevant, reliable, comparable and understandable.

Another finding from this study is that leadership commitment cannot strengthen the influence of the government's internal control system on the quality of financial reports. Leadership commitment is very important in directing how the government's internal control system is implemented. The role of leaders in moderating the internal control system can be influenced by the number of leaders in an organisation, where a greater number of leaders will open up the risk of conflicts of interest which can cause the internal control system to become ineffective, thereby affecting the quality of financial reports presented. Leadership commitment is also not proven to be able to strengthen the influence of human resource competence on the quality of financial reports. It is hoped that high leadership commitment will present an environment that can encourage the development of human resource competencies. However, leadership that is carried out by adhering to a hierarchy or sequence of positions can reduce the role of competent human resources in presenting quality financial reports.

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