International Journal of
Entrepreneurship and Business Management

Vol.5, No.2 (2026)
e-ISSN: 2808-716X
pp.219-236

The Effect of Human Resource Competency and Internal Control System on Financial Statement Quality with Accounting Information System as a Moderating

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ARTICLE INFO

Research Paper

Article history:
Received: 5 July 2026
Revised: 30 July 2026
Accepted: 29 August 2026

Keywords: Human Resource Competency, Internal Control System, Financial Statement Quality, Accounting Information System, Moderating

DOI:
https://doi.org/10.54099/ijebm.v5i2.1943

ABSTRACT

This study examines the effect of human resource competency and internal control systems on the quality of financial statements, focusing on Village Credit Institutions (LPDs) in Gianyar Regency, Bali, and considering the accounting information system as a moderating variable. A quantitative approach was used, employing Partial Least Squares Structural Equation Modelling (PLS-SEM). Data were collected from 103 LPD chairpersons, who were purposively selected from a population of 270 LPDs, via a structured Likert-scale questionnaire. The measurement model demonstrates adequate validity and reliability (AVE ≥ 0.722; composite reliability ≥ 0.928). The results of hypothesis testing indicate that human resource competency and internal control systems significantly influence financial statement quality. However, the accounting information system was found to significantly strengthen the effect of human resource competency on financial statement quality and significantly weaken the effect of internal control systems. The model explains 91.2% of the variance in financial statement quality. These findings offer a contingency perspective on financial reporting quality, positioning the accounting information system as a substitute for manual internal control rather than merely a supporting tool — particularly within traditional village financial institutions.

INTRODUCTION

The accountability and transparency of an organization's financial management are best measured through its financial statements. Financial statements must provide relevant, reliable, comparable, and timely information to stakeholders so they can assess the organization's performance and financial position for financial decision-making. According to Anto & Yusran (2023), an organization's ability to provide financial data that accurately reflects real-world conditions and can be trusted by users is reflected in the quality of its financial statements. In the same vein, Newman et al. (2017) note that stakeholders judge how well an organization manages its resources primarily by looking at high-quality financial statements.

As a form of accountability for the administration of public funds, financial statement quality is strategically critical in the context of the public sector and local financial institutions. Maintaining an organization's legitimacy and public trust depends heavily on the accuracy and reliability of its financial statements. Stašević & Stavanović (2019) explains that recording, processing, and reporting transactions methodically in accordance with accounting rules affects financial statement quality beyond just the final report. In addition, according to Cao et al. (2021), misstatements and delays in financial information can reduce the value of that information and erode stakeholders' trust in the organization.

Because Village Credit Institutions (LPDs) are owned by traditional villages and manage community funds in accordance with the values of social accountability and trust, financial statement quality takes on a more nuanced meaning in this context. Beyond serving as a tool for financial administration, an LPD's financial statements allow managers to be accountable to oversight bodies and the village community. According to Ahmad et al. (2020), the quality of an LPD's financial statements reflects how responsibly management handles community funds in an open and accountable manner. As such, the organization's sustainability and the continued trust of the traditional village community depend heavily on the integrity of the LPD's financial statements.

To meet stakeholders' information needs, Stakeholder Theory requires organizations to provide high-quality financial statements. From this perspective, an organization's ability to meet stakeholder expectations through accountability and transparency in financial management is just as important to its success as its capacity to generate profit. Reliable financial statements are the primary means by which the village community, a key stakeholder in the LPD, can hold managers accountable. Consequently, an organization's application of the values of accountability, openness, and good governance is considered to be reflected in the quality of its financial statements.

The quality of financial reporting always depends on internal control mechanisms and human resource capabilities. A person's human resource competency reflects how well they understand, handle, and apply accounting principles in financial reporting. Yamin et al. (2025); Putra et al. (2026), define human resource competency as an employee's knowledge and application of financial reporting accounting. From another angle, human resource competency is a measure of how professionally employees provide accurate and reliable financial information (Sumaryati et al., 2020); (Putra et al., 2026). Conceptually, skilled human resources are able to reduce recording errors, improve the accuracy of report presentation, and facilitate the production of higher-quality financial statements.

The internal control system, in turn, is intended to ensure that rules are followed, operations run smoothly, and financial statements are accurate. Doxey (2019) defined the internal control system as a set of rules and standards designed to prevent fraud and errors in the financial reporting process. Small enterprises, particularly LPDs, need an effective internal control system to reduce risks in financial management and the division of labor (Vu & Nga, 2022). Prodanova et al. (2017) note that the internal control system ensures accurate financial recording and holds managers of public funds accountable.

Financial information systems in organizations are becoming increasingly important alongside advances in technology, human resource knowledge, and internal control systems. An accounting information system can record, process, and report financial data quickly, accurately, and efficiently. According to Budiandru (2025), an accounting information system uses technology to streamline accounting and produce more accurate and up-to-date financial data. As Almubaydeen et al. (2026) put it, an effective accounting information system can improve an organization's financial reporting quality and operational efficiency.

Accounting information technology, internal control systems, and human resource capabilities can improve financial reporting, but not always. Several studies show that internal control systems and human resource capabilities improve financial reporting. However, according to other studies, the benefits are not as large when an organization lacks a solid information system or when the implementation of internal control is merely a formality (Mojtahedi & Zhou, 2024; Sambhara et al., 2025).

These contradictory findings suggest that internal control systems, human resource expertise, and financial reporting quality are not straightforwardly linked. Instead, several unexpected factors influence all three. The financial information system is the key. A well-designed financial information system strengthens internal control and human resource capabilities. An accounting information system improves financial data management, eliminates recording errors, and enhances supervisory control.

Previous studies have treated the accounting information system as an independent variable rather than as a means of strengthening organizational variables and financial reporting quality. Yet stakeholder theory and the information systems approach both emphasize the need for financial reporting technology to support internal control and human resource performance. Even so, few studies have examined how the accounting information system affects internal control systems, human resource competency, and financial reporting quality in LPDs.

Village Credit Institutions (LPDs) in Gianyar Regency exhibit this problem as well. Many LPDs still struggle with weak internal control systems due to overlapping roles and inadequate oversight functions, a lack of accounting background among most of their staff, and the use of rudimentary or even manual accounting information systems. As a result, financial statements are often delayed, inaccurate, and difficult to reconcile (Arimbawa et al., 2024). From a stakeholder theory perspective, this situation indicates that LPD financial management does not optimally apply the principles of accountability and transparency.

This study argues that the accounting information system can moderate financial reporting quality, but its success depends on how well human resource competency and the internal control system work together. Prior studies, however, have found that the accounting information system directly affects financial reporting quality. This study contends that financial reporting quality depends on how well and how consistently an organization uses accounting information technology to support the reporting process, as well as on the capability and efficiency of the people involved.

This study examines how the accounting information system, the internal control system, and human resource skills affect financial reporting standards in Village Credit Institutions (LPDs) in Gianyar Regency. The study is expected to advance accounting understanding, particularly regarding a contingency perspective on financial reporting quality in local financial institutions. The findings are also expected to help LPD managers and regulators improve financial reporting quality by strengthening the accounting information system, recruiting better human resource specialists, and implementing effective internal controls.

LITERATURE REVIEW

Stakeholder Theory

According to stakeholder theory, an organization needs to provide the required information to all internal and external stakeholders who have an interest in its operations. Freeman (2010) argues that an important part of an organization's sustainability is its ability to manage its relationships with stakeholders by providing them with accurate and honest information. Financial statements can be used in many ways to hold managers accountable for performance, finances, and resource management. This theory is applied in the present study because the principal parties with an interest in a Village Credit Institution (LPD)—a traditional bank that manages village community funds—are the local government, the managers, and the village community itself. Stakeholder theory gives us a way to think about the idea that the quality of an LPD's financial statements should reflect how responsibly the people managing village funds behave. An LPD's internal control system, accounting information system, and human resource competency are said to affect how well the LPD provides accurate and useful financial information to its stakeholders.

Financial Statement Quality

Financial statement quality refers to the ability of financial statements to provide relevant, trustworthy, understandable, and timely information that helps users make financial decisions (Kythreotis & Constantinou, 2016). Relevance, faithful representation, comparability, verifiability, timeliness, and understandability are among the qualitative requirements for high-quality financial statements (Kythreotis & Constantinou, 2016). In addition Karunananda et al. (2025) note that the accuracy and reliability of the financial data an organization provides to stakeholders is reflected in the quality of its financial statements.

Understandability, dependability/verifiability, timeliness, comparability, and completeness are indicators of financial statement quality (Mulyadi, 2019; Sun et al., 2020) .

Human Resource Competency (HR)

Human resource competency refers to a person's knowledge, skills, attitudes, and experience that enable job performance. According to Spencer & Spencer (1993), competency is the personal quality required for business effectiveness. Competency encompasses professional knowledge, skills, and attitudes. According to Truong & Le-Anh (2025), human resource competency is a worker's capacity to understand and apply accounting principles in financial reporting.

Research-based indicators of HR competency include knowledge, skills, attitudes, and responsibility (López-González et al., 2026; Salleh et al., 2016).

Internal Control System

The Internal Control System (ICS) helps an organization achieve its objectives, particularly in operational efficiency, financial reporting accuracy, and regulatory compliance (Sutter & Sommerhalder, 2023). Belasen & Belasen (2019) defines the ICS as the actions of management and staff aimed at achieving organizational objectives. Donelson et al. (2017) state that the ICS monitors financial reporting issues to prevent fraud and errors.

The ICS operates through the control environment, risk assessment, control actions, information and communication, and monitoring (Giannopoulos et al., 2025).

Accounting Information System

The Accounting Information System (AIS) collects, records, processes, and presents financial data to support decision-making. According to Romney & Steinbart (2020), the AIS integrates financial and non-financial data to help an organization operate and track its success. Yang, (2025) define the accounting information system as a technology-based system that improves the accuracy and timeliness of financial data.

Sun et al. (2020) list usefulness, dependability, availability, timeliness, and system capacity as indicators of the accounting information system.

Hypotheses

The Effect of Human Resource Competency on Financial Statement Quality

Human resource competency encompasses the knowledge, ability, experience, and professional attitude required to record and prepare financial statements. Financial statements improve when human resource staff understand accounting rules, record transactions accurately, and provide valuable, accurate, and up-to-date financial information. In line with stakeholder theory, organizations must communicate with stakeholders honestly and clearly. Financial reporting is the primary way an organization shows stakeholders how it manages its resources. Managers who are proficient in accounting produce more accurate and meaningful financial records, which makes HR expertise critically important.

In prior research, HR competency improved financial reporting. Human resource competency improves financial statements (Yamin et al., 2025); Surasmi et al (2026). The following research hypothesis is based on this discussion:

H1: Human resource competency has a positive effect on financial statement quality.

The Effect of the Internal Control System on Financial Statement Quality

An organization's internal control system ensures smooth operations, accurate financial reporting, and regulatory compliance. A sound internal control system reduces fraud and recording errors, thereby improving financial reporting.

According to stakeholder theory, effective oversight methods are needed to enable accountable and transparent resource management. The internal control system monitors organizational processes to ensure compliance. Stakeholders then receive more accurate and reliable financial information.

Previous research shows that internal control improves financial reporting. Studies by Boulhaga et al. (2022; Huy & Phuc (2022) indicate that the performance of the internal control system improves the quality of financial data. From this, the following hypothesis can be formulated:

H2: The internal control system has a positive effect on financial statement quality.

The Accounting Information System Moderates the Effect of Human Resource Competency on Financial Statement Quality

The best results come from HR specialists who make good use of the financial information system. An accounting information system lets people manage financial data methodically, quickly, and accurately, so they can apply their best abilities to preparing financial statements. Without a good information system, human resource skills alone can actually lower financial statement quality.

Stakeholder theory holds that organizations must provide stakeholders with timely, accurate, and relevant information. An accounting information system makes the process of tracking and reporting money easier and more accurate. A study by Salameh (2019) finds that an accounting information system can make the quality of financial records more dependent on how well human resources are trained.

Based on the foregoing, the research hypothesis is formulated as follows:

H3: The accounting information system strengthens the effect of human resource competency on financial statement quality.

The Accounting Information System Moderates the Effect of the Internal Control System on Financial Statement Quality

A good financial information system strengthens internal control. An accounting information system manages transactions and data in real time and provides accurate, timely information that integrates controls. The accounting information system helps the internal control system maintain better financial records.

In line with stakeholder theory, the accounting information system enables organizations to offer reliable data to stakeholders. According to (Meiryani et al., 2021; SUMARYATI et al., 2020), the accounting information system can improve both financial records and the internal control system.

Based on this discussion, the research hypothesis is formulated as follows:

H4: The accounting information system strengthens the effect of the internal control system on financial statement quality.

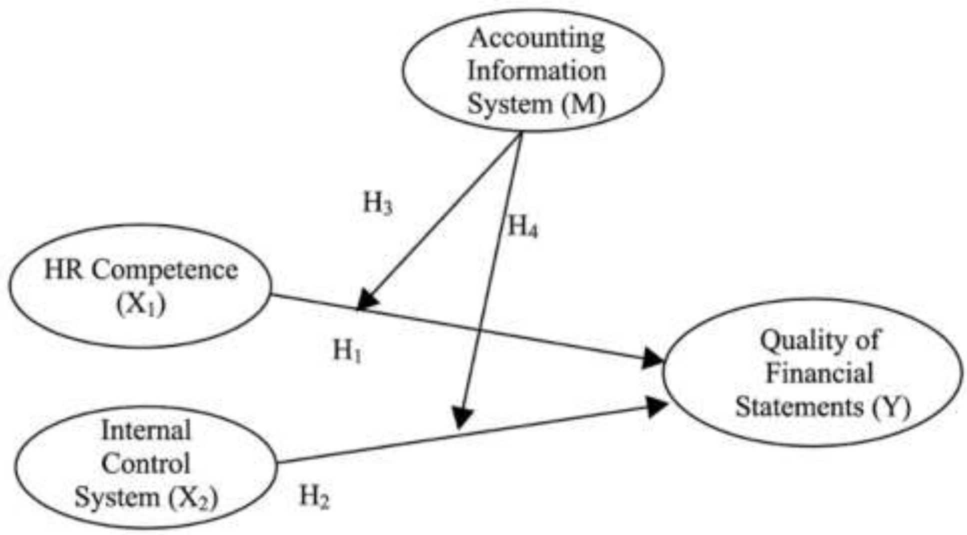

Figure 1. Research Model

METHOD

Partial Least Squares Structural Equation Modeling (PLS-SEM) was used to assess how internal control mechanisms and HR skills affect financial reporting quality, with the accounting information system serving as a moderator. Village Credit Institutions (LPD) in Gianyar Regency, Bali, were the setting for this study. All 270 LPD operating in the regency made up the population. The sample consisted of 103 LPD selected purposively, all of which were classified as healthy. The respondents were the leaders of the LPD and were considered highly knowledgeable about internal control systems, financial management, and how to use the accounting information system in their organizations.

In addition to a five-point Likert-scale questionnaire, interviews, observation, and documentation review were also used. This study treats the accounting information system as the moderating variable, financial statement quality as the endogenous variable, and human resource competency and the internal control system as the exogenous variables. The study employs a Common Method Bias (CMB) test, descriptive statistics, outer model testing (convergent validity, discriminant validity, composite reliability, and Cronbach's alpha), inner model testing (R-square, Q-square, and Goodness of Fit), and bootstrapping for hypothesis testing. To test the claims, we used a t-statistic > 1.96, a p-value < 0.05, and a 5% significance threshold.

RESULT AND DISCUSSION

Inferential Analysis Results: Partial Least Square

Measurement Model Evaluation (Outer Model)

This study examines the effects of endogenous and exogenous factors. Before the analysis, the empirical model was tested first. The SmartPLS program was used to examine the structural equation modeling (SEM) data in this work.

Convergent Validity

Convergent validity is one of the tests used to establish construct validity. This assessment involves examining the outer loading coefficient of each indicator on its latent variable, as well as the Average Variance Extracted (AVE) for each construct. The calculation results are presented in Table 1 below:

Table 1. Test Results: *Convergent Validity*

Variable	Indicator	Loading Factor	*AVE*	*Cronbach's Alpha*	*rho_A*	*Composite Reliability*
Accounting Information System (M)	M1	0,905	0,835	0,951	0,951	0,962
	M2	0,912				
	M3	0,952				
	M4	0,891				
	M5	0,909				
	X1.1	0,864	0,833	0,933	0,937	0,952

Human Resource Competency (X1)	X1.2	0,913				
	X1.3	0,941				
	X1.4	0,930				
Internal Control System (X2)	X2.1	0,877				
	X2.2	0,823				
	X2.3	0,715	0,722	0,902	0,921	0,928
	X2.4	0,911				
	X2.5	0,908				
Financial Statement Quality (Y)	Y.1	0,900				
	Y.2	0,926				
	Y.3	0,911	0,791	0,933	0,936	0,950
	Y.4	0,912				
	Y.5	0,790				

As shown in Table 1, the outer loading value for each indicator exceeds 0.5, indicating that the indicators are convergent and accurately represent their respective latent constructs. Additionally, the AVE value for each variable exceeds the recommended threshold of 0.50, further confirming the establishment of convergent validity. These results suggest that the research instrument is functioning as intended and that the results of the hypothesis testing can be relied upon with confidence.

Discriminant Validity

Discriminant validity can also be used to evaluate the indicators of latent variables. It ensures that each construct in the model is distinct and does not overlap conceptually or practically. The Heterotrait-Monotrait (HTMT) ratio presents the discriminant validity results for this study. In Partial Least Squares (PLS) Structural Equation Modeling, HTMT in SmartPLS is the newer, recommended method. This approach detects discriminant validity problems more sensitively than the Fornell-Larcker criterion. Methodological investigations show that the Fornell-Larcker criterion and cross-loadings do not always detect discriminant validity when constructs are strongly correlated. For this reason, HTMT was chosen. HTMT addresses this problem by comparing the average correlations of indicators across different constructs (heterotrait) with those of indicators within the same construct. This technique reveals the distinctions among constructs more accurately. Strong discriminant validity is achieved when the HTMT value is below 0.90 or 0.85. HTMT confirms that there is sufficient variance among the latent variables in this study, which ensures that the measurement model is valid and accurately represents the research concepts. Table 2 presents the calculation results:

Table 2. HTMT Test (*Heterotrait-Monotrait Ratio*)

Variable	**Accounting Information System (M)**	**Human Resource Competency (X_1)**	**Internal Control System (X_2)**	**Financial Statement Quality (Y)**
Accounting Information System (M)				
Human Resource Competency (X_1)	0.868			
Internal Control System (X_2)	0.804	0.851		

Variable	Accounting Information System (M)	Human Resource Competency (X_1)	Internal Control System (X_2)	Financial Statement Quality (Y)
Financial Statement Quality (Y)	0.858	0.812	0.863	

Table 2 presents the findings of the Heterotrait-Monotrait (HTMT) discriminant validity test. All inter-construct ratio values fall below the required 0.90 threshold. This indicates that there is sufficient variance among the constructs in the research model to test multiple ideas empirically.

Structural Model Evaluation (Inner Model)

PLS is a variance-based, prediction-oriented SEM analysis used to assess the model's theory. Accordingly, several metrics, including inner model evaluation, are generated to assess the model's adequacy. The overall goodness of fit of the model in this study is assessed using structural (inner) model evaluation, which is based on the variables and their indicators. The bootstrapping results are as follows:

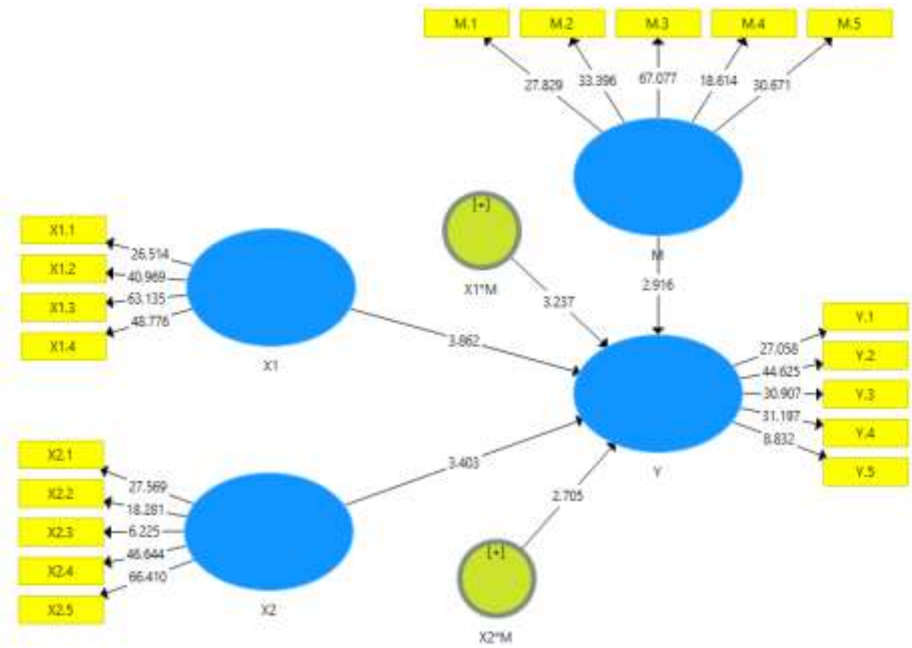

Figure 2. Test Results: *Bootstrapping*

The bootstrapping results for the correlations among variables in the structural model, examined using the Partial Least Squares (PLS) method, are shown in Figure 2. The t-statistics from the bootstrapping of the structural model and the p-values for each latent-variable association are presented in Figure 3.

Hypothesis Testing

The relationships between the exogenous and endogenous latent variables, as well as the indicators that form these latent variables, are depicted in Table 4 below using a path-diagram structure:

Table 3. t-Test Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
X_1 -> Y	0.344	0.349	0.089	3.862	**0.000**
X_1*M -> Y	0.237	0.224	0.073	3.237	**0.001**
X_2 -> Y	0.294	0.292	0.086	3.403	**0.001**
X_2*M -> Y	-0.184	-0.168	0.068	2.705	**0.007**

1. The Effect of Human Resource Competency (X_1) on Financial Statement Quality (Y)

   Table 4 shows that the path coefficient for the first hypothesis is 0.344, indicating a favorable hypothesis. Financial statement quality is positively correlated with human resource expertise (0.344). A p-value of 0.000 < 0.05 indicates that human resource skills significantly affect financial statement quality. Human resource competency has a positive and significant effect on financial statement quality, supporting the first hypothesis.

2. The Effect of Internal Control (X_2) on Financial Statement Quality (Y)

   The path coefficient for the second hypothesis is 0.294 in Table 4, indicating a favorable hypothesis. This shows that internal control improves financial statement quality. A p-value of 0.001 < 0.05 indicates that internal control significantly affects financial statement quality. This finding supports the second premise, that internal control improves financial statement quality.

3. The Accounting Information System Moderates the Effect of Human Resource Competency on Financial Statement Quality

   Table 4 shows that the third hypothesis is supported, with a path coefficient of 0.237 and a p-value of 0.001. The accounting information system significantly moderates the effect of HR skills on financial statement quality. The accounting information system reinforces the relationship between HR skills and financial statement quality. This supports the third hypothesis, that the accounting information system moderates the effect of HR skills on financial statement quality.

4. The Accounting Information System Moderates the Effect of the Internal Control System on Financial Statement Quality

   Table 4 shows a negative path coefficient of -0.184 and a p-value of 0.007 (< 0.05) for the fourth hypothesis. The accounting information system moderates the relationship between the internal control system and financial statement quality. Although statistically significant, the direction of this coefficient contradicts the original theory. It means the accounting information system does not strengthen the effect of the internal control system on financial statement quality. There is no evidence to support the fourth hypothesis. The accounting information system does not enhance the way an LPD's internal control system affects financial statement quality.

Structural Model Evaluation via R-Square (R^2)

The assessment known as Structural Model evaluation is used to evaluate the overall accuracy (goodness of fit) of the model in this study, which is formed by the variables and their indicators. The R-Square test is used to evaluate this structural model as described below:

Table 4. The *R-Square* Values of the Endogenous Variable

Variable	*R Square*	*R Square Adjusted*
Y	0.912	0.908

The R-Square value for financial reporting quality is 0.912, as shown in Table 5. This means that 91.2% of the variation in financial reporting quality is explained by internal control and human resource skills. The remaining variation is attributable to variables outside the research model.

Predictive Relevance Analysis (Q^2)

The structural model's prediction of the endogenous variable is assessed using the Q^2 value.

Because there is only one endogenous variable (Y) in the model, the R^2 value is used in the Q^2 calculation as follows:

$$Q^2 = 1 - (1 - R^2)$$
$$Q^2 = 1 - (1 - 0{,}912)$$
$$Q^2 = 0{,}912$$

The model has highly significant predictive relevance, as indicated by a Q^2 value of $0.912 > 0$ based on the calculation above. The value near 1 demonstrates the model's excellent predictive performance in explaining financial statement quality.

Goodness of Fit Analysis (GoF)

GoF is used to assess the overall fit of the model (outer model + inner model). The calculation steps and the average AVE of each variable are presented below:

M = 0,835
X1 = 0,833
X1*M = 1,000
X2 = 0,722
X2*M = 1,000
Y = 0,791
Rata-rata AVE =
(0,835 + 0,833 + 1,000 + 0,722 + 1,000 + 0,791) / 6
= 0,864
Rata-rata R^2
Karena hanya ada 1 variabel endogen:
R^2 rata-rata = 0,912
3. Nilai GoF
GoF = √ (AVE rata-rata × R^2 rata-rata)
GoF = √ (0,864 × 0,912)
GoF = √ (0,788)
GoF = 0,887

The resulting value is 0.887, which is a high GoF score. This means that the study model, the measurement model, and the structural model all fit very well.

Direct and Indirect Test (Moderator)

This test is used to determine whether human resource competency and internal control systems influence the quality of financial statements directly, and how the accounting information system moderates these relationships. Hypothesis testing in this study is therefore divided into two parts: direct effect testing and indirect effect testing via the moderating variable. The former examines the direct influence of human resource competency and internal control systems on financial statement quality, while the latter examines the influence of the accounting information system on these relationships.

Table 5. Direct Effect Test

Hypothesis	Relationship	Original Sample (β)	T Statistics	P Values	Result
H1	HR Competency (X1) → Financial Statement Quality (Y)	0,344	3,862	0	Supported
H2	Internal Control System (X2) → Financial Statement Quality (Y)	0,294	3,403	0,001	Supported

Table 5 presents the results of the direct effects test. The path coefficient for hypothesis 1 (H1) is 0.344, with a t-statistic of 3.862 and a p-value below 0.001. This indicates that human resource competency has a positive and significant direct effect on financial statement quality. Similarly, the path coefficient for H2 is 0.294, with a t-statistic of 3.403 and a p-value of 0.001. This indicates that internal control systems also have a positive and significant direct effect on financial statement quality. H1 and H2 are therefore both supported.

Table 6. Indirect Effect Test

Hypothesis	Relationship	Original Sample (β)	T Statistics	P Values	Result
H3	AIS (M) × HR Competency (X1) → Financial Statement Quality (Y)	0,237	3,237	0,001	Supported
H4	AIS (M) × Internal Control System (X2) → Financial Statement Quality (Y)	-0,184	2,705	0,007	Not Supported

Table 6 shows the results of testing the indirect effect through moderating variable. The interaction path coefficient for hypothesis 3 (H3) is 0.237, with a t-statistic of 3.237 and a p-value of 0.001. This indicates that the accounting information system significantly strengthens the positive effect of human resource competency on financial statement quality. H3 is therefore supported. In contrast, the interaction path coefficient for H4 is negative at -0.184, with a t-statistic of 2.705 and a p-value of 0.007. This indicates that the accounting information system significantly weakens the effect of internal control systems on financial statement quality, rather than strengthening it as hypothesised. Therefore, H4 is not supported, suggesting that, in the context of LPDs in Gianyar Regency, a strong internal control system and a well-developed accounting information system may function as substitute mechanisms rather than complementary ones.

Discussion

The findings of this study demonstrate that human resource competency has a positive and significant effect on financial statement quality. The results indicate that LPDs with more competent human resources tend to produce higher-quality financial statements. Human resource competency, including accounting knowledge, technical skills, professional attitudes, and responsibility, enables employees to perform financial recording, processing, and reporting activities more accurately. Competent employees are better able to interpret accounting standards, minimize recording errors, and provide reliable financial information for stakeholders. This finding supports the stakeholder theory perspective, which emphasizes that organizations have an obligation to provide transparent and accountable information to parties who depend on organizational resources. In the context of LPDs, financial statements represent an important accountability instrument because village communities act as key stakeholders in monitoring the management of community funds. The result is consistent with previous studies indicating that human resource competency contributes significantly to improving financial reporting quality (Yamin et al., 2025); (Surasmi et al., 2026) .

The results also confirm that the internal control system has a positive and significant effect on financial statement quality. This finding indicates that effective internal control mechanisms improve the reliability and accuracy of financial reporting in LPDs. Internal control systems provide structured procedures for transaction verification, risk management, monitoring, and compliance with organizational policies. Through effective internal controls, potential errors and irregularities in financial reporting can be minimized, thereby increasing the credibility of financial statements. These findings support previous research showing that strong internal control systems improve financial information quality by strengthening supervision and reducing reporting risks (Boulhaga et al., 2022; Huy & Phuc, 2022). From the perspective of accountability, internal control functions as an institutional mechanism that ensures managers responsibly manage village financial resources.

Furthermore, this study found that the accounting information system significantly strengthens the relationship between human resource competency and financial statement quality. This result confirms that technological systems alone are insufficient to improve reporting quality without competent users who understand how to operate and utilize the system effectively. An accounting information system provides tools for organizing, processing, and presenting financial data more efficiently, while human resource competency ensures that the information generated by the system is interpreted and applied appropriately. Therefore, the interaction between skilled employees and accounting technology creates a stronger mechanism for producing accurate, timely, and relevant financial statements. This finding is also consistent with recent evidence on digital technology implementation, which shows that technology systems create greater organizational value when employees possess adequate capability and interpret technological tools positively. Putra et al. (2026) demonstrate that digital systems do not automatically improve organizational outcomes; rather, their effectiveness depends on how users perceive, adopt, and integrate technology into work processes. In this sense, accounting information systems should be viewed not merely as technological infrastructure but as an organizational capability that requires competent users to maximize its contribution. This finding supports previous research emphasizing that accounting information systems enhance organizational performance when combined with adequate human resource capabilities.

However, the findings regarding the moderating role of the accounting information system on the relationship between internal control systems and financial statement quality provide an important theoretical contribution. Contrary to the proposed hypothesis, the accounting information system does not strengthen the effect of internal control systems. Instead, the interaction effect shows a negative and significant coefficient (β = -0,184; p = 0,007), indicating that the implementation of an accounting information system reduces the incremental influence of traditional internal control mechanisms on financial statement quality. This interpretation is consistent with recent research on digital transformation, which argues that technology implementation may reshape organizational control mechanisms rather than simply strengthen existing practices. Putra et al. (2026) highlight that digital systems can transform work processes by improving efficiency, transparency, and data-driven decision-making, while simultaneously changing employees' roles and adaptation requirements. Therefore, when accounting information systems become more integrated, several traditional control activities may be embedded into automated procedures, reducing the additional contribution of manual internal control mechanisms. In an information-based accounting environment, transaction recording, validation, monitoring, and reporting activities are increasingly embedded within the system, reducing dependence on manual supervisory controls. Consequently, when the accounting information system operates effectively, some internal control functions become less dominant because technological controls have already taken over several monitoring activities.

This finding extends the existing literature by showing that the relationship between information systems and internal control systems is not always complementary. Previous studies often emphasize that accounting information systems strengthen internal control effectiveness. However, the present study indicates that in the context of LPDs, accounting information systems may transform the role of internal control from a primary control mechanism into a supporting governance mechanism. This contingency perspective highlights that technological adoption can alter organizational control structures depending on institutional characteristics, user capability, and operational processes. Therefore, LPD managers should not only focus on implementing accounting technology but also ensure that employees possess sufficient competence to utilize the system effectively while maintaining appropriate internal governance mechanisms.

Overall, these findings confirm that financial statement quality in LPDs is determined by the interaction between human capability, organizational control mechanisms, and technological infrastructure. Human resource competency and internal control systems remain essential foundations for producing reliable financial reports, while accounting information systems provide additional value by strengthening human resource effectiveness and transforming traditional control practices. The results emphasize the need for LPDs to adopt a balanced approach by developing competent personnel, maintaining appropriate internal controls, and optimizing accounting information systems according to organizational needs.

CONCLUSION

This study supports stakeholder theory, which holds that stakeholders need accurate, reliable, and transparent financial records. The results show that the accounting information system, the internal control system, and HR knowledge all improve financial statements. The accounting information system heightens the importance of financial statement preparation for HR specialists. LPDs should strengthen internal control, recruit skilled workers, and make the most of accounting technology to deliver superior financial reporting. This study faced difficulty obtaining sufficient data because the survey was limited to LPDs in Gianyar Regency and time was limited. The findings may not generalize to other settings.

The research shows that the internal control system and well-trained staff improve financial reporting. The accounting information system can improve financial statements by enhancing human resource capabilities, but it does not strengthen the internal control system because it automates some control tasks. To provide accurate and timely financial statements, LPDs should train personnel, establish internal controls, and optimize the accounting information system. Future research is encouraged to broaden the study's objectives and add more relevant variables.

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