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The Influence of Financial Literacy, Risk Management, and Financial Management on the Quality of Local Government Financial Reports with Compliance Audit as a Moderating Variable (Survey at Tasikmalaya Regency Local Government)

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ABSTRACT

This study aims to analyze the influence of Financial Literacy, Risk Management, and Financial Management on the Quality of Local Government Financial Reports, as well as the moderating role of Compliance Audit in those relationships. This research used a quantitative survey approach. The population comprised all financial management apparatus (ASN) in the Local Government of Tasikmalaya Regency, with 177 respondents selected through purposive sampling across 59 regional work units. Data were analyzed using Structural Equation Modeling-Partial Least Square (SEM-PLS) with SmartPLS 4.0 software. The results indicate that: (1) Financial Literacy has a positive and significant effect on the Quality of Financial Reports ($\beta = 0.406$; $t = 6.944$; $p = 0.000$); (2) Risk Management has a positive and significant effect on the Quality of Financial Reports ($\beta = 0.318$; $t = 4.590$; $p = 0.000$); (3) Financial Management has a positive and significant effect on the Quality of Financial Reports ($\beta = 0.218$; $t = 4.072$; $p = 0.000$); (4) Compliance Audit significantly moderates the relationship between Financial Literacy and Financial Report Quality ($\beta = 0.165$; $t = 2.557$; $p = 0.011$); (5) Compliance Audit does not moderate the relationship between Risk Management and Financial Report Quality ($\beta = -0.010$; $t = 0.186$; $p = 0.853$); and (6) Compliance Audit significantly moderates the relationship between Financial Management and Financial Report Quality ($\beta = 0.202$; $t = 3.895$; $p = 0.000$). These findings underscore the need for integrated strategies to strengthen human resource competency, internal control systems, and compliance oversight to improve local government financial reporting quality.

Keywords: Financial Literacy; Risk Management; Financial Management; Financial Report Quality; Compliance Audit.

1. INTRODUCTION

Good governance is the primary foundation for achieving sustainable development and social welfare. In the context of public financial management, good governance demands a transparent, accountable, effective, and efficient system for managing state financial resources (Kemendagri, 2007). Local governments, as executors of regional autonomy, bear significant responsibility in managing public finances in accordance with good governance principles. One essential instrument in realizing good governance is the quality of local government financial reports, which constitutes the accountability of the Regional Head over the implementation of the Regional Revenue and Expenditure Budget (APBD) to the public and stakeholders. The quality of local government financial reports remains a strategic issue of increasing relevance, driven by growing public demands for transparency and accountability. The Supreme Audit Board (BPK), in the Summary of Audit Results for Semester I of 2025, reported that of 545 Local Government Financial Reports (LKPD) examined in 2024, 491 received Unqualified Opinions (WTP), 53 received Qualified Opinions (WDP), and 1 received Disclaimer of Opinion (TMP). In West Java Province, of 27 city and regency governments that submitted their 2024 LKPDs, only 19 received full WTP opinions.

Tasikmalaya Regency has consistently received Unqualified Opinions (WTP) for six consecutive years (2019–2024). However, BPK continues to note recurring issues—particularly in fixed asset management, internal control systems, and regulatory compliance—indicating that WTP opinion alone does not guarantee the substantive quality of financial management. This discrepancy between consistent WTP achievement and persistent

audit findings constitutes the core research problem motivating this study.

Three key internal factors are recognized as influencing financial report quality. First, financial literacy of financial management apparatus, defined as the combination of knowledge, skills, attitudes, and behaviors necessary for sound financial decision-making (OJK, 2023). Second, risk management—a systematic process of identifying, analyzing, evaluating, and controlling risks (ISO 31000:2018)—which helps minimize the likelihood of material misstatements. Third, financial management encompassing planning, budgeting, implementation, recording, reporting, accountability, and oversight (Permendagri No. 77/2020). Prior research findings on these variables, however, remain inconsistent, suggesting the presence of a moderating variable.

This study positions Compliance Audit as a contextual moderating variable based on contingency theory (Otley, 1980), which posits that the strength of organizational factors on performance output depends on situational conditions. Compliance Audit examines adherence to applicable laws and regulations in financial activities, serving not only as an external control mechanism but also as a means to strengthen relationships between internal organizational factors and output quality. This study contributes by filling the theoretical gap in Indonesian public sector accounting literature and provides an empirical basis for policy recommendations to improve local government financial reporting quality.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1. Financial Literacy

Financial literacy is defined as knowledge, skills, and confidence that influence attitudes and behaviors to improve the quality of financial decision-making and financial management to achieve welfare (OJK Regulation No. 3/2023). OECD (2022) further defines it as a combination of awareness, knowledge, skills, attitudes, and behaviors necessary for sound financial decisions. Lusardi and Mitchell (2023) emphasize that financially literate individuals can process economic information and make informed decisions about financial planning, wealth accumulation, and debt management. Indicators of financial literacy include financial knowledge, financial attitudes, and financial behavior (Dania et al., 2022; Santoso et al., 2023).

2.2. Risk Management

Risk management refers to a systematic process for identifying, analyzing, evaluating, and controlling potential risks that may hinder organizational goal achievement (ISO 31000:2018). In the context of local government, risk management is mandated by Government Regulation No. 60/2008 on the Government Internal Control System (SPIP). Effective risk management enables local governments to anticipate material misstatements in financial reporting. Measurement indicators include: context/objective setting, risk identification, risk analysis, control activities, and monitoring (PP No. 60/2008).

2.3. Financial Management

Regional financial management encompasses the entire cycle of planning, budgeting, implementation, recording, reporting, accountability, and oversight of regional finances (Permendagri No. 77/2020). Quality financial management requires adherence to principles of accountability, value for money, transparency, and effective control (Defitri, 2022). Financial management is foundational to producing accurate, reliable, and timely financial reports, as each stage of the financial management cycle contributes directly to the quality of information presented in financial statements.

2.4 Financial Report Quality

The quality of local government financial reports is measured through four normative characteristics: relevance, reliability, comparability, and understandability (Government Accounting Standards/SAP). Relevant reports must have feedback value, predictive value, and be presented in a timely manner. Reliable information must be verifiable and complete. These characteristics serve as criteria for stakeholders—including BPK, DPRD, and the public—to assess the accountability and transparency of regional financial governance (Mirnawati et al., 2021).

2.5 Compliance Audit

Compliance audit is an examination conducted to assess the extent to which government entities comply with applicable laws and regulations in financial activities, ensuring that all financial transactions are carried out in accordance with principles of accountability, transparency, and efficiency (BPK, 2024). Compliance audit functions not only as an external oversight tool but also as a mechanism to strengthen the relationship between organizational internal factors and the quality of outputs produced. Indicators include: compliance examination, internal control review, regulatory adherence, and follow-up on recommendations

2.6 Hypothesis Development

Based on theoretical frameworks and prior research, this study proposes six hypotheses: H1: Financial Literacy has a positive and significant effect on Financial Report Quality; H2: Risk Management has a positive and significant effect on Financial Report Quality; H3: Financial Management has a positive and significant effect on Financial Report Quality; H4: Compliance Audit positively moderates the effect of Financial Literacy on Financial Report Quality; H5: Compliance Audit moderates the effect of Risk Management on Financial Report Quality; H6: Compliance Audit positively moderates the effect of Financial Management on Financial Report Quality.

3 RESEARCH METHODOLOGY

3.1 Research Design

This study employed a quantitative survey method. The research population comprised all Civil Servants (PNS) serving as financial management apparatus across 20 Regional Work Units (OPD) and 39 Sub-districts of Tasikmalaya Regency, totaling 7,449 personnel. Sampling was conducted using purposive sampling technique, targeting ASN with direct involvement in financial management and reporting processes—including budget management officials, treasurers, financial administration

officers, and ASN performing accounting and financial supervisory functions.

A total of 177 respondents were selected, with 3 respondents drawn from each of the 20 regional work units and 3 from each of the 39 sub-districts (equated as organizational units). Data collection was conducted via structured questionnaire using a 5-point Likert scale administered through Google Form. All five research variables—Financial Literacy, Risk Management, Financial Management, Compliance Audit, and Financial Report Quality—were measured using multi-item instruments adapted from established theories and prior studies.

3.2 Population and Sample

A total of 177 respondents were selected, with 3 respondents drawn from each of the 20 regional work units and 3 from each of the 39 sub-districts (equated as organizational units).

3.3 Data Sources

Data collection was conducted via structured questionnaire using a 5-point Likert scale administered through Google Form. All five research variables—Financial Literacy, Risk Management, Financial Management, Compliance Audit, and Financial Report Quality—were measured using multi-item instruments adapted from established theories and prior studies.

3.4 Data Analysis

Data analysis employed the Structural Equation Modeling-Partial Least Square (SEM-PLS) method using SmartPLS 4.0 software. The analytical procedure included: (1) descriptive statistical analysis using scoring categories based on Likert intervals; (2) outer model evaluation comprising convergent validity (outer loading and AVE), discriminant validity (HTMT/FLC), and composite reliability; (3) inner model evaluation using R-Square, F-Square, and Q-Square (predictive relevance); and (4) hypothesis testing through path coefficient bootstrapping with significance thresholds of t-statistic > 1.96 and p-value < 0.05.

4 RESULTS AND DISCUSSION

4.1 Descriptive Analysis Results

The descriptive analysis reveals that all five variables are generally perceived to be in the "good" or "very good" category by respondents. Financial Literacy of the financial management apparatus falls in the "good" category, indicating adequate financial knowledge, attitudes, and behaviors supporting financial reporting tasks. Risk Management and Financial Management are both rated in the "very good" category, reflecting systematic risk control mechanisms and orderly implementation of the financial management cycle. Compliance Audit is also rated "very good," demonstrating the effectiveness of compliance examination in Tasikmalaya Regency. The Quality of Local Government Financial Reports is rated "good," consistent with the regency's six consecutive WTP opinions from BPK, though room for improvement remains—especially in data accuracy to prevent material errors.

4.2 Hypothesis Testing Results

The mean scores of the study variables reflect respondents' general perceptions. The Price Competition Intensity variable (X1) recorded a mean of 5.034 (scale 5, "somewhat agree"), indicating moderate perception of competitive pricing. The Digital Sales Channel Proliferation variable (X2) obtained a mean of 5.793 ("somewhat agree"), reflecting relatively high usage of digital channels. The Customer Trust variable (Y1) recorded a mean of 6.392 ("agree"), indicating strong customer trust in Hilmi Optik. The Purchase Intention variable (Y2) also obtained a high mean of 6.112 ("agree"), reflecting strong purchase intention among respondents.

Table 1 Hypothesis Testing Results (Path Coefficient - Bootstrapping)

Hypothesis / Path	β (Orig. Sample)	STDEV	T-Statistics	P-Values	Decision
H1: Financial Literacy → Financial Report Quality	0.406	0.058	6.944	0.000	Accepted
H2: Risk Management → Financial Report Quality	0.318	0.069	4.590	0.000	Accepted
H3: Financial Management → Financial Report Quality	0.218	0.053	4.072	0.000	Accepted
H4: Compliance Audit moderates Financial Literacy → Financial Report Quality	0.165	0.064	2.557	0.011	Accepted
H5: Compliance Audit moderates Risk Management → Financial Report Quality	-0.010	0.055	0.186	0.853	Rejected
H6: Compliance Audit moderates Financial Management → Financial Report Quality	0.202	0.052	3.895	0.000	Accepted

4.3 Discussion

4.3.1 *Effect of Financial Literacy on Financial Report Quality*

Financial Literacy has a positive and significant effect on Financial Report Quality (β = 0.406; t = 6.944; p = 0.000), supporting H1. This finding indicates that higher levels of financial literacy among financial management apparatus lead to higher quality financial reports. Apparatus with sound financial literacy better understand accounting transactions, applicable regulations, and Government Accounting Standards (SAP), reducing the probability of recording errors and misclassifications. These results are consistent with Pramudita et al. (2025) and Ni Putu Devi and Putu Cita Ayu (2024), who found that financial literacy positively affects financial report accuracy. In the Tasikmalaya context, although apparatus demonstrate good financial literacy, recurring BPK findings on asset management and internal controls suggest that continuous competency development remains critical.

4.3.2 *Effect of Risk Management on Financial Report Quality*

Risk Management positively and significantly influences Financial Report Quality (β = 0.318; t = 4.590; p = 0.000), supporting H2. The systematic process of risk identification, analysis, control, and monitoring enables local governments to proactively detect and mitigate risks that could compromise reporting accuracy and compliance. This finding aligns with ISO 31000:2018, COSO ERM (2020), and Irianto and Amirya (2024), who emphasize that effective risk management creates more controlled and reliable financial processes. The very good rating for risk management in Tasikmalaya Regency demonstrates that risk management mechanisms have been institutionalized in financial governance, yet continuous improvement—particularly in impact assessment methodology and cross-unit risk identification—remains necessary.

4.3.3 *Effect of Financial Management on Financial Report Quality*

Financial Management has a positive and significant effect on Financial Report Quality (β = 0.218; t = 4.072; p = 0.000), supporting H3. This finding confirms that financial report quality is not merely determined by the reporting stage itself but is fundamentally shaped by the quality of all preceding financial management stages from planning through accountability. Orderly financial management provides a solid basis for producing accurate and reliable financial information. This is consistent with findings by Febriana Nafi'ah and Bambang Suryono (2021), Wati et al. (2019), and Suhendro and Saring (2024), who demonstrated that effective financial management contributes to financial report quality through the dimensions of relevance, reliability, and timeliness.

4.3.4 *Moderating Role of Compliance Audit on Financial Literacy–Financial Report Quality*

Compliance Audit significantly and positively moderates the relationship between Financial Literacy and Financial Report Quality (β = 0.165; t = 2.557; p = 0.011), supporting H4. This finding indicates that the impact of financial literacy on report quality is amplified when compliance oversight mechanisms are effectively in place. Financial literacy equips apparatus with the knowledge to understand what must be done; compliance audit ensures that this knowledge is consistently applied in practice according to regulatory requirements. The synergy between financial competency and compliance examination reduces the gap between theoretical understanding and actual practice in financial reporting. This supports contingency theory: the strength of financial literacy's effect on quality is situationally dependent on the compliance oversight context.

4.3.5 *Moderating Role of Compliance Audit on Risk Management–Financial Report Quality*

Compliance Audit does not significantly moderate the relationship between Risk Management and Financial Report Quality (β = -0.010; t = 0.186; p = 0.853), rejecting H5. This result indicates that risk management contributes to financial report quality through its own internal mechanisms, independently of compliance audit intensity. Risk management is proactive in nature—focusing on anticipating and controlling risks before they materialize—while compliance audit is more reactive, examining adherence after activities are performed. Given that both risk management and compliance audit are rated as very good, the absence of a moderating effect suggests that risk management processes are already sufficiently self-contained as a quality enhancement mechanism. This finding is consistent with the view that different governance mechanisms serve complementary but functionally distinct roles in public financial management.

4.3.6 *Moderating Role of Compliance Audit on Financial Management–Financial Report Quality*

Compliance Audit significantly and positively moderates the relationship between Financial Management and Financial Report Quality (β = 0.202; t = 3.895; p = 0.000), supporting H6. Compliance audit strengthens the contribution of financial management to report quality by providing a verification and compliance control mechanism over each stage of the financial cycle. When both financial management processes and compliance oversight are functioning well, the likelihood of recording errors, procedural deviations, and non-compliance that could compromise financial statement quality is minimized. These findings are corroborated by Setiawan (2022) and Siti Nur Cahyani et al. (2025), who demonstrated that compliance audit reinforces financial management quality through disciplined regulatory adherence.

5 CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

This study demonstrates that Financial Literacy, Risk Management, and Financial Management each exert positive and significant effects on the Quality of Local Government Financial Reports in Tasikmalaya Regency. Compliance Audit serves as an

effective positive moderator for the relationships of Financial Literacy–Report Quality and Financial Management–Report Quality, but does not significantly moderate the Risk Management–Report Quality relationship—suggesting that risk management operates independently through its own internal control mechanisms. These findings collectively indicate that improving financial report quality requires an integrated approach: strengthening human resource competency (financial literacy), institutionalizing proactive risk management, ensuring comprehensive financial management cycle compliance, and optimizing compliance audit as an oversight mechanism. The consistent WTP achievement of Tasikmalaya Regency should be accompanied by substantive quality improvements addressing recurring BPK audit findings.

5.2 Recommendations

Based on the findings, the following recommendations are proposed: (1) The local government should implement need-based, continuous financial literacy training programs for financial management apparatus, with emphasis on SAP application and current regulatory requirements; (2) Risk management must be institutionalized as an integral part of the financial management system, with structured risk registers, cross-unit identification processes, and regular monitoring; (3) The effectiveness of internal oversight through the Regional Inspectorate should be strengthened, particularly in reviewing consistency across all financial management stages; (4) Compliance audit should be substantively strengthened—not merely administrative in nature—with prompt follow-up on BPK recommendations within the legally mandated 60-day window; (5) Future research may incorporate additional variables such as IT system utilization, organizational commitment, or leadership support as alternative moderators to expand the explanatory model.

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