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Human Resource Competence, Compliance, Internal Control, and Financial Reporting Quality

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ABSTRACT

This study aims to examine the influence of human resource competence, regulatory compliance, and internal control systems on financial reporting quality and their impact on decision-making in vertical hospitals under the Ministry of Health of the Republic of Indonesia. A quantitative approach with a causal research design was employed, using primary data collected through questionnaires distributed to 37 financial reporting staff selected through a saturated sampling technique. Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 4. The results indicate that regulatory compliance has a significant positive effect on financial reporting quality, while human resource competence and internal control systems do not show a significant influence. Furthermore, financial reporting quality has a strong positive and significant effect on decision-making. These findings suggest that adherence to accounting standards and regulatory frameworks plays a more dominant role in ensuring high-quality financial reporting compared to individual competence and procedural control mechanisms. Additionally, high-quality financial reports enhance the effectiveness and accuracy of managerial decision-making by providing reliable and relevant information. This study contributes to the literature on public sector financial governance by highlighting the importance of compliance and system-based financial reporting mechanisms. Practically, the findings provide insights for policymakers and hospital management to strengthen regulatory compliance and optimize financial information systems. However, the study is limited by its small sample size and focus on a specific sector. Future research is recommended to expand the scope and incorporate additional variables.

1. Introduction

Financial statements play a strategic role in presenting financial information that supports transparency, accountability, and economic decision-making in both the public and private sectors. High-quality financial statements must fulfill the qualitative characteristics of relevance, reliability, accuracy, and comparability in accordance with applicable accounting standards. In public sector institutions, financial reporting becomes more complex because it involves the management of public funds and policy accountability. This condition is highly relevant for vertical technical units under the Ministry of Health of the Republic of Indonesia, where financial information is not only used for managerial control but also for public accountability and government policy evaluation. Therefore, the role of competent human resources, strong regulatory compliance, and effective internal control systems becomes essential in ensuring reliable financial reporting quality.

Recent empirical phenomena indicate that the quality of financial reporting in

DOI: 10.26618

government institutions remains a significant issue. Audit reports issued by the Audit Board of the Republic of Indonesia (BPK RI) reveal recurring weaknesses in internal control systems and regulatory compliance across ministries and government institutions. Based on the Summary of Audit Results (IHPS), there were 1,990 audit findings in central government financial reports, consisting of 945 findings (48%) related to internal control weaknesses and 1,045 findings (52%) related to non-compliance with laws and regulations. These weaknesses include inadequate accounting information systems, incomplete documentation, weak supervision, and insufficiently competent financial personnel. In addition, audit findings also reported weaknesses in accounting and reporting systems in 69 ministries and other reporting problems in 24 ministries/agencies, including delays in financial statement submission and lack of integration in financial information systems.

Further phenomena indicate potential state losses and financial inefficiencies arising from non-compliance cases. The audit summary reported potential losses of approximately IDR 466.11 billion in 27 ministries/agencies and overpayments in project expenditures amounting to IDR 451.97 billion in nine ministries/agencies. Specifically in the health sector, audit findings identified overpayments of approximately IDR 26.04 billion related to infrastructure development projects in vertical hospitals, including hospital construction and special facility development programs. Although many ministries, including those in the health sector, obtained unqualified opinions, these findings indicate that the effectiveness of internal control and compliance implementation remains suboptimal and continues to pose risks to the reliability of financial reporting.

In the context of hospital financial management, limitations in accounting competence and reporting systems may result in financial statements that are not fully prepared in accordance with standards, thereby reducing their usefulness for decision-making (Persi, 2023). Hospitals as public service entities face increasingly complex financial structures, including operational budgets, infrastructure financing, and public service obligations, which require stronger governance mechanisms. Previous studies confirm that human resource competence significantly improves financial reporting quality because skilled personnel are better able to apply accounting standards and financial procedures accurately (Amelia et al., 2023; Rahmati et al., 2024). Compliance with regulations also strengthens transparency and reliability in financial reporting (Setiyawati et al., 2020; Semruwati et al., 2024). Meanwhile, internal control systems function as governance frameworks to manage risks, safeguard assets, and ensure reporting accuracy (Priantono & Vidiyastutik, 2022; Surya & Muhyarsyah, 2022), although empirical findings regarding their direct effect on reporting quality remain mixed.

Furthermore, financial reporting quality has been widely recognized as a determinant of effective managerial decision-making. Reliable financial information reduces uncertainty, improves resource allocation efficiency, and strengthens institutional governance (Kadhim & Bougatef, 2024; Hamour et al., 2024; Priantono & Vidiyastutik, 2022). Weak financial reporting, on the other hand, may lead to inaccurate planning and ineffective policy decisions. This condition highlights the importance of strengthening governance factors that influence financial reporting quality, particularly in public sector health institutions that are highly demanded to maintain accountability and transparency.

Based on the theoretical developments and empirical phenomena described above, this study addresses the need to examine the relationship between human resource competence, regulatory compliance, and internal control systems on financial reporting quality and their impact on decision-making in vertical hospitals. This study responds to inconsistencies in previous findings and ongoing audit issues identified in government

DOI: 10.26618

institutions. A quantitative approach is employed using survey data analyzed through Partial Least Squares Structural Equation Modeling (PLS-SEM) to evaluate the structural relationships among variables. This study is expected to contribute theoretically by enriching the public sector financial governance literature, practically by providing recommendations for strengthening the competence and compliance practices of financial staff, and from a policy perspective by supporting improvements in internal control implementation to enhance transparency, accountability, and decision-making effectiveness in government health institutions.

2. Literature Review

2.1 Conceptual and Theoretical Foundations

2.1.1 Theoretical Foundations

a. Agency Theory

Agency theory provides a relevant theoretical foundation for understanding financial reporting within public sector organizations. The theory explains the relationship between principals, who delegate authority and resources, and agents, who are responsible for managing those resources and reporting organizational performance. Such relationships may generate information asymmetry because agents generally possess more detailed information about organizational activities than principals (Hendrastuti & Harahap, 2023). In the context of vertical hospitals under the Ministry of Health of the Republic of Indonesia, the government and society can be regarded as principals, while managers and financial reporting personnel act as agents responsible for managing public resources and preparing financial reports.

From an agency perspective, financial reporting quality can reduce information asymmetry by providing principals with relevant, reliable, and transparent information concerning the use of organizational resources. Human resource competence, regulatory compliance, and internal control can consequently function as governance and monitoring mechanisms that constrain reporting errors and strengthen accountability. Competent financial personnel are expected to understand accounting standards and reporting procedures, compliance mechanisms ensure adherence to applicable regulations, while internal control provides verification and monitoring mechanisms.

The application of agency theory to public sector financial reporting therefore suggests that organizational mechanisms designed to reduce information asymmetry should contribute to higher financial reporting quality. This theoretical argument is particularly relevant for vertical hospitals because their financial activities involve public resources and require accountability to government authorities and society.

b. Signalling Theory

Signalling theory explains how organizations communicate information about their condition and performance to stakeholders through observable signals. In financial reporting, financial statements represent an important organizational signal because they communicate information concerning financial performance, resource utilization, and organizational accountability (Choudhary & Karmel, 2022).

High-quality financial reports provide credible information to government authorities, regulators, hospital management, and other stakeholders. Conversely, inaccurate or incomplete financial information may generate misleading signals and increase uncertainty in decision-making. In vertical hospitals, reliable financial statements can therefore function as signals of transparency, accountability, and sound financial management (Choudhary & Karmel, 2022).

Signalling theory consequently provides a theoretical basis for examining the effect of financial reporting quality on decision-making. When financial information accurately reflects organizational conditions, managers can use such information to evaluate performance, allocate resources, formulate budgets, and

DOI: 10.26618

develop appropriate organizational strategies.

c. Stakeholder Theory

Stakeholder theory emphasizes that organizational accountability extends beyond owners or government authorities to include multiple stakeholders affected by organizational activities. Freeman et al. (2021) emphasize the importance of managing relationships among organizational stakeholders. In public hospitals, relevant stakeholders include government institutions, regulators, employees, patients, and society, all of whom have an interest in transparent and accountable financial management.

Financial reporting quality therefore represents an important mechanism for satisfying stakeholder information needs. Reliable financial information allows stakeholders and organizational managers to assess whether public resources have been managed appropriately. Human resource competence, regulatory compliance, and internal control can support this accountability process by strengthening the reliability and credibility of financial information.

The three theoretical perspectives provide complementary explanations for the proposed research model. Agency theory emphasizes the reduction of information asymmetry through monitoring and accountability mechanisms; signalling theory emphasizes the informational value of high-quality financial reporting; while stakeholder theory emphasizes transparency and accountability toward multiple organizational stakeholders.

2.2 Review of Empirical Studies

2.2.1 Human Resource Competence and Financial Reporting Quality

Human resource competence refers to the knowledge, skills, abilities, and behavioral characteristics required to perform organizational responsibilities effectively. In financial reporting, competence includes knowledge of accounting principles, understanding of reporting standards, technical skills, analytical capabilities, and professional attitudes. Alves (2023) conceptualizes competence as a combination of knowledge, skills, and attitudes that enables individuals to perform effectively in a particular organizational context.

From the perspective of agency theory, competent financial personnel can reduce information asymmetry by improving the accuracy and reliability of financial information reported to organizational principals. Employees who possess adequate accounting knowledge and technical skills are better positioned to interpret accounting requirements, process financial transactions, operate reporting systems, and prepare financial statements accurately.

Empirical evidence generally supports the positive relationship between human resource competence and financial reporting quality. Rahmati et al. (2024) and Novatiani et al. (2024) found that human resource competence contributes significantly to financial reporting quality. Amelia et al. (2023) similarly emphasized the importance of employee competence and development in supporting effective financial processes. Competent personnel are expected to reduce reporting errors and improve the implementation of accounting standards.

However, empirical findings are not entirely consistent. Nurfaisal et al. (2024), Tumelap et al. (2025), and Setiawati and Anwar Hariyono (2025)reported that human resource competence did not significantly affect financial reporting quality. These contradictory findings indicate that the effect of individual competence may depend on organizational conditions, technological integration, standardized procedures, and the extent to which financial reporting is automated.

This inconsistency is particularly relevant in government hospitals where financial reporting increasingly relies on integrated and standardized government financial information systems. Therefore, further empirical examination is necessary to determine whether human resource competence continues to exert

DOI: 10.26618

a significant influence on financial reporting quality in a highly standardized public-sector reporting environment.

H1: Human resource competence has a positive effect on financial reporting quality.

2.2.2 Regulatory Compliance and Financial Reporting Quality

Regulatory compliance refers to the extent to which organizational activities and financial reporting practices conform to applicable laws, regulations, accounting standards, and established organizational procedures. In public sector organizations, compliance is particularly important because financial activities involve public resources and are subject to formal accountability requirements.

From an agency perspective, regulatory compliance functions as a formal monitoring mechanism that constrains managerial discretion and reduces information asymmetry. Compliance with accounting standards and government regulations establishes clear requirements concerning how financial transactions should be recognized, measured, recorded, and reported. Strong compliance should therefore increase the consistency, transparency, and reliability of financial information.

The signalling perspective also supports the relationship between compliance and financial reporting quality. Financial statements prepared in accordance with recognized accounting standards and regulatory requirements provide a more credible signal of organizational accountability. Compliance therefore strengthens the credibility of information communicated to government authorities, regulators, and other stakeholders.

Previous empirical studies provide evidence supporting this relationship. Alhawtmeh (2023) and Mwakapala et al. (2024) reported significant relationships between regulatory compliance and financial reporting quality. Huang and Gu (2025), Semruwati et al. (2024), and Setiyawati et al. (2020) also emphasize the importance of compliance with accounting and regulatory requirements in maintaining the integrity and transparency of financial reporting.

Nevertheless, contradictory evidence has also been reported. Khairudin et al. (2021), Kabwe (2023), and Nguyen (2023) found that compliance did not significantly affect financial reporting quality. Such inconsistency suggests that compliance may operate differently across institutional settings and that the implementation and enforcement of regulatory requirements may be important in determining its effectiveness.

In vertical hospitals, regulatory compliance is particularly important because financial reporting must satisfy public-sector accounting requirements and government regulations. Accordingly, stronger regulatory compliance is expected to improve the quality of financial reporting.

H2: Regulatory compliance has a positive effect on financial reporting quality.

2.2.3 Internal Control and Financial Reporting Quality

Internal control represents a set of policies, procedures, monitoring activities, and organizational mechanisms designed to provide reasonable assurance regarding operational effectiveness, regulatory compliance, asset protection, and financial reporting reliability. Effective internal control can prevent or detect errors, reduce opportunities for irregularities, and improve the consistency of financial reporting processes.

Agency theory suggests that internal control reduces agency problems by strengthening organizational monitoring. Segregation of duties, authorization procedures, verification, risk assessment, and monitoring activities can reduce the possibility of errors and irregularities in financial reporting. Choudhary and Karmel (2022) emphasize that internal control involves organizational personnel and provides reasonable assurance concerning operational effectiveness, financial reporting reliability, and compliance.

DOI: 10.26618

Empirical evidence has generally identified a positive relationship between internal control and financial reporting quality. Priantono and Vidiyastutik (2022), Sari and Widiatmoko (2023), and Senan (2024) reported that effective internal control contributes to financial reporting quality. Similarly, Surya and Muhyarsyah (2022) found that internal control mechanisms can support the accuracy and reliability of financial information.

However, the empirical evidence remains inconsistent. Faisal et al. (2023), Helmy and Silviana (2024), and Sustri Devi Yunita et al. (2024) reported insignificant effects of internal control on financial reporting quality, whereas Senan (2024), Surya and Muhyarsyah (2022), Suhemi and Setiyawati (2023), Christinawati and Setiyawati (2022), and Wijayanti et al. (2022) reported significant relationships.

One possible explanation for these inconsistent findings is the increasing role of integrated financial information technology. Automated and standardized systems may reduce dependence on manual control procedures and individual intervention in financial reporting processes. Consequently, the direct effect of conventional internal control mechanisms may vary depending on the technological maturity and organizational context.

This issue provides an important basis for examining internal control in vertical hospitals under the Ministry of Health, where financial reporting is increasingly supported by integrated government financial information systems.

H3: Internal control has a positive effect on financial reporting quality.

2.2.4 Financial Reporting Quality and Decision-making

Financial reporting quality reflects the extent to which financial information provides useful, reliable, relevant, accurate, and understandable information for decision makers. High-quality financial information can reduce uncertainty and enable managers to evaluate organizational performance, financial conditions, resource requirements, and potential risks more effectively.

Signalling theory explains this relationship by positioning financial reports as information signals transmitted to decision makers. When financial information accurately reflects organizational conditions, managers can use it to formulate budgets, allocate resources, evaluate financial performance, and determine appropriate operational strategies. Conversely, poor-quality financial information may generate misleading signals and increase the risk of inappropriate decisions.

Stakeholder theory also supports this relationship because reliable financial reporting enables organizational stakeholders to assess whether resources have been managed efficiently and accountably. In the hospital context, financial information can support decisions concerning budget allocation, medical equipment investment, service development, operational planning, and resource management.

Previous studies provide empirical support for this relationship. Kadhim and Bougatef (2024), Hamour et al. (2024), Hossain (2025), Victory et al. (2025), and Kang and Yu (2025) indicate that financial reporting quality can improve the usefulness of financial information for decision-making. Reliable financial information reduces uncertainty and supports more effective organizational decisions.

Nevertheless, the relationship is not universally supported. Paula et al. (2024) reported that financial reporting quality did not significantly affect decision-making. These contradictory findings suggest that the usefulness of financial reporting may depend on organizational context, managerial capabilities, and the extent to which financial information is incorporated into decision processes.

Therefore, examining the relationship between financial reporting quality and decision-making in vertical hospitals is important because financial decisions in these institutions involve public resources and have

DOI: 10.26618

implications for organizational operations and public service delivery.

H4: Financial reporting quality has a positive effect on decision-making.

2.3 Identification of the Research Gap

Although previous studies have examined human resource competence, regulatory compliance, internal control, and financial reporting quality, several research gaps remain.

First, an empirical inconsistency gap exists. Previous studies have produced inconsistent findings concerning the determinants of financial reporting quality. Human resource competence has been reported as a significant determinant by Rahmati et al. (2024) and Novatiani et al. (2024), whereas Nurfaisal et al. (2024), Tumelap et al. (2025), and Setiawati and Anwar Hariyono (2025)reported insignificant relationships. Similar inconsistencies exist in research concerning regulatory compliance and internal control.

Second, a contextual gap exists. Existing studies have examined financial reporting in different organizational environments, but relatively limited attention has been given to vertical hospitals under the Ministry of Health of the Republic of Indonesia. This setting is distinctive because hospitals operate as public service institutions, manage public resources, face complex operational and financial activities, and are subject to strict accountability requirements. The manuscript itself identifies the complexity of hospital financial management and the need for stronger governance mechanisms.

Third, an integration gap exists. Previous studies commonly examine individual determinants of financial reporting quality separately. This study integrates human resource competence, regulatory compliance, and internal control within a single model and subsequently examines the consequence of financial reporting quality for managerial decision-making. This allows the study to move beyond the conventional question of what determines financial reporting quality toward the broader question of how reporting quality contributes to organizational decision usefulness.

Fourth, a technology-context gap exists. The increasing integration of financial information systems creates an important question concerning whether traditional organizational determinants continue to have the same influence when reporting processes become increasingly standardized and automated. The present study is particularly relevant in this regard because the research context involves government hospitals where integrated financial information systems play an important role in financial reporting. The existing manuscript also identifies the possibility that standardized systems can reduce dependence on individual competence and conventional manual controls.

Based on these gaps, the novelty of this study lies in integrating organizational capability, regulatory governance, internal control, financial reporting quality, and decision-making into a unified empirical model within the specific context of vertical hospitals under the Indonesian Ministry of Health.

The study further contributes by positioning financial reporting quality as the central information mechanism connecting organizational governance factors with decision-making. Importantly, the contribution of this study is not based on assuming that all proposed relationships will necessarily be significant. Instead, the study provides an empirical test of competing expectations derived from theory and prior evidence. This is particularly relevant because the existing literature contains contradictory findings concerning human resource competence, regulatory compliance, internal control, and decision usefulness. The empirical results can therefore contribute to explaining whether the institutional and technological characteristics of government hospitals alter the expected relationships among these constructs.

2.4 Development of the Conceptual Framework

DOI: 10.26618

Based on Agency Theory, Signalling Theory, and Stakeholder Theory, the proposed research model conceptualizes financial reporting quality as the central mechanism through which organizational governance factors are expected to contribute to managerial decision-making.

Agency Theory explains why human resource competence, regulatory compliance, and internal control can reduce information asymmetry and strengthen accountability. Signalling Theory explains why high-quality financial reports provide credible information for managerial decision-making. Stakeholder Theory explains why reliable financial information is necessary to satisfy the information and accountability needs of government authorities, hospital management, regulators, employees, patients, and society.

Accordingly, the research model does not merely examine the determinants of financial reporting quality but also investigates whether the quality of financial information generated by the reporting process contributes to better decision-making. This integrated framework responds directly to the empirical inconsistencies identified in previous research and to the contextual characteristics of government hospitals.

The proposed conceptual framework establishes the following relationships:

Human Resource Competence → Financial Reporting Quality → Decision-making

Regulatory Compliance → Financial Reporting Quality → Decision-making

Internal Control → Financial Reporting Quality → Decision-making

This integrated perspective provides a more comprehensive understanding of public-sector financial governance because it considers both the antecedents of financial reporting quality and its organizational consequence. It also enables the study to examine whether theoretically important governance mechanisms remain influential in an environment characterized by standardized and technology-supported financial reporting.

Importantly, the contribution of this study is not based on assuming that all proposed relationships will necessarily be significant. Instead, the study provides an empirical test of competing expectations derived from theory and prior evidence. This is particularly relevant because the existing literature contains contradictory findings concerning human resource competence, regulatory compliance, internal control, and decision usefulness. The empirical results can therefore contribute to explaining whether the institutional and technological characteristics of government hospitals alter the expected relationships among these constructs.

2.5 Hypotheses or Research Propositions

Based on Agency Theory, Signalling Theory, and Stakeholder Theory, the proposed research model conceptualizes financial reporting quality as the central mechanism through which organizational governance factors are expected to contribute to managerial decision-making.

Agency Theory explains why human resource competence, regulatory compliance, and internal control can reduce information asymmetry and strengthen accountability. Signalling Theory explains why high-quality financial reports provide credible information for managerial decision-making. Stakeholder Theory explains why reliable financial information is necessary to satisfy the information and accountability needs of government authorities, hospital management, regulators, employees, patients, and society.

Accordingly, the research model does not merely examine the determinants of financial reporting quality but also investigates whether the quality of financial information generated by the reporting process contributes to better decision-making. This integrated framework responds directly to the empirical inconsistencies identified in previous research and to the contextual characteristics of government hospitals.

The hypotheses proposed in this study are therefore:

DOI: 10.26618

H1: Human resource competence has a positive effect on financial reporting quality.
H2: Regulatory compliance has a positive effect on financial reporting quality.
H3: Internal control has a positive effect on financial reporting quality.
H4: Financial reporting quality has a positive effect on decision-making.

3. Research Methods

3.1 Research Design

This study employed a quantitative research approach using a structured survey design. The research was designed to examine the statistical relationships among human resource competency, compliance, internal control systems, financial reporting quality, and decision-making. The quantitative approach enables the proposed relationships to be examined systematically using statistical procedures and provides measurable evidence regarding the relationships among the constructs included in the research model. Because the study uses cross-sectional questionnaire data, the empirical findings are interpreted primarily in terms of statistical relationships within the proposed model, rather than as definitive causal effects.

The research was conducted among financial reporting staff working in vertical hospitals under the Ministry of Health of the Republic of Indonesia. Data collection was conducted from September to November 2025.

3.2 Research Context and Setting

This study examines the factors associated with financial reporting quality and decision-making within vertical hospitals under the Ministry of Health of the Republic of Indonesia. The research model incorporates human resource competency, compliance, and internal control systems as explanatory constructs, with financial reporting quality and decision-making examined within the proposed analytical framework.

The research was conducted among financial reporting staff working in vertical hospitals under the Directorate General of Advanced Health Services, Ministry of Health of the Republic of Indonesia. This research context was selected because vertical hospitals operate within a public-sector environment in which financial activities involve public resources and financial reporting is subject to government accounting requirements and accountability mechanisms.

The research setting is also relevant because financial reporting activities in these institutions increasingly rely on standardized and integrated financial information systems. This context provides an appropriate setting for examining whether human resource competency, compliance, and internal control systems are associated with financial reporting quality and whether financial reporting quality is associated with decision-making.

3.3 Population and Sample / Research Participants

The target population consisted of financial reporting staff working in vertical hospitals under the Directorate General of Advanced Health Services, Ministry of Health of the Republic of Indonesia. Based on the monitoring data of the Directorate General of Advanced Health Services as of June 2025, the identified population consisted of 37 financial reporting staff distributed across vertical hospitals in Indonesia. Because the population was relatively small, this study employed a census or saturated sampling approach, whereby all members of the identified population were invited to participate. Accordingly, the target sample comprised all 37 financial reporting staff. Of the 37 distributed questionnaires, 33 were completed and returned. Therefore, the final dataset used for statistical analysis consisted of 33 valid observations, representing the responses obtained from the target population.

DOI: 10.26618

Table 1. Distribution of Financial Reporting Staff in Vertical Hospitals

No.	Vertical Hospital	Financial Reporting Staff
1	RSUPN Dr. Cipto Mangunkusumo	1
2	RSUP Dr. Kariadi	1
3	RSUP Dr. Sardjito	1
4	RSUP Prof. Dr. I.G.N.G. Ngoerah	1
5	RSUP Dr. Hasan Sadikin	1
6	RSUP Dr. Mohammad Hoesin	1
7	RSUP Dr. Wahidin Sudirohusodo	1
8	RSUP H. Adam Malik	1
9	RSUP Dr. M. Djamil Padang	1
10	RSUP Fatmawati	1
11	RSUP Persahabatan	1
12	RS R.D. Kandou	1
13	RSUP Dr. Soeradji Tirtonegoro	1
14	RSUP Dr. Tadjuddin Chalid	1
15	RSUP Dr. Rivai Abdullah	1
16	RSUP Sitanala	1
17	RSUP Surakarta	1
18	RSUP Ratatotok Buyat	1
19	RSUP Dr. J. Leimena Ambon	1
20	RS Ben Mboi	1
21	RSJPD Harapan Kita Jakarta	1
22	RSK Dharmais	1
23	RS Mata Cicendo	1
24	RSAB Harapan Kita	1
25	RSPON Mahar Mardjono	1
26	RSO Prof. Dr. R. Soeharso	1
27	RSPI Sulianti Saroso	1
28	RS Otak Dr. Drs. M. Hatta	1
29	RSKO Jakarta	1
30	RSJ Dr. Marzuki Mahdi	1
31	RSJ Dr. Radjiman Lawang	1
32	RSJ Prof. Dr. Soeroyo Magelang	1
33	RSJ Dr. Soeharto Heerdjan	1
34	RSP Ario Wirawan	1
35	RS Paru Dr. M. Goenawan	1
36	RSP Rotinsulu	1
37	RS Mata Makassar	1

Source: Monitoring data of the Directorate

3.4 Data Sources and Data Collection

Primary data were collected using a structured questionnaire distributed electronically through Google Forms. The questionnaire link was disseminated through WhatsApp to financial reporting staff identified as members of the target population. The questionnaire consisted of statements representing the five constructs examined in the study: human resource competency, compliance, internal control systems, financial reporting quality, and decision-making. A five-point response scale was employed to capture respondents' perceptions.

DOI: 10.26618

Table 2. Questionnaire Response Scale

Response	Score
Strongly Disagree	1
Disagree	2
Less Agree	3
Agree	4
Strongly Agree	5

The use of a standardized response scale enabled the responses to be transformed into quantitative data for subsequent statistical analysis.

3.5 Measurement of Variables and Research Instruments

The research model consists of five principal constructs: human resource competency (X1), compliance (X2), internal control system (X3), financial reporting quality (Y), and decision-making (Z). Each construct was operationalized through several dimensions and indicators based on the references specified in the research instrument. All questionnaire items were measured using an ordinal five-point Likert-type scale, ranging from 1 = strongly disagree to 5 = strongly agree.

3.5.1 Human Resource Competency

Human resource competency refers to the knowledge, skills, and behavioral characteristics required by individuals to perform their responsibilities effectively. In this study, human resource competency consists of three dimensions:

a. Knowledge (X1.1)
   This dimension represents respondents' understanding of concepts, principles, procedures, and financial reporting requirements relevant to their responsibilities.
b. Individual Skills (X1.2)
   This dimension reflects respondents' technical and practical capabilities, including accounting knowledge, analytical skills, and the ability to use relevant information technology and software.
c. Attitudes or Behavior (X1.3)
   This dimension reflects ethical conduct, integrity, commitment, professionalism, and work-related attitudes.

3.5.2 Compliance

Compliance refers to the extent to which individuals or organizational units adhere to established rules, procedures, policies, and regulatory requirements. Compliance is measured through:

a. Internal Compliance (X2.1)
   The extent to which financial reporting staff comply with internal policies, procedures, and standard operating procedures.
b. External Compliance (X2.2)
   The extent to which financial reporting activities comply with applicable external regulations and government accounting standards.

3.5.3 Internal Control System

The internal control system represents organizational mechanisms designed to support reliable financial information, safeguard organizational resources, manage risks, and ensure compliance. The construct consists of five dimensions:

a. Control Environment (X3.1)
   The organizational environment supporting integrity, ethical conduct, discipline, and effective internal control.
b. Risk Assessment (X3.2)
   The process of identifying, assessing, and managing risks associated with financial reporting.
c. Control Activities (X3.3)
   Procedures and mechanisms established to prevent or detect errors and deviations, including segregation of duties and supervisory activities.
d. Information and Communication (X3.4)

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Processes for collecting, processing, communicating, and presenting relevant and timely information.

e. Monitoring (X3.5)
Continuous or periodic evaluation of the effectiveness and adequacy of internal control mechanisms.

3.5.4 Financial Reporting Quality

Financial reporting quality refers to the extent to which financial information provides useful, reliable, and comparable information to users. The construct consists of four dimensions:

a. Understandability (Y1)
b. Relevance (Y2)
c. Reliability (Y3)
d. Comparability (Y4)

These dimensions reflect the extent to which financial information can be understood, used for decision-making, relied upon, and compared across periods or entities.

3.5.5 Decision-Making

Decision-making refers to the process through which individuals select an appropriate course of action based on available information and alternatives. It is measured through three dimensions:

a. Rationality (Z1)
The extent to which decisions are based on relevant information, evidence, and systematic analysis.
b. Effectiveness (Z2)
The extent to which decisions contribute to achieving the intended organizational objectives.
c. Efficiency (Z3)
The extent to which decisions achieve the intended objectives while considering the efficient use of time, costs, information, and other organizational resources.

Table 3. Operationalization of Research Variables

Construct	Dimension	Indicator	Scale	Source
Human Resource Competency (X1)	Knowledge (X1.1)	Adequate knowledge; employee competency; training and development; understanding of financial reporting	Ordinal	Idward (2017)
	Individual Skills (X1.2)	Adequate skills; training and development; understanding of accounting principles; software skills	Ordinal	Idward (2017)
	Attitudes/Behavior (X1.3)	Ethics and integrity; strong commitment; professionalism; adequate human resources	Ordinal	Idward (2017)
Compliance (X2)	Internal Compliance (X2.1)	Compliance with SOPs and internal regulations	Ordinal	Fitriani et al. (2021)
	External Compliance (X2.2)	Compliance with government accounting standards	Ordinal	Fitriani et al. (2021)
Internal Control System (X3)	Control Environment (X3.1)	Effective control; adequate control system; training and development	Ordinal	Prabadianti & Erawati (2023)
	Risk Assessment (X3.2)	Routine risk assessment; understanding of risks	Ordinal	Prabadianti & Erawati (2023)
	Control Activities (X3.3)	Effective controls; segregation of duties; monitoring and evaluation	Ordinal	Prabadianti & Erawati (2023)

	Information and Communication (X3.4)	Policies and procedures; information processing; internal communication	Ordinal	Prabadianti & Erawati (2023)
	Monitoring (X3.5)	Team responsibility; testing and supervision	Ordinal	Prabadianti & Erawati (2023)
Financial Reporting Quality (Y)	Understandability (Y1)	Readability; completeness and accuracy; application of accounting standards	Ordinal	Afifah et al. (2018)
	Relevance (Y2)	Relevance and timeliness; transaction records; readability and understanding	Ordinal	Afifah et al. (2018)
	Reliability (Y3)	Financial reporting accuracy; transaction records; compliance with accounting standards	Ordinal	Afifah et al. (2018)
	Comparability (Y4)	Comparability; comparison of standards; comparison of financial performance	Ordinal	Afifah et al. (2018)
Decision-Making (Z)	Rationality (Z1)	Decisions based on data and analysis	Ordinal	Fitriani et al. (2021)
	Effectiveness (Z2)	Decisions produce appropriate solutions	Ordinal	Fitriani et al. (2021)
	Efficiency (Z3)	Decisions minimize cost and time	Ordinal	Fitriani et al. (2021)

Source: Monitoring data of the Directorate

3.6 Data Analysis Techniques

The empirical analysis was conducted using SmartPLS 4 and the Partial Least Squares Structural Equation Modeling (PLS-SEM) approach. PLS-SEM was selected to examine the relationships among the latent constructs and to simultaneously evaluate the measurement and structural models. The analytical procedure consisted of two principal stages: measurement model assessment and structural model assessment.

3.6.1 Measurement Model Assessment

The measurement model was assessed to establish the reliability and validity of the constructs before evaluating the structural relationships. The assessment included:

a. Indicator Reliability
   Indicator reliability was evaluated through the outer loading values of the indicators. Indicators with sufficiently high loadings provide stronger evidence that the indicators appropriately represent their respective constructs.
b. Convergent Validity
   Convergent validity was assessed using outer loadings and the Average Variance Extracted (AVE). The analysis examined whether indicators designed to measure the same construct shared an adequate proportion of variance.
c. Internal Consistency Reliability
   Internal consistency was evaluated using Cronbach's alpha and Composite Reliability (CR). The results were interpreted according to established methodological thresholds and the exploratory or confirmatory nature of the measurement model.
d. Discriminant Validity
   Discriminant validity was assessed to determine whether each construct was empirically distinct from the other constructs in the research model. The assessment may include cross-loadings and the Fornell–Larcker criterion, while the

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HTMT ratio can additionally be reported to provide a more robust assessment of construct distinctiveness.

Table 4. Measurement Model Assessment Criteria

Assessment	Indicator	Evaluation
Indicator reliability	Outer loading	Based on accepted methodological threshold
Convergent validity	AVE	Based on accepted methodological threshold
Internal consistency	Cronbach's alpha	Based on accepted methodological threshold
Internal consistency	Composite reliability	Based on accepted methodological threshold
Discriminant validity	Fornell–Larcker	Construct distinctiveness
Discriminant validity	HTMT	Construct distinctiveness

Source: Monitoring data of the Directorate

3.6.2 Structural Model Assessment

After the measurement model satisfied the required reliability and validity assessments, the structural model was evaluated. The structural model assessment included collinearity diagnostics, coefficient of determination (R^2), effect size (f^2), path coefficients, bootstrapping-based significance testing, and predictive relevance where applicable. First, collinearity among predictor constructs was assessed using the Variance Inflation Factor (VIF) to identify potential multicollinearity problems. Second, the coefficient of determination (R^2) was examined to determine the proportion of variance in endogenous constructs explained by their predictor constructs. Third, effect size (f^2) was assessed to determine the substantive contribution of individual exogenous constructs to the explained variance of endogenous constructs. Fourth, path coefficients (β) were examined to determine the direction and magnitude of relationships among the constructs.

Finally, statistical significance was assessed through the bootstrapping procedure, using the resulting t-statistics and p-values. The study applies a significance level of 5% ($\alpha = 0.05$). Where applicable, predictive relevance may also be assessed using Q^2 or an appropriate out-of-sample predictive assessment.

Table 5. Structural Model Assessment Criteria

Assessment	Purpose
VIF	Assess potential collinearity among predictor constructs
R^2	Assess the explanatory power of endogenous constructs
f^2	Assess the effect size of individual predictor constructs
Path coefficient (β)	Assess direction and magnitude of structural relationships
t-statistic	Assess statistical significance through bootstrapping
p-value	Determine statistical significance
Q^2 / predictive assessment	Evaluate predictive relevance where applicable

Source: Monitoring data of the Directorate

3.7 Validity, Reliability, and Trustworthiness

The quality of the measurement instruments was evaluated before hypothesis testing. The measurement model assessment included indicator reliability, convergent validity, internal consistency reliability, and discriminant validity.

Indicator reliability was evaluated through outer loading values. Convergent validity was assessed through outer loadings and Average Variance Extracted (AVE). Internal consistency reliability was evaluated using Cronbach's alpha and Composite Reliability

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(CR). Discriminant validity was assessed using the Fornell–Larcker criterion and may additionally be evaluated using the Heterotrait–Monotrait (HTMT) ratio.

These procedures were conducted to ensure that the indicators adequately represented their respective constructs and that the constructs were empirically distinguishable before structural relationships were interpreted.

3.7.1 PLS-SEM Analytical Procedure

The PLS-SEM analysis followed a sequential procedure to ensure consistency between measurement evaluation and hypothesis testing. The analytical sequence comprised:

a. Data preparation and screening;
b. Specification of the measurement and structural models;
c. PLS algorithm estimation;
d. Assessment of indicator reliability;
e. Assessment of convergent validity;
f. Assessment of internal consistency reliability;
g. Assessment of discriminant validity;
h. Assessment of structural-model collinearity;
i. Assessment of R^2;
j. Assessment of f^2;
k. Assessment of path coefficients;
l. Bootstrapping for significance testing; and
m. Assessment of predictive relevance where applicable.

This procedure was adopted to ensure that hypothesis testing was conducted only after the adequacy of the measurement model had been established.

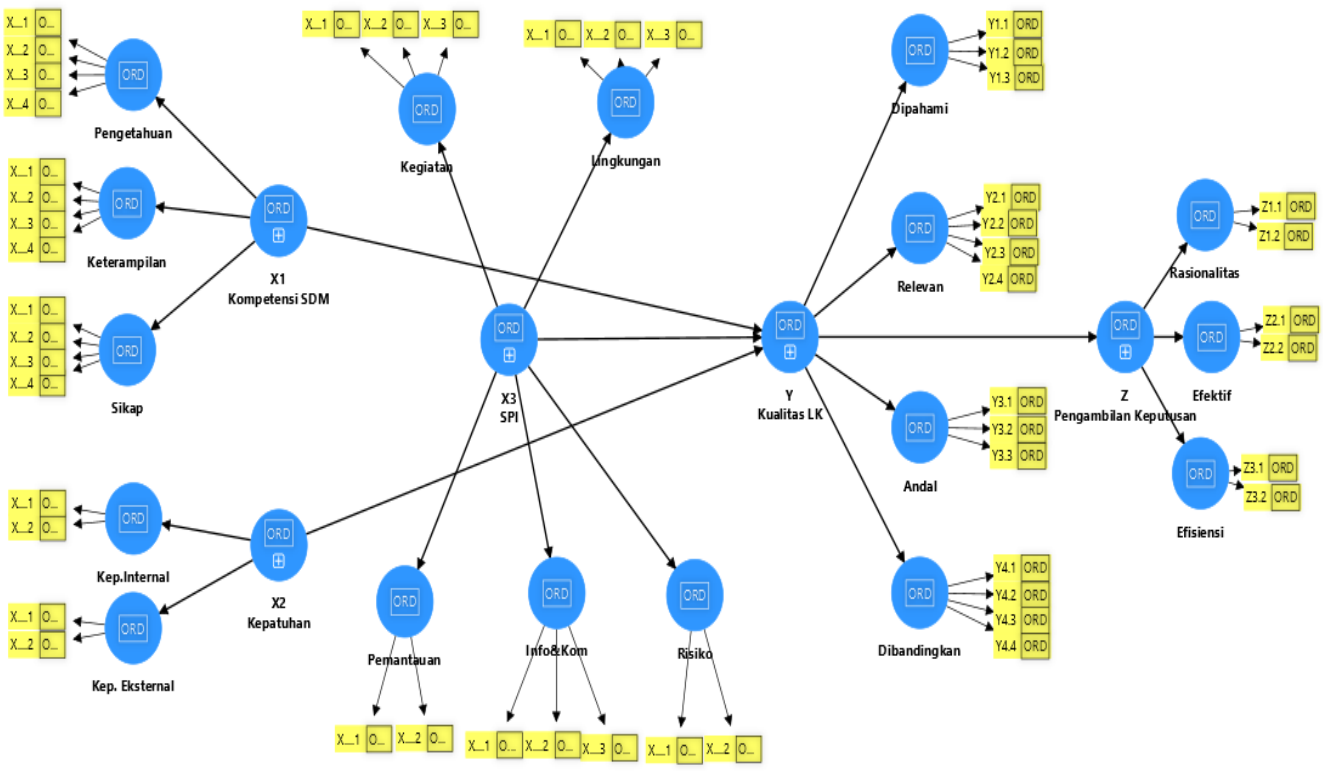

Fig. 1. PLS-SEM Analytical Procedure

Suggested flowchart:

Data Collection → Data Screening → Measurement Model → Outer Loading → Reliability → Convergent Validity → Discriminant Validity → Structural Model → VIF

→ R^2 → f^2 → Path Coefficients → Bootstrapping → Predictive Relevance → Hypothesis Testing

3.8 Ethical Considerations

The study collected primary information directly from financial reporting staff through a structured questionnaire. The responses were used exclusively for research purposes. Data processing and analysis were conducted based on the responses obtained from the participants. Given that the study uses self-reported questionnaire data, the interpretation of the findings should consider the possibility of response bias and common-method limitations. Furthermore, because the final dataset contains only 33 valid responses, the findings should be interpreted within the institutional and population context of the study and should not automatically be generalized to all hospitals or financial reporting personnel outside the research setting.

3.9 Research Procedure

The research procedure was conducted through a series of sequential stages to ensure consistency between the research objectives, data collection, measurement evaluation, and hypothesis testing. First, the research model was specified based on the proposed relationships among human resource competency, compliance, internal control systems, financial reporting quality, and decision-making. Second, the target population was identified based on the monitoring data of the Directorate General of Advanced Health Services as of June 2025. Third, the structured questionnaire was prepared based on the dimensions and indicators specified in the research instrument. Fourth, the questionnaire was distributed electronically through Google Forms to the 37 identified financial reporting staff through WhatsApp. Fifth, the completed questionnaires were collected, resulting in 33 valid responses. Sixth, the data were prepared and screened before being analyzed using SmartPLS 4. Seventh, the measurement model was evaluated through indicator reliability, convergent validity, internal consistency reliability, and discriminant validity. Eighth, after the measurement model was established, the structural model was assessed through VIF, R^2, f^2, path coefficients, and bootstrapping. Ninth, statistical significance was evaluated using t-statistics and p-values at a 5% significance level ($\alpha = 0.05$). Finally, the proposed hypotheses were evaluated based on the results of the structural model.

3.10 Methodological Limitations

Several methodological limitations should be considered when interpreting the findings. First, because the study uses cross-sectional questionnaire data, the empirical findings are interpreted primarily in terms of statistical relationships within the proposed model rather than as definitive causal effects. Second, the study uses self-reported questionnaire data. Therefore, the interpretation of the findings should consider the possibility of response bias and common-method limitations. Third, although census or saturated sampling was employed, only 33 of the 37 questionnaires distributed were completed and returned. Consequently, the final dataset contains only 33 valid responses. The relatively small number of observations may limit the broader applicability of the findings beyond the institutional and population context examined in this study. Fourth, the research was conducted among financial reporting staff in vertical hospitals under the Ministry of Health of the Republic of Indonesia. Therefore, the findings should be interpreted within the institutional and population context of the study and should not automatically be generalized to all hospitals or financial reporting personnel outside the research setting.

Finally, the increasing use of standardized and integrated financial information systems may influence the relationships among human resource competency, compliance, internal control, and financial reporting quality. Accordingly, the effects observed in this study should be interpreted in consideration of the specific technological and organizational characteristics of the research setting.

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4. Results and Discussion

4.1 Research Results

4.1.1 Sample Description and Descriptive Statistics

The descriptive analysis was conducted to identify the response patterns for human resource competence, regulatory compliance, internal control systems, financial reporting quality, and managerial decision-making. The descriptive results are presented in Tables 2–6.

a. Human Resource Competence

Table 6. Descriptive Statistics of Human Resource Competence

Dimension	Indicator	Total Score	Index (%)	Mean
Knowledge	Adequate knowledge (X1.1)	144	87.27	4.36
	Employee competence (X1.2)	143	86.67	4.33
	Training and development (X1.3)	138	83.64	4.18
	Understanding of financial statements (X1.4)	143	86.67	4.33
Individual Skills	Adequate skills (X1.5)	142	86.06	4.30
	Training and development (X1.6)	139	84.24	4.21
	Understanding of accounting principles (X1.7)	140	84.85	4.24
	Understanding of software (X1.8)	140	84.85	4.24
Attitude/Behavior	Strong commitment (X1.9)	147	89.09	4.45
	Adequate human resources (X1.10)	142	86.06	4.30

Source: Data processed using SmartPLS 4.0 (2026).

Table 6 shows that the highest index score for human resource competence was recorded for the strong commitment indicator (X1.9), with an index of 89.09% and a mean of 4.45. The lowest index score was observed for the training and development indicator (X1.3), with an index of 83.64% and a mean of 4.18. Among the individual skills indicators, training and development (X1.6) recorded an index of 84.24% and a mean of 4.21.

b. Regulatory Compliance

Table 7. Descriptive Statistics of Regulatory Compliance

Dimension	Indicator	Total Score	Index (%)	Mean
Internal Compliance	Compliance with each task according to SOP (X2.1)	141	85.45	4.27
	Compliance with internal regulations and internal control systems (X2.2)	140	84.85	4.24
	Compliance with government accounting standards in preparing financial statements (X2.3)	144	87.27	4.36
External Compliance	Regularly updating policies or procedures in accordance with government accounting standards (X2.4)	140	84.85	4.24

Source: Data processed using SmartPLS 4.0 (2026).

Table 7 indicates that the highest score was obtained by the indicator concerning compliance with government accounting standards in preparing financial statements (X2.3), with an index of 87.27% and a mean of 4.36. The lowest mean was 4.24, recorded for compliance with internal regulations and internal control systems (X2.2) and regular updating of policies or procedures in accordance with government accounting standards (X2.4).

c. Internal Control System

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Table 8. Descriptive Statistics of Internal Control System

Dimension	Indicator	Total Score	Index (%)	Mean
Control Environment	Effective control (X3.1)	136	82.42	4.12
	Training and development (X3.2)	136	82.42	4.12
Risk Assessment	Routine risk assessment (X3.3)	140	84.85	4.24
	Understanding of risk (X3.4)	141	85.45	4.27
Control Activities	Effective control activities (X3.5)	139	84.24	4.21
	Segregation of duties and authority (X3.6)	141	85.45	4.27
	Monitoring and evaluation (X3.7)	140	84.85	4.24
	Policies and procedures (X3.8)	140	84.85	4.24
Information and Communication	Data collection, processing, and presentation (X3.9)	140	84.85	4.24
	Internal communication system (X3.10)	139	84.24	4.21
Monitoring	Team responsibility (X3.11)	138	83.64	4.18
	Testing and supervision (X3.12)	137	83.03	4.15

Source: Data processed using SmartPLS 4.0 (2026).

Table 8 shows that the highest mean score was 4.27, recorded for understanding of risk (X3.4) and segregation of duties and authority (X3.6). The lowest score was recorded for testing and supervision (X3.12), with an index of 83.03% and a mean of 4.15.

d. Financial Reporting Quality

Table 9. Descriptive Statistics of Financial Reporting Quality

Dimension	Indicator	Total Score	Index (%)	Mean
Understandability	Readability of financial statements (Y.1)	151	91.52	4.58
	Completeness and accuracy of information (Y.2)	151	91.52	4.58
Relevance	Relevance and timeliness of information (Y.3)	151	91.52	4.58
	Transaction record traceability (Y.4)	152	92.12	4.61
	Readability and comprehension (Y.5)	149	90.30	4.52
Reliability	Accuracy of financial statements (Y.6)	153	92.73	4.64
	Transaction record traceability (Y.7)	152	92.12	4.61
	Compliance with accounting standards (Y.8)	154	93.33	4.67
Comparability	Comparability of financial statements (Y.9)	152	92.12	4.61
	Comparison with organizational standards (Y.10)	151	91.52	4.58

Source: Data processed using SmartPLS 4.0 (2026).

Table 9 indicates that the highest score was obtained for compliance with accounting standards (Y.8), with an index of 93.33% and a mean of 4.67. The lowest score was recorded for readability and comprehension (Y.5), with an index of 90.30% and a mean of 4.52.

e. Managerial Decision-making

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Table 10. Descriptive Statistics of Managerial Decision-making

Dimension	Indicator	Total Score	Index (%)	Mean
Rationality	Decisions are based on clear analysis (Z.1)	146	88.48	4.42
	Valid and accountable data (Z.2)	144	87.27	4.36
	Decisions produce the best solutions as expected (Z.3)	143	86.67	4.33
Effectiveness	Decisions can be implemented in the long term (Z.4)	144	87.27	4.36
	Decisions result from optimal use of resources (Z.5)	143	86.67	4.33
Efficiency	Decisions minimize cost and time (Z.6)	143	86.67	4.33

Source: Data processed using SmartPLS 4.0 (2026).

Table 10 shows that the highest mean score was obtained for decisions based on clear analysis (Z.1), with a mean of 4.42 and an index of 88.48%. The lowest mean score was 4.33, recorded for decisions producing the best expected solutions (Z.3), optimal resource utilization (Z.5), and decisions minimizing cost and time (Z.6).

4.1.2 Data Quality and Preliminary Analysis

The measurement model was evaluated using indicator loadings, Cronbach's Alpha, Composite Reliability (CR), and Average Variance Extracted (AVE).

Table 11. Measurement Model Assessment

Construct	Loading Range	Cronbach's Alpha	Composite Reliability	AVE
HR Competence (X1)	0.913–0.968	0.978	0.981	0.836
Compliance (X2)	0.914–0.957	0.926	0.948	0.821
Internal Control System (X3)	0.940–0.990	0.986	0.988	0.868
Financial Reporting Quality (Y)	0.955–0.992	0.983	0.985	0.866
Decision-making (Z)	0.971–0.992	0.979	0.983	0.907

Source: Data processed using SmartPLS 4.0 (2026).

As shown in Table 11, all indicator loadings exceeded 0.90. Cronbach's Alpha values ranged from 0.926 to 0.986, while Composite Reliability values ranged from 0.948 to 0.988. The AVE values ranged from 0.821 to 0.907. These results indicate satisfactory internal consistency and convergent validity for all constructs included in the measurement model.

4.1.3 Main Analytical Results

The structural model was assessed using the coefficient of determination (R^2) and hypothesis testing based on the bootstrapping procedure. The R^2 results are presented in Table 12.

Table 12. Coefficient of Determination (R^2)

Endogenous Construct	R^2	Interpretation
Financial Reporting Quality	0.672	Moderate
Decision-making	0.631	Moderate

Source: Data processed using SmartPLS 4.0 (2026).

The R^2 value for financial reporting quality was 0.672, indicating that human resource competence, compliance, and the internal control system jointly explain 67.2% of the variance in financial reporting quality. The remaining 32.8% is associated with factors outside the structural model. The R^2 value for decision-making was 0.631, indicating that

financial reporting quality explains 63.1% of the variance in decision-making.

4.1.4 Hypothesis Testing Results

Hypothesis testing was conducted using bootstrapping with a significance level of 5% (α = 0.05). The structural path coefficients, t-statistics, p-values, and hypothesis decisions are presented in Table 13.

Table 13. Structural Model and Hypothesis Testing

Hypothesis	Path	β	t-statistic	p-value	Decision
H1	HR Competence → Financial Reporting Quality	0.467	1.375	0.169	Not supported
H2	Compliance → Financial Reporting Quality	0.545	2.086	0.037	Supported
H3	Internal Control System → Financial Reporting Quality	−0.199	0.788	0.431	Not supported
H4	Financial Reporting Quality → Decision-making	0.765	7.367	<0.001	Supported

Source: Data processed using SmartPLS 4.0 (2026).

The bootstrapping results show that human resource competence has a positive but statistically insignificant relationship with financial reporting quality (β = 0.467, t = 1.375, p = 0.169). Compliance has a positive and statistically significant relationship with financial reporting quality (β = 0.545, t = 2.086, p = 0.037). The internal control system has a negative and statistically insignificant relationship with financial reporting quality (β = −0.199, t = 0.788, p = 0.431). Finally, financial reporting quality has a positive and statistically significant relationship with decision-making (β = 0.765, t = 7.367, p < 0.001).

4.2. Research Discussion

4.2.1 Interpretation of Key Findings

a. Human Resource Competence and Financial Reporting Quality

The results indicate that human resource competence does not have a statistically significant effect on financial reporting quality. Although the path coefficient is positive (β = 0.467), the relationship is not statistically significant (p = 0.169). Therefore, the findings do not provide sufficient empirical evidence to support H1.

One possible explanation is the standardized and integrated nature of the financial reporting process in government institutions. The use of integrated financial information systems, including the SAKTI application, may reduce the extent to which individual differences in technical competence directly determine the quality of financial reporting. Under such conditions, employees may have greater responsibility for data verification, supervision, and control rather than independently performing all stages of financial statement preparation.

This interpretation is consistent with Nurfaisal et al. (2024), Tumelap et al. (2025), and Setiawati and Anwar Hariyono (2025), who reported that human resource competence did not significantly influence financial reporting quality. However, the finding differs from Amelia et al. (2023), Rahmati et al. (2024), Veronika and Atmadja (2024), and Novatiani et al. (2024), who reported positive effects of human resource competence on financial reporting quality.

The difference between these findings may reflect differences in organizational settings, reporting systems, respondent characteristics, and the degree of standardization of financial reporting processes.

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b. Regulatory Compliance and Financial Reporting Quality

The results demonstrate a positive and statistically significant effect of compliance on financial reporting quality (β = 0.545, p = 0.037). Therefore, H2 is supported. This finding indicates that stronger adherence to applicable standards, regulations, and procedures is associated with higher financial reporting quality. Compliance provides a formal framework for how financial transactions are recorded, processed, and reported. Consistent adherence to accounting standards can therefore contribute to the consistency, transparency, and reliability of financial information.

The descriptive findings also show relatively high levels of compliance, particularly regarding the implementation of government accounting standards in financial statement preparation. This pattern is consistent with the significant structural relationship identified in the PLS-SEM analysis.

The finding is consistent with Huang and Gu (2025), Setiyawati et al. (2020), Semruwati et al. (2024), and Alhawtmeh (2023), who identified compliance with accounting standards as an important factor associated with financial reporting quality. However, it differs from Khairudin et al. (2021), Kabwe (2023), and Nguyen (2023), who found no significant effect of compliance on financial reporting quality. The contrasting findings suggest that the role of compliance may depend on the regulatory environment and the extent to which compliance requirements are consistently implemented within the organization.

c. Internal Control System and Financial Reporting Quality

The analysis indicates that the internal control system does not have a statistically significant effect on financial reporting quality (β = −0.199, p = 0.431). Consequently, H3 is not supported.

Although internal control is theoretically intended to strengthen the reliability and accuracy of financial reporting, the empirical result suggests that the existence of control mechanisms alone may not be sufficient to produce a significant improvement in reporting quality. The effectiveness of internal control may depend on how consistently control procedures are implemented, monitored, and evaluated.

The descriptive analysis provides an important contextual indication. The lowest score within the internal control indicators was observed for testing and supervision, suggesting that monitoring activities may require further strengthening. This condition may help explain why the overall internal control construct did not demonstrate a statistically significant relationship with financial reporting quality.

Another possible explanation concerns the role of integrated financial information systems. Standardized and automated processes may reduce the direct dependence of reporting quality on manual control procedures. Nevertheless, this interpretation should be treated as a contextual explanation rather than as a direct causal conclusion because the study did not statistically test the mediating or moderating role of information technology.

The finding is consistent with Faisal et al. (2023), Helmy and Silviana (2024), and Sustri Devi Yunita et al. (2024), who reported insignificant relationships between internal control and financial reporting quality. In contrast, Senan (2024), Surya and Muhyarsyah (2022), Suhemi and Setiyawati (2023), Christinawati and Setiyawati (2022), and Wijayanti et al. (2022)reported significant effects.

These differences indicate that the effectiveness of internal control may vary according to organizational context, implementation quality, monitoring intensity, and the supporting financial information system.

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d. Financial Reporting Quality and Decision-making

The results show a strong positive and statistically significant relationship between financial reporting quality and decision-making ($\beta = 0.765$, $p < 0.001$). Therefore, H4 is supported. The relatively high path coefficient indicates that financial reporting quality is an important explanatory variable for managerial decision-making within the research context. Financial information that is accurate, reliable, relevant, understandable, and comparable can provide decision makers with a stronger basis for evaluating organizational conditions and allocating resources.

This relationship is particularly relevant in the context of vertical hospitals, where financial decisions may involve budget allocation, resource utilization, investment in medical equipment, operational planning, and service development. Reliable financial information can reduce information uncertainty and provide a more consistent basis for evaluating alternative courses of action.

The finding is consistent with Kadhim and Bougatef (2024), Hossain (2025), Victory et al. (2025), Setiany et al. (2022), and Kang and Yu (2025) , who highlighted the importance of financial reporting quality in supporting decision-making. However, Paula et al. (2024) reported that financial reporting quality did not have a significant effect on decision-making.

The difference may be associated with differences in organizational context, the characteristics of financial information users, and the types of decisions examined. In the present study, the significant relationship indicates that improvements in financial reporting quality are empirically associated with better decision-making conditions among the observed respondents.

e. Overall Interpretation of the Structural Model

Taken together, the structural model indicates that regulatory compliance is the only tested organizational factor that has a statistically significant direct relationship with financial reporting quality, whereas human resource competence and internal control do not demonstrate statistically significant direct relationships. Financial reporting quality, in turn, demonstrates a strong and statistically significant relationship with decision-making.

These findings highlight the importance of distinguishing between the existence of organizational resources or mechanisms and their demonstrated statistical contribution to financial reporting outcomes. In this study, compliance appears to have a more direct empirical relationship with financial reporting quality than human resource competence or internal control.

At the same time, the R^2 values indicate that the model explains 67.2% of the variance in financial reporting quality and 63.1% of the variance in decision-making. Thus, a proportion of the variance remains unexplained, indicating that other factors may contribute to both outcomes. Future research may therefore consider additional variables, such as financial information technology capability, organizational culture, leadership, audit effectiveness, accounting knowledge, or management commitment, to provide a broader explanation of financial reporting quality and decision-making.

4.2.2 Comparison with Previous Studies

The findings address the empirical inconsistency identified in the literature review. Previous studies have produced mixed evidence regarding the relationships between human resource competence, regulatory compliance, internal control, financial reporting quality, and decision-making. The present findings similarly show differentiated relationships across the proposed model rather than uniform statistical significance.

For human resource competence, the insignificant relationship identified in this study is consistent with Nurfaisal et al. (2024), Tumelap et al. (2025), and Setiawati and Anwar Hariyono (2025), but differs from Amelia et al. (2023), Rahmati et al. (2024), Veronika and Atmadja (2024), and Novatiani et al. (2024). For

regulatory compliance, the significant relationship is consistent with Huang and Gu (2025), Setiyawati et al. (2020), Semruwati et al. (2024), and Alhawtmeh (2023), but differs from Khairudin et al. (2021), Kabwe (2023), and Nguyen (2023).

The internal control result also reflects the mixed evidence reported in previous studies. The insignificant relationship is consistent with Faisal et al. (2023), Helmy and Silviana (2024), and Sustri Devi Yunita et al. (2024), whereas Senan (2024), Surya and Muhyarsyah (2022), Suhemi and Setiyawati (2023), Christinawati and Setiyawati (2022), and Wijayanti et al. (2022) reported significant relationships. Similarly, the significant relationship between financial reporting quality and decision-making is consistent with Kadhim and Bougatef (2024), Hossain (2025), Victory et al. (2025), Setiany et al. (2022), and Kang and Yu (2025) , while Paula et al. (2024) reported insignificant relationships.

4.2.3 Theoretical Contributions

The findings contribute to the theoretical framework by providing differentiated empirical evidence for the organizational mechanisms proposed in the research model.

From an agency theory perspective, the significant relationship between regulatory compliance and financial reporting quality indicates the relevance of formal rules and compliance mechanisms in reducing information asymmetry and supporting accountable reporting. Compliance can function as an organizational mechanism through which reporting activities are aligned with established requirements.

From a signalling perspective, the significant relationship between financial reporting quality and decision-making indicates that the quality of financial information is relevant to the usefulness of reporting information for organizational decisions. Financial information that is accurate, reliable, relevant, understandable, and comparable provides a stronger information basis for decision makers.

The findings also provide a more qualified view of the role of organizational resources and control mechanisms. Human resource competence and internal control did not demonstrate statistically significant direct relationships with financial reporting quality. Therefore, the findings do not support an assumption that the presence of these mechanisms automatically translates into higher reporting quality. Their contribution may depend on the institutional and technological environment in which they operate.

From a stakeholder perspective, the findings are relevant because financial reporting quality in public hospitals concerns not only internal management but also government authorities, regulators, employees, patients, and society. High-quality financial information can support accountability to these stakeholders, while decision-making based on reliable financial information can contribute to more informed organizational resource management.

Taken together, the theoretical contribution lies in demonstrating that the relationships proposed by the conceptual framework are context-dependent and should be examined empirically rather than assumed to be uniformly significant.

4.2.4 Practical and Policy Implications

The findings have several practical implications for managers and policymakers in vertical hospitals under the Ministry of Health of the Republic of Indonesia. First, the significant relationship between regulatory compliance and financial reporting quality indicates the importance of maintaining consistent implementation of applicable government accounting standards, internal regulations, standard operating procedures, and reporting requirements. Hospital management can strengthen this area through regular monitoring of compliance, updating procedures when regulations change, and ensuring that financial reporting activities remain aligned with applicable standards.

Second, the insignificant relationship between human resource competence and financial reporting quality suggests that competency development should be considered together with the systems and procedures supporting financial reporting. Training and development remain relevant for maintaining employee capability, but organizational efforts may also need to emphasize standardized workflows, data verification, system utilization, and supervisory functions. Third, the internal control finding indicates the importance of strengthening the implementation and monitoring of control procedures. In particular, the descriptive results identified testing and supervision as the lowest-scoring internal control indicator. Hospital management may therefore pay greater attention to the regularity of testing, supervision, follow-up procedures, and evaluation of existing controls. Fourth, the significant relationship between financial reporting quality and decision-making highlights the importance of producing financial information that is accurate, reliable, relevant, understandable, and comparable. For vertical hospitals, such information can support decisions involving budget allocation, resource utilization, medical equipment investment, operational planning, and service development.

From a policy perspective, the findings suggest that financial reporting policies should not focus solely on the existence of regulations but also on their consistent implementation and integration with financial information systems. The use of standardized systems should be accompanied by appropriate competency development, monitoring, and accountability mechanisms so that compliance and reporting quality can be maintained.

4.2.5 Integration with the Research Gap

The study also addresses the contextual gap identified in prior research by examining these relationships within vertical hospitals under the Ministry of Health of the Republic of Indonesia. The findings demonstrate that the statistical relationships observed in this institutional setting are not necessarily identical to those reported in other organizational environments. The study therefore provides context-specific evidence concerning how organizational capability, regulatory governance, internal control, financial reporting quality, and decision-making are related within vertical hospitals.

Furthermore, the study addresses the integration gap by examining human resource competence, regulatory compliance, internal control, financial reporting quality, and decision-making within a single structural model. The results show that the determinants do not operate with identical statistical relationships. Compliance demonstrates a significant relationship with financial reporting quality, while human resource competence and internal control do not. Financial reporting quality subsequently demonstrates a significant relationship with decision-making.

The findings also contribute to the technology-context gap identified in the literature review. The possible role of standardized and integrated financial information systems provides a contextual explanation for the insignificant relationships observed for human resource competence and internal control. However, because information technology was not directly tested in the structural model, this explanation remains contextual and should not be interpreted as an empirically established moderating or mediating mechanism.

4.2.6 Acknowledgement of Study Limitations

The findings should be interpreted within the context of the research setting and the variables included in the structural model. The study does not statistically test the role of financial information technology, organizational culture, leadership, audit effectiveness, accounting knowledge, or management commitment, although these factors may also contribute to financial reporting quality and decision-making.

The possible influence of integrated financial information systems is therefore presented only as a contextual explanation for

some findings and not as an empirically tested mechanism. Similarly, the significant relationships identified in the PLS-SEM analysis should be interpreted as statistical associations within the observed research context rather than as definitive causal effects.

The R^2 values also indicate that a proportion of the variance remains unexplained, with 32.8% of the variance in financial reporting quality and 36.9% of the variance in decision-making not accounted for by the respective structural models. Future research may therefore incorporate additional explanatory variables, such as financial information technology capability, organizational culture, leadership, audit effectiveness, accounting knowledge, or management commitment, to provide a broader explanation of financial reporting quality and decision-making.

5. Conclusion

5.1 Summary of Key Findings

This study examined the relationships among human resource competence, regulatory compliance, internal control systems, financial reporting quality, and decision-making in vertical hospitals under the Ministry of Health of the Republic of Indonesia. The empirical findings show that regulatory compliance has a positive and statistically significant effect on financial reporting quality. In contrast, human resource competence and internal control systems do not demonstrate statistically significant effects on financial reporting quality. Furthermore, financial reporting quality has a strong and statistically significant positive effect on decision-making. These findings indicate that compliance with accounting standards and regulatory requirements is an important factor in maintaining financial reporting quality, while the quality of financial reporting provides an important basis for organizational decision-making.

5.2 Theoretical Implications

The findings contribute to the literature on public sector financial governance by demonstrating that organizational factors do not necessarily have uniform effects on financial reporting quality. In particular, the significant relationship between regulatory compliance and financial reporting quality emphasizes the role of institutional rules, accounting standards, and formal reporting requirements in shaping reporting practices. Meanwhile, the insignificant effects of human resource competence and internal control systems suggest that their contribution may depend on organizational and technological conditions. The findings also strengthen the argument that financial reporting quality represents an important information mechanism through which organizations can support more informed decision-making.

The results therefore provide a more nuanced understanding of financial reporting quality by distinguishing between the presence of organizational capabilities and their empirically observed contribution to reporting outcomes.

5.3 Practical and Policy Implications

The findings provide several practical implications for hospital management and public sector policymakers. First, organizations should strengthen compliance with applicable accounting standards, financial regulations, and reporting procedures because compliance demonstrates a significant relationship with financial reporting quality. Second, although human resource competence was not statistically significant in this study, continuous professional development should still be maintained to ensure that employees can effectively operate increasingly standardized and technology-based reporting systems. Third, internal control mechanisms should be continuously monitored and evaluated, particularly in areas related to testing, supervision, and follow-up.

Finally, management should prioritize the production of financial reports that are accurate, reliable, relevant, understandable, and comparable because financial reporting quality demonstrates a significant relationship with

decision-making.

5.4 Limitations of the Study

This study has several limitations that should be considered when interpreting the findings. First, the study involved a relatively small sample of 37 respondents and focused on financial reporting staff in vertical hospitals under the Ministry of Health. Consequently, the findings should not automatically be generalized to other public sector organizations, private hospitals, or different institutional environments. Second, the study relied on questionnaire-based data, which may be subject to respondent perceptions and common method bias. Third, the research model included a limited number of explanatory variables. Other organizational, technological, and institutional factors may also contribute to variations in financial reporting quality and decision-making. The existing manuscript likewise identifies the sector-specific sample and questionnaire-based perceptions as important limitations.

5.5 Directions for Future Research

Future research should extend the investigation to a broader range of public sector organizations and private institutions to examine whether the relationships identified in this study remain consistent across different organizational settings. Researchers may also incorporate additional variables, such as financial information system quality, digital accounting capability, organizational governance, leadership, audit effectiveness, accounting knowledge, and management commitment.

Future studies could further employ longitudinal designs or mixed-method approaches to obtain deeper insights into how compliance, human resource competence, internal control, and technological systems interact in shaping financial reporting quality. Expanding the research model and using more diverse samples may provide stronger evidence regarding the mechanisms through which financial reporting quality contributes to organizational decision-making.

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