

# The Influence of Human Resource Competence and Good Governance on Financial Management Performance with the Internal Control System as a Moderating Variable (Empirical Study on Regional Apparatus Organizations in Ambon City Government)

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## **Abstract**

### **Keywords:**

Human Resources Competence, Good Governance, Internal Control System, Financial Management Performance

*This study was conducted with the aim of providing empirical evidence regarding the influence of human resource competency and good governance on financial management performance with the internal control system as a moderating variable in OPDs in the Ambon City Government. The sampling method used in this study was the Non-Probability Sampling method with Purposive Sampling technique. The population used in this study were OPD employees in the Ambon City Government. A total of 159 questionnaires were distributed to respondents who met the criteria and could be used as samples in the study.*

*The results of this study demonstrate that human resource competency and good governance have a partial and simultaneous effect on financial management performance in OPDs in the Ambon City Government. Furthermore, the internal control system moderates the effect of human resource competency on financial management performance, but not the effect of good governance on financial management performance in OPDs in the Ambon City Government.*

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## INTRODUCTION

Effective and efficient regional financial management is the primary foundation for achieving development goals and improving public welfare in Indonesia. Sound financial management is a key factor in creating effective and accountable governance. Optimal financial management reflects how the government allocates and utilizes available resources to achieve public welfare and stimulate regional economic growth (Mardiasmo, 2018).

However, in practice, many regions still face challenges in financial management, such as low spending efficiency, suboptimal human resource competency, and a lack of transparency in budget management. One of the main problems that frequently arises is the imbalance between regional revenue and expenditure, which leads to a budget deficit. A budget deficit occurs when government spending exceeds revenue generated in a fiscal period (Ministry of Finance, 2021).

The budget deficit in Indonesia, particularly in Ambon City and Maluku Province, has increased. Based on data from the Regional Regulation (Perda) concerning the 2024 Regional Budget (APBD), there is a difference between revenue and expenditure of IDR 42,250,000,000. From this data, it can be concluded that Ambon City is experiencing a budget deficit. In this condition, all non-priority activities should be stopped and spending only allocated to truly urgent needs. However, amidst this deficit, as reported by the news page "TifaMaluku.com" (June 19, 2024), the Dharma Wanita Persatuan (DWP) from the Women's Empowerment,

Child Protection, Community and Village Office held activities in Bali and Labuan Bajo at a cost of hundreds of millions of rupiah. This indicates that the budget has not been managed optimally, resulting in waste or expenditure that does not align with priorities.

Human resource competency plays a crucial role in maintaining financial management because competent human resources will be able to carry out their duties effectively, efficiently, and in accordance with applicable regulations. This competency encompasses regulatory understanding, technical skills, and integrity in carrying out financial management responsibilities. According to (Hutabri, 2022), human resource competency aims to strengthen the financial management process to ensure it is more focused and in line with good governance principles. Therefore, without competent human resources, financial management will be more vulnerable to irregularities and inefficiencies.

Good financial management performance is closely linked to the principles of good governance. According to (Mardiasmo, 2018), transparency is a key pillar of good governance, ensuring that the budget planning, utilization, and reporting processes are publicly accessible. This transparency plays a crucial role in preventing budget misuse and increasing public trust in the government. In addition to transparency, (Heriyanti & Putri, 2021) emphasize that accountability is also a crucial factor in financial management, aiming to ensure that every budget use is accounted for openly and in accordance with regulations, thereby minimizing the potential for irregularities and waste.

Previous research has shown that human resource competence and good governance influence financial management performance (Rahman, KG, & Rachman, SH (2021); Tanzerina, D., Rasuli, M., & Al Azhar, L. (2017)). However, research findings on the moderating role of internal control systems have been mixed. Therefore, this study aims to examine the influence of human resource competence and good governance on financial management performance and the role of internal control systems as a moderating variable in regional government agencies (OPD) in the Ambon City Government.

## **Literature Review and Hypothesis Development:**

### **Basic Theory**

This research is based on Agency Theory and Contingency Theory. Agency theory proposed by Jensen and Meckling (1976) explains the relationship between the principal (authorizer) and agent (authorized recipient), where in the context of the public sector, the principal can be the central government or the community, while the agent is the regional financial management apparatus. This theory highlights the potential for conflicts of interest and information asymmetry that occur because the agent has greater information and control over operational activities than the principal. To reduce these risks, monitoring and accountability mechanisms are needed, one of which is through improving the competence of human resources (HR). Competent HR has a good understanding of technical, ethical, and managerial skills so that they are able to carry out their duties professionally and transparently. Meanwhile, according to Donaldson (2001), in his book The Contingency Theory of Organizations, the contingency approach emphasizes that organizational design and practices must depend on certain conditions (contingency) to achieve organizational effectiveness. This

means that an organization's success in achieving optimal performance will depend heavily on the extent to which it can adapt its various internal and external elements to existing conditions. In the context of public sector financial management, an internal control system is one mechanism that can serve as a tool for the organization to adapt to both external and internal conditions.

### **Financial Management Performance**

According to Fahmi (2017:132) performance is the operational effectiveness of an organization, its organizational divisions and its employees based on predetermined standards and criteria, because organizations are basically run by humans, then performance is actually human behavior in playing the roles they do in an organization to meet established behavioral standards in order to produce the desired actions and results. Literally, financial management (financial management) comes from the word management which means to manage and finance which means things related to money such as financing, investment and capital. So if concluded financial management can be interpreted as all activities related to how to manage finances that start from obtaining funding sources, using funds as well as possible to allocating funds to investment sources to achieve company goals (Armereo et al.:2020:1).

### **Human Resources Competence**

Human resources are the primary foundation and driving force of any organization's efforts to achieve its vision, mission, and goals. Human resources are a crucial element of any institution, and care must be taken to ensure they are managed optimally to maximize their contribution to the achievement of an institution's goals. Meanwhile, (Sudiarti, 2020) states that human resource competency is a person's abilities related to knowledge, skills, and personality characteristics that directly influence performance and ultimately achieve desired goals.

### **Good Governance**

Good government governance is a primary requirement for realizing the aspirations of the people in achieving the goals and ideals of the nation and state (Mardiasmo, 2018). Meanwhile, according to Coryanata in the book (Moenek & Suwanda, 2019), good government governance is a current issue in all countries in the world. Good governance can improve the climate of openness, participation, and accountability in accordance with the basic principles of good governance in the public sector. Changes in the economic system brought about by the flow of information have given rise to diverse demands for good government governance.

### **Internal Control System**

According to research by (Permatasari, 2022), internal control is a form of internal oversight implemented to ensure that every activity or data obtained is carried out correctly. These policies and procedures are commonly referred to as internal controls and are collectively known as the company's internal control.

According to (Pitaloka, 2020), an internal control system encompasses the organizational structure, methods, and measures designed to protect company assets, ensure the accuracy and reliability of accounting data, improve efficiency, and ensure compliance with

management policies. This definition of an internal control system emphasizes the objectives to be achieved, rather than the elements that make up the system.

## Hypothesis

H1: Human Resource Competence influences Financial Management Performance

H2: Good Governance has an effect on Financial Management Performance

H3: Internal Control System has an influence in moderating the relationship between Human Resource Competence and Financial Management Performance.

H4: Internal Control System has an influence in moderating the relationship between Good Governance and Financial Management Performance.

## METHODS

Research methodology :

This study uses a quantitative approach. The data source in this study is primary data. The population in this study is all employees in the Regional Apparatus Organization (OPD) of Ambon City. The number of OPDs in the Ambon City Government is 44 OPDs consisting of 1 DPRD Secretariat, 22 Services, 7 Agencies, 9 Sections and 5 Districts. In this study, the sample determination used is Non-Probability Sampling with Purposive Sampling technique and the number of respondents is 159 people.

Data were collected using a questionnaire with a five-point Likert scale. The research variables consisted of human resource competency and good governance as independent variables, financial management performance as dependent variable, and internal control system as moderating variable. Data analysis was performed using Partial Least Squares–Structural Equation Modeling (PLS-SEM) with the help of the SmartPLS application

## RESULTS AND DISCUSSION

### Descriptive Statistics

Table 1 presents the results of descriptive statistical analysis which provides an initial overview of the characteristics of the research data, including the average value, minimum value, maximum value, and standard deviation of each variable.

**Table 1. Descriptive Statistics**

Variables	N	Mean	Median	Minimum	Maximum	Standard deviation
<b>Human Resources Competence</b>	159	43,044	43,000	30,000	50,000	4,522
<b>Good Governance</b>	159	38,302	37,000	28,000	45,000	4,224

<b>Financial Management Performance</b>	159	25,623	25,000	18,000	30,000	2,943
<b>Internal Control System</b>	159	67,560	65,000	48,000	80,000	7,275

(data source: processed, 2026)

Table 1 shows that the results of the descriptive test analysis on the Human Resource Competence variable (X1) have a mean value of 43,044, median value of 43,000 and minimum value of 30,000, with maximum value of 50,000 and standard deviation value of 4,522. The Good Governance variable (X2) has a mean value of 38,302, median value of 37,000 and minimum value of 28,000, with a maximum value of 45,000 and a standard deviation value of 4,224. The Financial Management Performance variable (Y) has a mean value of 25,623, median value of 25,000 and minimum value of 18,000, with maximum value of 30,000 and standard deviation value of 2,943. The Internal Control System variable (Z) has a mean value of 67,560, median value of 65,000 and minimum value of 48,000, with maximum value of 80,000 and standard deviation value of 7,275.

### Evaluation of Measurement Model

Evaluation of the measurement model was carried out to ensure that the constructs used in the research met the validity and reliability criteria.

**Table 2. Construct Validity and Reliability**

Variables	Cronbach's alpha	Composite reliability	AVE value
<b>Human Resources Competence</b>	0.916	0.929	0.568
<b>Good Governance</b>	0.927	0.939	0.633
<b>Financial Management Performance</b>	0.911	0.931	0.693
<b>Internal Control System</b>	0.954	0.959	0.591

(Data source: processed, 2026)

The results of the measurement model evaluation are presented in Table 2. From the results of the reliability test above, it can be seen that the variables of human resource competency, good governance, internal control systems and financial management performance have Cronbach's alpha and composite reliability values  $> 0.7$ , so it can be concluded that all variables in this study are reliable. Based on the convergent validity test using the AVE value in Table 2 above, it shows that the AVE value for the variables of human resource competency, good governance, internal control systems, and financial management performance obtained is  $> 0.50$ . Therefore, it can be concluded that the indicators used to measure the variables in this study are declared valid.

### Structural Model Evaluation and Hypothesis Testing

The evaluation of the structural model aims to determine the ability of the independent variables to explain the dependent variables.

Table 3. R-Square Value

Variables	R-square
<b>Financial Management Performance</b>	0.630

(Source: Processed data, 2026)

Table 3 shows that the R-square value of the financial management performance variable of 0.630, which means that the influence of the variable is large human resources, good governance and internal control systems on financial management performance is 63.0% and is considered a moderate model. The remaining 37% is influenced by other variables outside this study.

### Hypothesis Testing

The results of the hypothesis testing, which includes direct influence and moderating influence, are presented in Table 4.

Table 4. Hypothesis Test Results

Variables	Original sample	T statistics ( O/STDEV  )	P value s	Conclusio n
<b>Human Resources Competence -&gt; Financial Management Performance</b>	0.258	3,354	0.001	H1 accepted
<b>Good Governance -&gt; Financial Management Performance</b>	0.233	2,665	0.008	H2 accepted
<b>Internal Control System x Human Resource Competence -&gt; Financial Management Performance</b>	0.210	2,137	0.033	H3 is accepted
<b>Internal Control System x Good Governance -&gt; Financial Management Performance</b>	-0.163	1,691	0.091	H4 is rejected

(Source: Processed data, 2026)

Based on the analysis results in Table 4. above, the following results can be obtained:

1. The results of the first hypothesis test show a t-statistics value of  $3.354 > 1.96$  and a p-value of  $0.001 < 0.05$ , so H1 is accepted so it can be concluded that Human Resource Competence influences Financial Management Performance.
2. The results of the second hypothesis test show a t-statistics value of  $2.665 > 1.96$  and a p-value of  $0.008 < 0.05$ , so H2 is accepted so it can be concluded that Good Governance influences Financial Management Performance.
3. The results of the third hypothesis test show a t-statistics value of  $2.137 > 1.96$  and a p-value of  $0.033 < 0.05$ , so H3 is accepted so it can be concluded that The Internal Control System has an influence in moderating the relationship between Human Resource Competence and Financial Management Performance.
4. The results of the fourth hypothesis test show a t-statistics value of  $1.691 < 1.96$  and a p-value of  $0.091 > 0.05$ , so H4 is rejected, so it can be concluded that The Internal Control System has

no effect in moderating the relationship between Good Governance and Financial Management Performance.

## **Discussion :**

### **The Influence of Human Resource Competence on Financial Management Performance**

The results of the study indicate that human resource competency has a significant influence on financial management performance in Regional Apparatus Organizations (OPD) in the Ambon City Government. This finding indicates that the better the competency of OPD officials, the higher the resulting financial management performance. Apparatus competency is reflected in adequate levels of education, training, and work experience in financial management, enabling them to carry out their duties and responsibilities effectively and in accordance with applicable regulations. This is in line with Agency Theory, which explains that the relationship between principal and agent requires the agent to have adequate competency so that the principal's goals can be achieved and information asymmetry can be minimized (Jensen and Meckling, 1976). With good competency, OPD officials as agents are able to manage regional finances accountably and transparently, thereby improving financial management performance. The results of this study align with research by Eriani Sania Putri and Ahmad Syarief (2021) and Sahmin Noholo (2021) which states that human resource competency has a significant influence on government financial management performance.

### **The Influence of Good Governance on Financial Management Performance**

The test results show that good governance has a significant influence on the financial management performance of Regional Apparatus Organizations (OPD) in the Ambon City Government. This finding indicates that the better the implementation of good governance principles, the better the financial management performance of OPDs. The implementation of good governance is reflected in the implementation of the principles of transparency, accountability, responsibility, independence, and fairness in regional financial management. This is in line with Agency Theory, which explains that the implementation of control and accountability mechanisms is necessary to minimize conflicts of interest and information asymmetry between principals and agents (Jensen and Meckling, 1976). With the implementation of good governance, OPD officials as agents are encouraged to manage regional finances effectively, efficiently, and responsibly, thereby improving financial management performance. The results of this study are in line with research by Karlina Ghazalah Rahman and Sitti Hartini Rachman (2021) and Karina Anjasmara and Kumba Digdowiseiso (2023), which stated that the implementation of good governance has a significant influence on the performance of regional government financial management.

### **The Influence of Internal Control Systems in Moderating the Relationship Between Human Resource Competence and Financial Management Performance**

The results of the study indicate that the Internal Control System (ISC) moderates the influence of human resource competency on financial management performance in OPDs in the Ambon City Government. This finding indicates that OPD apparatus competency will have a more effective influence on financial management performance if supported by an adequate

internal control system. The internal control system functions to direct, supervise, and control the utilization of apparatus competency so that financial management implementation runs in accordance with established procedures and policies. This is in line with the COSO framework (2013) which states that the internal control system is designed to provide adequate assurance on the effectiveness and efficiency of operations, the reliability of financial reporting, and compliance with regulations. In addition, based on Contingency Theory, the effectiveness of financial management is not only determined by human resource competency, but also by the suitability of the internal control system to the conditions of the organization (Otley, 1980; Chennall, 2003). Thus, the internal control system acts as a moderating variable that strengthens the influence of human resource competency on financial management performance. This finding is in line with research by Desilia Tanzerina, M. Rasuli, and Al Azhar L (2017) which shows that the government's internal control system is able to moderate the relationship between human resource competence and financial management performance.

### **The Influence of Internal Control Systems in Moderating the Relationship Between Good Governance and Financial Management Performance**

The results of the study indicate that the Internal Control System does not moderate the influence of good governance on financial management performance in Regional Apparatus Organizations (OPD) in Ambon City Government. This finding indicates that the application of good governance principles can directly influence financial management performance without relying on the moderating role of the internal control system. The application of good governance, which includes transparency, accountability, participation, and compliance with regulations, has become a normative guideline in regional financial management and is able to directly encourage performance improvements. This is in line with the Contingency Theory, which states that the effectiveness of a control system is highly dependent on its suitability to the conditions and characteristics of the organization (Otley, 1980; Donaldson, 2001). If the internal control system is formal and has not been optimally integrated with good governance practices, then the system does not function effectively as a moderating variable. Thus, the insignificant role of the internal control system indicates that the financial management performance of OPDs in Ambon City Government is more influenced by the implementation of good governance itself than by the existence of an internal control system. This finding is in line with research by Yuli Budiati, Eviatiwi Kusumaningtyas Sugiyanto, and Asih Niati (2019) which states that the internal control system is unable to moderate the relationship between good governance and financial management performance

### **CONCLUSION**

This study concludes that human resource competency and good governance significantly influence financial management performance in OPDs in Ambon City Government. Furthermore, the internal control system moderates the effect of human resource competency on financial management performance, but fails to moderate the effect of good governance on financial management performance in OPDs in Ambon City Government.

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