

The influence of human resource competency, utilization of information technology, and understanding of financial accounting standards on the quality of financial reports with an internal control system as an intervening variable at the GMAHK Head Office of the Eastern Indonesian Conference Union

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ABSTRACT

This study aims to examine the effect of human resource competency, utilization of information technology, and understanding of financial accounting standards on the quality of financial reports with an internal control system. This study uses primary data with 104 employees of the finance department at the Seventh-day Adventist Church (GMAHK) of the Eastern Indonesian Conference Union as respondents. This study uses path analysis for hypothesis testing. The findings show that human resource competence, understanding of accounting standards, and internal control systems have direct effect on quality of financial reports. In addition, the findings also show that human resource competence and a good understanding of accounting standards directly effect on the internal control system. In an indirect relationship, human resource competence and understanding of accounting standards are able to synergize with an effective internal control system in presenting quality financial reports. The findings of this study also indicate that information technology in GMAHK does not have a significant role in determining the quality of financial reports. The findings suggest that GMAHK needs to develop staff training, especially in mastering new information technology applications to ensure the continued quality of financial reports.

Keywords: human resource competency; utilization of information technology; understanding of financial accounting standards; internal control system; quality of financial reports; Seventh-day Adventist Church; GMAHK

JEL Classification: H83; M41; M42

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1. Introduction

Biased financial information can reduce the usefulness or relevant value of company performance reports (Fischer & Verrecchia, 2000). On the contrary, quality financial information can increase stakeholder trust, gain goodwill further increase competitive advantage, and become a superior company in the next period (Huynh, 2019), and avoid risks (Costa et al., 2022). Huynh (2019) explains that poor quality financial information tends to give rise to misunderstandings about company performance and company sustainability. The quality of financial information became a public concern after the financial accounting scandals that occurred at large companies such as Xerox in 2000, Enron in 2001 and Toshiba in 2015 (Alfadhah & Jarraya, 2021).

Financial reports provide information for users to assess the company's performance in the previous year and predict the company's cash flow in the future, however, this information can be distorted by earnings management which is based on opportunistic motivation (Simamora, 2019), bonus schemes (Healy, 1985; Guidry, 2019). et al., 1999), the political cost hypothesis (Watts & Zimmerman, 1986), taxes (Kusumawardani & Dewi, 2016; Kisno & Istianingsih, 2016), and debt (Kusumawardani & Dewi, 2016). Another thing that causes this is information asymmetry between managers and external parties (Healy & Palepu, 1993; Eisenhardt, 1989). Managers understand the firm's situation in more detail than external parties to the company.

Some empirical evidence shows the impact of the quality of financial reports on the performance of private companies (Pagalung & Sudibdyo, 2012, Handayani et al., 2016; Pakpahan, 2020), and the government (Kurniawan, 2016; Firmansyah et al., 2022). This study was conducted at a non-profit organization,

namely at the Head Office of the GMAHK Indonesian Union Conference in the Eastern Region. The Eastern Region Indonesian Conference Union oversees three conference areas: Makassar, Minahasa, and Manado. This study aims to examine the factors that influence the quality of financial information in non-profit entities at the GMAHK Head Office of the Eastern Indonesian Conference Union.

2. Literature review

Decision-usefulness theory

Accounting information can help managers to understand tasks clearly and then make decisions (Chong, 1996). Accounting information has an important role in accounting business objectives, namely presenting financial information to managers, company owners and stakeholders in the organization and helping reduce uncertainty in decision making (Romney et al., 2021). The concept of decision-usefulness of accounting information plays an important role in identifying problems for users of financial reports and selecting the accounting information that users of financial reports need to make the best decisions. The consequence of this concept is that the accounting information in financial reports must provide useful value to its users in decision-making (Puspitaningtyas, 2010).

Decision making is a complex process because it takes into account risks and benefits as well as costs. Decision making occurs in a specific context and influences a person's way of thinking regarding risk (Monteiro et al., 2021). Decision-usefulness theory assumes that decision makers are rational individuals. The concept of a rational individual is that in making a decision, the individual chooses the action that produces the highest expected utility. Rational investors are assumed to be risk-averse individuals who expect to get the highest return at a certain

level of risk from their investment decisions (Samuelson & Marks, 2003; Scott, 2015).

Model and hypothesis development

- **Human resource competency and quality of financial reports.** Satria (2020) explains that the competency of human resources is largely determined by educational background, work experience, knowledge, skills, ethics, motives, and opportunities for achievement. Empirically, increasing human resource competence can trigger an increase in the quality of the information in financial reports (Satria, 2020; Aries & Suhartono, 2021; Wulandari et al., 2021; Rahmawati et al., 2022; Rais et al., 2022). However, Muflihah (2021) and Safitri and Estiningrum (2022) also found that there was an insignificant impact of human resource competency on the quality of financial reports. Based on reviews, the hypothesis of this study is.
H1: human resource competency is significant to the quality of financial reports
- **Utilization of information technology and quality of financial reports.** Purba and Purba (2023) explain that the use of information technology is a critical factor regarding the accuracy of presenting financial reports. Rohmah et al. (2020) also explain that effective use of information technology can guarantee the security and timely presentation of financial information. Empirical evidence from Rohmah et al. (2020), Lestari and Dewi (2020), Aries and Suhartono (2021), Wulandari et al. (2021), Safitri and Estiningrum (2022), Siallagan (2022), and Purba and Purba (2023) significantly influence the quality of financial reports. However, Muflihah (2021) also found that information technology does not play an important role in determining the

quality of financial reports. Based on reviews, the hypothesis of this study is.
H2: the use of information technology is significant for the quality of financial reports

- **Understanding of accounting standards and quality of financial reports.** Understanding financial accounting standards contains components of the qualitative characteristics of financial reports, namely that they can be compared. The existence of standards causes the preparation of financial reports to have the same guidelines, for example in terms of recognition, measurement, disclosure, and presentation. Rohmah et al. (2020) explained that a good understanding of accounting causes employees to be able to prepare financial reports well. The evidence of Hayadi and Rosini (2019), Rohmah et al. (2020), Lestari and Dewi (2020), Siallagan (2022), and Purba and Purba (2023) show that there significant influence of understanding accounting standards on the quality of financial reports. However, Safitri and Estiningrum (2022) also found that understanding accounting standards had no effect on the quality of financial reports. Based on reviews, the hypothesis of this study is.

H3: understanding accounting standards is significant for the quality of financial reports

- **Internal control system and quality of financial reports.** Romney et al. (2021) emphasizes that the level of effectiveness of internal control can be measured based on 5 (five) categories, namely: control environment, risk assessment, control activities, information and communication systems, and monitoring. Empirically, Lestari and Dewi (2020), Rohmah et al. (2020), Satria (2020), Muflihah (2021), Rahmawati et al. (2022), Rais et al. (2022), and Purba and Purba

(2023) found that implementing internal control can improve the quality of financial reports. However, Wulandari et al. (2021) also prove that the involvement of internal control does not guarantee increased quality of financial reports if procedures and rules are not fully implemented. Based on reviews, the hypothesis of this study is.

H4: the internal control system is significant for the quality of financial reports

- **Human resource competency and internal control system.** Rais et al. (2022) find that improving human resource competency has a significant impact on the effectiveness of the internal control system. Notice the study of Satria (2020), good quality of human resources refers to the success of developing individual competencies. These results imply that the higher quality of human resources tends to cause the internal control system to become more effective. Based on reviews, the hypothesis of this study is.
H5: human resource competency is significant to the internal control system
- **Utilization of information technology and internal control systems.** Amani et al. (2018) explained that the use of information technology causes the implementation of internal control to be better because it can reduce the risk of deviation from humans. Adebayo et al. (2021) show that the use of information technology tends increasing the effectiveness of implementing internal control. Based on reviews, the hypothesis of this study is.
H6: the use of information technology is significant for the internal control system
- **Understanding of accounting standards and internal control**

systems. Maruta (2016) explains that reliable financial information results from the implementation of an effective accounting information system and internal control. According to Maruta (2016), a good understanding of accounting is needed to implement an effective accounting information system and internal control. Based on this study, the hypothesis of this study is.

H7: understanding accounting standards is significant for the internal control system

- **Indirect relationships.** An indirect relationship was found by Aries and Suhartono (2021), Rahmawati et al. (2022), and Rais et al. (2022) which shows that human resource competence has a significant impact on the quality of financial reports with an intervening internal control system. This study identifies that there is a dearth of empirical evidence of the mediating function of internal control systems on the relationship between the use of information technology and understanding of accounting standards on the quality of financial reports. This study assumes that the direct relationships in H1 to H7 can explain the indirect relationships of each variable. Based on these assumptions, the hypothesis of this study is.

H8a: human resource competency is significant in the quality of financial reports with an intervening internal control system

H8b: the use of information technology is significant for the quality of financial reports with an intervening internal control system

H8c: understanding accounting standards is significant for the quality of financial reports with an intervening internal control system

Figure 1 presents the model framework of this study which originates from hypothesis development based on literature reviews.

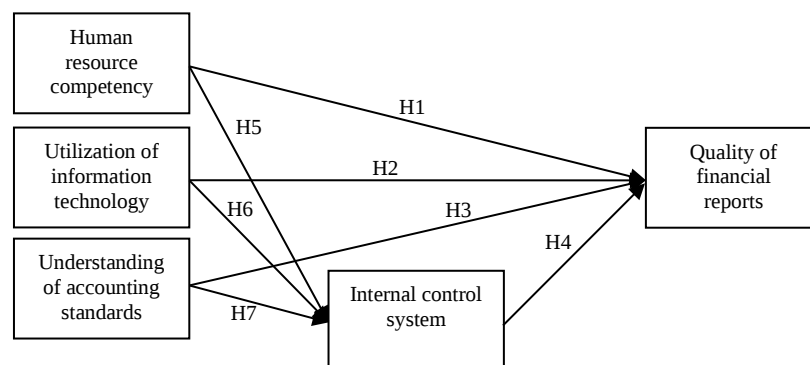


Figure 1. Model framework

3. Research method

This study is a causality test using a quantitative approach. The sample used was finance and accounting staff from the Seventh-day Adventist Church Organization under the Eastern Indonesian Conference Union with a total of 104 respondents. Data was obtained through a questionnaire measured using a Likert scale with 5 categories, namely (1) strongly disagree, (2) disagree, (3) neutral, (4) agree, and (5) strongly agree. The operational definition and measurement of each variable is described as follows.

1. Human resource competency (X1) is the human ability to carry out the tasks and responsibilities given with the support of adequate education, training, and experience. This variable is measured with 6 indicators.
2. Utilization of information technology (X2) is the optimal use of computers, software, databases, networks, electronic commerce, and other types related to technology. This variable is measured with 8 indicators.
3. Understanding financial accounting standards (X3) is a soft skill that finance and accounting staff must have. A good understanding of accounting standards will minimize misstatements in financial reports. A good understanding of accounting is

know-how the accounting process goes into a financial report, guided by established standards. This variable is measured using 7 indicators.

4. The internal control system (Y) is an integral process of activities and actions carried out continuously to achieve organizational goals. Internal control system elements refer to the control environment, risk assessment, control activities, information and communication, and monitoring. This variable is measured using 7 indicators.
5. The quality of financial reports (Z) is good if the information presented can be understood, meets the needs of users in making decisions, is not misleading, is reliable, and can be compared with previous periods. This variable is measured using 6 indicators.

4. Result and discussion

Result

Respondent characteristics. Table 1 presents the characteristics of respondents from this study. Gender male was the largest respondent in answering the questionnaire. The age of respondents tends to be dominated in the range of 31 to 40 years old. The respondent's educational level is dominated by an educational

background that is in the higher education category. The job positions of the respondents are by the study objectives,

namely accounting, and finance with a dominance of financial staff.

Table 1. Respondent characteristics

Gender	Male	57	54.81%
	Female	47	45.19%
Age	20-30 years old	26	25.00%
	31-40 years old	39	37.50%
	41-50 years old	23	22.12%
	51-60 years old	16	15.38%
Level of education	SMA/D3	19	18.27%
	S1	68	65.38%
	S2	17	16.35%
	S3	-	-
Position	Treasurer	30	28.85%
	Financial staff	64	61.54%
	Head of Division	10	9.62%

Validity and reliability test. In the initial stage, this study carried out validity and reliability tests on the data. The validity test uses the Pearson's correlation test and the reliability test uses Crobach's alpha (α) and McDonald's omega (ω) values. Data is called valid if the

questionnaire items are significant to the total variables, while data is called reliable if it has a value of more than 0.6. Table 2 presents the results of the validity and reliability tests of the data with indications that the data is valid and reliable.

Table 2. Validity and reliability test

	Pearson's correlation				
	Z	Y	X1	X2	X3
Item 1	0.689	0.900	0.654	0.725	0.769
Item 2	0.714	0.863	0.751	0.708	0.756
Item 3	0.731	0.919	0.709	0.634	0.898
Item 4	0.744	0.860	0.746	0.399	0.919
Item 5	0.774	0.906	0.257	0.670	0.953
Item 6	0.704	0.907	0.555	0.323	0.898
Item 7		0.906		0.534	0.861
Item 8				0.626	
Pearson's correlation sig.	0.000	0.000	0.000	0.000	0.000
Cronbach's α	0.814	0.958	0.605	0.681	0.945
McDonald's ω	0.824	0.959	0.732	0.758	0.946

Normality test. In the next stage, a normality test is carried out to detect whether the data is normally distributed or

not. Table 3 presents the results of the normality test using the Shapiro-Wilk test, Kolmogorov-Smirnov test, and Anderson-

Darling test. At the 5% level, the Kolmogorov-Smirnov test on X1 and X2 tends to show that the data is normally distributed but not the other tests. Overall,

data from all variables tends not to be normally distributed if we take the best confidence level of 10%.

Table 3. Tests of normality

		Statistic	Sig.
Z	Shapiro-Wilk	0.897	0.001
	Kolmogorov-Smirnov	0.172	0.004
	Anderson-Darling	4.050	0.001
Y	Shapiro-Wilk	0.840	0.001
	Kolmogorov-Smirnov	0.283	0.001
	Anderson-Darling	7.960	0.001
X1	Shapiro-Wilk	0.967	0.011
	Kolmogorov-Smirnov	0.126	0.074
	Anderson-Darling	1.330	0.002
X2	Shapiro-Wilk	0.973	0.031
	Kolmogorov-Smirnov	0.125	0.077
	Anderson-Darling	1.020	0.010
X3	Shapiro-Wilk	0.874	0.001
	Kolmogorov-Smirnov	0.185	0.002
	Anderson-Darling	5.330	0.001

Path analysis. This study conducted path analysis using the maximum likelihood method on 104 data. The structural model of this study is presented below.

$$Z = \alpha + \beta.X1 + \beta.X2 + \beta.X3 + \beta.Y + \varepsilon \dots\dots\dots (1)$$

$$Y = \alpha + \beta.X1 + \beta.X2 + \beta.X3 + \varepsilon \dots\dots\dots (2)$$

Table 4 presents the results of the model fit test for the two structural models. The results show that overall the structural model of this study is fit. As a note, the baseline model shows that this structural model has constraints that tend to be caused by the normal distribution of data or sample size.

Table 4. Fit model test

Model Tests	Baseline model	
	X ²	163
	df	7
	Sig.	0.001
Fit Indices	Akaike's Information Criterion (AIC)	907
	Bayesian Information Criterion (BIC)	936
	Standardized Root Mean Square Residual (SRMR)	0.000
	Root Mean Square Error of Approximation (RMSEA)	0.000
	The Comparative Fit Index (CFI)	1.000
	Tucker–Lewis Index (TLI)	1.000
	Relative Noncentrality Index (RNI)	1.000
	Goodness of Fit (GFI)	1.000

Table 5 presents the path test results of X1, X2, X3, Y, and Z at a significance level of 5%. On direct effect, the

significance level of X2 on Y and Z is above 5%, thus indicating an insignificant impact. Consistently, the results on

indirect effect show that X2 does not have a significant impact on Z through Y. This condition indicates that X2 is not a determining factor for Z even though it is

mediated by Y. The findings also show that X1, Z is 0.558 or 55.8% and model Y can be explained by X1, X2, and X3 by 0.529 or 52.9%.

Table 5. Path coefficients

	Description	Parameter	Estimate	SE	β	z	Sig.
Direct effect	Y	Z	0.269	0.072	0.354	3.731	0.001
	X1	Z	0.265	0.105	0.220	2.534	0.011
	X2	Z	0.086	0.065	0.110	1.331	0.183
	X3	Z	0.149	0.072	0.209	2.063	0.039
	X1	Y	0.423	0.136	0.266	3.102	0.002
	X2	Y	-0.032	0.088	-0.031	-0.359	0.720
	X3	Y	0.525	0.084	0.559	6.282	0.001
Indirect effect	X1 $\Rightarrow$ Y $\Rightarrow$ Z	p7*p1	0.141	0.044	0.198	3.208	0.001
	X2 $\Rightarrow$ Y $\Rightarrow$ Z	p6*p1	-0.008	0.024	-0.011	-0.357	0.721
	X3 $\Rightarrow$ Y $\Rightarrow$ Z	p5*p1	0.114	0.048	0.094	2.385	0.017
Estimated determination	Model Z	0.558					
	Model Y	0.529					

Figure 2 describes the relationships of X1, X2, X3, Y, and Z where the relationship between these variables is expressed in beta (β).

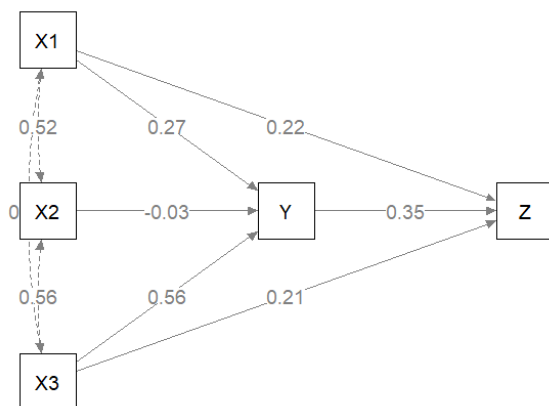


Figure 2. Path coefficients based on β

Discussion

- **Human resource competency and quality of financial reports.** The result shows that human resource competency (X1) has a positive and significant coefficient on the quality of financial reports (Z) so that H1 is accepted. This finding implies that increasing human resource competency

tends to directly improve the quality of financial reports. This condition also implies that human resource competence is the main pillar and driving force of the organization in its efforts to realize the organization's vision and mission. The result of this study is consistent with Satria (2020), Aries and Suhartono (2021), Wulandari et al. (2021), Rahmawati et al. (2022), and Rais et al. (2022).

- **Utilization of information technology and quality of financial reports.** The result shows that the use of information technology (X2) has a positive and insignificant coefficient on the quality of financial reports (Z) so that H2 is rejected. This finding implies that information technology is not the main determinant in improving the quality of financial reports. GMAHK is a non-profit organization that has utilized information technology in financial presentations. This condition means that information technology is not a determining factor

- in the quality of financial information but is responsible for the interests of stakeholders. The finding of this study is not consistent with Rohmah et al. (2020), Lestari and Dewi (2020), Aries and Suhartono (2021), Wulandari et al. (2021), Safitri and Estiningrum (2022), Siallagan (2022), and Purba and Purba (2023).
- **Understanding of accounting standards and quality of financial reports.** The result shows that understanding accounting standards (X3) has a positive and significant coefficient on the quality of financial reports (Z) so that H3 is accepted. This finding implies that increasing understanding of accounting standards tends to directly improve the quality of financial reports. In accordance with decision-usefulness theory, staff's good understanding of accounting standards tends to produce financial reports that are relevant, reliable, comparable, understandable, accountable, and can be used for decision-making. The finding of this study is consistent with Hayadi and Rosini (2019), Rohmah et al. (2020), Lestari and Dewi (2020), Siallagan (2022), and Purba and Purba (2023).
 - **Internal control system and quality of financial reports.** The result shows that the internal control system (Y) has a positive and significant coefficient on the quality of financial reports (Z) so that H4 is accepted. This finding implies that a better internal control system tends to directly improve the quality of financial reports. In accordance with the opinion of Romney et al. (2021) and Wulandari et al. (2021), internal control components can guarantee the quality of financial information if implemented effectively. The finding from this study is consistent with Lestari and Dewi (2020), Rohmah et al. (2020), Satria (2020), Muflihah (2021), Rahmawati et al. (2022), Rais et al. (2022), and Purba and Primordial (2023).
 - **Human resource competency and internal control system.** The result shows that human resource competency (X1) has a positive and significant coefficient on the internal control system (Y) so H5 is accepted. This implies that increasing in human resource competency tends to directly increase the effectiveness of the internal control system. The finding from this study is consistent with Satria (2020) and Rais et al. (2022).
 - **Utilization of information technology and internal control systems.** The result shows that the use of information technology (X2) has a negative and insignificant coefficient on the internal control system (Y) so H6 is rejected. This finding implies that increasing the use of information technology tends to have no direct impact on the effectiveness of the internal control system. The finding of this study is inconsistent with those of Amani et al. (2018) and Adebayo et al. (2021). The finding also consistent with the rejection of H2 which indicates that information technology is not the main determinant in ensuring the effectiveness of the internal control system.
 - **Understanding of accounting standards and internal control systems.** The result shows that understanding accounting standards (X3) has a positive and significant coefficient on the internal control system (Y) so that H7 is accepted. This finding implies that a better understanding of accounting standards from staff is likely to directly increase the effectiveness of the internal control system. The finding of this study is consistent with Maruta (2016).
 - **Indirect relationships**
 1. The result shows that human resource competency (X1) has a

positive and significant coefficient on the quality of financial reports (Z) through the internal control system (Y). Based on this result, this study accepts H8a. This finding implies that the increasingly qualified human resource competence of staff tends to be able to implement an effective internal control system to improve the quality of financial reports. This condition indicates that the synergy between human resource competence and the effectiveness of the internal control system is able to guarantee the quality of information for stakeholders. The finding of this study is consistent with Aries and Suhartono (2021), Rahmawati et al. (2022), and Rais et al. (2022).

2. The result shows that the use of information technology (X2) has a negative and insignificant coefficient on the quality of financial reports (Z) through the internal control system (Y). Based on the result, this study rejects H8b which is consistent with the rejection of H2 and H6. As the novelty, the finding of this study implies that information technology is not something new at GMAHK so it is not the main determining factor in ensuring the quality of financial reports to stakeholders. However, the finding also indicates that there are obstacles in the use of information technology if changes occur due to the application of a new accounting information system at GMAHK.
3. The result shows that understanding accounting standards (X3) has a positive and significant coefficient on the quality of financial reports (Z) through the internal control system (Y) so that H8c is accepted. As a novelty, the

finding of this study implies that a good understanding of accounting by GMAHK staff tends to make the internal control system more effective, and as a result, the information presented in financial reports will be of better quality.

5. Conclusion

This study aims to determine the determinants of the quality of financial reports, especially in GMAHK. This study found that the quality of financial reports is directly influenced by human resource competence, understanding of accounting standards, and internal control systems. The findings also found that the internal control system is directly influenced by human resource competence and a good understanding of accounting standards. In an indirect relationship, human resource competence and understanding of accounting standards are able to synergize with an effective internal control system in presenting quality financial reports.

The findings of this study also indicate that information technology does not have a significant role in determining the quality of financial reports, especially in GMAHK. Based on the findings, GMAHK needs to develop staff training, especially in mastering new information technology applications. Training is an urgent need to ensure the continued quality of financial reports. Additional samples are very necessary for further studies using open questionnaires (or using an interview approach).

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