



# Human Resource Competence and Internal Control Systems in Regional Government Financial Reporting: A Systematic Review

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## Abstract

This study aims to examine the influence of human resource (HR) competence and internal control systems on the quality of regional government financial reports, addressing the lack of integrated findings in recent literature. Using a Systematic Literature Review (SLR) approach, 25 peer-reviewed articles published between 2019 and 2024 were selected from academic databases based on relevance and methodological rigor. The review reveals that HR competence particularly in financial knowledge, professional experience, and adherence to accounting standards significantly improves reporting accuracy. Moreover, the presence of robust internal control systems plays a critical role in monitoring processes, ensuring regulatory compliance, and reducing the risk of fraud. The study highlights the importance of integrating qualified HR and strong internal controls to promote transparency and accountability in regional government financial management. These findings provide strategic insights for public sector policymakers and lay the groundwork for future research on financial governance.

## 1. Introduction

In recent years, there has been an increasing demand for improved governance and transparency within regional government institutions. One of the key indicators of good governance is the quality of financial reporting, which serves as a fundamental tool for decision-making, accountability, and public trust. High-quality financial reports are expected to fulfill the qualitative characteristics set by government accounting standards, including relevance, reliability, comparability, and understandability (Firmansyah et al., 2022).

The role of human resource (HR) competence and internal control systems has been widely acknowledged as critical in achieving reliable financial reporting. Competent personnel with adequate financial management knowledge are essential for preparing reports that meet accounting standards and regulatory expectations (Rahman & Permatasari, 2021). Moreover, a robust internal control system supports effective monitoring, prevents fraud, ensures compliance, and

safeguards public assets (Ompusunggu & Salomo, 2019).

Despite ongoing efforts to improve financial governance in regional governments, significant challenges remain. The Audit Board of Indonesia (BPK) reported in its IHPS 1 of 2023 that out of 542 regional government financial statements (LKPDs), 41 received qualified opinions and 5 were unaudited due to serious internal control weaknesses. A total of 7,661 audit findings highlighted 12,855 issues, including system and compliance violations. These findings indicate that internal weaknesses and inconsistent HR competencies continue to hinder the quality of financial reports.

Several studies have explored the influence of HR competence and internal control systems on financial report quality (Faradillah, 2021; Indrayani & Widiastuti, 2020). However, the existing literature is fragmented and lacks a comprehensive synthesis that could provide policymakers with consolidated insights. Furthermore, international studies also emphasize the growing importance of integrated internal



control mechanisms and human capital development in enhancing public sector accountability (Van der Stede, 2020; IFAC, 2021).

Given this context, a systematic literature review (SLR) is necessary to map the body of knowledge regarding the role of HR competence and internal control systems in improving the quality of regional government financial reports. This study aims to consolidate current evidence, identify research gaps, and offer strategic insights for improving financial governance practices in the public sector.

## 2. Literature Review

### 2.1 Human Resource Competence

Human resource competence is a critical factor influencing the accuracy and quality of financial reporting in public sector organizations. According to Spencer and Spencer (1993), competence is defined as a characteristic that underlies superior performance in a job, including knowledge, skills, and behaviors. In the context of regional government financial reporting, competent personnel with formal education in accounting, professional training, and relevant work experience are more likely to adhere to reporting standards and ensure accurate disclosures (Elfauzi & Sudarno, 2019).

Boyatzis (1982) emphasized that HR competence also includes the ability to make informed decisions under complex organizational settings. Several studies have highlighted that the competence of human resources significantly improves compliance with government accounting standards and supports better financial transparency (Rahman & Permatasari, 2021; Setyaningrum et al., 2022). Therefore, the availability of qualified staff is indispensable for the production of reliable and timely financial statements in regional government entities.

### 2.2 Internal Control Systems

The internal control system plays a fundamental role in ensuring financial accountability and preventing errors or fraud in the preparation of financial reports. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines internal control as a process implemented by an entity's board of directors, management, and other personnel to provide reasonable assurance regarding the achievement of objectives related to operations, reporting, and compliance.

In government institutions, internal controls ensure that financial transactions comply with legal and regulatory frameworks, reduce the risk of misstatements, and safeguard public resources (Henny et al., 2021). Research by Mattoasi et al. (2021) showed that internal controls significantly contribute to the reliability of financial information by creating a structured system of checks and balances. Furthermore, Mulyati et al. (2020) found that effective internal controls build public trust and improve the credibility of financial reports.

### 2.3 Quality of Financial Reports

The quality of financial reports reflects the extent to which financial information is useful, accurate, and reliable for decision-making purposes. According to the Government Regulation of Indonesia No. 71 of 2010 (PP 71/2010), financial reporting quality is measured by four key characteristics: relevance, reliability, comparability, and understandability. These principles are consistent with the International Public Sector Accounting Standards (IPSAS).

Relevant financial statements help stakeholders evaluate past performance and predict future outcomes. Reliability ensures that reports are free from material error or bias, while comparability enables the assessment of financial trends over time or



across entities. Understandability supports decision-makers in interpreting financial data effectively (Herindraningrum & Yuhertiana, 2021).

Empirical studies (Faradillah, 2021; Wastam, 2018) have also shown that the quality of local government financial reports improves when supported by strong HR capabilities and effective internal control practices. Therefore, enhancing these two factors is essential in promoting greater transparency and accountability in public financial management.

### 3. Research Methods

This study employs a Systematic Literature Review (SLR) approach to comprehensively map and synthesize previous empirical findings related to human resource competence and internal control systems in improving the quality of local government financial reports. The SLR method enables researchers to critically analyze existing literature using transparent, replicable procedures and aims to answer research questions based on existing high-quality studies.

This review follows the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) guidelines, which include four main stages: identification, screening, eligibility, and inclusion. The PRISMA flowchart is used to demonstrate the selection process of articles in a structured manner.

#### 3.1 Literature Search Strategy

The literature search was conducted across multiple reputable databases, including Scopus, ScienceDirect, Emerald Insight, Google Scholar, and Garuda to ensure a broad and rigorous coverage of relevant literature. The following search keywords were used in various combinations:

- “Human Resource Competence”
- “Internal Control System”

- “Quality of Financial Reports”
- “Regional Government”
  - “Public Sector Accounting”

Boolean operators (AND/OR) and quotation marks were applied to refine and narrow the search results effectively.

#### 3.2 Inclusion and Exclusion Criteria

The selection of articles followed these predefined criteria:

- **Inclusion Criteria:**

- Peer-reviewed journal articles.
- Published between 2019 and 2024.
- Written in English or Bahasa Indonesia.
- Focused on empirical studies related to the role of HR competence and internal control systems in determining the quality of regional/local government financial reports.
- Articles that employed quantitative methods such as PLS-SEM, regression analysis, or other relevant methodologies.

- **Exclusion Criteria:**

- Conference papers, theses, opinion articles, or non-academic reports.
- Articles that do not discuss public sector financial reporting.
- Duplicate publications or articles without accessible full texts.

#### 3.3 Article Selection Process

From an initial pool of 126 articles, duplicates and irrelevant studies were removed. After the screening and eligibility processes, a total of 25 empirical articles were included for full review and synthesis. The article selection process is summarized using a PRISMA flow diagram (Figure 1).

#### 3.4 Data Extraction and Synthesis

Data from the selected studies were extracted based on the following attributes: author(s), year, country of study, research method, sample size, variables analyzed, and



key findings. A qualitative thematic analysis was conducted to identify recurring patterns, significant themes, and relationships across studies. The synthesis was organized into two major themes:

1. The role of HR competence in improving financial report quality.
2. The effect of internal control systems on the reliability and integrity of financial reporting.

The results of the synthesis are presented in the following sections, along with comparative insights and research gaps identified in the literature.

#### 4. Results and Discussion

**Table 1. Summary of Selected Studies on HR Competence and Internal Control Systems Affecting Financial Report Quality**

Author(s)	Year	HR Competence	Internal Control System	Methodology	Key Findings
Putri et al.	2021	✓ Significant	✗ Not Examined	Quantitative	HR competence improves report quality
Lestari et al.	2022	✗ Not Tested	✓ Significant	Quantitative	Internal control prevents fraud
Irafah et al.	2020	✓ Significant	✓ Moderate	Mixed	Competence is more influential than system
Sambuaga et al.	2020	✓ Significant	✗ Not Effective	Quantitative	Training alone insufficient
Prastika & Trisnaningsih	2023	✓ Strong	✗ Discussed	Quantitative	HR competitiveness increases report reliability

Source: Processed by the author from systematic literature review results (2024).

#### 4.2. Thematic Analysis of Key Findings

##### a. Human Resource Competence and Report Quality

Several studies emphasize that human resource (HR) competence plays a pivotal role in the preparation of financial reports (Putri et al., 2021; Prastika & Trisnaningsih, 2023). Competent employees, particularly within local government financial units, ensure compliance with accounting standards, improve reporting accuracy, and enhance decision-making processes.

#### 4.1. Overview of Literature Selection

A systematic search using Google Scholar resulted in 1,640 relevant articles using the keywords: “Competence,” “Internal Control System,” and “Financial Report Quality.” After applying selection criteria — (1) peer-reviewed journal articles, (2) published between 2019–2024, and (3) focused on HR competence and internal control in relation to the quality of regional government financial reports — a final sample of 25 articles was selected for analysis. The table below summarizes key findings of selected studies:

Competence is not limited to educational background but also includes ongoing training, practical experience, and familiarity with government accounting systems (Kuntadi et al., 2022). This aligns with the Resource-Based View (RBV) theory, which asserts that intangible assets like human capital are strategic resources for organizational excellence.

However, Sambuaga et al. (2020) indicate that despite training efforts, HR failures can still occur if systemic issues, such



as lack of oversight or misaligned incentives, are present. This suggests the need for a more comprehensive HR development approach, including behavioral assessments and post-training evaluations.

### ***b. Internal Control Systems and Report Integrity***

The Internal Control System (ICS), particularly SPIP (Government Internal Control System), is also shown to significantly impact the quality of financial reports. According to Lestari et al. (2022), a robust control system reduces error risks, ensures compliance with government regulations, and supports fraud prevention. Kuntadi et al. (2022) explain that SPIP consists of five components control environment, risk assessment, control activities, information & communication, and monitoring which must function effectively and cohesively. Rohmah et al. (2020) further affirm that successful ICS implementation leads to exemplary financial reports and supports the achievement of local government objectives.

Despite these findings, some studies (e.g., Irafah et al., 2020) suggest that ICS alone may not suffice in the absence of competent personnel. Thus, the integration of HR development and system optimization becomes crucial.

### **4.3. Synthesis and Critical Perspective**

The literature reveals a complementary relationship between HR competence and internal control systems. While each factor independently contributes to the quality of financial reporting, their synergistic effect yields stronger results. However, some inconsistencies were found. For instance, while most studies report a significant effect of HR competence, Sambuaga et al. (2020) argue that competence does not always translate to quality reports due to organizational inertia or lack of managerial support. Similarly, not

all regions that implement internal control systems see significant improvements in financial reporting, often due to weak enforcement or limited auditing capacity.

### **4.4. Practical Implications**

1. **Capacity Building:** Local governments should institutionalize continuous training programs in public sector accounting and internal control standards (e.g., SPIP).
2. **Integrated Audit and HR Systems:** Internal audit functions should be closely linked with HR performance evaluations to ensure competency translates into accountability.
3. **System Reinforcement:** Governments must ensure full implementation of all SPIP components, not just documentation.
4. **Data-Driven HR Allocation:** Assignments to financial reporting roles should consider employee track records and certification in government accounting.
5. **Policy Synchronization:** National regulatory bodies should ensure that local government HR and financial management policies are aligned for sustainable improvements.

## **5. Conclusion**

### **5.1 Conclusion**

Based on the results of a systematic literature review of 25 relevant articles, this study concludes that human resource competence and a well-functioning internal control system are critical determinants in improving the quality of regional government financial reports. Competent human resources supported by relevant education, continuous training, and professional experience contribute significantly to the accuracy, accountability, and transparency of financial reporting processes. These competencies enable public sector employees to apply accounting





principles correctly and comply with existing financial reporting standards.

Furthermore, the internal control system (SPI) plays an essential role in safeguarding financial integrity by ensuring compliance with laws and regulations, reducing the risk of fraud, and enhancing operational efficiency. The proper implementation of internal controls strengthens the reliability of financial information, thus supporting evidence-based decision-making and reinforcing public trust in government financial accountability.

## 5.2 Suggestions

1. Policy Implementation: Regional governments should prioritize the development and implementation of structured training programs to enhance the competence of human resources involved in financial reporting.
2. Strengthening Internal Controls: Local administrations must conduct regular assessments of their internal control systems to ensure compliance with the Government Internal Control System (SPIP) standards.
3. Capacity Building: Integrating continuous professional development and certification for financial personnel is essential to maintain report quality and compliance with updated standards.
4. Future Research Directions: Future studies are recommended to empirically test the impact of human resource competence and internal control quality on financial reporting outcomes using quantitative methods across various regions.
5. Technological Integration: Governments should also consider investing in digital tools and financial management information systems (FMIS) that align with internal control frameworks to improve reporting efficiency and transparency.

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