

# Factors Improving the Quality of Local Government Financial Reporting Performance: A Mini Review Approach

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## ABSTRACT

The goal of this research is to investigate the variables applying accounting standards, internal control, using information technology, and the caliber of human resources that impact the caliber of local government financial reporting. Using the literature review method, this research examines various journals, articles, and books related to the topic under study. The findings indicate that the execution of Government Accounting Standards (SAP) significantly improves the transparency and accountability of financial statements. A strong internal control system helps reduce errors and fraud, while the utilization of information technology, such as accounting information systems, contributes to increasing the effectiveness and precision of financial reporting. For the purpose of maximizing the application of internal controls and accounting standards, the caliber of qualified human resources became crucial. This study advocates for local governments to enhance SAP adoption, fortify internal controls, optimize information technology usage, and cultivate human resource capabilities to attain superior financial reporting quality.

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## 1. INTRODUCTION

The caliber of local financial reports is a crucial element of public accountability and governance, particularly concerning municipal government. Improving the quality of financial reporting in Indonesian local governments requires the adoption of accounting standards, internal control systems, information technology use, and high-caliber human resources. The transition to accrual-based accounting rules, which the Indonesian government ordered seeks to enhance openness and accountability in public financial management. This change is

particularly significant in the context of local governments, which have historically faced challenges in financial reporting due to inadequate systems and practices. The key concepts underlying this research include the adoption of Government Accounting Standards (SAP), which are designed to ensure that local governments produce reliable and transparent financial reports. Research shows that adherence to these standards is positively correlated with financial statement quality, as it provides a framework for consistent and accurate reporting [1]; [2]. In addition, building an

internal control system is essential for protecting resources and upholding the accuracy of financial reporting. Research shows that effective internal controls can significantly reduce risks related to incorrect financial reporting and improve the overall quality of financial statements [3]; [4].

Information technology plays a critical role in financial reporting. The integration of advanced accounting information systems facilitates accurate processing and reporting of financial data, thereby improving the reliability of financial statements [5]; [6]. Research has shown that effective use of accounting information systems correlates with improved financial reporting quality [7]; [8]. The integration of technology not only streamlines the reporting process, but also helps in detecting errors more accurately, thus promoting a more transparent financial environment [9]. A competent workforce with adequate skills and training is essential for successful implementation of accounting standards and internal controls [10]; [11].

Research shows that investment in human resource development results in improved financial reporting outcomes, as skilled employees are better able to understand complex accounting standards and use information technology effectively [12]. The interaction between accounting standards, internal control systems, information technology, and the quality of HR forms a comprehensive framework for improving local financial reporting. Local governments should prioritize these elements to achieve higher standards in accountability and transparency of their financial practices.

Evidence suggests that a multifaceted approach, encompassing each of these components, is critical to creating an environment conducive to high-quality financial reporting.

## 2. LITERATURE REVIEW

The use of accounting standards, a robust internal control system, enhancing the caliber of HR, and effective usage of

technology affects the financial accounts of local governments. Every one of these elements is crucial to make sure financial statements are accurate, trustworthy, and helpful in making decisions. The use of accounting standards, the development of a robust internal control system, the bolstering of human resources, and the use of information technology all significantly enhance the quality of financial statements produced by local governments. Each of these factors is interconnected, and their synergistic effects enhance the overall integrity and dependability of financial information, which is critical for effective governance and accountability.

### 2.1 Accounting Standards

The implementation of government accounting standards is necessary to enhance the caliber of financial accounts. Research indicates that following these guidelines enhances the dependability and comparability of financial accounts, which are important characteristics outlined inside the Government Accounting Conceptual Framework [13]. For example, According to Juwita's research, there is a direct link between local administrations' financial reporting honesty and their use of governmental accounting standards [14]. This was supported by Marfuah's findings, which highlighted that the quality of financial statements was much improved by the use of these criteria in Gunung Kidul Regency [9].

### 2.2 Internal Control System

Ensuring the accuracy of financial reporting and safeguarding assets require an efficient internal control system. Studies indicate that robust internal controls can mitigate the likelihood of mistakes and fraud, thereby enhancing the overall integrity of financial accounts [15]. Lubis et al. emphasize that a high-quality internal control system is linked to improved financial reporting outcomes, as it provides a framework for accountability and transparency [16]. In addition, internal control effectiveness is often moderated by human resource competencies,

which emphasizes the interrelationship between these elements [17].

### **2.3 Information System**

The role of information technology (IT) cannot be ignored in this context. Effective use of IT facilitates the automation of financial processes, increases data accuracy, and improves the timeliness of financial reporting. Research suggests that using sophisticated accounting information systems greatly enhances the quality of financial reporting [18]. It has been shown that the combination of information technology, human resource capabilities, and internal control systems improves the quality of financial reports produced by local governments [19]. This is supported by Astuti et al., who highlight the value of information technology in improving financial reporting abilities [20].

### **2.4 Quality of Human Resources**

Improving the quality of HR is critical to the effective implementation of accounting standards and internal controls. Competent personnel are essential for preparing accurate financial reports and ensuring compliance with established standards. Studies show that human resource skills in accounting and finance are directly related to the quality of financial reporting [21]. For example, Jatmiko's evaluation of village government financial reports highlighted the importance of HR skills and attitudes in achieving high-quality financial reporting [21]. In addition, the development of human resource competencies is critical to fostering a culture of accountability and transparency within local governments [22].

## **3. METHODS**

This research employs the literature review methodology, which involves analyzing multiple research findings, papers, journals, and books pertinent to the subject of investigation. This method aims to examine established concepts and empirical evidence concerning the determinants of local government financial reporting quality, specifically including the use of internal controls, information technology, accounting

standards, and human resource quality, while also identifying potential research gaps. The research phases encompass the identification of research topics, literature review, literature selection, literature analysis and synthesis, formulation of theoretical frameworks, and the derivation of conclusions and suggestions of how each element affects the caliber of regional financial reporting. The goal of this literature review approach is to provide a comprehensive examination of the relationships between internal controls, information technology use, application of accounting standards, and HR quality in improving the caliber of financial reporting in local governments.

## **4. RESULTS AND DISCUSSION**

The results part of a research report is crucial as it delineates the conclusions derived from the methodologies employed to gather and evaluate the data. The application of information technology, accounting standards, internal controls, and the caliber of HR are essential elements in enhancing the quality of financial reporting in local governments. This study aims to analyze how these four elements interact with each other and contribute to improving the level of accuracy in financial reports. The standard of financial reporting is the main aspect discussed in research by [23]; [24]; [25]. These studies underscore the importance of transparent and accountable financial reporting by local governments, which is critical to the decision-making process of stakeholders.

There is proof that using good government accounting standards improves the caliber of financial statements. According to Warliana's study, using appropriate accounting standards can improve local government financial reporting' transparency and accountability [26]. Moreover, Muliani's study confirms that regional financial reports' quality is impacted by the implementation of official accounting guidelines [27]. This is consistent with Lantu's findings, which show that the quality of financial statements is

directly impacted by the implementation of government accounting rules [28]. Further research is necessary to determine how internal control systems, governmental competency, and accounting standards affect the accuracy of regional financial reporting [29]. The adherence to good governance principles, the efficiency of local government processes, and The quality of financial statements in local government reports is significantly impacted by the use of accounting standards. Nonetheless, the quality of financial statements is not significantly impacted by the use of information technology [30]. Furthermore, internal control greatly improves the quality of financial statements. According to [31]. A strong internal control system reduces the possibility of errors and fraud, improving the integrity of financial statements. Reswari and Nazir's research revealed that deficiencies in internal control can result in issues with asset management and recording, which has a detrimental impact on the accuracy of financial statements [32]. The study by Sari, [33] highlights the impact of HR competences and the impact of financial accounting standards on the quality of financial statements; thus, local governments must fortify their internal control framework to guarantee the accuracy of their financial accounts.

This research emphasizes that in order to ensure the accuracy of financial reporting, trained HR and standardized financial accounting systems are required. The caliber of HR is a vital component in this setting. Pujanira and Taman's research suggests that improved human resource competency has a positive impact on financial statement quality [34]. Ariada's studies indicate that enhancing HR capabilities in accounting and financial management can elevate the standard of local government financial reporting [35]. Additionally, Ansar et al.'s research suggests that HR competencies may have an influence on the connection between the usage of accounting information systems and the quality of financial statements and understanding of

accounting standards [36]. Consequently, element. One important factor in raising the caliber of financial reporting is using information technology. Mustaqmah and Putri show that the use of a good management information system can improve efficiency and accuracy in preparing financial reports [37]. Research by Zulkarnain and Ningrum confirms the deployment of suitable accounting information systems have the potential to improve the quality of financial statements by improving the management of financial data [38]. Lantu noted that although information technology offered great promise, its effects on the caliber of financial statements might vary depending on how it was implemented [28].

The use of accounting standards, robust internal controls, and efficient use of information technology all contribute to the improvement of the quality of financial reporting in local governments, and improved human resources. Additional study is required to investigate the interplay between these aspects and to ascertain optimal techniques for their application.

## 5. CONCLUSION

This study of the literature shows that enhancing the quality of HR, utilizing information technology, putting strong internal controls in place, and implementing accounting standards are all critical, linked elements that contribute to improving the caliber of financial reporting in local governments. It has been shown that adopting appropriate accounting standards, including SAP, improves the transparency and accountability of financial reporting. Maintaining the integrity of financial statements requires strong internal controls. An efficient internal control system can lower the risk of fraud and error, enhancing the overall quality of financial statements. Effective use of information technology is necessary to increase the efficiency and accuracy of financial reporting. The incorporation of sophisticated accounting information systems enables enhanced

financial data processing, which in turn boosts the accuracy of financial statements. The effectiveness of internal controls and accounting standards implementation depends on having human resources of a high caliber.

Taken together, the interaction between these four factors forms a comprehensive framework for raising the

standard of financial reporting at the municipal level. The adoption of accounting standards, bolstering internal control mechanisms, and making use of information technology must be local governments' top priorities, and developing human resources to achieve higher standards in accountability and transparency of financial practices.

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