


Analysis of factors affecting the quality of financial statements of central government institutions: An empirical study in Indonesia



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ABSTRACT

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This study examines the elements that influence the quality of financial statements within the central government agencies of Indonesia. It highlights the significance of sound governance, accounting practices, skilled human resources, and robust internal audits, with the internal control system serving as a mediating factor. A diverse range of stakeholders participated in the study, including high school graduates, echelon one officials, administrative staff, auditors, accounting and finance professionals, budget and program management officers, and treasurers. Employing purposive sampling, 168 individuals were selected, and data analysis utilized the Partial Least Squares Structural Equation Modeling (PLS-SEM) approach. The results show that the internal control system's performance is affected by a solid accounting system, competent human resources, and a proficient internal audit. Likewise, financial reporting quality is influenced by good governance, the effectiveness of the internal control system, and the efficiency of internal audits. In this context, the internal control system serves as a bridge linking human resources competence to the quality of financial reporting. The study highlights the necessity for policies that foster transparency, maintain confidentiality, adopt standardized accounting practices, enhance human capital, ensure audit independence, broaden internal audit scopes, and strengthen internal control systems.

Contribution/ Originality: The selection of research subjects through random testing focuses on central government agencies. This study explores how good governance interacts with internal audit variables, particularly their effect on the quality of financial reports, with the internal control system serving as a mediating factor.

1. INTRODUCTION

Quality financial reports are essential tools for achieving transparent and accountable government administration (Setyanto & Ritchi, 2018). Quality financial reports are produced through reliable and relevant accounting transaction information that is reflected in the opinion. Over the last 10 years, specifically from 2012 to 2021, a notable phenomenon occurred: the four Central Government Institutions received Audit Result Reports from the Audit Board of Indonesia with an Unqualified Opinion. However, some groups still hold misunderstandings regarding this opinion. The Audit Board of Indonesia's opinion does not imply that fraud is nonexistent or will never happen; instead, it is a professional assertion from the auditor about the trustworthiness and fairness of the financial reports created by the agency. Furthermore, the President of Indonesia declared that the Unqualified Opinion is not an achievement, but rather an obligation to manage the state budget effectively. It means that there are still state ministries and institutions that have not fulfilled their financial management obligations properly (Ihsanuddin, 2017).

Table 1. Audit results of central government financial reports from 2012 to 2021.

| Financial Statements (Year) | The central government | The audit board of Indonesia's opinion | | | | |
|-----------------------------|--|--|------------------------------|-------------------|-----------------|-----------------------|
| | | Unqualified opinion | Modified unqualified opinion | Qualified opinion | Adverse opinion | Disclaimer of opinion |
| 2012 | Ministry of Health | - | √ | - | - | - |
| | Ministry of Maritime Affairs and Fisheries | - | √ | - | - | - |
| | Indonesian Agency for Meteorology, Climatology, and Geophysics | √ | - | - | - | - |
| | The national agency for disaster countermeasures | √ | - | - | - | - |
| 2013 | Ministry of Health | √ | - | - | - | - |
| | Ministry of Maritime Affairs and Fisheries | - | √ | - | - | - |
| | Indonesian Agency for Meteorology, Climatology, and Geophysics | √ | - | - | - | - |
| | The national agency for disaster countermeasures | - | √ | - | - | - |
| 2014 | Ministry of Health | √ | - | - | - | - |
| | Ministry of Maritime Affairs and Fisheries | - | √ | - | - | - |
| | Indonesian Agency for Meteorology, Climatology, and Geophysics | - | - | √ | - | - |
| | The national agency for disaster countermeasures | √ | - | - | - | - |
| 2015 | Ministry of Health | √ | - | - | - | - |
| | Ministry of Maritime Affairs and Fisheries | √ | - | - | - | - |
| | Indonesian Agency for Meteorology, Climatology, and Geophysics | √ | - | - | - | - |
| | The national agency for disaster countermeasures | √ | - | - | - | - |
| 2016 | Ministry of health | √ | - | - | - | - |
| | Ministry of Maritime Affairs and Fisheries | - | - | - | - | √ |
| | Indonesian Agency for Meteorology, Climatology, and Geophysics | √ | - | - | - | - |
| | The national agency for disaster countermeasures | √ | - | - | - | - |
| 2017 | Ministry of Health | √ | - | - | - | - |
| | Ministry of Maritime Affairs and Fisheries | - | - | - | - | √ |
| | Badan Meteorologi, Klimatologi, & Geofisika | √ | - | - | - | - |
| | The national agency for disaster countermeasures | √ | - | - | - | - |
| 2018 | Ministry of Health | √ | - | - | - | - |
| | Ministry of Maritime Affairs and Fisheries | √ | - | - | - | - |
| | Indonesian Agency for Meteorology, Climatology, and Geophysics | √ | - | - | - | - |

| Financial Statements (Year) | The central government | The audit board of Indonesia's opinion | | | | |
|-----------------------------|---|--|------------------------------|-------------------|-----------------|-----------------------|
| | | Unqualified opinion | Modified unqualified opinion | Qualified opinion | Adverse opinion | Disclaimer of opinion |
| | The national agency for disaster countermeasures | √ | - | - | - | - |
| 2019 | Ministry of Health | √ | - | - | - | - |
| | Ministry of Maritime Affairs and Fisheries | √ | - | - | - | - |
| | Indonesian agency for meteorological, climatological, and geophysical services. | √ | - | - | - | - |
| | The national agency for disaster countermeasures | √ | - | - | - | - |
| 2020 | Ministry of Health | √ | - | - | - | - |
| | Ministry of Maritime Affairs and Fisheries | - | - | √ | - | - |
| | Indonesian agency for meteorological, climatological, and geophysics | √ | - | - | - | - |
| | The national agency for disaster countermeasures | √ | - | - | - | - |
| 2021 | Ministry of Health | √ | - | - | - | - |
| | Ministry of Maritime Affairs and Fisheries | √ | - | - | - | - |
| | Indonesian Agency for Meteorological, Climatological, and Geophysical Sciences | √ | - | - | - | - |
| | The national agency for disaster countermeasures | √ | - | - | - | - |

Source: <https://www.bpk.go.id/ihs/2024/I>.

Table 1 shows the audit results of central government financial reports from 2012 to 2021. In 2021, the Ministry of Health's financial report received an unqualified opinion, indicating compliance with government accounting standards, adequate disclosures, adherence to legal requirements, and the effectiveness of its internal control system. However, the Audit Board of Indonesia noted several areas needing improvement in how the Ministry manages the state budget. Specifically, deficiencies were identified in the internal control mechanisms related to task implementation, the acquisition of government goods and services, and the distribution process for the COVID-19 vaccine. The Audit Board recommended that the Minister of Health strengthen oversight of the assignment, procurement, and vaccine distribution processes. To achieve these standards, the Ministry of Health has secured an unqualified opinion issued by the Audit Board for nine consecutive years, starting in 2013 (Anti-Corruption Education Center, 2024).

The audit results for the Ministry of Marine Affairs and Fisheries' financial reports from 2012 to 2021, including their quality, do not ensure the dependability of the information and responsibility in state financial management. The assessments of the financial reports for 2012 to 2014 were classified as modified unqualified opinions, mainly attributed to deficiencies in the internal control system. These included inadequate management of grants and inventory, as well as the uncertain status of fixed assets. In 2016 and 2017, the Audit Board of Indonesia issued disclaimer opinions regarding the financial reports of the Ministry of Marine Affairs and Fisheries. They noted that the 2016 financial report for the ministry received this opinion due to insufficient resolution of accountability issues. The ministry budgeted 209 billion rupiah for procuring approximately 750 vessels for fishermen, with the process

intended to be completed by December 31, 2016, and extended to March 2017. However, by the end of 2016, only 48 vessels had been documented as realized and had completed the handover administration required for accountability, while the program funds had been fully disbursed (Rahmah, 2017). In the 2017 financial report, the Ministry of Marine Affairs and Fisheries also received a disclaimer of opinion. According to the Audit Board of Indonesia, the Ministry's spending realizations lacked complete supporting evidence, and their validity was questionable. The expenditures were considered unrealistic, as they exceeded the maximum budget ceiling, and the accountability evidence could not be verified. Furthermore, oversight of goods and services procurement, along with inventory and asset management to fulfill payment responsibilities, was inadequate. Additionally, while the 2020 financial report from the Indonesian Ministry of Maritime Affairs and Fisheries received an unqualified opinion, this does not guarantee the prevention of corruption. In 2020, Indonesia's Minister of Maritime Affairs and Fisheries was arrested by the Corruption Eradication Commission for allegedly accepting bribes related to the processing of lobster cultivation permits and lobster seed exports (BBL), amounting to 25.7 billion rupiah from lobster seed exporters (Iqbal, 2021). The unqualified opinion indicates that the entity's internal control system is reliable. It has effectively met its objectives in implementing activities, managing finances, securing assets, and complying with legal standards. This effectiveness minimizes the chances for employees and officials to participate in corrupt practices.

The Audit Board of Indonesia has provided an Unqualified Opinion regarding the 2021 Financial Report of the Indonesian Agency for Meteorological, Climatological, and Geophysical Affairs. This Unqualified Opinion marks the seventh consecutive time the Agency has attained this status since 2015. However, the Audit Board uncovered issues related to deficiencies in the Internal Control System as well as cases of entities not adhering to laws and regulations. Despite the weaknesses in the Internal Control System, the Audit Board identified further issues within entities, particularly concerning the management of fixed assets. Additionally, concerning violations of laws and regulations, the Audit Board highlighted budgeting misclassifications for goods and services expenditures, as well as capital expenditures. It noted issues in the procurement process for goods and services, such as excess payments, inflated prices, uncollected fines from partners, and unaccountable accountability. Furthermore, in 2014, the Indonesian Agency for Meteorological, Climatological, and Geophysical Affairs experienced a decline in the acquisition of financial report opinions, specifically Qualified Opinions. In contrast, it was known that the Agency obtained Unqualified Opinions in its financial report assessments in 2012 and 2013. The decrease in opinions in 2014 indicates a decline in accountability and a lack of competence in managing state finances, particularly in areas such as procurement, asset management, and treasury (Budiman, 2016).

The National Agency for Disaster Countermeasures (BNPB), formed as a non-departmental government institution between 2008 and 2009, initially received a disclaimer of opinion from the Audit Board of Indonesia. By 2010, this opinion improved to a qualified opinion, and from 2011 to 2021, BNPB consistently secured an unqualified opinion for its financial reports. This marks ten consecutive years of recognition for the agency's financial reporting quality. However, the Audit Board of Indonesia recommended that BNPB enhance the quality of its financial statements by implementing the Audit Board's recommendations concerning weaknesses in the internal control system and the agency's compliance with laws and regulations (Humas BPK, 2022).

A review by the Audit Board of Indonesia from 2012 to 2021 revealed that four government agencies consistently received an Unqualified Opinion for their financial statements. The report emphasized the critical need to enhance state financial management to generate high-quality financial reports. This recommendation stems from identified challenges, including shortcomings in the internal control system, budget misclassifications in the accounting framework, and breaches of existing laws and regulations.

An essential strategy for preventing fraud is to establish a robust accounting system within the government and to ensure the accuracy of financial information provided by government agencies, as specified in the State Financial Audit Standards (Audit Board of the Republic of Indonesia, 2017). The accounting system has undergone significant evolution over the years, consistently producing high-quality financial reports. Before 2015, the basis for recording

was cash-based, and the system used for preparing financial reports was the SAKPA (Budget User Authority Accounting System) application. Starting in 2015, the accounting basis shifted to accrual-based, using the SAIBA (Accrual-Based Agency Application System) application. In Indonesia, the Minister of Finance acts as the State Treasurer and has improved the application of the accounting system to minimize recording errors and produce high-quality financial reports.

To generate high-quality financial reports, it is essential not only to fulfill the qualitative characteristics of these reports but also to have skilled personnel who understand government financial accounting, including its recording and reporting requirements. The role of human resources is vital in producing these reports, as those involved in preparation must possess a strong grasp of Government Accounting Standards (GAS). Effective human resources are essential for achieving organizational goals, as their skills are vital for successfully implementing the accounting information system. This, in turn, guarantees the production of quality financial reports.

According to [Sedarmayanti \(2017\)](#), competence is indicated by the ability to complete work with satisfactory results. A worker is considered competent if he/she show good performance, and vice versa. If a worker has poor performance, then it is said that the worker is incompetent. Human resource competence encompasses a person's distinct abilities, skills, knowledge, and responsibilities. According to [Wibowo \(2017\)](#), several factors, including beliefs and Values, Skills, Experience, Motivation, and Emotional Issues, can influence a person's competence. The competency indicators according to [Wibowo \(2017\)](#) namely Knowledge and Information, Ability/Skills, and Behavioral Attitudes. Good human resources possess the necessary knowledge, skills, and behavioral attitudes required to prepare financial reports effectively and clearly understand the procedures involved in their preparation.

Additionally, the effectiveness of internal audits significantly impacts the quality of financial reports. By establishing clear guidelines for their auditing practices, internal auditors can ensure that their audits meet high standards. When viewed in the context of audit quality and the numerous cases of weaknesses in the internal control systems of central government institutions, it can be said that audit quality remains lacking because internal auditors have failed to execute their functions and responsibilities during audits properly. This aligns with Law Number 15 of 2004 from the Republic of Indonesia, which stipulates that during audits, the Audit Board of Indonesia may utilize results from audits conducted by the Government Internal Supervisory Apparatus to improve the management and accountability of public funds. Internal supervision includes all aspects of audit activities, such as reviews, evaluations, monitoring, and supervisory functions related to the organization's responsibilities. This procedure provides sufficient assurance that activities are conducted effectively and efficiently, based on established benchmarks, thereby aiding leadership in its pursuit of good governance. Internal auditors are required to be professional in various matters related to efforts to improve quality standards, planning, implementation, and reporting of audit results, as well as follow-up and evaluation of audit results. Therefore, the professional attitude of internal auditors has become a requirement of the times because only those who behave and view professionally will make a significant contribution to both the organization and the individual. Internal audit is crucial for establishing an internal control system that produces quality financial reports. However, current research has yet to explore the pertinent variables, prompting researchers to investigate the hypothesis.

The internal control system is a crucial, ongoing process that involves both leadership and staff in achieving organizational goals through effective operations, safeguarding public resources, and complying with relevant laws. When executed properly, the Government Internal Control System (GICS) enhances the integrity of public sector institutions by fostering positive outcomes, producing reliable financial data, and minimizing potential financial losses through staff adherence to regulatory standards. Without a robust internal control framework, the reliability of government financial reporting is compromised. Conversely, a well-functioning internal control system is essential for generating high-quality financial statements.

Prior studies emphasize the essential function of internal control systems in improving financial reporting quality within public sector organizations. Essential organizational factors include effective governance, robust accounting

information systems, efficient audit processes, and qualified human resources, which have been identified as potential drivers of internal control effectiveness. For instance, several researchers (e.g., (Hanifa, 2019; Lawita, 2020; Safira, 2022; Wahyuni, Rinaldi, & Saputra, 2022; Yusuf & Kanji, 2020)) found that robust accounting systems and internal audit practices positively affect internal control implementation. Abd Fayyadh, Azhar, and Jalaludin (2022) and Herliana and Kuntadi (2023) have provided research regarding how internal audit practices affect the effectiveness of internal control system implementation. According to Karubaba (2022), internal audits significantly impact the internal control system. Other studies, Rais, Oemar, Seswandi, and Wahyuni (2022); Puspita and Ariani (2023); Widyastuti (2022), and Heinrich and Probohudono (2023), highlight the importance of skilled human resources in supporting control system performance. However, inconsistencies remain regarding the influence of internal audits, as noted by Nisa and Haryanto (2021), who found limited impact.

Consequently, prior studies have largely overlooked the impact of good governance and the accounting system as independent variables on the internal control system, particularly because mediating variables have not been extensively investigated. This study suggests that effective governance and the accounting system, considered as separate factors, influence the internal control system, which serves as a mediating variable.

In contrast, many studies have examined the impact of Good Governance, robust accounting systems, skilled personnel, and effective internal audits on the quality of financial reports. Gamayuni (2017), Lovisa (2022), and FuPing and Loang (2023) emphasize that internal audits do impact this quality. However, findings from Sumito, Setiyawati, and Mappanyukki (2021) contradict this, suggesting that internal audits do not affect financial report quality. Ikrar (2018) showed that the quality of reports is influenced by the financial accounting system. While Indraswari and Suputra (2018) found that good governance also plays a role. These findings are supported by Kewo and Mamuya (2019), who state that both good governance and internal audit effectiveness impact financial reports. Fauziyah (2019) established that the financial accounting system influences report quality, while human resource competency does not. Nuraini, Kirmizi, and Kamaliah (2019) reported that good governance does not impact report quality, aligning with their findings on human resource competency, which also shows no effect. On the other hand, Sumaryati, Novitasari, and Machmuddah (2020) and Mispa and Nuramal (2022) discovered that human resources proficiency influences the quality of financial reports, but it is unaffected by the financial accounting system. Vicky and Romli (2022) indicated that both the financial accounting system and good governance affect the quality of financial reports. Agustiningtyas, Tyasari, and Yogivaria (2020) observed that strong governance and internal control systems impact report quality, whereas human resource competence appears to have no effect. Masnila, Firmansyah, Febriantoko, Mayasari, and Said (2022) concluded that good governance does not significantly affect financial report quality, while Hanifah and Haryanto (2021) claimed that good governance contributes minimally to quality financial reporting; in contrast, the government accounting system significantly impacts it. Furthermore, Arista, Ziah, Eprianto, Kuntadi, and Pramukty (2023) and Lubis, Rusydi, and Prastiwi (2023) discovered that the abilities of human resources influence the quality of reporting. While Angelita and Saifhul (2022) noted that personnel ability has no effect. Rangkuti (2022) showed that the quality of reporting is affected by the auditor's financial accounting system, human resource skills, and responsibilities. Samsiah, Annie, and Winarni (2023) confirmed that accounting systems, HR capabilities, and good governance influence the quality of financial reporting.

Numerous studies have examined the impact of internal control systems on the quality of financial reports. Notable researchers such as Saraswati and Budiasih (2019); Munggaran, Suratno, and Yusuf (2020); Agustiningtyas et al. (2020); Kania and Tanjung (2021); Yahya and Matriano (2022); Arista et al. (2023); Suratman, Hendri, and Muhammad (2022); Mispa and Nuramal (2022); Heinrich and Probohudono (2023); Anto and Yusran (2023) and Pangaribuan, Denok, Aprih, Endah, and Harsono (2023) concluded that establishing an internal control system enhances the quality of financial reports. Nonetheless, this conclusion conflicts with findings from other researchers, including Sitorus and Setiyawati (2019); Sumito et al. (2021); Sumaryati et al. (2020); Sari, Afifah, Susanto, and Sueb

(2019); Agustina and Indrayani (2021); Silaen, Ramadhan, and Riska (2022), and Suhemi and Setiyawati (2023), who found that this implementation does not compromise the quality of financial reports.

A growing number of studies have explored how good governance, accounting systems, internal audit effectiveness, and human resource expertise influence the quality of financial reporting, particularly emphasizing the mediating role of internal control systems. Abuhag and Al-Heety (2018) emphasized that internal controls serve as a mediating mechanism linking the accounting system to financial report quality. Likewise, Bahnuna and Noch (2018) and Hanifa (2019) highlighted the influence of accounting systems on the quality of reports via internal controls. Conversely, Saraswati and Budiasih (2019) challenged this view, asserting that the internal control system does not influence how accounting systems affect reporting quality.

Several researchers have examined the role of human resource competence in enhancing the quality of financial reporting, often viewing internal control systems as mediating factors. Rais et al. (2022) illustrated that these internal control systems effectively act as intermediaries, connecting human resource competence to improved financial reporting outcomes. Likewise, Pradono, Hidayah, and Harjanto (2021) highlighted that internal control mechanisms play a crucial role in mediating the link between human resource competence and accounting information systems, ultimately influencing the quality of financial reports. Consistent with this, Nisa and Haryanto (2021) found that internal controls reflect the effect of human resource capabilities on the performance of financial reporting.

Despite these findings, the debate continues regarding the role of internal controls in influencing the relationship between internal audit effectiveness and the quality of financial reports. Some scholars argue for its significance, while others refute it. For instance, Rahmawati, Sonita, Kholid, and Sofyani (2022) suggested that internal controls indirectly link human resource competence to reporting quality. This was echoed by Rozi, Putra, and Apriliawati (2022), who confirmed the role of internal controls in linking human resources to the quality of financial reports. Widyastuti (2022) and Adiguna (2023) demonstrated a similar indirect link, where internal control systems shape the impact of human resource quality on report quality. Additionally, these studies suggest that internal controls may mediate the connection between internal audits and report quality. However, not all findings are consistent. Puspita and Ariani (2023) concluded that internal controls do not significantly mediate the impact of human resource skills on the quality of financial reports. In contrast, Heinrich and Probohudono (2023) provided evidence that internal control systems do function as mediators between the quality of financial reports, human resource competence, and internal audit coverage.

This research utilized random testing in various important government agencies, including the Ministry of Health, the Ministry of Maritime Affairs and Fisheries, the Indonesian Agency for Meteorology, Climatology, and Geophysics, and the National Agency for Disaster Countermeasures. Earlier research mainly examined the quality and accountability of financial reports from regional governments, treating these as dependent variables. This study takes a new approach by randomly selecting central government agencies that have not been previously analyzed. It explores the connection between good governance and internal audits, highlighting the substantial role of the internal control system as a mediating factor. It aims to assist the ministers or heads of institutions in identifying key elements and practical strategies for enhancing program and activity budget planning, ultimately resulting in improved financial report presentations.

This research enhances the scientific corpus by providing empirical evidence and augmenting the literature on governmental financial accounting. It underscores the significance of effective governance, the utilization of accounting systems, the availability of skilled human resources, and the role of efficient internal audits in enhancing the quality of financial reports, facilitated by the implementation of internal control systems as a mediating function. Policy contributions, the findings of this study are expected to provide meaningful input and serve as a foundation for consideration by ministers and heads of institutions in developing strategic policies and procedures. These efforts aim to improve the quality of financial reporting by emphasizing the importance of good governance practices, the effective use of accounting information systems, the enhancement of human resource competencies, and the

strengthening of internal audit functions. The implementation of internal control systems is positioned as a mediating factor that links these elements to the improvement of financial report quality. Practical contributions, this study also offers practical guidance for ministers and heads of institutions in designing and organizing programs, activities, and budget planning. These initiatives are intended to support the preparation and presentation of financial reports that are of higher quality, more accurate, and more transparent. Academic contributions, the results of this study are expected to contribute to the academic field by offering new insights, supporting scholarly discussions, and enriching the body of literature related to factors that influence the implementation of good governance in the public sector. These factors include the use of accounting systems, the availability of competent human resources, and the effectiveness of internal audits in enhancing the quality of financial reporting. The findings can also serve as a useful reference for future research in the areas of public sector accounting and governance. Professional contributions, for the professional field, this research is anticipated to provide relevant information and serve as a reference for practitioners involved in government financial accounting. It is intended to support the improvement of financial reporting quality by highlighting the significance of good governance practices, the use of accrual-based accounting systems, the presence of skilled personnel, and the execution of comprehensive audit programs. The study also emphasizes the role of internal control systems as a mediating mechanism that links these elements to enhanced financial reporting outcomes.

2. LITERATURE REVIEW

2.1. Agency Theory

Agency theory explains that agents have informational advantages over principals, indicating a situation of information asymmetry. The interests of agents and principals differ, leading to a principal-agent problem. The principal acts as a party that shares information with the agent to manage it, which is then used for decision-making (Siahaan, Surya, & Zarefar, 2019). Agency theory suggests that conflicts arise from differing interests between the principal and the agent, necessitating an independent party, specifically an auditor appointed by management (the principal).

The relevance of agency theory to this study lies in the fact that government institutions act as parties given the mandate (as agents) to present financial reports required by stakeholders. Ministers or heads of institutions should effectively lead and coordinate state financial management while providing transparent and accountable financial reports. Accountability and transparency require holders of public trust to be responsible for their performance and to provide open information regarding financial accountability reports. Increasing accountability and transparency in financial management can reduce information asymmetry, thereby limiting the possibility of problems in financial management. Moreover, to mitigate agency problems, an independent mediator, commonly referred to as an auditor, is necessary to resolve conflicts and mitigate the impact of information asymmetry.

2.2. Stewardship Theory

According to Stewardship Theory, a strong connection exists between organizational satisfaction and success. This perspective emphasizes a governance approach that aligns managerial behavior with the organization's interests, notably through the establishment of internal audit functions that enhance value and contribute to achieving institutional objectives. In the context of financial reporting, the government acts as a steward by delivering financial information that is useful for stakeholders, particularly the public and policymakers, to support informed decision-making (Stirilita & Andayani, 2021).

This study highlights how stewardship theory accounts for government institutions that operate in the public good, fulfilling their roles with financial accountability to reach public service objectives. Stewards apply their skills to ensure effective internal controls, resulting in the generation of high-quality financial reports. The relationship between stewardship theory and its existence is more directed at promoting transparency and accountability, which

stewards carry out towards the principal by preparing quality financial reports. Achieving good financial performance and facilitating the preparation of accurate financial reports can also be realized through effective governance and internal control systems.

2.3. Compliance Theory

Stanley Milgram introduced the concept of Compliance Theory in 1963. Compliance theory is a concept that encourages individuals to obey and adhere to established rules and regulations. Compliance theory asserts that regulatory compliance is primarily influenced by internal norms, contingent on employee understanding and awareness. Additional factors include normative commitment through morality and legitimacy. Normative commitment rooted in personal morality involves following the law as an obligation, whereas normative commitment based on legitimacy entails adhering to regulations because the authority that created the law has the right to govern behavior (Marlina, 2018).

This study's relevance stems from a deeper exploration of the factors influencing compliance with financial statement presentations, ensuring they effectively serve financial statement users and contribute value to the organization.

2.4. Spencer's Competency Theory

This study employs Spencer's Competency Theory to explain human resource competencies. The theory defines competency as the core traits of an individual, including knowledge, skills, and attitudes, serving as a basis for assessing performance. Spencer's Competency Theory identifies five key competency characteristics: motivation, traits, self-concept, knowledge, and skills. Human resource management is conducted based on competencies. Improving human resource competencies aims to increase efficiency, effectiveness, and responsiveness, thereby enhancing organizational performance through the development of knowledge and human resources. Its relevance to this study is that competency must be inherent in every individual, enabling them to predict behavior broadly across various conditions and job tasks, which is directed at increasing efficiency, effectiveness, and responsiveness to improve organizational performance.

2.5. Decision-Usefulness Theory

The Decision-Usefulness Theory was first proposed in 1954 in the Dissertation, "An Accounting Concept of Revenue" by Staubus (2000). In the early stages, this theory was known by another name, namely, an accounting theory designed for investors (Staubus, 2000). When linked to financial reports, the quality will improve if they adhere to Government Accounting Standards, which align with the decision-usefulness theory. Financial reports are deemed to be of high quality when their information is relevant, reliable, understandable, and comparable.

This theory emphasizes that accounting information is governed by the rules required for the elements of financial reports. This ensures that these reports assist in decision-making and demonstrate accountability in resource utilization, stemming from the principles of public sector financial reporting that adopts an accrual basis.

2.6. Good Governance and an Internal Control System

Implementing effective governance principles is essential for establishing a strong organizational foundation, which includes its systems, structure, and culture, as well as fostering a dependable internal control framework. This control system is vital for leaders and employees to consistently meet organizational goals by ensuring operational efficiency, reliable financial reporting, safeguarding assets, and compliance with laws and regulations. A sound internal control system is crucial for effective governance. This concept aligns with Stewardship Theory, which emphasizes the steward's responsibility to prioritize the principal's best interests by securing solid financial outcomes and promoting accurate financial reporting. These goals can be achieved through well-implemented governance and

a robust internal control framework. Supporting this, [Safira \(2022\)](#) found that good governance significantly influences the internal control system. Consequently, the proposed hypothesis is:

H₁: Good Governance affects the internal control system.

2.7. Accounting System and Internal Control System

The accounting system encompasses processes and records designed to identify, organize, analyze, classify, record, and report an agency's financial transactions, ensuring accountability for associated assets and liabilities. As a vital element of an organization's internal control framework, it facilitates the timely recording of accounting transactions in their appropriate periods. This timely approach facilitates the generation of quality financial reporting information, characterized by timeliness, relevance, accuracy, completeness, and auditability. For an effective system, each part must fulfill its designated duties and responsibilities. Internal control is one essential element of the accounting information system that ensures its efficient operation. This pertains to the Decision Usefulness Theory, which stipulates that accounting information must conform to specific rules for financial reporting components to be beneficial in making decisions and to illustrate the reporting entity's accountability for the resources it has been given, as outlined in the public sector financial reporting model. Studies have been conducted to explore the impact of the accounting system on the internal control system by [Hanifa \(2019\)](#), [Lawita \(2020\)](#), [Yusuf and Kanji \(2020\)](#), and [Pangaribuan et al. \(2023\)](#). Based on the description, the hypothesis formulated is:

H₂: The accounting system affects the internal control system.

2.8. Human Resource Competence and Internal Control System

Competent human resources are crucial for institutions and organizations to enhance employee performance, ensure compliance with regulations, and effectively execute government activities. When employees working in the internal control system are competent, they serve as examples or role models for employees in other parts of the institution.

Human resource competence is a crucial aspect within the organization's scope, as competent human resources enable it to provide clear direction, job descriptions, and various procedures that must be applied, including implementing an internal control system. This internal control system aims to enable a government agency to operate in compliance with relevant regulations, prevent rule violations, and achieve its objectives ([Sitorus & Setiyawati, 2019](#)).

As a result, the agency's skilled staff will act more professionally, follow regulations, and strive to fulfill the organization's objectives outlined in the internal control system. This strategy aligns with Compliance Theory, which argues that employees required to comply with the law are also expected to adhere to internal controls. A study was conducted to demonstrate how human resource competency impacts the internal control system by [Rais et al. \(2022\)](#) and [Puspita and Ariani \(2023\)](#). Based on this, the following hypothesis is formulated:

As a result, competent staff within an organization are more likely to act professionally, comply with established rules, and remain committed to achieving the agency's goals as structured in the internal control framework. This concept is supported by Compliance Theory, which asserts that employees who obey legal standards also have an obligation to adhere to internal control mechanisms. The influence of human resource competence on internal control systems has been examined in studies by [Rais et al. \(2022\)](#) and [Puspita and Ariani \(2023\)](#). Drawing from these insights, we propose the following hypothesis:

H₃: Human resource competence affects the internal control system.

2.9. Effectiveness of Internal Audit and Internal Control System

A robust internal control system is vital for government agencies. It should be executed efficiently to meet the organization's objectives. This involves implementing all internal control components, including executing activities

that support organizational goals, ensuring the reliability of financial reports, protecting assets, and adhering to relevant regulations. The internal audit plays a protective role during this process, ensuring that programs, activities, and budgets comply with established rules.

The internal audit is essential in preventing and reducing the risk of fraudulent transactions, thereby promoting the creation of honest, accurate, and accountable financial reports. Its independent nature serves as a safeguard, ensuring that the internal control system functions effectively. The increased efficiency of the internal audit meets its key responsibilities and significantly enhances the value of the organization's internal control system. Various studies, including those by Yusuf and Kanji (2020), Wahyuni et al. (2022), Abd Fayyadh et al. (2022), Karubaba (2022), Widyastuti (2022), and Herliana and Kuntadi (2023), have demonstrated how effective internal audits influence the internal control system. Thus, the established hypothesis is:

H₄: Internal audit effectiveness affects the internal control system.

2.10. Good Government and Quality of Financial Reports

Agency theory links strong governance practices to enhance the quality of financial reporting. Effective governance enables the government, in its role as an agent, to operate transparently and efficiently on behalf of the public, which in turn builds trust and reinforces the accountability relationship with financial information users (the principals).

Implementing good governance within government agencies serves as a benchmark for fostering trusted government performance. Through effective governance, sound financial management practices, and personnel performance, the financial report preparation process is organized to promote efficient operations. This aligns with Agency Theory, which posits that the Minister or Head of the Institution, an entity of the Central Government, should fulfill their responsibilities in managing state finances and delivering transparent, accountable reports. By increasing accountability and transparency in financial management, information asymmetry can be reduced, thereby minimizing potential issues. Research conducted by Indraswari and Suputra (2018); Kewo and Mamuya (2019); Agustiningtyas et al. (2020) and Samsiah et al. (2023) provides evidence that Effective governance influences financial quality reports. Therefore, the hypothesis established is:

H₅: Good governance affects the quality of financial reports.

2.11. Accounting System and Quality of Financial Reports

Technology has developed rapidly, making access to information disclosure faster and easier. This condition is advantageous because the party that obtains information faster than others will have more value compared to the party that does not have information. One form of accountability is financial reports based on accrual-based Government Accounting Standards. Therefore, the government ought to adopt an accrual-based accounting system. Accrual-based Government Accounting Standards identify revenue, expenses, assets, liabilities, and equity in financial statements, while also acknowledging revenue, expenditures, and financing in budget implementation reports, as outlined in the State Budget. The Integrated Application System facilitates the implementation of accrual-based Government Accounting Standards. This system serves as a comprehensive tool for managing all processes related to state budgeting, encompassing budgeting, implementation, and accountability of public finances.

Data processing, including financial reports using SAIBA, is designed to provide more comprehensive information. Financial reports are presented with full disclosure, making them more useful for users in decision-making. The presented financial statements fulfill the essential qualitative attributes: relevance, reliability, comparability, and understandability. An effective accounting system should provide the necessary financial information for developing program plans and assessing both physical and financial execution. This enhances transparency and accountability, aligning with the demands for high-quality information that supports informed decision-making. This concept ties into Decision Usefulness Theory, focusing on how accounting information is

presented through specific rules that financial statement components must adhere to, aiding decision-making and demonstrating accountability regarding resource use, in line with accrual-basis public sector financial reporting principles. Research substantiating the effect of the accounting system on financial statement quality includes studies by Ikrar (2018); Fauziyah (2019); Vicky and Romli (2022) and Samsiah et al. (2023). Consequently, the hypothesis formulated is:

H₆: The accounting system affects the quality of financial statements.

2.12. Human Resource Competence in Financial Report Quality

Financial reports are generated through a system established and maintained by skilled professionals in their areas of expertise. They are competent in budget management, including planning, implementation, accountability, recording, and financial reporting. Financial reports are created with accuracy and care, complying with Government Accounting Standards to guarantee reliability, relevance, and clarity. The ability and competence of employees or staff in the field of financial accounting and related areas are considered benchmarks for the success of government achievements in producing precise financial reports. The absence of an accounting background can result in human resources that are not competent in analyzing financial reports or understanding internal accounting reports, which are essential for effective government management. This aligns with Spencer's Competency Theory, which states that competence must be inherent in every individual, enabling them to predict behavior across various conditions and tasks. This initiative aims to enhance efficiency and effectiveness, thereby improving the organization's overall performance. Several prior studies demonstrate that human resource competence significantly affects the quality of financial reports, including research by Sumaryati et al. (2020); Mispa and Nuramal (2022); Arista et al. (2023) and Lubis et al. (2023). Consequently, the following hypothesis is proposed:

H₇: Human resource competence affects the quality of financial reports.

2.13. Effectiveness of Internal Audit and Quality of Financial Reports

An agency conducts internal audits to help management provide effective accountability for the financial reports that have been presented. The Decision Usefulness Theory includes elements that those presenting accounting information must consider to guarantee that the current coverage fulfills the requirements of decision-makers who will use it. This description is based on the Stewardship Theory, which states that with the existence of an internal audit of the organization concerning performance value, ethics, and the behavior of human resources in following organizational rules, evaluation can be more optimal. This can encourage stewardship behavior, so that the service provided by employees to organizational management improves and supports the creation of quality financial reports. In this context, the internal auditor is responsible for one key component: the reliability of accounting information, which must be of high quality. This responsibility is closely tied to Agency Theory, which seeks to enhance the quality of financial reports by addressing agency-related issues. An independent party is necessary to mediate and resolve conflicts, commonly known as an auditor, which helps to reduce the effects of information asymmetry. Research on how the impact of internal audit effectiveness affects the quality of financial reports has been explored by Gamayuni (2017), Lovisa (2022), and FuPing and Loang (2023). Consequently, a hypothesis has been formulated as follows:

H₈: The effectiveness of internal audits affects the quality of financial reports.

2.14. Internal Control Systems and the Quality of Financial Reports

Government agencies need to fully implement their internal control systems. Improving the quality of state financial management depends on several aspects of this system, including steps to bolster supervision, a clear division of responsibilities and roles, appropriate delegation of authority, accurate documentation of transactions, timely recording, and evaluation of existing internal control measures. Once the internal control is in place, all operations, resources, and data will be effectively governed. This approach will help meet objectives, minimize risks, and enhance

the quality of information produced. The main function of the internal control system is to protect the organization's assets against various potential threats. This includes efforts to prevent unauthorized access to financial reports, fraud committed by management, mistakes made by less competent human resources, errors in system programs, and incorrect data entry by employees, among other issues. Consequently, the effectiveness of the internal control system greatly impacts the quality of financial reports. It aligns with the Stewardship Theory, which highlights the suboptimal conditions organizations face in fulfilling their responsibilities, particularly in financial management that adheres to regulations and internal control guidelines. These guidelines encompass the accounting system and financial oversight, which, when not correctly implemented, hinder effective financial management. Research by Saraswati and Budiasih (2019), Munggaran et al. (2020), Kania and Tanjung (2021), Suratman et al. (2022), Pangaribuan et al. (2023) supports the influence of the internal control system regarding the quality of financial reports. From this, we form the following hypothesis:

H₉: The internal control system affects the quality of financial reports.

2.15. Internal Control System, Good Governance, and Quality of Financial Reports

A core accountability measure in government operations involves a proactive commitment to maintaining transparency and accountability in financial management at both national and regional levels. Accountability is established through the provision of financial statements as reports. An organization operates effectively when supported by a robust internal control system rooted in sound governance, which helps in generating accurate financial reports. Consequently, good governance, paired with a strong control system, results in the creation of high-quality financial reports. Safira (2022) explains that the internal control system acts as a bridge connecting effective governance to the quality of financial reports. The proposed hypothesis is:

H₁₀: The internal control system can mediate the influence of good governance on the quality of financial reports.

2.16. Internal Control System, Accounting System, and Quality of Financial Reports

Creating a dependable government accounting system is essential for producing financial reports that all stakeholders can access. A robust accounting framework will further aid in building an efficient internal control system, ensuring that necessary procedures and policies are established, along with the key components of information and communication within that system. Improving the internal control system is expected to boost its effectiveness, addressing the problem of inadequate government financial reports. Quality financial reports, characterized by their informative value, are intrinsically linked to a strong internal control system, as described by decision theory usefulness, which specifies the standards for quality information valuable for decision-making. The internal control system plays a vital role in shaping the impact of the accounting system on the quality of financial reports, as shown by studies from Abuhaq and Al-Heety (2018), Bahnuna and Noch (2018), Hanifa (2019), and Pradono et al. (2021). The resulting hypotheses are:

H₁₁: The internal control system can mediate the influence of the accounting system on the quality of financial reports.

2.17. Internal Control System, Human Resource Competence, and Quality of Financial Reports

Poor human resources can negatively impact the quality of financial reports. Aligning human resources with their specific areas of expertise can improve these reports. Furthermore, the government should implement training programs alongside advancements in knowledge to elevate the competence of officials. With skilled human resources, an internal control system can effectively ensure that leadership directives are executed efficiently by employees, thereby facilitating the organization's aim of producing high-quality financial reports. This can be linked to Spencer's Competency Theory, which posits that competence resides within the inner part of every human being and is always present in a person's personality. Increasing ability is a strategy designed to enhance efficiency, effectiveness, and responsiveness, thereby improving organizational performance. The internal control system affects how human

resource competence impacts the quality of financial reports, as shown by research from Saputra (2021), Rais et al. (2022), Pradono et al. (2021), Nisa and Haryanto (2021), and Rozi et al. (2022). The resulting hypothesis is:

H₁₂: Internal control systems can mediate the influence of human resource competence on the quality of financial reports.

2.18. Internal Control System, Internal Audit Effectiveness, and Financial Reporting Quality

An internal audit plays a vital role in maintaining the quality of financial reporting. Internal auditors verify that financial transactions are accurate and that reports comply with government accounting standards, established accounting systems, and applicable regulations, which in turn support the generation of high-quality financial statements. Furthermore, a strong internal audit function empowers supervisory personnel to detect fraud or inconsistencies in financial reporting early on. Consequently, an effective internal audit, coupled with a robust internal control system, is essential for providing stakeholders with dependable financial information. An internal control system is fundamental to sound governance and effective management of state finances. However, a competent internal audit framework is necessary; without it, even the best-designed internal control systems might struggle to operate at their best, particularly in maintaining accurate financial reporting. The study by Heinrich and Probohudono (2023) highlights that internal control systems can act as a conduit through which effective internal audits positively influence financial report quality. Thus, the following hypothesis is proposed:

H₁₃: The internal control system can mediate the effect of internal audit effectiveness on the quality of financial reports.

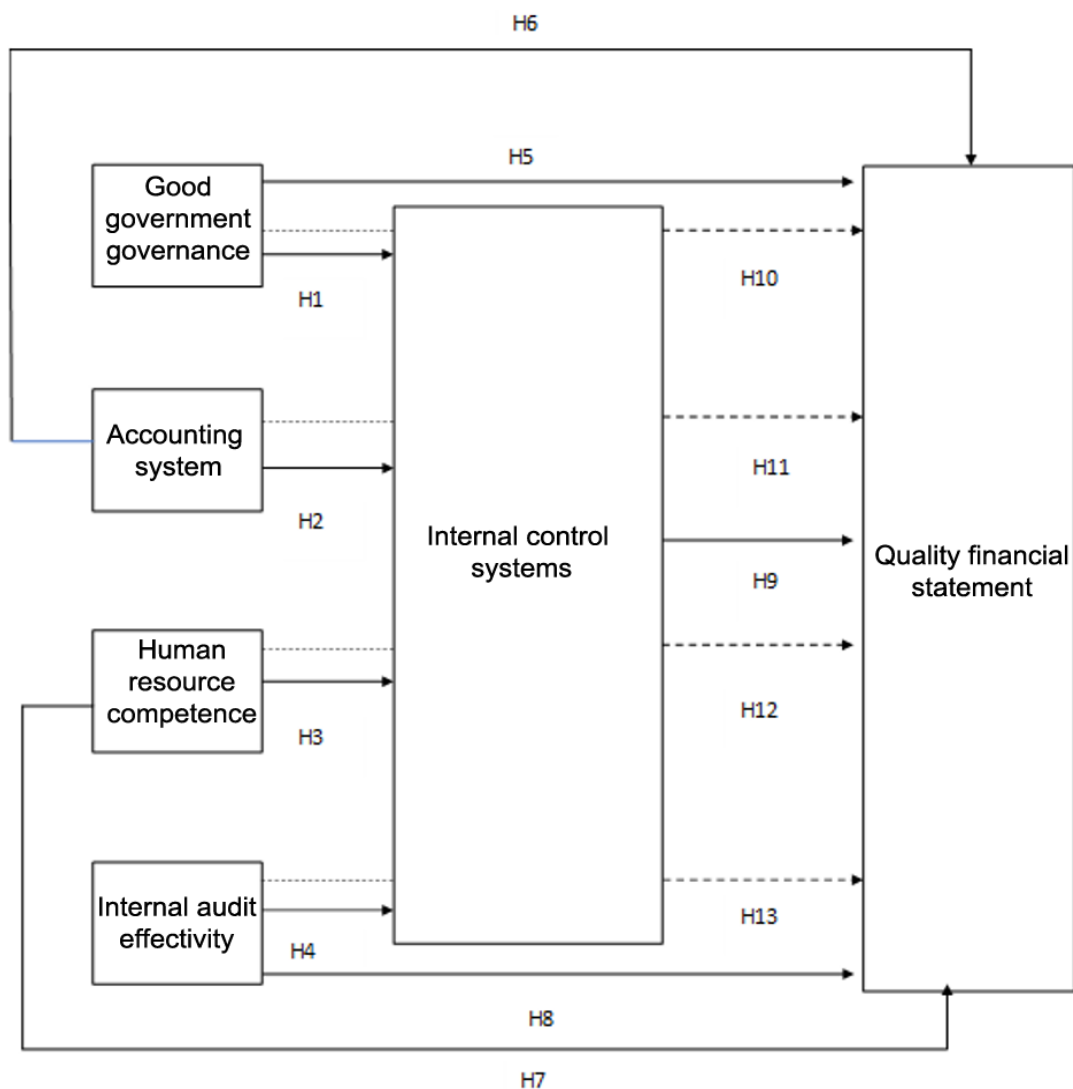


Figure 1. Conceptual framework.

Figure 1 illustrates the conceptual framework of the influence of good governance, accounting systems, human resource competence, and internal audit effectiveness on the quality of financial reports, with the internal control system acting as a mediating factor.

3. DATA AND METHODOLOGY

3.1. Population and Sample

This study collects data from 168 individuals, including senior high, primary, and administrative leaders, auditors, along with designated functional position groups in accounting, finance, and budget and program management commitment officers and treasurers. The participants include representatives from the Ministry of Health, the Ministry of Maritime Affairs and Fisheries, the Indonesian Agency for Meteorological, Climatological, and Geophysical Affairs, and the National Agency for Disaster Countermeasures. A purposive sampling method was used for sample selection based on these criteria: (1) age 27-62 years; (2) currently occupying a particular structural position and/or functional position; (3) minimum education diploma 3 (D3); (4) graduated from leadership education and training; (5) graduated from functional position formation and grading education and training; (6) graduated from state financial management education and training; (7) graduated from government goods or services procurement certification education and training; (8) has a minimum work achievement of good (B). Based on these criteria, 108 respondents met the requirements.

3.2. Data Collection Techniques

This study employs the questionnaire method for data collection, utilizing a form that includes written statements or questions directed at respondents. The questionnaire uses a Likert scale where responses are weighted as follows: (1) A weight of 5 is given to Strongly Agree/Always/Very Positive; (2) Agree/Often/Positive is assigned a weight of 4; (3) Undecided/Sometimes/Neutral is valued at 3; (4) A weight of 2 corresponds to Disagree/Rarely/Negative; (5) Strongly Disagree/Never is weighted at 1.

3.3. Variable Measurement

Good governance is measured by five dimensions, namely: (1) Transparency with Indicators (i) Availability of information that is clear, timely, adequate, and easily accessible; (ii) Disclosure of information including the mission, strategic goals, financial conditions, organizational structure, and important events of the organization; (iii) Agency policies are documented and communicated to stakeholders. (2) Accountability with indicators: (i) Clear determination of job descriptions and responsibilities; (ii) Ability to perform the tasks, responsibilities, and roles of agency organs; (iii) SPI is carried out effectively; (iv) Reward and sanction system; (v) Implementation of ethics and behavioral guidelines. (3) Accountability with indicators: (i) Principle of prudence; (ii) Compliance with laws and regulations; (iii) Implementation of social responsibility. (4) Independence with indicators: (i) Free from conflicts of interest and all influences; (ii) Objective decision-making; (iii) Free from shifting responsibility. (5) Fairness with indicators: (i) Opportunity for stakeholders to provide input; (ii) Equal opportunity in employee recruitment, career development, and professionalism; (iii) Positive compensation policy. The accounting system consists of two dimensions, namely: (1) Preparation of financial reports, with indicators: (i) Internal control in measuring, recognizing, and recording; (ii) Preparation of financial reports for each accounting period; (iii) Preparation of financial reports correctly, consistently, and hierarchically. (2) Accounting recording procedures with indicators: (i) Transaction identification; (ii) Recording; (iii) Chronological recording; (iv) Classification. (3) Adherence of the accounting system to government accounting standards, with indicators: (i) Accounting system by SAP; (ii) Basis for preparing accrual-based financial reports; (iii) Economic events are recognized when the transaction occurs. Human resource competence consists of three dimensions, namely: (1) Knowledge with indicators: (i) Understanding of duties, organizational goals, regulations on financial reporting and accounting cycles; (ii) Upgrading knowledge in the field of accounting. (2) Individual

expertise/ability with indicators: (i) Mastery of preparing financial reports systematically; (ii) Mastery of financial report preparation based on SAP; (iii) Technical training. (3) Behavior with indicators: (i) Prioritizing ethics and the code of ethics; (ii) Rejecting interventions that cause violations.

Internal Audit Effectiveness consists of two dimensions: (1) Consideration of Strategy, Objectives, and Risk, with indicators: (i) Internal audit planning is based on risk assessment, including fraud risk; (ii) Preparing and periodically reviewing norms, standards, policies, and procedures; (iii) Ensuring adequate, sufficient, and allocated human resources to achieve organizational goals; (iv) Auditors should remain impartial and free from bias; (v) Professional skills and accuracy. (2) Contribution to Improved Governance, with indicators: (i) Recommendations for improving agency governance in making strategic organizational decisions; (ii) Recommendations for improving agency governance in supervising internal control of financial reporting; (iii) Recommendations for improving agency governance in ensuring the effectiveness of management and accountability of organizational performance; (iv) Recommendations for improving agency governance in providing risk and control information in key areas. (3) Contribution to the Improvement of Risk Management, with indicators: (i) Assessing potential organizational risks concerning the dependability and trustworthiness of financial and operational data; (ii) Focusing on notable risks while performing tasks; (iii) Leveraging organizational risk information associated with the dependability and soundness of financial and operational data. (4) Contribution to the Improvement of Internal Control.

The Internal Control System comprises five dimensions, specifically: (1) Control Environment with indicators: (i) Task analysis and implementation of supervision; (ii) Leadership conducive to programs/activities and financial reporting; (iii) Periodic evaluation of organizational needs. (2) Risk Assessment, with indicators: (i) Risk identification; (ii) Risk analysis; (iii) Control action plan. (3) Control Activities with indicators: (i) Risk management; (ii) Control policies and mechanisms; (iii) Development and periodic evaluation of control activities. (4) Information and Communication with indicators: (i) Information is delivered quickly, and corrective measures are taken; (ii) Easy and tiered information communication channels; (iii) Actions are always communicated clearly. (5) Monitoring, with indicators: (i) Monitoring includes identification of related activities and supporting systems; (ii) Audit findings are followed up.

The quality of financial reports consists of four dimensions: (1) Relevance to indicators, which includes feedback benefits, predictive benefits, SAP compliance, timeliness, and completeness; (2) Reliability, characterized by honesty, freedom from errors, neutrality, and verifiability; (3) Comparability, demonstrated through comparison with previous periods and consistency; and (4) Understandability, where information is clearly understood and systematic.

3.4. Data Analysis Method

This study employs Structural Equation Modeling (SEM) with the Partial Least Squares (PLS) method, utilizing the SmartPLS version 4.1.1.2 application. The methodology consists of several crucial stages: starting with a Data Quality Assessment that covers validity and reliability evaluations; establishing the structural model (inner model); developing the measurement model (outer model); designing a path diagram; transforming the diagram into a system of equations; and ultimately, conducting hypothesis testing.

4. RESULTS AND DISCUSSION

The results of data processing are described in the following order:

4.1. Respondent Characteristics

The questionnaires distributed to respondents numbered 168. Of these, 108 questionnaires, or 64.29%, were returned by respondents; the remaining 60 questionnaires were not returned. The characteristics of the respondents are listed in [Tables 2,3,4,5,6,7,8](#):

Table 2. Response rate and questionnaire processing summary.

| No. | Information | Frequency | Percentage |
|-----|------------------------------------|-----------|------------|
| 1 | Number of respondents | 168 | 100% |
| 2 | Questionnaires distributed | 168 | 100% |
| 3 | Questionnaires not returned | 60 | 36% |
| 4 | Questionnaires can be processed | 108 | 64% |
| 5 | Questionnaires cannot be processed | 0 | 0% |

Table 3. Distribution of respondent questionnaires based on sample group.

| No. | Ministry/Institution | Questionnaire distribution | Questionnaire can be processed |
|--------------|--|----------------------------|--------------------------------|
| 1 | Ministry of Health | 44 | 39 |
| 2 | Ministry of Marine Affairs and Fisheries | 44 | 21 |
| 3 | Indonesian Agency for Meteorology, Climatology, and Geophysics | 40 | 8 |
| 4 | National Agency for Disaster Countermeasures | 40 | 40 |
| Total | | 168 | 108 |

Table 4. Overview of respondents by gender.

| Gender | Frequency | Percentage (%) |
|--------|------------|----------------|
| Male | 69 | 64% |
| Female | 39 | 36% |
| Total | 108 | 100% |

Table 5. Description of respondents based on their positions.

| Position | Frequency | Percentage (%) |
|--|------------|----------------|
| Senior high leadership position (Echelon I) | 2 | 1.85% |
| Senior high leadership position (Echelon II) | 14 | 12.96% |
| Main Auditor | 1 | 0.92% |
| Senior Auditor | 8 | 7.40% |
| Junior Auditor | 15 | 13.89% |
| First Auditor | 7 | 6.48% |
| Administrator officer (Echelon III) | 12 | 11.11% |
| JFT Group for Accounting and Finance | 22 | 20.37% |
| Commitment-making officer | 4 | 3.70% |
| Expenditure Treasurer | 3 | 2.77% |
| Receipt treasurer | 0 | 0% |
| Assistant expenditure treasurer | 20 | 18.51% |
| Total | 108 | 100 % |

Table 6. Overview of respondents by educational background.

| Educational background | Frequency | Percentage (%) |
|------------------------|------------|----------------|
| Diploma 3 (D3) | 8 | 7.40% |
| Diploma 4 (D4) | 2 | 1.85% |
| Strata-1 (S1) | 44 | 40.74% |
| Strata-2 (S2) | 51 | 47.22% |
| Strata-3 (S3) | 3 | 2.77% |
| Total | 108 | 100% |

Table 7. Respondents' overview based on length of service.

| Length of Service | Frequency | Percentage (%) |
|-------------------|------------|----------------|
| < 3 years | 15 | 14% |
| 3 to 6 years | 15 | 14% |
| 6 to 10 years | 8 | 7% |
| > 10 years | 70 | 65% |
| Total | 108 | 100% |

Table 8. Respondents' overview based on age.

| Age | Frequency | Percentage (%) |
|---------------|------------|----------------|
| < 25 years | 3 | 3% |
| 26 - 30 years | 4 | 4% |
| 31 - 35 years | 8 | 7% |
| 36 - 40 years | 15 | 14% |
| 41 - 45 years | 29 | 27% |
| 46 - 50 years | 22 | 20% |
| > 50 years | 27 | 25% |
| Total | 108 | 100% |

4.2. Measurement Model (Outer Model)

The evaluation of the Measurement Model (Outer Model) focuses on assessing the connections between indicators and related variables to determine the construct's reliability and validity. This process includes testing for convergent validity, composite reliability, and discriminant validity.

4.3. Convergent Validity

Based on Table 9, it is evident that several indicators have values below 0.7; consequently, they are excluded from the model. These indicators include indicators 2, 3, 4, 12, 13, 15, and 16 from the Good Corporate Governance dimension; Indicator 2 from the Human Resource Competence dimension; Indicator 1 from the Internal Audit Effectiveness dimension; and Indicators 1, 10, and 15 from the Internal Control System dimension. Following their removal, Figure 2 displays the results of the convergent values.

Figure 2 demonstrates that the outer model value, which indicates the relationship between the construct and the variable, satisfies the convergent validity criterion, as its loading factor exceeds 0.7. Therefore, the indicators related to Good Governance (X1), Accounting System (X2), Human Resource Competence (X3), Internal Audit Effectiveness (X4), the Internal Control System (Z), and Financial Report Quality (Y) are deemed valid.

Table 9. Loading factor measurement model (Outer model construct).

| Indicator | Accounting system | Financial report quality | Good government governance | Human resource competence | Internal audit effectiveness | Internal control system |
|-----------|-------------------|--------------------------|----------------------------|---------------------------|------------------------------|-------------------------|
| AS01 | 0.72 | | | | | |
| AS02 | 0.81 | | | | | |
| AS03 | 0.77 | | | | | |
| AS04 | 0.83 | | | | | |
| AS05 | 0.79 | | | | | |
| AS06 | 0.85 | | | | | |
| AS07 | 0.87 | | | | | |
| AS08 | 0.79 | | | | | |
| AS09 | 0.79 | | | | | |
| AS10 | 0.73 | | | | | |
| GGG01 | | | 0.78 | | | |
| GGG02 | | | 0.47 | | | |
| GGG03 | | | 0.61 | | | |
| GGG04 | | | 0.67 | | | |
| GGG05 | | | 0.70 | | | |
| GGG06 | | | 0.78 | | | |
| GGG07 | | | 0.80 | | | |
| GGG08 | | | 0.75 | | | |
| GGG09 | | | 0.80 | | | |
| GGG10 | | | 0.71 | | | |
| GGG11 | | | 0.81 | | | |
| GGG12 | | | 0.45 | | | |
| GGG13 | | | 0.67 | | | |
| GGG14 | | | 0.77 | | | |

| Indicator | Accounting system | Financial report quality | Good government governance | Human resource competence | Internal audit effectiveness | Internal control system |
|-----------|-------------------|--------------------------|----------------------------|---------------------------|------------------------------|-------------------------|
| GGG15 | | | 0.68 | | | |
| GGG16 | | | 0.64 | | | |
| GGG17 | | | 0.80 | | | |
| HRC01 | | | | 0.77 | | |
| HRC02 | | | | 0.51 | | |
| HRC03 | | | | 0.76 | | |
| HRC04 | | | | 0.78 | | |
| HRC05 | | | | 0.77 | | |
| HRC06 | | | | 0.85 | | |
| HRC07 | | | | 0.68 | | |
| IAE01 | | | | | 0.62 | |
| IAE02 | | | | | 0.80 | |
| IAE03 | | | | | 0.80 | |
| IAE04 | | | | | 0.86 | |
| IAE05 | | | | | 0.87 | |
| IAE06 | | | | | 0.86 | |
| IAE07 | | | | | 0.86 | |
| IAE08 | | | | | 0.85 | |
| IAE09 | | | | | 0.90 | |
| IAE10 | | | | | 0.85 | |
| IAE11 | | | | | 0.86 | |
| IAE12 | | | | | 0.88 | |
| IAE13 | | | | | 0.85 | |
| ICSZ01 | | | | | | 0.63 |
| ICSZ02 | | | | | | 0.70 |
| ICSZ03 | | | | | | 0.78 |
| ICSZ04 | | | | | | 0.82 |
| ICSZ05 | | | | | | 0.79 |
| ICSZ06 | | | | | | 0.81 |
| ICSZ07 | | | | | | 0.79 |
| ICSZ08 | | | | | | 0.79 |
| ICSZ09 | | | | | | 0.71 |
| ICSZ10 | | | | | | 0.53 |
| ICSZ11 | | | | | | 0.72 |
| ICSZ12 | | | | | | 0.78 |
| ICSZ13 | | | | | | 0.68 |
| ICSZ14 | | | | | | 0.76 |
| ICSZ15 | | | | | | 0.67 |
| QFS01 | | 0.82 | | | | |
| QFS02 | | 0.79 | | | | |
| QFS03 | | 0.78 | | | | |
| QFS04 | | 0.72 | | | | |
| QFS05 | | 0.79 | | | | |
| QFS06 | | 0.79 | | | | |
| QFS07 | | 0.80 | | | | |
| QFS08 | | 0.89 | | | | |
| QFS09 | | 0.86 | | | | |
| QFS10 | | 0.85 | | | | |
| QFS11 | | 0.89 | | | | |
| QFS12 | | 0.82 | | | | |
| QFS13 | | 0.89 | | | | |

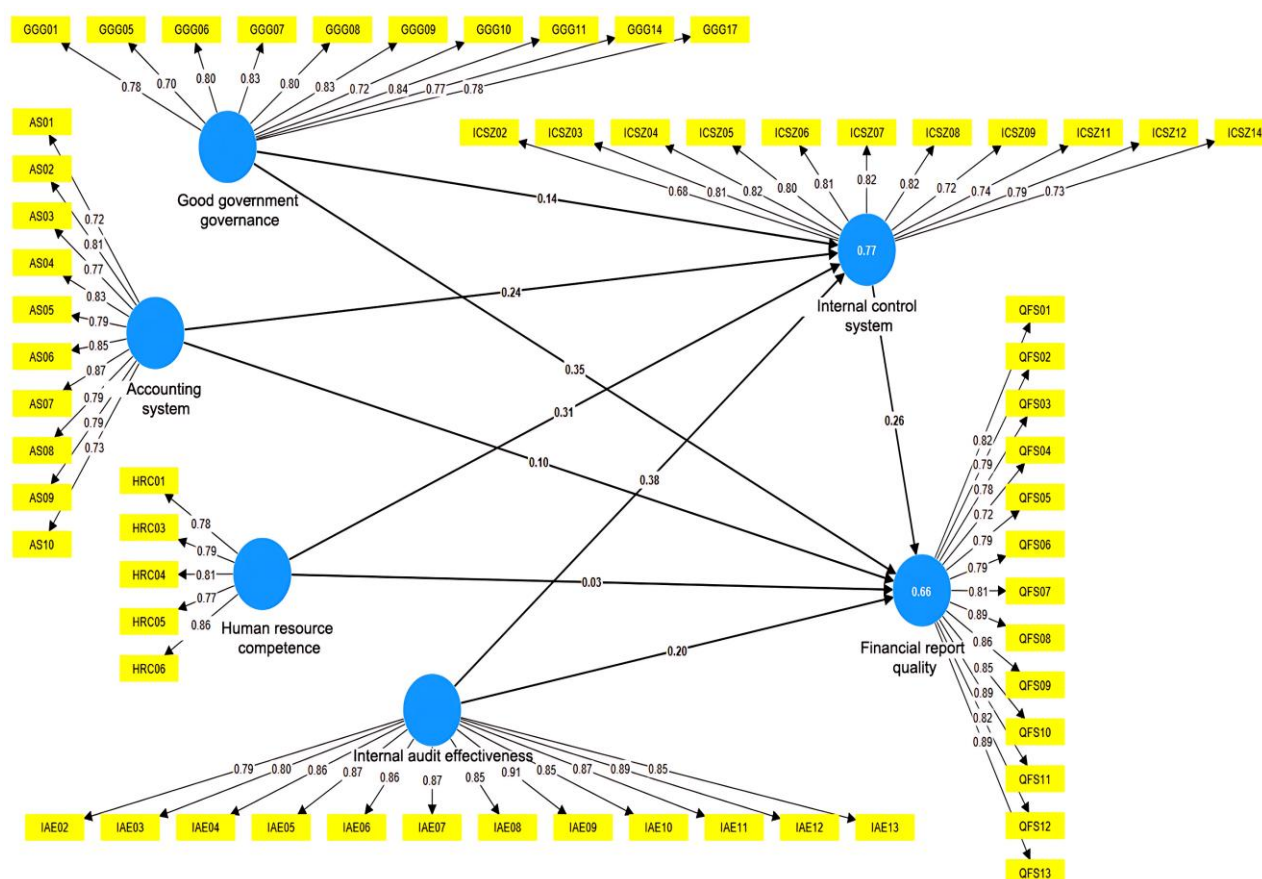


Figure 2. Measurement model of loading factors (outer model construction) after removing indicators that do not meet the criteria.

Table 10. Results of Cronbach's alpha and composite reliability.

| Variables | Cronbach's alpha | Composite reliability (rho_a) | Composite reliability (rho_c) | Average variance extracted (AVE) |
|------------------------------|------------------|-------------------------------|-------------------------------|----------------------------------|
| Accounting system | 0.94 | 0.94 | 0.95 | 0.63 |
| Financial report quality | 0.96 | 0.96 | 0.96 | 0.68 |
| Good government governance | 0.93 | 0.93 | 0.94 | 0.62 |
| Human resource competence | 0.86 | 0.87 | 0.90 | 0.65 |
| Internal audit effectiveness | 0.97 | 0.97 | 0.97 | 0.73 |
| Internal control system | 0.93 | 0.93 | 0.94 | 0.62 |

4.4. Construct Reliability

Table 10 demonstrates that every construct has Cronbach's Alpha values above 0.60, and AVE exceeds 0.50, indicating acceptable internal consistency. Additionally, the Composite Reliability values for all indicator groups meet the reliability criteria. A construct is considered reliable if its Composite Reliability exceeds 0.70. Since all constructs in the model surpass this threshold, they are classified as reliable and exhibit robust internal consistency.

4.5. Structural Model (Inner Model)

Evaluating the inner structural model involves forecasting causal relationships (cause-and-effect links) among latent variables, which are not directly measurable, and establishing these relationships based on theoretical foundations. The structural model testing employs bootstrapping and Blindfolding procedures. The structural model test examines the relationships between latent constructs. This research assesses the R-squared value for the endogenous construct and evaluates prediction relevance (Q-squared) as stated in Table 11.

Table 11. Results of the determination coefficient.

| Variable | R-square | R-square adjusted |
|--------------------------|----------|-------------------|
| Financial report quality | 0.68 | 0.67 |
| Internal control system | 0.78 | 0.77 |

Table 12. Outcomes from the direct effect hypothesis examination.

| Hypothesis | Relationship between variables | Original sample (O) | Sample mean (M) | Standard deviation (STDEV) | T statistics (O/STDEV) | P values |
|------------|--|---------------------|-----------------|----------------------------|--------------------------|----------|
| H1 | Good government governance -> Internal control system | 0.14 | 0.14 | 0.09 | 1.54 | 0.12 |
| H2 | Accounting system -> Internal control system | 0.26 | 0.26 | 0.09 | 2.90 | 0.00 |
| H3 | Human resource competence -> Internal control system | 0.30 | 0.29 | 0.07 | 4.57 | 0.00 |
| H4 | Internal audit effectiveness -> Internal control system | 0.36 | 0.37 | 0.08 | 4.43 | 0.00 |
| H5 | Good government governance -> Financial report quality | 0.35 | 0.32 | 0.16 | 2.26 | 0.02 |
| H6 | Accounting system -> Financial report quality | 0.10 | 0.10 | 0.14 | 0.70 | 0.48 |
| H7 | Human resource competence -> Financial report quality | 0.03 | 0.05 | 0.10 | 0.35 | 0.73 |
| H8 | Internal audit effectiveness -> Financial report quality | 0.21 | 0.20 | 0.13 | 1.70 | 0.09 |
| H9 | Internal control system -> Financial report quality | 0.24 | 0.26 | 0.14 | 1.73 | 0.08 |

4.6. Hypothesis Testing

Table 12 presents the findings from hypothesis testing regarding the direct effect. The path coefficient for the link between effective governance and internal control systems is 0.14, with a t-value of 1.54, which is below the critical value of 1.96. This indicates that improvements in good governance are not significantly associated with a more robust internal control system. The corresponding p-value of 0.12 (>0.05) confirms a lack of statistical significance, thus not supporting the first hypothesis.

Conversely, the path coefficient connecting the accounting system and the internal control system is 0.26, with an associated t-statistic of 2.90, which exceeds the 1.96 threshold. This indicates that improvements in the accounting system significantly strengthen internal control. The p-value of 0.00 (<0.05) confirms statistical significance, thereby supporting the second hypothesis.

The coefficient illustrating the influence of human resource skills on the internal control system stands at 0.30, with a t-value of 4.97, also above the critical limit of 1.96. Increasing human resource capabilities has the potential to improve internal control practices, and a p-value of 0.00 (<0.05) confirms statistical significance, thus supporting the third hypothesis.

In a similar vein, the effectiveness of internal audit shows a strong correlation with the internal control system, as indicated by a coefficient of 0.36 and a t-statistic of 4.97, which surpasses the benchmark of 1.96. The p-value is 0.00 (<0.05), confirming statistical significance, thereby validating the fourth hypothesis.

The relationship between good governance and financial reporting quality shows a coefficient of 0.35 and a t-statistic of 2.26, exceeding the threshold of 1.96. This indicates a positive correlation, while the p-value of 0.02 (which is less than 0.05) confirms its statistical significance, thus supporting the fifth hypothesis.

The path coefficient reflecting the effect of the accounting system on the quality of financial reports is 0.10, with a t-statistic of 0.70, which falls short of the 1.96 threshold. The p-value of 0.48 (>0.05) confirms the lack of significance, which does not support the sixth hypothesis.

In a similar manner, human resource competence shows a path coefficient of 0.03 and a t-value of 0.35, suggesting that it does not statistically affect the quality of financial reporting. The p-value of 0.73 (> 0.05) fails to support the seventh hypothesis.

The effectiveness of internal auditing correlates with the quality of financial reports at the 10% alpha level. The coefficient value stands at 0.21, with a t-statistic of 1.7. A p-value of 0.000 (< 0.05 but < 0.10) indicates support for the eighth hypothesis.

The relationship between internal control systems and the quality of financial reporting is demonstrated by a path coefficient of 0.24 and a t-statistic of 1.73. The p-value is 0.08 (> 0.05 but < 0.10), indicating that there is an influence, thereby supporting the ninth hypothesis.

Table 13. Results of the specific indirect effect test.

| Hypothesis | Relationship between variables | Original sample (O) | Sample mean (M) | Standard deviation (STDEV) | T statistics (O/STDEV) | P values |
|------------|---|---------------------|-----------------|----------------------------|--------------------------|----------|
| H10 | Good government governance -> Internal control system -> Financial report quality | 0.03 | 0.04 | 0.03 | 1.01 | 0.31 |
| H11 | Accounting system -> Internal control system -> Financial report quality | 0.06 | 0.06 | 0.04 | 1.53 | 0.13 |
| H12 | Human resource competence -> Internal control system -> Financial report quality | 0.07 | 0.07 | 0.04 | 1.70 | 0.09 |
| H13 | Internal audit effectiveness -> Internal control system -> Financial report quality | 0.09 | 0.10 | 0.06 | 1.34 | 0.18 |

Table 13 presents the hypothesis testing results concerning the indirect effect. It is evident that the internal control system does not serve as a mediator between good governance and financial reporting quality, as indicated by a path coefficient of 0.03 and a t-statistic of 1.01, both of which are below the critical value of 1.96. Additionally, the p-value of 0.31 (> 0.05) further supports that the internal control system does not mediate this relationship. As a result, the tenth hypothesis is not supported.

In the same way, the impact of the accounting system on the quality of financial reporting is not influenced by the internal control system. This is indicated by a path coefficient of 0.06 and a t-statistic of 1.53, both of which are below 1.96. The corresponding p-value is 0.13 (> 0.05), which does not support the eleventh hypothesis.

On the contrary, human resource competence affects the quality of financial reporting through the internal control system. This is demonstrated by a p-value of 0.09 (greater than 0.05 but less than 0.10), which underscores the role of the internal control system as a mediator in this relationship, thereby confirming the twelfth hypothesis.

Ultimately, the internal control system does not influence the relationship between internal audit effectiveness and the quality of financial reports. This is evidenced by a path coefficient of 0.09 and a t-statistic of 1.34, both of which are below the critical threshold of 1.96. Additionally, the p-value of 0.18 (greater than 0.05) further indicates that the thirteenth hypothesis is unsupported.

4.7. Discussion

The initial hypothesis test examining the link between effective governance and internal control systems produced insignificant findings. This contradicts the hypothesis. The discrepancy with this hypothesis may be due to the fact that governance is already a requirement for government agencies, which does not depend on the quality of the internal control system. As it is already mandated, the implementation of the internal control system remains unchanged. Enhancing the internal control system involves effective programs and initiatives, ensuring reliable financial accounting, safeguarding public resources, and complying with legal requirements, thereby minimizing the

potential for complex fraud. Additionally, the descriptive analysis of respondents' feedback highlights an emphasis on maintaining professional confidentiality (transparency) and the necessity of clear main guidelines for defining the tasks and responsibilities for each work unit and employee/staff, aligning with the organization's vision, mission, and core values. Adherence to ethical codes, particularly in preserving professional confidentiality, is essential for preventing fraud and bolstering public trust in government bodies, while also ensuring professional integrity and credibility.

The second hypothesis test investigates the connection between the accounting system and the internal control system, showing a significant impact. This is because a robust internal control system requires an accounting framework that enhances its effectiveness. Consequently, the adoption of accrual-based accounting within the Ministry of Health, the Ministry of Marine Affairs and Fisheries, the Indonesian Meteorology, Climatology, and Geophysics Agency, and the National Disaster Management Agency can be carried out successfully, although accrual-based accounting requires a more complex accounting framework. Nevertheless, the current accounting system is positively assessed, as the implementation of accrual-based accounting helps reduce risks associated with weaknesses, errors, and fraud, provided the internal control system functions effectively. Robust internal control within the accounting process provides high-quality information that is timely, relevant, accurate, complete, and easy to audit.

The descriptive analysis results indicate that the accounting system significantly impacts the internal control system. The average scores for both the accounting system and the internal control system are notably high, surpassing 4. This demonstrates a significant level of understanding among the respondents. These indicators have been implemented very effectively, indicating the presence of an efficient internal control system. Furthermore, this study illustrates a solid understanding of using accrual-based accounting in preparing financial statements for institutions, which aligns with the decision usefulness theory. This theory asserts that for accounting information to be valuable in decision-making, it must satisfy specific criteria and accurately represent the reporting entity's responsibility for its resources managed within the public sector financial reporting model that employs accrual-based accounting.

The third hypothesis test analyzes how HR competence interacts with the internal control system, showing significant findings. Therefore, HR competence plays a crucial role in shaping the internal control system, which supports the third hypothesis. Human resource competence is a vital aspect within the organisation's scope, as skilled human resources enable organisational management to provide clear direction and define job descriptions and procedures that must be implemented within the organisation, including the establishment of internal control systems. These systems are designed to ensure that government agencies comply with relevant regulations, avoid misuse of authority, and fulfill their objectives (Sitorus, Ghozali, & Achmad, 2019). As a result, skilled personnel within the agency will operate more professionally, adhere to the rules, and work diligently towards achieving the organisation's goals, as facilitated by the internal control system. Compliance theory posits that employees who follow the law are believed to have a strong obligation to uphold internal control.

The descriptive analysis of participant responses in this study supports Hypothesis 3. The average values of the Human Resource Competence and Internal Control System indicators are high, exceeding 4, with the highest value in the indicator of understanding and knowledge in the field of accounting. This understanding enhances the effectiveness of internal control system implementation, which aligns with the highest indicator: financial information generated from the financial statements must be clearly understood. Compliance Theory emphasizes that employees obey the law because they consider it an important obligation to enforce internal control within the organization.

The fourth hypothesis test demonstrates that effective internal audits significantly impact the internal control system, thereby confirming the fourth hypothesis. Internal audits are essential for maintaining the integrity of financial reports, ensuring they are accurate and transparent for every transaction. A successful internal audit can help prevent and minimize the risk of recording fraudulent transactions that breach the established internal controls. As the effectiveness of the internal audit in carrying out its key functions increases, so do the benefits of implementing

an internal control system within the organization. Stewardship Theory posits that a manager's role as a steward prioritizes the common interests of the organization over personal ambitions, fostering a strong connection between satisfaction and organizational success. While high-quality audits are expected to promote effective organizations, they do not automatically ensure the effectiveness of internal audits. This is due to existing deficiencies in audit quality that hinder an organization's ability to achieve its objectives.

Analysis of respondents' answers reveals that the indicator statement on internal audit planning is grounded in risk assessment, including the risks of deviation or fraud. Respondents consider the functions of internal audit within the Ministry of Health, the Ministry of Maritime Affairs and Fisheries, the Indonesian Agency for Meteorological, Climatological and Geophysical Events, and the National Agency for Disaster Countermeasures. These agencies must be able to include supporting organizational leaders in building anti-fraud processes and programs, facilitate fraud risk assessments, and document anti-fraud control activities to identify potential fraud risks.

For internal audit work units, a control environment that supports efforts to create an anti-fraud environment can place them in a position of opportunity and challenge. A conducive control environment can encourage internal auditors to quickly develop a fraud prevention program action plan and find ways to enhance their value to organizations.

The fifth hypothesis test explores the relationship between good governance and the quality of financial reporting, yielding highly significant results. Thus, good governance influences financial reporting quality, indicating that this hypothesis is supported. This relationship is based on agency theory, which asserts that transparency and accountability in government management are crucial, including financial oversight and the responsibilities outlined in the financial statements, establishing an agency relationship between the public (principal) and the government (agent).

Descriptive analysis of participant feedback shows support for the hypothesis. Comments regarding limited access and transparency in institutions such as the Ministry of Health, the Ministry of Marine Affairs and Fisheries, the Indonesian Meteorology, Climatology, and Geophysics Agency, and the National Disaster Management Agency received a high average score, above 4. This indicates that the implementation of public information disclosure is essential for improving the quality of financial reporting. Effective public information disclosure demonstrates a commitment to receiving input, suggestions, recommendations, or criticism from the public. Furthermore, public information disclosure can bolster public trust and participation, which ultimately enhances the quality of public services.

The sixth hypothesis test indicates a relationship between the accounting system and the quality of financial reports, but the results are not statistically significant. Therefore, it does not support the sixth hypothesis. Financial reports must comply with established standards, demonstrating performance over a specified period. Although a robust accounting system does not automatically ensure high-quality financial reports, the information within these reports originates from various sources. While the Integrated Application System facilitates the adoption of accrual-based Government Accounting Standards, the quality of financial reports remains questionable due to previously discussed issues. The descriptive analysis of respondents' attitudes towards the government accounting system shows a minimum value of 3, indicating that some respondents do not agree with the system. Similarly, the minimum value for the quality of financial reports is also 3. The weakest aspects are communication within the accounting system, as well as planning and risk factors related to the quality of financial reports. This supports the idea that the accounting system does not influence the quality of financial reports, as effective communication and planning are essential.

The seventh hypothesis test investigates the link between human resource competence and the quality of financial reports, showing insignificant results. This indicates that human resource competence alone is insufficient to guarantee quality financial reports. Quality financial reports comply with predetermined standards and must disclose all available financial information. Despite having competent human resources, a system is necessary to support the quality of financial reports. The preparation of financial reports relies on a user-friendly system, operated by skilled

human resources, encompassing all stages from planning and recording to reporting. Employee competence in financial accounting and related fields is crucial for presenting accurate financial reports and serves as a standard for evaluating the government's success in delivering these reports. A lack of understanding of internal accounting reports, which are vital for financial reporting, can result in inaccurate financial reports. Enhancing the quality of financial reports benefits management, which necessitates robust support from human resource management or the organization as a whole. This concept aligns with Spencer's competency theory, which posits that competence is an aspect inherent to each person's personality. Ability enhancement serves as a strategy aimed at improving efficiency, effectiveness, and responsiveness, thereby enhancing organizational performance. The findings from the descriptive analysis of the highest Likert scale scores of respondents indicate that indicators supporting the capability of human resources in the Ministry of Health, Ministry of Maritime Affairs and Fisheries, Meteorology, Climatology, and Geophysics Agency, along with the National Disaster Management Agency, are deemed effective. This reflects the competency of their human resources to execute their assigned duties, bolstered by sufficient education, training, and experience. Nonetheless, this does not ensure the quality of the financial report.

The outcomes of the descriptive analysis for the lowest Likert scale scores on human resource competency relate to the indicator of rejecting any intervention from superiors or leaders that could cause violations or fraud against applicable provisions or guidelines. This intervention will enhance how human resources prepare quality financial reports. According to the average value of human resource indicators in the Ministry of Health, the Ministry of Maritime Affairs and Fisheries, the Meteorology, Climatology, and Geophysics Agency, and the National Disaster Management Agency, they are categorized as good. However, if they cannot reject intervention from leaders, then the financial report may not be of high quality, as it may include the interests of the leaders.

The eighth hypothesis test explores how internal audit effectiveness relates to financial reporting quality, showing significant results. This outcome suggests that a more effective internal audit positively influences the quality of financial reporting, thus supporting the eighth hypothesis. It indicates that as the effectiveness of internal audits increases in the Ministry of Health, the Ministry of Maritime Affairs and Fisheries, the Indonesian Agency for Meteorological, Climatological, and Geophysical Agency, and the National Agency for Disaster Countermeasures, the quality of financial reports also improves. Internal audits in an agency aim to help organizational management provide effective accountability for the financial reports presented by offering advice and recommendations, as well as assessing these reports for accuracy. This explanation is based on stewardship theory, specifically the existence of an internal audit within the organization. The performance value, code of ethics, and behavior of human resources in following organizational rules can be evaluated more effectively, which can encourage stewardship behavior, resulting in better service provided by employees to organizational management and supporting the achievement of high-quality financial reports. Furthermore, the Decision Usefulness theory encompasses elements that those presenting accounting information must consider to ensure that current coverage meets the requirements of policymakers. In this case, internal audit plays a role in establishing one of the factors, specifically the reliability of accounting information, ensuring it is of high quality. This concept is also closely connected to agency theory, particularly to improve the quality of financial reports. To mitigate agency problems, an independent party is essential to mediate conflicts; an independent auditor best serves this role. The auditor acts as a neutral party between the agent, who provides financial report information, and the stakeholders, who are the users of this information. This relationship helps in reducing information asymmetry. Descriptive analysis of respondents' answers reveals insights regarding the effectiveness of internal audits based on specific indicator statements, namely, the role of effective internal audits includes supporting organizational leaders in building anti-fraud processes and programs, facilitating fraud risk assessments in agencies, and documenting anti-fraud control activities to identify fraud risks during the preparation of financial reports. Other indicators that support the effectiveness of internal audits are in the good category, namely, auditors must have a neutral and unbiased attitude (independent) in carrying out each of their assignments.

The ninth hypothesis test assesses how the internal control system affects the quality of financial reports. This test shows significant results, indicating that the internal control system indeed influences the quality of financial reports, thus supporting the ninth hypothesis. Enhancing the quality of financial management at the state level can be achieved through various aspects of the internal control system. This includes improving supervision, clearly outlining primary tasks and responsibilities, delegating authority, ensuring comprehensive and precise documentation of transactions, recording them promptly, and evaluating the current internal control system. For financial reports to be of high quality, the elements of the internal control system must function efficiently. This condition is supported by the Stewardship theory, which reflects the optimal condition of an organization while performing its responsibilities and functions, especially in organizing financial management under the regulations and guidelines for the internal control system, which encompasses financial oversight to facilitate effective financial management.

The descriptive analysis of the responses indicates that respondents believe every level of an organization's work unit should continually strive to establish communication and complaint channels. These channels should enable all management elements to provide valuable input and information for the organization, especially in the development of financial reports. Additionally, respondents see the necessity for internal control activities to be supported by specific policies and mechanisms across various work units within the Ministry of Health, the Ministry of Maritime Affairs and Fisheries, the Indonesian Agency for Meteorology, Climatology, and Geophysics, and the National Agency for Disaster Countermeasures. This support is crucial for producing high-quality financial reports.

The hypothesis test exploring the link between good governance and financial report quality, with the internal control system acting as a mediator, yields insignificant results. Consequently, the internal control system does not enhance the relationship between good governance and financial report quality, failing to support hypothesis ten. This suggests that good governance can impact the quality of financial reports independently of the internal control system, as governance itself serves as a control mechanism. Mulyadi and Haryoso (2019) stated that the internal control system consists of the framework, strategies, and procedures established to protect organizational assets, uphold the accuracy and reliability of financial reports and accounting information, enhance effectiveness and efficiency, and guarantee adherence to management policies. An important element of accountability in government operations is a proactive effort to achieve transparency regarding state finances, as evidenced by the provision of high-quality financial reports. Good governance, paired with quality financial reporting, is closely related to agency theory. The principles of transparency and accountability in the Ministry of Health, the Ministry of Marine Affairs and Fisheries, the Indonesian Meteorology, Climatology, and Geophysics Agency, and the National Disaster Management Agency are reflected in their financial management and accountability, as evident in their financial reports. This illustrates the existence of an agency relationship, where the public acts as the principal and the ministry or institution acts as the agent. Every level of organizational work in the Ministry of Health, Ministry of Maritime Affairs and Fisheries, Meteorology, Climatology, and Geophysics Agency, and the National Disaster Management Agency has proven that they have made efforts to provide communication channels that allow employees to provide valuable input and information for the organization, including financial reports.

The eleventh hypothesis test investigates how accounting systems relate to the quality of financial reporting, with internal control systems acting as a mediator; however, the results are insignificant. Consequently, we conclude that the internal control system does not mediate the relationship between the accounting system and the quality of financial reports, thus supporting the eleventh hypothesis. This indicates a growing adoption of accrual-based accounting within the accounting system to enhance the quality of financial report information. The enhanced internal control system facilitates the creation of high-quality financial reports across the Ministry of Health, the Ministry of Maritime Affairs and Fisheries, the Indonesian Agency for Meteorological, Climatological, and Geophysical, and the National Agency for Disaster Countermeasures. Since adopting accrual-based accounting, the accounting system has proven effective in mitigating weaknesses, errors, and fraud risks when the internal control system operates

efficiently. Incorporating internal controls into the accounting system results in superior information timely, relevant, accurate, and comprehensive while ensuring auditability. A robust internal control system can greatly enhance the quality of financial reports by fulfilling the core objectives of these systems: delivering trustworthy data, enhancing effectiveness and efficiency, encouraging adherence to policies, safeguarding assets, and ensuring the precision and reliability of accounting information, thereby improving the quality of financial performance reporting. Quality financial reports, characterized by their informative value, are intrinsically linked to a solid internal control system, as defined by the Decision Usefulness theory, which outlines the criteria for producing useful information in policymaking. By effectively implementing internal controls, we aim to resolve issues related to subpar financial reporting.

The twelfth hypothesis test examines how HR competence influences the quality of financial reports, with the internal control system acting as a mediator. The results are significant, demonstrating that the internal control system mediates the relationship between human resource competence and the quality of financial reports, thereby confirming the twelfth hypothesis. This suggests that as the Ministry of Health, the Ministry of Maritime Affairs and Fisheries, the Indonesian Agency for Meteorology, Climatology, and Geophysics, and the National Agency for Disaster Countermeasures strengthen their HR competencies, they receive greater support from an increasingly effective internal control system, leading to improved financial reporting quality.

Organizational and agency management must prioritize enhancing human resource competence in financial accounting and program activities, along with the core tasks, functions, policies, and relevant laws and regulations that boost the effectiveness of the internal control system by aligning human resources with their expertise. Additionally, management should focus on improving training and embracing advancements in science and technology to elevate human resource competency. Consequently, the proficiency of quality human resources in producing high-quality financial reports depends on robust internal controls. This is consistent with compliance theory, which argues that employees meeting legal obligations inherently support the establishment of an effective internal control system.

The thirteenth hypothesis test examines how internal audit effectiveness relates to financial reporting quality, with the internal control system acting as a mediator, but it is not significant. Consequently, internal audit effectiveness does not have an independent impact on financial reporting quality concerning the internal control system, thereby supporting the thirteenth hypothesis. This suggests that enhancing internal audit effectiveness within the Ministry of Health, Ministry of Marine Affairs and Fisheries, Indonesian Meteorology, Climatology, and Geophysics Agency, and National Disaster Management Agency can still lead to the production of high-quality financial reports, even without a strong internal control system in place.

Referring to the results of the descriptive analysis of respondents' responses regarding the effectiveness of internal audits, the highest indicator is the role of internal audits, which includes supporting organizational leaders in developing anti-fraud processes and programs, facilitating fraud risk assessments, and documenting anti-fraud control activities to identify fraud risks involved in creating financial reports. The highest indicators also emphasize that auditors must maintain a neutral and unbiased attitude (independent) when carrying out each assignment. It is explained that the implementation of the internal control system aims to prevent material misstatements in financial reports and ensure compliance with applicable accounting policies and standards. Consequently, the quality of financial reports can be assessed based on the effectiveness of internal audits.

5. CONCLUSION

The effectiveness of the internal control system is determined by a strong accounting framework, skilled human resources, and a proficient internal audit. Likewise, high-quality financial reporting relies on sound governance, the effectiveness of the internal control system, and the efficiency of the internal audit. The internal control system acts as a link between human resources' competence (X3) and the quality of financial reporting.

This study emphasizes the importance of implementing policies to facilitate access for interested parties, maintaining confidentiality, establishing procedures for recording accounting transaction data, ensuring adequate human resource capabilities, enforcing independence, expanding the scope of internal audit functions, and improving and strengthening the internal control system to ensure it is more than merely a formality.

The limitations are that the number of respondents or participants who can be studied is limited to 108 out of 168, and the focus is only on four Central Government Institutions. Therefore, the level of research objectivity remains suboptimal. The data and information provided by respondents through questionnaires may not accurately reflect the actual conditions due to differences in understanding and honesty among respondents.

This research suggests that further studies should consider other variables, including independent variables (free variables), moderating variables, and mediating variables believed to affect the quality of financial reports. Examples include accounting policies and organizational culture as independent variables, with fraud prevention serving as a mediating variable. Additionally, there is a need to develop research methods by conducting interviews to obtain more comprehensive information.

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