

RESEARCH ARTICLE

# The role of human resource competence and financial systems in enhancing regional financial report quality: Insights from Lhokseumawe

M. Fahridzi<sup>1</sup> , Fatlina Nurrahmah<sup>2</sup>, Luthvia Husni<sup>2</sup>, Mutia Lusiana<sup>2</sup>, Muhammad Saifrizal<sup>2</sup>

<sup>1</sup> Department of Management, Faculty of Economics and Business, Universitas Islam Kebangsaan Indonesia, Bireuen, Indonesia

<sup>2</sup> Department of Accounting, Faculty of Economics and Business, Universitas Islam Kebangsaan Indonesia, Bireuen, Indonesia

## ABSTRACT

This study investigates the influence of human resource competence and the regional financial accounting system on the quality of regional financial reports in Lhokseumawe, Aceh, Indonesia. Using a quantitative research approach, the study applies a multiple linear regression model to analyze data collected from employees of State Administrative Bodies (SKPD). The findings demonstrate that human resource competence has a significant and positive impact on the quality of regional financial reports. Likewise, the regional financial accounting system is shown to significantly and positively influence the quality of regional financial reports. Moreover, the simultaneous analysis indicates that both variables collectively explain a substantial proportion of the variations in the quality of regional financial reports. These findings underscore the essential role of human resource competence and a robust financial accounting system in enhancing the quality of regional financial reporting.

## KEYWORDS

Human resources, financial accounting system, quality of financial reports, regional financial management

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## 1. Introduction

Financial statements are documents that contain structured information about the financial performance of a business entity or organization within a certain period. These documents include a summary of the company's financial activities, financial position, and cash flows. The main focus of financial statements is to provide a clear and accurate picture of the financial condition of an entity to stakeholders, including investors, creditors, management, and the government (Kieso et al., 2022). Public accountability is the responsibility of mandate holders to be accountable and report all their activities to

**CORRESPONDING AUTHOR** M. Fahridzi  [raudahsiti615@gmail.com](mailto:raudahsiti615@gmail.com)  Department of Management, Faculty of Economics and Business, Universitas Islam Kebangsaan Indonesia, Bireuen, Indonesia

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the principal, who has the right to demand accountability (Mardiasmo 2019). Regional financial management must be carried out in an orderly, transparent, and accountable manner to achieve the goal of clean governance. One important step in achieving this is the preparation of Local Government Financial Reports, which must at least include Budget Realization Reports, Balance Sheets, Cash Flow Reports, and Notes to Financial Statements. High-quality financial reports are very important because they can provide useful information for future government policy-making.

The quality of a financial report can be reflected in the opinion given by the Audit Board. The Audit Board gives an opinion based on the results of its audit, which can be Unqualified Opinion (WTP), Qualified Opinion (WDP), Adverse Opinion (TW), or Disclaimer of Opinion (TMP). In addition, the quality of financial reports can also be seen from the extent to which the reports are prepared in accordance with Government Accounting Standards (SAP), using the local government accounting system, complying with laws and regulations, and presented in a timely manner in accordance with applicable provisions.

Along with reforms in various sectors of government, including those characterized by Law No. 22 of 1999, there is a great demand on the public sector, including local governments, to manage and be accountable in a transparent and accountable manner for every fund received from the community. In the context of management and interaction with the community, accounting science has quickly become one of the tools or media that can be used to meet these levels of transparency and accountability. This is done through the implementation of the Local Government Financial Accounting System in accordance with Government Accounting Standards (SAP), which is regulated by Government Regulation No. 25 of 2004 and later replaced by Government Regulation No. 71 of 2010.

The implementation of an effective accounting system can essentially play a role in producing quality local government financial reports. This is characterized by the absence or minimal occurrence of recording errors, fraud, non-compliance with the law, and is ultimately reflected in the opinion given by the Supreme Audit Agency (BPK). In addition, these reports are expected to meet the criteria of being relevant, reliable, trustworthy, and comparable.

In an effort to achieve satisfactory government performance through the implementation of good governance, Rohman explained in the LAN module 2000 that the government continues to take various improvement measures to increase transparency and accountability in state/regional financial management. One of the steps taken by the government is the comprehensive improvement of the state accounting and administration system, as explained by the State Administration Agency

in 2000. Another effort undertaken by the government is the issuance of legal instruments or regulations related to state/regional financial management.

The reinforcement of the above statement can be seen through the implementation of state financial management reforms, both at the central and regional government levels, which are reflected in the enactment of a package of laws related to state finances. Law No. 17 of 2003 concerning state finances and Law No. 1 of 2004 concerning state treasury are part of this package of laws. Within the framework of these laws and regulations, it is explained that governors/regents/mayors are required to submit draft regional regulations regarding accountability for the implementation of regional revenue and expenditure budgets to the regional representative council in the form of financial reports (Fajar 2017).

This is due to several factors, including the lack of competence of human resources in cooperatives. This results in difficulties in presenting financial reports and holding annual member meetings according to the predetermined schedule. A healthy cooperative is one that is able to fulfill its obligations, such as submitting financial reports, holding annual member meetings, and upholding transparency to the management and members of the cooperative. Annual member meetings are a manifestation of the transparency and accountability of the cooperative management for the cooperative's performance in a certain period. The failure to hold annual member meetings indicates that the cooperative has not been able to complete its accountability reports on time (Isnayanti & Yuniarta, 2022).

Competence is a characteristic that reflects a person's ability, knowledge, and skills in completing the tasks assigned to them (Indriasari 2019). This ability is the basis for achieving high performance in carrying out their work. The inability of human resources in terms of competence can result in an inability to complete tasks efficiently, effectively, and economically. In this context, work results become untimely and lead to waste of time and energy. The existence of competence in human resources allows for time savings in the preparation of financial reports.

Another factor that affects the quality of financial reports is an understanding of accounting. It is important for cooperative employees to have a strong understanding of accounting based on the Financial Accounting Standards for Entities Without Public Accountability (SAK ETAP). This is important because financial reports prepared in accordance with standards will produce information that is easy to understand, relevant, reliable, and has a high level of comparability. When employees responsible for preparing financial reports do not have an adequate understanding of accounting, this can hinder the financial report preparation process and ultimately result in poor quality financial reports. Understanding accounting includes the ability to understand the entire

accounting process, from recording transactions to preparing financial reports (Amatiddiniyah et al., 2022).

According to Wilestari & Safitri (2021) and Amatiddiniyah et al. (2022), understanding accounting has a positive and significant effect on the quality of cooperative financial statements. However, research conducted by Atika et al. (2019) shows that understanding accounting has no effect on the quality of financial statements.

The local government financial accounting system can be described as a series of procedures, ranging from data collection, recording, summarizing, to financial reporting, which are carried out as part of the accountability for the implementation of the local government revenue and expenditure budget. This system can be done manually or using computer applications. Government Accounting Standards are a framework of standards used in the preparation of financial statements for the government sector. These standards are compiled in the form of accounting principles that serve as guidelines in preparing and presenting government financial statements.

The qualitative characteristics of financial statements are normative standards that must be reflected in accounting information in order to achieve their objectives. The qualitative characteristics of government financial statements, which are normative requirements as described in the conceptual framework of government accounting (Government Regulation No. 24 of 2005, later revised to Government Regulation No. 71 of 2010), include the following properties: relevant, reliable, comparable, and understandable.

Financial statements are the output produced by the accounting sector or domain. Therefore, it requires a workforce that has the competence to create high-quality financial statements. Human resource competence refers to the ability of individuals or people in an organization or system to carry out their functions or responsibilities in an effective and efficient manner in order to achieve their objectives optimally. Nasaruddin (2018) states that the success of an agency or company is highly dependent on human resources, because the high value of human resources in the agency comes from their abilities, knowledge, and skills. Accounting systems provide an understanding of accounting information management, starting from recording data in documents to preparing reports (Bastian, 2017).

The preparation of regional financial reports with reference to the Regional Financial Accounting System (SAKD) actually aims to improve the quality of financial reports. Thus, the resulting financial reports have the ability to increase their credibility and ultimately produce quality financial reports. Regional governments are evaluated by the Supreme Audit Agency (BPK), which issues an Opinion as an assessment. There are four types of opinions given by auditors, namely: Unqualified Opinion (WTP), Qualified Opinion

(WDP), Adverse Opinion (TW), and Disclaimer of Opinion or Refusal to Express an Opinion (TMP).

## 2. Literature review

### 2.1. Competence

Competence is the foundation for achieving optimal performance in carrying out tasks. Human resources that lack competence will have difficulty completing work efficiently and effectively. The higher the level of human resource competence, the more significant the contribution to the financial statement preparation process. Therefore, the existence of competent human resources is very important for producing quality financial statements. Findings from studies conducted by Boyle & O'Riordan (2013) show that human resource competency has a positive impact on the quality of financial reports. According to Ngo et al. (2014), the purpose of competency is to ensure the continuity of the company in accordance with the company's motives.

### 2.2. Local government financial accounting system

The methods and procedures for recording and reporting financial information for organizations are defined as accounting systems. Complexity arises due to different information needs, which result in the design of specific systems to meet the needs of particular organizations (Halim, 2015). According to Parera (2017), the term "government accounting" is an old terminology, and in its development, it has been replaced by "public sector accounting." This change in terminology reflects the broadening of the scope of non-profit accounting, in which government accounting functions as an accounting mechanism that processes financial transactions related to state financial management, both at the central and regional levels.

Based on several theoretical definitions of government accounting standards, such as those contained in Government Regulation No. 71 of 2010, Darise (2016), and Bastian (2017), it can be concluded that government accounting standards refer to the principles of government accounting that must be applied and followed as guidelines in the preparation and presentation of government financial statements. This is because government accounting standards have legal force. According to Minister of Home Affairs Regulation No. 13 of 2006, regional financial reports are prepared with the aim of providing relevant information about the financial position and all transactions carried out by the regional government during a reporting period.

The regional financial accounting system includes a series of procedures aimed at compiling financial reports. To implement the regional financial accounting system, regional financial accounting policies are required. These policies play a role in

regulating accounting practices, so that consistency in the presentation of regional finances can be ensured. The accounting policies applied must be in accordance with the applicable local government financial accounting standards, as stipulated in the Minister of Home Affairs Decree No. 29 of 2002.

According to Mardiasmo (2019), Regional Financial Accounting Standards (SAKD) can produce financial reports that are relevant, reliable, and trustworthy. Weaknesses in the local government accounting system can lead to weak internal controls, which in turn result in financial reports that are less reliable and less relevant for the decision-making process.

### *2.3. Quality of local government financial statements*

Quality is an evaluation of the results of a center of responsibility for an entity, both in the form of physical objects and abstract things such as a process or activity. According to Suhardjanto & Prasetyono (2021), the quality of local government financial statements involves various factors that determine how effective the statements are in presenting accurate, relevant, and reliable information about the financial situation of the local government entity.

The qualitative characteristics of financial statements are standards or criteria that accounting information must meet in order to achieve its objectives. The following four characteristics are normative prerequisites that must be present for government financial statements to achieve the desired quality, as mandated in Government Regulation No. 71 of 2010, which forms the basis of the Government Accounting Standards (SAP), namely: relevance, reliability, comparability, and understandability.

The preparation of financial statements in the government sector is a fundamental requirement to ensure transparency, which is an important condition for the creation of accountability in the management of public resources. Financial statements are prepared with the aim of providing relevant information about the financial condition and all transaction activities carried out by a reporting entity during a reporting period.

## **3. Research methodology**

### *3.1. Research approach*

This study uses quantitative methods. Quantitative methods are systematic scientific research on parts and phenomena as well as the causality of their relationships. The purpose of quantitative research is to develop and use mathematical models, theories, and/or hypotheses related to a phenomenon. This study seeks to explain the impact of Human Resource Competence (X1) and the Implementation of the Regional Financial

Accounting System (X2) as independent variables on the Quality of Local Government Financial Reports (Y) as the dependent variable.

### 3.2. Data

#### 3.2.1. Research population

According to Sugiyono (2015), the population is a generalization area consisting of objects or subjects that have certain qualities and characteristics. In the context of this study, the population consists of all Regional Work Units (SKPD) within the Lhokseumawe City Government, Aceh. The population in this study includes 18 Lhokseumawe City Government Agencies.

Table 1 Government Agencies in Lhokseumawe City

No.	Name	Address
1	Health Department	Jl. Samudera Baru No. 24315, Kp. Jawa Lama, Banda Sakti District, Lhokseumawe City
2.	Environmental Agency	Jl. Listrik No.1, Tumpok Teungoh, Banda Sakti District, Lhokseumawe City
3	Department of Women and Child Protection and Empowerment	Jl. Teungku Chik Ditiro No.19, Lancang Garam, Banda Sakti District, Lhokseumawe City
4	Department of Education and Culture	Mon Geudong, Lhokseumawe, Lhokseumawe City
5	Department of Social Affairs	Teuku Hamzah Bendahara Street, Simpang Empat, Banda Sakti District, Lhokseumawe City
6.	Library and Archives Department	Jl. Stadion Tunas Bangsa, Mon Geudong, Banda Sakti District, Lhokseumawe City
7	Department of Islamic Law and Dayah Education	Jl. Samudera No.1, Lancang Garam, Banda Sakti District, Lhokseumawe City
8	Department of Population and Civil Registration	Jl. Stadion Tunas Bangsa, Mon Geudong, Banda Sakti District, Lhokseumawe City, Aceh
9.	Department of Communication, Information Technology, and Cryptography	Jl. Stadion Tunas Bangsa No.2, Mon Geudong, Banda Sakti District, Lhokseumawe City
10	Transportation Agency	Mns Mee, Muara Dua District, Lhokseumawe City, Aceh
11	Regional Development Planning Agency	Jl. H. Ramli Ridwan, Mon Geudong, Banda Sakti District, Lhokseumawe City
12	Land Agency	Jalan. Tgk Umar No.4, Lancang Garam, Banda Sakti District, Lhokseumawe City, Aceh
13	Investment and Integrated One-Stop Service Agency	Jl. Merdeka Barat No.5, Kuta Blang, Banda Sakti District, Lhokseumawe City, Aceh
14	Public Works and Public Housing Agency	Jl. Stadion, Mon Geudong, Banda Sakti District, Lhokseumawe City.

### 3.2.2. Research sample

Sugiyono (2015) explains that a sample is a portion of the number and characteristics possessed by the population. In this study, the sample consists of all agencies that have a Human Resources (HR) analysis unit or employees in the finance/accounting department in each agency. Respondents were selected from only 14 of the total 18 SKPDs in Lhokseumawe City, with 3 respondents taken from each SKPD.

In this study, the sample used included all agencies that focus on human resources/employees in the finance sub-division of each agency. Respondents were taken from only 14 of the total 18 SKPDs in Lhokseumawe City, with each SKPD contributing 3 respondents. So, 14 SKPDs x 3 = 42 respondents.

## 4. Results

### 4.1. Descriptive analysis

Descriptive statistics are statistics used to analyze data by describing or depicting the collected data as it should be (Sugiyono, 2015). Based on the results of descriptive statistical analysis, the following table shows the results of the analysis of variables consisting of the dependent variable, namely the Quality of Local Government Financial Reports, and the independent variables, namely Human Resource Competence and the Local Government Financial System. The characteristics of the research sample discussed include: sample size (N), mean, maximum value, minimum value, and standard deviation. The descriptive data of the variables in this study can be seen in the Table 2.

Table 2. Descriptive statistics

Variable	N	Mean	Std. Deviation
Human Resource Competency	42	26.2143	2.30096
Regional Financial System	42	35.9762	2.83263
Quality of Regional Financial Reports	42	33.8571	3.52394
Valid N (listwise)	42		

Source: Data processed using SPSS 22.2024

Based on the results of the descriptive statistical test in Table 2 above, it shows that the number of questionnaire is 42. From the data above, it can be seen that the Regional Financial Report Quality variable has an average value of 33.8571 and a standard deviation of 3.52. The independent variable of Human Resource Competence has an average value of 26.2143 and a standard deviation of 2.30. The independent variable of Regional Financial System has an average value of 35.9762 and a standard deviation of 3.52.

#### 4.2. Multiple linear regression testing

This study aims to determine the effect of Human Resource Competence (X1) and Regional Financial Accounting System (X2) on the Quality of Regional Financial Reports (Y) in SKPD Kota Lhokseumawe. Therefore, multiple linear regression analysis was used to analyze the effect. The results of multiple linear analysis using SPSS version 22 are as follows:

Table 3 Multiple linear regression results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.449	4.129		3.593	0.002
Human Resource Competency	1.544	0.181	4.094	4.797	0.004
Local Government Financial Accounting System	1.114	0.147	0.896	7.591	0.000
F test	45.190				0.000
R	0.836				
R Square	0.699				
Adjusted R Square	0.683				

Note: Dependent Variable: Y

Source: Data Processing Results 2024

Based on the regression analysis results presented in Table 3, the constant value ( $\alpha$ ) of 2.449 with a positive sign indicates that when the variables Human Resource Competence and Regional Financial Accounting System are held constant, the predicted value of Y (quality of regional financial reports) is 2.449. The regression coefficient for Human Resource Competence (X1) is 1.544, showing that a one-unit increase in human resource competence leads to a 1.544% improvement in the quality of regional financial reports. Similarly, the regression coefficient for Regional Financial Accounting System (X2) is 1.114, implying that a one-point enhancement in the accounting system results in a 1.114% increase in report quality. The positive signs of both coefficients indicate a positive relationship, meaning that improvements in Human Resource Competence and the Regional Financial Accounting System contribute to enhancing the Quality of Regional Financial Reports.

To test the level of closeness or connection between dependent and independent variables, which can be seen from the value of the coefficient of determination (adjusted square). The coefficient of determination value is between zero and one (Ghozali 2017). A small R2 value means that the ability of independent variables to explain dependent variables is very limited, while a value close to one means that independent variables provide almost all the information needed to predict the variation of independent

variables. Based on the calculations in Table 3, the coefficient of determination (adjusted R<sup>2</sup>) is 0.683, meaning that the variability of the dependent variable can be explained by the variability of the independent variable by 68.3%, while the remaining 31.7% is explained by other variables that are not tested or not included in the regression model.

### 4.3. Hypothesis testing

#### 4.3.1. Partial test (t-test)

To determine the partial effect of independent variables on dependent variables. The t-test results can be seen in Table 3. Based on Table 3 above, it can be seen that the t-value for Human Resource Competence (X1) is 4.797 and for the Regional Financial Accounting System (X2) is 7.591. To determine the level of significance at a 100% confidence level, hypothesis testing with a t-test is carried out by comparing the t-value with the t-table. As follows, proof of hypothesis testing for the Human Resource Competency (X1) variable. Partially (t-test) obtained from the t-count value in the multiple linear regression equation states that Human Resource Competency (X1) has a significant (real) effect on the Quality of Local Financial Reports (Y), because the t-count is 4.797 and the t-table (n-2, 5% two-tailed test) = 2.022, where t-count is greater than t-table with a significance value of 0.004 below 0.05, so the first hypothesis (H1) is accepted. The proof of hypothesis testing for the Regional Financial Accounting System variable (X2) Partially (t-test) obtained from the Thitung value in the multiple linear regression equation states that the Regional Financial Accounting System (X2) has a significant (obviously) on the Quality of Local Financial Reports (Y) because Thitung is 7.591 and Ttabel (n-2, 5% two-tailed test) = 2.022, where thitung > ttabel with a significance value of 0.000 below 0.05. Therefore, the second hypothesis (H2) is accepted.

#### 4.3.2. Simultaneous test (F Test)

To determine the simultaneous effect of independent variables on dependent variables. Based on Table 3 above, it can be seen that the Fcount value is 45.190, while the Ftable at a 100% confidence level is obtained as Ftable (df1=k, df2= n-k-1, 5%) = 2.85, or in other words, Fcount > Ftable. It can also be seen from sig 0.000 < 0.05. Hypothesis testing with the F test is done by comparing Fcount with Ftable and its significance value. Thus, it means that simultaneously, the variables of Human Resource Competence (X1) and Regional Financial Accounting System (X2) have a significant effect on the Quality of Regional Financial Reports in SKPD Kota Lhokseumawe. Therefore, the third hypothesis (H3) is accepted.

## 5. Discussion

### *5.1. The effect of human resource competency on the quality of local financial reports*

Competence is the foundation for achieving optimal performance in carrying out tasks. Human resources that lack competence will have difficulty completing work efficiently and effectively. The relationship between human resource competence and the quality of local financial reports has been studied extensively in recent years, producing consistent findings in various studies.

According to Ridha n.d., (2020) states that human resource competence has a positive and significant effect on the quality of financial reports. The quality of financial report presentation is highly dependent on the quality of the individuals who handle it, namely human resources (Darmawan & Darwanis, 2018). According to Abdul Rahman, Ayudhini Azzahra Permatasari (2021), human resource competence and the regional financial accounting system together influence the quality of regional financial reports.

From the presentation of this theory, this study found different results where from the t-test hypothesis testing that Human Resource Competence (X1) has a significant (real) effect on the Quality of Regional Financial Statements (Y), because the t-value is 4.797 and the t-table (n-2, 5% two-tailed test) = 2.022, where t-value is greater than t-table with a significance value of 0.004 below 0.05. Therefore, the first hypothesis (H1) is accepted.

### *5.2. The effect of the regional financial accounting system on the quality of regional financial reports*

Government accounting is often referred to as public sector accounting in several sources. From an accounting organization perspective, the public sector domain includes entities such as state-owned enterprises (BUMN/BUMD), foundations, and other non-profit organizations. Recent studies show a strong correlation between the local government financial accounting system and the quality of local government financial reports. This article reviews the current literature to examine the effect of the local government financial accounting system on the quality of local government financial reports.

According to Halim (2015), local financial accounting is a process that involves identifying, measuring, recording, and reporting financial transactions of local government entities, both at the district/city and provincial levels. According to Parera (2017), the term "government accounting" is an old terminology, and in its development, it has been replaced by "public sector accounting." This change in terminology reflects the broadening of the scope of study from non-profit accounting, where government accounting functions as an accounting mechanism that processes financial transactions

related to state financial management, both at the central and regional levels. According to Dewi Andini, Yusrawati (2015), partial testing of the variables of human resource competence and the application of the regional financial accounting system affects the quality of regional financial reports. Based on simultaneous testing, human resource competence and the application of the regional financial accounting system affect the quality of regional financial reports.

From the above explanation, this study has the same conclusion, namely that there is a partial influence between the regional financial accounting system and the quality of regional financial reports. The test results (t-test) of the Regional Financial Accounting System (X2) variable hypothesis obtained from the t-count value in the multiple linear regression equation state that the Regional Financial Accounting System (X2) has a significant (significant) on the Quality of Regional Financial Statements (Y) because the t-count is 7.591 and the t-table (n-2, 5% two-tailed test) = 2.022, where the t-count is > t-table with a significance value of 0.000 below 0.05. Thus, the second hypothesis (H2) is accepted.

### *5.3. The influence of human resource competence and the regional financial statement accounting system on the quality of regional financial statements*

Quality is an evaluation of the results of a center of responsibility for an entity, both in the form of physical objects and abstract things such as a process or activity. Two key elements that influence the quality of local financial statements are human resource competence and the local financial accounting system. This article reviews the latest literature to examine the influence of these two elements on the quality of local financial reports. According to Suhardjanto, D., & Prasetiono, P. (2021), the quality of local financial reports involves various factors that determine how effective the reports are in presenting accurate, relevant, and reliable information about the financial situation of local government entities.

According to Government Regulation Number 71 of 2010 concerning Government Accounting Standards (SAP), the quality of regional financial reports is a normative measure that must be realized in accounting information reports so that they can fulfill their purpose. According to Lyn M. Fraser and Aileen Ormiston (2019), the quality of financial reports is that ideally, financial reports should reflect an accurate picture of the company's financial condition and performance. The information must be useful for assessing the past and the future. The sharper and clearer the picture presented through financial data, the closer it is to the truth.

## 6. Conclusion

The findings indicate that Human Resource Competence has a significant positive effect on the quality of local financial reports. This suggests that improving the competence of human resources involved in financial management can enhance the accuracy, reliability, and transparency of regional financial reporting. Similarly, the Regional Financial Accounting System significantly influences the quality of regional financial reports, emphasizing the importance of a well-structured and effectively implemented accounting system in supporting financial accountability. Furthermore, the results demonstrate that both Human Resource Competence and the Regional Financial Accounting System jointly have a significant impact on improving the overall quality of local financial statements, reinforcing the interdependence between human capability and system effectiveness in achieving sound public financial governance.

## Conflict of interest

The authors declare that there are no conflicts of interest regarding this publication.

## ORCID

M. Fahridzi  <https://orcid.org/0009-0002-9506-7496>

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