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The Influence of Human Resource Competence, Information Technology Utilization, and Internal Control Systems on the Quality of Financial Statements in the Government of Ende Regency

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ABSTRACT

This study examines the effects of human resource competence, information technology utilization, and the government internal control system on financial statement quality in the Government of Ende Regency, Indonesia. A quantitative explanatory design was employed using primary data collected through questionnaires from 100 financial management personnel selected through purposive sampling. Data were analyzed using multiple linear regression with SPSS 26. The results indicate that human resource competence and information technology utilization have positive and statistically significant relationships with financial statement quality, whereas the internal control system does not show a statistically significant relationship. Information technology utilization has the strongest standardized association among the predictors ($\beta = 0.865$; $p < 0.001$), followed by human resource competence ($\beta = 0.125$; $p = 0.003$), while the internal control system is positive but insignificant ($\beta = 0.060$; $p = 0.137$). The regression model is statistically significant ($F = 194.800$; $p < 0.001$) and explains 85.9% of the variation in financial statement quality ($R^2 = 0.859$). These findings highlight the importance of strengthening human resource competence and optimizing information technology while ensuring the effective implementation of internal controls in local government financial management.

1 | Introduction

Public sector accountability has become a fundamental principle of modern governance as governments are increasingly expected to manage public resources transparently, efficiently, and responsibly. Financial statements are one of the primary instruments through which governments demonstrate accountability to citizens, oversight institutions, and other stakeholders. High-quality financial reporting provides reliable information for evaluating government performance, supporting policy decisions, strengthening public trust, and ensuring compliance with applicable regulations (Mau et al., 2023). Consequently, improving the quality of local government financial statements has become a

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priority for many countries, including Indonesia, particularly in the context of digital transformation and public sector reform.

In Indonesia, the implementation of accrual-based Government Accounting Standards (SAP) has substantially improved the financial reporting framework of local governments (Wijayanti & Lestari, 2023). The adoption of these standards requires every regional government to prepare financial statements that possess qualitative characteristics such as relevance, faithful representation, comparability, verifiability, timeliness, and understandability. Nevertheless, achieving these characteristics remains a significant challenge because the quality of financial statements depends not only on accounting regulations but also on the capability of government institutions to implement sound financial management practices. Previous studies have indicated that organizational factors continue to play an important role in determining whether financial reports accurately represent the financial condition of local governments.

From a theoretical perspective, this study is grounded primarily in the Resource-Based View (RBV), which emphasizes that organizational performance can be improved through the effective management and utilization of valuable internal resources and capabilities (Malhotra et al., 2025) Although RBV was initially developed in the context of business organizations, its fundamental argument can also be applied to public sector organizations because government institutions depend on organizational resources and capabilities to achieve effective public service and governance outcomes. In the context of local government financial reporting, human resource competence, information technology utilization, and internal control systems can be viewed as strategic organizational resources and capabilities that support the production of high-quality financial information.

Human resource competence represents an important organizational capability within the RBV perspective. Government employees responsible for financial management require adequate knowledge of governmental accounting standards, public financial regulations, financial reporting procedures, and information technology. Competent employees are better able to interpret accounting requirements, identify and record financial transactions appropriately, prepare financial reports accurately, and exercise professional judgment in the reporting process. Thus, human resource competence constitutes a valuable internal capability because it enables government organizations to transform financial data into reliable and useful information. Conversely, inadequate competence may increase the likelihood of recording errors, delayed reporting, and non-compliance with accounting standards, thereby reducing the reliability and credibility of financial statements (Ramadhani & Yaya, 2024). Based on this argument, higher human resource competence is expected to improve the quality of local government financial statements.

In addition to human resources, information technology utilization represents another organizational resource that can strengthen the financial reporting process. From the RBV perspective, technology can create organizational value when it is effectively integrated with human capabilities and organizational processes. Integrated financial management information systems enable local governments to process transactions more efficiently, improve data accuracy, accelerate reporting processes, and facilitate timely access to financial information. Digital technologies can also improve data consistency, traceability, and coordination among organizational units. However, the existence of technological infrastructure alone does not guarantee improvements in financial reporting quality. The benefits of information technology depend on the ability of employees to utilize the systems effectively and integrate them into daily financial management activities (Ramadhani & Yaya, 2024). Therefore, effective utilization of information technology is expected to contribute positively to the quality of local government financial statements.

The internal control system can also be understood as an organizational capability that enables local governments to manage risks and ensure the reliability of financial reporting. Effective internal controls provide reasonable assurance that financial activities are conducted in accordance with applicable laws and regulations, government assets are adequately protected, operational risks are minimized, and financial statements are free from material misstatements. Internal control mechanisms also establish procedures for authorization, supervision, segregation of duties, monitoring, and corrective actions. Within the RBV perspective, these mechanisms represent organizational capabilities because they allow government institutions to coordinate resources, control financial activities, and reduce risks affecting the reporting process. Consequently, stronger internal control systems are expected to enhance the reliability, transparency, and accountability of local government financial statements (Mau et al, 2023). The relationship among human resource competence, information technology utilization, internal control systems, and financial reporting quality can therefore be understood through the interaction of organizational resources and capabilities. Human resource competence provides the knowledge and skills required to perform financial management activities; information technology provides the infrastructure and tools necessary to process and communicate financial information; while internal control systems provide mechanisms for controlling risks and ensuring that financial processes are conducted appropriately. These resources are complementary rather than independent. When adequately developed and effectively integrated, they enable local governments to produce financial statements that are more accurate, reliable, timely, and accountable. Thus, the RBV perspective provides a theoretical explanation for why differences in internal organizational resources and capabilities may result in differences in financial reporting quality.

The theoretical argument is also consistent with the broader perspective of Institutional Theory, which emphasizes that public organizations operate within institutional environments characterized by regulations, norms, and expectations from external stakeholders (Aksom & Vakulenko, 2024). Local governments are required to comply with Government Accounting Standards, financial management regulations, audit requirements, and public accountability expectations. Consequently, the development of competent personnel, appropriate information technology, and effective internal controls is not only an internal organizational necessity but also a mechanism through which local governments respond to institutional pressures and demonstrate compliance with public sector governance requirements. The combination of RBV and Institutional Theory therefore provides a stronger conceptual foundation for explaining financial reporting quality: RBV emphasizes the internal resources and capabilities available to the organization, while Institutional Theory highlights the regulatory and institutional environment within which those resources are utilized.

Among the organizational factors influencing financial reporting quality, human resource competence is considered one of the most critical. Government employees involved in financial management are expected to possess sufficient knowledge of governmental accounting standards, public financial regulations, and financial reporting procedures. In addition to technical competence, analytical ability and professional judgment are required to ensure that financial transactions are properly recognized, measured, recorded, and disclosed. Inadequate competence may increase the likelihood of recording errors, delayed reporting, and non-compliance with accounting standards, thereby reducing the reliability and credibility of financial statements (Reu et al. 2024). Accordingly, the theoretical and empirical arguments lead to the following hypothesis:

H1: Human resource competence has a positive and significant effect on the quality of local government financial statements.

The increasing adoption of information technology has also transformed financial management practices within the public sector. Integrated financial management information systems enable local governments to process financial transactions more efficiently, improve data accuracy, accelerate reporting processes, and facilitate timely access to financial information. From the RBV perspective, the value of information technology depends on the organization's ability to effectively utilize technological resources through competent personnel and appropriate organizational processes. Therefore, effective information technology utilization is expected to improve the quality of financial information and financial reporting (Reu et al. 2024) Based on this argument, the second hypothesis is formulated as follows:

H2: Information technology utilization has a positive and significant effect on the quality of local government financial statements.

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Another essential determinant of financial reporting quality is the effectiveness of the internal control system. An effective internal control system provides reasonable assurance that financial activities are conducted in accordance with applicable laws and regulations, government assets are adequately protected, operational risks are minimized, and financial statements are free from material misstatements. Strong internal controls also enhance organizational accountability by preventing fraud, detecting errors at an early stage, and ensuring consistency throughout the financial reporting process. From the RBV perspective, internal control represents an organizational capability that enables local governments to manage risks and ensure the reliability of financial reporting processes. Consequently, stronger internal control systems are expected to improve financial statement quality (Ramadhani & Yaya, 2024). Therefore, the third hypothesis is formulated as follows:

H3: The internal control system has a positive and significant effect on the quality of local government financial statements.

Although numerous studies have examined the determinants of financial reporting quality in the public sector, empirical findings remain inconsistent. Several studies reported that human resource competence significantly improves the quality of government financial statements, whereas other studies found weak or statistically insignificant relationships. Similar inconsistencies have also been identified regarding the influence of information technology utilization and internal control systems. These differences may be explained by variations in institutional capacity, organizational culture, technological readiness, and regional characteristics across local governments. Therefore, the determinants of financial reporting quality should continue to be examined in different governmental contexts to provide more comprehensive empirical evidence (Ramadhani & Yaya, 2024).

Research focusing on local governments in Eastern Indonesia remains relatively limited compared with studies conducted in western regions of the country. Ende Regency, located in East Nusa Tenggara Province, continues to improve its public financial management through capacity development, digitalization initiatives, and the strengthening of internal control practices. Nevertheless, increasing public expectations for transparency, accountability, and efficient financial management require continuous evaluation of the factors affecting the quality of financial reporting. Understanding these factors is important because local governments face unique administrative, geographical, and institutional challenges that may influence financial reporting performance differently from other regions.

This study addresses these gaps by examining the influence of human resource competence, information technology utilization, and internal control systems on the quality of financial statements in the Government of Ende Regency. By applying the Resource-Based View as the primary theoretical perspective and considering the institutional context of local government, this study provides a more comprehensive explanation of how internal organizational resources and capabilities contribute to financial reporting quality. Unlike previous studies that generally focused on larger provincial governments or examined these variables separately, this research provides empirical evidence from a regency government in Eastern Indonesia where limited evidence currently exists. The findings are expected to enrich the literature on public sector accounting while providing practical recommendations for improving financial reporting quality, strengthening governance, and improving local government financial governance.

Based on the research background and theoretical framework, this study addresses the following research question: Do human resource competence, information technology utilization, and internal control systems significantly influence the quality of financial statements in the Government of Ende Regency? Accordingly, the objective of this study is to analyze the influence of human resource competence, information technology utilization, and internal control systems on the quality of financial statements in the Government of Ende Regency. By examining these relationships in the context of local government financial management, the study seeks to provide empirical evidence that can inform efforts to strengthen the reliability and quality of government financial reporting.

2 | Method

2.1 | Research Design

This study employed a quantitative approach with an explanatory research design to examine the statistical associations between human resource competence, information technology utilization, internal control systems, and the quality of financial statements. The quantitative approach was selected because the study used numerical data obtained through a structured questionnaire and analyzed the proposed relationships statistically. The study adopted a cross-sectional survey design, in which data were collected from respondents at a single period of observation. The design was appropriate for assessing the extent to which human resource competence, information technology utilization, and internal control systems are statistically associated with the quality of financial statements in local government organizations. Because the data were collected cross-sectionally, the findings are interpreted as statistical relationships or associations rather than definitive causal effects.

2.2 | Population and Sample

The study was conducted within Regional Government Organizations (*Organisasi Perangkat Daerah*/OPD) under the Government of Ende Regency, Indonesia. The target population consisted of civil servants directly involved in governmental financial management and financial reporting activities. The respondents included Financial Administration Officers (*Pejabat Penatausahaan Keuangan*/PPK), expenditure treasurers, revenue treasurers, accounting personnel, financial reporting personnel, and heads of finance sub-divisions. These positions were selected because personnel occupying these roles have direct responsibilities and practical knowledge related to financial administration, transaction recording, budget implementation, accounting processes, and the preparation of government financial statements. A purposive sampling technique was employed to select respondents who met the predetermined inclusion criteria. Respondents were required to: (1) be actively involved in financial management or financial reporting activities; (2) have at least one year of experience in the finance function; and (3) possess adequate knowledge of governmental financial reporting procedures. These criteria were established to ensure that respondents had sufficient professional experience and contextual knowledge to provide relevant information regarding the research variables.

2.3 | Data Collection

Primary data were collected using a structured questionnaire distributed directly to eligible respondents. The questionnaire consisted of two sections. The first section collected respondents' demographic characteristics, including gender, age, educational background, work experience, and current position. The second section contained measurement items for human resource competence, information technology utilization, internal control systems, and financial statement quality. The measurement items were adapted from indicators established in previous studies and relevant public sector accounting literature and subsequently adjusted to reflect the context of financial management within the Government of Ende Regency. Before distribution, the questionnaire was designed to ensure that each statement was understandable and relevant to the respondents' professional responsibilities. All research variables were measured using a four-point Likert scale ranging from 1 = strongly disagree to 4 = strongly agree. The four-point scale was used to eliminate a neutral response category and encourage respondents to express a clear position toward each statement (Sugiyono, 2022).

2.4 | Measurement of Variables

The study consisted of three independent variables: human resource competence (HRC), information technology utilization (ITU), and internal control system (ICS) and one dependent variable, namely quality of financial statements (QFS).

Human resource competence was measured using seven questionnaire items covering three dimensions: knowledge, skills, and attitude. These dimensions collectively reflect the capacity of financial personnel

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to understand governmental accounting, financial management procedures, and applicable regulations, as well as their ability to perform financial management and reporting tasks accurately and appropriately. The attitude dimension further captures the professionalism, responsibility, and commitment demonstrated by personnel in carrying out their financial management duties. Building on the role of competent personnel in supporting financial processes, information technology utilization was measured using six questionnaire items focusing on the availability and use of computers, internet networks, and supporting software. These indicators capture the extent to which information technology infrastructure is available and utilized to facilitate financial administration, accounting, and reporting activities.

The study also assessed the internal control system using thirteen questionnaire items encompassing five dimensions: control environment, risk assessment, control activities, information and communication, and monitoring. Together, these dimensions represent the organizational mechanisms for establishing an effective control environment, identifying and assessing risks in financial management, ensuring that financial transactions are appropriately authorized and controlled, disseminating relevant financial information, and monitoring the effectiveness of internal control implementation. Finally, the quality of financial statements was measured using ten questionnaire items covering four qualitative characteristics: relevance, reliability, understandability, and comparability. These characteristics reflect the extent to which financial information is useful for evaluating government financial performance and supporting decision-making, faithfully represents financial conditions and transactions, is clearly presented to users, and enables meaningful comparisons across reporting periods or organizational units. The operationalization of the research variables is presented in **Table 1**.

TABLE 1 | Operationalization of Research Variables

Variable	Code	Indicators	Items
Human Resource Competence	HRC	Knowledge, skills, attitude	Bordbar et al. (2021)
Information Technology Utilization	ITU	Computer facilities, internet networks, supporting software	Noor (2022)
Internal Control System	ICS	Control environment, risk assessment, control activities, information and communication, monitoring	Hamed (2023); Edeh & Obinna (2025)
Quality of Financial Statements	QFS	Relevance, reliability, understandability, comparability	Akinadewo et al. (2023)

2.5 | Instrument Testing

Before conducting the hypothesis testing, the collected questionnaires were screened for completeness and consistency. The quality of the measurement instrument was then evaluated through validity and reliability testing. Validity testing was conducted to assess whether each questionnaire item adequately represented and measured its intended construct. Reliability testing was performed to evaluate the internal consistency of the items within each research variable. These procedures were conducted to ensure that the measurement instrument provided adequate evidence of measurement quality before the data were used in the regression analysis (Ghozali, 2021).

2.6 | Data Analysis

The data analysis was conducted in several stages. *First*, descriptive statistics were used to summarize the characteristics of the respondents and provide an overview of the observed values of the research variables. *Second*, validity and reliability tests were performed to evaluate the quality of the measurement instrument. *Third*, classical assumption tests were conducted before estimating the regression model. These tests included normality, multicollinearity, and heteroscedasticity tests. The normality test was conducted to assess the distribution of the regression residuals, while the multicollinearity test was used to identify potential high correlations among the independent variables. The heteroscedasticity test was performed to determine whether the variance of the residuals was constant across the predicted values. *Finally*, multiple linear regression analysis was employed to examine the statistical associations between human resource competence, information technology utilization, internal control systems, and the quality of financial statements. The analysis assessed both the partial contribution of each independent variable and the simultaneous contribution of all independent variables to financial statement quality. Statistical analysis was performed using SPSS 26.

2.7 | Regression Model and Hypothesis Testing

The multiple linear regression model used to examine the proposed relationships is specified as follows:

$$QFS = \alpha + \beta_1 HRC + \beta_2 ITU + \beta_3 ICS + \varepsilon$$

where: QFS = Quality of Financial Statements; HRC = Human Resource Competence; ITU = Information Technology Utilization; ICS = Internal Control System; α = Constant; β_1–β_3 = Regression coefficients; and ε = Error term.

Hypothesis testing was conducted at a 5% significance level ($\alpha = 0.05$). A hypothesis was considered supported when the estimated regression coefficient was statistically significant ($p < 0.05$) and its direction was consistent with the proposed hypothesis (Hair et al., 2022). A *p*-value greater than 0.05 was interpreted as indicating insufficient statistical evidence to support the proposed relationship. The coefficient of determination (R^2) was also examined to assess the proportion of variation in financial statement quality that could be statistically explained by human resource competence, information technology utilization, and internal control systems. The interpretation of the regression results emphasizes statistical associations rather than causal effects because the study employed a cross-sectional survey design.

3 | Results and Discussion

This study involved 100 respondents drawn from the finance divisions of Regional Government Organizations (*Organisasi Perangkat Daerah*/OPDs) within the Government of Ende Regency. The respondents comprised financial administration officers, treasurers, accounting staff, financial reporting officers, and heads of finance subdivisions who are directly involved in preparing and managing local government financial statements. Because all respondents actively participate in the financial reporting process, they were considered capable of providing reliable information regarding the implementation of financial management practices within their respective institutions.

3.1 | Instrument Quality and Data Assumption Testing

Before hypothesis testing, the quality of the research instrument was evaluated through validity and reliability tests. The results indicated that all questionnaire items met the required validity criteria, demonstrating that every indicator appropriately measured its corresponding construct. Furthermore, the reliability test showed that all variables achieved acceptable reliability levels, indicating consistent measurement across respondents. The classical assumption tests also confirmed that the regression model satisfied the required statistical assumptions. The normality test indicated that the residuals were normally distributed. In addition, no evidence of multicollinearity or heteroscedasticity was identified, suggesting that the regression model was appropriate for hypothesis testing. Taken together, these results provide sufficient statistical evidence that the measurement instruments and regression model were adequate for subsequent hypothesis testing. These findings demonstrate that the collected data were suitable for multiple linear regression analysis.

TABLE 2 | Results of Multiple Linear Regression

	Model	Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.308	1.513		.865	.389
	HRC	.076	.025	.125	3.105	.003
	ITU	1.332	.064	.865	20.771	.000
	ICS	.040	.027	.060	1.501	.137

Dependent Variable: QFS

Source: Output SPSS, processed by the authors (2026)

As presented in **Table 2**, the regression results provide support for two of the three proposed hypotheses. human resource competence (HRC) has a positive and statistically significant relationship with the quality of financial statements, with an unstandardized coefficient $B = 0.076$ and a standardized coefficient $\beta = 0.125$, $p = 0.003$. Information technology utilization (ITU) also has a positive and statistically significant relationship with financial statement quality, with an unstandardized coefficient $B = 1.332$ and a standardized coefficient $\beta = 0.865$, $p = 0.000$. In contrast, the internal control system (ICS) has an unstandardized coefficient $B = 0.040$ and a standardized coefficient $\beta = 0.060$, $p = 0.137$, indicating a positive but statistically insignificant relationship. Therefore, H1 and H2 are supported, whereas H3 is not supported. The standardized coefficients further indicate that ITU has the strongest statistical association with financial statement quality among the three predictors, followed by HRC and ICS.

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

The findings indicate that human resource competence has a positive and significant relationship with the quality of financial statements in the Government of Ende Regency. This finding suggests that personnel who possess adequate knowledge, technical skills, and appropriate professional attitudes are better able to perform financial management and reporting activities accurately and consistently. The positive relationship can be explained by the direct role of financial personnel in processing financial transactions, applying accounting procedures, preparing supporting documentation, and compiling financial reports within Regional Government Organizations (OPDs).

In the context of the Government of Ende Regency, competent financial personnel can facilitate the translation of government accounting requirements into routine financial management practices. Employees with sufficient knowledge of governmental accounting are more likely to understand how transactions should be recognized, classified, recorded, and reported. At the same time, adequate technical skills enable personnel to identify inconsistencies in financial data, complete reporting procedures, and use financial information systems appropriately. Professional attitudes and responsibility further support the accuracy and timeliness of reporting because financial personnel are required to perform their duties carefully and comply with established procedures.

The mechanism underlying this relationship can also be explained through the Resource-Based View (RBV). Human resources constitute an important organizational capability because accounting regulations and financial information systems cannot produce high-quality financial reports without personnel who are capable of operating and applying them effectively. In other words, the quality of financial reporting depends not only on the availability of accounting standards and procedures but also on the organization's ability to translate those requirements into accurate financial practices through competent employees (Ratnasari et al., 2023). This mechanism is particularly relevant in local government because financial reporting involves multiple administrative stages and personnel with different responsibilities. Errors or weaknesses at an earlier stage of the financial reporting process can be transferred to subsequent stages and ultimately affect the quality of the final financial statements. Competent personnel can therefore function as a control point by identifying errors, ensuring the

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completeness of financial information, and maintaining consistency between financial transactions and reported figures.

These findings are consistent with Asah et al. (2025), who reported that human resource competence improves the quality of local government financial statements through stronger financial management practices. Similarly, Jamaluddin and Muttaqim (2025) found that employee competence contributes positively to government financial reporting quality by supporting the implementation of accrual-based accounting. However, the contribution of human resource competence should not be understood in isolation because its effectiveness may depend on the availability of supporting information technology and internal control mechanisms. Thus, the findings reinforce the view that competent financial personnel represent an essential organizational capability for maintaining reliable financial reporting in the Government of Ende Regency.

3.3 The Effect of Information Technology Utilization on the Quality of Financial Statements

The findings reveal that information technology utilization has a positive and significant relationship with the quality of financial statements in the Government of Ende Regency. The positive relationship indicates that the availability and effective utilization of computers, internet networks, and supporting financial software can facilitate the financial reporting process. Information technology can improve financial reporting quality by reducing dependence on manual processing, facilitating the recording and retrieval of financial data, accelerating data processing, and supporting the timely preparation of financial reports.

The relatively large standardized coefficient for information technology utilization ($\beta = 0.865$) indicates that ITU has the strongest statistical association with financial statement quality among the independent variables included in the regression model. This result suggests that, within the observed sample, differences in information technology utilization are more strongly associated with variations in reported financial statement quality than human resource competence or internal control systems. Given the relatively large standardized coefficient, however, the strength of this association should be interpreted cautiously, particularly because the study relies on cross-sectional, self-reported questionnaire data collected from respondents involved in financial management. The finding therefore indicates a strong statistical association within the observed sample rather than establishing that information technology utilization independently determines financial statement quality.

The mechanism underlying this relationship is associated with the ability of information technology to integrate and standardize financial management activities. When financial personnel utilize available technological systems effectively, financial data can be processed more systematically from transaction recording to reporting (Yusuf & Hidayah, 2024). This reduces the possibility of repetitive manual data entry and makes financial information easier to access and verify. The use of supporting software can also facilitate the organization and storage of financial data, allowing personnel to retrieve information when preparing or reviewing financial statements (Prasetio et al., 2023).

The positive finding also suggests that the technological resources available within the Government of Ende Regency can provide greater benefits when they are accompanied by actual utilization by financial personnel. Technology does not improve reporting quality merely because hardware, internet infrastructure, or software exists. Its contribution occurs when employees use these facilities as part of their routine financial management activities. This interpretation is consistent with the Technology Acceptance Model (TAM), which emphasizes the importance of users' acceptance and utilization of technology in generating performance benefits (Iskandar et al., 2025).

The finding is consistent with Pratiwi et al. (2022), who found that information technology contributes to the quality of local government financial reporting by improving data processing efficiency and information reliability. Mediaty et al. (2025) similarly reported a significant relationship between information technology utilization and financial reporting quality. Nevertheless, the present finding also

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needs to be interpreted in relation to human resource competence. Personnel must possess sufficient skills to operate financial information systems appropriately; therefore, technology and human capability function as complementary resources in the financial reporting process.

3.4 The Effect of Internal Control Systems on the Quality of Financial Statements

The results indicate that the internal control system has a positive but statistically insignificant relationship with the quality of financial statements in the Government of Ende Regency. The regression results show a positive coefficient ($\beta = 0.060$), but the significance value is 0.137, which is higher than the 0.05 threshold. Therefore, H3 is not supported. Although the direction of the relationship is consistent with the proposed hypothesis, the statistical evidence is insufficient to conclude that internal control systems are significantly associated with financial statement quality in the present study. This finding suggests that the existence of internal control mechanisms alone may not be sufficient to produce measurable improvements in financial reporting quality.

One possible explanation is that the effectiveness of internal control depends not only on the formal existence of control components but also on the consistency and quality of their implementation in daily financial management. The internal control system assessed in this study encompasses the control environment, risk assessment, control activities, information and communication, and monitoring. These components are designed to support the authorization, verification, documentation, supervision, and monitoring of financial activities. However, the presence of formal procedures does not necessarily indicate that these mechanisms are consistently applied across all stages of financial management. Consequently, weaknesses in implementation may reduce the extent to which internal control contributes to the quality of financial statements.

The insignificant finding can also be understood from the nature of financial reporting processes within local government organizations. The preparation of financial statements involves multiple stages, including transaction recording, documentation, classification, verification, consolidation, and reporting, which are performed by different personnel and organizational units. If internal control procedures are implemented primarily as formal administrative requirements rather than as continuous practices, their ability to detect and correct errors before they affect financial statements may be limited (Widodo & Putra, 2024). Thus, the positive but insignificant coefficient may indicate that internal control mechanisms exist within the Government of Ende Regency, but their implementation may not yet be sufficiently consistent or effective to generate a statistically detectable relationship with financial statement quality.

The finding is nevertheless consistent with the COSO (2013) Internal Control Framework, which emphasizes that an effective internal control system depends on the interaction of control environment, risk assessment, control activities, information and communication, and monitoring. The framework does not imply that the formal presence of these components automatically guarantees high-quality reporting; their effectiveness depends on how they operate together within organizational processes. In the context of the Government of Ende Regency, the results therefore highlight the importance of moving beyond the formal establishment of internal control procedures toward their consistent implementation and continuous monitoring.

This finding differs from studies that have reported a significant positive relationship between internal control systems and local government financial reporting quality. For example, Jamaluddin and Muttaqim (2025) found that internal control systems significantly contribute to the quality of local government financial statements, while Pratiwi et al. (2022) reported a positive relationship between internal control and the quality of local government financial reporting information. The difference may reflect variations in organizational conditions, implementation practices, institutional capacity, and the extent to which internal control mechanisms are embedded in routine financial management. Therefore, the insignificant result in the present study should not be interpreted as evidence that internal control is unimportant, but rather as an indication that its contribution may depend on how effectively and consistently control mechanisms are implemented in practice.

The insignificant relationship between internal control systems and financial statement quality provides an important empirical insight into internal control as an organizational capability. From the Resource-Based View, organizational resources and capabilities create value when they are effectively deployed and integrated into organizational processes. The finding suggests that the formal existence of internal control mechanisms does not necessarily translate into measurable improvements in financial reporting quality. Rather, their contribution may depend on the consistency with which control procedures are implemented, monitored, and embedded in routine financial management. This finding therefore provides contextual evidence that the value of internal control depends more on the effectiveness of its implementation than on its formal establishment alone.

For the Government of Ende Regency, the findings suggest that strengthening internal control should go beyond the establishment of formal control procedures. Greater attention should be given to the consistent implementation of authorization, verification, segregation of duties, risk assessment, information and communication, and monitoring within daily financial management. Periodic evaluation of how these mechanisms are actually implemented may help identify gaps between formal control requirements and operational practices. Strengthening the implementation and monitoring of internal controls may therefore provide greater opportunities to detect and correct errors before they are incorporated into financial statements, thereby supporting the reliability, transparency, and accountability of local government financial reporting.

4 | Conclusion

The findings indicate that human resource competence has a positive and statistically significant relationship with the quality of financial statements in the Government of Ende Regency. This result demonstrates that financial personnel with adequate knowledge, skills, and professional attitudes are better able to perform financial management and reporting tasks accurately and appropriately. The competence of government personnel supports the proper application of accounting procedures, improves the accuracy of financial information, and facilitates the preparation of financial statements in accordance with applicable Government Accounting Standards. Therefore, continuous competency development through training, technical guidance, and strengthening employees' understanding of government accounting is important for improving the quality of local government financial reporting.

Information technology utilization also shows a positive and statistically significant relationship with the quality of financial statements and has the largest standardized coefficient among the predictors examined. This finding indicates that, within the observed sample, greater utilization of information technology is strongly associated with higher reported financial statement quality. However, the result should be interpreted as a statistical association rather than a causal effect, given the cross-sectional design and self-reported nature of the data. The finding nevertheless highlights the importance of optimizing digital financial management systems while ensuring that financial personnel possess the capability to use these technologies effectively.

Internal control system has a positive but statistically insignificant relationship with the quality of financial statements. Although the positive coefficient suggests a direction consistent with the expected relationship, the finding does not provide sufficient statistical evidence to conclude that internal control significantly influences financial statement quality in this study. This result may indicate that the formal existence of control procedures does not necessarily translate into consistent implementation in daily financial management activities. This study is limited by its cross-sectional design and the use of self-reported questionnaire data, which may restrict the ability to capture changes over time and may be subject to respondents' perceptions. Future research should consider additional variables such as organizational commitment, leadership support, accounting information system quality, and organizational culture, while also expanding the research to other local governments or using longitudinal and mixed-method approaches to obtain a more comprehensive understanding of financial reporting quality.

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