

Digitalization, Internal Control, and Treasurer Competence Effects on Government Financial Reporting Quality through Leadership Commitment

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Abstract

Purpose: This study aims to analyze the effects of digitalization, internal control systems, and treasurer competence on government financial reporting quality, with leadership commitment as a mediating variable.

Research Methodology: This study was conducted at the Ministry of Marine Affairs and Fisheries using a quantitative explanatory approach. Data were collected through a survey questionnaire distributed to 210 respondents involved in financial management. The analysis was performed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 4 software.

Results: The findings indicate that digitalization, internal control systems, and treasurer competence positively and significantly influence leadership commitment and the quality of government financial reporting. Among the predictors, internal control systems showed the strongest contribution to improving the reporting quality.

Conclusions: The study concludes that Higher-quality government financial reporting can be achieved through the integration of digital systems, stronger internal control mechanisms, improved treasurer competence, and sustained leadership commitment. Leadership commitment strengthens the effectiveness of organizational and technological factors in enhancing the quality of financial reporting.

Limitations: This study was limited to one central government institution and applied a cross-sectional survey design, which may reduce the generalizability of the findings to other public sector institutions.

Contributions: This study contributes to the public sector accounting literature by integrating technological, organizational, and human resource perspectives into an empirical framework. The findings also have practical implications for policymakers and government institutions in improving financial governance, transparency, and accountability.

Keywords: *Digitalization, Financial Reporting Quality, Internal Control System, Leadership Commitment, Treasurer Competence*

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1. Introduction

High-quality government financial reporting is essential for ensuring public sector accountability, transparency, and governance. In Indonesia, the implementation of accrual-based Government Accounting Standards and integrated financial systems, such as *Sistem Perbendaharaan dan Anggaran Negara* (SPAN) and *Sistem Akuntansi Keuangan Tingkat Instansi* (SAKTI), has strengthened financial

management, improved monitoring mechanisms, and enhanced transparency across government institutions ([kemenkeu, 2024](#); [KKP, 2024](#)). These reforms support more reliable financial information and improve decision-making in the public sector. However, challenges in achieving high-quality financial reporting remain. Audit findings from the Supreme Audit Institution continue to reveal weaknesses in internal control systems, asset management, and compliance with financial regulations. In 2022, 46 out of 542 local government financial reports failed to meet the required standards due to insufficient supporting evidence ([Danari & Nugraha, 2024](#)).

In addition, issues related to asset valuation, inventory recording, and disclosure quality continue to affect the reliability of financial statements ([Dharmawati & Nur, 2024](#); [Soufyan, Mahdani, Wahyuni, & Kasim, 2024](#)). These conditions indicate that financial reporting quality is influenced not only by regulatory compliance but also by technological systems, organizational control, and human resource competence. The Ministry of Marine Affairs and Fisheries represent an important context for examining these issues because of its large budget allocations and complex asset structure. Although the Ministry consistently produces audited financial statements, audit findings related to budget realization, asset administration, and internal control weaknesses remain evident ([KKP, 2024](#)). This situation demonstrates a gap between regulatory expectations and actual financial management practices, highlighting the need to identify factors that strengthen the quality of financial reporting within central government institutions.

Previous studies have identified digitalization, internal control systems, treasurer competence, and leadership commitment as important determinants of the quality of financial reporting. Digitalization improves efficiency and reporting accuracy through integrated systems and real-time information access ([KKP, 2024](#); [Klinikakuntansi, 2025](#)). Internal control systems contribute to compliance, fraud prevention, and reliable reporting ([KKP, 2024](#)). Treasurer competence supports accurate and timely financial reporting ([Asmira, 2025](#); [Dwiyanti & Prayudi, 2025](#); [Fathiya, 2025](#); [Hendratni, 2025](#)). Nevertheless, empirical findings regarding the effectiveness of digitalization and the interaction between organizational and human factors are inconsistent. Moreover, most previous studies have focused on local governments, with limited attention given to central government institutions with complex financial structures. Research examining leadership commitment as a mediating mechanism is also still limited ([Devi, 2025](#); [Helena, Konstantinus, & Yoseph, 2024](#); [Mamuaja, 2016](#)).

Based on these gaps, this study aims to analyze the effects of digitalization, internal control systems, and treasurer competence on government financial reporting quality, with leadership commitment as a mediating variable at the Ministry of Marine Affairs and Fisheries. This study contributes to the public sector accounting literature by integrating technological, organizational, and human resource perspectives into a single empirical framework and extending the discussion of leadership commitment as a strategic mechanism for improving financial reporting quality ([Duryana & Asriani, 2026](#); [Heinrich & Probohudono, 2023](#); [Jumardi & Machmury, 2022](#); [Wihatmono, Suharman, & Daryanto, 2025](#)).

This study addresses these gaps by examining the influence of digitalization, internal control systems, and treasurer competence on government financial reporting quality, incorporating leadership commitment as a mediating variable. The novelty of this research lies in the integration of technological, organizational, and human resource perspectives within a single model, as well as its focus on a central government institution with complex assets. Furthermore, this study contributes to the expansion of public sector accounting theory by incorporating digital transformation and leadership dynamics into financial reporting quality analysis.

The urgency of this research is underscored by the need to strengthen public financial management systems, reduce the number of audit findings, and enhance fiscal accountability. The findings are expected to provide practical implications for policymakers and government institutions to optimize financial reporting systems, improve internal control effectiveness, and enhance human resource capacity. Theoretically, this study contributes to the development of a more comprehensive framework for understanding the quality of financial reporting in the digital era. Accordingly, this study aims to analyze the effects of digitalization, internal control systems, and treasurer competence on government

financial reporting quality and examine the role of leadership commitment in strengthening these relationships within the Ministry of Marine Affairs and Fisheries.

2. Literature Review and Hypotheses Development

2.1 Digitalization and Leadership Commitment

Digitalization refers to the use of digital technologies to improve organizational efficiency, transparency, and accuracy in financial management ([Dong & McIntyre, 2014](#)). In the public sector, digital systems reduce manual procedures, provide real-time financial information, and improve coordination across organizational units ([Gunawan, Yuniarsih, Sobandi, & Muhidin, 2023](#)). However, the effectiveness of digitalization does not solely depend on technology adoption. Many public institutions experience implementation problems because leaders are unable to align digital transformation with organizational goals, allocate resources effectively, or supervise system integration. This indicates that digitalization requires active leadership commitment to ensure successful implementation and sustainable organizational change ([Hendratni, 2025](#)).

Agency Theory explains that digitalization reduces information asymmetry by increasing the transparency and accessibility of financial data, thereby encouraging stronger accountability mechanisms ([Munandar & Triyana, 2024](#); [Spence, 1978](#)). In addition, Signaling Theory suggests that organizations adopting digital systems signal professionalism, transparency, and governance quality to stakeholders ([Pangaribuan & Satrya, 2024](#)). Such conditions encourage leaders to strengthen their commitment to maintaining organizational credibility and ensuring that digital systems function effectively. Previous studies have also confirmed that successful digital transformation is associated with stronger managerial and leadership commitment. Therefore, digitalization is expected to strengthen leadership commitment to public financial management.

H₁: Digitalization has a positive and significant effect on Leadership Commitment (LC)

2.2 Internal Control System and Leadership Commitment

The Internal Control System (ICS) is a governance mechanism designed to ensure reliable financial reporting, operational effectiveness, and compliance with regulations ([Jannah, Hazmi, Fitri, & Ashar, 2024](#)). Effective internal control systems require continuous monitoring, supervision, and enforcement, all of which depend heavily on the commitment of leadership. Weak leadership support often results in poor implementation of control procedures, low compliance, and ineffective monitoring. Therefore, leadership commitment is essential to ensure that internal controls operate effectively within public organizations ([Helena et al., 2024](#)).

From the perspective of Agency Theory, internal control systems function as monitoring tools to reduce opportunistic behavior and align organizational activities with public interests ([Anderson, 2016](#); [Spence, 1978](#)). Systems Theory further explains that internal control integrates organizational processes to create accountability and stability ([Hendratni, 2025](#)). These theoretical perspectives imply that leaders play a central role in maintaining effective control mechanisms. Empirical findings also indicate that strong internal control systems encourage higher managerial commitment to governance quality and accountability ([Martini et al., 2022](#)). Accordingly, organizations with stronger internal control systems are expected to demonstrate greater leadership commitment.

H₂: The Internal Control System has a positive and significant effect on Leadership Commitment (LC)

2.3 Treasurer Competence and Leadership Commitment

Treasurer competence reflects the knowledge, technical skills, and professional capabilities required to manage financial reporting accurately and effectively ([Bukhori, Noor, & Sudirman, 2023](#)). Competent treasurers provide reliable financial information, minimize reporting errors, and comply with accounting standards. However, the contribution of competent personnel cannot be fully optimized without leadership support in the form of supervision, training, and policy directions. This suggests that leadership commitment is strengthened when organizations possess capable financial personnel who can support accountability. ([Barney, Wright, & Ketchen Jr, 2001](#); [Jumardi & Machmury, 2022](#)). Human Capital Theory explains that employee competence is a strategic asset that improves organizational

performance and effectiveness ([Teece, Pisano, & Shuen, 1997](#)). Dynamic Capability Theory also emphasizes that organizations must continuously develop human resource capabilities to respond to changing regulatory and technological environments ([Pangaribuan & Satrya, 2024](#)). These theories support the argument that competent treasurers increase leaders' confidence in achieving organizational accountability, thereby reinforcing their commitment to leadership. Empirical studies further show that organizations with more competent financial personnel tend to demonstrate stronger leadership involvement in governance and financial management processes

H₃: Treasurer competence has a positive and significant effect on Leadership Commitment (LC)

2.4 Digitalization and Financial Reporting Quality

Digitalization improves financial reporting quality by increasing data accuracy, accelerating reporting processes, and reducing manual errors through automation and integration ([Dong & McIntyre, 2014](#); [Gunawan et al., 2023](#)). However, some studies have reported that digital transformation does not automatically improve reporting quality when organizations lack readiness, system integration, or leadership support. This inconsistency indicates that the effectiveness of digitalization depends on how well technology is managed and implemented within an organization ([Munandar & Triyana, 2024](#)).

Signaling Theory explains that digital systems signal transparency, accountability, and organizational reliability to stakeholders ([Hamdy, Diab, & Eissa, 2025](#)). In addition, Dynamic Capability Theory suggests that organizations capable of adapting to technological changes are more likely to improve their operational and reporting performance ([Teece et al., 1997](#)). Empirical evidence generally shows that digitalization positively contributes to financial reporting quality by enhancing consistency, transparency, and efficiency in reporting processes. Therefore, digitalization is expected to positively influence financial reporting quality.

H₄: Digitalization has a positive and significant effect on Financial Reporting Quality (FRQ)

2.5 Internal Control System and Financial Reporting Quality

Internal control systems are essential for ensuring the reliability, integrity, and compliance of financial reporting processes ([Jannah et al., 2024](#)). Weak internal controls often lead to reporting errors, fraud risks, and non-compliance with accounting regulations, ultimately reducing the quality of financial reporting. Conversely, effective control systems improve monitoring, strengthen accountability, and ensure accurate and verifiable financial information. Agency Theory emphasizes that internal control mechanisms reduce opportunistic behavior and strengthen accountability between principals and agents ([Hendratni, 2025](#); [Uche & Abiodun, 2025](#)).

Effective controls also improve governance quality by ensuring consistency and transparency in the reporting procedure. Empirical findings consistently demonstrate that stronger internal control systems significantly improve financial reporting quality through enhanced supervision and regulatory compliance ([Ibrahim, Tuli, & Mahmud, 2024](#); [Martini et al., 2022](#)). Therefore, internal control systems are expected to positively influence the quality of financial reporting.

H₅: The Internal Control System (ICS) has a positive and significant effect on Financial Reporting Quality (FRQ)

2.6 Treasurer Competence and Financial Reporting Quality

Treasurer competence is critical for producing accurate, timely, and reliable financial reports ([Bukhori et al., 2023](#)). Financial personnel with strong technical skills and accounting knowledge are more capable of correctly applying accounting standards, reducing reporting inconsistencies, and improving the credibility of financial information. In contrast, inadequate competence may result in errors, delays, and weak compliance with financial regulations.

Human Capital Theory explains that competent employees contribute directly to organizational effectiveness and performance outcomes ([Jumardi & Machmury, 2022](#)). In public financial management, competent treasurers strengthen the quality of financial reporting by ensuring accurate

recording and effective financial administration. Previous studies have also confirmed that higher competence among financial officers significantly improves financial reporting quality. Therefore, treasurer competence is expected to positively influence the quality of financial reporting.

H₆: Treasurer Competence (TC) has a positive and significant effect on Financial Reporting Quality (FRQ)

2.7 Leadership Commitment and Financial Reporting Quality

Leadership commitment reflects leaders' dedication to maintaining transparency, accountability, and compliance in organizational financial management ([Qiao, Li, & Hong, 2024](#)). Strong leadership commitment encourages consistent implementation of financial regulations, effective supervision, and organizational discipline in reporting processes. Conversely, weak leadership commitment often results in poor monitoring, weak policy enforcement, and low reporting reliability. ([Hendratni, 2025](#)).

Agency Theory explains that committed leaders strengthen accountability relationships between public institutions and stakeholders by ensuring transparency and integrity in financial reporting ([Pham & Vu, 2023](#); [Wihatmono et al., 2025](#)). Leadership commitment also facilitates the effective implementation of digitalization and internal control systems, thereby improving governance. Empirical studies confirm that organizations with stronger leadership commitments tend to produce higher-quality financial reports and stronger accountability practices. Therefore, leadership commitment is expected to positively influence the financial reporting quality.

H₇: Leadership Commitment (LC) has a positive and significant effect on Financial Reporting Quality (FRQ)

2.8 The Mediating Role of Leadership Commitment

Although digitalization, internal control systems, and treasurer competence are important organizational resources, their effectiveness in improving the quality of financial reporting depends on leadership commitment. Technology, governance systems, and human resource capabilities may not produce optimal outcomes if leaders fail to provide strategic direction, supervision, and policy support. This indicates that leadership commitment is a critical mechanism linking organizational resources to reporting outcomes. ([Hendratni, 2025](#); [Munandar & Triyana, 2024](#); [Teece et al., 1997](#)).

Agency Theory, Signaling Theory, and Dynamic Capability Theory collectively explain that organizational capabilities require leadership support to create accountability, transparency, and adaptive performance. Leadership commitment strengthens the implementation of digital systems, ensures effective internal control practices, and maximizes the contribution of competent financial staff. Empirical evidence also indicates that leadership commitment mediates the relationship between organizational capabilities and performance quality in the public sector ([Pangaribuan & Satrya, 2024](#)). Therefore, leadership commitment is expected to mediate the effects of digitalization, internal control systems, and treasurer competence on the quality of financial reporting.

H₈: Leadership Commitment (LC) mediates the relationship between Digitalization and Financial Reporting Quality (FRQ)

H₉: Leadership Commitment (LC) mediates the relationship between internal control systems and Financial Reporting Quality (FRQ)

H₁₀: Leadership Commitment (LC) mediates the relationship between Treasurer Competence and Financial Reporting Quality (FRQ)

The conceptual framework of this study is illustrated in the figure 1, presenting the proposed relationships among digitalization, internal control systems, and treasurer competence in influencing financial reporting quality, with leadership commitment acting as a mediating mechanism in the research model.

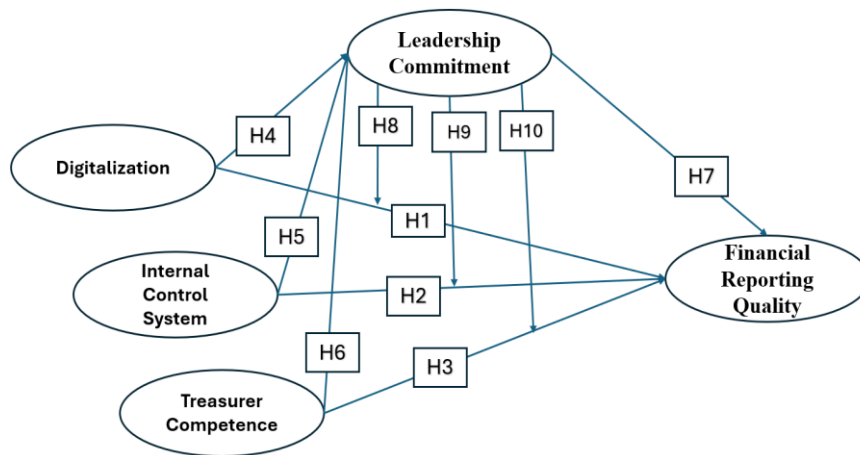


Figure 1. Conceptual framework

3. Methodology

3.1 Research Design

This study employs a quantitative explanatory research design to examine the relationships between digitalization, internal control systems, treasurer competence, leadership commitment, and the quality of government financial reporting. The explanatory approach is appropriate because this study aims to test theoretically grounded relationships among variables and evaluate both direct and indirect effects through mediation analysis. The research model proposes that digitalization, internal control systems, and treasurer competence influence financial reporting quality directly and indirectly through leadership commitment. To simultaneously examine these relationships, this study applies Partial Least Squares Structural Equation Modeling (PLS-SEM). PLS-SEM is suitable because it enables the analysis of complex structural relationships involving multiple latent variables and mediation effects while accommodating predictive and exploratory objectives (Fisher & Ziviani, 2004). In addition, PLS-SEM is appropriate for models that integrate organizational, technological, and human resource dimensions in public sector research contexts.

3.2 Data Collection Method

This study applied a structured data collection method to ensure the validity and reliability of the data collected. Primary data were obtained through a questionnaire survey distributed to respondents involved in financial management activities at the Ministry of Marine Affairs and Fisheries. The questionnaire approach allowed the researcher to measure respondents' perceptions consistently across all constructs examined in the study.

3.2.1 Research Location and Subjects

The study was conducted at the Ministry of Marine Affairs and Fisheries, particularly within the organizational units responsible for financial management and reporting activities. The research subjects included employees directly involved in financial reporting processes, such as heads of work units, treasurers, financial reporting operators, internal auditors, state asset *Barang Milik Negara* (BMN) officers, *Sistem Pengendalian Intern Pemerintah* (SPIP) task force members, budget planners, and heads of finance and administration. These respondents were selected because they possessed practical knowledge and direct experience related to financial governance and reporting systems.

3.2.2 Research Period

The study will be conducted over a three-month period from November 2025 to January 2026. The research stages included problem identification, literature review, instrument development, pilot testing, questionnaire distribution, data analysis, interpretation of the findings, and report preparation. Approximately 30 days were allocated for instrument preparation and validation, 50 days for data collection, and 10 days for data analysis and reporting.

3.2.3 Research Variables

This study included independent, mediating, and dependent variables.

1. Independent Variables

Digitalization (X_1): The extent to which digital technologies and integrated information systems are implemented in financial management and reporting. This variable reflects system integration, accessibility, efficiency and data security in financial administration.

Internal Control System (X_2): The effectiveness of organizational control mechanisms designed to ensure compliance, accountability, operational efficiency, and reliable financial reporting.

Treasurer Competence (X_3): The level of accounting knowledge, technical capability, integrity, and analytical skills possessed by treasurers in performing financial management responsibilities.

2. Mediating Variable

Leadership Commitment (Z): The degree of leadership involvement, consistency, responsibility, and support in promoting transparent and accountable financial governance, including supervision, policy support, and resource allocation.

3. Dependent Variable

Financial Reporting Quality (Y): The extent to which financial reports demonstrate relevance, reliability, timeliness, understandability, transparency, and comparability, in accordance with public sector accounting standards.

3.2.4 Research Approach

This study used a survey method with a structured questionnaire as the primary data collection instrument. Responses were measured using a four-point Likert scale ranging from strongly disagree to strongly agree. A four-point scale was selected to reduce central tendency bias and encourage respondents to provide more decisive answers regarding organizational practices and perceptions.

3.2.5 Sampling Technique and Sample Size

The study population consisted of employees of the Ministry of Marine Affairs and Fisheries who were directly involved in financial management and reporting processes. A purposive sampling technique was employed to ensure that the respondents possessed relevant knowledge and experience related to the study variables. The selection criteria were as follows:

1. Direct involvement in financial reporting or financial management activities is also a factor.
2. A minimum of two years of work experience in finance, accounting, budgeting, auditing, or asset management functions.
3. Experience in operating digital financial systems, such as SPAN, SAKTI, or other government financial applications.

The criterion of at least two years of experience was applied to ensure that the respondents had sufficient organizational exposure and a practical understanding of financial governance processes, internal controls, and digital reporting systems.

The final sample comprised 210 respondents. This sample size is considered adequate for PLS-SEM analysis because it exceeds the minimum sample requirement for structural models involving multiple constructs and mediation relationships ([Sugiyono, 2010](#)).

3.3 Research Instrument

The primary research instrument used in this study was a structured questionnaire developed from validated indicators adopted from empirical studies published between 2021 and 2025. Each variable was operationalized into measurable dimensions to ensure construct validity and consistency with the theoretical framework of the study. Digitalization was measured using indicators related to system implementation, integration, accessibility, efficiency, and data security, reflecting the extent of digital transformation in financial management processes. The internal control system indicators include the control environment, risk assessment, control activities, information and communication, and monitoring, which represent the dimensions of effective governance and accountability mechanisms. Treasurer competence was measured using accounting knowledge, technical skills, integrity, training participation, and analytical capability.

Leadership commitment was assessed using indicators of affective commitment, normative commitment, leadership role modeling, consistency, and resource support. Financial reporting quality is measured using indicators of relevance, reliability, timeliness, understandability, and comparability in financial reporting practices. The questionnaire items were adapted and modified to fit the public sector context of the Ministry of Marine Affairs and Fisheries (MMAF). Prior to data collection, the instrument was reviewed and pilot-tested to ensure the clarity, relevance, and reliability of the measurement items, as shown in Table 1.

Table 1. Operational definition of variables

Variables	Indicators	Source (2021–2025)
Digitalization (X_1)	System implementation, Integration, Data security, Efficiency, Accessibility	(Kwanbo, Baba, Akanet, & Tanko, 2023 ; Putri, Triyuwono, & Rahmanti, 2025)
Internal Control System (X_2)	Control environment, Risk assessment, Control activities, Information & communication, Monitoring	(Dodaro, 2017)
Treasurer Competence (X_3)	Accounting knowledge, Technical skills, Integrity, Training, Analytical ability	(Mediaty et al., 2025 ; Zraiq & Masruki, 2024)
Leadership Commitment (Z)	Affective, Normative, Continuance Role model, Resource support	(Savitri, Andreas, Diyanto, & Gumanti, 2020)
Financial Reporting Quality (Y)	Relevance, Reliability, Timeliness, Understandability, Comparability	(Zraiq & Masruki, 2024)

3.4 Data Analysis Technique

Data analysis in this study was conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 4 software. PLS-SEM is suitable for analyzing complex models involving latent variables and mediation relationships, particularly in predictive research contexts ([Pereira, Sanchez Rodrigues, & Freires, 2024](#)).

3.4.1 Data Preparation

The collected data were cleaned and verified to ensure completeness and accuracy. All variables were coded appropriately according to the Likert scale, and indicators were assigned to their corresponding latent constructs.

3.4.2 Model Specification

The structural model includes five latent variables: digitalization (X_1), internal control system (X_2), treasurer competence (X_3), leadership commitment (Z), and financial reporting quality (Y). The hypothesized relationships among the variables were modeled according to the proposed research framework, including both direct and indirect paths.

3.4.3 Measurement Model Evaluation

The measurement model was evaluated to assess the validity and reliability of the constructs using the following criteria.

1. Convergent Validity: Indicator loadings ≥ 0.70 and Average Variance Extracted (AVE) ≥ 0.50 .
2. Construct Reliability: Composite Reliability ≥ 0.70 and Cronbach's alpha ≥ 0.70 .
3. Discriminant Validity: Assessed using the Fornell-Larcker criterion and the Heterotrait-Monotrait Ratio (HTMT) with a threshold below 0.90.

3.4.4 Structural Model Evaluation

The structural model was assessed using bootstrapping procedures to test the significance of the relationships among the variables.

1. Path Coefficients (β): Hypotheses were evaluated based on path coefficients, t-statistics, and p-values. A p-value < 0.05 indicated statistical significance.
2. Coefficient of Determination (R^2): R^2 values were used to assess the explanatory power of the endogenous variables.
3. Effect Size (f^2): The effect size was evaluated to determine the impact of exogenous variables on endogenous constructs.
4. Predictive Relevance (Q^2): Q^2 values were calculated using blindfolding procedures to assess the predictive capability of the model.
5. Multicollinearity (VIF): Variance Inflation Factor values below 5 indicate no multicollinearity issues.

3.4.5 Mediation Analysis

The mediating role of leadership commitment was tested using bootstrapping to evaluate the indirect effects. The significance of indirect paths determined whether mediation effects were present. Partial or full mediation was assessed by comparing the significance of the direct and indirect relationships within the model.

4. Results and Discussions

4.1 Results

4.1.1 Descriptive Statistics of Respondents

A descriptive statistical analysis was conducted to illustrate the demographic profile of the respondents involved in this study.

Table 2. Respondent demographic profile

Demographic Characteristics	Category	Frequency (n)	Percentage (%)
Position/Role	Auditor	10	4.8
	Treasurer	43	20.5
	Budget Planner	18	8.6
	Leadership	37	17.6
	Financial Report Preparer	48	22.9
	Other Positions	54	25.7
Unit/Work Unit	Central Work Unit	210	100
Total Respondents	Total	210	100

Table 2 show study involved 210 respondents from the Ministry of Marine Affairs and Fisheries, all of whom originated from central work units. The largest proportion of respondents came from other administrative and supporting financial positions (25.7%), followed by financial report preparers (22.9%), treasurers (20.5%), those in leadership positions (17.6%), budget planners (8.6%), and auditors (4.8%). The respondent composition is considered appropriate because most participants were directly involved in financial management and reporting activities. Therefore, the responses obtained are relevant for explaining the relationships between digitalization, internal control systems, treasurer competence, leadership commitment, and financial reporting quality.

4.2 Outer Model

4.2.1 Outer Loading

Table 3 displays the outer loading diagram, illustrating the contribution of each indicator in representing its respective construct in the measurement model. This visualization supports the assessment of convergent validity by indicating the strength of the relationship between each item and its underlying latent variable.

Table 3. Outer loadings diagram

Indicator	X ₁ . Digitalization	X ₂ . Internal Control System	X ₃ . Treasurer Competence	Y. Financial Reporting Quality	Z. Leadership Commitment
X _{1.1}	0.767				
X _{1.2}	0.757				
X _{1.3}	0.791				
X _{1.4}	0.808				
X _{1.5}	0.769				
X _{1.6}	0.749				
X _{1.7}	0.785				
X _{1.8}	0.822				
X _{1.9}	0.740				
X _{1.10}	0.759				
X _{1.11}	0.766				
X _{1.12}	0.779				
X _{1.13}	0.771				
X _{1.14}	0.764				
X _{1.15}	0.746				
X _{1.16}	0.728				
X _{2.1}		0.804			
X _{2.2}		0.822			
X _{2.3}		0.756			
X _{2.4}		0.802			
X _{2.5}		0.833			
X _{2.6}		0.802			
X _{2.7}		0.783			
X _{2.8}		0.771			
X _{2.9}		0.790			
X _{2.10}		0.707			
X _{2.11}		0.736			
X _{2.12}		0.826			
X _{2.13}		0.793			
X _{2.14}		0.711			
X _{3.1}			0.829		
X _{3.2}			0.819		
X _{3.3}			0.780		
X _{3.4}			0.778		
X _{3.5}			0.786		
X _{3.6}			0.743		
X _{3.7}			0.786		
X _{3.8}			0.768		
X _{3.9}			0.784		
X _{3.10}			0.793		
X _{3.11}			0.777		
X _{3.12}			0.766		
X _{3.13}			0.751		

<i>X_{3.14}</i>			0.824		
<i>X_{3.15}</i>			0.777		
<i>X_{3.16}</i>			0.808		
<i>X_{3.17}</i>			0.772		
<i>X_{3.18}</i>			0.805		
<i>Y.1</i>				0.769	
<i>Y.2</i>				0.742	
<i>Y.3</i>				0.842	
<i>Y.4</i>				0.762	
<i>Y.5</i>				0.751	
<i>Y.6</i>				0.758	
<i>Y.7</i>				0.781	
<i>Y.8</i>				0.732	
<i>Y.9</i>				0.718	
<i>Y.10</i>				0.733	
<i>Y.11</i>				0.730	
<i>Y.12</i>				0.784	
<i>Y.13</i>				0.849	
<i>Y.14</i>				0.822	
<i>Y.15</i>				0.762	
<i>Y.16</i>				0.757	
<i>Y.17</i>				0.802	
<i>Y.18</i>				0.831	
<i>Y.19</i>				0.766	
<i>Z.1</i>					0.772
<i>Z.2</i>					0.760
<i>Z.3</i>					0.786
<i>Z.4</i>					0.822
<i>Z.5</i>					0.801
<i>Z.6</i>					0.781
<i>Z.7</i>					0.766
<i>Z.8</i>					0.783
<i>Z.9</i>					0.789
<i>Z.10</i>					0.720
<i>Z.11</i>					0.826
<i>Z.12</i>					0.765
<i>Z.13</i>					0.716
<i>Z.14</i>					0.808
<i>Z.15</i>					0.786
<i>Z.16</i>					0.783
<i>Z.17</i>					0.772
<i>Z.18</i>					0.774
<i>Z.19</i>					0.786
<i>Z.20</i>					0.802
<i>Z.21</i>					0.843
<i>Z.22</i>					0.719

Table 3 shows indicators for Digitalization (X_1), Internal Control System (X_2), Treasurer Competence (X_3), Financial Reporting Quality (Y), and Leadership Commitment (Z) show outer loading values above the recommended threshold of 0.70. The loading values ranged from 0.707 to 0.849, indicating that all indicators adequately represented their respective constructs. Indicators with higher loading values contribute more strongly to explaining the latent variables, while indicators with values closer to 0.70 remain acceptable within PLS-SEM standards. These findings confirm that the measurement model demonstrates satisfactory convergent validity and is appropriate for structural model analysis.

4.2.2. Construct Reliability and Validity – Overview

Table 4 reports the results of construct reliability and validity, assessing the internal consistency, convergent validity, and overall measurement quality of each latent construct.

Table 4. Construct reliability and validity

Variables	Cronbach's Alpha	Composite Reliability (rho-a)	Composite Reliability (rho-c)	Average Variance Extracted (AVE)
X_1 . Digitalization	0.954	0.956	0.959	0.592
X_2 . Internal Control System	0.951	0.953	0.957	0.612
X_3 . Treasurer Competence	0.964	0.964	0.967	0.618
Y . Financial Reporting Quality	0.963	0.964	0.966	0.599
Z . Leadership Commitment	0.969	0.970	0.972	0.609

Table 4 show construct reliability and validity results indicate that all variables satisfied the recommended SEM-PLS criteria. Cronbach's alpha values ranged from 0.951 to 0.969, demonstrating very strong internal consistency across all constructs. The composite Reliability values also exceeded 0.90, confirming that the indicators consistently measured the intended latent variables. The Average Variance Extracted (AVE) values ranged from 0.592 to 0.618, exceeding the minimum threshold of 0.50. This indicates that each construct explains more than half of the variance of its indicators, confirming adequate convergent validity. Among the constructs, Treasurer Competence (X_3) shows the highest AVE value, indicating a relatively stronger indicator representation compared to the other constructs. Overall, the measurement model demonstrated strong reliability and validity, supporting its suitability for structural model testing.

4.2.3. Discriminant Validity (HTMT Matrix)

Discriminant validity was assessed using the HTMT matrix, which examines the degree of separation between constructs and ensures that each construct is empirically distinct.

Table 5. Discriminant validity

Construct	X_1 . Digitalization	X_2 . Internal Control System	X_3 . Treasurer Competence	Y . Financial Reporting Quality	Z . Leadership Commitment
X_1 . Digitalization	–				
X_2 . Internal Control System	0.260	–			
X_3 . Treasurer Competence	0.273	0.345	–		

Y. Financial Reporting Quality	0.595	0.625	0.646	–	
Z. Leadership Commitment	0.509	0.563	0.613	0.779	–

Table 5 shows HTMT values were below the recommended threshold of 0.90, confirming satisfactory discriminant validity. The relatively low HTMT values between digitalization, internal control systems, and treasurer competence indicate that these constructs are conceptually and empirically distinct. The highest HTMT value appears between Leadership Commitment and Financial Reporting Quality (0.779), indicating a relatively strong relationship between the two constructs while still maintaining acceptable discriminant validity. This finding is consistent with the theoretical expectation that leadership commitment is closely associated with financial reporting quality, although both constructs remain distinguishable in the measurement model. Overall, the HTMT results confirm that all constructs measure different conceptual dimensions and that the model is suitable for further structural analyses.

4.3 Inner Model

4.3.1 R-Square

The R-squared values are presented to assess the explanatory power of the model in predicting the endogenous constructs.

Table 6. R-Square

Variables	R-square	Adjusted R-square
Y. Financial Reporting Quality	0.729	0.723
Z. Leadership Commitment	0.571	0.565

Table 6 show R-squared results indicate that Financial Reporting Quality (Y) has an R² value of 0.729, meaning that 72.9% of the variance in financial reporting quality is explained by digitalization, internal control systems, treasurer competence, and leadership commitment. This reflects substantial explanatory power, indicating that the model explains a large proportion of the variation in financial reporting quality. Leadership Commitment (Z) has an R² value of 0.571, indicating that 57.1% of the variance in leadership commitment is explained by digitalization, internal control systems, and treasurer competence. This suggests a moderate to substantial explanatory capability for the structural model. The small differences between the R² and adjusted R² values also indicate that the model is stable and not substantially inflated by the number of predictors. Overall, the structural model demonstrates satisfactory predictive power in explaining both leadership commitment and the quality of financial reporting.

4.3.2 F-Square

The f-square (f²) values are presented to assess the effect size of each exogenous variable on the endogenous constructs.

Table 7. F-Square

Variables	X ₁ . Digitalization	X ₂ . Internal Control System	X ₃ . Treasurer Competence	Y. Financial Reporting Quality	Z. Leadership Commitment
X ₁ . Digitalization	–	–	–	0.220	0.194
X ₂ . Internal Control System	–	–	–	0.198	0.220
X ₃ . Treasurer Competence	–	–	–	0.187	0.326

Y. Financial Reporting Quality	-	-	-	-	-
Z. Leadership Commitment	-	-	-	0.140	-

Table 7 show f-square (f^2) analysis was conducted to evaluate the effect size of each exogenous variable on the endogenous constructs. Based on the recommended criteria, values of approximately 0.02 indicate small effects, 0.15 indicate medium effects, and 0.35 indicate large effects. Digitalization (X_1) demonstrates medium effects on Financial Reporting Quality ($f^2 = 0.220$) and Leadership Commitment ($f^2 = 0.194$). Similarly, the Internal Control System (X_2) also shows medium effects on Financial Reporting Quality ($f^2 = 0.198$) and Leadership Commitment ($f^2 = 0.220$). These findings indicate that both digitalization and internal controls contribute meaningfully to improving governance quality and leadership participation.

Treasurer Competence (X_3) shows a medium effect on Financial Reporting Quality ($f^2 = 0.187$) and the strongest effect on Leadership Commitment ($f^2 = 0.326$). Although this value remains slightly below the threshold for a large effect, it indicates that treasurer competence is the most influential predictor of leadership commitment among independent variables. Leadership Commitment (Z) demonstrates a small-to-medium effect on Financial Reporting Quality ($f^2 = 0.140$). This suggests that leadership commitment contributes meaningfully to improving reporting quality, although its contribution is relatively smaller than the direct effects of the independent variables. Overall, the results indicate that Treasurer Competence provides the strongest contribution to Leadership Commitment, while Digitalization and Internal Control Systems contribute moderately to both endogenous constructs.

4.3.3 Hypothesis Result

4.3.3.1 Path Coefficients-Direct Effects

The direct effects were examined through path coefficients, which indicate the strength and direction of the relationships among the constructs in the model.

Table 8. Path coefficients-direct effects

Hypothesis	Relationship Between Variables	Original Sample (O)	Sample Mean (M)	STDEV	T-Statistics	P-Values	Desc	Decision
H_1	Digitalization on Leadership Commitment	0.304	0.304	0.048	6.312	0.000	Positive and significant	Accepted
H_2	Internal Control System on Leadership Commitment	0.331	0.330	0.053	6.288	0.000	Positive and significant	Accepted
H_3	Treasurer Competence on Leadership Commitment	0.404	0.405	0.046	8.771	0.000	Positive and significant	Accepted
H_4	Digitalization on Financial Reporting Quality	0.282	0.283	0.045	6.252	0.000	Positive and significant	Accepted
H_5	Internal Control System on Financial	0.276	0.277	0.039	7.097	0.000	Positive and significant	Accepted

	Reporting Quality							
H_6	Treasurer Competence on Financial Reporting Quality	0.281	0.281	0.041	6.769	0.000	Positive and significant	Accepted
H_7	Leadership Commitment on Financial Reporting Quality	0.298	0.296	0.052	5.782	0.000	Positive and significant	Accepted

Table 8 show hypothesis testing results indicate that all proposed relationships are positive and significant, thereby supporting the research model. H_1 states that digitalization has a positive and significant effect on leadership commitment. H_2 confirms that the internal control system positively influences leadership commitment. H_3 reveals that treasurer competence has the strongest positive effect on leadership commitment. H_4 shows that digitalization positively affects financial reporting quality. H_5 indicates that the internal control system has a positive and significant impact on financial reporting quality. H_6 confirms that treasurer competence positively influences financial reporting quality. Finally, H_7 shows that leadership commitment has a positive and significant effect on financial reporting quality. Overall, these findings suggest that digitalization, internal control systems, and treasurer competence improve financial reporting quality directly and indirectly through leadership commitment.

4.3.3.2 Indirect Effects

Indirect effects were analyzed to examine the mediating influence of the intervening variable within the structural model.

Table 9. Indirect effect

Hypothesis	Indirect Relationship	Original Sample (O)	Sample Mean (M)	STDEV	T-Statistics	P-Values	Decision
H_8	Digitalization has an indirect effect on Financial Reporting Quality through Leadership Commitment	0.091	0.090	0.023	4.020	0.000	Accepted
H_9	Internal Control System has an indirect effect on Financial Reporting Quality through Leadership Commitment	0.099	0.098	0.023	4.377	0.000	Accepted
H_{10}	Treasurer Competence has an indirect effect on Financial Reporting Quality through Leadership Commitment	0.121	0.120	0.027	4.455	0.000	Accepted

Table 9 show indirect effect results indicate that leadership commitment acts as a significant mediating variable in the relationship between digitalization, internal control systems, and treasurer competence on financial reporting quality. All p-values are 0.000 (< 0.05), with T-statistics above 1.96, confirming positive and significant mediation effects. H_8 indicates that digitalization indirectly affects financial reporting quality through leadership commitment. This suggests that digitalization not only directly improves reporting quality but also strengthens it by enhancing leadership involvement and commitment.

H_9 indicates that the internal control system has a significant indirect effect on financial reporting quality through leadership commitment, highlighting that effective controls foster leadership responsibility and consistency, which, in turn, improves reporting quality. H_{10} reveals that treasurer competence has the strongest indirect effect on financial reporting quality through leadership commitment. This implies that higher competence enhances leadership trust, which subsequently strengthens commitment and improves the quality of reporting. Overall, these findings confirm that leadership commitment plays a crucial mediating role in linking digitalization, internal control systems, and treasurer competence to the quality of financial reporting.

4.4. Discussion

The results confirm that all hypotheses ($H_1 - H_{10}$) are empirically supported, indicating that digitalization, internal control systems, and treasurer competence significantly influence both leadership commitment and financial reporting quality. Digitalization has a positive and significant effect on leadership commitment (H_1) and financial reporting quality (H_4), demonstrating that the implementation of integrated digital systems enhances the transparency, accuracy, and timeliness of financial information while encouraging leaders to be more actively involved in governance processes. Similarly, the internal control system significantly influences leadership commitment (H_2) and financial reporting quality (H_5), highlighting its role in strengthening supervision, ensuring compliance, and reducing the risk of misstatements. Treasurer competence also has a strong positive effect on leadership commitment (H_3) and financial reporting quality (H_6), confirming that technical knowledge, skills, and regulatory understanding are essential for producing reliable financial reports and fostering leadership trust. In addition, leadership commitment significantly improves financial reporting quality (H_7), emphasizing its role in ensuring consistency, accountability, and effective implementation of financial systems.

Furthermore, the indirect effect analysis reveals that digitalization (H_8), internal control systems (H_9), and treasurer competence (H_{10}) significantly influence the quality of financial reporting through leadership commitment. This finding indicates that the effectiveness of technological systems, control mechanisms, and human resource capabilities becomes stronger when they are supported by committed leadership. Leadership commitment acts as a strategic mediator that ensures that digital systems are optimally utilized, internal controls are consistently implemented, and treasurer competencies are effectively directed toward organizational goals. Without strong leadership commitment, these factors may not achieve their full potential in improving financial reporting quality, as the alignment between systems, processes, and human resources is less effective.

The practical impact of these findings is particularly important for public sector organizations, especially the Ministry of Marine Affairs and Fisheries. The results imply that improving financial reporting quality cannot rely solely on technological advancement, control systems, or individual competence but must be supported by strong and consistent leadership commitment. Strengthening leadership commitment can enhance accountability, reduce audit findings, and improve the credibility of the financial information presented to stakeholders. Therefore, policies that promote digital transformation, strengthen internal control systems, and develop treasurer competence should be integrated with efforts to reinforce leadership commitment, as this combination will have a greater impact on achieving transparent, accountable, and high-quality financial reporting in the public sector.

5. Conclusions

5.1 Conclusion

This study analyzed the effects of digitalization, internal control systems, and treasurer competence on financial reporting quality, with leadership commitment serving as a mediating variable in the Ministry of Marine Affairs and Fisheries. The empirical findings demonstrate that all the proposed relationships are positive and significant. Digitalization, internal control systems, and treasurer competence each positively influence leadership commitment, indicating that improvements in technological implementation, governance mechanisms, and employee competence strengthen leadership's involvement and responsibility in financial management processes. Among these variables, treasurer competence has the strongest influence on leadership commitment. The results further reveal that digitalization, internal control systems, treasurer competence, and leadership commitment each have a direct positive effect on financial reporting quality. These findings indicate that integrated digital systems improve reporting efficiency and transparency, effective internal controls strengthen compliance and reliability, and competent treasurers contribute to more accurate and accountable financial-reporting practices. Leadership commitment also positively contributes to financial reporting quality by strengthening supervision, accountability, and organizational consistency in financial governance.

5.2 Research Limitations

This study had several limitations that should be considered when interpreting the findings. First, the research was conducted only within the Ministry of Marine Affairs and Fisheries at the central government level, which may limit the generalizability of the results to other public sector institutions with different organizational characteristics and governance structures. Second, the study applied a cross-sectional survey approach, which captures the relationships among variables at a single point in time, and therefore limits the ability to observe changes and developments in organizational practices over time. Third, the data were collected using self-reported questionnaires, which may have increased the possibility of response bias and common method bias.

In addition, this study focused only on digitalization, internal control systems, and treasurer competence as antecedents of financial reporting quality, with leadership commitment as a mediating variable. Other potentially important determinants, such as organizational culture, audit quality, technological readiness, institutional pressure, and organizational learning capability, were excluded from the model. Therefore, future studies should expand the research scope by incorporating additional organizational and governance variables, applying longitudinal or mixed-method approaches, and comparing findings across different government institutions.

5.3 Suggestions and Directions for Future Research

Based on the findings and limitations of this study, future research should expand the scope by including different ministries, government agencies, or regional governments to enhance generalizability and enable comparative analysis. In addition, applying longitudinal or mixed-method approaches is recommended to better capture changes over time and provide deeper insights into the causal relationships among digitalization, internal control systems, leadership commitment, and financial reporting quality. Future studies should also consider incorporating additional variables, such as organizational culture, audit quality, regulatory pressure, and technological readiness, and explore alternative mediating or moderating variables. Moreover, combining quantitative methods with qualitative approaches, such as interviews or case studies, can provide a more comprehensive understanding and generate more practical insights into improving public financial governance.

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Author Contributions

SS conceptualization of the study, development of methodology, conducting formal analysis, drafting the original manuscript, and overall supervision of the research. NN data curation, performing the investigation, and contributing to review and editing of the manuscript. AS validation of findings, providing necessary resources, and reviewing and editing the manuscript for accuracy and clarity. YS Creating visualizations, managing software for data processing, and supporting data curation and presentation.

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