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The Role of Internal Control Systems and Human Resources Competence to Financial Reporting Quality in Medan City Government

Niken Wulandari[1], Suwarno[2] , Shella Pratiwi[3]

Email: nikenwulandari@dosen.pancabudi.ac.id
Universitas Pembangunan Panca Budi

ABSTRACT
This study aims to analyze the Internal Control System and HR Competence as determinants of the quality of financial reports. The research approach used is the quantitative method. This study uses primary data obtained from a survey of respondents. The population consists of 129 employees of the Medan City Financial and Regional Asset Management Agency with a sample of 35 people after going through a purposive sampling technique. Data analysis consists of data quality testing, classical assumption testing and hypothesis testing. The results of the study indicate that analyzing the Internal Control System and HR Competence partially or simultaneously has a significant effect on the quality of financial reports.

Keywords: Quality of Financial Statements, Internal Control System, Human Resource Competence

INTRODUCTION
The government is an organization that has the power to create and implement laws together with the Constitution and the authority to regulate communities in a certain area, which is generally a country. To achieve these goals, a government really needs supporting elements such as a good information system, qualified and expert human resources, a good internal control system and other factors. According to Roe, competence can be described as the ability to carry out a task or role, the ability to integrate knowledge, skills, attitudes and personal values and the ability to build on experience and learning.

Medan City is one of the municipalities that provides public services in management, fostering, and helping to stabilize prices and smooth distribution of goods and services. The demands of the community to the government have resulted in financial reports that have met the quality characteristics of the financial reports. Financial reports are a tool for accountability for the financial performance of a government's management to the public entrusted to it. Information in financial reports is widely used by interested parties. These parties use the information contained in the financial reports to make decisions. The resulting decisions are expected to lead the government in a better direction.

For local governments, it is a must to prepare quality financial reports. The quality of local government financial reports reflects the orderly management of local government finances, which includes orderly administration and adherence to principles. An indicator that local government financial reports are of quality is the Unqualified Opinion (WTP) given by the Audit Board of Indonesia to the Medan City Regional Government Financial Report. The government must be able to present financial reports that contain quality financial information. Financial reports are basically assertions from government management that inform stakeholders about the government's financial condition. Financial reporting helps fulfill the government's obligation to

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be accountable. Therefore, they rely on financial reports as an important source of information. The resulting government financial reports must meet the principles of timeliness and be prepared in accordance with government accounting standards in accordance with Government Regulation Number 24 of 2005. The quality of financial reports is useful as a basis for economic decision-making for interested parties. The quality of financial reports with various measurements is generally used in investment decisions, compensation agreements and debt requirements. Therefore, competent human resources are needed to produce quality financial reports and an effective internal control system.

Competence is a characteristic of a person that can be seen from the skills, knowledge, and abilities he has in completing the tasks assigned to him (Hervesi, 2005 in Indriasari 2008). The success of an organization in achieving a goal is largely determined by the quality and ability of the human resources within it. Human resources who do not have competence will not be able to complete their work efficiently, effectively, and economically. In a public organization, someone who has competence will work with their knowledge and skills so that they can work easily, quickly, intuitively and with their experience can minimize errors. By increasing the competence of human resources owned at the system, institutional, and individual levels, and supported by the implementation of a regional financial accounting system, it is hoped that the regional financial managers, especially the accounting department, will be able to carry out accounting tasks and functions well, which ultimately leads to the creation of good governance.

Internal control system is needed to convince stakeholders and the public about the accuracy and reliability of financial reports prepared by the government. Internal control is designed so that financial reporting can meet the principle of order which is a reflection of compliance with laws and regulations. The realization of the principle of order is by submitting financial reports in a timely manner (Mirnayanti, 2013). Permendagri No. 4 of 2008, that the quality of financial reports is not only measured by compliance with government accounting standards, but also from its internal control system. For this reason, local governments must design, operate, and maintain a good internal understanding system in order to produce reliable financial information. With the implementation of the internal control system, it is expected to improve the quality of financial reports. The Auditing Standards define internal control as a process carried out by the board of commissioners, management, and other personnel of an entity that is designed to provide reasonable assurance about the achievement of reliable financial reports, effectiveness and efficiency of operations, compliance with applicable laws and regulations.

Development is not only utilized in business organizations but also in public sector organizations, the Government needs to optimize the utilization of progress to build and work processes that allow the government to work in an integrated manner by simplifying access between work units. The Regional Government Financial Report (LKPD) is annually assessed in the form of an opinion from the Audit Board of Indonesia (BPK). On average, based on the BPK assessment, the quality of regional government financial reports in Indonesia is quite good as indicated by data that most receive an unqualified opinion (WTP). However, there are several regional governments that find obstacles in presenting quality financial reports. The quality of financial reports will improve the quality of information presented in the financial reports. Users of financial reports are confident in making decisions because they are based on information that has been well prepared, approved, and audited in a transparent, accountable and quality manner.

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The quality of financial reports is the extent to which financial reports present correct and honest information. This means that the quality of financial reports shows the concept of the quality of information from the report.

Human Resources (HR) is an important factor in creating quality financial reports. In this case, the existence of HR competence underlies a person achieving high performance in his work, which has a very important role in planning, implementing, and controlling the entity concerned (Wati et al., 2014). The Audit Result Report (LHP) for 2020 to 2021 in the Regional Government Financial Report (LKPD) shows an increasingly good Fair Opinion. Although two (2) consecutive years from 2020 to 2021 achieved the Unqualified Opinion (WTP) predicate, it does not mean that the Medan City Government Financial Report is without loopholes, in receiving the Unqualified Opinion (WTP) predicate. Medan Mayor Bobby Nasution admitted that there were still weaknesses and deficiencies in the Preparation of the Regional Financial Report (LKPD).

METHODS

The type of research used in this study is quantitative research with an associative research approach, namely research conducted by analyzing the influence between two or more variables. The quantitative research method is research with a positive basis that aims to research a particular population or sample. Data analysis in quantitative is statistical in nature with the aim of describing and testing the hypotheses that have been used (Sugiyono, 2022). The data collection method used in this study is to conduct a field survey with a data questionnaire media in collecting primary data sources, namely data sources that directly provide data to data collectors to obtain relevant, reliable, objective data, and can be used as a basis for the analysis process. Data on data collectors to obtain relevant, reliable, objective data, and can be used as a basis for the analysis process.In determining the sample using the Purpose Sampling method, namely a method where the sample collection is based on certain considerations and criteria using a questionnaire.

The criteria used in this study are as follows:

1. All employees of Budget, Accounting and Treasury.
2. Employees who carry out accounting/financial administration functions at the Medan City Regional Financial and Asset Management Agency.
3. Head and Staff of Accounting, Budget, and Treasury Sub-Department.

The sampling criteria are employees in each section of the Medan City Regional Financial and Asset Management Agency. A total of 35 respondents, namely from the Budget Division, Accounting Division, Treasury Division. Data analysis uses multiple linear regression analysis and the F test and t test as hypothesis testing.

RESULTS AND DISCUSSION

Multiple Linear Regression Analysis

To carry out this multiple linear regression analysis, the researcher used the help of the SPSS 22 program. The results of the multiple regression analysis can be seen in the following table:

Table 1. Multiple Regression Test

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Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	9,234	3,501		3,393	,002
	Sistem Pengendalian Internal	,517	,427	,312	4,211	,000
	Kompetensi Sumber Daya Manusia	591	,444	300	1,520	,018

a. Dependent Variable: Y

Based on the table above, the estimation model can be analyzed as follows:
$Y = \alpha + \beta 1\ X1 + \beta 2\ X2 + e$ $Y = 32.234 + 0.517X1 – 0.001X2$

In the regression model that the author has obtained with the estimates above, it shows how the intercept estimates where $\beta 0 = 9.234$, estimate $\beta 1 = 0.517$, estimate $\beta 2 = 5$.

Hypothesis Testing

t-test

To carry out this multiple linear regression analysis, the researcher used the help of the SPSS 22 program. The results of the t-test can be seen in the following table:

Table 2. t-test

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	9,234	3,501		3,393	,002
	Sistem Pengendalian Internal	,517	,427	,312	4,211	,000
	Kompetensi Sumber Daya Manusia	591	,444	300	1,520	,018

b. Dependent Variable: Y

Based on table 2, to determine the influence of the independent variable on the dependent variable is:

1. Internal Control System (X1) on the Quality of Financial Reports (Y) It can be seen that t count (4.211) > t table (2.052) and the significant value < 0.05, namely 000, so H1 states that the internal control system on the quality of financial reports is accepted.
2. Human Resource Competence (X2) on the Quality of Financial Reports (Y) It can be seen that t count (1.520) < t table (2.052) and the significant value < 0.05, namely 0.018, so H2 states that human resource competence on the quality of financial reports is rejected.

F Test

To carry out this multiple linear regression analysis, the researcher used the help of the SPSS 22 program. The results of the F test can be seen in the following table:

Table 3. F Test

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ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	47,574	2	23,787	1,447	000[b]
	Residual	443,793	27	16,437		
	Total	491,367	29			

a. Dependent Variable: Y
b. Predictors: (Constant), X2, X1

Based on the table, it can be concluded that the multiple linear regression test shows a calculated F result of 1.447 with a significance level of 0.000 which is smaller than 0.5 where the calculated F of 1.447 is greater than the F table value of 3.34, this means that there is a significant simultaneous influence.

Discussion

Based on the results of the analysis described above, it was found that the Internal Control System variable (X1) has a significant effect on the Quality of Financial Reports (Y). This is indicated by the results that t count (4.211) > t table (2.052) and the significant value <0.05, namely 000, so that H1 states that the internal control system on the quality of financial reports is accepted. While the results of the Human Resource Competence variable (X2) have no significant effect on the Quality of Financial Reports (Y). This is indicated by the results that t count (1.520) < t table (2.052) and the significant value <0.05, namely 0.018, so that H2 states that human resource competence on the quality of financial reports is rejected.

According to I Gusti Agung Rai (2008:283) "Internal control system is a policy and procedure designed to provide reasonable assurance to management that the organization achieves its goals and objectives." According to Government Regulation No. 60 of 2008 "Internal Control System is an integral process of actions and activities carried out continuously by management and all employees to provide reasonable assurance of achieving organizational goals through effective and efficient activities, reliability of financial reporting, security of state assets and compliance with laws and regulations." Quality is an assessment of the output of a responsibility center for something, whether seen from a tangible aspect such as goods or an intangible aspect, such as an activity. According to Government Accounting Standards, the important qualities of information contained in financial statements include understandability, relevance, reliability, and comparability. The important quality of information contained in financial statements is its ease of being immediately understood by users. For this purpose, users are assumed to have adequate knowledge of economic and business activities, accounting, and a willingness to study the information with reasonable diligence. However, complex information that should be included in the financial statements cannot be excluded solely on the basis that the information is difficult for certain users to understand.

Before determining the competencies that the company expects from its employees, the first thing to do is to determine the company's source competencies first. These competencies should not be general, but rather in the form of core competencies. Every company that knows exactly its core competencies can use them to gain strategic advantages. Moreover, if the company truly understands the diversity of organizational competencies needed to carry out its mission.

The combination of core competencies and the organization will create a culture of what and how the organization expects to operate. Therefore, the effort to understand and apply

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organizational competencies is very different from the traditional application of physical resources. Organizational competencies must not only be stored and maintained, but also disseminated and embedded in the organization. Organizational competencies represent a list of competencies that describe how the organization expects employees to complete their work. The combination of mission, vision, values, culture and core competencies defines the way the organization works. Each employee must demonstrate these in various aspects of their job. Typically, each company compiles many competencies in an effort to describe in general terms how the company expects its employees to act. Common competencies mentioned are as follows: decision making, risk taking, relationship building, problem solving, analysis, attention to detail, innovation, flexibility, customer service, strategic perspective, teamwork, and leadership.
The organization's competency is then followed up by determining competency at the individual level. Here, competency is important to explain the adequacy/job position. The focus is on technical and performance competencies, two things that are vital to success. Most job analyses focus on the company's technical competency requirements. As a result, companies that prioritize promotion based on technical competencies often ignore people with weak performance competencies. A distinction must be made between technical competencies and operational objectives. Operational objectives are specific to a project or output and the technical skills needed to obtain that output. Examples of technical competencies include completing financial reports, designing a particular product, interviewing job applicants, operating a computer, and so on. Individual performance competencies are organizational competencies that are applied to each individual. Employees will struggle to translate them into specific job applications. This struggle for each employee is necessary because these skills are applied differently and often inconsistently. The essence of performance competency is how the work is done. For example, accountants need performance competencies related to aspects of detail and analytical problem solving.

CONCLUSION

This study aims to determine the influence of three independent variables, namely the implementation of internal control systems, and human resource competencies on the dependent variable, namely the quality of financial reports. Based on the data collected and the tests that have been carried out, the following conclusions can be drawn:

1. The internal control system has a positive and significant effect on the quality of financial reports. The results of this study support the results of previous studies, namely Herawati (2014) on the internal control system having a positive and significant effect on the quality of financial reports.
2. Human resource competency has a negative and insignificant effect on the quality of financial reports. The results of this study support the results of previous studies, namely Karmila (2014) which stated that human resource capacity does not affect the quality of financial reporting.

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