“Enhancing financial reporting quality in village-owned enterprises: The role of organizational competencies”

AUTHORS	Sudarlan Sudarlan Surahman Nurita Affan Putri Maghfirah Vidhiyanty Lutfilatul Hasanah

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Sudarlan Sudarlan (Indonesia), **Surahman Surahman** (Indonesia), **Nurita Affan** (Indonesia), **Putri Maghfirah Vidhiyanty** (Australia), **Lutfilatul Hasanah** (Indonesia)

ENHANCING FINANCIAL REPORTING QUALITY IN VILLAGE-OWNED ENTERPRISES: THE ROLE OF ORGANIZATIONAL COMPETENCIES

Abstract

The quality of financial reporting in village-owned enterprises (VOEs) is critical for ensuring transparency and accountability in local governance. This study explores the impact of education level, training programs, work experience, internal control systems, and information technology on the quality of financial reports in VOEs. The objective is to determine how these factors influence financial reporting quality to support effective local governance. The paper involves a sample of 120 VOE managers and employs quantitative analysis to examine the relationships between these factors and the quality of financial reporting in Indonesia. The results indicate that higher education levels, comprehensive training programs, and extensive work experience positively affect the quality of financial reporting. Specifically, the study finds that educated personnel and well-structured training programs enhance the accuracy and reliability of financial reporting. In contrast, the anticipated positive impact of IT utilization on financial reporting quality was not observed, suggesting that issues related to IT infrastructure and integration may limit its effectiveness. Additionally, robust internal control systems significantly improve the quality of financial reports. Overall, the analysis emphasizes the importance of investing in education, training, and internal controls to enhance financial reporting quality in VOEs. The findings highlight the need for further research into the challenges of IT integration to fully harness its benefits for financial transparency.

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Sudarlan Sudarlan, Doctor, Lecturer, Department of Managerial Accounting, Faculty of Accounting, State Polytechnic Samarinda University, Indonesia. (Corresponding author)

Surahman Surahman, Ph.D., Lecturer, Department of Marketing, Innovation & Technology, Faculty of Business Administration, State Polytechnic Samarinda University, Indonesia.

Nurita Affan, Master Degree, Lecturer, Department of Management, Faculty of Economics & Business, Mulawarman University, Indonesia.

Putri Maghfirah Vidhiyanty, Master student, Department of Accounting, Faculty of Business and Economics, Monash University of Melbourne, Australia.

Lutfilatul Hasanah, Master student, Department of Managerial Accounting, Faculty of Accounting, State Polytechnic Samarinda University, Indonesia.

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INTRODUCTION

Discussing village-owned enterprises (VOEs) is vital due to their strategic role in driving the village economy, yet one common issue is the low financial reporting quality (FRQ) in their financial reporting. Poor financial reporting quality can hinder transparency and accountability, which are key elements in managing public funds. As regulated by Law Number 17 of 2003 on State Finances and Law Number 32 of 2004 on the Regional Government of Indonesia, accountability is a crucial form of responsibility in government administration. Barauskaite and Streimikiene (2021) demonstrated that in order to facilitate decision-making and ensure user comprehension, information derived from financial reports needs to possess significance and excellence. In line with Government Accounting Standards Regulation Number 71 of 2010, high-quality financial reports must be (1) reliable, (2) relevant, (3) understandable, and (4) comparable. Financial reports also serve as a form of public financial management accountability, as outlined in

Number 8 of the Government Regulations issued in 2006. Without high standards of financial reporting, VOEs may face challenges in maintaining transparency and public trust, as well as in facilitating effective decision-making processes.

The low quality of financial reporting is influenced by several key factors, including education level, training, work experience, internal control, and information technology. A lack of sufficient education and formal training among VOE managers often results in an inadequate understanding of accounting principles and financial management, leading to errors and inconsistencies in financial reporting. Additionally, limited work experience in financial or managerial roles further exacerbates the issue, as inexperienced personnel may struggle to apply best practices in financial reporting. The adoption of information technology also plays a critical role; without the proper utilization of modern accounting systems or software, the accuracy and efficiency of financial reporting can be compromised. Moreover, weak internal control mechanisms contribute to the lack of oversight and accountability, increasing the risk of financial mismanagement or fraud. Strengthening these factors is essential to improving financial reporting quality and ensuring VOEs meet the required standards of transparency and accountability.

Given the significance of VOEs in promoting rural development and managing village funds, ensuring high financial reporting quality is critical for achieving transparency and accountability in their operations. However, despite the regulatory frameworks in place, many VOEs still face challenges in producing reliable financial reports. This issue is particularly concerning because accurate financial reporting not only supports decision-making but also fosters trust with stakeholders, including local governments and communities. As VOEs continue to grow in importance, addressing the factors that influence FRQ – such as education level, training, work experience, information technology, and internal control – becomes a priority. Understanding the extent to which these factors affect FRQ is essential for identifying targeted solutions that can enhance the overall management and governance of VOEs, thus maximizing their potential to contribute to the local economy.

1. LITERATURE REVIEW AND HYPOTHESES

The theoretical foundation for understanding the dynamics between principals (owners) and agents (managers) and how these relationships impact financial reporting quality (FRQ) can follow agency theory. Jensen and Meckling (1976) proposed the concept of agency theory. In the context of VOEs, this theory is highly relevant, as it highlights the potential conflicts of interest that arise due to differing objectives between village administrators (agents) and the community or government (principals). Managers, acting as agents, may sometimes prioritize their own interests, leading to a tendency to distort financial information, thus compromising the quality of reporting. The imbalance of information between managers and owners makes the problem worse, with managers possessing a more thorough understanding of the VOEs' activities. To reduce these risks, agency theory emphasizes the need for robust internal controls, higher levels of education, relevant training, and significant work experience to ensure accurate and transparent financial reporting. These factors not only help align the interests of the agents and principals but also improve FRQ and reduce the risk of financial misrepresentation.

Al-Okaily et al. (2023) further state that the government's function as an agent requires open administration and disclosure of all actions pertaining to public resources to the principal. Effective management of village funds can lead to enhanced regional independence and poverty reduction (Anwar et al., 2024), with local grants demonstrating a noteworthy positive influence on rural development. Nevertheless, the contribution of village business entities (VOEs) to rural development remains weak (Hilmawan et al., 2023a), underscoring the importance of improving financial reporting practices within VOEs to enhance their role in rural progress.

The education level significantly influences the financial reporting quality (FRQ) of VOEs. According to Achmad et al. (2020), financial statements are

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comprehensive compilations of an entity's performance and financial state. Ayem and Amahala (2023) further emphasize that these statements provide a record of financial information over a specific reporting period, reflecting the entity's financial health and operational results. High-quality financial reports are characterized by their adherence to applicable accounting standards, as noted by Goo et al. (2019) and Fridson and Alvarez (2022). Call et al. (2017) found that firms with employees possessing higher levels of education tend to restate prior period financial statements less frequently, indicating fewer errors and improved accuracy. This correlation suggests that a higher education level among VOE managers and staff can enhance the quality of financial reporting. Additionally, Jatmiko et al. (2020) and Ikbal et al. (2020) demonstrated that human resource capabilities and the efficacy of the internal control system positively impact the quality of financial information in local government financial statements. Therefore, investing in higher education for VOE personnel is likely to improve FRQ by equipping them with the skills necessary to produce accurate and trustworthy financial statements.

Training is a key factor influencing financial reporting quality (FRQ) in VOEs. Mahaputra and Putra (2014) demonstrated that human resource competence significantly enhances the accuracy of regional financial reports, highlighting the importance of well-trained personnel in producing accurate financial information. Ariyani et al. (2024) further support this by noting that enhancing partner knowledge and skills through targeted training can improve the quality of financial reports, particularly those reliant on information technology. This is crucial for VOEs, where effective training can lead to better financial management practices. Additionally, Sari and Heryanto (2019) found that training, when linked with increased competence, has a substantial impact on the quality of financial statements in regional government organizations, suggesting that similar benefits could be expected for VOEs. However, Hendiarto et al. (2021) found that while training in financial report preparation is essential, it does not always translate directly into improved entrepreneurial performance or financial report quality in SMEs. This implies that while training is beneficial, its effectiveness may also depend on the broader context and how it is integrated with other factors like education and experience. Therefore, for VOEs, investing in training programs that enhance financial reporting skills can be a vital step toward improving FRQ and ensuring that financial statements are accurate and reliable.

Work experience has a significant impact on financial reporting quality (FRQ) in VOEs, as demonstrated by various studies. Adiyanto (2018) found that work experience positively influenced the quality of financial reports within the district financial department in Surakarta. Similarly, Saputra et al. (2022) reported a significant positive correlation between the quality of financial statements and employment experience in the Karimun Regency Government. Focusing on 38 Regional Apparatus Work Units (SKPD), Rosnawaty and Silviana (2024) confirmed that the integrity of SKPD's financial statements is positively influenced by human resource experience. Work experience is indicative of an employee's knowledge and skills, which are shaped by their length of service and level of expertise, as noted by Handoko (2014). Employees with substantial work experience are likely to have a deeper understanding of their tasks, enhancing their ability to produce high-quality financial reports (Dewi & Yuniasih, 2021). Furthermore, such employees often receive substantial work benefits, which support their capability to deliver accurate financial information (Damayanti & Pratiwi, 2022). The competence of human resources positively affects regional financial report quality (Desianawati et al., 2014), and experienced users positively affect the quality of accounting information in small and medium enterprises (Lestari et al., 2019). Reschiwati and Oleona (2020) found that work experience significantly improves audit quality, and Yuliusman and Zulma (2023) highlighted its positive effect on financial report quality in Jambi City. These findings underscore that extensive work experience enhances financial reporting quality, making it a critical factor for improving FRQ in VOEs.

Information technology (IT) significantly impacts the quality of financial reporting, particularly in the context of VOE, enhancing organizational performance by facilitating digitalization and improving operational efficiency (Yudaruddin, 2024; Yudaruddin et al., 2023; Hilmawan et al., 2023b; Abdelraheem et al., 2021). This support is a form of digitalization progress (Achmad et al., 2023a; Riadi et al., 2023) that facilitates company activities (Zainurossalamia et al., 2022). It also has a positive impact, including in the small business sector (Hudayah et al., 2024; Achmad et al., 2023b). Xue et al. (2022) emphasize that IT supports organizational activities in the globalization era and plays a critical role in enhancing the accuracy and precision of financial reports (Edhie Rachmad et al., 2024). As'ad et al. (2022) underline the central government's commitment to optimizing IT applications in regional governments to ensure fair and efficient technology use. DeLone and McLean (2022) noted that effective IT reporting reflects how well governmental objectives are achieved. Additionally, IT reduces information asymmetry, improves the comparability and accessibility of financial information (ElKelish, 2021), and enhances overall reporting effectiveness (Debreceny et al., 2017; Xu & Huang, 2016). Jantong (2017) highlights that IT streamlines work processes, boosting productivity and user satisfaction. IT also enhances the accuracy and flexibility of financial statements, reduces errors, and speeds up transaction data processing (Sačer & Oluić, 2013; Sarwono & Handayani, 2021; Zadeh et al., 2015).

However, the impact of IT on financial statement quality is not universally agreed upon. While Hosinzadeh et al. (2021) and Liyan (2013) found a significant positive effect of IT on financial reporting quality, consistent with findings by Yuliani and Agustini (2016) and Sina et al. (2021) regarding local government reports, other studies report mixed or insignificant effects (Nurlis & Yadiati, 2017; Nilamsari et al., 2020). Nanjundaswam et al. (2024) demonstrated that XBRL technology significantly improves various aspects of financial reporting. Androniceanu (2021) points out that IT systems provide valuable information for decision-making and enhance reporting processes. Desky et al. (2020) also identified a positive and significant effect of IT on financial report quality. Eliana et al. (2023) found a positive and significant relationship between IT and financial report quality among 450 government employees in Indonesia. Additionally, Banerjee et al. (2020), Barauskaite and Streimikiene (2021), and Wiralestari et al. (2021) concluded that increased IT utilization correlates with improved financial report quality and more efficient transaction data processing. Despite some contradictory findings, the general consensus is that IT enhances financial reporting quality by improving accuracy and efficiency in report preparation.

The internal control system significantly influences information technology's enhancement of financial statement quality. According to Fitriana and Wahyudin (2017), effective internal control can significantly improve how IT influences financial reporting quality. Internal control involves methods to direct, monitor, and measure the effectiveness of human resources within an organization (DeSimone, 2017). Through a robust internal control system, management can better oversee, guide, and assess organizational processes, which enhances operational efficiency. One key function of internal control is its ability to detect and prevent fraud, thereby safeguarding the accuracy of financial reporting (Marlinawati & Wardani, 2018; Kewo & Afiah, 2017). For instance, Mardiana and Rahim (2022) found that a well-implemented internal control system in the Tolitoli District significantly improved the quality of the local government's financial statements. This suggests that internal control not only supports but also amplifies the positive impact of IT on financial statement quality. Effective internal controls help minimize errors in recording and calculations (Kasim, 2015) and are essential in computerized environments to prevent the recurrence of mistakes. Mahzan and Veerankutty (2011) identify several critical internal control activities for IT environments, including system updates aligned with legislative changes, user training on computer operations, data access restrictions, data backup media, and error detection and resolution. By maintaining robust internal controls, management can ensure that financial data remain accurate and reliable (Rahmatika, 2014). Thus, a strong internal control framework enhances the overall quality of financial reporting by ensuring that the data generated through IT systems are precise and dependable.

Based on the literature review, this study aims to explore how various factors, including education level, training, work experience, information technology, and internal control, impact the quality of financial reporting. Understanding these relationships is crucial for enhancing transparency

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and accountability in VOEs, which are vital for effective local governance. To achieve this objective, the study tests the following hypotheses:

H1: *Higher levels of education among personnel positively impact the quality of financial reporting in VOEs.*

H2: *Comprehensive training programs significantly improve the quality of financial reporting in VOEs.*

H3: *Greater work experience among VOE personnel is positively associated with higher quality of financial reporting.*

H4: *Effective utilization of information technology enhances the quality of financial reporting in VOEs.*

H5: *Robust internal control systems positively affect the quality of financial reporting in VOEs.*

2. METHOD

The objective of this study is to analyze the factors influencing the quality of financial reporting in village-owned enterprises (VOEs), focusing on the effects of education level, training, work experience, information technology, and internal control systems. This analysis aims to provide a comprehensive understanding of how each factor contributes to enhancing transparency and accountability in financial reporting at the village level, which is crucial for effective governance. This study involved 120 VOE managers as respondents, consisting of 85 men and 35 women. The majority of respondents hold a bachelor's degree, accounting for 70% of the sample, indicating that most managers have relevant educational qualifications for their roles.

The quality of financial reporting at VOEs is the study's dependent variable, measured by the accuracy, transparency, and timeliness of reports. The independent variables include education level, which affects financial understanding and analysis skills; training, which contributes to technical skills and comprehension of financial reports; work experience, which influences practical skills in report preparation; information technology, which enhances efficiency and accuracy in reporting; and internal control systems, which ensure data integrity and reliability. Each independent variable is evaluated to determine its impact on financial reporting quality to provide guidance for VOEs to improve their reporting practices, as reported in Table 1.

To collect data for this study, a structured survey was designed and administered to 120 managers of village-owned enterprises from January to March 2024. Participants were selected using purposive sampling to ensure they had relevant experience in managing VOEs. There were two components to the survey. Information on demographics was acquired in the first part, including gender, education level, and work experience, while the second section focused on the independent variables (education level, training, work experience, internal control systems, and information technology) and the dependent variable (quality of financial reporting). Preliminary data processing was conducted to ensure completeness and accuracy, with responses carefully checked for consistency and validity.

A variance-based structural equation modeling method called partial least squares (PLS) was used to examine the gathered data, which is renowned for its adaptability and minimal assumptions. PLS was chosen because it can handle complex models and small sample sizes effectively. The analysis involved two main components: the outer model and the inner model. Discriminant validity, convergent validity, and composite reliability were among the validity and reliability of the measuring tools evaluated by the outer model. To ensure robustness, cutoff values were chosen at 0.70 and above for factor loadings, Cronbach's alpha, composite reliability, and average variance extracted (AVE), confirming that the constructs met the required thresholds for reliability and validity.

The inner model focused on evaluating the structural relationships between the independent variables (education level, training, work experience, internal control, and information technology) and the dependent variable (financial reporting quality). This involved examining path coefficients, sig-

Table 1. Measurement items

Variables	Items	References
Level of Education (ED)	My education level adds value in completing financial reports (ED1)	Achmad et al. (2020), Goo et al. (2019), Fridson and Alvarez (2022)
	I understand the system and procedures for preparing financial report records (ED 2)	
	Training on preparing financial reports is always carried out routinely (ED 3)	
	Employees need to be given training on the fundamentals of creating financial reports in compliance with recent advancements in financial standards (ED 4)	
	Education is an important thing in VOE accounting management (ED5)	
Work Experience (WC)	The length of time I have worked at VOEs has made it easier for me to work (WC1)	Saputra et al. (2022), Rosnawaty and Silviana (2024), Damayanti and Pratiwi (2022), Lestari et al. (2019), Reschiwati and Oleona (2020)
	I have mastered the work and work equipment provided by the company (WC2)	
	The work experience I have helps me in my work (WC3)	
	I can complete the work well according to my abilities (WC4)	
	I work according to applicable procedures (WC5)	
	The longer a person works, the more experience a person has (WC6)	
	My previous work experience helps me understand the work procedures that apply in this company (WC7)	
	My work experience helps me complete tasks effectively and efficiently (WC8)	
	The job I am currently doing requires the work experience I have had before (WC9)	
	Increasing knowledge and skills has a big impact on my work experience (WC10)	
Training of Employees (TR)	My abilities became superior to other employees after I took the training (TR1)	Sari and Heryanto (2019), Mahaputra and Putra (2014), Ariyani et al. (2024)
	I take education and training to improve my knowledge in my work (TR2)	
	I received training materials, and my skills increased (TR3)	
	I demonstrate the skills I acquired after training (TR4)	
	After the training, I do not often make mistakes in completing tasks (TR5)	
	I mastered the various training materials provided quickly (TR6)	
	After the training, I can apply my skills (TR7)	
	I got the experience given by the speaker (TR8)	
	Training is organized according to employee needs (TR9)	
Information Technology (IT)	As someone who handles finances, I have used computers to carry out my duties (IT1)	Hosinzadeh et al. (2021), Liyan (2013), Phuong-Nguyen et al. (2020), Desky et al. (2020), Eliana et al. (2023)
	Management of financial transaction data at the agency/institution where I work uses software that complies with regulation (IT2)	
	Systematic and comprehensive financial data management helps my work process easily (IT3)	
	Where I work, the accounting process is done computerized (IT4)	
	As someone who manages finance/accounting, I have utilized the local network or internet in the work unit as a link in sending the required information (IT5)	
	The village-owned enterprise where I work uses a local network or the internet to facilitate the sharing of data or information (IT6)	
Quality of Internal Control (QI)	The Internal Supervisory Unit structure includes a planning, implementation, control, and supervision framework for achieving objectives (X61)	Marlinawati and Wardani (2018), Kewo and Afiah (2017), Mardiana and Rahim (2022), Kasim (2015), Mahzan and Veerankutty (2011)
	The Internal Audit Unit has a way to control risks and is running effectively (QI2)	
	Policies in the control structure are conveyed in detail and clearly (QI3)	
	The VOEs where I work have implemented healthy practices in carrying out the duties and functions of each part of the company (QI4)	
	All employees at my workplace have complied with applicable laws and regulations (QI5)	
	All company assets are used as they should be and are not used for personal interests but only for the interests of the company (QI6)	
	The accuracy of company information is available and reliable (QI7)	
	Where I work, the authorization system and recording procedures provide protection for assets, liabilities, income, and expenses (QI8)	
	All employees working at VOEs have competence in their fields (QI9)	
Quality of Financial Reporting (QFR)	VOEs' financial reports enable users to forecast future outcomes by analyzing historical data and current affairs (QFR 1)	Fridson and Alvarez (2022), Mardiana and Rahim (2022), Phuong-Nguyen et al. (2020), Desky et al. (2020)
	VOEs publish financial reports according to the reporting time (on time) (QFR 2)	
	The financial reports produced by VOEs are in accordance with reality (the presentation is honest) (QFR 3)	
	The financial reports produced are published for the public interest and not for the interests of certain parties (QFR 4)	
	The financial reports produced, if tested or verified, are largely similar to those that were published (QFR 5)	
	The financial reports produced can be compared with reports from other similar agencies (QFR 6)	
	It is possible to compare the generated financial reports with reports from earlier periods (QFR 7)	
	The financial reports produced present information clearly (QFR 8)	
	The financial reports produced can be understood by users (QFR 9)	

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nificance values, and *R*-squared values to understand the strength and direction of these relationships. PLS allowed for the assessment of direct and indirect effects, providing insights into how each variable impacts the quality of financial reporting in VOEs. The results from the inner model provided a comprehensive view of the dynamics between the studied constructs and their influence on financial reporting quality.

3. RESULTS

Table 2 shows good outer model validity and reliability for all constructs. Internal consistency and validity are shown by level of education: item loadings of 2.759 to 5.930, Cronbach's alpha of 0.963, composite reliability of 0.971, and AVE of 0.871. The work experience construct fared better, with loadings between 5.222 and 24.393, Cronbach's

Table 2. Reliability and validity

Variables	Item	Item Loadings	Composite Reliability	Cronbach's Alpha	AVE
Level of Education (ED)	ED1	5.930	0.971	0.963	0.871
	ED2	3.010			
	ED3	3.361			
	ED4	3.578			
	ED5	2.759			
Work Experience (WE)	WE1	15.244	0.982	0.976	0.933
	WC2	17.160			
	WC3	22.683			
	WC4	23.196			
	WC5	9.848			
	WC6	17.532			
	WC7	24.393			
	WC8	5.222			
	WC9	23.665			
	WC10	13.463			
Training of Employee (TE)	TR1	10.132	0.952	0.933	0.833
	TR2	13.666			
	TR3	21.000			
	TR4	4.283			
	TR5	33.003			
	TR6	25.997			
	TR7	28.259			
	TR8	17.938			
	TR9	2.993			
Information Technology (IT)	IT1	3.436	0.839	0.714	0.635
	IT2	3.885			
	IT3	4.992			
	IT4	11.102			
	IT5	10.625			
	IT6	8.300			
Quality of Internal Control (QI)	QI1	3.160	0.926	0.894	0.759
	QI2	3.650			
	QI3	3.585			
	QI4	3.759			
	QI5	3.540			
	QI6	3.203			
	QI7	3.525			
	QI8	3.395			
	QI9	3.161			
	QI10	3.796			
Quality of Financial Reporting (QFR)	QFR1	3.906	0.926		0.759
	QFR2	38.581			
	QFR3	70.513			
	QFR4	71.396			
	QFR5	4.261			
	QFR6	4.272			
	QFR7	27.162			
	QFR8	4.283			
	QFR9	4.261			
	QFR10	1.485			

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alpha of 0.976, composite reliability of 0.982, and AVE of 0.933. With loadings from 2.993 to 33.003, Cronbach's alpha of 0.933, composite reliability of 0.952, and AVE of 0.833, the training of employee construct performed well. IT exhibited moderate internal consistency, with loadings from 3.436 to 11.102, Cronbach's alpha of 0.714, composite reliability of 0.839, and AVE of 0.635. Lastly, both the quality of internal control and the quality of financial reporting constructs showed strong reliability, with AVEs of 0.759.

The results of the *R*-square test, which investigates the significance of relationships between constructs, are displayed in Table 3. The quality of financial reporting has an *R*-square value of 0.445, which indicates that the model is able to explain 44.5% of the variance. External factors not accounted for in the model are responsible for the remaining 55.5% of the influence. The fact that this is the case suggests that factors such as level of education, training of employees, information technology, work experience, and quality of internal control have a significant impact on the quality of financial reporting.

Table 4 and Figure 1 present a summary of the coefficients, *T*-statistics, and *P*-values for the hypotheses tested in the study, analyzing the relationships between the independent variables and the quality of financial reporting.

The results for *H1*, which tests the impact of the level of education on the quality of financial reporting, show a positive coefficient of 0.096 and a *P*-value of 0.008. These findings indicate that *H1* is supported, confirming that the level of education has a significant positive effect on the quality of financial reporting. For *H2*, the relationship between work experience and the quality of financial reporting is examined. The coefficient is 0.415, with a high *T*-statistic of 9.415. This strong statistical significance supports *H2*, showing that work experience has a considerable positive impact on the quality of financial reporting.

H3 investigates the influence of training of employees on the quality of financial reporting. With a coefficient of 0.193 and a *P*-value of 0.003, *H3* is also supported. This suggests that employee training contributes positively and significantly to the quality of financial reports. However, *H4*, which explores the relationship between information technology and the quality of financial reporting, does not receive support. The coefficient is 0.092, with a *P*-value of 0.050. While the effect is positive, the statistical evidence is insufficient to confirm the significant impact of information technology on the quality of financial reporting.

Lastly, *H5*, testing the impact of the quality of internal control on the quality of financial reporting, has a coefficient of 0.074 and a *P*-value of 0.017. These results support *H5*, indicating that internal control quality significantly improves financial reporting quality. In summary, four out of the five hypotheses are supported, with information technology being the only variable not significantly impacting the quality of financial reporting.

Table 3. Results of *R*-square

Dependent Variable	R Square
Quality of Financial Report (QFR)	0.445

Table 4. Coefficient summary

Hypothesis	Coefficient	P-Value	T Statistic	Result
H1: ED → QFR	0.096	0.008	2.660	Supported
H2: WE → QFR	0.415	0.000	9.415	Supported
H3: TE → QFR	0.193	0.003	5.516	Supported
H4: IT → QFR	0.092	0.050	1.961	Not Supported
H5: QI → QFR	0.074	0.017	2.401	Supported

Note: ED = level of education, WC = work experience, TE = training of employees; IT = information technology; IC = internal control; QFR = quality of financial reporting.

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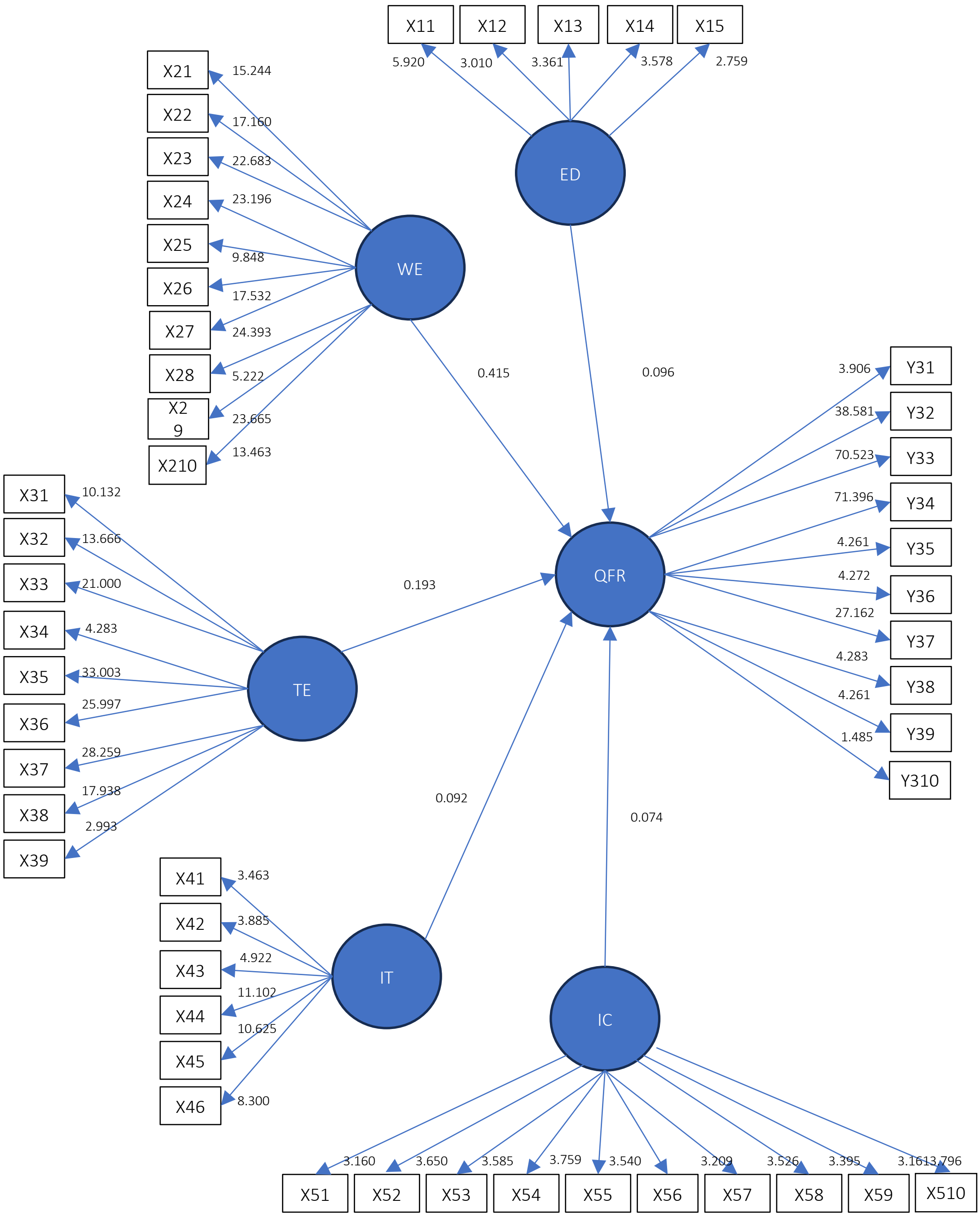

Note: ED = level of education, WC = work experience, TE = training of employees; IT = information technology; IC = internal control; QFR = quality of financial reporting.

Figure 1. Results of conceptual framework

4. DISCUSSION

The results indicate that higher levels of education among VOE personnel in Indonesia positively impact the quality of financial reporting. This finding underscores that more educated staff are better equipped to produce accurate and reliable financial reports. This aligns with prior research by Achmad et al. (2020) and Ayem and Amahala (2023), who emphasized the importance of education in ensuring the quality of financial statements, which are crucial for reflecting an entity's financial health. Additionally, Call et al. (2017) support these results, showing that organizations with highly educated employees are less likely to make errors in financial reporting, as evidenced by fewer instances of restating financial statements. This study further echoes Jatmiko et al. (2020), who found that human resource capacity, strengthened by educational investments, positively affects financial reporting quality. Thus, the findings highlight the significance of education in improving VOEs' financial reporting quality by reducing errors and ensuring adherence to accounting standards.

The results also demonstrate that comprehensive training programs significantly enhance the quality of financial reporting in VOEs. Well-structured and targeted training improves the competence of VOE personnel, making financial reporting more accurate and dependable. These results align with Mahaputra and Putra (2014), who highlighted the role of human resource competence in improving regional financial reports. Similarly, Ariyani et al. (2024) emphasized that training focused on developing knowledge and skills, particularly related to information technology, can significantly improve financial reporting quality. Furthermore, Sari and Heryanto (2019) showed that competence-enhancing training positively influences the quality of regional government organizations' financial accounts, suggesting that VOEs could experience similar benefits. While Hendiarto et al. (2021) cautioned that training alone may not directly translate into improved financial performance in SMEs, the overall evidence supports the conclusion that training is crucial for VOEs. Therefore, investing in comprehensive training programs is essential for ensuring higher-quality financial reporting.

Moreover, the results reveal that greater work experience among VOE personnel is favorably correlated with improved financial reporting standards. This indicates that as VOE staff accumulate more work experience, their ability to produce accurate and high-quality financial reports improves. The positive impact of work experience on financial reporting quality is consistent with Adiyanto (2018), who found that experience enhances financial report quality in Surakarta's district financial department. Saputra et al. (2022) also reported a significant positive correlation between professional expertise and the quality of financial statements in the Karimun Regency Government. Similarly, Rosnawaty and Silviana (2024) confirmed that experienced personnel positively affect the quality of financial statements in various Regional Apparatus Work Units (SKPD). Handoko (2014) noted that work experience enriches employees' knowledge and skills, leading to better financial reporting capabilities. Dewi and Yuniasih (2021) and Damayanti and Pratiwi (2022) further supported this by demonstrating that experienced employees have a deeper understanding and substantial work benefits that contribute to accurate financial information.

Additionally, Lestari et al. (2019) and Desianawati et al. (2014) highlighted the positive effects of experienced personnel on regional financial reports and accounting information quality in SMEs. Reschiwati and Oleona (2020) and Yuliusman and Zulma (2023) also underscore the role of work experience in improving audit and financial report quality. Thus, the evidence supports the thesis that investing in experienced personnel is crucial for enhancing financial reporting quality in VOEs.

However, this study does not support the assumption that effective utilization of information technology enhances the quality of financial reporting. This outcome suggests that while IT generally has the potential to improve financial reporting quality, several specific factors might explain why this impact was not observed in the VOE context. Firstly, the level of IT integration and infrastructure in VOEs may be inadequate. Effective IT systems require not only the technology itself but also the necessary support infrastructure and integration into existing financial processes. VOEs may face challenges such as outdated hardware, inadequate software, or lack of integration with other financial management tools, which could mitigate the potential benefits of IT (Nurlis & Yadiati, 2017; Nilamsari et al., 2020). Secondly, the implementation of IT in VOEs might lack comprehensiveness and consistency. Successful IT integration requires proper training, clear procedures, and ongoing support, which may not be fully addressed in many VOEs. Without comprehensive training and consistent application, the potential of IT to enhance financial reporting quality can be limited (Yudaruddin et al., 2023; ElKelish, 2021). Additionally, the varying results in the literature indicate that the impact of IT on financial reporting quality is not universally positive. While some studies find significant improvements

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(Nanjundaswam et al., 2024; Androniceanu, 2021), others report mixed or insignificant effects (Hosinzadeh et al., 2021; Liyan, 2013). This variability suggests that the benefits of IT can be context-dependent, and specific conditions or implementation factors might influence its effectiveness.

Lastly, the suggestion that robust internal control systems positively affect the quality of financial reporting in VOEs is supported. This result highlights the crucial role of internal control systems in improving financial reporting quality within VOEs. Effective internal controls significantly enhance the reliability and accuracy of financial reports by monitoring, directing, and assessing organizational processes (Fitriana & Wahyudin, 2017; DeSimone, 2017). They help detect and prevent fraud, thereby safeguarding financial data accuracy (Marlinawati & Wardani, 2018; Kewo & Afiah, 2017). For instance, Mardiana and Rahim (2022) found that strong internal controls in the Tolitoli District led to better-quality financial statements, suggesting that robust controls amplify the positive impact of IT on reporting quality. Moreover, internal controls reduce errors in data recording and calculations, which are essential in computerized environments (Kasim, 2015). Mahzan and Veerankutty (2011) emphasize critical control activities such as system updates, user training, and data access restrictions. Thus, maintaining robust internal controls ensures precise and reliable financial reporting.

CONCLUSION

This study sought to investigate the impact of various factors – education level, training, work experience, internal control systems, and information technology – on the quality of financial reporting in village-owned enterprises (VOEs). By analyzing these variables, the paper aimed to enhance understanding of how to improve transparency and accountability within VOEs, which are essential for effective local governance. Utilizing a sample of 120 VOE managers in Indonesia, the study tested several hypotheses to evaluate how each factor contributes to the quality of financial reports.

The findings indicate that higher education levels, comprehensive training programs, and greater work experience positively affect financial reporting quality, while robust internal controls significantly enhance accuracy and reliability. However, the expected beneficial effects of information technology on the quality of financial reporting were not observed, highlighting the need for better IT integration and support.

In terms of policy implications, the results suggest that investments in education, training, and work experience are critical for improving financial reporting in VOEs. Policymakers should focus on providing comprehensive training programs and supporting educational advancements for VOEs personnel. Moreover, strengthening internal control systems is essential for ensuring accurate financial reporting. Nonetheless, the study has limitations, including its reliance on a single geographical area and the precise sample size, which might have an impact on how broadly the findings can be applied. Future research could benefit from a larger and more varied sample, and further exploration into the challenges and solutions related to IT integration in financial reporting would be valuable. Addressing these areas could provide deeper insights into enhancing financial transparency and governance at the village level.

AUTHOR CONTRIBUTIONS

Conceptualization: Sudarlan Sudarlan, Lutfilatul Hasanah.
Data curation: Sudarlan Sudarlan, Surahman Surahman, Putri Maghfirah Vidhiyanty, Lutfilatul Hasanah.
Formal analysis: Surahman Surahman, Nurita Affan.
Funding acquisition: Sudarlan Sudarlan, Surahman Surahman.

Investigation: Sudarlan Sudarlan, Surahman Surahman, Putri Maghfirah Vidhiyanty, Lutfilatul Hasanah.
Methodology: Surahman Surahman, Nurita Affan, Putri Maghfirah Vidhiyanty.
Project administration: Putri Maghfirah Vidhiyanty, Lutfilatul Hasanah.
Resources: Sudarlan Sudarlan.
Software: Nurita Affan, Putri Maghfirah Vidhiyanty, Lutfilatul Hasanah.
Supervision: Sudarlan Sudarlan, Surahman Surahman.
Validation: Sudarlan Sudarlan, Surahman Surahman.
Visualization: Nurita Affan, Putri Maghfirah Vidhiyanty, Lutfilatul Hasanah.
Writing – original draft: Nurita Affan, Putri Maghfirah Vidhiyanty, Lutfilatul Hasanah.
Writing – review & editing: Sudarlan Sudarlan, Surahman Surahman.

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