



INTERNATIONAL JOURNAL OF  
ENTREPRENEURSHIP AND  
MANAGEMENT PRACTICES  
(IJEMP)

[www.ijemp.com](http://www.ijemp.com)



THE IMPACT OF INTELLECTUAL CAPITAL DAN INTERNAL  
CONTROL SYSTEMS ON THE QUALITY OF FINANCIAL  
REPORTING IN PUBLIC SECTOR ORGANIZATION: EAST  
LUWU REGENCY BKAD CASE STUDY

Fatmawaty Alwy<sup>1\*</sup>, Rismawati<sup>2</sup>, Imam Pribadi<sup>3</sup>, Muhammad Aqsa<sup>4</sup>, Duriani<sup>5</sup>

<sup>1</sup> Master of Management Postgraduate Student. Muhammadiyah University of Palopo, Indoensia  
Email: fatmaalif@gmail.com

<sup>2</sup> Palopo Muhammadiyah University, Indonesia  
Email: rismal1@umpalopo.ac.id

<sup>3</sup> Palopo Muhammadiyah University Palopo, Indonesia  
Email: imampersonal@umalopo.ac.id

<sup>4</sup> Palopo Muhammadiyah Unibersity Palopo, Indonesia  
Email: muhammadaqsa@umpalopo.ac.id

<sup>5</sup> Palopo muhammadiyah University, Indonesia  
Email: duriani@umpalopo.ac.id

\* Corresponding author

**Article Info:**

**Article history:**

Received date: 29.08.2024

Revised date: 12.09.2024

Accepted date: 15.10.2024

Published date: 28.11.2024

**To cite this document:**

Alwy, F., Rismawati, R., Pribadi, I., Aqsa, M., & Duriani, D. (2024). The Impact Of Intellectual Capital Dan Internal Control Systems On The Quality Of Financial Reporting In Public Sector Organization: East Luwu Regency BKAD Case Study. *International Journal of Entrepreneurship and Management Practices*, 7 (27), 290-303.

**Abstract:**

This research aims to examine the impact of intellectual capital and internal control systems on the quality of financial reporting in public sector organizations, with a special focus on District BKAD. East Luwu. Using a quantitative research design, data was collected through secondary sources, including existing records and quarterly reports, and analyzed using SmartPLS. The analysis carried out consisted of validity and reliability tests, discriminant validity, inner model analysis, and direct influence analysis. The results show that intellectual capital and internal control systems have a weak but direct influence on the quality of financial reports, with path coefficients of 0.348 and 0.043, respectively, and P-Values exceeding 0.05, thus indicating an insignificant influence. These findings are in line with previous research, which underscores the role of intellectual capital in improving organizational performance and the importance of internal control systems for reliable financial reporting. The novelty of this research lies in its specific application to regional financial management bodies, which provides insight into the unique challenges and opportunities in improving the quality of financial reporting in BKAD East Luwu Regency. The study recommends continued investment in intellectual capital through targeted training programs and strengthening internal control systems to improve the quality and governance of financial reporting.

DOI: 10.35631/IJEMP.727023

This work is licensed under [CC BY 4.0](#)**Keywords:**

Intellectual Capital, Internal Control, Quality of Financial Reporting, Public Sector, BKAD East Luwu Regency

**Introduction**

The quality of financial reports is an important element in public sector organizations, providing a comprehensive view of the financial position obtained from various transactions. Financial reports function as a medium for public entities to fulfill their accountability to the public, providing important information for decision making and performance evaluation. For financial information to be useful to its users, the information must have value, which indicates the quality of the financial reports. In accordance with Government Regulation number. 71 of 2010 concerning Government Accounting Standards (SAP), quality financial reports must adhere to the principles of timeliness and compliance with established accounting standards. In particular, these reports must meet qualitative characteristics such as relevance, reliability, comparability, and understandability.

Government Regulation Number. 71 of 2010 concerning Government Accounting Standards defines financial reports as structured reports regarding the financial position and transactions carried out by a reporting entity. To achieve accounting information objectives, normative standards known as qualitative features must be applied. Ensuring high quality financial reports in line with SAP requires the support of various factors, especially intellectual capital and internal controls, which are very important to produce financial reports that comply with existing regulations.

Intellectual capital, as explained by Edvidson in Cahyati, is not just a management technique but is a fundamental approach in managing resources and assets in an organization (Zulkifli, 2019) Research by Yusliza et al. highlights that intellectual capital, as an intangible resource, can create competitive advantages for organizations (Obeidat, 2021) Adequate intellectual capital correlates with better quality financial management in local governments (Ozkan et al., 2017) ; (Yusliza, 2020). Abdul Rohman , as quoted in Novita Sari, stated that financial performance, which is an indication of the quality of financial management, is influenced by the financial management system itself (Novitasari et al., 2020) . A performance-oriented financial management system reflects management accountability and alignment of strategic goals with available funding.

An internal control system is very important to ensure financial reports meet required standards. Effective internal controls include a strong control environment, adequate control activities, clear information and communication, and ongoing monitoring. The Government Internal Control System (SPIP), which is implemented comprehensively within central and regional governments, is designed to ensure that organizational objectives are achieved with reasonable certainty through reliable, effective and efficient financial reporting.

Strengthening internal controls is essential to ensure that financial reports comply with established standards. Internal control mechanisms at the Regional Financial and Asset Management Agency (BKAD) must be reviewed and updated regularly to identify and overcome weaknesses. A strong internal control framework minimizes the risk of errors and

discrepancies in financial reporting, resulting in more reliable and trustworthy financial reports. Improvements in these various dimensions will make a significant contribution to improving the quality of financial reports at BKAD East Luwu Regency as a whole.

The Regional Financial and Asset Management Agency as a supporting institution for regional government administration has the main function of managing the district's regional finances. East Luwu. In accordance with the 2021-2026 Strategic Plan (Renstra), East Luwu Regency BKAD has a Key Performance Indicator (KPI) target, namely achieving an unqualified opinion (WTP) from the Financial Audit Agency (BPK) on its financial reports. The East Luwu Regency regional government's financial report has received a WTP opinion from the BPK for 12 consecutive years.

Achieving KPI targets at BKAD is closely related to human resource aspects and managerial aspects in controlling activities that support the preparation and achievement of financial reports with an unqualified opinion. In 2024, BKAD East Luwu Regency will be supported by 45 personnel consisting of 30 state civil servants (ASN) and 15 non-ASN personnel.

**Tabel 1: Presents ASN Educational Qualifications And The Number Of Financial Training Programs Attended By BKAD Personnel From 2021 To 2023.**

Year	Senior High School	D.3	Bachelor	Masters	Doctoral	Financial Training Program
2021	3	3	16	6	0	35
2022	1	3	18	5	1	38
2023	1	3	20	4	2	28
Total	5	9	54	15	3	101

Source: East Luwu BKAD Personnel Data

BKAD personnel are equipped with the knowledge and skills needed to manage regional finances through technical guidance and training programs. These programs include budgeting, financial administration, accounting reporting systems, and asset management.

Study(Rahmawati, 2022) reveals the positive and significant influence of intellectual capital on financial reporting. As well as(Purba, 2023) found that intellectual capital has a significant effect on the integrity of financial reports. However ,(Ayu, 2023) It was reported that there was no significant influence of intellectual capital on performance.

Based on the diverse background and findings of previous research, this research aims to examine the influence of intellectual capital and internal control on the quality of financial reports at the Regency Regional Financial and Asset Management Agency. East Luwu.

## Literature Review

### *Intellectual Capital*

Intellectual capital is defined as intangible assets that include intellectual property that focuses on human and infrastructure assets that are critical to a company's operational capabilities (Brooking, 2019). A company's intangible assets , or intellectual capital, include the knowledge, information, and experience possessed by an organization's human resources (Stewart, 1997). Intellectual capital synergistically combines information, experience,

discovery, innovation, market share, and community that impact the company. According to Suwarjono and Kadir (2003), intellectual capital is generated from the efforts of three main constituents of an organization: human, structural and customer capital, as well as any technological innovation that has the potential to provide competitive advantage.

Human capital refers to the skills and competencies that employees have in producing goods and services and their ability to interact well with customers (Dumay, 2020). Human resources increase when a company can efficiently develop and utilize the competencies of its employees. Companies with potential quality employees will encourage company performance to be optimal, thereby increasing the company's perception. Farrukh and Joiya (2018) categorize intellectual capital measurement methods into two groups: non-monetary measurements and monetary measurements. (Barney, 2020) argue that intellectual capital is valuable, rare, and difficult to imitate, suggesting that a firm's internal resources are more important than external factors for achieving competitive advantage. This theory identifies three categories of resources: 1) human resources, including employee knowledge and experience; 2) organizational resources, including planning, structure, control and supervision systems; and 3) real resources, consisting of technology, equipment, plants, and locations.

(Barney, 2020) argue that intellectual capital is valuable, rare, and difficult to imitate, suggesting that a firm's internal resources are more important than external factors for achieving competitive advantage. This theory identifies three categories of resources: 1) human resources, including employee knowledge and experience; 2) organizational resources, including planning, structure, control and supervision systems; and 3) real resources, consisting of technology, equipment, plants, and locations.

(Sudibya, D., & Restuti, M., 2020) presents several criteria for identifying key resources according to Resource Based Theory:

1. These resources support the company's ability to meet customer needs better than competitors.
2. These resources are rare and not easily imitated, characterized by unique physical properties, long acquisition times and high costs, uniqueness that is difficult for competitors to obtain and exploit, and require significant capital investment for acquisition.
3. Resources provide great benefits to the company, increasing their value as the company profits from their use.
4. Resource durability, indicating that a resource that depreciates slowly will be more valuable.

### ***Internal Control***

The legal framework that regulates internal control in Indonesian government institutions is Government Regulation Number 60 of 2008 concerning the Government Internal Control System (SPIP). This regulation defines internal control as an integrated process of actions and activities carried out by management and all personnel to provide adequate guarantees for achieving organizational goals through effective and efficient activities, reliable financial reporting, asset security, and compliance with laws and regulations. invitation .

Internal control is a process designed to provide reasonable assurance regarding the achievement of objectives related to reliable financial reporting, compliance with applicable laws and regulations, and the effectiveness and efficiency of operations. (COSO, 2020) The

literature identifies five interrelated components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each component significantly guarantees the integrity and reliability of the organization's internal control system.

The control environment forms the foundation of the entire internal control structure, providing discipline and structure. (Beasley, 2020) describes the control environment which includes integrity and ethical values, competence, management philosophy and operating style, organizational structure, and authority and responsibility. A strong control environment is key to preventing and detecting fraud and errors. (Harlow, 2021) emphasizes that an organizational culture that supports high ethical values is very important in building an effective control environment.

Risk assessment involves identifying and analyzing risks that may hinder the achievement of organizational objectives, including financial reporting risks. (COSO, 2020) explains risk assessment includes identification, analysis and risk management. (Beasley, 2020) found that organizations that proactively manage risk tend to have more reliable financial reports and fewer operational surprises. Effective risk management requires a deep understanding of the potential threats and opportunities affecting the organization.

Control activities include policies and procedures that help ensure management directives are carried out. (Rismawati, 2024) states that control activities may involve segregation of duties, transaction authorization, reconciliation, verification, and access restrictions. Effective control activities ensure accurate transaction recording and prevent and detect errors and fraud. Implementing appropriate control activities is critical to maintaining the integrity of an organization's financial reporting and operations.

Information and communications include systems that ensure relevant and reliable information is delivered in a timely manner to those who need it. (Marshall B. Romney, dkk, 2021) argued that good information enables management and employees to carry out their responsibilities effectively. Effective communication ensures that internal control policies and procedures are understood and followed by all members of the organization. Adequate information and communication are prerequisites for effective decision making and reliable financial reporting.

Monitoring involves evaluating the quality of internal control performance over time. (COSO, 2020) states that monitoring can be carried out through ongoing monitoring activities and separate evaluations, such as internal audits and management reviews. (Hidayatullah, barlianana Izza Ardillah., 2023) shows that effective monitoring helps organizations identify and correct weaknesses in internal control systems. (Novi Natalia, 2023) shows that a strong internal audit function can improve the effectiveness of internal control and the quality of financial reporting.

### ***Quality of Financial Report***

(Chabib Sholeh, M., 2019) explains the financial management principles needed to control regional financial policies, including accountability, value for money, integrity, transparency and budget control. Accountability requires that decisions are aligned with accepted mandates, with policies that are accessible and well communicated vertically and horizontally. The policy must cover potential regional losses, decrease in regional wealth (money, securities, goods), and be specific and measurable due to unlawful acts, whether intentional or negligent.



Value for money shows the success of regional autonomy and decentralization through improving public services and welfare, advancing democracy, justice, equality and harmonious relations between the central, regional and inter-regional governments. This justice can be achieved if regional government administration is managed by considering the value-for-money concept, which is operationalized in managing regional finances and budgets economically, effectively and efficiently.

Integrity in public financial management entrusts financial management to officials who are very honest and have integrity, minimizing opportunities for corruption, including potential regional losses due to unlawful acts, whether intentional or negligent, resulting in future losses. Transparency requires openness in regional financial policy making, thereby enabling supervision by the Regional People's Representative Council (DPRD) and the community. Transparent regional financial management will create horizontal accountability between regional governments and their communities, resulting in clean, effective, efficient, accountable and responsive regional government administration.

Budgetary control requires frequent evaluation, comparing budgeted and actual results. Analysis of regional income and expenditure variances can identify the causes of variances, thereby enabling anticipatory efforts to be made against future events. Effective budget control includes identifying and handling regional revenue shortfalls and potential regional losses.

## Hypothesis

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

### **H1: There is an influence of Intellectual Capital on the Quality of Financial Reports .**

When (Suharni ; Rismawati ; Haedar, 2024) employees view their environment as positive, both physically and psychosocially, they are more likely to experience a sense of well-being. This sense of prosperity can fuel employee morale, motivating them to work with enthusiasm to achieve more and better results. When morale is at a high level, it also triggers behaviors that lead to greater employee engagement. It was further stated that engagement is impossible without high work morale, and high work morale usually leads to increased engagement (Syihab et al., 2020) . Based on this explanation, the second hypothesis of this research can be formulated as follows:

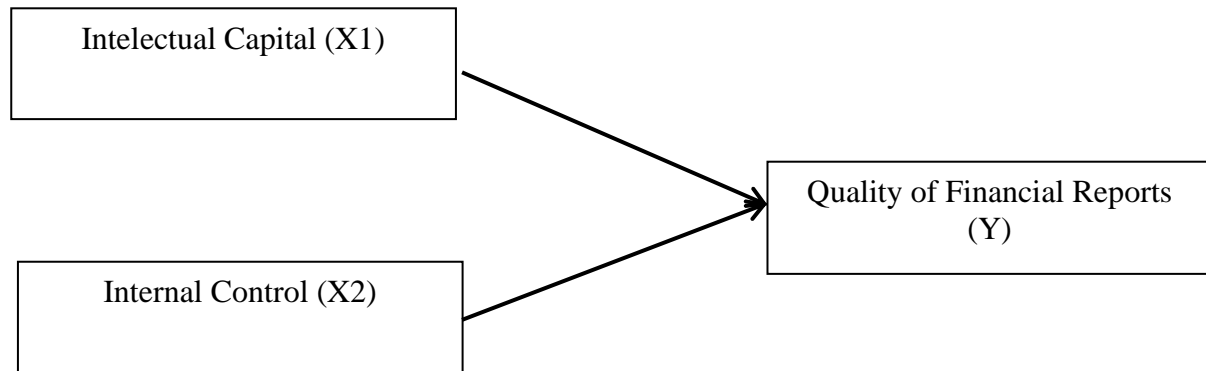
An organization cannot inherently create its own knowledge. Knowledge is generated through individual initiative and interaction within groups of individuals, which is then crystallized through processes such as dialogue, discussion, shared experience, and observation. In this context, experience is also considered as an element of intellectual capital in a company. However, due to its personal nature, it is difficult to formulate and communicate it, categorizing experiences as tacit knowledge.

### **H2: There is an influence of Internal Control on the Quality of Financial Reports**

Organizational achievements in determining management policies need to be supported by internal control. Without an ideal internal control system, organizational development can be hampered, and operations cannot run effectively.

### Conceptual Framework

Based on the explanation above, the relationship between variables can be analyzed, where the independent variables in this research are Intellectual Capital (X1) and Internal Control (X2), and the dependent variable is Financial Report Quality (Y). The conceptual framework of this research is as follows:



**Figure 1: Conceptual Framework**

1. Intellectual Capital (X1) refers to the collective knowledge, experience, and intellectual property that contributes to a company's value and competitive advantage.
2. Internal Control (X2) refers to processes and procedures designed to ensure the integrity of financial reporting, compliance with laws and regulations, and the effectiveness and efficiency of operations.
3. Financial Report Quality (Y) is an outcome variable that reflects the reliability, relevance, comparability and understanding of financial information provided by the organization.

### Methodology

The methodology used in this research is quantitative. Data collection techniques include the use of secondary data and literature review using a time series approach. This scientific calculation was taken from a sample of employees of the Regional Financial and Asset Management Agency (BKAD) of East Luwu Regency, and secondary internal control data was collected every quarter regarding the control range for achieving targets from the financial reporting support program.

### Research Design

This research uses a quantitative research design to examine the influence of intellectual capital and internal control on the quality of financial reports at the District BKAD. East Luwu. A quantitative approach allows measuring and analyzing relationships between certain variables using statistical techniques.

### Population and Sample

The population of this study includes all employees in the East Luwu Regency BKAD environment. The sample will be drawn from this population, with a focus on individuals directly involved in financial reporting and internal control processes. The sampling method will be carried out purposively, to ensure that selected participants have relevant experience and responsibility in the field.

## Data Collection

### 1. Secondary Data:

- **Intellectual Capital:** Data on intellectual capital will be collected from existing records within the organization, including employee qualifications, training records, and other relevant documentation that reflects the organization's intellectual assets.
- **Internal Control:** Secondary data regarding internal control will be collected from quarterly reports and internal audits. These reports provide insight into control mechanisms and their effectiveness in achieving financial reporting targets.

### 2. Literature Review:

- A comprehensive review of relevant literature will be conducted to support the theoretical framework and provide context for the empirical analysis. This includes the latest research on intellectual capital, internal controls, and the quality of financial reporting.

## Data Analysis

Data will be analyzed using statistical techniques appropriate for time series data. The analysis will include the following steps:

### 1. Descriptive Statistics:

- Summarize the main characteristics of the data, including the mean, median, standard deviation, and other relevant metrics.

### 2. Regression Analysis:

- Conduct multiple regression analysis to test the relationship between intellectual capital (X1) and internal control (X2) as independent variables, and financial report quality (Y) as the dependent variable.
- The regression model will help identify the significance and strength of influence of each independent variable on the dependent variable.

### 3. Hypothesis Testing:

- Test the proposed hypotheses (H1 and H2) using appropriate statistical tests (eg t test) to determine whether there is a significant influence of intellectual capital and internal control on the quality of financial reports.

### 4. Time Series Analysis:

Analyze data over time to identify trends, patterns, and any seasonal effects that may influence

## Validity and Reliability

To ensure the validity and reliability of the data, the following steps will be taken:

- **Validity:** Use established metrics and instruments to measure intellectual capital and internal controls. Double-check the data with multiple sources to ensure accuracy.
- **Reliability:** Perform reliability tests (e.g., Cronbach's alpha) to ensure consistent results across samples and time periods.



### Ethical Considerations

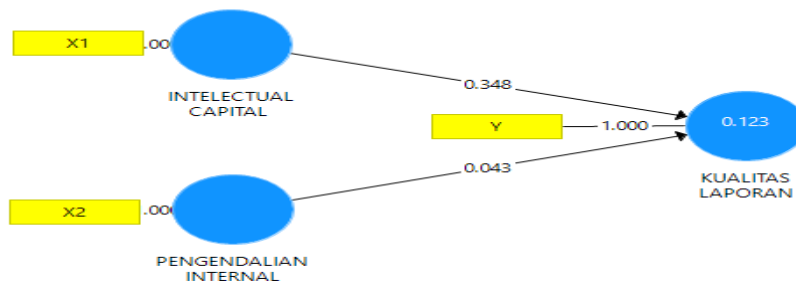
This research will adhere to research ethics guidelines, ensuring confidentiality and anonymity for all participants. Data will be collected and analyzed with integrity, and any conflicts of interest will be disclosed.

### Research Findings and Discussion

#### Data Analysis Results

The data analyzed in this research includes the variables Intellectual Capital (X1), Internal Control (X2), and Quality of Financial Reports (Y) using SmartPLS. The analysis carried out consisted of outer model analysis (validity and reliability test), discriminant validity, inner model analysis (structural model analysis), and direct influence analysis.

#### Outer Model Analysis (Validity and Reliability Test)



**Figure 2: Outer Model Analysis**

According to (Ghozali, 2016); (Rangkuti et al., 2020) An instrument is said to be reliable if the Cronbach's Alpha value is above 0.60, indicating very good reliability. According to Chin (1998); (Selfyan, 2021) Cronbach's Alpha should ideally be greater than 0.70.

**Table 2: Cronbach's Alpha and Composite Reliability**

Variable	Cronbach's Alpha	Composite Reliability	road
Intellectual Capital	1,000	1,000	1,000
Quality of Financial Reports	1,000	1,000	1,000
Internal Control	1,000	1,000	1,000

Source: Processed Data

Based on Table 1, the Cronbach's Alpha and Composite Reliability values are above 0.70, and the Average Variance Extracted (AVE) is also above 0.70, which indicates that all the estimated constructs meet the criteria. This shows that all variables with reflective indicators in this study have good reliability, very reliable for their respective constructs with a value of 1.000 or >0.70.

#### Discriminant Validity

Validity means measuring what is intended to be measured (Rangkuti et al., 2020). Discriminant validity ensures that each concept of the latent model is different from the other variables. The validity test determines how accurately a measuring instrument carries out its function (Rangkuti et al., 2020). In SMART-PLS, discriminant validity can be assessed using

the Fornell-Larcker and cross-loading criteria. According to the Fornell-Larcker criteria, discriminant validity is said to be good if the square root of the AVE of a construct is higher than the correlation of that construct with other latent variables. For cross-loading, the indicator value must be higher for each construct than for the other constructs (Pizzini , M., Lin, S., & Ziegenfuss , DE , 2021). The newest and most effective criterion is the Heterotrait-Monotrait Ratio (HTMT). If the HTMT value is  $<0.90$  then the construct has good discriminant validity.

**Table 3 : Ratio Heretoroit-Monotoroit (HTMT)**

	Intellectual capital	Quality report
<b>Intellectual capital</b>		
<b>Quality report</b>	0.348	
<b>Internal control</b>	0.016	0.049

Source : Processed data , 2024

Based on Table 2, the Heterotrait-Monotrait Ratio (HTMT) analysis shows the following:

1. Intellectual Capital and Financial Report Quality have an HTMT of 0.348  $<0.90$  which indicates good discriminant validity.
2. Intellectual Capital and Internal Control have an HTMT of 0.016  $<0.90$  which indicates good discriminant validity.
3. The quality of financial reports and internal control has an HTMT of 0.049  $<0.90$  which indicates good discriminant validity.

#### ***Inner Model Analysis (Structural Model Analysis)***

The influence of the independent variable (exogenous) on the dependent variable (endogenous) is shown by the R Square value. The collective influence of the independent variable on the dependent variable is shown by the R Square value which ranges from 0 to 1. According to (Farrukh, 2020) An R Square value of 0.67 is strong, 0.33 is moderate, and 0.19 is weak.

The F-Square effect size ( $f^2$ ) measures the relative impact of an exogenous variable on an endogenous variable.  $F^2$  values of 0.02, 0.15, and 0.35 indicate a weak, medium, and large influence respectively (Farrukh, 2020)

**Table 4 : R Squared F Squared**

VARIABLES	R square	F square
<b>Report Finance</b>	0.123	
<b>Intellectual Capital</b>		0.138
<b>Internal Control</b>		0.002

Source : Processed Data . 2024

Based on Table 3, the independent variables Intellectual Capital and Internal Control have a weak influence on the dependent variable Financial Report Quality with an R Square value of 0.123. The F Square measurement shows that Intellectual Capital has an  $F^2$  value of 0.138, indicating a weak influence on the Quality of Financial Reports, while Internal Control has an  $F^2$  value of 0.002, also indicating a weak influence.

**Direct Effect**

The criteria for testing the direct influence hypothesis are as follows. First, the path coefficient: (a) If the path coefficient is positive, then the influence of one variable on another variable is in the same direction; if one variable increases then the other variable also increases. (b) If the path coefficient is negative, then the effect is in the opposite direction; if one variable increases, the other variable decreases. Second, the probability/significance value (P- Value): (1) If the P-Value <0.05 then the effect is significant; (2) If the P-Value is > 0.05 then the effect is not significant (Juliandi, 2018).

**Table 5 : Influence Direct**

	<b>Sample original (o)</b>	<b>Sample mean (m)</b>	<b>Deviation standard ( stdev )</b>	<b>statistics ( o/ stdev  )</b>	<b>P value</b>
<b>intellectual -&gt; Report Quality</b>	<b>0.348</b>	<b>0.348</b>	<b>0.311</b>	<b>1,117</b>	<b>0.264</b>
<b>Internal control l -&gt; Report Quality</b>	<b>0.043</b>	<b>0.022</b>	<b>0.333</b>	<b>0.130</b>	<b>0.897</b>

Source : Processed Data . 2024

Based on Table 4, it can be explained that the independent variables Intellectual Capital and Internal Control have a direct effect on the Quality of Financial Reports with levels of influence of 0.348 and 0.043 respectively. This means that the direct influence of Internal Control on the Quality of Financial Reports is stronger than Intellectual Capital. However, these two independent variables do not have a significant direct influence on the Quality of Financial Reports because their P-Value is above 0.05.

The results of this research reveal that Intellectual Capital and Internal Control have a weak but direct influence on the Quality of Financial Reports at BKAD East Luwu Regency. Although the analysis shows that both variables contribute to the quality of financial reports, their impact is not statistically significant, as evidenced by P-Values that exceed 0.05. These results are in line with previous research which shows that intellectual capital improves organizational performance by utilizing knowledge, skills and experience.(Abeysekera, 2020) Likewise, strong internal control mechanisms are essential to ensure reliable financial reporting, compliance, and operational efficiency (COSO, 2020).

**Intellectual Capital**

The findings show that Intellectual Capital has a positive but weak influence on the Quality of Financial Reports, with a path coefficient of 0.348 and a P-Value of 0.264. This implies that the presence of intellectual capital, which includes employee knowledge, skills and competencies, contributes to better financial reporting. However, the impact is not statistically significant in this context.

(Abeysekera, 2020)supports the idea that intellectual capital provides competitive advantage and improves organizational performance. In addition, research by(Dzenopoljac , V., Yaacoub , C., Bontis , N., & Alon, I., 2019) emphasizes the important role of intellectual capital in driving innovation and improving organizational outcomes. Although the effect observed in this study is weak, the importance of intellectual capital in improving the quality of financial reports is

still apparent, thus warranting continued investment in developing and utilizing this intangible asset.

### **Internal Control**

Internal Control also has a positive but weak influence on the Quality of Financial Reports, with a path coefficient of 0.043 and a P-Value of 0.897. These findings highlight that internal control systems, which are important for ensuring the accuracy and reliability of financial reports, do not have a significant direct impact in this study.

The importance of internal control systems is well documented in the literature. Framework(COSO, 2020) line highlight the role of internal control in improving the reliability of financial reporting and operational efficiency.(Siagian , H., Siregar , SV, & Rahadian , Y. , 2020) elaborates further on how effective internal controls contribute to better financial governance and accountability. The weak influence observed in this study indicates that there may be gaps in the implementation or effectiveness of internal control at BKAD Luwu Timur Regency, indicating the need for further strengthening of this system.

### **The implications for BKAD East Luwu Regency**

#### ***Investment in Intellectual Capital:***

BKAD East Luwu Regency must continue to invest in intellectual capital through targeted training and development programs. Improving personnel skills and knowledge can result in more effective financial management and improve the quality of financial reports. These investments are essential to harnessing the full potential of intellectual capital, as supported by research such as (Abeysekera, 2020).

#### ***Strengthening Internal Control:***

Strengthening the internal control system is essential to ensure the reliability and accuracy of financial reports. Regular reviews and updates to internal control procedures can help mitigate risks and improve the quality of financial reporting. The findings indicate that the East Luwu Regency BKAD must focus on identifying and addressing weaknesses in the internal control system to improve overall governance and accountability, in line with recommendations(COSO, 2020) And(Siagian , H., Siregar , SV, & Rahadian , Y. , 2020)

### **Conclusion**

In conclusion, although Intellectual Capital and Internal Control do not have a significant effect on the Quality of Financial Reports in this research, their importance should not be underestimated. Continued investment in these areas is critical to improving the quality of financial reporting and achieving organizational goals. These findings underscore the need for continued efforts to leverage intellectual capital and improve internal control systems, consistent with the broader literature on their role in organizational success. Future research could explore the specific mechanisms by which intellectual capital and internal controls contribute to the quality of financial reporting, providing deeper insights into their effective utilization.

### **Acknowledgment**

I would like to thank the editorial team for reviewing journal articles for my manuscript, I have made revisions in accordance with the recommendations of the auditor team in revising the manuscript.

## References

- Abeyssekera, I. (. (2020). Intellectual Capital Management as a Driver of Sustainability: Perspectives for Organizations and Society. Springer.
- Ayu, IG (2023). Impact of Intellectual Capital on Performance.
- Barney, J. &. (2020). Strategic Management and Competitive Advantage: Concepts. Pearson.
- Beasley, M. C. (2020). Enterprise Risk Management: Empirical Analysis of Factors Associated with Extent of Implementation. *Journal of Accounting and Public Policy*.
- Brooking, A. (2019). Intellectual Capital: Core Asset for the Third Millennium Enterprise. Cengage Learning. International Thompson Business Press.
- Chabib Sholeh, M. . (2019). Principles of Regional Financial Management. Mada University Press Gajah.
- Chabib Sholeh, M. (2019). *Principles of Regional Financial Management*. Mada University Press Gajah.
- COSO. (2020). *Internal Control – Integrated Framework. Committee of Sponsoring Organizations of the Treadway Commission*.
- Dumay, J. &. (2020). Intellectual capital research: third stage critical examination. , . *Journal of Intellectual Capital* , 21(2), 1-25. DOI: 10.1108/JIC-06-2019-0123.
- Dzenopoljac , V., Yaacoub , C., Bontis , N., & Alon, I. (2019). Intellectual capital, entrepreneurial strategy, and organizational performance in the Middle East. , . *Journal of Intellectual Capital*, 20(6) , 850-869. DOI: 10.1108/JIC-01-2019-0015.
- Farrukh, M. &. (2020). Measuring Intellectual Capital: A Review of Different Approaches. . *Journal of Intellectual Capital*.
- Harlow. (2021). Management Fifteenth Edition. In MC Stephen P. Robin, *Management* (p. 658). INABA E-Library.
- Hidayatullah, barlianana Izza Ardillah., D. (2023). Internal Audit. In *Angewandte Chemie International Edition*, 6(11), 951–952.
- Marshal B. Romney, et al. (2021). Accounting Information Systems Fifteenth Edition. In *Pearson* (p. 848).
- Novi Natalia. (2023). The Role of Internal Audit in Improving Company Management. *Journal of Accounting and Finance Research* , 5 (1), 1–14. <https://www.ncbi.nlm.nih.gov/books/NBK558907/>
- Novitasari, DR, Jatmiko, T., & Prabowo, W. (2020). The Influence of Regional Financial Management and Internal Supervision on Government Performance (Case Study of Semarang City Regional Work Units). *Diponegoro Journal of Accounting* , 9 (2), 1–8.
- Obeidat, ea (2021). Intellectual Capital and Organizational Performance.
- Ozkan, N., Cakan, S., & Kayacan, M. (2017). Intellectual capital and financial performance: A study of the Turkish Banking Sector. *Borsa Istanbul Review* , 17 (3), 190–198. <https://doi.org/10.1016/j.bir.2016.03.001>
- Pizzini , M., Lin, S., & Ziegenfuss , D.E. (2021). The influence of the quality and contribution of the internal audit function on audit delay. . *Journal of Accounting and Public Policy*, , 40(4), 106811. DOI: 10.1016/j.jaccpubpol.2021.106811.
- Purba, J. &. (2023). Intellectual Capital and Financial Report Integrity.
- Rahmawati, N. &. (2022). The Influence of Intellectual Capital on Financial Reporting.
- Rangkuti, DA, Alfredo, Lauren, C., Dewi, N., Prasetyo, F., & Simbolon, C. (2020). The Influence of Competence, Communication and Work Stress on Employee Performance at Pt Himawan Putra Medan. *Journal News Issue* 63 , 14 (1), 16–33.
- Rismawati, T.D. (2024). . Exploring the relationship between sustainable supply chains and sustainable development goals on SME financial performance. *Uncertain Supply Chain Management* 1 (USCM Ka.



- Siagian, H., Siregar, SV, & Rahadian, Y.. (2020). The influence of internal control systems, organizational culture, and leadership on the quality of financial reporting. *Journal of Financial Reporting and Accounting* , 18(4), 657-674. DOI: 10.1108/JFRA-11-2018-0101.
- Hidayatullah, barlianana Izza Ardillah., D. (2023). Internal Audit. In *Angewandte Chemie International Edition*, 6(11), 951–952.
- Novi Natalia. (2023). The Role of Internal Audit in Improving Company Management. *Journal of Accounting and Finance Research* , 5 (1), 1–14.  
<https://www.ncbi.nlm.nih.gov/books/NBK558907/>
- Novitasari, DR, Jatmiko, T., & Prabowo, W. (2020). The Influence of Regional Financial Management and Internal Supervision on Government Performance (Case Study of Semarang City Regional Work Units). *Diponegoro Journal of Accounting* , 9 (2), 1–8.  
<http://ejournal-s1.undip.ac.id/index.php/accounting>
- Ozkan, N., Cakan, S., & Kayacan, M. (2017). Intellectual capital and financial performance: A study of the Turkish Banking Sector. *Borsa Istanbul Review* , 17 (3), 190–198.  
<https://doi.org/10.1016/j.bir.2016.03.001>
- Rangkuti, DA, Alfredo, Lauren, C., Dewi, N., Prasetyo, F., & Simbolon, C. (2020). The Influence of Competence, Communication and Work Stress on Employee Performance at Pt Himawan Putra Medan. *Journal News Issue* 63 , 14 (1), 16–33.  
<http://jurnal.dharmawangsa.ac.id/index.php/juwartana/article/view/540>
- Selfiyani. (2021). The Influence of Profitability, Leverage, Company Size on Company Value with Profit Management as an Intervening Variable (Empirical study of food and beverage companies listed on the IDX for the 2016-2019 period). *ECO-BUS* , 4 (1), 10–28.
- Syihab, S., Razak, M., & Hidayat, M. (2020). The Influence of Work Spirit, Leadership Style and Motivation on the Performance of Barru Regency Public Works and Spatial Planning Employees. *SCIENTIFIC JOURNAL AkMen* , 17 (2), 194–204.
- Sudibya , D., & Restuti , M. . (2020). Human Resources in Producing Goods and Services in the Digital Era. Palgrave Macmillan.
- Suharni; Rismawati; Haedar. (2024). The Influence of Compensation and Work Discipline on Employee Performance at the BRI Palopo City Branch Office. Development of SDG's in Advancing Business Longevity from Accounting.
- Yusliza, MN (2020). Intellectual Capital and Organizational Performance.
- Zulkifli, Z. (2019). Intellectual Capital. In *Media Sarana Sejahtera* .