

## UNVEILING THE CENTRAL MECHANISM: ICFR AS A MEDIATOR OF HUMAN CAPITAL AND TECHNOLOGY IN PUBLIC SECTOR FINANCIAL REPORTING QUALITY

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### Abstract

This study investigates the determinants of Financial Reporting Quality (FRQ) within the unique institutional context of Indonesian District Courts, focusing on the mediating role of Internal Control over Financial Reporting (ICFR). While prior public sector accounting literature offers inconsistent findings regarding the direct effects of Human Capital (proxied by Financial Management Policy,  $X_1$ ) and Financial Applications ( $X_2$ ) on FRQ, this research proposes that ICFR ( $Y_1$ ) functions as the critical mechanism translating these resources into reliable reporting outcomes ( $Y_2$ ). Employing a quantitative explanatory design, data were collected from 175 financial management officers across District Courts in East Java, institutions characterized by centralized governance and standardized financial systems (e.g., SAKTI, E-Rekon). Path analysis results reveal that Financial Applications exert a stronger influence on ICFR than Financial Management Policy. Crucially, ICFR emerged as the most significant predictor of FRQ. The mediation analysis confirms that ICFR partially mediates the  $X_1$ - $Y_2$  relationship and dominantly mediates the  $X_2$ - $Y_2$  relationship. This finding underscores the shift toward system-dependent controls in centralized public institutions, where technological infrastructure effectively institutionalizes internal controls. The study extends public sector accounting theory by integrating Agency Theory, Human Capital Theory, and the Technology Acceptance Model within a unified mediation framework, offering practical insights for strengthening governance and internal control systems within the judiciary to achieve high-quality financial reporting and unqualified audit opinions.

### Keywords:

*Financial Reporting Quality, Internal Control over Financial Reporting (ICFR), Financial Management Policy, Financial Applications, Public Sector Accountability, Judicial Institutions.*

## 1. INTRODUCTION

High-quality financial reporting constitutes a fundamental pillar of public sector accountability and transparency. In government institutions, financial statements function not only as instruments of fiscal responsibility but also as essential sources of information for decision-making, performance evaluation, and public oversight. In Indonesia, the importance of financial reporting quality is explicitly emphasized through Government Regulation No. 71 of 2010 on Government Accounting Standards (SAP), which requires public sector financial statements to be relevant, reliable, comparable, and understandable. Failure to meet these qualitative characteristics may result in inefficient budget allocation, weak financial planning, and declining public trust in state institutions.

Within the judicial sector, financial reporting quality assumes heightened strategic importance. As a central government institution, the Supreme Court of Indonesia consolidates financial statements from all subordinate work units, including District Courts, to produce a comprehensive institutional financial report. This consolidation process requires accuracy, consistency, and compliance across heterogeneous units to achieve the highest audit opinion from the Audit Board of Indonesia (BPK), namely an unqualified opinion (Wajar Tanpa Pengecualian/WTP). However, empirical evidence indicates that despite uniform regulations, standardized accounting systems, and centralized financial applications, variations in financial reporting quality persist among District Courts. These variations suggest that regulatory compliance alone is insufficient to guarantee uniformly high-quality financial reporting.

Prior studies in public sector accounting have demonstrated that financial reporting quality is influenced by multiple organizational factors, including human resource competence, information technology utilization, and internal control effectiveness. Zulkarnain and Ningrum (2020) found that financial information systems significantly improve financial reporting quality, while human resource competence showed inconsistent effects. Conversely, Irafah et al. (2020) reported that human resource competence and internal audit functions significantly affect financial reporting quality, whereas financial information systems do not. Other studies revealed contradictory findings regarding the role of internal control, with some confirming its significance (Qomah & Ismunawan, 2021) and others reporting no significant effect (Philadelphia et al., 2020). These inconsistencies indicate the presence of an unresolved empirical gap in the literature.

A critical limitation of prior research lies in its predominant focus on local government entities (SKPD) that operate under regional budgets (APBD). In contrast, judicial institutions under the Supreme Court are financed through the state budget (APBN) and utilize fully centralized, standardized financial systems such as SAKTI, SIMAK-BMN, OMSPAN, and E-Rekon. These systems are designed to ensure data integration, automatic validation, and real-time reconciliation, thereby theoretically

enhancing financial reporting reliability. Moreover, the organizational structure of financial management in District Courts is more complex, involving multiple roles such as Budget User Authorities (KPA), Commitment Making Officers (PPK), Payment Order Signatories (PPSPM), treasurers, and system operators, each with distinct responsibilities and control functions. This institutional specificity warrants separate empirical examination.

From a theoretical perspective, agency theory explains the potential information asymmetry and opportunistic behavior between principals (the state) and agents (financial managers), which necessitates robust internal control mechanisms to ensure reporting reliability (Eisenhardt, 1989). Human capital theory posits that financial managers' knowledge, skills, and experience constitute critical assets that enhance reporting accuracy and compliance (Becker, 2021). Meanwhile, the Technology Acceptance Model (TAM) suggests that the effectiveness of financial applications depends on users' perceived usefulness and ease of use, which ultimately determine system utilization quality (Romney & Steinbart, 2018). However, competencies and technology alone may not directly translate into high-quality financial reports without an effective Internal Control over Financial Reporting (ICFR).

Internal Control over Financial Reporting (ICFR), locally referred to as Pengendalian Intern Pelaporan Keuangan (PIPK), represents a specialized implementation of the Government Internal Control System (SPIP) focused on ensuring the reliability of financial statements. According to the COSO Internal Control–Integrated Framework (2013), internal control is a process designed to provide reasonable assurance regarding operational effectiveness, reporting reliability, and regulatory compliance. In the Indonesian public sector context, ICFR is mandated by Government Regulation No. 60 of 2008 and further operationalized through Ministry of Finance Regulation No. 17/PMK.09/2019. ICFR plays a pivotal role in translating financial management competence and financial application utilization into reliable reporting outcomes.

Despite its conceptual importance, empirical studies rarely position ICFR as a mediating variable that explains how financial management competence and financial applications jointly influence financial reporting quality, particularly within judicial institutions. This omission limits the explanatory power of existing models and contributes to inconsistent empirical findings. Addressing this gap, the present study investigates the effects of financial management policies and financial applications on financial reporting quality, with ICFR as a mediating variable, in District Courts across East Java.

By focusing on judicial work units under a centralized governance and accounting system, this study contributes to the public sector accounting literature in three ways. First, it extends empirical evidence beyond local governments to judicial institutions. Second, it integrates agency theory, human capital theory, and TAM within

a unified mediation framework. Third, it provides practical insights for strengthening financial governance and internal control systems within the judiciary to enhance financial reporting quality.

## **2. LITERATURE REVIEW**

### **2.1 Financial Reporting Quality in the Public Sector**

Financial reporting quality in the public sector reflects the extent to which financial statements provide useful information for accountability, decision-making, and performance evaluation. According to Government Accounting Standards in Indonesia (Government Regulation No. 71 of 2010), high-quality financial reports must exhibit relevance, reliability, comparability, and understandability. These qualitative characteristics align with international public sector accounting principles and emphasize the importance of accurate recognition, measurement, and disclosure of financial information (Mardiasmo, 2018).

In judicial institutions, financial reporting quality is particularly critical due to the centralized consolidation of financial statements under the Supreme Court. Errors or weaknesses at the work-unit level may compromise institutional financial reports and affect audit opinions issued by the Audit Board of Indonesia. Consequently, identifying determinants of financial reporting quality within judicial work units constitutes an important area of inquiry.

### **2.2 Financial Management Policy and Financial Reporting Quality**

Financial management policy refers to the competence, responsibility, and role clarity of financial officers involved in budget execution and reporting processes. Human capital theory posits that individuals' knowledge, skills, and experience represent productive assets that enhance organizational performance (Becker, 2021). In the public sector context, competent financial managers are more capable of applying accounting standards, complying with regulations, and minimizing reporting errors.

Empirical evidence generally supports a positive relationship between financial management competence and financial reporting quality. Studies by Irafah et al. (2020) and Qomah and Ismunawan (2021) demonstrate that competent financial personnel significantly improve the quality of government financial statements. However, other studies report insignificant or inconsistent effects, suggesting that competence alone may not guarantee high-quality reporting without adequate governance mechanisms (Philadelphia et al., 2020). These mixed findings indicate that the relationship may be contingent upon other organizational factors. Based on human capital theory and prior empirical findings, the following hypothesis is proposed:

**H1:** Financial management policy has a positive effect on financial reporting quality.

### **2.3 Financial Applications and Financial Reporting Quality**

Financial applications in the Indonesian public sector include integrated systems such as SAKTI, SIMAK-BMN, OMSPAN, and E-Rekon, which are designed to support transaction processing, asset management, reconciliation, and reporting. The

Technology Acceptance Model (TAM) explains that information systems improve organizational outcomes when users perceive them as useful and easy to use, leading to effective utilization (Romney & Steinbart, 2018).

Several studies confirm that the use of financial information systems enhances reporting accuracy and timeliness (Zulkarnain & Ningrum, 2020). Integrated systems reduce manual processing errors and improve data consistency across reporting stages. Nevertheless, other studies reveal that financial applications do not always directly influence financial reporting quality, particularly when users lack sufficient understanding or when internal controls are weak (Philadelphia et al., 2020). This inconsistency suggests that the effectiveness of financial applications may depend on complementary control mechanisms.

Drawing on TAM and empirical evidence, the following hypothesis is formulated:

**H2:** Financial applications have a positive effect on financial reporting quality.

#### **2.4 Internal Control over Financial Reporting (ICFR)**

Internal Control over Financial Reporting (ICFR) is a subset of the Government Internal Control System (SPIP) that focuses specifically on ensuring the reliability of financial statements. According to the COSO Internal Control–Integrated Framework (2013), internal control comprises five components: control environment, risk assessment, control activities, information and communication, and monitoring. In Indonesia, ICFR is mandated by Government Regulation No. 60 of 2008 and Ministry of Finance Regulation No. 17/PMK.09/2019.

Agency theory provides a strong theoretical foundation for the role of ICFR. In public organizations, information asymmetry between principals (the state) and agents (financial managers) creates risks of error and opportunistic behavior (Eisenhardt, 1989). Effective internal control mechanisms reduce these risks by enforcing compliance, ensuring segregation of duties, and strengthening monitoring processes.

Empirical studies consistently demonstrate that effective internal control significantly improves financial reporting quality (Qomah & Ismunawan, 2021). However, ICFR is often treated as an independent variable rather than as a mechanism that explains how competence and technology translate into reporting outcomes.

Competent financial managers play a crucial role in designing, implementing, and maintaining effective internal controls. Human capital theory suggests that individuals with adequate expertise are better able to identify risks, apply control procedures, and ensure compliance with financial regulations. Prior studies confirm that financial management competence positively influences the effectiveness of internal control systems (Irafah et al., 2020). Financial applications support internal control by embedding authorization procedures, validation checks, audit trails, and automated reconciliations within transaction processing systems. From the TAM perspective, effective system utilization enhances control activities and monitoring functions. Empirical evidence indicates that integrated financial systems strengthen internal control effectiveness by reducing manual intervention and increasing transparency (Romney & Steinbart, 2018). Thus, the following hypothesis is developed:

**H3:** Financial management policy has a positive effect on Internal Control over Financial Reporting (ICFR).

**H4:** Financial applications have a positive effect on Internal Control over Financial Reporting (ICFR).

### **2.5 ICFR as a Mediating Variable**

Although financial management competence and financial applications are essential resources, their impact on financial reporting quality may not be direct. Agency theory suggests that without effective control mechanisms, competencies and technology may fail to prevent errors or opportunistic behavior. ICFR functions as a governance mechanism that translates these resources into reliable reporting outcomes.

Several studies imply that internal control strengthens the relationship between organizational resources and reporting quality, yet few explicitly test ICFR as a mediating variable, particularly within judicial institutions. Addressing this gap, the present study positions ICFR as a mediator linking financial management policy and financial applications to financial reporting quality. Based on this framework, the following hypotheses are proposed:

**H5:** Internal Control over Financial Reporting (ICFR) has a positive effect on financial reporting quality.

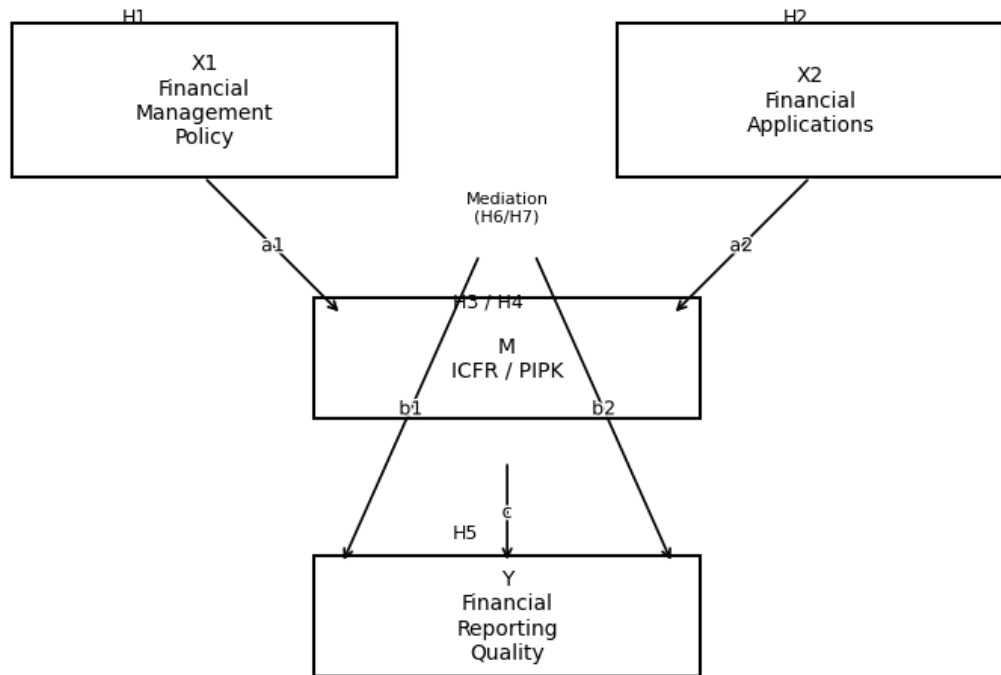
**H6:** ICFR mediates the relationship between financial management policy and financial reporting quality.

**H7:** ICFR mediates the relationship between financial applications and financial reporting quality.

### **2.7 Conceptual Framework**

In summary, this study integrates human capital theory, the Technology Acceptance Model, and agency theory to explain financial reporting quality in judicial institutions. Financial management policy and financial applications are expected to directly influence financial reporting quality and indirectly influence it through ICFR, thereby providing a comprehensive explanation of reporting quality determinants in the public sector. The conceptual framework is completely provided in the figure below:

## Conceptual Framework



Notes: X1 = Financial Management Policy; X2 = Financial Applications; M = ICFR/PIPK; Y = Financial Reporting Quality.  
Path labels: a1,a2 (effects on M); b1,b2 (direct effects on Y); c (effect of M on Y).

**Figure 1 Conceptual Framework**

This conceptual framework illustrates the structural relationships among the key variables examined in this study, consisting of Financial Management Officers (X1), Financial Applications (X2), Internal Control over Financial Reporting (ICFR / Y1), and Financial Reporting Quality (Y2). The model specifies four direct relationships (Direct Paths):

1. Financial Management Officers (X1) → ICFR (Y1)
2. Financial Applications (X2) → ICFR (Y1)
3. Financial Management Officers (X1) → Financial Reporting Quality (Y2)
4. Financial Applications (X2) → Financial Reporting Quality (Y2)

These direct paths represent the immediate influence of human competence and technological systems on internal control effectiveness and financial reporting quality. In addition to the direct effects, the framework incorporates two indirect paths mediated by ICFR:

1. Financial Management Officers (X1) → ICFR (Y1) → Financial Reporting Quality (Y2)
2. Financial Applications (X2) → ICFR (Y1) → Financial Reporting Quality (Y2)

These mediated relationships reflect the role of ICFR as a central mechanism through which organizational and technological resources are translated into high-quality financial reporting outcomes. ICFR functions as a **core mediating variable**, integrating the effects of human resources and financial applications. This positioning

aligns with the COSO Internal Control Framework, which emphasizes internal control as the primary safeguard for reliable financial reporting.

### **3. RESEARCH METHOD**

#### **3.1 Research Approach and Design Type**

This study employs a quantitative explanatory research design to examine the direct and indirect relationships among financial management policy, financial applications, internal control over financial reporting (ICFR), and financial reporting quality within judicial institutions. The explanatory approach is appropriate as the study aims to test theoretically derived hypotheses and to explain causal mechanisms through mediation analysis. The research model positions ICFR as a mediating variable linking financial management policy and financial applications to financial reporting quality.

#### **3.2 Population and Sampling Technique**

**Population and location.** The population comprises financial management personnel (KPA, PPK, PPSPM, treasurers, operators) at all District Courts (Pengadilan Negeri) in East Java — a total of 35 courts as reported in the thesis.

**Sample and sampling method.** The study uses a **saturated (census) sampling** approach at the unit-level (surveying available finance officers across the 35 courts), as described in the thesis. The processed dataset comprises 175 respondents (see thesis Annex/Tables).

**Data collection procedure.** Primary data were collected through a structured questionnaire distributed to finance personnel. The instrument was accompanied by an information letter and confidentiality assurance. Data collection included quantitative Likert-scale items and supporting qualitative context data (SOPs, organizational structure)

#### **3.3 Measurement constructs and operationalization**

All constructs are measured with a **5-point Likert scale** (1 = strongly disagree; 5 = strongly agree) in line with the thesis instrument design.

##### **Constructs and indicators (operationalization)**

- **Financial Management Policy (X1)** — measured by indicators of: technical knowledge of government accounting, operational skills (application usage), integrity, role clarity.
- **Financial Applications (X2)** — measured by indicators of: system integration, system reliability, information accessibility, process efficiency, decision-support features.

- **Internal Control over Financial Reporting — PIPK (M / Y1)** — measured by COSO-derived components relevant to reporting: control activities, communication, monitoring.
- **Financial Reporting Quality (Y / Y2)** — measured by SAP qualitative characteristics: relevance, reliability (and accuracy), understandability.

Each construct score is computed as the average (or sum) of its validated item scores, producing continuous variables suitable for regression/path analysis.

### 3.4 Instrument Validity and Reliability and Analytical Model

Instrument validity was assessed using item–total correlation analysis. All measurement items demonstrated correlation coefficients exceeding the minimum acceptable threshold, indicating satisfactory construct validity. Reliability was evaluated using Cronbach’s alpha, with all constructs achieving alpha values greater than 0.70, confirming internal consistency and reliability of the measurement instruments.

The study applies **path analysis** using multiple regression to estimate both direct and indirect effects among variables. The analytical model consists of two sub-structural equations. The first equation estimates the effects of financial management policy and financial applications on ICFR. The second equation estimates the effects of financial management policy, financial applications, and ICFR on financial reporting quality. This approach enables simultaneous testing of direct relationships and mediation effects within a unified framework.

### 3.5 Data Analysis Procedures

Data analysis was conducted in several stages. First, descriptive statistics were used to summarize respondent characteristics and variable distributions. Second, classical assumption tests were performed to ensure the suitability of regression analysis, including tests of normality, multicollinearity, autocorrelation, and heteroskedasticity. All assumptions were satisfied, indicating that the data met the requirements for regression-based path analysis.

Third, path coefficients were estimated using multiple regression analysis. The significance of direct effects was assessed using t-tests, while model fit was evaluated using coefficients of determination ( $R^2$ ) and F-statistics. Statistical significance was determined at a 5% level.

Fourth, mediation effects were examined using the Sobel test to assess the significance of indirect effects of financial management policy and financial applications on financial reporting quality through ICFR. To enhance robustness and meet journal publication standards, bootstrapping procedures are recommended to generate bias-corrected confidence intervals for indirect effects. Statistical analyses were conducted using SPSS. Ethical considerations were addressed by ensuring voluntary participation,

respondent anonymity, and confidentiality of data. No personal identifiers were collected, and all data were analyzed in aggregate form.

#### 4. RESULT AND DISCUSSION

##### 4.1 Profile of Research Objects and Respondents

This study was conducted across District Courts in East Java, encompassing courts classified as Class IA, IB, and II. These classifications reflect variations in organizational scale, caseload volume, administrative complexity, and financial management responsibilities. Courts classified as Class IA are generally located in major urban centers and manage higher transaction volumes, whereas Class IB and II courts operate in regional jurisdictions with relatively lower complexity.

Respondents comprised financial management officers directly responsible for budget execution, transaction processing, and financial reporting. Their roles included commitment officers, treasury officials, and reporting operators, ensuring that responses were grounded in practical experience and institutional accountability. This respondent structure strengthens the validity of the findings, as perceptions were drawn from individuals with formal authority and technical competence in financial reporting processes

##### 4.2 Descriptive Statistics of Research Variables

This subsection reports the descriptive statistics of all research variables examined in the study, including Financial Management Officers, Financial Applications, Internal Control over Financial Reporting (ICFR), and Financial Reporting Quality. Descriptive analysis aims to provide an overview of respondents' perceptions by presenting measures such as mean scores and standard deviations for each construct and its indicators. This analysis allows for an initial assessment of data distribution, central tendency, and variability, thereby offering a foundational understanding of the overall condition of each variable prior to inferential testing.

**Table 1. Descriptive Statistics of Research Variables**

Variable	Mean	Standard Deviation	Interpretation
Financial Reporting Quality (Y2)	26.63	6.115	Good
Financial Management Officers (X1)	27.17	5.609	High
Financial Applications (X2)	25.68	5.030	High
Internal Control over Financial Reporting (ICFR/PIPK) (Y1)	High (dominant)	Moderate	Effective

The mean score for Financial Reporting Quality indicates that financial reports produced by the district courts generally meet the qualitative characteristics mandated by Government Accounting Standards, including relevance, reliability, comparability, and understandability. The moderate standard deviation suggests acceptable variation across institutions, reflecting contextual differences without indicating systemic inconsistency.

Financial Management Officers (X1) exhibit the highest mean value, indicating that respondents perceive financial officers as competent and consistent in executing their duties. The relatively low dispersion confirms homogeneity in perceived competence levels across courts. Financial Applications (X2) also show a high mean with limited variability, suggesting standardized adoption and utilization of government financial systems, particularly integrated applications mandated by the Ministry of Finance. The ICFR variable demonstrates a strong central tendency, reflecting effective implementation of control activities, authorization procedures, segregation of duties, and monitoring mechanisms across institutions

#### **4.2 Determinants of Internal Control over Financial Reporting (Sub-Structural Model I)**

This subsection presents the results of the first sub-structural model, which examines the determinants of Internal Control over Financial Reporting (ICFR). The analysis focuses on assessing the extent to which Financial Management Officers and Financial Applications influence the effectiveness of ICFR within judicial institutions. The evaluation of this model is conducted through overall model feasibility testing and partial effect analysis to determine both the collective and individual contributions of the explanatory variables to ICFR.

##### **4.2.1 Model Feasibility (F-Test)**

The F-test is used to determine whether Financial Management Officers and Financial Applications simultaneously exert a significant influence on ICFR. A statistically significant F-statistic indicates that the proposed model is appropriate for explaining variations in ICFR and that the independent variables collectively contribute meaningful explanatory power.

**Table 2. F-Test Results for ICFR Model**

<b>F-statistic Sig.</b>	
157.274	0.001

The results of the F-test demonstrate that the regression model examining the determinants of Internal Control over Financial Reporting (ICFR) is statistically feasible and appropriate. As shown in Table 2, the F-statistic value of **157.274** with a significance level of **0.001** indicates that Financial Management

Officers and Financial Applications jointly exert a significant influence on ICFR. The significance value well below the 0.05 threshold confirms that the null hypothesis of no simultaneous effect can be rejected.

These findings indicate that variations in ICFR effectiveness cannot be explained by a single factor alone, but rather by the combined presence of competent financial management personnel and the utilization of financial applications. The high F-statistic reflects the strong collective explanatory capacity of the independent variables, suggesting that institutional control effectiveness is systematically shaped by both human and technological dimensions.

#### 4.2.2 Partial Effects (t-Test)

The t-test evaluates whether Financial Management Officers and Financial Applications independently have a statistically significant effect on internal control effectiveness. The analysis highlights the relative strength of each predictor, allowing for a comparison of the contributions of human competence and financial system utilization to ICFR.

**Table 3. t-Test Results for ICFR Model**

Predictor	t-value	Sig.	Result
Financial Management Officers (X1)	10.975	0.001	Significant
Financial Applications (X2)	12.896	0.001	Significant

Both The partial effect analysis presented in Table 3 reveals that both Financial Management Officers and Financial Applications individually have a positive and statistically significant effect on ICFR. Financial Management Officers (X1) exhibit a t-value of **10.975** with a significance level of **0.001**, indicating that higher levels of competence, experience, and role clarity among financial officers are associated with stronger internal control over financial reporting.

Financial Applications (X2) demonstrate an even higher t-value of **12.896** with a significance level of **0.001**, suggesting that the implementation of integrated, automated, and standardized financial systems plays a more dominant role in enhancing ICFR effectiveness. The comparatively higher t-value for Financial Applications implies that system-based controls provide a stronger and more consistent contribution to internal control effectiveness than human factors alone.

Overall, these results indicate that while human competence remains essential, the effectiveness of ICFR is substantially reinforced when supported

by robust financial applications that reduce procedural inconsistencies and discretionary practices.

#### 4.3 Determinants of Financial Reporting Quality (Sub-Structural Model II)

This subsection presents the results of the second sub-structural model, which examines the determinants of Financial Reporting Quality. The model incorporates Financial Management Officers, Financial Applications, and Internal Control over Financial Reporting (ICFR) as explanatory variables. The analysis aims to assess how organizational capacity, technological systems, and internal control mechanisms jointly and individually influence the quality of financial reporting produced by judicial institutions.

##### 4.3.1 Model Explanatory Power

The Financial Reporting Quality model as measured by the coefficient of determination (Adjusted R<sup>2</sup>). The coefficient of determination indicates the proportion of variance in Financial Reporting Quality that can be explained by the independent variables included in the model. A high Adjusted R<sup>2</sup> value reflects the robustness of the model and demonstrates the combined explanatory strength of Financial Management Officers, Financial Applications, and ICFR.

**Table 4. Coefficient of Determination**

Adjusted R <sup>2</sup>	Interpretation
0.701	High explanatory power

The explanatory power of the Financial Reporting Quality model is presented in Table 4. The adjusted R<sup>2</sup> value of **0.701** indicates that **70.1%** of the variance in Financial Reporting Quality can be jointly explained by Financial Management Officers, Financial Applications, and Internal Control over Financial Reporting (ICFR). This level of explanatory power is considered high, reflecting a strong and robust empirical model.

The remaining variance is attributable to other factors not included in the model, such as organizational culture, leadership commitment, or external oversight mechanisms. Nonetheless, the high adjusted R<sup>2</sup> demonstrates that institutional capacity, technological systems, and internal control mechanisms collectively constitute the primary determinants of financial reporting quality within the observed judicial institutions.

##### 4.3.2 Partial Effects on Financial Reporting Quality

The partial effect analysis uses the t-test to examine the individual influence of Financial Management Officers, Financial Applications, and ICFR on

Financial Reporting Quality. The analysis evaluates the significance and magnitude of each predictor's effect, enabling the identification of the most influential determinant of reporting quality. The results also provide empirical indications of the relative importance of direct effects compared to control-based mechanisms.

**Table 5. t-Test Results for Financial Reporting Quality Model**

<b>Predictor</b>	<b>t-value</b>	<b>Sig.</b>	<b>Hypothesis</b>
Financial Management Officers (X1)	2.492	0.014	Supported
Financial Applications (X2)	2.017	0.045	Supported
ICFR (Y1)	9.817	0.001	Supported

All The partial effect analysis presented in Table 5 indicates that all explanatory variables exert positive and statistically significant effects on Financial Reporting Quality. Financial Management Officers (X1) show a t-value of 2.492 with a significance level of 0.014, indicating that competent financial personnel contribute directly to improving the accuracy, reliability, and compliance of financial reports.

Financial Applications (X2) also have a positive and significant effect, with a t-value of 2.017 and a significance level of 0.045. This finding suggests that the use of standardized and integrated financial systems directly enhances reporting quality by improving data processing, consistency, and traceability.

Internal Control over Financial Reporting (ICFR) exhibits the strongest effect, with a t-value of 9.817 and a significance level of 0.001. This result confirms that ICFR is the most influential determinant of Financial Reporting Quality. The substantially higher t-value indicates that effective internal control mechanisms are the primary driver of reliable and high-quality financial reporting.

The relatively lower t-values for Financial Management Officers and Financial Applications compared to ICFR suggest that their impacts on reporting quality are not purely direct, but are also transmitted through the strengthening of internal control mechanisms.

#### **4.4 Mediation Analysis (Sobel Test)**

The mediation analysis conducted using the Sobel test to examine the role of Internal Control over Financial Reporting (ICFR) as an intervening variable. The analysis aims to determine whether ICFR mediates the relationship between Financial Management Officers and Financial Reporting Quality, as well as between Financial Applications and Financial Reporting Quality. The Sobel test results provide statistical evidence regarding the significance and strength of the indirect effects within the proposed structural model.

**Table 6. Sobel Test Results**

Mediation Path	Sobel t-value	Mediation Type
X1 → ICFR → Y2	8.170	Significant (Partial)
X2 → ICFR → Y2	> X1 Path	Significant (Dominant)

The mediation analysis using the Sobel test, as presented in Table 6, provides evidence that Internal Control over Financial Reporting (ICFR) significantly mediates the relationship between both independent variables and Financial Reporting Quality. The mediation path from Financial Management Officers to Financial Reporting Quality through ICFR yields a Sobel t-value of **8.170**, indicating a statistically significant partial mediation effect.

In addition, the mediation effect of Financial Applications through ICFR is found to be more dominant, as reflected by a Sobel t-value exceeding that of the Financial Management Officers pathway. This finding indicates that financial applications primarily influence reporting quality by strengthening internal control structures embedded within the system, rather than through direct effects alone. Overall, the mediation results demonstrate that ICFR serves as a critical transmission mechanism, translating both human competence and technological capacity into improved financial reporting outcomes.

#### 4.5 Summary of Hypothesis Testing

The summary integrates the findings from the direct effect analysis and the mediation analysis to provide a comprehensive overview of hypothesis support. The presentation of hypothesis testing results serves to clarify the overall structural relationships among variables and to prepare the groundwork for further interpretation and discussion in the subsequent chapter.

**Table 7. Summary of Hypothesis Testing Results**

Hypothesis	Structural Path	t-value	Sig. (p-value)	Decision
H1	Financial Management Officers (X1) → ICFR (Y1)	10.975	0.001	Supported
H2	Financial Applications (X2) → ICFR (Y1)	12.896	0.001	Supported
H3	Financial Management Officers (X1) → Financial Reporting Quality (Y2)	2.492	0.014	Supported
H4	Financial Applications (X2) → Financial Reporting Quality (Y2)	2.017	0.045	Supported

Hypothesis	Structural Path	t-value	Sig. (p-value)	Decision
H5	ICFR (Y1) → Financial Reporting Quality (Y2)	9.817	0.001	Supported
H6	X1 → ICFR → Y2 (Sobel Test)	8.170	< 0.05	Supported (Partial Mediation)
H7	X2 → ICFR → Y2 (Sobel Test)	> 8.170	< 0.05	Supported (Dominant Mediation)

The summary of hypothesis testing results, as presented in Table 7, indicates that all proposed hypotheses (H1–H7) are empirically supported. The findings reveal a coherent and consistent structural relationship among the research variables. Financial Management Officers and Financial Applications significantly influence ICFR, both directly and indirectly affect Financial Reporting Quality, and ICFR itself exerts a strong direct influence on reporting quality.

These results collectively demonstrate that ICFR functions as the central mechanism linking human resources and technological systems to financial reporting quality. The comprehensive support for all hypotheses confirms the robustness of the proposed research model and provides a solid empirical foundation for further theoretical interpretation and discussion.

## 5 Discussion

### 5.1 The Role of Financial Management Officers in Strengthening ICFR

The findings demonstrate that Financial Management Officers have a significant positive effect on Internal Control over Financial Reporting (ICFR). This result confirms that human competence remains a foundational element in the effectiveness of internal control systems within public sector organizations. Financial officers who possess adequate technical skills, regulatory knowledge, and ethical awareness are better positioned to ensure compliance with accounting standards, enforce authorization procedures, and reduce the likelihood of reporting errors.

This finding aligns with agency theory, which emphasizes the importance of competent agents in mitigating information asymmetry between principals and agents (Jensen & Meckling, 1976). In the public sector context, financial officers act as agents responsible for safeguarding public resources and ensuring transparent reporting. When these officers demonstrate high levels of professionalism and accountability, internal controls are more consistently applied.

Empirically, this result supports prior studies that found a positive relationship between financial personnel competence and internal control effectiveness (Doyle et al., 2007; Mulyani & Budiman, 2019). However, the relatively lower effect size compared to financial applications suggests that human competence alone is insufficient without systemic support, particularly in organizations characterized by high procedural complexity such as district courts.

## **5.2 Financial Applications as a Dominant Driver of ICFR Effectiveness**

The results indicate that Financial Applications exert a stronger influence on ICFR than Financial Management Officers. This finding highlights the increasing centrality of technology-based controls in modern public financial management systems. Integrated financial applications enhance internal control by embedding authorization rules, audit trails, real-time validation, and standardized reporting formats into daily financial processes.

From a systems theory perspective, technology functions as a structural mechanism that reduces discretionary behavior and enforces compliance uniformly across organizational units (Romney & Steinbart, 2018). The dominance of financial applications in shaping ICFR effectiveness reflects a shift from person-dependent controls toward system-dependent controls, which are less vulnerable to individual bias and error.

This result corroborates earlier studies demonstrating that information systems significantly improve internal control quality and reduce financial reporting risk (Hall, 2011; Susanto, 2015). In the context of Indonesian public institutions, where financial management systems are centrally designed and mandated, the effective implementation of such applications becomes a critical determinant of control reliability.

## **5.3 Direct Effects on Financial Reporting Quality: Human and System Contributions**

The study finds that both Financial Management Officers and Financial Applications have direct positive effects on Financial Reporting Quality, although their impacts are weaker than their indirect effects through ICFR. This suggests that while competent personnel and advanced systems contribute directly to reporting accuracy and timeliness, their primary contribution lies in reinforcing internal control structures.

This finding is consistent with the qualitative characteristics of financial reporting as outlined in public sector accounting standards, which emphasize reliability and verifiability as outcomes of robust control environments (IPSASB, 2018). Financial officers contribute through professional judgment and ethical conduct, while financial applications contribute through automation and standardization.

The relatively modest direct effects imply that improvements in reporting quality are unlikely to be sustainable if they rely solely on individual competence or

technological upgrades without corresponding enhancements in internal control mechanisms.

#### **5.4 ICFR as the Central Mechanism for High-Quality Financial Reporting**

ICFR emerges as the most influential predictor of Financial Reporting Quality, confirming its role as the core mechanism through which organizational and technological factors translate into reporting outcomes. Strong internal controls ensure that financial information is processed accurately, transactions are properly authorized, and errors are detected and corrected in a timely manner.

This finding is consistent with the COSO Internal Control Framework, which positions control activities, information systems, and monitoring as essential components of reliable financial reporting (COSO, 2013). In public sector organizations, where accountability and transparency are paramount, ICFR serves as a safeguard against misstatement and inefficiency.

Empirical evidence from prior studies also supports the central role of ICFR in enhancing reporting quality (Doyle et al., 2007; Ashbaugh-Skaife et al., 2008). The strong statistical effect observed in this study reinforces the argument that internal controls should be treated not merely as compliance tools but as strategic instruments for governance improvement.

#### **5.5 Mediation Effects: Explaining How Improvements Occur**

The mediation analysis provides critical insight into how Financial Management Officers and Financial Applications influence Financial Reporting Quality. The results indicate that ICFR partially mediates the relationship between Financial Management Officers and reporting quality, and dominantly mediates the relationship between Financial Applications and reporting quality.

This suggests that competent personnel enhance reporting quality primarily by strengthening control practices, while financial applications improve reporting quality mainly by embedding controls within system architecture. These findings are consistent with resource-based theory, which posits that organizational resources create value when they are effectively deployed through complementary mechanisms (Barney, 1991).

The dominance of system-mediated effects underscores the importance of institutionalizing controls within financial applications rather than relying excessively on individual discretion. This has significant implications for public sector reform, particularly in developing countries where personnel turnover and capacity disparities remain challenges.

## **5.6 Implications for Theory and Practice**

Theoretically, this study extends public sector accounting literature by empirically demonstrating ICFR as a mediating construct linking human and technological resources to financial reporting quality. It integrates agency theory, systems theory, and internal control frameworks into a coherent explanatory model.

Practically, the findings suggest that policymakers and court administrators should prioritize the continuous development and integration of financial applications while simultaneously enhancing the competence of financial officers. Investments in technology should be accompanied by training programs to ensure that systems are utilized effectively and consistently.

## **6. CONCLUSION**

This study examines the effects of Financial Management Officers and Financial Applications on Financial Reporting Quality, with Internal Control over Financial Reporting (ICFR) serving as a mediating variable, within the context of district courts in East Java. The findings provide strong empirical evidence that financial reporting quality in public sector institutions is not solely determined by human competence or technological infrastructure in isolation, but rather by how these elements are integrated through effective internal control mechanisms.

The results confirm that both Financial Management Officers and Financial Applications have significant positive effects on ICFR. Financial Applications demonstrate a stronger influence, indicating that system-based controls play a dominant role in reinforcing internal control effectiveness. This reflects the increasing reliance of public sector organizations on standardized and automated financial systems to reduce discretionary behavior and procedural inconsistencies.

Furthermore, Financial Management Officers, Financial Applications, and ICFR all exhibit significant positive effects on Financial Reporting Quality. Among these variables, ICFR emerges as the most influential predictor, underscoring its critical role as the primary mechanism ensuring the reliability, accuracy, and compliance of financial reports.

The mediation analysis further reveals that ICFR partially mediates the relationship between Financial Management Officers and Financial Reporting Quality, while dominantly mediating the relationship between Financial Applications and Financial Reporting Quality. These findings indicate that improvements in reporting quality are largely achieved through strengthened internal control systems, particularly those embedded within financial applications. Overall, this study concludes that ICFR functions as a central integrative mechanism linking organizational resources and technological systems to high-quality financial reporting outcomes in the public sector.

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