

## THE INFLUENCE OF INTERNAL CONTROL SYSTEMS, HUMAN RESOURCE COMPETENCE, AND USE OF INFORMATION TECHNOLOGY ON THE QUALITY OF FINANCIAL REPORTS

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### ABSTRACT

This research aims to determine the internal control system, human resource competence, and the use of information technology on the quality of financial reports. Respondents in this study totaled 150 respondents consisting of employees of PT. Vantsing International Group as many as 50 respondents and employees of PT. X as many as 100 respondents. Researchers use comparative causal research, to determine the influence of one or more independent variables on the dependent variable. Researchers used PLS SEM version 3.0 statistical software. The results of this research found that the internal control system has a positive and statistically significant effect on the quality of financial reports, as well as human resource competence has a positive and statistically significant effect on the quality of financial reports, and also the use of information technology has a positive and statistically significant effect on quality. financial statements. This research focuses on the quality of financial reports of a private company, where the majority of previous research has examined the quality of financial reports in the government environment.

**Keywords:** *Internal Control System, Human Resources Competency, and Utilization of Information Technology, and Quality of Financial Reports.*

### INTRODUCTION

A company is a form of business created by a person or group of people whose main aim is to provide profits in the future. According to Anjani and Yadna (2017) a good company is one of the elements of creating good corporate governance, for this reason the company must be able to increase its profitability and company performance. In a company there are very diverse forms of business and types of business. However, as time goes by, the term start-up company or what is often called a startup is often heard. According to Marikxon (2018) a startup is a recent company that grew from the late 1990s to 2000. The term startup usually has a connection with the internet, technology, web. With maximum use of technology, start-up companies are not hindered by distance and time, there is a uniqueness to the goals of these start-up companies. This is because the main goal of the startup company is to create a new system or product with innovation from the use of technology. Like companies in general, profit remains another priority that is just as important as the goals already mentioned.

As has been mentioned, the goal of a company will end in profit. The company records all its business activities in a financial report. According to the Statement of Financial Accounting Standards PSAK No. 1 (2019), financial reports are a structured presentation of the financial position and financial performance of an entity. According to research (Yusuf, Faisal; Indriyani; Titin, Mayang; and Adam, Muhamad) financial reports are the final process in the accounting

process which has an important role in measuring and evaluating performance in profit and non-profit institutions. Financial reports are required to follow and apply the Statement of Financial Accounting Standards (PSAK) which has been prepared and published by the Financial Accounting Standards Board (DSAK) which was formed by the Indonesian Accounting Association (IAI). Because the quality of financial reports describes the condition of a company and companies often make decisions based on the results of financial reports.

This is different from public sector organizations and public companies (go-public) which have routine audit activities to obtain company assessments, especially in terms of the quality of financial reports. Closed companies still don't care much about audits, whether internal auditors or external auditors. According to Mulyadi (2016) audit is a systematic process for objectively obtaining and evaluating evidence regarding statements about economic activities and events, with the aim of determining the level of conformity between these statements and predetermined criteria, as well as conveying the results to interested users, viewed from the perspective of the public accounting profession, an audit is an objective examination of the financial statements of a company or other organization with the aim of determining whether the financial statements present fairly, in all material respects, the financial position and results of the company's operations or that organization. Companies that do not attach importance to auditors' assessments usually rely on systems created by the company, utilize existing human resources, and rely on the technology they use. Meanwhile, the aim of auditing according to Agoes in Yunita's scientific work (2017) is to assist all company leaders (management) in carrying out their responsibilities by providing analysis, assessment, suggestions and comments regarding the activities they inspect. However, often closed companies prioritize current needs to save expenses. Apart from the possibility that the company needs additional funds, the company also needs to control the aspects that the company relies on to produce good and correct quality financial reports.

Apart from that, this research is also in line with research conducted by Siti Fatimah with the title " The Influence of the Internal Control System, Use of Information Technology, and Human Resource Competency on the Quality of Regional Government Financial Reports at the Ponorogo Regency Regional Financial Asset Management Revenue Agency" in 2022. From this research it can be concluded that the internal control system, resource competency human resources, and the use of information technology in the Regional Government at the Ponorogo Regency Regional Financial Asset Management Revenue Agency have a partial or complete positive effect on the quality of financial reports. So it can be said that the higher the quality of a company's financial reports, the internal control system is one of the main factors in making a company's financial reports quality. By creating, implementing and controlling an internal control system properly it will have an influence on the quality of financial reports in a company. Someone violates a system because there is no clarity in regulations within a company, opportunities and control over the applicable system. By having employees who have adequate competencies, it will be easier for employees to carry out their duties. Competencies can be in the form of education, skills and other experience possessed by employees. If the competencies possessed are in accordance with the tasks received, then it will be easier for a person to carry out their duties. Competency is the ability to carry out or carry out a job or task that is based on skills and knowledge and is supported by the work attitude required by the job (Wibowo, 2016). Utilization of Information Technology is the use made by a company with information technology that is currently developing.

At PT. Vantsing International Group has started to utilize information technology that has developed since the company was founded by starting with creating a website, registering on a sales application to carry out neater and more organized records. Meanwhile at PT. X is no less sophisticated the company uses one of the well-known systems that have been used by large companies, namely using the SAP system, besides that the company also has its own IT team to create a system they want such as a website that can only be used by internal and not paid which certainly has high level of security and minimal fraud.

The higher the level of internal control system implemented, the easier it is for the company to achieve company goals. In supporting the quality of financial reports, companies can look for employees who suit the company's needs to make it easier for companies to produce quality financial reports. Human resource competency can be in the form of education that has been completed, skills possessed, or experience that has been experienced. The competencies possessed by employees will be very useful and help the company to make quality financial reports if these competencies are in accordance with the tasks given by the company to each employee. If the competencies possessed are in accordance with the tasks given, it will be easier for the company to produce quality financial reports. Utilization of Information Technology is the benefit expected by information system users in carrying out their duties or behavior in using technology when doing work. The measurement is based on utilization intensity, frequency of utilization and number of applications or software used.

## LITERATURE REVIEW

An internal control system is defined as an internal control system including organizational structure, methods and measures that are coordinated to maintain organizational assets, check the accuracy and reliability of accounting data, encourage efficiency and encourage management policies (Mulyadi, 2016: 163). Apart from that, the internal control system according to Jason Scott (2014: 226) is a process that is carried out to provide adequate assurance that control objectives have been achieved. Mulyadi (2017:129) said that the internal control system includes organizational structure, methods and measures that are coordinated to safeguard organizational assets, check the accuracy and reliability of accounting data, encourage efficiency and encourage compliance with management policies. The Internal Control System is very much needed for monitoring activities on the accounting system so that in the end it will produce the information needed by the company in making decisions and supporting the function of providing management and supporting the company's daily operations. In 2017, a researcher named Amir Abadi Jusuf stated that competency is a competency that requires formal auditing and accounting education, adequate practical experience for the work being carried out, and continuing professional education.

Meanwhile, researchers named Armel, et al, (2017) stated that with the high capacity possessed by human resources in an organization or government agency, this will of course determine the quality of the human resources they have, which will ultimately determine the quality of competition in an organization or government agency. itself. In 2017, a researcher named Husna argued that information utilization can be interpreted as a technology used to process data, including processing, obtaining, compiling, storing, manipulating data in various ways to produce quality information, namely information that is relevant, accurate and timely. , which is used for personal, business and government purposes and is strategic information for decision making. Apart from Husna, in 2019 Puteri et al stated that information technology is a need that must be met in a data management process that is more effective and efficient. Apart from that (Mutiana et al, 2017) argue that Information Technology includes computers (mainframe, mini, micro) software, databases, networks (internet, intranet) and other types related to information technology. Reinforced by the statement from Thompson et al (1991) in Irine Chintya (2015:3) The use of information technology is the benefit expected by information system users in carrying out their duties or behavior in using technology when doing work. The measurement is based on utilization intensity, frequency of utilization and number of applications or software used. Financial reports in 2018, a researcher named Wastam Wahyu Hidayat started a discussion about financial reports which is a condition that describes the financial information of a company, where this information can be used as an illustration of a company's financial performance. Apart from that, in 2017 there was another researcher named Ibrahim Ingga who explained that quality can be interpreted as a relative measure of goodness. Financial reports are reports that contain financial information in the form of total wealth, types of wealth such as liabilities (debt), both short and long term, as well as

equity (capital) and business results owned or obtained by an institution (Nurul Azizah, M., 2021). Meanwhile, other researchers named Jonas and Balanchett in Fadillah Amin (2019: 156) stated that the quality of financial reports is information that is complete and transparent, understandable and designed not to mislead users. To be able to produce useful commercial financial reports, certain conditions must be taken into account that describe the qualitative characteristics of financial reports .

Measurement Table

No.	Research variable	Dimensions	Indicator	Measurement Scale
1.	Quality of Financial Reports (Y)	1. Relevant	a. The Benefits of Good Bait b. There are Predictive Benefits c. On time d. Complete	Interval Measurement Scale
		2. Reliable	a. Honest presentation b. Verifiable c. Neutrality	
		3. Comparable	a. Consistent	
		4. Understandable	a. Clear	
2.	Internal Control System (X1)	1. Control Environment	a. Integrity b. Ethics c. Commitment	Interval Measurement Scale
		2. Risk Assessment	a. Risk Analysis b. Objective	
		3. Control Activities	a. Authority	
		4. Information and Communication	a. System	
		5. Monitoring	a. Inspection	
3.	Human Resources Competency (X2)	1. Knowledge	a. Main tasks	Interval Measurement Scale
		2. Skills	a. Job Skills	
		3. Behavior	a. Code of Ethics	
4.	Information Technology (X3)	1. Computer Systems	a. Computer Use b. Network Usage	Interval Measurement Scale
		2. Information Systems	a. Application Software	

## IMPLEMENTATION METHOD

This research aims to determine the possibility of a relationship regarding the influence of the independent variables internal control system, human resource competence, and the use of information technology on the dependent variable of financial report quality. The research paradigm used in this research is positivism as a method that is structured systematically using deductive logic from a person's behavior in order to find conjectures and predict patterns of human activity and cause-and-effect relationships. The type of data used in this research is quantitative data in the form of values or scores for the answers given by respondents to the statements contained in the questionnaire (Nurul Nadila Idward, 2017). So that relative events and relationships between research variables are found which will then be processed using a quantitative approach (Yusuf, 2017). The unit of analysis uses individuals with minimal researcher involvement. The sampling design in this research is non-probability sampling. For the research setting, the researcher did not intervene in the research (noncontrived setting). For implementation time, use one (cross-section) using data analysis, namely hypothesis testing.

This research will be conducted at PT. Vantsing International Group in the city of Jakarta and PT. X in the city of Bekasi, with a population of 350 employees working for the two companies. In this study, non-probability sampling techniques were used with snowball sampling techniques. Following are the demographics of the respondents:

**Respondent Demographic Table**

No.	Demographics		Frequency	Percentage
1	Gender	Man	123	82.00%
		Woman	27	18.00%
2	Age	18-25 Years	27	18.00%
		26-30 Years	117	78.00%
		31-40 Years	6	4.00%
3	last education	SMA/SMK	24	16.00%
		Diploma	6	4.00%
		Bachelor degree)	118	78.67%
		Postgraduate	2	1.33%
4	Position	Admin	19	12.67%
		Staff	121	80.67%
		Supervisors	8	5.33%
		Manager	2	1.33%
5	Length of work	< 6 Months	6	4.00%
		6 - 12 Months	8	5.33%
		12 years old	115	76.67%
		> 2 Years	21	14.00%
6	Religion	Islam	129	86.00%
		Christian	13	8.67%
		Buddha	2	1.33%
		Catholic	5	3.33%
		Hindu	1	0.67%

7	Wages	< Rp. 5,000,000	14	9.33%
		Rp. 5,000,000 - Rp. 7,500,000	131	87.33%
		Rp. 7,500,000 - Rp. 10,000,000	2	1.33%
		Rp. 10,000,000 - Rp. 12,500,000	1	0.67%
		Rp. 12,500,000 - Rp. 15,000,000	1	0.67%
		> Rp. 15,000,000	1	0.67%

**RESULTS AND DISCUSSION**

**R-Square**

The results of  $R^2 > 0.67$  for endogenous latent variables in the structural model indicate the influence of exogenous variables on endogenous variables in the good category. If the result is 0.33–0.67 it is in the moderate category and if the result is 0.19–0.33 then it is in the weak category.

**R-Square Table**

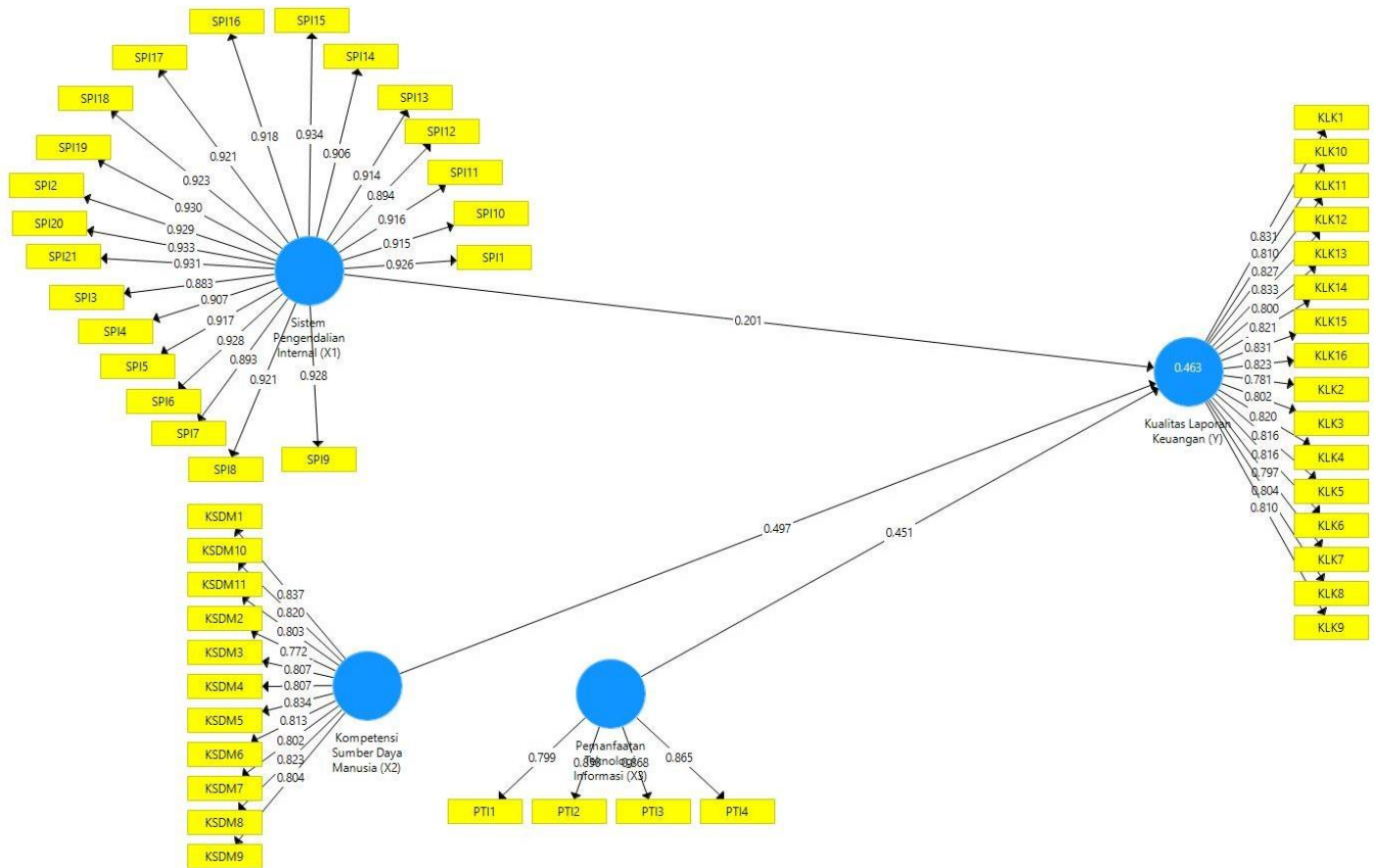
	<b>R Square</b>
<b>Financial Reports (Y)</b>	0.463

**Q-Square**

A Q-square value greater than 0 (zero) shows that the model has predictive relevance, while a Q-square value of less than 0 (zero) shows that the model lacks predictive relevance. However, if the calculation results show a Q-square value of more than 0 (zero), then the model can be said to have relevant predictive value. The results of calculating the Q-Square value are as follows:

$$\begin{aligned}
 Q\text{-Square} &= 1 - (1 - R^2) \\
 &= 1 - (1 - 0.463) \\
 &= 1 - 0.537 \\
 &= 0.537
 \end{aligned}$$

Q-square result of 0, 537 or 53.7 % is obtained, so it can be stated that the amount of diversity in this research data is 53.7 %, while the remaining 46.3 % is explained by other variables outside this research. .



Picture Inner Model

The hypothesis in this research can be known from model calculations using the PLS bootstrapping technique. From the results of the bootstrapping calculations, the statistical t value for each relationship or path will be obtained. This hypothesis testing is set at a significance level of 0.05. The hypothesis can be accepted if the original sample value is in line with the hypothesis. The calculation results for hypothesis testing in this research, using the direct influence of the independent variable on the dependent variable, are obtained as follows:

Table Path Coefficient (T-Statistics) .

	Original Sample (O)	T Statistics ( O/STDEV)	P Values	Results
<b>Internal Control System (X1) -&gt; Financial Report Quality (Y)</b>	0.201	3,241	0.001	Hypothesis Accepted
<b>Human Resources Competency (X2) -&gt; Quality Financial Report (Y)</b>	0.497	6,269	0,000	Hypothesis Accepted
<b>Utilization of Information Technology (X3) -&gt; Quality Financial Report (Y)</b>	0.451	4,841	0,000	Hypothesis Accepted

Based on the table above, the following conclusions are obtained from the results of hypothesis testing:

- a. The results of testing the hypothesis of the influence of the Internal Control System on the Quality of Financial Reports obtained an original sample result of 0.201 and a p-value of 0.001, meaning that the significance is  $0.000 < 0.05$ , so H1 is accepted, so it can be stated that the Internal Control System has a significant positive effect on Report Quality Finance.
- b. The results of testing the hypothesis of the influence of Human Resource Competency on the Quality of Financial Reports, obtained an original sample result of 0.497 and a p-value of 0.000, meaning that the significance is  $0.000 < 0.05$ , so H2 is accepted, so it can be stated that Human Resource Competency has a significant positive effect on the Quality of Financial Reports.
- c. The results of testing the hypothesis of the influence of Information Technology Utilization on the Quality of Financial Reports, obtained an original sample result of 0.451 and a p-value of 0.000, meaning that the significance is  $0.000 < 0.05$ , so H3 is accepted, so it can be stated that the Use of Information Technology has a significant positive effect on Quality Financial statements.

### CONCLUSION

Based on the results of research regarding the Internal Control System, Human Resource Competency, Use of Information Technology on the Quality of Financial Reports, the conclusion was obtained that the Internal Control System has a positive and significant effect on the Quality of Financial Reports. So that PT. Vantsing International Group and PT. X needs to improve the internal control system in running the company and not conflict with regulations set by the government. As well as eliminating all bad habits that have occurred in the company's work environment. By increasing supervision of employees to achieve company goals in accordance with what has been planned by the company. Then Human Resource Competency has a positive and significant effect on the Quality of Financial Reports. So that PT. Vantsing International Group and PT. X needs to improve employee competency so that the tasks and competencies given are always directly proportional. As well as eliminating employee laziness in order to increase their knowledge, such as through training. In addition, companies are required to retain employees who have competencies appropriate to the tasks they have received. By retaining employees according to their competencies and duties, and providing training to achieve company goals in accordance with what has been planned by the company. The use of Information Technology has a positive and significant effect on the Quality of Financial Reports (Y). So that PT. Vantsing International Group and PT. X needs to keep up with developments in information technology which is currently developing very rapidly. By always following developments in information technology and eliminating things that hinder the use of information technology to achieve company goals in accordance with what has been planned by the company. It needs to be said that in the future companies must create a clear internal control system such as making company regulations according to government regulations, making SOPs, implementing the rules and SOPs that have been made, and reviewing whether the rules and SOPs that have been made are appropriate and implemented well or not, as well as It is necessary to make improvements if it is felt that the regulations and SOPs that have been made are no longer appropriate. Then companies also need to retain employees who have worked according to their competencies. And finally, companies also need to maintain good use of information technology because technology is always developing rapidly. This research uses respondents as employees of PT. Vantsing International Group and PT. X. Suggestions for further research are to be better to expand the research area, as in the part that is more broad enough the scope of work. Further research can also use other variables, not only internal control systems, human resource competencies, and use of information technology.



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