


DETERMINANTS OF THE QUALITY OF FINANCIAL REPORTS

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ARTICLE INFO	ABSTRACT
<p>Article history:</p> <p>Received 20 January 2023</p> <p>Accepted 13 March 2023</p>	<p>Purpose: This study aims to determine the effect of the internal control system, information technology, applying of accounting standards, human resources competence, and the role of internal auditors on the quality of financial reports of local governments.</p>
<p>Keywords:</p> <p>Internal Control System; Information Technology; Applying of Accounting Standards; Human Resources Competence; The Role of Internal Auditors; Quality of Financial Reports.</p>	<p>Theoretical framework: Internal control system, information technology, applying of accounting standards, human resources competence, and the role of internal auditors affect the quality of financial reports. According to the agency theory, the quality of financial reports improves government performance and increasing accountability by reducing the information asymmetry. Additionally, under the agency theory approach, transparency and information are useful in controlling managers and making them responsible for their decisions, as well as overall organizational performance.</p>
	<p>Design/Methodology: The sample in this study was 126 respondents who were obtained using purposive sampling technique from the financial management and accounting officials of Kendari City, Southeast Sulawesi Province, Indonesia. The analytical method used is multiple linear regression analysis.</p>
	<p>Findings: The results support the agency theory and found that the internal control system, information technology, applying of accounting standards, and the role of internal auditors had a positive and significant effect on the quality of financial reports of local governments. Meanwhile, human resource competence has a positive but not significant effect on the quality of financial reports of local governments. This shows that the better the internal control system, information technology, applying of accounting standards, and the role of internal audit, the quality of local government financial reports will be better.</p> <p>Research, Practical & Social implications: This study can fill gaps in the results of previous research and helps to provide useful information for local governments in improving the quality of financial reports as an important part of efforts to increase transparency and accountability in the management and reporting of local government finances.</p> <p>Originality/Value: The findings suggest several consequences for the fields of public sector accounting and government governance. Additionally, recent empirical evidence shows that the implementation of accountability in many developing countries, including local government in Indonesia has not yet reached general standards and mainly focuses on compliance with applicable regulations, that this study aids in resolving by examining the factors that determine the quality of local government financial reports.</p>
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DETERMINANTES DA QUALIDADE DOS RELATÓRIOS FINANCEIROS

RESUMO

Objetivo: Este estudo visa determinar o efeito do sistema de controle interno, tecnologia da informação, aplicação de normas contábeis, competência em recursos humanos e o papel dos auditores internos na qualidade dos relatórios financeiros dos governos locais.

Estrutura teórica: O sistema de controle interno, a tecnologia da informação, a aplicação das normas contábeis, a competência dos recursos humanos e o papel dos auditores internos afetam a qualidade dos relatórios financeiros. De acordo com a teoria da agência, a qualidade dos relatórios financeiros melhora o desempenho do governo e aumenta a prestação de contas, reduzindo a assimetria de informação. Além disso, sob a abordagem da teoria da agência, a transparência e a informação são úteis para controlar os gerentes e torná-los responsáveis por suas decisões, bem como pelo desempenho geral da organização.

Design/Metodologia: A amostra neste estudo foi de 126 respondentes que foram obtidos usando a técnica de amostragem proposital dos funcionários da administração financeira e contábil da cidade de Kendari, província de Sudeste de Sulawesi, Indonésia. O método analítico utilizado é a análise de regressão linear múltipla.

Conclusões: Os resultados apóiam a teoria da agência e constataram que o sistema de controle interno, a tecnologia da informação, a aplicação das normas contábeis e o papel dos auditores internos tiveram um efeito positivo e significativo sobre a qualidade dos relatórios financeiros dos governos locais. Enquanto isso, a competência dos recursos humanos tem um efeito positivo, mas não significativo, sobre a qualidade dos relatórios financeiros dos governos locais. Isto mostra que quanto melhor o sistema de controle interno, a tecnologia da informação, a aplicação das normas contábeis e o papel da auditoria interna, melhor será a qualidade dos relatórios financeiros dos governos locais.

Pesquisa, implicações práticas e sociais: Este estudo pode preencher lacunas nos resultados de pesquisas anteriores e ajuda a fornecer informações úteis para os governos locais na melhoria da qualidade dos relatórios financeiros como uma parte importante dos esforços para aumentar a transparência e a prestação de contas na administração e nos relatórios das finanças dos governos locais.

Originalidade/Valor: Os resultados sugerem várias conseqüências para os campos da contabilidade do setor público e da governança governamental. Além disso, evidências empíricas recentes mostram que a implementação da prestação de contas em muitos países em desenvolvimento, incluindo o governo local na Indonésia, ainda não atingiu os padrões gerais e se concentra principalmente no cumprimento das regulamentações aplicáveis, que este estudo ajuda a resolver examinando os fatores que determinam a qualidade dos relatórios financeiros do governo local.

Palavras-chave: Sistema de Controle Interno, Tecnologia da Informação, Aplicação de Normas Contábeis, Competência em Recursos Humanos, O papel dos Auditores Internos, Qualidade dos Relatórios Financeiros.

DETERMINANTES DE LA CALIDAD DE LA INFORMACIÓN FINANCIERA

RESUMEN

Propósito: Este estudio pretende determinar el efecto del sistema de control interno, la tecnología de la información, la aplicación de las normas contables, la competencia de los recursos humanos y el papel de los auditores internos en la calidad de la información financiera de los gobiernos locales.

Marco teórico: El sistema de control interno, la tecnología de la información, la aplicación de las normas contables, la competencia de los recursos humanos y el papel de los auditores internos afectan a la calidad de la información financiera. Según la teoría de la agencia, la calidad de la información financiera mejora el rendimiento del gobierno y aumenta la responsabilidad al reducir la asimetría de la información. Además, según el enfoque de la teoría de la agencia, la transparencia y la información son útiles para controlar a los directivos y hacerles responsables de sus decisiones, así como del rendimiento general de la organización.

Diseño/metodología: La muestra de este estudio fue de 126 encuestados que se obtuvieron mediante la técnica de muestreo intencional entre los empleados de gestión financiera y contable de la ciudad de Kendari, provincia de Sulawesi Sudoriental, Indonesia. El método analítico utilizado es el análisis de regresión lineal múltiple.

Conclusiones: Los resultados apoyan la teoría de la agencia y concluyen que el sistema de control interno, la tecnología de la información, la aplicación de normas contables y el papel de los auditores internos tienen un efecto positivo y significativo en la calidad de los informes financieros de las administraciones locales. Mientras tanto, la competencia de los recursos humanos tiene un efecto positivo pero no significativo en la calidad de la información financiera de los gobiernos locales. Esto demuestra que cuanto mejores sean el sistema de control interno, la tecnología de la información, la aplicación de las normas contables y el papel de la auditoría interna, mejor será la calidad de los informes financieros de los gobiernos locales.

Repercusiones en la investigación, la práctica y la sociedad: Este estudio puede colmar lagunas en los resultados de investigaciones anteriores y contribuye a proporcionar información útil para que los gobiernos locales mejoren la calidad de la información financiera como parte importante de los esfuerzos por aumentar la transparencia y la rendición de cuentas en la administración y la información de las finanzas de los gobiernos locales.

Originalidad/valor: Los resultados sugieren varias consecuencias para los campos de la contabilidad del sector público y la gobernanza gubernamental. Además, datos empíricos recientes demuestran que la aplicación de la rendición de cuentas en muchos países en desarrollo, incluida la administración local de Indonesia, aún no ha alcanzado niveles generales y se centra principalmente en el cumplimiento de la normativa aplicable, algo que este estudio contribuye a abordar examinando los factores que determinan la calidad de la información financiera de la administración local.

Palabras clave: Sistema de Control Interno, Tecnología de la Información, Aplicación de Normas Contables.

INTRODUCTION

The quality of financial reports remains an important issue and attracts serious attention among regulators, professional accountants and other users of financial information. This happens because high-quality financial reports could have a positive and significant impact on all organizational stakeholders because they relate to how public sector entities provide management accountability for public funds and other assets entrusted to them to help providers of public money such as donor agencies, local investors, foreign investors, and taxpayers in making important decisions and other purposes (Muraina and Dandago, 2020). The role of the quality of financial reports in reducing agency problems has been confirmed in the accounting and finance literature (ElBannan and Farooq, 2019). The quality of financial reports reverses the growing impact of information asymmetry as the basis of compensation agreements and an important source of information that helps stakeholders to monitor managers (Lambert, 2001). Therefore, it is expected that the quality of financial reports leads to increased relevant and reliability of accounting and financial information and the expansion of transparent accounting and financial information to facilitate superior monitoring of managers' accountability for appropriate disclosure (Pitenoei *et al.*, 2021). The quality of financial reports is very important in an effort to maintain public trust by protecting accountability and transparency of public money and facilitating effective and efficient decision making. The high-quality financial reports enable stakeholders to use such information in evaluating the economic performance and expect that such information will assist them in measuring the soundness of the reporting entity and in making valid financial decisions (Kantudu and Alhassan, 2022). In order to make a valid decision, the information in the financial statements must be presented in an appropriately, relevant, understandable, comparable, timely and verifiable manner. Therefore, the quality of financial reporting is very useful in making decisions regarding the allocation of resources in organizations (Sabauri and Kvatashidze, 2018).

The high-quality financial reports will increase accountability and good governance in the public sector. Nowadays, good governance, accountability, and financial performance are key for the long-term sustainability of autonomous public sector organizations (Garcia-Lacalle and Torres, 2021). Recent empirical evidence shows that the implementation of accountability in many developing countries has not yet reached general standards and mainly focuses on compliance with applicable regulations (Keerasuntonpong *et al.*, 2019). The typical scenario is that many Asian countries are seeking to promote accountability as part of public sector reform (Tran *et al.*, 2021). Public administration reforms in countries around the world have been implemented under the New Public Management (NPM) framework to improve public sector performance ((Tran *et al.*, 2021). The concept of NPM serves to make the public sector more efficient and effective through the use of financial management techniques. In this realm, central and local governments internationally are trying to reform their accounting systems (Lapsley *et al.*, 2009). These accounting reforms respond to demands for accountability, transparency, and decision-usefulness of the information provided by the public sector including the government that is being proposed by numerous users. The individual reforms in governmental accounting systems may eventually succeed or fail, but the reform process remains an ongoing phenomenon in efforts to reform the public sector (Cohen and Karatzimas, 2017).

Indonesia as a developing country is currently reforming the financial management system and government accounting. Accounting reform is in line with the increasing public demand for good governance and has encouraged the central government and local governments to implement transparency and public accountability. In line with this, Bananuka *et al.* (2018) argues that financial reporting is part of accountability. In order to realize good governance, local governments must continue to make efforts to increase transparency and accountability in local financial management. Local government financial reports are basically assertions or statements from local government management that inform other parties, namely existing stakeholders, about the local government's financial condition. The audit of financial statements is intended to assess the fairness of financial statements based on generally accepted accounting principles. To protect users of financial statements, a third party is needed, namely an independent auditor in assessing the quality of local government financial reports. The Supreme Audit Agency of the Republic of Indonesia is an institution authorized to conduct audits on the management and accountability of state and regional finances. The results of the audit of the Supreme Audit Agency of the Republic of Indonesia on local government financial reports show that the quality of financial reports still does not reflect ideal conditions (Setiawan

et al., 2021; Haryati, 2016). The results of an audit of 542 local government financial statements in Indonesia in 2020 showed that an unqualified opinion for 486 financial statements (89.67%), a qualified opinion for 49 financial statements (9.04%), a adverse opinion for 2 financial statements (0.37%) and a disclaimer of opinion for 5 financial statements (0.92%) (The Supreme Audit Agency of the Republic of Indonesia, 2021). The causal factors for not obtaining the best opinion generally occur because the official in charge was negligent and not careful in presenting financial reports, weak in supervising and controlling activities, weaknesses in the system applications used, and do not fully understand the applicable regulations. Regulations related to financial reporting have a close relationship with the quality of financial reports (Iatridis, 2010). The factors that determine the quality of financial reporting include the internal control system, the quality of human resources, the use of information technology (Hammood and Dammak, 2023; Abed *et al.*, 2022; Tran *et al.*, 2021; Rashid, 2020; Nirwana and Haliah, 2018; Mulia, 2018), and applying of accounting standards (Aboukhadeer *et al.*, 2023; Habib *et al.*, 2019; Herath and Albarqi, 2017) and internal audit/audit committee (Mardessi, 2022; Alzeban, 2020; Kaawaase *et al.*, 2021). Other factors that also determine the quality of financial reporting are good governance (Garcia-Lacalle and Torres, 2021; Nalukenge *et al.*, 2018; 2017) and management commitment (Tran *et al.*, 2021; Sari and Fadli, 2017) and the accounting system (Yuliati *et al.*, 2019).

Several studies regarding the quality of financial reports in the public sector, especially governments in various countries, include Muraina and Dandago (2020) which concluded that standard accounting has improved the level of accountability, which in turn improved Nigeria's financial reporting quality. Furthermore, Nkundabanyanga *et al.* (2013) who concluded that accounting standards is positively and significantly associated with the quality of financial reporting in Uganda. Tran *et al.* (2021) found that accounting capacity has a positive effect on financial reporting quality in the public sector in Vietnam. Garcia-Lacalle and Torres (2021) found that the size of, and a greater presence of independent members in the governing body are explanatory factors behind the quality of the financial reports in Spanish central government agencies. Meanwhile, many studies have been carried out on the quality of local government financial reports in Indonesia, but the results are still inconsistent and contradictory. The results of research conducted by Anggadini (2021) found that the internal control system has a positive and significant effect on the quality of local government financial reports. This finding is in line with the results of research by Nilamsari *et al.* (2020), Ahmad *et al.* (2020), Ningtyas, *et al.* (2019), and Suhardjo (2019). However, this finding is not in line with the results of research by Yuliani and Agustini (2016) who found that the internal control

system has insignificant effect on the quality of local government financial reports. Furthermore, the results of research by Yuliani and Agustini (2016) found that the quality of information technology has a positive and significant effect on the quality of local government financial reports. This finding is not in line with the results of research conducted by Nilamsari *et al.* (2020) who found that the quality of information technology has insignificant effect on the quality of local government financial reports. Likewise, the results of research conducted by Sari and Fadli (2017) which found that the applying of accounting standards has a positive and significant effect on the quality of local government financial reports, not in line with the results of research by Yuliani and Agustini (2016) who found that the applying of accounting standards has insignificant effect on quality of local government financial reports. Another contradiction can be seen from the results of research by Setiawan, *et al.* (2021), Nirwana and Haliah (2018), Agung and Gayatri (2018), and Mulia (2018), who found that human resources competence has a positive and significant effect on the quality of local government financial reports. This finding is not in line with the results of research conducted by Aprisyah and Yuliati (2021), Suhardjo (2019), Yuliani and Agustini (2016), and Haryati (2016) which found that human resource competence has insignificant effect on the quality of local government financial reports. Research conducted by Anggaraeni *et al.* (2015) who found that internal auditor supervision has a positive and significant effect on the quality of local government financial reports, contradicting the results of research conducted by Haryati (2016) who found that internal auditor supervision has insignificant effect on the quality of local government financial reports. Research that examines the relationship between the role of internal auditors and the quality of financial reports in the public sector, especially the government, has not been widely carried out so that it is still interesting to conduct further research.

Based on the phenomenon that the quality of financial reports still does not reflect ideal conditions, the results of previous research on the quality of local government financial reports are still contradictory, and there is still a lack of research that examines the relationship between the role of internal auditors and the quality of financial reports in the government, this study tries to fill these gaps. This study also develops research that has been done previously that examines the factors that affect the quality of local government financial reports. The results of this study are important in several ways, such as contributing to the existing literature, especially in public sector accounting research and providing input for local governments in their efforts to improve the quality of financial reports as part of efforts to increase transparency and accountability in local government financial management.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory has been used in various disciplines as a lens for analyzing principal-agent problems or organizational governance mechanisms (Bendickson *et al.*, 2016). Agency theory is a theory that has been applied to many fields in the social and management sciences such as politics, sociology, economics, accounting, marketing, and administration. It is rooted in the principal-agent relationship in organizations although it has been applied in several other contexts (Kamdjoug, *et al.*, 2020). Agency theory is a concept that explains the contractual relationship between principals and agents. The principals are the parties who give the mandate to other parties, namely agents, to carry out all activities on behalf of the principals in their capacity as decision makers (Jensen and Meckling, 1976). In the context of the public sector, the relationship between the community and government is similar to the relationship between principals and agents. Based on agency theory, it can be illustrated that the relationship between the people and the government can be called an agency relationship, namely the relationship that arises because of a contract established by the community (principal) that uses the government (agent) to make services that are in the interest of the community and align the goals of the community and the government. Community are considered the principal, and the public entities' managers act as their agent to protect the public interest (Garcia-Lacalle and Torres, 2021). The community requires the government to be responsible through the reporting mechanism and the community through the legislature, can measure, assess and monitor the performance of the government to what extent the government has acted to improve the welfare of the community in a transparent and accountable manner. Mardiasmo (2018) explains that the notion of public accountability is the obligation of the trustee (agent) to provide accountability, present, report, and disclose all activities and activities that are their responsibility to the trustee (principal) who has the right to demand such accountability. The practice of financial reporting in public sector organizations is a concept based on agency theory. In financial reporting, the government acting as an agent has an obligation to provide useful information for users of government financial information who acts as a principal in assessing accountability and making decisions both economic, social and political decisions as well as directly or indirectly through their representatives (Mardiasmo, 2018). Agency theory suggests that the disclosure of information is a means of increasing accountability by reducing the information asymmetry between principals and agents, and managers are accountable to principals (Garcia-Lacalle and Torres, 2021). The accountability relationship is characterized by the principal's focus on controlling the agent, because the agent has more information than the principal, which can be

used for his own benefit (Schillemans (2013). In terms of accountability, a "principal-steward" relationship may result in lower levels of control and accountability from agent to principal than a "principal-agent" relationship. When principals delegate tasks to stewards who put organizational goals above personal interests, problems related to bureaucratic drift remain minimal (Bjurstrøm, 2020). Thus, the type of relationship is likely to influence the level of disclosure and accountability of the institution. Increased transparency and quality of financial information is the way for regulatory bodies and managers to demonstrate public accountability and consistency with entity goals and objectives, with positive consequences for the entity's image and reputation. Transparency and disclosure of reliable information to outsiders is a key aspect for public sector institutions. Under the agency theory approach, transparency and information are useful in controlling managers and making them responsible for their decisions, as well as overall organizational performance (Garcia-Lacalle and Torres, 2021).

Quality of Financial Reports

The general objective of financial statements is to present information about the financial position, budget realization, cash flow, and financial performance of a reporting entity that is useful for users in making and evaluating decisions regarding resource allocation (Meinarsih *et al.*, 2020). Specifically, the purpose of government financial reporting is to provide information that is useful for decision making and to demonstrate the reporting entity's accountability for the resources entrusted to it. In this regard, Onyinyechi *et al.* (2016) argues that financial statements in the public sector are prepared with the aim of providing full and timely disclosure of all material facts relating to the government's financial position and operations. For this reason, government financial reports must be prepared in such a way that they can achieve the best quality. The quality of financial reports is the degree of fairness and authenticity of organisation performance (Lim *et al.*, 2017). The quality of financial reports is the authenticity of the information presented to the users through the financial reports (Hadiyanto *et al.*, 2018). The quality of financial reports can be measured based on qualitative characteristics. There are two fundamental qualitative characteristics that represent the quality of financial reporting, namely relevance and faithful representation which are designed to meet the requirements of effective information for decision making for different users (Abed *et al.*, 2022; Renkas *et al.*, 2016). Nevertheless, several other characteristics, such as comparability and understandability, are used to augment the fundamental characteristics needed to prepare high-quality financial statements (Rashid, 2020). The qualitative characteristics of financial statements are normative measures that need to be embodied in accounting information so that

it can fulfill its objectives. Characteristics that are normative prerequisites needed so that government financial reports can meet the quality required in Government Regulation No. 71 of 2010 concerning Government Accounting Standards in Indonesia are relevant, reliable, comparable, and understandable. Financial statements can be said to be relevant if the information contained in them can influence user decisions by helping them evaluate past or present events, and predict the future, as well as confirming or correcting the results of their evaluations in the past. Reliable means that the information in the financial statements is free from misleading understanding and material error, presents every fact honestly, and can be verified. Comparable if the information contained in the financial statements will be more useful if it can be compared with the financial statements of the previous period or the financial statements of other reporting entities in general. Understandable if the information presented in the financial statements can be understood by users and is stated in forms and terms that are adjusted to the limits of understanding of the users (Setyowati *et al.*, 2016). In general, the quality of government financial reports is a qualitative characteristic of the accounting process, where accountability and transparency influence each other. The higher the quality of government financial reporting, the higher the accountability and transparency, and vice versa (Herindraningrum and Yuhertiana, 2021). Increased transparency and quality of financial information is the way governing bodies show public accountability of the entity, with positive consequences for the image of the entity. This may be an important way to improve the trust of citizens, other tiers of the public administrations, and other stakeholders in the public entity (Michelon and Parbonetti, 2012).

Internal Control System and Quality of Financial Reports

The internal control system in the management and financial reporting of local governments must always be considered in order to achieve accountability, efficiency, effectiveness, and prevention of financial losses, so as to provide optimal benefits for local governments and the community. Referring to agency theory, public accountability can be interpreted as the obligation of the government (agent) to provide accountability, present, report and disclose all activities that are their responsibility to the community (principal) (Mardiasmo, 2018). Proponents of the agency theory suggest several solutions to mitigate the gap between agent and principal interests such as using internal control systems and corporate governance mechanisms to reduce information asymmetry and ensure goal congruence (Jensen and Meckling, 1976; Lundholm and Winkle, 2006). It presupposes that a higher level internal control system addresses issues related to governance and the quality of financial reporting.

Management may address agency costs by remaining vigilant at the lower level (Abed *et al.*, 2022). An internal control process could be an effective regulatory system (Brauweiler *et al.*, 2019). High-quality financial reporting depends on creating a robust, effective and high-quality internal control mechanisms. Recent research shows that good internal control may reduce material errors and more accurate financial disclosures (Richman and Richman 2012). The internal control system is an integral process of actions and activities carried out continuously by the leaders and all employees to provide adequate guarantees for the achievement of organizational goals (Sujana *et al.*, 2020). Internal control is very important, because the accounting system as an information system that produces financial information can result in errors, both intentional and unintentional, so that an adequate control system is needed. Therefore, to convince stakeholders and the public about the veracity of government financial reports, an optimal internal control system is needed. The relationship between the internal control system and the quality of financial reports is that to produce financial reports, local governments must go through the processes and stages regulated in the local government accounting system. The internal control system is a control activity in managing information systems with the aim of ensuring the accuracy and completeness of information, if the internal control system is carried out optimally it will encourage the government system to run well and will produce quality financial reports (Inapty and Martiningsih, 2016). Internal control system indicators consist of control environment, risk assessment, control activities, information and communication, and monitoring. Zakaria *et al.* (2016) study show that internal control weaknesses can be major contributing factors for fraud to be committed, so, management should show sustained improvements of their internal control system in order to obtain better quality financial reporting. Phornlaphatrachakorn (2019) highlights that the reliability of financial reporting is one valuable consequence of internal control quality. Thus, Ji *et al.* (2017) suggest that the establishment of a high-quality internal control system should be seen as an important mechanism to ensure the quality of financial information. The results of research conducted by Dashtbayaz *et al.* (2019) found that weakness in internal controls has a significant negative relationship with financial reporting quality. Furthermore, the results of research conducted by Anggadini *et al.* (2021) found that the internal control system affects the quality of financial reports of local governments. The results of this study are in line with the research conducted by Ahmad *et al.* (2020), Ningtyas *et al.* (2019), and Suhardjo (2019) who conclude that the internal control system has a positive and significant effect on the quality of financial reports of local governments. Based on this description, the following hypothesis is formulated:

H1: The internal control system has a positive and significant effect on the quality of financial reports of local governments.

Information Technology and Quality of Financial Reports

Reform of the government's accounting system requires the development of adequate information technology to produce relevant and reliable financial reports. The government accounting system always requires the government to keep up with the times, so that in carrying out it requires information technology to help the government accounting system run smoothly (Dewi and Handayani, 2018). Agency theory which explains the agency relationship regarding a contract in which one or more (principal) orders another person (agent) to perform a service on behalf of the principal and authorizes the agent to make the best decisions for the principal, it is necessary to use information technology. The use of information technology in disclosure of financial information can reduce information asymmetry, increase comparability and accessibility (Elkelish, 2021), and will increase information effectiveness and disclosure (Debreceeny *et al.*, 2017; Xu and Huang, 2016). The need for information technology today is absolute, because the need for information that can be obtained quickly and accurately is needed by people who currently tend to be mobile with ease in accessing the data and information needed immediately. Information technology can be used in data processing, including obtaining, compiling and storing in various ways to produce quality information, namely information that is relevant, accurate and timely, which is used for government purposes and is strategic information for decision making. The government needs to improve information technology systems and administrative procedures to ensure that accounting data can be obtained in a timely, complete, and accurate manner. Information technology is the availability of tools that assist human resources in carrying out tasks such as the availability of computers and software that assist in the preparation of local government financial reports. Utilization of information technology will greatly help speed up the processing of transaction data and the presentation of local government financial reports. According to Jantong (2017) the availability of information technology basically provides convenience in the process of carrying out work, so that it can increase productivity and create a sense of comfort for interested people. Information technology serves as a tool to support the success of a process of achieving the vision and mission, because if information technology is not available then all activities carried out will not achieve the expected results in accordance with the plan (Jaladri and Riharjo, 2016). Thus, the availability of the right information technology will greatly support the accounting process that can improve the quality of local government financial

reports. Information technology indicators consist of data and information processing, management systems and work processes electronically, as well as the use of advances in information technology. The results of research conducted by Phuong *et al.* (2020) and Hosinzadeh *et al.* (2021) found that information technology has a positive and significant effect on the quality of financial reports. These results are in line with the research of Yuliani and Agustini (2016) which concludes that the use of information technology has a positive and significant effect on the quality of financial reports of local governments. This result is not in line with the research of Nilamsari *et al.* (2020) who found that the information technology has a positive and insignificant effect on the quality of financial reports of local governments. Based on this description, the following hypothesis is formulated:

H2: Information technology has a positive and significant effect on the quality of financial reports of local governments.

Applying of Accounting Standards and Quality of Financial Reports

Agency theory suggests that the disclosure of information is a means of enhancing accountability by reducing the information asymmetry between principals and agents, managers being accountable to principals (Garcia-Lacalle and Torres, 2021). The government as an agent has greater access to the government financial reports than the principal. This will cause information asymmetry, but information asymmetry can be anticipated by the existence of standards governing financial reports in the form of government accounting standards. Government accounting standards are accounting principles applied in preparing and presenting government financial statements. Applying of government accounting standards in the central government and local governments in order to improve the quality of government financial reports in order to realize transparency and accountability in the administration of government accounting. The main purpose of accounting standards is to make financial statements easier to understand for users of financial statements, so that there are no misunderstandings between report presenters and report readers, and so that there is consistency in reporting so that financial statements can have comparability. The applying of regulations on government accounting standards will improve the accounting quality in terms of value relevance which is one of the qualitative characteristics of financial information (Verlun *et al.*, 2011). Klish *et al.* (2022) and Oluwagbemiga (2021) suggest that the applying of financial reporting standards can improve the quality of financial reports. Furthermore, Jara *et al.* (2011) suggested that the quality of financial information is influenced by financial reporting standards. If government accounting standards can be applied properly and are

always used as a reference in the preparation of financial statements, the local government will have good quality financial statement information. By referring to government accounting standards, it is hoped that local government financial reports can be presented in a relevant and reliable manner. Sari and Fadli (2017) suggest that with the implementation of good government accounting standards, local governments are expected to have good quality reports because local government financial reports must comply with applicable government accounting standards. Indicators of the applying of accounting standards consist of recognition, measurement, presentation, and disclosure. The research results of Muraina and Dandago (2020) and Nkundabannyanga *et al.* (2013) concluded that accounting standards have a positive and significant effect on the quality of government financial reporting. Furthermore, Jati (2019) found that the applying of accrual-based accounting standards positively and significantly affected the quality of financial reports of local governments. These results are in line with research conducted by Sari and Fadli (2017) which concludes that the applying of government accounting standards has a positive and significant effect on the quality of financial reports of local governments. Based on this description, the following hypothesis is formulated:

H3: The applying of accounting standards has a positive and significant effect on the quality of financial reports of local governments.

Human Resources Competence and Quality of Financial Reports

Human resources are the key that determines the development of an organization (Dewi and Handayani, 2018). Competence is an ability to carry out or perform a job or task based on skills and knowledge and supported by the work attitude required by the job. Competence is a characteristic that underlies a person to achieve high performance in his work. In essence, human resources in the form of humans who are employed in an organization as movers, thinkers and planners in an organization to achieve the goals of the organization. All of these potentials affect the organization's efforts in achieving its goals. Human resources have an important role in presenting quality financial information (Tran *et al.*, 2021). To create useful financial information, financial reporting must be prepared by staff qualified in the field of financial management and accounting. (Mohamed and Lashine, 2003). According to agency theory, the disclosure of information is a means of enhancing accountability by reducing the information asymmetry between principals and agents (Garcia-Lacalle and Torres, 2021). High accountability will be achieved through high quality financial reports as well. Quality financial reports cannot be separated from the role of human resources who have adequate abilities and competencies (Rifany and Yuliati, 2021). The preparation of local government

financial reports requires competent human resources who understand government accounting. Competence shows the characteristics of knowledge and skills possessed by each individual that enable them to carry out their duties and responsibilities actively and raise professional quality standards in their work. Human resources competence indicators consist of knowledge, skills, and attitudes. Thus, competence is a combination of knowledge, skills and abilities in a particular career field that allows a person to perform tasks or functions including in the preparation of financial statements (Arih *et al.*, 2017). The results of research conducted by Tran *et al.* (2021) dan Rashid (2020) found that the human resources competence has a positive and significant effect on the quality of financial reports. Furthermore, the results of research conducted by Mulia (2018), Setiawan *et al.* (2021) found that the human resources competence has a positive and significant effect on the quality of financial reports of local governments. These results are in line with the results of research by Nirwana and Haliah (2018), and Agung and Winarningsih (2016), but are not in line with the results of research by Aprisyah and Yuliati (2021) which show that human resources competence has no significant effect on quality of financial reports of local governments. Based on this description, the following hypothesis is formulated:

H4: Human resources competence has a positive and significant effect on the quality of financial reports of local governments.

The Role of Internal Auditors and Quality of Financial Reports

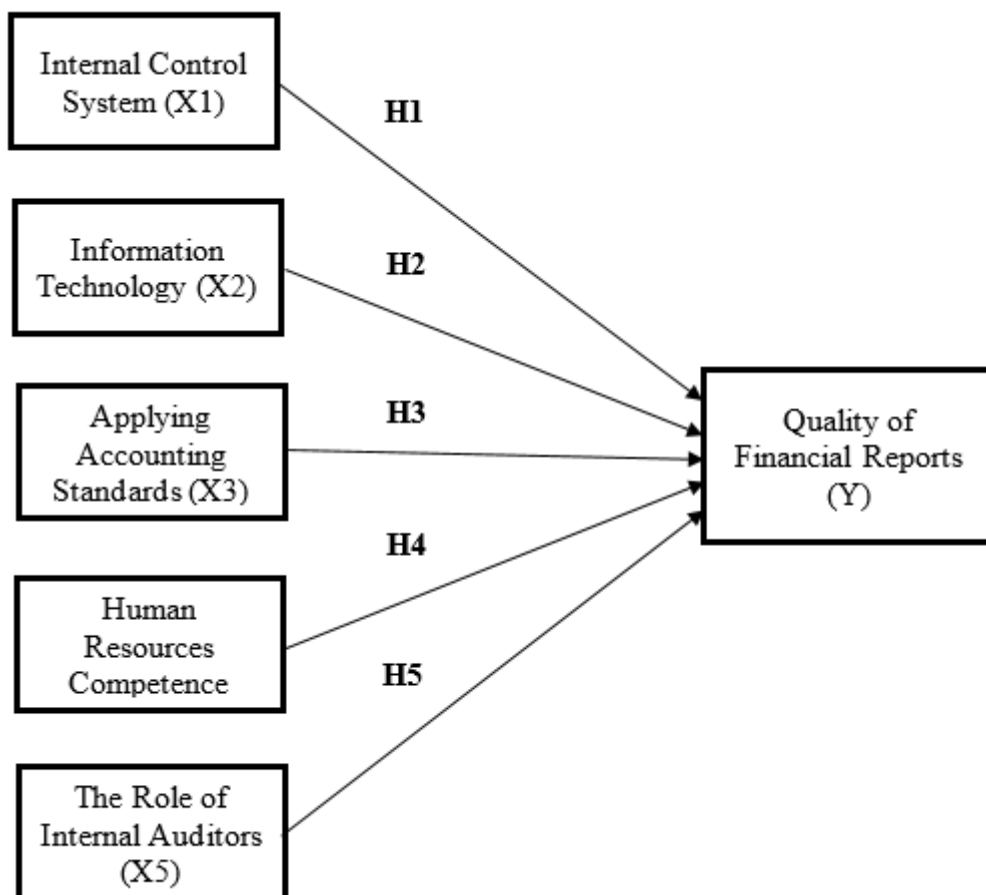
Internal auditor in a government agency serves to assess whether the internal control system that has been established is running accurately and each part actually implements policies in accordance with the plans and procedures that have been set. Internal auditor are employees who have functional positions as auditors and/or other parties who are given full duties, authorities, responsibilities and rights by officials authorized to carry out supervision in government agencies. The supervision carried out by the internal auditor is expected to provide input or recommendations to the leadership of the government administration regarding the results, obstacles, non-conformances of procedures and indications of irregularities that occur in the course of government which are the responsibility of the leaders of the administration. Thus, when the external auditor conducts an audit, the indication of deviation has been corrected. Based on agency theory, the accountability relationship between the agent and the principal is characterized by the focus of the principal on controlling the agent, because agents have more information than principals, which can be exploited for self-gain (Schillemans, 2013). In this context, government officials as agents have many

opportunities to abuse the authority and responsibility that has been entrusted by society as the principal. Therefore, in order to minimize the opportunity for agents to take opportunistic actions, internal control is needed to ensure the effectiveness of internal control and compliance with laws and regulations, as well as the presentation of quality financial information. Bananuka *et al.* (2018) suggests that internal audit functions to evaluate the effectiveness of internal control, participate in risk management and ensure compliance with laws and regulations. The main function of an internal auditor in addition to conducting investigations and assessments of internal control organized by the organization, also provides recommendations based on findings and improvements to produce quality financial statement information. (Beasley *et al.*, 2009; Prawitt *et al.*, 2009; Sarens *et al.*, 2009) found that the internal audit function role in monitoring and improving the internal control system and detecting the weaknesses in internal controls over the financial reporting process. The internal audit function carries out activities to determine the quality of the reliability of the information presented in the financial statements, with the aim that the financial reports produced are reliable, of high quality and can be trusted by the public. In this regard, Roussy and Brivot (2016) state that internal auditors through their oversight mandate over all processes and procedures determine the quality of financial reporting. The internal audit function indicators consist of planning, implementation, and reporting. Furthermore, the results of research by Kaawaase *et al.* (2021), Madawaki *et al.* (2022), and Ismael and Kamel (2021) found that the quality of internal auditor has a positive and significant effect on the quality of financial reports. These results are in line with the results of research by Alzeban (2019), Dashtbayaz *et al.* (2019), Agung and Winarningsih (2016), and Anggaraeni *et al.* (2015) but not in line with the results of research by Haryati (2016) concluded that the effectiveness of internal auditor has a positive but insignificant effect on the quality of financial reports of local governments. Based on this description, the following hypothesis is formulated:

H5: The role of internal auditors has a positive and significant impact on the quality of financial reports of local governments.

Based on the theoretical description above, the conceptual framework of this research can be described as follows:

Figure 1. Conceptual Framework



METHODOLOGY

The population in this study is the financial management and accounting officials of the Kendari City Regional Apparatus Organization, Southeast Sulawesi Province, Indonesia as many as 42 units. By using purposive sampling, in which 3 people from each unit were selected, consisting of the unit head, unit secretary, and the head of the finance and accounting subunit, a sample of 126 finance and accounting management officials was obtained. Kendari City as one of the cities in Indonesia, like other cities, always strives to improve the quality of its financial reports. The type of data used in this study is primary data, namely data sourced from respondents who were collected through questionnaires using a Likert scale. The list of questions/items in the questionnaire was prepared based on the indicators of each variable. Indicators of the quality of financial report variables consist of relevant, reliable, comparable, and understandable with a total of 8 questions. Internal control system indicators consist of control environment, risk assessment, control activities, information and communication, and monitoring with a total of 11 questions. Information technology indicators consist of data and information processing, management systems and work processes electronically, as well as the

use of advances in information technology with a total of 9 questions. Indicators of the applying of accounting standards consist of recognition, measurement, presentation, and disclosure with a total of 8 questions. Human resources competence indicators consist of knowledge, skills, and attitudes with a total of 6 questions. The role of internal auditors indicators consist of planning, implementation, and reporting with a total of 8 questions. For each questions/items of the variables/indicators highlighted in the proposed conceptual model, the answers were scored using a 5-point Likert scale, where 1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, 5 = strongly agree. To ensure that the data obtained is of good quality, the validity and reliability of the instrument are tested and followed by normality, multicollinearity and heteroscedasticity tests. The data analysis technique used is multiple linear regression analysis using IBM Statistical Package for Social Sciences (SPSS) Version 28 with the following regression equation: $Y = \alpha + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + e$. Description: Y=The Quality of Financial Reports, α =Konstanta, X1=Internal Control System, X2=Information Technology, X3=Applying Accounting Standards, X4=Human Resources Competence, X5=The Role of Internal Auditors, e=Standar error. Hypothesis testing was carried out through the F statistic test, the t statistic test and the coefficient of determination.

RESULTS AND DISCUSSION

Results

Validity and Reliability Test

The results of testing the validity and reliability of the research instrument using IBM SPSS 28 can be presented in the following table.

Table 1. Instrument Validity and Reliability Test Results

Variable	Indicator	Item	Validity			Reliability	
			Correlation Coefficient (r)	Sig.	Description	Cronbach Alpha	Description
Internal Control System (X1)	Control Environment (X1.1)	X1.1.1	0.806	0.001	Valid	0.851	Reliable
		X1.1.2	0.737	0.001	Valid		
		X1.1.3	0.829	0.001	Valid		
	Risk Assessment (X1.2)	X1.2.1	0.923	0.001	Valid		
		X1.2.2	0.933	0.001	Valid		
	Control Activities (X1.3)	X1.3.1	0.861	0.001	Valid		
		X1.3.2	0.833	0.001	Valid		
	Information and Communication (X1.4)	X1.4.1	0.883	0.001	Valid		
		X1.4.2	0.887	0.001	Valid		
	Monitoring (X1.5)	X1.5.1	0.864	0.001	Valid		
X1.5.2		0.856	0.001	Valid			
Information Technology	Data and Information Processing (X2.1)	X2.1.1	0.752	0.001	Valid	0.847	Reliable
		X2.1.2	0.829	0.001	Valid		

(X2)		X2.1.3	0.781	0.001	Valid		
	Management Systems and Work Processes Electronically (X2.2)	X2.2.1	0.864	0.001	Valid		
		X2.2.2	0.871	0.001	Valid		
		X2.2.3	0.841	0.001	Valid		
	Use of Advances in Information Technology (X2.3)	X2.3.1	0.798	0.001	Valid		
		X2.3.2	0.804	0.001	Valid		
X2.3.3		0.698	0.001	Valid			
Applying Accounting Standards (X3)	Recognition (X3.1)	X3.1.1	0.957	0.001	Valid	0.891	Reliable
		X3.1.2	0.961	0.001	Valid		
	Measurement (X3.2)	X3.2.1	0.932	0.001	Valid		
		X3.2.2	0.928	0.001	Valid		
	Presentation (X3.3)	X3.3.1	0.921	0.001	Valid		
		X3.3.2	0.925	0.001	Valid		
Disclosure (X3.4)	X3.4.1	0.903	0.001	Valid			
	X3.4.2	0.910	0.001	Valid			
Human Resources Competence (X4)	Knowledge (X4.1)	X4.1.1	0.848	0.001	Valid	0.781	Reliable
		X4.1.2	0.902	0.001	Valid		
	Skills (X4.2)	X4.2.1	0.897	0.001	Valid		
		X4.2.2	0.887	0.001	Valid		
	Attitudes (X4.3)	X4.3.1	0.871	0.001	Valid		
		X4.3.2	0.901	0.001	Valid		
The Role of Internal Auditors (X5)	Planning (X5.1)	X5.1.1	0.909	0.001	Valid	0.929	Reliable
		X5.1.2	0.921	0.001	Valid		
		X5.1.3	0.916	0.001	Valid		
	Implementation (X5.2)	X5.2.1	0.920	0.001	Valid		
		X5.2.2	0.895	0.001	Valid		
		X5.2.3	0.874	0.001	Valid		
Reporting (X5.3)	X5.3.1	0.947	0.001	Valid			
	X5.3.2	0.948	0.001	Valid			
The Quality of Financial Reports (Y1)	Relevant (Y1.1)	Y1.1.1	0.913	0.001	Valid	0.872	Reliable
		Y1.1.2	0.915	0.001	Valid		
	Reliable (Y1.2)	Y1.2.1	0.888	0.001	Valid		
		Y1.2.2	0.898	0.001	Valid		
	Comparable (Y1.3)	Y1.3.1	0.952	0.001	Valid		
		Y1.3.2	0.951	0.001	Valid		
Understandable (Y1.4)	Y1.4.1	0.894	0.001	Valid			
	Y1.4.2	0.841	0.001	Valid			

Source: Prepared by authors based on IBM SPSS 28 (2022)

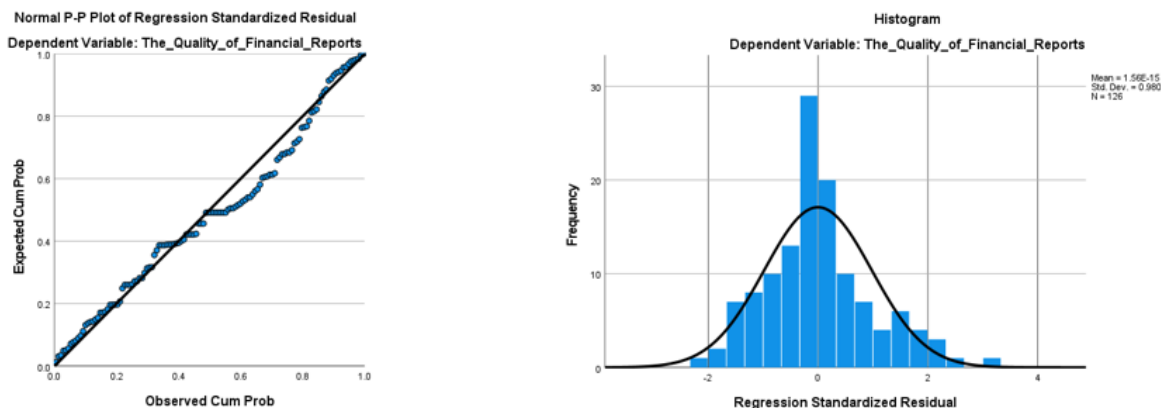
Based on the recapitulation of the results of the validity and reliability test of the instrument in Table 1, it shows that all question items for each research variable are valid and reliable. It is valid because the value of the correlation coefficient (r) of all question items is greater than 0.30 (> 0.30) or the significance value is less than 0.05 (< 0.50). Furthermore, it is reliable because the Cronbach's Alpha value for all indicators is greater than 0.60 (> 0.60). This shows that all research instrument question items are valid and reliable to be used for measuring research variables.

Normality, Multicollinearity and Heteroscedasticity tests.

Normality test can be done by graphical method. The results of the data normality test using the graphical method and the Kolmogorov-Smirnov test can be presented in the following

figure and table.

Figure 2. Graph of Normality Test



Source: Primary data processed with IBM SPSS 28 (2022)

Table 2. Kolmogorov-Smirnov Normality Test
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual	
N		126	
Normal Parameters ^{a,b}	Mean	.0000000	
	Std. Deviation	.19602465	
Most Extreme Differences	Absolute	.095	
	Positive	.095	
	Negative	-.051	
Test Statistic		.095	
Asymp. Sig. (2-tailed)		.008 ^c	
Monte Carlo Sig. (2-tailed)	Sig.	.197 ^d	
	99% Confidence Interval	Lower Bound	.187
		Upper Bound	.208

- a. Test distribution is Normal.
- b. Calculated from data.
- c. Lilliefors Significance Correction.
- d. Based on 10000 sampled tables with starting seed 2000000.

Source: Primary data processed with IBM SPSS 28 (2022)

The graph above shows that the plotting data spread around the diagonal line and the distribution follows the direction of the diagonal line or the histogram graph so that it can be concluded that the data is normally distributed. Likewise in Table 2 it appears that the significance value is greater than 0.05 which is equal to 0.197 ($0.197 > 0.05$) so it can be concluded that the data is normally distributed. Furthermore, the results of the multicollinearity test can be presented in the following table.

Table 3. Multicollinearity Test

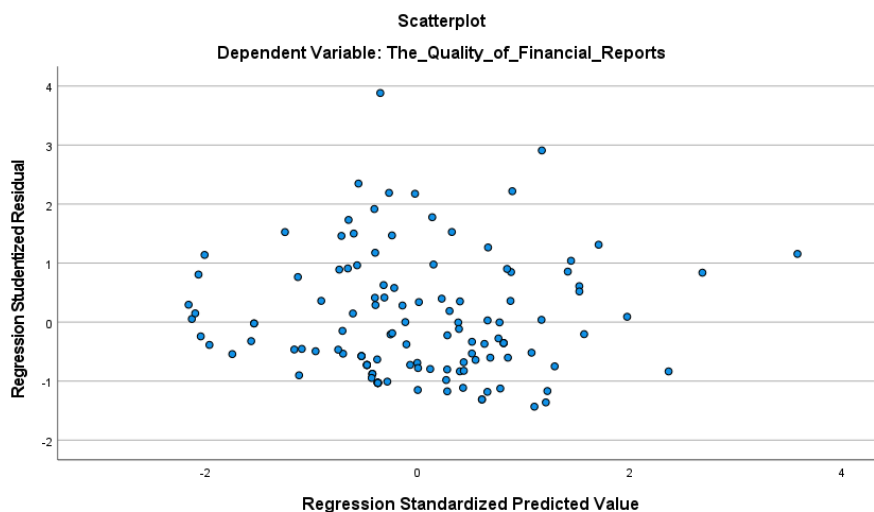
		Collinearity Statistics	
		Tolerance	VIF
1	Internal_Control_System	.327	3.056
	Information_Technology	.334	2.991
	Applying_of_Accounting_Standards	.355	2.816
	Human_Resources_Competence	.583	1.715
	The_Role_of_Internal_Auditors	.426	2.350

a. Dependent Variable:
 The_Quality_of_Financial_Reports

Source: Primary data processed with IBM SPSS 28 (2022)

Table 3 above shows that the Tolerance value of all variables is greater than 0.1 (> 0.1) and the Variance Inflation Factor (VIF) value is less than 10 (< 10) so that it can be concluded that there are no symptoms of multicollinearity among the independent variables. The results of the heteroscedasticity test can be presented in the following figure.

Figure 3. Heteroscedasticity test



Source: Primary data processed with IBM SPSS 28 (2022)

Figure 3 above shows that visually the points spread randomly (do not form a clear pattern) and spread both above and below the number 0 on the Y axis, so it can be concluded that the regression model is free from heteroscedasticity problems.

Descriptive Statistics and Correlation

Descriptive statistics of research data can be presented as follows:

Table 4. Descriptive statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Internal_Control_System	126	3.36	5.00	4.3226	.35112
Information_Technology	126	3.33	5.00	4.3009	.38685
Applying_of_Accounting_Standards	126	3.00	5.00	4.2802	.41698
Human_Resources_Competence	126	3.50	5.00	4.2186	.35520
The_Role_of_Internal_Auditors	126	3.00	5.00	4.2981	.40965
The_Quality_of_Financial_Reports	126	3.50	5.00	4.2948	.37949
Valid N (listwise)	126				

Source: Primary data processed with IBM SPSS 28 (2022)

Table 4 above shows that the lowest minimum value of all variables is 3.00 and the maximum value of all variables is the same at 5.00. The lowest mean value is in the human resources competence variable of 4.22 and the highest mean value is in the internal control system variable of 4.32. While the lowest standard deviation value is the internal control system variable of 0.35 and the highest standard deviation value is the applying accounting standards variable of 0.42.

The level of closeness of the relationship between the independent variable and the dependent variable is presented in the following table.

Table 5. Correlation

Correlations							
		The_Quality_of_Financial_Reports	Internal_Contr_of_System	Information_Technology	Applying_of_Accounting_Standards	Human_Resources_Competence	The_Role_of_Internal_Auditors
Pearson Correlation	The_Quality_of_Financial_Reports	1.000	.713	.742	.744	.538	.730
	Internal_Control_System	.713	1.000	.698	.548	.597	.672
	Information_Technology	.742	.698	1.000	.724	.421	.591
	Applying_of_Accounting_Standards	.744	.548	.724	1.000	.498	.660
	Human_Resources_Competence	.538	.597	.421	.498	1.000	.463
	The_Role_of_Internal_Auditors	.730	.672	.591	.660	.463	1.000
Sig. (1-tailed)	The_Quality_of_Financial_Reports	.	<.001	<.001	<.001	<.001	<.001
	Internal_Control_System	.000	.	.000	.000	.000	.000
	Information_Technology	.000	.000	.	.000	.000	.000
	Applying_of_Accounting_Standards	.000	.000	.000	.	.000	.000
	Human_Resources_Competence	.000	.000	.000	.000	.	.000
	The_Role_of_Internal_Auditors	.000	.000	.000	.000	.000	.
N	The_Quality_of_Financial_Reports	126	126	126	126	126	126
	Internal_Control_System	126	126	126	126	126	126
	Information_Technology	126	126	126	126	126	126
	Applying_of_Accounting_Standards	126	126	126	126	126	126
	Human_Resources_Competence	126	126	126	126	126	126
	The_Role_of_Internal_Auditors	126	126	126	126	126	126

Source: Primary data processed with IBM SPSS 28 (2022)

Table 5 above shows that the Pearson correlation independent variable is quite high, namely the internal control system is 0.71, information technology is 0.74, applying accounting standards is 0.74, human resources competence is 0.54, and the role of internal auditors is 0.73. Thus the relationship between the dependent variable and the independent variable is quite strong.

Hypothesis Testing

The results of multiple linear regression analysis processed using the IBM SPSS 28 program obtained the values as listed below:

Table 6. Multiple Linear Regression Test Results - Coefficients

		Coefficients^a				
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.032	.253		.126	.900
	Internal_Control_System	.197	.089	.183	2.215	.029
	Information_Technology	.237	.080	.241	2.961	.004
	Applying_of_Accounting_Standards	.237	.072	.260	3.292	.001
	Human_Resources_Competence	.084	.066	.079	1.272	.206
	The_Role_of_Internal_Auditors	.238	.067	.257	3.553	<.001

a. Dependent Variable: The_Quality_of_Financial_Reports

Source: Primary data processed with IBM SPSS 28 (2022)

The results of testing the influence of the internal control system, information technology, applying accounting standards, human resources competence, the role of internal auditors, on the quality of financial reports can be expressed in a multiple linear regression equation as follows:

$$Y = 0.032 + 0.197X_1 + 0.237X_2 + 0.237X_3 + 0.084X_4 + 0.238X_5 + \varepsilon$$

The constant value of 0.032 states that if the independent variable is considered constant or zero, the quality of financial reports will be 0.032. The regression coefficient of the internal control system variable (X₁) is 0.197, which means that each additional unit of the internal control system variable will increase the quality of financial reports by 0.197. The regression coefficient of the information technology variable (X₂) is 0.237, which states that each

additional unit of the information technology quality variable will increase the quality of financial reports by 0.237. The regression coefficient for the applying accounting standards variable (X3) is 0.237, which states that each additional unit of the applying accounting standards variable will increase the quality of financial reports by 0.237. The regression coefficient of the human resources competence variable (X4) is 0.084, which means that each additional unit of the human resources competence variable will increase the quality of financial reports by 0.084. The regression coefficient of the role of internal auditors variable (X5) is 0.238, which states that each additional unit of the role of internal auditors variable will increase the quality of financial reports by 0.238.

To find out the effect of each independent variable partially on the dependent variable, the t-test was used. The test is carried out with the following criteria: if the significance probability > 0.05 or $t_{\text{count}} < t_{\text{table}}$, then H_0 is accepted and H_a is rejected, and if the significance probability is < 0.05 or $t_{\text{count}} > t_{\text{table}}$, then H_0 is rejected and H_a is accepted. The results of multiple linear regression as shown in Table 7.

The first hypothesis (H1) states that the internal control system has a positive and significant effect on the quality of financial reports. Based on the test results, the significance value for the effect of X1 on Y is $0.029 < 0.05$ and $t_{\text{count}} 2,215 > t_{\text{table}} 1,980$ then H_0 is rejected and H_a is accepted so it can be concluded that H1 is accepted, meaning that there is a positive and significant effect of X1 on Y.

The second hypothesis (H2) states that information technology has a positive and significant effect on the quality of financial reports. Based on the test results, the significance value for the effect of X2 on Y is $0.004 < 0.05$ and $t_{\text{count}} 2,961 > t_{\text{table}} 1,980$, then H_0 is rejected and H_a is accepted so that it can be concluded that H2 is accepted, meaning that there is a positive and significant effect of X2 on Y.

The third hypothesis (H3) states that applying accounting standards has a positive and significant effect on the quality of financial reports. Based on the test results, the significance value for the effect of X3 on Y is $0.001 < 0.05$ and $t_{\text{count}} 3,292 > t_{\text{table}} 1,980$, then H_0 is rejected and H_a is accepted, meaning that there is a positive and significant effect of X3 on Y.

The fourth hypothesis (H4) states that human resources competence has a positive and significant effect on the quality of financial reports. Based on the test results, the significance value for the effect of X4 on Y is $0.206 > 0.05$ and $t_{\text{count}} 1,272 < t_{\text{table}} 1,980$, then H_0 is accepted and H_a is rejected so it can be concluded that H4 is rejected, meaning that there is a positive but insignificant effect of X4 on Y.

The fifth hypothesis (H5) states that the role of internal auditors has a positive and

significant effect on the quality of financial reports. Based on the test results, the significance value for the effect of X5 on Y is $0.001 < 0.05$ and $t_{\text{count}} 3,553 > t_{\text{table}} 1,980$, then H_0 is rejected and H_a is accepted, meaning that there is a positive and significant effect of X5 on Y.

To determine the effect of all independent variables simultaneously on the dependent variable, the F test is used. The test is carried out with the criteria that the significance probability > 0.05 or $F_{\text{count}} < F_{\text{table}}$. The results of multiple linear regression testing as shown in the following table.

Table 7. Multiple Linear Regression Test Results - ANOVA

		ANOVA^a				
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	13.198	5	2.640	65.946	<.001 ^b
	Residual	4.803	120	.040		
	Total	18.001	125			

a. Dependent Variable: The_Quality_of_Financial_Reports

b. Predictors: (Constant), The_Role_of_Internal_Auditors, Human_Resources_Competence, Information_Technology, Applying_of_Accounting_Standards, Internal_Control_System

Source: Primary data processed with IBM SPSS 28 (2022)

Based on the test results, the significance value for the effect of X1, X2, X3, X4 and X5 simultaneously on Y is $0.001 < 0.05$ and the $F_{\text{count}} 65,946 > F_{\text{table}} 2,290$, so it can be concluded that there is a positive and significant influence of X1, X2, X3, X4 and X5 simultaneously on Y.

The coefficient of determination is intended to determine how far the independent variables simultaneously affect the dependent variable. The results of multiple linear regression testing as shown in the following table.

Table 8. Multiple Linear Regression Test Results - Model Summary

Model Summary^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.856 ^a	.733	.722	.20007

a. Predictors: (Constant), The_Role_of_Internal_Auditors, Human_Resources_Competence, Information_Technology, Applying_of_Accounting_Standards, Internal_Control_System

b. Dependent Variable: The_Quality_of_Financial_Reports

Source: Primary data processed with IBM SPSS 28 (2022)

The table above shows that the magnitude of R Square is 0.733, this means that 73.3% of the variable quality of financial reports (Y) can be explained by internal control system variables (X1), information technology (X2), applying accounting standards (X3), human resources competence (X4), and the role of internal auditors (X5), while the remaining 26.7% can be explained by other factors that have not been included in the model or were not measured in this study.

DISCUSSION

Effect of internal control system on the quality of financial reports

The results of this study indicate that the internal control system has a positive and significant effect on the quality of financial reports of local governments.. This means that the better the internal control system applied to local government organizations, the better the quality of financial reports of local governments. The internal control system includes various management tools that aim to achieve various objectives such as ensuring compliance with laws and regulations, ensuring the reliability of financial reports and financial data, and facilitating the efficiency and effectiveness of government operations. Thus, the implementation of a good internal control system will provide adequate confidence in the quality or reliability of financial reports, and will increase stakeholder confidence. Local governments as agents who receive mandates from the community (public) as principals should always strive to improve the quality of the internal control system that can support the presentation of quality and reliable financial reports. In this regard, Kinney and Shepardson (2011) state that the effectiveness of internal controls applied to financial reports can improve the quality of financial reporting. The internal controls play effective roles in financial performance and high-quality financial reporting is significantly depended on the efficiency of internal controls (Dashtbayaz *et al.*, 2019). Inefficient internal controls lead to lower financial reporting quality dan a weakness in internal controls reduces financial reporting quality (Eng *et al.*, 2018; Salehi and Bahrami, 2017). Thus good internal control will improve the quality of financial reports and reduce information asymmetry between agents and principals so that it will further increase agent accountability to principals. (Lundholm and Winkle, 2006). The results of this study are in line with research conducted by Anuruddha and Mahanamahewa (2021) who found that internal control has a positive and significant effect on financial statements in the central government ministries and departments. Similarly, Anggadini (2021), Nilamsari *et al.* (2020), Ahmad *et al.* (2020), Ningtyas *et al.* (2019), and Suhardjo (2019) who found that the internal control system had a positive and significant effect on the quality of

financial reports of local governments.

Effect of information technology on the quality of financial reports

The results of this study indicate that information technology has a positive and significant effect on the quality of financial reports of local governments. This means that the better the information technology used in local government organizations, the better the quality of financial reports of local governments. The quality of information technology is seen from the speed of computer access in processing financial data quickly and accurately and the ability of information technology to provide the required information in a timely manner. With adequate information technology capacity, better information can be disclosed in financial reports (Hosinzadeh *et al.*, 2021). Information technology-based reporting can decrease financial reporting timeliness (Du and Wu, 2018), improves value relevance and reliability of accounting information (Shan and Troshani, 2020), and increases decision-making effectiveness (Robb *et al.*, 2016). Furthermore, the use of information technology in financial disclosure can improve performance (Du and Jiang, 2015), decrease information asymmetry (Prokofieva, 2015), and decrease agency cost (Hosinzadeh *et al.*, 2021). Therefore, local governments always strive to create more effective and efficient governance for the wider public interest. Improving the quality of information technology is one of the local government's efforts to encourage government performance in presenting financial reports. By presenting financial reports using adequate hardware, software, and networks, the government believes that reliable financial information can be created for the benefit of the government itself and the public at large. The results of this study are in line with the results of research conducted by Phuong *et al.* (2020) and Yuliani and Agustini (2016) who concluded that information technology has a positive and significant effect on the quality of financial reports of local governments.

Effect of applying accounting standards on the quality of financial reports

The results of this study indicate that applying accounting standards has a positive and significant effect on the quality of financial reports of local governments. This means that the better applying accounting standards to local government organizations, the better the quality of financial reports of local governments. The applying of government accounting standards ensures that financial statements are prepared to meet the qualifications of financial information that is useful for its users. Useful information is an indicator that financial statements meet the qualifications of information (Sholohah *et al.*, 2019). Applying of

accounting standards will guide the government to present quality financial reports. By improving the quality of financial reporting, it will show public accountability to stakeholders (community) (Nkundabanyanga *et al.*, 2013). Improved quality of financial reporting a key component of enhanced public accountability (Kulshreshtha, 2008; Uddin *et al.*, 2011). In line with this, agency theory suggests that information disclosure is a means of increasing accountability by reducing information asymmetry between principals and agents. (Garcia-Lacalle and Torres, 2021). Applying accounting standards tends to reduce earnings management practices, and consequently, improves the quality of financial reports by reducing the extent of income smoothing (Mensah, 2021). So, the implementation of accounting standard to expose government entities to the preparation of high-quality financial reports. Accounting standards was launched to enhance the transparency and accountability in public sector entities (Ademola *et al.*, 2017; Gideon and Abiola, 2018). The seriousness of local governments in implementing government accounting standards is aimed at fulfilling the mandate they carry in order to increase the quality of financial reports. Thus, financial reports that have been prepared in accordance with the standards will present relevant and reliable information to all stakeholders. Udeh and Sopekan (2015) conclude that accounting standard adoption will contribute significantly to the quality of financial reporting (Muraina and Dandago (2020). The results of this study are in line with the research results of Aboukhadeer *et al.* (2023), Muraina and Dandago (2020), Nkundabanyanga *et al.* (2013) which found that the applying of public sector accounting standards can improve the quality of government financial reporting. Likewise, the research of Jati (2019) and Sari and Fadli (2017) which found that applying accounting standards had a positive and significant effect on the quality of financial reports of local governments.

Effect of human resources competence on the quality of financial reports

The results of this study indicate that human resources competence has a positive but insignificant effect on the quality of financial reports of local governments. This means that the better the human resources competence of the local government, not immediately the better the quality of financial reports of local governments. Adequate quality of apparatus in terms of quantity and quality will increase the information value content in local government financial reporting. The low quality of local apparatus in implementing the accounting system can create obstacles in the presentation of financial reports. The quality of the regional apparatus (agent) is one of the factors that determines the full quality of financial reports so that they can be used in decision making by the principal. This shows that the good quality of

regional apparatus will improve the quality of local government financial reports. To create useful financial information, financial reporting must be prepared by staff qualified in the field of financial management and accounting (Mohamed and Lashine, 2003). Accounting capacity is an important element in the organisation that needs to be strengthened to allow the successful implementation of innovation to improve the quality of accounting information (Anessi-Pessina *et al.*, 2008). The educational backgrounds, experiences and values of professional accountants can improve their ability to provide high-quality information (Bamber *et al.*, 2010; García-Meca and García-Sánchez, 2018). If the person in charge of preparing local government financial reports is competent, it will help create a more comfortable work environment, characterized by strategic thinking and planning, so that the resulting financial reports are reliable. If the person in charge of preparing local government financial reports does not have the necessary competence or does not understand the business processes and procedures for preparing financial reports, then the resulting financial reports are most likely to be unreliable (Setiawan *et al.*, 2021). In the context of this research, the condition of human resource competence that has not been supported both in terms of quality and quantity (Aprisyah and Yuliati, 2021). In terms of qualifications, most of the employees in the accounting/finance department do not have an accounting education background (Yuliani and Agustini, 2016). In terms of quantity, there are still few accountants or employees with a high degree of accounting education, while the legislation has required each work unit to administer accounting and prepare financial reports. Most of the existing employees are new employees with no previous experience so it will take a long time to understand. On the other hand, employees who have a longer tenure better understand their duties and responsibilities, but they must increase their knowledge again if new regulations are used (Sholohah *et al.*, 2019). Furthermore, the placement of employees at the level of the leadership of the work unit considers managerial and political aspects more than the ability in finance and accounting. This study is in line with the results of research conducted by Aprisyah and Yuliati (2021), Nilamsari *et al.* (2020), Sholohah *et al.* (2019), Suhardjo (2019), Yuliani and Agustini (2016), and Haryati (2016) who concluded that human resource competence had insignificant effect on the quality of financial reports of local governments.

Effect of the role of internal auditors on the quality of financial reports

The results of this study indicate that the role of internal auditors has a positive and significant effect on the quality of financial reports of local governments. This means that the better the role of internal auditors in local government organizations, the better the quality of

financial reports of local governments. The main function of an internal auditor in addition to conducting investigations and assessments of internal control organized by the organization, also provides recommendations based on findings and improvements to produce quality financial report information. Regional government apparatus as agents has greater access to information than the public (principal) in the management and accountability of government finances resulting in information asymmetry. This provides a great opportunity for government officials to act in their own interests which may not be in line with the interests of society. Agents tend to engage in activities of personal interest which can be detrimental to principals when left without control activities (Antwi, 2021). Therefore, supervision is needed as a control against abuses that can occur in government. Internal supervision is expected to ensure that local government operations run efficiently, effectively, and encourage local government accountability through the presentation of quality financial reports. Thus, the supervision carried out by the internal auditor will reduce agency conflict and information asymmetry. Greater involvement of internal auditors in the process of accounting and financial reporting through audits and reviews of financial reports increases the quality of financial reporting. (Gras-Gil *et al.*, 2012). Therefore, an institution with an internal auditor function has fewer errors in financial reporting than without an internal auditor function (Coram *et al.*, 2008). In this regard, K. Johl *et al.* (2013) suggested that internal audit quality is significantly associated with financial reporting quality. Furthermore, Nor *et al.* (2019) suggests that audit findings can be correlated with the level of disclosure of local government financial statements. Internal auditors carry out activities to determine the quality of the reliability of the information presented in the financial statements, with the aim that the financial reports produced are reliable, high quality and can be trusted by the public (Meigs *et al.* (1989). Local governments as agents will be motivated to act in accordance with the wishes of the principal and the organization in this case the local government will optimize the role of internal auditors in the process of presenting quality financial reports. The results of this study are in line with the results of research conducted by Kaawaase *et al.* (2021), Agung and Winarningsih (2016), and Anggaraeni *et al.* (2015) who concluded that the role of internal auditors has a positive and significant effect on the quality of financial reports of local governments.

CONCLUSION

Based on the results of research and discussion that have been stated previously, can be concluded that the internal control system, information technology, applying accounting standards, and the role of internal auditors has a positive and significant effect on the quality

of financial reports of local governments. This means that the better the internal control system, information technology, applying accounting standards, and the role of internal auditors, the better the quality of financial reports of local governments. Human resources competence has a positive but insignificant effect on the quality of financial reports of local governments. This means that the better the human resources competence of the local government, not immediately the better the quality of financial reports of local governments. Thus, the results of this study are in line with the agency theory which assumes that agents, in this case local governments, must be focused, interested, and strive to improve the quality of financial reports as a form of their accountability to society as the principal. The high quality of financial reports is supported by the existence of an internal control system, information technology, applying accounting standards, human resources competence, and the adequate role of internal auditors.

Based on the results of research conducted, the researchers can provide suggestions that because of the results of this study indicate that human resources competence has a positive but not significant effect on the quality of financial reports of local governments and the average value of this indicator variable is the lowest value among the other variables, so it is hoped that the local government will pay more attention to the quality of its human resources competence in order to further contribute to the improvement of the quality of financial reports of local governments. This research was only conducted on the financial management and accounting officials of the Kendari City, Southeast Sulawesi Province, Indonesia, and only examined several variables that could affect the quality of financial reports. For this reason, further researchers who are interested in researching the same problem, it is better to expand the area of observation and examine other variables that affect the quality of financial reports of local governments such as good governance and management commitment.

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