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The Crucial Role of Human Resource Competency in Enhancing the Utilization of Financial Systems and the Quality of Regional Financial Reports

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ABSTRACT: This study examines how Human Resource Competence (HRC) affects the Quality of Regional Financial Reports (QFR), with Financial System Utilization (UFS) and Internal Audit Quality (QIA) serving as mediators. Grounded in the Resource-Based View, Agency Theory, and New Public Management, the study explains how human competence, system utilization, and audit quality jointly shape public financial governance. Using survey data from 199 regional financial officers in South and West Sulawesi, the analysis employs Confirmatory Factor Analysis (CFA) and Structural Equation Modeling (SEM–AMOS). The results show that HRC significantly improves UFS, QIA, and QFR, and that both UFS and QIA serve as effective mediators. Among these, QIA provides the strongest indirect effect on QFR. The findings highlight that improving regional financial reporting quality requires an integrated strengthening of human resources, financial systems, and internal audit functions.

Keywords: Human Resource Competency, Financial System Utilization, Internal Audit Quality, Financial Reporting Quality, Public Sector Governance

ABSTRAK: *Penelitian ini menganalisis pengaruh Kompetensi Sumber Daya Manusia (HRC) terhadap Kualitas Laporan Keuangan Daerah (QFR) dengan Pemanfaatan Sistem Keuangan (UFS) dan Kualitas Audit Internal (QIA) sebagai variabel mediasi. Berlandaskan Resource-Based View, Agency Theory, dan New Public Management, penelitian ini menjelaskan bagaimana kompetensi SDM, pemanfaatan sistem, dan kualitas pengawasan secara bersama-sama membentuk tata kelola keuangan publik. Data diperoleh dari survei terhadap 199 pejabat pengelola keuangan daerah di Sulawesi Selatan dan Sulawesi Barat, kemudian dianalisis menggunakan Confirmatory Factor Analysis (CFA) dan Structural Equation Modeling (SEM–AMOS). Hasil penelitian menunjukkan bahwa KSDM berpengaruh positif dan signifikan terhadap UFS, QIA, dan QFR, dengan UFS dan QIA berperan sebagai mediator yang efektif. Variabel QIA menunjukkan pengaruh tidak langsung terkuat terhadap QFR. Temuan ini menegaskan bahwa peningkatan kualitas laporan keuangan daerah memerlukan penguatan terpadu pada SDM, sistem keuangan, dan fungsi audit internal.*

Kata Kunci: *Kompetensi Sumber Daya Manusia, Penggunaan Sistem Keuangan, Kualitas Audit Internal, Kualitas Pelaporan Keuangan, Tata Kelola Sektor Publik*

INTRODUCTION

To address these challenges, this study develops and empirically tests a structural model linking Human Resource Competence (HRC) to the Quality of Financial Reports (QFR) through the dual mediating roles of the Utilization of Financial Systems (UFS) and the Quality of Internal Audit (QIA). By integrating these factors, the study proposes a more holistic framework that captures the interdependencies and dynamics inherent in regional public financial management. Which leads to a proportional increase the regional economic growth (Suharno et al., 2025).

The rapid advancement of information technology has fundamentally transformed the landscape of public financial management, particularly at the regional government level (Kotina et al., 2022). The adoption of technology-based financial information systems is widely recognized for its potential to enhance operational efficiency, improve transparency, and strengthen accountability in financial reporting (Hamzavi et al., 2024; Talha et al., 2024; Zhang, 2024). However, persistent challenges remain, especially regarding the extent to which the quality of human resources (HR) can keep pace with the complexity of modern financial systems to ensure the production of reliable and high-quality financial statements (Santanu, 2022).

In this context, the quality of financial reports (QFR) plays a strategic role in supporting public decision-making, reinforcing mechanisms of social oversight, and ensuring effective and sustainable resource allocation (Osadchy et al., 2018; Warrad, 2017). Reliable financial statements are not merely technical outputs; they embody the credibility of government institutions and significantly shape public trust in governance (Opanyi, 2016; Stefanescu & Turlea, 2013). Consequently, weaknesses in producing high-quality financial reports may lead to far-reaching consequences, including inefficient budget allocations, weakened fiscal discipline, and reduced citizen trust in public institutions (Chytis et al., 2020; Husnan et al., 2023; Krah & Mertens, 2020; Tumwine et al., 2023). Previous studies have highlighted human resource competence (HRC), the utilization of financial systems (UFS), and the quality of internal audit (QIA) as critical determinants of financial reporting (Isna et al., 2021; Lubis et al., 2022). These determinants underscore the multidimensional nature of financial reporting, which encompasses not only technical expertise but also institutional integrity and the effective use of technological innovations (Antwi et al., 2024; Thursina, 2023).

Despite the expanding literature, existing research remains partial and fragmented. Many studies predominantly examine linear and direct relationships between variables, such as the link between HR competence and reporting quality, without adequately addressing the simultaneous and interactive effects of multiple factors within the broader ecosystem of public financial governance. This reductionist perspective overlooks the complexity of real-world public sector environments, where interrelated dimensions, such as system utilization and audit quality, jointly influence outcomes. Notably, limited attention has been paid to dual mediation models in which UFS and QIA simultaneously mediate the relationship between HRC and QFR. The absence of such integrative approaches creates a significant empirical gap, limiting the development of a comprehensive understanding of the mechanisms that shape the quality of regional financial reporting.

In addition to this empirical gap, theoretical limitations persist in the conceptualization of HRC. Prior studies have tended to overemphasize technical competencies, such as accounting proficiency, budgeting expertise, and system operation, while neglecting essential soft-skill dimensions, including adaptability, creativity, ethical integrity, and a sustainability-oriented mindset. In the era of digital transformation and rapidly evolving fiscal policies, the ability of human resources to demonstrate adaptive, innovative, and ethically grounded capacities is increasingly critical for ensuring effective and credible public financial management. Neglecting these dimensions risks perpetuating an incomplete and outdated framework of HR competence that fails to reflect the complex demands of modern governance (McGinty & Lylova, 2020; Wright & Ulrich, 2017).

Considering these empirical gaps and theoretical limitations, a more comprehensive conceptual foundation is required. Effective and accountable public financial management demands the integration of human resource capacity, the utilization of technology-based financial systems, and the quality of internal oversight. From the perspective of modern public management, the competence of civil servants is considered a strategic asset that determines the success of regional financial governance (Beazley, 2019; Singla et al., 2018; Świrska, 2016; Tran et al., 2022). This aligns with the Resource-Based View (RBV), which emphasizes that valuable, rare, inimitable, and non-substitutable resources form the cornerstone of sustainable organizational advantage (Barney, 2001; Newbert, 2008). In the context of local government, such resources are embodied in the competence of civil servants who possess technical expertise, moral integrity, and adaptive capacity in response to technological and regulatory changes.

Furthermore, agency theory provides a relevant conceptual framework for explaining the relationship between local governments (agents) and society (principals) (Jacobs & Camargo, 2020; Nyman et al., 2005). When human resource competence is weak, the risks of information asymmetry and moral hazard increase, thereby reducing the quality of public financial reports (Anto et al., 2022; Lumbanraja et al., 2024; Wardi et al., 2023). Thus, the utilization of regional financial information systems and the strengthening of internal audit functions serve as governance mechanisms to mitigate agent behavior deviations, reinforce accountability, and enhance public trust (Widowati et al., 2021).

Within the framework of New Public Management (NPM), emphasis is placed on efficiency, transparency, and results orientation in public bureaucracy. The adoption of technology-based financial systems is not merely an administrative instrument but also a representation of bureaucratic reform that requires civil servants to be more responsive, innovative, and service-oriented. Consequently, human resource competencies that encompass technical expertise, soft skills, and professional ethics become decisive factors in the effective implementation of financial accountability policies.

Conceptually, the integration of human resource competence, financial system utilization, and internal audit quality represents a holistic approach to public management. This integration not only facilitates the preparation of relevant, reliable, and timely financial reports but also strengthens the legitimacy of local governments in the eyes of society (Zulyanti & Badriah, 2024). Guided by the Resource-Based View (RBV), agency theory, and New Public Management (NPM), this study argues that enhancing civil servant competence, combined with system modernization and effective oversight, constitutes a fundamental strategy for achieving transparent, accountable, and sustainable regional financial governance.

In line with this reasoning, several previous empirical studies conducted in different contexts provide a solid foundation for comparative validation. For instance, research on the application of accrual-based financial systems in Indonesia (Abdillah & Saepullah, 2018), the contribution of internal audits to strengthening financial reporting quality in African local governments (Krah & Mertens, 2020), and the influence of human resource competencies on financial accountability in European public organizations (Świrska, 2016) all highlight the critical roles of competence, systems, and oversight. Building on and extending these studies within the Indonesian local government context allows this research to not only reaffirm existing evidence but also offer fresh perspectives on how human resource competence, financial system utilization, and audit quality collectively enhance the credibility of public sector financial reporting.

Such replication enhances the contextual relevance of the findings while ensuring their generalizability across a wide range of governance environments. Ultimately, this provides a stronger foundation for both theoretical advancement and policy formulation in the field of public financial management.

METHODS

Sample Criteria

The sample in this study consisted of 199 civil servants from district and municipal local governments in the provinces of South Sulawesi and West Sulawesi. The sample criteria are civil servants in charge of recording and managing finances in various Regional Apparatus Work Units (SKPD) districts and municipalities in two provinces.

This research was designed using quantitative analysis tools to answer the research objectives; the data were analyzed with SEM-AMOS (Hair et al., 2014) version 23. The population in this study is all health workers in South Sulawesi, totaling 18,240 people. Sampling is conducted using an accidental sampling technique, where anyone willing to complete an online questionnaire is included, with a minimum target of 100 participants. This is done because, if the number of respondents in SEM-AMOS is between 100 and 200, it will yield more accurate results. By the deadline (16 weeks), only 199 regional financial employees in South Sulawesi and West Sulawesi had completed questionnaires, which were then declared complete.

Data analysis was conducted in two stages: (1) Confirmatory Factor Analysis (CFA) to test construct validity, and (2) Structural Equation Modeling (SEM) to test the relationships among variables. Model fit indices included CMIN/DF, GFI, AGFI, TLI, CFI, and RMSEA.

Variable Measurement and Indicators

Human Resource Competency (HRC) variables are measured by indicators of a sustainable mindset, creativity and innovation, and professionalism (King & Cohen, 2023; Macini et al., 2023; Nathan, 2018). While an indicator measures the use of the financial system (UFS), the following tasks are also performed: preparing a budget and reporting on regional financial management, formulating regional financial policies, evaluating regional finances, providing regional financial statistics, and presenting regional financial information (Kaunang, 2020). Indicators of the level of compliance measure the variable Quality of Internal Audit (QIA), which assesses the ability to develop and execute audit plans, as well as communicate audit findings (Arena & Azzone, 2009). The variable Quality of Regional Financial Reports (FSQ) is measured by indicators of relevance, faithful representation, understandability, comparability, and timeliness (Mahboub, 2017). The indicators are adapted from credible literature and have been tested for validity and reliability through CFA with a loading factor of > 0.5 and adequate CR and VE values.

Table 1: Measurement of variable

Variable	Indicator	Item
Human Resource Competency (HRC)	sustainable mindset (HRC1)	▪ I'm always thinking about how to have good implications on the financial statements of what I'm doing right now ▪ I always think about how not to make mistakes and try to correct the wrong so as not to have dire implications on the regional financial statements
	creative and innovative (HRC2)	▪ I have many ideas, new ways, or suggestions to do various things in managing regional finances ▪ I can create something completely different from before to take care of local finances
	professionalism (HRC3)	▪ I can distinguish between personal interests and organizational interests, especially in managing regional finances ▪ I can firmly reject violations that occur or potential violations of the use of local financial budgets ▪ I have always been firm, but under pressure from the leadership, so I just follow the leadership's policy
The Use of Financial System (UFS)	Prepare a budget and report on regional financial management (UFS1)	▪ We use financial information systems in budgeting, implementation, and accountability so that it can be helped in carrying out financial management in carrying out financial management
	Formulate regional financial policies (UFS2)	▪ We use a financial information system so that it is more efficient and accurate in preparing financial reports
	evaluating regional financial (UFS3)	▪ We are assisted in preparing and storing financial data through the use of a financial information system.
	providing regional financial statistics needs (UFS4)	▪ We can present accurate information efficiently and effectively, which will be utilized by report users who rely on financial information systems.

	present regional financial information (UFS5)	▪ We find it easy to prepare for audits because we use a financial information system.
Quality of Internal Audit (QIA)	the level of compliance (QIA1)	▪ We must rely on the existing regional financial standards in preparing financial statements
	the ability to audit plan (QIA2)	▪ We have the capacity to design regional financial statements that accommodate the involvement of internal supervisors.
	Execute audit findings (QIA3)	▪ We are always open to review so that internal supervisors have room to identify audit findings.
	Communicate audit findings (QIA4)	▪ We always set aside time to communicate audit findings to the internal audit team.
Quality of Regional Financial Report (QFR)	relevance (QFR1)	▪ We can produce reports that suit the user's needs
	faithful representation (QFR2)	▪ We can produce financial statements that serve as a reference for evaluating regional financial performance.
	understandability (QFR3)	▪ We can produce financial reports that internal stakeholders easily understand.
	comparability (QFR4)	▪ We can compile and produce regional financial statements that are in accordance with existing accounting standards and policies
	timeliness (QFR5)	▪ We can produce good and timely financial reports

RESULTS AND DISCUSSIONS

The results of the model conformity measurement are shown in Table 2, following two stages of testing: Confirmatory Factor Analysis (CFA) and model fit testing.

Table 2: Statistical Result

Variables	Indicators	Standardized Estimate	Estimate	Std. Error	Crit. Ratio	P-Val	Construct Reliability	Variance Extracted
Human Resource Competency (HRC)	sustainable mindset (HRC1)	0,772	0,846	0,070	12,151	***	0,99	0,95
	creative and innovative (HRC2)	0,837	1,089	0,083	13,080	***		
	professionalism (HRC3)	0,811	1,000					
The Use of Financial System (UFS)	Prepare a budget and report on regional financial management (UFS1)	Deleted item					0,95	0,84
	formulate regional financial policies (UFS2)	0,970	1,036	0,027	38,185	***		
	evaluating regional financial (UFS3)	0,968	1,000					
	providing regional financial statistics needs (UFS4)	0,975	1,039	0,026	39,827	***		
	present regional financial	0,948	1,005	0,031	32,670	***		

	information (UFS5)							
Quality of Internal Audit (QIA)	the level of compliance (QIA1)	Deleted item					0,99	0,98
	the ability to audit plan (QIA2)	0,940	0,910	0,029	31,195	***		
	Execute audit findings (QIA3)	0,970	1,000					
	communicate audit findings (QIA4)	0,970	0,944	0,025	38,314	***		
Quality of Regional Financial Report (QFR)	relevance (QFR1)	0,954	1,052	0,039	27,042	***	0,99	0,97
	faithful representation (QFR2)	0,931	1,035	0,042	24,630	***		
	understandability (QFR3)	0,952	1,127	0,042	26,914	***		
	comparability (QFR4)	0,928	1,000					
	timeliness (QFR5)	Deleted item						

Model Fit Testing	Cut of Value	Result	Remark
Chi-Square	df = 72, X^2 = 92,808	130,913	Marginal
Significance	≥ 0,05	0,000	Marginal
CMINDF	≤ 2	1,818	Fit
GFI	≥ 0,90	0,919	Fit
AGFI	≥ 0,90	0,882	Marginal
TLI	≥ 0,95	0,983	Fit
CFI	≥ 0,95	0,986	Fit
RMSEA	0,03 - 0,08	0,064	Fit

Note: *** (Significant at Level $p < 0.01$)

Table 2 presents statistical results with loading factor coefficients > 0.5, Critical Ratio (C.R.) > 2, and p-value < 0.05, indicating that each item is capable of validly measuring its construct. Construct Reliability (CR) values ≥ 0.7 and Variance Extracted (VE) values≥ 0.5 suggest that, overall, the items have a reliable value in measuring the constructs, and each item has a good value of validity and reliability.

The results of data processing indicate that Human Resource Competency (HRC) is measured by three indicators: sustainable mindset (loading factor of 0.772), creative and innovative (loading factor of 0.837), and professionalism (loading factor of 0.811). For reliability tests, HRC shows a value of 0.99, while the variance extracted is 0.95. Furthermore, the Use of Financial System (UFS) is measured by the formulation of regional financial policies indicator with a loading factor of 0.970, evaluating regional financial performance with a loading factor of 0.968, providing regional financial statistics needs with a loading factor of 0.975, and presenting regional financial information with a loading factor of 0.948. The reliability test of this variable is indicated by the construct reliability value of 0.95 and the extracted variance of 0.84.

The variable Quality of Internal Audit (QIA) is measured by the ability to audit plan indicator (with a loading factor of 0.940), execute audit findings (with a loading factor of 0.970), and communicate audit findings (with a loading factor of 0.748). The reliability test for QIA is shown by a construct reliability value of 0.99 and a variance extracted of 0.98. Furthermore, the Quality of Regional Financial Reports (QFR) is measured by relevance indicators with a loading factor of 0.954, faithful representation with a loading factor of 0.931, understandability with a loading factor of 0.952, and comparability with a loading factor of 0.928. The reliability test for QFR is shown by a construct reliability value of 0.99 and a variance extracted of 0.97. The measurement results are shown in Table 3.

Table 3: Hypothesis Testing

Hypothesis	Standardized estimate	Estimate	Std. Error	Crit. Ratio	P-Val	Result

H1: Human Resource Competency → The Use of Financial System	0,872	22,533	1,674	13,458	***	Accepted
H2: Human Resource Competency → Quality of Internal Audit	0,586	1,258	0,261	4,826	***	Accepted
H3: Human Resource Competency → Quality of Regional Financial Reports	0,364	0,811	0,152	5,326	***	Accepted
H4: The Use of Financial System → Quality of Internal Audit	0,305	0,025	0,009	2,699	0,007	Accepted
H5: Quality of Internal Audit → Quality of Regional Financial Reports	0,630	0,653	0,069	9,433	***	Accepted

Note: *** (Significant at Level P < 0.01)

We conducted two test steps, namely the first step, which involved testing using confirmatory factor analysis (CFA) to confirm that each indicator can precisely measure its corresponding latent variable. An indicator is said to be able to measure its latent variable if the indicator has a loading factor coefficient of > 0.5 (Hair et al., 2014). The second step is model fit testing (Anderson & Gerbing, 1988), which aims to determine whether the data obtained in this study can confirm the conceptualized research model.

The results of research with CFA testing (Table 2) show that each indicator has a loading factor value of > 0.5; C.R.≥ 2; and a p-value < 0.05, which means that each indicator is capable and can validly measure its latent variable. The construct reliability value of ≥ 0.7 and variance extracted of ≥ 0.5 indicate an excellent level of reliability for the collected data. Thus, it can be concluded that the data used in this study are valid and reliable.

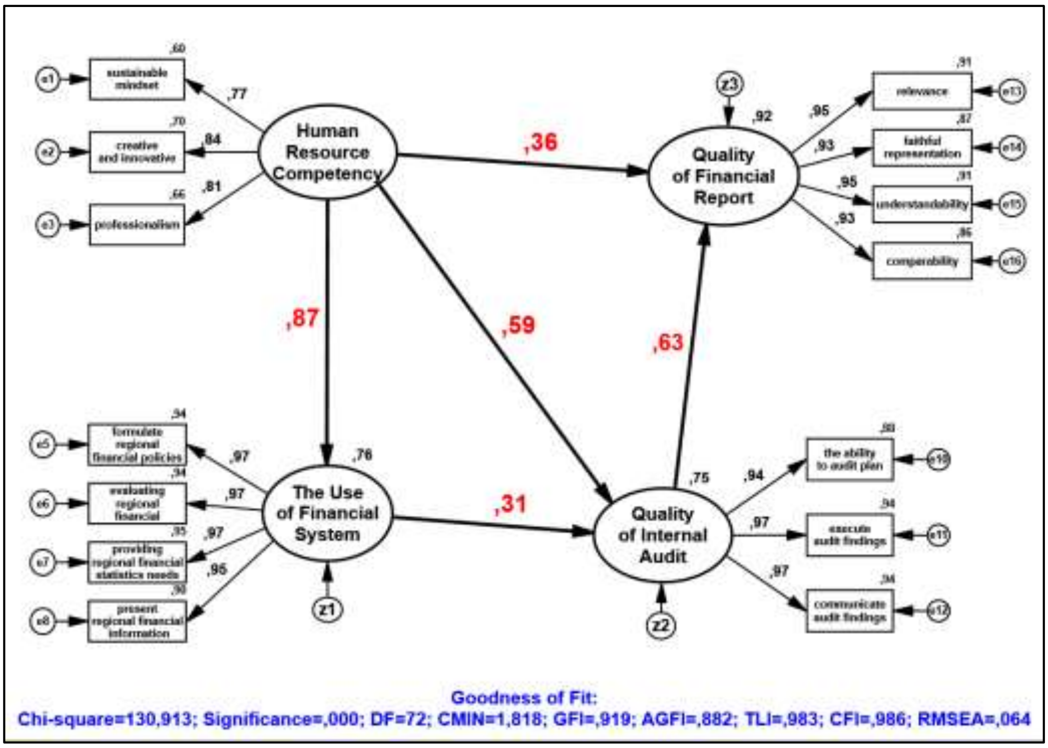

Figure 1. Structural Equation Model

Figure 1 shows that the model is structurally appropriate, this is demonstrated by the goodness of fit value that has met the conformity value, especially the CMINDF value = 1.818 (≤ 2); GFI = 0.919 (≥ 0.90); TLI = 0.983 (≥ 0.95); CFI = 0.986 (≥ 0.95); and RMSEA = 0.06 (0.03 – 0.08). Thus, the model constructed in this study, based on research data, is stated to have confirmed its suitability.

Based on the results of the SEM-AMOS estimate, the following results were obtained:

Direct Effects:

Table 4: Direct Influence Path Coefficient Table

Influence Path	Coefficient (β)	Signification
HRC → QFR	0,364	p < 0,01
HRC → UFS	0,872	p < 0,01
UFS → QIA	0,305	p < 0,01
QIA → QFR	0,630	p < 0,01
HRC → QIA	0,586	p < 0,01

Indirect Effects:

The indirect effects of HRC on QFR can be calculated through two pathways:

$$\text{Channel 1: HRC} \to \text{UFS} \to \text{QIA} \to \text{QFR } \beta Ind1 = (0.872)\ \text{x}(0.305)\ \text{x}(0.630) = 0.1677$$

$$\text{Channel 2: HRC} \to \text{QIA} \to \text{QFR } \beta Ind2 = (0.586)\ \text{x}(0.630) = 0.3692$$

$$\text{Total Indirect Effects: } \beta ind.total = 0.1677 + 0.3692 = 0.5369$$

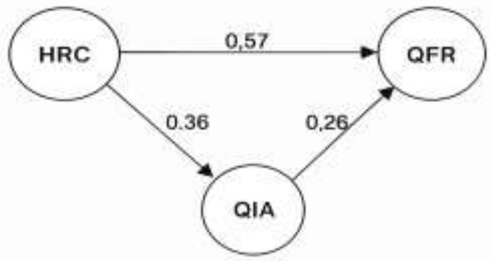

Figure 2. Framework of HRC's Influence Path on QFR through UFS and QIA

While the outline of HRC's direct influence path on QFR is as follows:

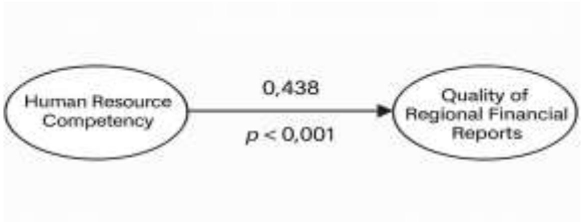

Figure 3. direct effect of HRC on QFR

The total impact of HRC on QFR (direct + indirect) is:

$$\beta Total = 0.364 + 0.537 = 0.901$$

These figures indicate that the most significant contribution comes from indirect channels, underscoring the strategic role of the financial system and internal audit as a lever for influencing the quality of financial reporting through HR competencies. Therefore, human resource strengthening programs should be designed in parallel with investments in the financial system and effective internal supervision.

Discussion

The empirical results obtained from the structural model provide a substantive foundation for interpreting the mechanisms through which human resource competence, system utilisation, and internal audit quality interact to shape the quality of regional financial reporting. To deepen these insights, the following discussion elaborates on the theoretical alignment, empirical implications, and contextual relevance of each relationship within the model.

The effect of human resource competency on the use of the financial system, the quality of internal audit, and the quality of financial reports

The results showed that Human Resource Competency (HRC) had a significant effect on the use of the financial system (UFS) with a coefficient of 0.87. These findings indicate that the capabilities of regional apparatus are a key factor in optimizing the implementation of financial information systems. The most dominant indicator was a sustainable mindset (loading factor of 0.77), which reflects the importance of a long-term perspective in public financial management.

Creativity and innovation also make a significant contribution (loading factor 0.84), indicating that flexibility in thinking and adaptability greatly determine the effectiveness of using the financial system. Professionalism (loading factor 0.81) underscores the urgency of ethics and integrity in regional financial management.

These findings align with the Resource-Based View theory (J. Barney, 1991), which posits that human resources are strategic assets that can create organizational performance advantages. In this context, HR competencies serve as a crucial catalyst for the adoption of financial technology and the effective utilization of information systems.

In terms of the quality of internal audit (QIA), HRC also had a significant effect (coefficient of 0.59). This interconnectedness reinforces the perspective of Agency Theory (Jensen & Meckling, 1976), which emphasizes the need for supervisory mechanisms to reduce information asymmetry between principals and agents. Human resource competence in designing, implementing, and communicating audits is the primary foundation in maintaining the effectiveness of internal control functions.

Furthermore, HRC has a significant impact on the quality of regional financial reports (QFR), with a coefficient of 0.36. Creativity and innovation are the primary factors (loading factor 0.84), indicating that superior financial reporting requires new initiatives in presenting relevant and reliable fiscal information. The relevance indicators (loading factor 0.95) and faithful representation (0.93) emphasized the importance of presenting reports that meet the needs of stakeholders and are substantially accurate.

The relationship between HRC and QFR can also be explained through the framework of Knowledge-Based Theory (Grant, 1996), which states that knowledge and competencies are the primary basis for value creation in public organizations. Therefore, human resource development is not only an administrative investment, but also an institutional strategy to strengthen fiscal accountability.

Overall, the results of this study show that the increase in HRC not only has a direct impact on the effectiveness of the financial system and internal audit functions but also makes a significant contribution to the quality of financial statements. Thus, competency-based human resource capacity-building strategies are a priority in regional financial governance reform.

The Influence of using the financial system on the quality of internal audit

The results of this study indicate that the use of the regional financial system (UFS) has a positive and significant impact on the quality of internal audit (QIA), with a moderate influence (standard coefficient = 0.31). These findings support the management information system theory, which states that the effectiveness of the financial system will improve the efficiency, accuracy, and transparency of the internal audit process (Alawaqleh, 2021).

Theoretically, this aligns with the "information quality theory" model, which emphasizes that the quality of information systems, particularly in terms of accuracy, timeliness, and data relevance, is a key prerequisite for supporting effective audit decision-making (Kertarajasa et al., 2019). UFS indicators, such as financial evaluation and presentation of financial information, have proven to contribute the most to the increase in QIA. This demonstrates that an integrated and reliable financial system facilitates the planning, implementation, and communication of audit findings.

However, these findings also indicate that the financial system is not the only determinant of QIA. The influence of UFS suggests that other factors also play a significant role, such as the competence of human resources (Antonio et al., 2020), the quality of internal supervision (Saputra & Gunawan, 2023), and the support of technology and organizational infrastructure (Sudarlan et al., 2024).

An international study conducted by Kawisana & Jayanti (2022) also found that the success of internal audits is greatly influenced by a combination of a reliable information system and the competence of qualified auditors. Therefore, an integrative approach that includes system improvement and strengthening auditor capabilities is a strategic step to ensure optimal internal audit quality.

Thus, public sector organizations, especially local governments, need to emphasize the importance of aligning the development of technology-based financial systems with the capacity building of internal auditors. The collaboration between the two will strengthen the function of internal audit as an effective managerial control tool and as a credible public accountability mechanism.

Affect the quality of the internal audit on the quality of the financial report

This study demonstrates that the quality of internal audit (QIA) has a significant impact on the quality of financial reports (QFR), with an influence coefficient of 0.63. This indicates that the better the quality of an organization's internal audit, the higher the quality of the financial statements produced.

Theoretically, this relationship aligns with the principle in agency theory that emphasizes the importance of supervisory mechanisms in minimizing information asymmetry between managers and stakeholders. Internal audit serves as a control function, ensuring the reliability of financial information and compliance with applicable standards and regulations.

The measured QIA indicators include the ability to plan audits, execute audit findings, and communicate audit results. All three indicators exhibited a high loading factor value (0.94-0.97), indicating the validity and reliability of the measurements. The more effectively these three aspects are carried out, the more effectively internal audits can play a role in identifying errors, system weaknesses, and risks that can affect the accuracy of financial statements.

Meanwhile, the quality of financial statements (QFR) in this study was measured through indicators of relevance, faithful representation, comprehension, and comparability. All of these indicators also exhibit a high loading factor (0.93-0.95), confirming that the measured dimensions align with the characteristics of quality financial statements according to government accounting standards.

These results are consistent with the findings of Johl et al. (2013) and Bonrath & Eulerich (2024), who stated that the effectiveness of internal audits directly improves the quality of public sector financial reporting. In addition, Bilal et al. (2018) emphasize that independent and competent internal audits are crucial in enhancing organizational transparency and accountability.

The implication is that public sector organizations need to strengthen the internal audit function both in terms of auditor competence, audit methodology, and technology support. Internal audits are not only a verification tool, but also a strategic instrument to increase stakeholder confidence in the integrity of financial statements

The role of the use of financial system variables and the quality of internal audit as mediators

The results of this study indicate that human resource competence (HRC) has a significant impact on the quality of regional financial statements (QFR) through the use of financial systems (UFS) and internal audit quality (QIA) as mediating variables. These findings confirm that enhancing the capabilities of individuals in performing regional financial functions not only has a direct impact on report output but also strengthens the effectiveness of systemic processes and internal oversight.

Theoretically, these results align with the framework of Agency Theory, where managers, as agents, are required to act in accordance with the interests of the principal (the public and the regulator). In this context, HR competence serves as an internal control tool that helps minimize information asymmetry and moral hazard risk, as stated by Parves & Bhuyan (2023). Adequate competence encourages the optimal use of financial information systems (UFS), which in turn supports the implementation of internal audits that are more credible and responsive to irregularities.

This study also strengthens the dual mediation model (Muda et al., 2017), in which HRC affects QFR not only directly but also indirectly through the pathways of system use and quality of supervision. The UFS acts as a technical infrastructure that facilitates the reporting process, while the QIA guarantees the integrity and accuracy of the process. Thus, the combination of individual competence, system sophistication, and supervisory effectiveness is the three main pillars in producing reliable financial reports.

The practical implication of these findings is the need for a structured and sustainable capacity development strategy for ASN in the field of regional finance. Investment in training, certification, and the implementation of high-technology-based information systems needs to be balanced with strengthening the function of independent and competency-based internal audits. This is important to ensure fiscal accountability and increase public confidence in the transparency of local government financial management.

Effective Accounting Practices in Strengthening Public Sector Functions and Public Value Creation
Effective accounting practices in the public sector are not merely limited to producing accurate financial statements but also serve as strategic instruments for enhancing organizational performance, strengthening accountability, and building public trust. By ensuring the efficient and transparent management of resources in line with good governance principles, accounting plays a direct role in reinforcing the functions of public sector entities and fostering the creation of public value.

First, effective accounting supports evidence-based decision-making. Reliable, relevant, and timely financial reports provide a solid foundation for public leaders to formulate policies, set budget priorities, and evaluate the effectiveness of development programs. Decisions based on valid accounting information reduce the risk of resource misallocation and enable the achievement of development goals more effectively.

Second, high-quality accounting practices foster accountability and transparency. When financial reports are prepared in accordance with government accounting standards, the public gains clear access to information regarding the use of public funds. This not only strengthens accountability to stakeholders but also enhances the legitimacy of government institutions in the eyes of society. Ultimately, transparency contributes to building and sustaining public trust.

Third, effective accounting reinforces internal control mechanisms and improves audit quality. Well-structured accounting systems support the early detection of potential fraud, budget misuse, or noncompliance in financial management. Consequently, effective accounting contributes to maintaining long-term fiscal integrity and ensuring the continuity of public service delivery.

Fourth, effective accounting extends its impact to broader public value creation. Public value is not only reflected in fair and accurate financial statements but also in the provision of equitable, efficient, and citizen-oriented public services. When accounting systems integrate sustainability, cost efficiency, and risk management, they generate long-term benefits for society, including improved service quality, equitable development, and enhanced regional competitiveness.

In light of these perspectives, it can be concluded that effective accounting practices are a cornerstone for strengthening public sector functions and advancing public value creation. The ability of public entities to manage financial resources in a transparent, accountable, and sustainability-oriented manner not only fosters public trust but also supports the achievement of inclusive and sustainable development objectives.

Theoretical and Practical Implications
The outcomes of this study present substantial implications for both theoretical development and practical application in the field of public management. Theoretically, the research underscores the value of integrating multiple frameworks, namely the Resource-Based View (RBV), Agency Theory, and New Public Management (NPM), to better explain the dynamics influencing the quality of financial reporting in the public sector. By revealing how human resource competence, financial system utilization, and internal audit quality interact within a dual mediation framework, this study expands the scope of RBV beyond private sector organizations into the realm of public governance. It highlights that human capital should be regarded not simply as an administrative necessity but as a strategic resource capable of generating sustainable value in public management. In addition, the support for agency theory emphasizes the necessity of effective monitoring and oversight to reduce risks of information asymmetry and moral hazard between government actors and the public. NPM principles are likewise reinforced, demonstrating that efficiency, transparency, and performance orientation are attainable when supported by competent human resources and technologically advanced systems. Together, these insights enrich theoretical discussions on sustaining accountability and legitimacy in public institutions in the era of digital transformation.

Practically, the findings provide actionable guidance for policymakers and practitioners in local government. First, investment in competency-based human resource development is crucial (Ginanjar et al., 2024). Public servants must be equipped not only with technical expertise in accounting and financial management but also with adaptability, ethical integrity, and innovative thinking to address the complexities of digital governance. Second, modernization of financial information systems should be implemented alongside capacity building to ensure that technological adoption results in tangible improvements in accountability and reporting quality. Third, enhancing internal audit functions should be prioritized as a strategic element. Skilled, independent audits act as vital control mechanisms that strengthen the credibility of financial statements. Finally, these reforms should be pursued in an integrated manner rather than as isolated efforts, as this study confirms that the combined influence of competence, systems, and oversight yields the most substantial outcomes.

In summary, the implications of this research demonstrate that achieving transparent, accountable, and high-quality financial reporting in the public sector depends on the synergy between robust theoretical underpinnings and practical reforms. This dual focus not only contributes to academic advancements in public management but also offers practical strategies to improve governance and strengthen institutional trust in regional government contexts.

CONCLUSION

This study confirms that human resource competence (HRC) plays a crucial role in improving the use of financial systems (UFS), the quality of internal audits (QIA), and the quality of regional financial statements (QFR), both directly and indirectly. Increasing the capacity of human resources, particularly in terms of a sustainable mindset, creativity, and professionalism, has been proven to positively contribute to the effectiveness of public financial management and reporting.

These findings also suggest that UFS and QIA serve as significant mediators that strengthen the relationship between HRC and QFR. The integration between apparatus competencies, technology-based financial systems, and effective internal oversight mechanisms is the primary foundation for producing transparent, accountable, and relevant regional financial reports.

Theoretically, the results of this study expand the scope of agency theory's application in the context of public sector financial governance by highlighting the importance of bureaucratic actors' competence in mitigating potential conflicts of interest between principals and agents. In practical terms, these findings provide a strong justification for the need for a human resource development strategy, as well as for strengthening financial system infrastructure and internal audits as integral parts of sustainable regional financial reform.

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