

Contingency Of Local Government Financial Report Quality (A Case Study of The Environmental Agency of Bandar Lampung City)

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Abstract

This research investigates the impact of the Accounting System and Internal Control System on the Quality of Financial Reports, with Human Resource Capacity as a moderating factor. Employing an explanatory approach and purposive sampling, the study aims to elucidate the interplay among these variables. Utilizing multiple linear regression modeling for analysis, the findings reveal that both the Accounting System and Internal Control System exert a positive and significant influence on the Quality of Financial Reports when moderated by Human Resource Capacity. This implies that the effectiveness of financial reporting is not solely dependent on the intrinsic features of accounting and control systems but is also contingent upon the organizational capacity in terms of human resources. These results underscore the intricate dynamics between structural components and human elements in ensuring the quality of financial reporting. In conclusion, understanding the interdependence of these factors is crucial for organizations seeking to enhance their financial reporting processes and overall accountability.

Keywords:Quality of financial reports, accounting system, internal control system.

INTRODUCTION

Financial reporting by local governments holds significant importance as it serves as a key pillar in fostering transparency, accountability, and informed decision-making

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within public sector organizations. In the realm of financial management, the significance of high-quality financial reports cannot be overstated (Ewert & Wagenhofer, 2019). These reports play a crucial role in facilitating the assessment of financial performance and the responsible utilization of public resources by various stakeholders, including citizens, investors, and policymakers. Accountability is facilitated through the use of financial reports as a tool for holding the organization responsible for its financial decisions and actions (Gold et al., 2020). Central to the effectiveness of financial reporting is the requirement for reliability and accuracy (Nani, 2019). Stakeholders, including investors, regulators, and the general public, rely on these reports with the expectation that the information presented is both dependable and precise. The reliability of financial reports ensures consistency, while accuracy is paramount in reflecting the true financial position and performance of the organization (Hadi et al., 2023). Furthermore, this research emphasizes the direct influence of the reliability and accuracy of financial reports on building trust and confidence among stakeholders. Trust is a cornerstone for effective relationships between an organization and its stakeholders (Metz et al., 2022). If financial reports are perceived as trustworthy and accurate, stakeholders are more likely to have confidence in the management and financial stability of the organization. This trust, in turn, plays a crucial role in facilitating informed decision-making.

The Environmental Agency of Bandar Lampung City, like many other local government entities, faces the challenge of producing high-quality financial reports that accurately reflect its financial position, performance, and cash flows. The complexity of government accounting, the need for compliance with regulatory standards, and the demand for transparent and reliable financial information pose substantial challenges to the agency (Ebinger & Omondi, 2020). Therefore, understanding the determinants of financial report quality is essential to address these challenges and enhance the overall financial reporting practices of the agency. Financial reports, when reliable and accurate, serve as a valuable source of information for stakeholders, including management, investors, and creditors (Ehalaiye et al., 2020). Informed decision-making depends on the quality of the financial information provided, with reliable and accurate reports contributing to well-founded decisions. In contrast, unreliable or inaccurate reports can lead to misguided decisions, potentially affecting the overall success and sustainability of the organization. In this context, understanding the pivotal role that financial reports play becomes imperative for fostering a well-informed and effective financial governance



system. This aspect is particularly crucial for entities like the Environmental Agency of Bandar Lampung City, where the factors affecting the quality of financial reports have become a noteworthy focus of attention and concern.

In the intricate realm of contemporary business, the quality of financial reporting information is intricately linked to the triumvirate of human resource capacity, technological information utilization, and the effectiveness of internal control systems (Ma et al., 2023). The competence and expertise of the workforce, the adept integration of technological tools, and the robustness of internal controls collectively shape the accuracy, reliability, and transparency of financial reports (Mamburao & Manubag, 2023). Human resource capacity ensures the precision of data input and fosters insightful analysis, while technology expedites processes and minimizes errors. Concurrently, internal control systems act as a safeguard against inaccuracies and fraudulent activities, thereby fortifying the credibility of financial information. Previous research has explored various factors influencing the quality of financial reports in the context of local government agencies. Studies by (Kusuma et al., 2021; Launtu, 2021; Mulyadita, 2021) have examined the influence of human resource capacity, utilization of technological information, and internal control systems on the quality of financial reporting information. Additionally, research by Osadchy et al., (2018) has emphasized the significance of financial statements as an information base for decision-making in a transforming economy. These findings provide valuable insights into the multifaceted nature of factors affecting financial report quality in the public sector.

However, the specific interplay between the Accounting System, Internal Control System, and Human Resource Capacity in shaping the quality of financial reports within the Environmental Agency of Bandar Lampung City remains relatively unexplored. This research addresses a critical gap by examining how the Accounting System and Internal Control System collectively impact the Quality of Financial Reports within organizations. The study seeks to elucidate the relationship between the efficiency and accuracy of the Accounting System, the robustness of the Internal Control System, and the resulting quality of financial reporting. Adding a nuanced dimension, the research introduces Human Resource Capacity as a moderating factor, exploring the influence of organizational human capital on these interconnections. By delving into these intricate dynamics, the findings aim to provide valuable insights with potential implications for management strategies, policy development, and academic discourse in the realms of



accounting, finance, and human resource management. By doing so, this study aims to contribute to the existing body of knowledge by providing a nuanced understanding of the contingent factors that impact financial report quality in the specific context of the Environmental Agency of Bandar Lampung City.

This study expect to elucidate the complex interconnections among the Accounting System, Internal Control System, and Human Resource Capacity within organizational contexts, emphasizing their combined influence on the quality of financial reports. The research delves into the examination of the Accounting System, fundamental to financial reporting, in conjunction with the Internal Control System, crafted to guarantee precision and adherence to regulations, and Human Resource Capacity, encompassing the competencies of individuals engaged in financial processes. The overarching objective is to offer a thorough comprehension of how these interlinked components mutually shape each other, providing valuable insights for organizations striving to improve the dependability and credibility of their financial reports. Furthermore, the study aims to offer practical implications for local government agencies, particularly the Environmental Agency of Bandar Lampung City, by providing insights into potential areas for improvement in financial reporting practices. Ultimately, it is anticipated that this research will contribute to the enhancement of financial transparency, accountability, and decision-making within the public sector.

Objectives

This study's theoretical underpinnings are laid out in the following model.

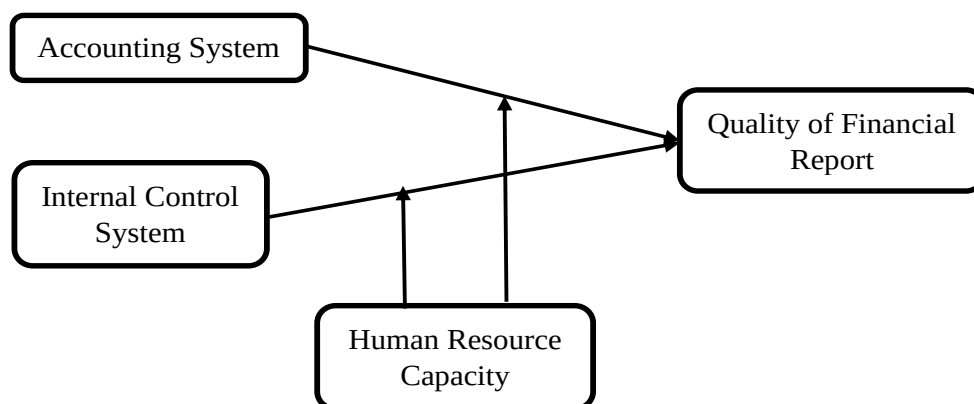


Figure 1: Theoretical Framework

According to the research framework, this article intends

1. To comprehend the impact of the Accounting System (AS) on the Quality of Financial Reports (QFR).
2. To grasp the influence of the Internal Control System (ICS) on the Quality of Financial Reports (QFR).
3. To investigate how Human Resource Capacity (HRC) moderates the relationship between the Accounting System (AS) and the Quality of Financial Reports (QFR).
4. To examine how Human Resource Capacity (HRC) moderates the relationship between the Internal Control System (ICS) and the Quality of Financial Reports (QFR).

Local autonomy has empowered local governments to manage financial resources more effectively, necessitating an evaluation of their financial management success. Financial statement evaluation is crucial for assessing an organization's position and performance in the past and present. This research aims to examine the impact of Bandar Lampung City's Environmental Agency's Accounting System and Internal Control System on the quality of financial reports. It will be moderated by human resource capacity. With Human Resource Capacity as a moderator, this study seeks to analyze the accounting system's and the internal control system's influence on financial report quality, both independently and in combination.

DISCUSSION

In this moderated discussion, human resource capacity serves as a focal point as participants explore how accounting and internal control systems affect the reliability of financial reports. We offer the findings of the multiple linear regression analysis that shed light on the impacts of AS and ICS on QFR, both alone and in interaction, and on the moderating influence of HRC in these associations. The discussion also highlights the implications of the research findings for financial management and reporting practices within local government agencies.

Table 1. Descriptive Analysis of Research Variables

	N	Minimum	Maximum	Mean	Std. Deviation
AS	30	7,00	15,00	11, 37	1, 96
ICS	30	11,00	20,00	16,8	2, 43

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HRC	30	9,00	15,00	11,5	1,76
QFR	30	10,00	19,00	14,9	2,25
Valid N	30				

Based on Table 1, the results of a comprehensive statistical analysis are presented, focusing on four key variables: AS, ICS, QFR, and HRC. The mean and standard deviation values provide essential insights into the central tendency and dispersion of each variable. For AS, the mean is determined to be 11.37, indicating the average score in the study, with a standard deviation of 1.96 highlighting the degree of variability around this mean. The minimum and maximum values for AS are 7 and 15, respectively, offering a range within which the observations fall. Similarly, ICS demonstrates a mean of 16.80, a standard deviation of 2.43, and a range between 11 and 20. HRC exhibits a mean of 11.50, a standard deviation of 1.76, and a range from 9 to 15. Lastly, QFR displays a mean of 14.90, a standard deviation of 2.25, and a range spanning from 10 to 19. According to Douglas et al., (2020), these findings contribute to a comprehensive understanding of the distribution and central tendencies of the variables under investigation, forming a crucial foundation for the subsequent interpretation and discussion of the study's results.

Table 2. Validity Test

Statement Item	Number	Pearson Product Moment	r Table	Result
AS	1	0,826	0,361	Valid
	2	0,969	0,361	
	3	0,887	0,361	
ICS	1	0,843	0,361	
	2	0,808	0,361	
	3	0,835	0,361	
	4	0,800	0,361	
HRC	1	0,859	0,361	
	2	0,800	0,361	
	3	0,834	0,361	



QFR	1	0,663	0,361	
	2	0,672	0,361	
	3	0,684	0,361	
	4	0,777	0,361	

Based on Table 2, the data quality examination, employing the Pearson product-moment correlation coefficient, reveals a significant correlation between all questionnaire items and the total score, with coefficients surpassing the critical value of 0.361. This indicates a strong alignment, implying that each item effectively gauges the same underlying construct. The collective findings from the data validity tests unequivocally assert that the questionnaire utilized in this study serves as a valid instrument for capturing the targeted construct of interest.

Table 3. Reliability Test

Variable	Cronbach's Alpha	Coefficient Sig.	Result
AS	0.874	0.70	Reliable
ICS	0.829	0.70	
HRC	0.772	0.70	
QFR	0.748	0.70	

Based on Table 2, the reliability test results indicate that all four variables AS (Variable A), ICS (Variable B), HRC (Variable C), and QFR (Variable D) are deemed reliable in this study. Reliability, defined as the consistency of a measure over time or across diverse conditions, is pivotal in ensuring the dependability of research findings. To assess reliability, Cronbach's alpha was employed for each variable, serving as a coefficient to gauge internal consistency within a scale. According to Ekolu & Quainoo, (2019) research, A Cronbach's alpha exceeding 0.70 is considered high, suggesting strong correlation among scale items and thereby indicating the measurement of a consistent underlying construct. The calculated Cronbach's alpha coefficients for the variables are noteworthy: AS (0.874), ICS (0.829), HRC (0.772), and QFR (0.748). All these coefficients surpass the recommended threshold of 0.70, affirming the high internal consistency of each variable. Consequently, these results imply that all four variables are



likely to yield consistent outcomes when measured repetitively or under varying conditions.

Table 4. Hypotesis Test

Model	Coefficients ^a				
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	2.891	3.168		.913	.370
AS	.428	.134	.372	3.194	.011
ICS	.445	.108	.465	4.120	.000
Interaksi Moderasi 1	.756	.218	.115	3.467	.006
Interaksi Moderasi 2	.864	.188	.792	4.596	.001

The analysis involved multiple linear regression tests, and the results for each variable were presented and subsequently connected to Hypotheses Test in Table 4. Firstly, focusing on the Accounting System (AS), the multiple linear regression analysis revealed a coefficient of 0.428 with a significance of 0.011. This indicates a positive and statistically significant impact of the AS variable on QFR (Sig. 0.011 < 0.05), leading to the acceptance of the first hypothesis. The findings align with previous research by Binawati & Cyrenia, (2022); Isramirathul Wahyu et al., (2022); Lathif et al., (2020); Rahman & Permatasari, (2021), supporting the notion that an effective AS contributes positively to the accuracy of financial transactions, precision in financial information presentation, and consistent application of relevant accounting standards. Consequently, this enhances the reliability, relevance, and usefulness of financial reports for both external and internal users within the organization.

Moving on to the examination of the Strategic Planning Implementation (ICS) variable, the multiple linear regression test produced a coefficient of 0.445 with a significance of 0.000. This signifies a positive and highly significant influence of the ICS variable on QFR (Sig. 0.000 < 0.05), resulting in the acceptance of the second hypothesis. This outcome is consistent with prior research conducted by Gustina, (2021); Ridzal et al., (2022); Wulandari & Octaviani, (2020). The literature suggests that ICS plays a crucial role by providing policies, procedures, and practices within an organization to ensure the



integrity of financial information and safeguard the organization's assets from potential risks and fraud. Consequently, this influence of ICS on the financial reporting processes of an organization contributes to the overall quality of financial reports.

Multiple linear regression analyses were conducted to explore these relationships, and the results are presented in Table 4. For the impact of AS on QFR, the analysis revealed a significant coefficient of 0.756 for the HRC variable with a p-value of 0.006. This suggests that HRC positively and significantly moderates the influence of AS on QFR. The acceptance of the third hypothesis is consistent with prior research by Andrianto & Rahmawati, (2018), who stress the need of strong human resource capabilities in mitigating the effect of accounting systems on the reliability of financial reports. To put it simply, accurate and relevant financial reports are produced when the accounting system is effectively implemented by a staff that is well-equipped..

Moving on to the influence of ICS on QFR, the multiple linear regression analysis indicated a significant coefficient of 0.864 for the HRC variable with a p-value of 0.001. This signifies that HRC plays a positive and significant moderating role in the relationship between ICS and QFR. Consequently, the acceptance of the fourth hypothesis aligns with the findings of Indrayani & Harjanti, (2020), who argue that HRC moderates ICS on QFR. The study emphasizes that a high level of HRC enhances the implementation and maintenance of ICS, ensuring that internal control procedures are not only correctly applied but also effectively executed over time. In summary, the research demonstrates the pivotal role of Human Resource Capacity in moderating the relationships between key organizational factors (AS and ICS) and QFR, as outlined in Table 4.

CONCLUSION

The study's findings show that the Environmental Agency of Bandar Lampung City's QFR is positively and significantly affected by the Accounting System (AS) and the Internal Control System (ICS). Human Resource Capacity (HRC) emerges as a significant moderator in the relationships between AS and QFR, as well as between ICS and QFR. These findings underscore the crucial role of effective financial management practices, encompassing suitable accounting and internal control systems, along with the cultivation of human resource capacity, in ensuring the quality of financial reports produced by local government agencies. Consequently, it is recommended that local government agencies prioritize the enhancement of their accounting and internal control systems, coupled with



investments in the training and development of human resources to bolster their financial management capabilities. Furthermore, future research is encouraged to delve into the influence of additional factors, such as organizational culture and leadership, on the quality of financial reports generated by local government agencies. In essence, this research contributes valuable insights to advancing financial management and reporting practices within local government agencies, shedding light on the contingent factors impacting financial report quality.

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