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The Effect of Budget Oversight, Organizational Commitment, and Human Resource Quality on the Quality of Government Financial Reporting with the Government Internal Control System as an Intervening Variable

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ABSTRACT

This research examines the impact of budget oversight, organizational commitment, and human resource quality on the quality of government financial reporting, with internal control systems serving as a mediating variable. Data were collected from municipal governments using quantitative methods. The analysis employs direct and indirect effect tests, including Sobel and Bootstrap methods, to assess mediation. Results reveal that budget oversight, organizational commitment, and human resource quality positively impact financial reporting quality directly and through the internal control system. These findings underscore the need to enhance budget oversight, organizational commitment, and human resource quality to improve government financial accountability and transparency.

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INTRODUCTION

Transparent and accountable financial management is essential for delivering precise information to financial statement users in both the public and private sectors. Local governments as reporting entities are responsible for preparing reliable and relevant financial reports according to the mandate of Law Number 17 of 2003 mandates that the governor, regent, or mayor must submit accountability reports in the form of regional financial statements. With the advent of regional autonomy, there is increasing demand for high-quality financial statements in the public sector. This requires compliance with the qualitative characteristics of financial statements specified in Government Regulation Number 71 of 2010 on Government Accounting Standards.

Previous studies indicate that budget supervision, organizational commitment, and human resource quality affect financial reporting quality. Riskia et al. (2017) found that financial supervision, internal controls, and human resources have a significant impact on the quality of local government financial reporting. Similarly, Inayattulloh and Siswantoro (2019) showed that budget supervision and internal audits positively affect central government financial reports. However, Mawuntu (2020) noted that supervision's impact on local government financial reports can be inconsistent, attributed to insufficient accounting expertise among ASNs and ineffective external supervision.

In addition, organizational commitment has also been identified as an essential factor in enhancing the quality of financial statements. Mahalingam and Suresh's (2018) study revealed that high organizational commitment makes employees more likely to keep contributing to the organization, even under challenging conditions, improving the quality of financial statements. However, as shown by Ayem and Amahala's (2023) study, not all studies found a significant effect of organizational commitment on the quality of financial statements.

The quality of human resources is another element that impacts the quality of financial reporting. Studies by August and Razak (2017) and Chang et al. (2019) indicate that higher-quality financial reporting is associated with better educational qualifications and more extensive work experience in accounting. This finding is also supported by the research of Dasmaran et al. (2018) and Yaqin and Jatmiko (2019), which found that human resources' quality significantly impacts regional financial reports' quality. However, research by Suliyantini and Kusmuriyanto (2017) and Murni et al. (2020) indicates that the impact of human resource quality is only occasionally significant, highlighting a research gap that warrants further investigation.

The internal control system is crucial for ensuring accurate and reliable financial statements. Government Regulation Number 60 of 2008 describes it as a thorough process that involves both leadership and employees working together to achieve organizational objectives and ensure accurate financial reporting. Eriani et al. (2018) and Pangestu et al. (2019) highlight its importance in enhancing financial statement quality. However, Rachman (2017) discovered that the system's influence on financial statement quality is not consistently significant, highlighting inconsistencies in research regarding its effectiveness.

Building on the background and findings of previous research, this study seeks to further investigate the impact of budget supervision, organizational commitment, and human resource quality on the quality of government financial reporting, with the government internal control system serving as an intervening variable. This research will focus on the Banda Aceh City Government, aiming to provide practical insights for enhancing the quality of financial reporting at the local government level.

LITERATURE REVIEW

Stewardship Theory

Stewardship theory developed in the 1990s as a different approach to the traditional agency theory. Stewardship theory focuses on the relationship between management and shareholders, assuming that management has a moral obligation to manage the organization effectively and look out for the interests of shareholders. The primary developers of stewardship theory are Donaldson and Davis, as presented in their book "Stewardship Theory: The Theoretical Basis for Corporate Responsibility". They argue that the management of an organization should act as stewards or managers responsible for the organization's assets and the interests of shareholders and pay attention to the long-term interests and sustainability of the organization.

According to stewardship theory, good management should build a close relationship with shareholders and seek a balance between short-term and long-term interests. Management is also expected to take socially and environmentally responsible actions and consider the effect of their decisions on society and the environment. Stewardship theory is becoming increasingly popular among academics and business practitioners as it provides a more in-depth view of an organization's social and environmental responsibilities and more effective solutions for promoting organizational sustainability.

Resource Based View Theory

The Resource-Based View (R.B.V) framework is employed in business strategy analysis, focusing on an organization's internal resources as the primary source of competitive advantage. Jay Barney, a management professor at the University of Utah, is credited with introducing this framework in the early 1990s. However, the foundational concepts of the Resource-Based View were developed earlier in the 20th century by economists like Joseph Schumpeter, who highlighted the role of inn ovation and technological advancement in achieving competitive advantage. Later, in the 1970s, Michael Porter developed the "diamond model" concept, which identified factors that could enhance a country's competitive advantage.

In the 1980s, academics began questioning the relevance of neoclassical economic theories emphasizing external factors in creating competitive advantage. This led to the creation of the Resource-Based View framework, which emphasizes internal resources as a primary source of competitive advantage. Resource-Based View: Resources are assets, capabilities, or characteristics owned by the organization and provide added value in creating

competitive advantage. Resources can include physical resources, human resources, organizational resources, and technological resources.

Goal Setting Theory

Goal setting theory, introduced by Locke in 1968, examines how individuals select and are motivated to achieve their goals (Srimindarti, 2012). This theory emphasizes that more specific and challenging goals result in higher achievement. The more complex and specific the goal set, the higher the effort and performance produced. The level of goal difficulty affects motivation; challenging but realistic goals trigger creativity and ability development, while too easy goals can reduce individual motivation to innovate (Ginting & Ariani in Matana, 2017).

Locke's model (Arsanti, 2009) highlights four main mechanisms that motivate individuals in goal achievement: directing focus, regulating effort, increasing persistence, and assisting achievement strategies. Commitment to goals is fundamental because high commitment to challenging goals can encourage better performance than low commitment. However, goal conflict can reduce commitment, negatively affecting performance (Ginting & Ariani in Matana, 2017). Feedback is also essential, helping individuals assess their progress and make necessary adjustments, thus strengthening commitment and motivation.

The Effect of Budget Oversight on the Internal Control System

In Indonesia, budget oversight is an essential component of good governance, evaluating the effectiveness of internal controls within an agency. Research by Carvalho et al. (2017) shows that effective oversight increases transparency and exposure in annual reports. Zulfikar et al. (2015) also found that budget oversight positively affects internal control exposure. Rakhmayani and Faisal (2019) support these findings, stating that budget oversight measures positively impact internal control disclosure. Stewardship theory suggests that collectivity-oriented steward behaviour improves organizational performance, benefiting shareholders and other stakeholders. Previous research by Carvalho et al. (2017), Rakhmayani & Faisal (2019), Weli et al. (2020), and Sudjono and Setiawan (2022) affirm the positive connection between budget oversight and internal control systems, thus strengthening the role of stewards in achieving optimal performance.

H_1: Budget supervision has a positive effect on the government's internal control system.

Effect of Organizational Commitment on Internal Control System

Based on stewardship theory, the principal expects shared responsibility proportional to the steward's contribution, even though the contribution is qualitatively different and challenging to measure quantitatively. Stewards motivated by higher orders and intrinsic factors are considered more suitable in principal-steward relationships than those only motivated by extrinsic factors. Sari and Widiatmoko (2023) also observed that the internal control system and organizational commitment significantly and positively affect the quality of

local government financial reports, with human resource quality also playing a crucial role in influencing these reports.
H_2: Organizational commitment has a positive effect on the government internal control system.

Effect of Human Resources Quality on Internal Control System

According to Resource-Based Theory by Barney et al. (2011), an entity's competitive edge and financial performance depend on the quality of its resources, including human resources. Valuable and unique resources drive organizational improvement. The effectiveness of the internal control system is significantly influenced by the quality of human resources. Research by Hale et al. (2024), as well as studies by Akhmad (2017) and others (2023), confirms that high-quality human resources enhance internal control effectiveness, while low-quality human resources diminish it.
H_3: The quality of human resources has a positive effect on the government's internal control system.

The Effect of Budgetary Control on Financial Reporting Quality

Stewardship theory emphasizes that management is oriented towards the organization's overall interests, not just individual goals (Donaldson & Davis, 1991). This theory is relevant to explain how an effective internal control system can help achieve organizational goals, especially in producing accurate financial reports. Research by Riskia et al. (2017) found that financial supervision, internal control systems, human resources, and information technology collectively influence the quality of local government financial reports. Similarly, Inayattulloh and Siswantoro (2019) demonstrated that effective budget management and internal auditing positively impact central government financial reports, underscoring the significance of oversight in enhancing public sector reporting quality.
H_4: Budget supervision has a positive effect on the quality of financial reporting.

Effect of Organizational Commitment on Financial Reporting Quality

Badu et al. (2019) describe commitment as the extent of an individual's engagement in an organization, where they are motivated to participate actively. Employees with high commitment will be more likely to achieve optimal performance because of a love for their work. This organizational commitment positively impacts the quality of the financial statements produced. In line with goal-setting theory, Suarmika and Suputra (2016) explain that individuals committed to organizational goals will positively influence their performance system. Research by Nugroho & Setyowati (2019), Widari & Sutrisno (2017), and Murapi Ikang (2020) supports these findings, showing that organizational commitment has a significant impact on the quality of local government financial reports. These results emphasize the critical role of organizational commitment in enhancing financial reporting quality.
H_5: Organizational commitment has a positive effect on the quality of financial reporting.

The Effect of Human Resources Quality on Financial Reporting Quality

Mariani et al. (2023) found that the quality of the supervisory board, human resources, and information technology positively influence financial reporting quality at Village Credit Institutions. Similarly, Suludin et al. (2022) highlighted that enhanced human resource accountability and financial governance improved financial reporting at Senior High Schools in Simeulue Regency. Han et al. (2022) supported these findings, showing that effective accounting information systems and high-quality human resources together enhance financial statements. These studies align with stewardship theory, which underscores the importance of effective management in balancing short-term and long-term interests, and affirm the significant role of human resources in improving financial reporting quality.

H_6: The quality of human resources has a positive effect on the quality of financial reporting.

Effect of Government Internal Control System on Financial Reporting Quality

Internal control is critical in achieving organizational goals, especially when presenting quality financial statements. Karsana & Suaryana (2017) emphasize the importance of implementing proper internal control because this will make it easier for the government to reach the established goals. This condition aligns with stewardship theory, which shows that non-optimal financial management, especially in applying accounting systems and financial supervision according to regulations, can hinder the realization of sound financial management (Donaldson & Davis, 1991). Establishing a robust internal control system can greatly influence various organizational activities, including enhancing the quality of financial reports for local governments. Research by Surastiani and Handayani (2015), Karsana and Suaryana (2017), along with other studies, demonstrates that internal control has a significant impact on the quality of local government financial reports. This underscores the importance of implementing effective internal controls to achieve optimal financial reporting.

H_7: The government internal control system has a positive effect on the quality of financial reporting.

Government Internal Control System Mediates the Effect Between Budgetary Control and Financial Reporting Quality

Internal control involves actions and activities by leaders and employees to achieve organizational targets by providing adequate assurance. This aligns with stewardship theory, which posits that in public sector organizations, the government's objective is to deliver services to the public while pursuing common goals (Donaldson & Davis, 1991). According to Agung & Gayatri (2018), superior human resources are essential in creating the appropriate quality of financial reports. Research by Karsana and Suaryana (2017) shows that the right competencies will significantly impact the implementation of work, enabling the achievement of government targets, including in creating quality financial reports. This approach is also supported by resource-based theory, which asserts that the contribution of human resources significantly

impacts entity performance (Barney et al., 2011). This study emphasizes the influence of budget supervision on financial reporting quality, with the government's internal control system acting as a mediating factor.
H_8: Government internal control system mediates the effect of budget supervision on financial reporting quality.

Government Internal Control System Mediates the Effect of Organizational Commitment on Financial Reporting Quality

Appropriate competence allows employees to understand their work, including its functions. According to Widaryani and Kiswanto (2020), greater employee commitment leads to higher quality in the accounting information produced. Goal-setting theory states that strong commitment improves employee performance, especially in creating quality financial reports (Suarmika & Suputra, 2016). Skills, knowledge, and good attitudes foster employee idealism, resulting in optimal performance. Resource-based theory posits that the contribution of human resources significantly impacts an entity's performance (Barney et al., 2011). Yuliantini et al. (2017) found that the internal control system links organizational commitment to the quality of financial reporting, thereby strengthening the positive effect of commitment on financial statement quality.
H_9: Government internal control system mediates the effect of organizational commitment on financial reporting quality.

Government Internal Control System Mediates the Effect of Human Resource Quality on Financial Reporting Quality

Research by Rahmawati et al. (2022) shows that the internal control system mediates the link between human resource quality and local government financial reports. The study highlights the importance of ongoing education and training for local government staff to enhance human resource quality, which in turn strengthens the internal control system and improves financial report quality. This finding supports stewardship theory, which posits that high-quality human resources motivate staff to excel in their roles. Education, experience, and training in accounting significantly improve the relevance, reliability, and consistency of financial reports, leading to clearer and more comparable financial statements that help achieve organizational goals.
H_{10}: Government internal control system mediates the effect of human resource quality on financial reporting quality.

The research model employed in this study is outlined as follows:

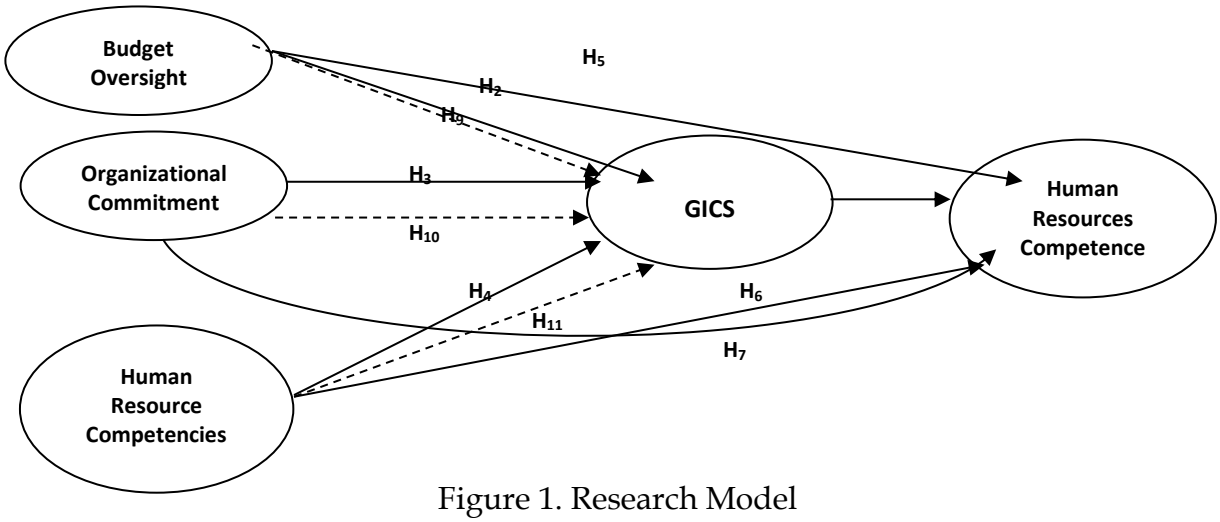

Figure 1. Research Model

METHODOLOGY

This research employs a causal study design to assess the impact of budget oversight, organizational commitment, and human resource quality on the quality of financial reporting, using the government's internal control system as a mediating variable. This study involved a sample of 4 respondents per SKPK in the Banda Aceh City Government who were directly related to financial reporting. Primary data were gathered through a questionnaire utilizing a 1-5 Likert scale, which was compiled based on indicators set by regulations and theoretical studies.

The dependent variable, quality of financial reporting, is assessed using Government Regulation Number 71 of 2010 concerning Government Accounting Standards (SAP). The government internal control system, serving as a mediating variable, is measured based on the indicators specified in Government Regulation Number 60 of 2008. Budget oversight, organizational commitment, and human resource quality as independent variables were evaluated through indicators from Law Number 32 of 2004, Mahalinga & Surel (2018), and Waris & Badariah (2023). The validity of the questionnaire was tested using the Pearson Product-Moment test, while reliability was tested with the Cronbach Alpha coefficient. Data analysis was conducted using Structural Equation Modelling (S.E.M.) with AMOS-22, which helps analyze the relationships among latent variables and measure the direct and indirect effects of variables. Hypothesis testing, including mediation effects, was conducted using the Sobel test and Bootstrap User Estimand, using the Baron and Kenny (1986) approach.

RESEARCH RESULT

Respondent Characteristics

Data were collected from 104 qualified respondents. The validity and reliability of the instruments were tested before analysis. Respondent characteristics, including gender, age, marital status, and education level, are summarized in the table below.

Table 1. Characteristics of Respondents

No.	Characteristics	Frequency	Percentage
	Gender		
1.	- Male	67	64,4
	- Female	37	35,6
	TOTAL	104	100
	Age		
	<35 Years	12	11,5
2.	35 - 40 Years	39	37,5
	41 - 45 Years	27	25,9
	>45 Years	26	25,1
	TOTAL	104	100
	Marital Status		
	Unmarried	13	12,5
3.	Marry	83	79,8
	Widow	3	2,8
	Widower	5	4,9
	TOTAL	104	100
	Education Level		
	- HIGH SCHOOL	-	-
4.	- Diploma	14	13,5
	- Bachelor (S1)	68	65,3
	- Postgraduate (S2)	17	16,3
	- Doctoral (S3)	5	4,9
	TOTAL	104	100
	Length of Service		
	<5 Years	18	17,3
5.	6 - 10 Years	24	23,1
	11 - 15 Years	31	29,8
	16 - 20 Years	11	10,6
	>20 Years	14	19,2
	TOTAL	104	100
	Length of Service		
	<5 Years	8	7,7
	6 - 10 Years	27	25,9
6.	11 - 15 Years	41	39,4
	16 - 20 Years	17	16,3
	>20 Years	11	10,7
	TOTAL	104	100

Source: Primary data processed, 2024

The data processing results revealed that among the 104 respondents, 64.4% were male and 35.6% were female. Most respondents were aged between 35 and 40 years, accounting for 37.5%, followed by 41-45 years (25.9%), above 45 years (25.1%), and below 35 years (11.5%). The majority of respondents were married (79.8%), with the education level mostly undergraduate (65.3%), followed by postgraduate (16.3%), diploma (13.5%), and doctoral (4.9%). Based on length of service, 29.8% of respondents had worked for 11-15 years, 23.1% for 6-10 years, and 17.3% for less than 5 years. Meanwhile, the length of time in

holding the most positions was 11-15 years (39.4%), followed by 6-10 years (25.9%), and more than 20 years (10.7%).

Data Quality Test Results

1. Validity Test Results

Data validity testing was conducted using SPSS Version 21, showing that all statements in this study were declared valid with a significance level below 5%. Based on Table 4.2, all variables in this study were deemed valid, as their correlation coefficients exceeded the critical value of 0.1927. Consequently, all questions in the questionnaire are considered valid and suitable for use in subsequent research. All variable indicators have met the criteria for further testing.

Table 2. Validity Test Results

No. Statement		Variables	Correlation Coefficient	Critical Value 5% (N=104)	Description
1.	PA1	**Budget Oversight (X1)**	0,843	0,1927	Valid
2.	PA2		0,768		
3.	PA3		0,825		
4.	PA4		0,749		
5.	PA5		0,796		
6.	PA6		0,814		
7.	KO1	**Organizational Commitment (X2)**	0,783	0,1927	Valid
8.	KO2		0,923		
9.	KO3		0,906		
10.	KO4		0,905		
11.	KO5		0,737		
12.	KSDM1	**Quality of Human Resources (X3)**	0,730	0,1927	Valid
13.	KSDM2		0,834		
14.	KSDM3		0,824		
15.	KSDM4		0,786		
16.	KSDM5		0,688		
17.	SPIP1	**Government Internal Control System (Y)**	0,853	0,1927	Valid
18.	SPIP2		0,822		
19.	SPIP3		0,820		
20.	SPIP4		0,840		
21.	SPIP5		0,591		
22.	SPIP6		0,826		
23.	SPIP7		0,475		
24.	SPIP8		0,840		
25.	SPIP9		0,795		
26.	SPIP10		0,656		
27.	SPIP11		0,820		
28.	SPIP12		0,854		
17.	SPIP13		0,768		
18.	SPIP14		0,648		
19.	SPIP15		0,701		
20.	SPIP16		0,327		

No.	Statement	Variables	Correlation Coefficient	Critical Value 5% (N=104)	Description
21.	SPIP17		0,309		
22.	KPK1	Financial Reporting Quality (Z)	0,877	0,1927	Valid
23.	KPK2		0,854		
24.	KPK3		0,866		
25.	KPK4		0,802		
26.	KPK5		0,840		
27.	KPK6		0,850		
28.	KPK7		0,783		
17.	KPK8		0,824		
18.	KPK9		0,660		
19.	KPK10		0,853		
20.	KPK11		0,777		
21.	KPK12		0,833		
22.	KPK13		0,841		
23.	KPK14		0,820		
24.	KPK15		0,834		

Source: Primary data processed, 2024

2. Reliability Testing

To evaluate the reliability of the questionnaire, this study employed the Cronbach Alpha reliability test. Based on Table 3, the analysis results indicate that the alpha value for all variables exceeds 0.60, which indicates that this research instrument is reliable. The alpha value obtained is 0.887 for budget supervision, 0.903 for organizational commitment, 0.823 for the quality of human resources, 0.928 for the government internal control system, and 0.969 for the quality of financial statements. All of these values indicate adequate reliability in accordance with the *Cronbach Alpha* standard.

Table 3. Reliability of Research Variables (*Alpha*)

No.	Variables	Variable Items	Alpha Value	Description
1.	Budget Oversight $(X)_1$	6	0,887	Reliable
2.	Organizational Commitment $(X)_2$	5	0,903	Reliable
3.	Quality of Human Resources $(X)_3$	5	0,823	Reliable
4.	Internal Control System (Y)	17	0,928	Reliable
5.	Quality of Financial Statements (Z)	15	0,969	Reliable

Source: Primary data processed, 2024

Descriptive Analysis

The data description summarizes the study variables' minimum, maximum, average, standard deviation, and total data. Analysis of 48 questions from 104 respondents shows that the average scores fall into the 'good' category, as per Sudjana (2015).

Table 4. Descriptive Statistics

Variables	N	Min.	Max.	Mean	Std. Deviation
Budget Oversight	104	2.00	5.00	4.1391	.47623
Organizational Commitment	104	1.60	5.00	3.9750	.56064
Quality of Human Resources	104	1.20	5.00	3.9019	.58988
Government Internal Control System	104	1.47	5.00	3.9297	.56858
Financial Statement Quality	104	1.27	5.00	4.0373	.60795

Source: Primary data processed, 2024

Data Analysis Results

The measurement model analysis results show the *chi-square* value = *915*.067 which is classified as marginal. However, the value of χ^2 /df=1.883; RMSEA=0.073; GFI=0.998; TLI=0.909; AGFI=0.954; and CFI=0.920 meet the fit criteria. In general, the measurement model has met the criteria for goodness of fit, so the results obtained can be used as research findings related to the connection between indicators and their underlying constructs.

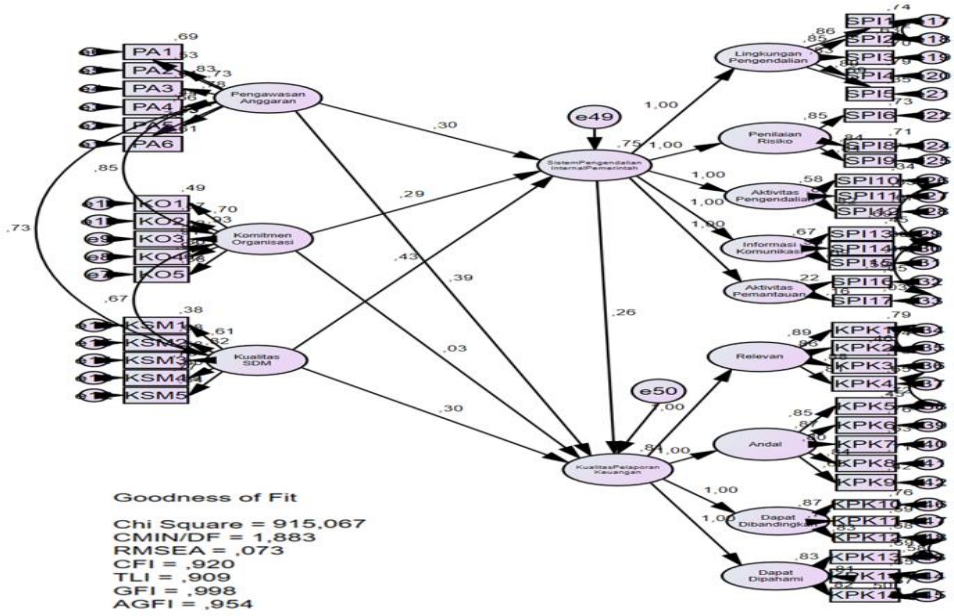

Figure 2. *Structural Equation Modeling* (SEM) Test Results

Hypothesis Testing

After fulfilling all assumptions, hypothesis testing was carried out based on the *Critical Ratio* (CR) value of the SEM analysis, as shown in Table 5.

Table 5. *Regression Weight Structural Equational Model*

Influence between Variables	Estimate		S.E.	C.R.	P
	Std.	Unstd			
Budgetary oversight of government internal control systems	0,301	0,367	0,101	3,057	0,002
Organizational commitment to the	0,290	0,302	0,104	2,810	0,007

Influence between Variables	Estimate		S.E.	C.R.	P
	Std.	Unstd			
government internal control system					
The quality of human resources on the government internal control system	0,432	0,444	0,104	3,506	***
Budget oversight on financial reporting quality	0,393	0,567	0,226	2,509	0,012
Organizational commitment to financial reporting quality	0,232	0,448	0,171	2,279	0,030
Quality of human resources on the quality of financial reporting	0,396	0,415	0,162	2,567	0,010
Government internal control system on financial reporting quality	0,259	0,544	0,074	2,139	0,032

Source: Primary data processed, 2024

DISCUSSION

The Effect of Budget Oversight on the Government Internal Control System

Testing the effect of budget supervision on the government's internal control system shows a standardized estimate value of 0.301, which means that an increase of 1 unit in budget supervision results in an increase of 0.301 units in the internal control system with a probability value of 0.002, more diminutive than 0.05. This result is consistent with the research of Carvalho et al. (2017) and Zulfikar et al. (2015). The CR value of 3.057 is also greater than 1.96, meeting the conditions for acceptance of H1. These results are consistent with the research of Carvalho et al. (2017) and Zulfikar et al. (2015), which show that budget oversight affects the exposure and disclosure of internal control in the annual report. Rakhmayani and Faisal's (2019) research also supports these findings, indicating that the size of budget oversight positively affects internal control disclosure.

According to stewardship theory, collective steward behaviour focuses on achieving larger organizational goals, such as increased sales or profitability, which benefits principals, including outside owners, through higher profits. This theory assumes a strong link between organizational success and principal satisfaction, where the steward serves to protect and maximize shareholder value. Thus, stewards who successfully improve agency performance will meet shareholder interests and maximize overall organizational performance.

Effect of Organizational Commitment on Government Internal Control System

Testing the impact of organizational commitment on the government's internal control system reveals a standardized estimate value of 0.290. This indicates that a 1 unit increase in organizational commitment leads to a 0.290 unit increase in the internal control system, with a probability value of 0.007, which is less than 0.05. The C.R. value of 2.810 is also greater than 1.96, meeting the requirements for acceptance of H2. This finding aligns with the research by Sari & Widiatmoko (2023), which shows that both the internal control system and organizational commitment have a significant positive impact on the quality of local government financial reports.

The stewardship theory suggests principals expect shared responsibility from stewards according to their contributions. Although the contributions of principals and stewards are challenging to qualify, comparison and shared accountability are anticipated. People motivated by intrinsic factors and higher command are better suited to be stewards in this relationship than those motivated by extrinsic factors.

The Effect of Human Resources Quality on the Government Internal Control System

Testing the impact of human resource quality on the government's internal control system shows a standardized estimate value of 0.432. This means that a 1 unit increase in human resource quality leads to a 0.432 unit increase in the internal control system, with a probability value of 0.000, which is less than 0.05. The CR value of 3.506 also qualifies for the acceptance of H3. This finding is consistent with the research by Hale et al. (2024), which demonstrates that the quality of human resources significantly impacts the internal control system, as well as research by Akhmad (2014) and Rahmadani (2023), which supports similar results.

Resource-based theory explains that good-quality human resources can improve an entity's performance and internal control system. According to this theory, competent and adequately skilled resources will contribute to competitive advantage and better performance, supporting the finding that higher quality of human resources leads to a more effective government internal control system.

The Effect of Budget Oversight on the Quality of Financial Reporting

Testing the impact of budget supervision on the quality of financial reporting shows a standardized estimate of 0.393. This means that a 1 unit increase in budget supervision leads to a 0.393-unit enhancement in financial reporting quality, with a probability value of 0.012, which is below the 0.05 threshold. The CR value of 2.509 qualifies for the acceptance of H4. This finding aligns with Riskia et al. (2017) on the impact of financial oversight and internal controls on financial reporting, and supports Inayattulloh & Siswantoro (2019) on the positive effects of budget management and internal audits on financial statement quality.

Stewardship theory explains that management must focus on the organization's interests, not just individual goals. Implementing a robust internal control system is anticipated to enhance the quality of financial statements, aligning with the organization's primary goal of generating accurate and high-quality reports. This theory supports the importance of budgetary control in creating quality financial statements.

The Effect of Organizational Commitment on the Quality of Financial Reporting

Testing the impact of organizational commitment on the quality of financial reporting reveals a standardized estimate of 0.232. This suggests that a 1 unit increase in organizational commitment results in a 0.232 unit

improvement in financial reporting quality, with a probability value of 0.03, which is below 0.05. The CR value of 2.279 qualifies for the acceptance of H5. This study demonstrates that budgetary control affects the quality of financial reporting among the variables examined.

These results align with the research of Badu et al. (2019), which highlights the significance of commitment in enhancing organizational performance, including the preparation of financial reports. Goal-setting theory supports the idea that individual commitment to organizational goals contributes to achieving good results, as Suarmika and Suputra (2016) suggested. Studies conducted by Widari & Sutrisno (2017), Nugroho & Setyowati (2019), and Murapi Ikang (2020) also revealed a notable positive effect of organizational commitment on the quality of local government financial reports.

Effect of Human Resources Quality on Financial Reporting Quality

Testing the impact of human resource quality on financial reporting quality reveals a standardized estimate of 0.396. This indicates that a 1 unit increase in human resource quality leads to a 0.396 unit improvement in financial reporting quality, with a probability value of 0.01, which is less than 0.05. The CR value of 2.567 qualifies for the acceptance of H6. This study affirms that the quality of human resources significantly influences the quality of financial reporting.

These results align with Mariani et al. (2023), who found that human resource quality, the supervisory board, and information technology positively affect financial reporting. They also support Suludin et al. (2022) and Han et al. (2022), which highlight the role of high-quality human resources and effective accounting systems in enhancing financial statement quality. This is based on the stewardship theory, which emphasizes the importance of effective management in building good relationships with shareholders and paying attention to the social and environmental impacts of decisions taken.

Effect of Government Internal Control System on Financial Reporting Quality

The assessment of the government's internal control system's impact on financial reporting quality shows a standardized estimate of 0.259. This indicates that a 1-unit improvement in the internal control system leads to a 0.259-unit increase in financial reporting quality, with a probability value of 0.032, below the 0.05 threshold. The CR value of 2.139 supports the acceptance of H7. This finding, consistent with Surastiani and Handayani (2015) and other research, confirms that the internal control system significantly enhances the quality of local government financial reports.

The internal control system is vital for achieving organizational goals as it ensures high-quality financial reports. Effective management of this system is key to meeting objectives and presenting accurate, reliable financial statements. Stewardship theory supports this, which states that organizations must carry out their duties and functions in accordance with internal control guidelines to achieve good financial management (Donaldson & Davis, 1991).

Government Internal Control System Mediates Budget Oversight on Financial Reporting Quality

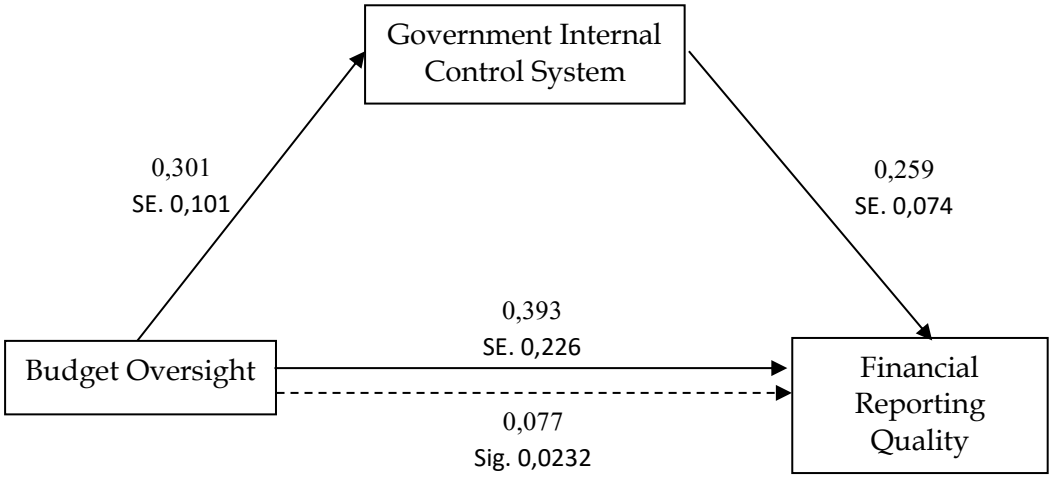

Figure 3. Testing the Mediating Effect of Budget Supervision on the Quality of Financial Reporting Through the Government Internal Control System

Figure 3 shows the path analysis model based on initial and subsequent regression results, with the government internal control system serving as a mediating variable. The Sobel test's z value, which requires manual calculation since it is not directly available from the regression outputs, is:

$$Z = \frac{a1b1}{\sqrt{(b1^2\, SEa1^2) + (a1^2\, SEb1^2)}}$$

$$Z = 2{,}26$$

The Sobel test results, based on the indirect effect test conducted at http://quantpsy.org/sobel/sobel.htm, are displayed as follows:

Input:			Test statistic:	Std. Error:	*p*-value:
a	0.301	Sobel test:	2.26906626	0.0343573	0.0232643
b	0.259	Aroian test:	2.21721064	0.03516085	0.0266087
s_a	0.101	Goodman test:	2.32473917	0.03353451	0.02008591
s_b	0.074	Reset all	Calculate		

The Sobel test results show a z value of 2.26 (greater than 1.96) and a *p-value* of 0.023 (significant below 5%), indicating that budget supervision has a significant effect on financial reporting quality through the internal control system as a partial mediator. This finding is consistent with Karsana & Suaryana's (2017) research and supports *resource-based* theory and *stewardship* theory, which emphasize the importance of internal control and human resource competence in achieving optimal financial report quality.

Budget Supervision Mediates the Effect of Organizational Commitment on Financial Reporting Quality

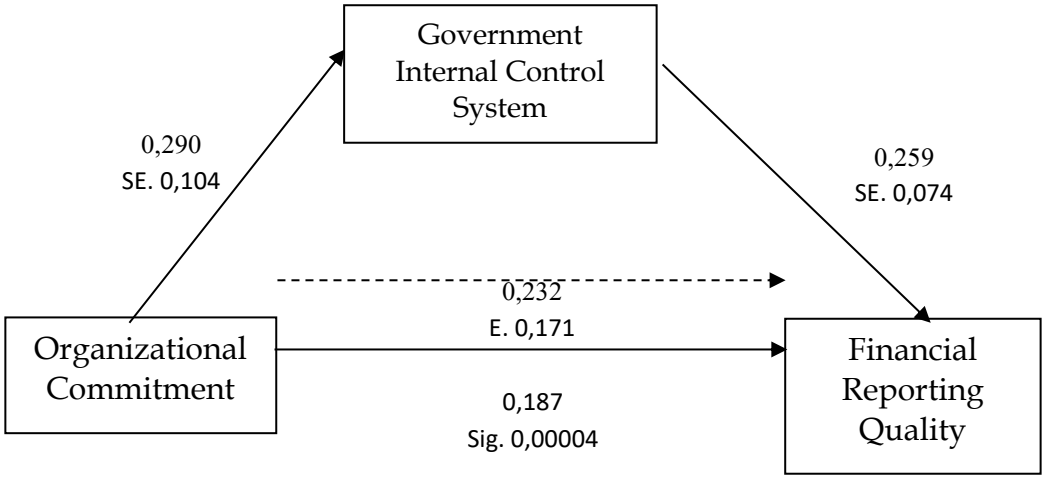

Figure 4. Testing the Mediating Effect of Organizational Commitment on Financial Reporting Quality through the Government Internal Control System

Figure 4 presents a path analysis model based on the first and second regression outcomes, with the internal control system functioning as a mediator. The Sobel test's z value, which cannot be directly extracted from the regression results and requires manual calculation using the Sobel test formula, is:

$$Z = \frac{a1b1}{\sqrt{(b1^2\, SEa1^2) + (a1^2\, SEb1^2)}}$$

Z = 2,18

The Sobel test results, based on the indirect effect test conducted at http://quantpsy.org/sobel/sobel.htm are displayed as follows:

Input:			Test statistic:	Std. Error:	*p*-value:
a	0.290	Sobel test:	2.18092548	0.03443951	0.02918893
b	0.259	Aroian test:	2.12842991	0.03528892	0.03330146
s_a	0.104	Goodman test:	2.2375073	0.03356861	0.0252532
s_b	0.074	Reset all	Calculate		

The Sobel test results, with a z value of 2.18 and a p-value of 0.029, indicate a significant indirect effect of organizational commitment on financial reporting quality through the internal control system. Improved employee competence enhances accounting information quality, aligning with goal-setting and resource-based theories. Yuliantini et al. (2017) also supports the internal control system's role as a mediator in this relationship.

Government Internal Control System Mediates the Effect of Human Resources Quality on Financial Reporting Quality

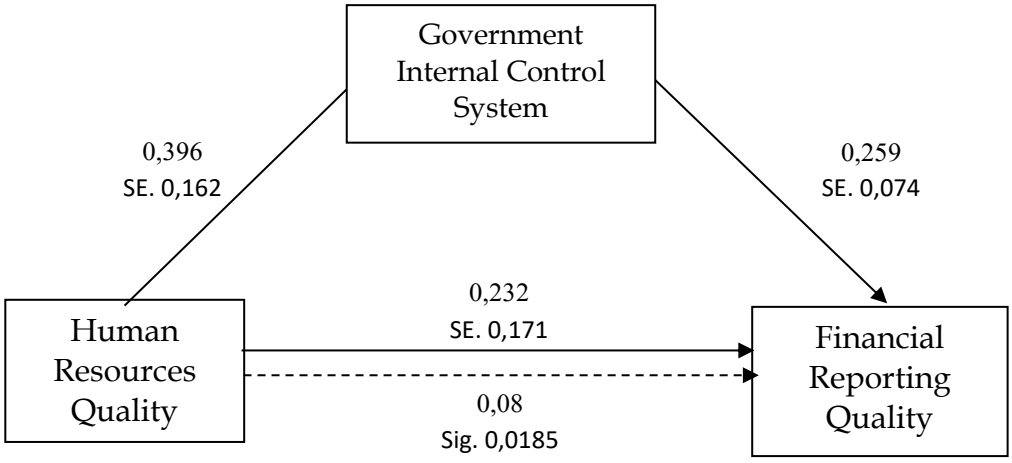

Figure 5. Testing the Mediating Effect of Convenience on the Quality of Financial Reporting through Budget Supervision

Figure 5 presents a model derived from the initial and subsequent regression analyses, resulting in a path analysis model where budget supervision acts as the mediator. The z value from the Sobel test cannot be directly obtained from the regression results and must be manually calculated using the Sobel test formula. The computed z value is:

$$Z = \frac{a1b1}{\sqrt{(b1^2\, SEa1^2) + (a1^2\, SEb1^2)}}$$

Z = 2,00

The display of the sobel test results according to the indirect effect test at http://quantpsy.org/sobel/sobel.htm and the results are as follows:

Input:			Test statistic:	Std. Error:	*p*-value:
a	0.396	Sobel test:	2.00406023	0.0511781	0.04506361
b	0.259	Aroian test:	1.95124389	0.05256339	0.05102804
s_a	0.162	Goodman test:	2.06141157	0.04975426	0.03926379
s_b	0.074	Reset all	Calculate		

The Sobel test results show a z value of 2.00 and a p-value of 0.045, indicating a significant partial indirect effect of human resource quality on financial reporting quality through the internal control system. This supports Rahmawati et al. (2022), which confirms that the internal control system mediates the relationship between human resource quality and local government financial report quality. Enhancing human resources through training and education positively influences both the internal control system and financial reporting quality, aligning with stewardship theory.

CONCLUSIONS AND RECOMMENDATIONS

Based on the presented research findings, it can be concluded that the research findings indicate that budget supervision, organizational commitment, and human resource quality each have a significant positive impact on both the internal control system and financial reporting quality within the Banda Aceh Municipal Government Work Unit (SKPK). Improved budget oversight and organizational commitment strengthen the internal control system, leading to better financial reporting. Similarly, higher-quality human resources enhance both the internal control system's effectiveness and financial reporting quality. Additionally, the internal control system partially mediates the effects of budget oversight, organizational commitment, and human resource quality on financial reporting quality, showing that these factors not only have a direct influence but also improve reporting quality through a more effective internal control system.

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