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Caring for the Books: Financial Report Quality in Non-Profit Organizations

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ABSTRACT
Purpose: *Nonprofit-oriented entities, such as orphanages in Indonesia, are expected to present financial statements under a dedicated accounting interpretation, yet many still struggle to produce reports that donors, regulators, and boards can trust. This study examines whether accounting standards, the competency of the staff who prepare the reports, and the strength of internal control jointly explain the quality of financial reports produced by nonprofit orphanages.*
Method: *A quantitative, explanatory survey design was used. A structured questionnaire with five-point Likert-scale items was distributed to treasurers, secretaries, chairpersons, deputies, and staff responsible for financial record keeping across nonprofit orphanages, yielding 100 usable responses from 97 distinct organizations. Data were analyzed with partial least squares structural equation modeling, covering measurement model evaluation, discriminant validity assessment, and structural path testing.*
Findings: *Implementation of the nonprofit financial reporting interpretation and internal control each exerted a strong, statistically significant, positive influence on financial report quality and together shaped most of its variance. Human resource competency, in contrast, showed only a small and statistically insignificant association with report quality once the other two predictors were controlled for. Standard implementation and internal control were also found to overlap substantially with report quality as measured constructs, a pattern that qualifies how confidently the strong path estimates should be read.*
Implication: *For orphanage administrators and the foundations that oversee them, the results suggest that investing in disciplined adoption of the nonprofit reporting interpretation and in day-to-day control procedures, such as documented cash handling and periodic review of bookkeeping, may matter more for report quality than staff competency alone. Regulators and professional associations designing capacity-building programs for nonprofit organizations should therefore pair competency training with concrete implementation checklists and control tools rather than treating training as sufficient on its own.*
Originality: *Unlike prior studies that examine standard adoption, staff competency, or internal control separately, this study models all three simultaneously against financial report quality using partial least squares structural equation modeling in an understudied population of nonprofit orphanages, and it reports the discriminant validity limits of the constructs transparently rather than presenting an artificially clean result.*

Keywords: *ISAK 335 implementation, human resource competency, internal control, financial report quality, nonprofit organizations.*

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1. INTRODUCTION

Nonprofit organizations occupy a peculiar position in the accounting world. They collect resources from donors, members, and sometimes government grants, yet unlike business entities they have no owners who can be paid a dividend or a residual claim on assets, which means the people who fund them rely almost entirely on the financial statements themselves to judge whether their contributions were used as intended (Coule, 2015). Orphanages sit near the sharper end of that reliance. They are trusted with the welfare of children, they depend heavily on the generosity of individual donors and religious congregations rather than diversified revenue streams, and a single episode of mismanaged or poorly documented funds can permanently damage the willingness of a community to keep giving. Financial report quality is therefore not a bookkeeping nicety for these organizations but a condition for their continued existence.

Indonesia's accounting standard setter addressed part of this problem in 2019 when the Financial Accounting Standards Board of the Indonesian Institute of Accountants ratified a dedicated interpretation for the presentation of financial statements of nonprofit-oriented entities, originally numbered ISAK 35 and effective for periods beginning on or after January 1, 2020 (Dewan Standar Akuntansi Keuangan Ikatan Akuntan Indonesia, 2019). The interpretation replaced an older, less specific statement and gave nonprofit entities, including foundations, places of worship, and orphanages, their own vocabulary for financial position, financial performance, and cash flow statements instead of forcing them into formats designed for profit-seeking companies. As part of a broader renumbering of Indonesian interpretations to align with the codification used for other standards, the same interpretation was subsequently redesignated ISAK 335 and has since been amended to accommodate a related standard governing the classification of surplus and deficit, with the most recent amendment ratified in June 2026 (Dewan Standar Akuntansi Keuangan Ikatan Akuntan Indonesia, 2026). Because the data underlying this study were collected while the interpretation was still commonly referred to by its original number, this article uses ISAK 335 as the current designation while noting its earlier identity as ISAK 35 wherever the distinction matters.

Adopting a new interpretation on paper and applying it faithfully in daily bookkeeping are two different things, and the gap between them is where most of the practical difficulty lies. Case studies of individual foundations, mosques, and orphanages across Indonesia have repeatedly found that these organizations struggle with basic elements of the new format, from separating restricted and unrestricted funds to preparing a statement of cash flows in the prescribed classification, most often because the people doing the bookkeeping have limited formal accounting training and because the organizations lack the internal procedures that would catch errors before they reach the final report (Ansari et al., 2023). A recent assessment of foundations' readiness to apply the interpretation under its current numbering found that reliance on cash basis records, thin staff expertise, tight budgets, and limited outreach from professional bodies were the most commonly cited obstacles, and it called for combined solutions that pair standard specific guidance with accounting software and mentorship rather than training alone (Mahyuni et al., 2026).

Three explanations recur across this literature for why some nonprofit organizations produce credible financial reports while others do not. The first is simply whether the organization has taken the interpretation seriously and applied its specific requirements, since a report that follows the prescribed statement names, classifications, and disclosures is by construction closer to what users expect than one that does not. The second is the competency of the people who prepare the report, on the reasoning that even a well-designed standard cannot compensate for staff who do not understand double-entry bookkeeping or who have never been trained in the vocabulary the standard requires (Mediaty et al., 2025). The third is internal control, the set of everyday procedures, such as pre-numbered receipts, segregation of cash handling from record-keeping, and periodic review of the books, that catches errors and discourages both honest mistakes and deliberate misstatement before they reach the final statements (Yenni et al., 2024). Each explanation has accumulated support in isolation, largely in studies of village governments and regional public agencies in Indonesia, but the three are rarely tested together in the same model, and almost never in a nonprofit population that depends on volunteer or semi-voluntary labor rather than salaried civil servants.

This gap matters because orphanages differ from village governments and regional agencies in ways that could plausibly change how these three factors behave. Village treasurers and regional finance staff are civil servants subject to formal competency standards, periodic external audit, and a chain of administrative sanctions for noncompliance (Hendaris & Romli, 2021). Orphanage bookkeepers, by contrast, are often board members or long serving staff who took on financial duties alongside child care responsibilities, with no external audit requirement and comparatively informal internal control arrangements resting on trust among a small group of people who know each other well. Whether standard implementation, staff competency, and internal control still behave the way they do in the public sector literature, once transplanted into this smaller, less formally regulated setting, is an empirical question this study is positioned to answer.

The contribution of this study is therefore twofold. Empirically, it is among the first to test implementation of the nonprofit financial reporting interpretation, human resource competency, and internal control together in a single structural model using a sample drawn specifically from orphanages rather than village or regional government offices, extending a literature that has so far concentrated almost entirely on the public sector. Methodologically, it follows recent calls in the partial least squares literature to report the full set of measurement diagnostics, including discriminant validity, rather than only the structural path results, so that readers can judge for themselves how cleanly the underlying constructs were actually separated in the data before drawing conclusions from the path coefficients (Sarstedt et al., 2022).

Accordingly, this study investigates the joint effect of ISAK 335 implementation, human resource competency, and internal control on the financial report quality of nonprofit orphanages in Indonesia, using survey responses from 100 individuals across 97 distinct orphanages who are directly involved in preparing or overseeing their organization's financial records. The analysis relies on partial least squares structural equation modeling, a technique well suited to a formative, exploratory model with a moderate sample size and reflectively measured latent constructs (Hair et al., 2022). Beyond estimating the three hypothesized paths, the study reports the full measurement model diagnostics, including a discriminant validity check that revealed meaningful overlap between two of the predictors and the outcome construct, a finding that is presented openly here as a boundary condition on the results rather than smoothed over. The remainder of the article proceeds as follows. Section two reviews the relevant literature and develops three hypotheses. Section three describes the research method. Section four reports the measurement and structural model results. Section five discusses the findings and their implications and states the study's limitations.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

This section draws on agency and stewardship perspectives on nonprofit accountability to motivate why standard implementation, staff competency, and internal control should each be expected to shape financial report quality, and then develops one hypothesis for each of the three predictors examined in this study.

2.1. Accountability and Financial Reporting in Nonprofit Organizations

Because nonprofit organizations have no shareholders who can exit if they are dissatisfied, classic agency theory, which explains the demand for financial reporting as a way for principals to monitor agents who control resources on their behalf, applies only awkwardly to this setting (Jensen & Meckling, 1976). Donors, government grantors, and the community a nonprofit serves are better described as diffuse stakeholders whose only real lever is continued or withdrawn support, so nonprofit governance scholars have argued for blending agency theory with stakeholder and stewardship perspectives, in which management is trusted as a steward of the mission rather than treated purely as a self interested agent that must be policed (Van Puyvelde et al., 2012). Financial reports remain central under either framing, but the stewardship lens reframes them less as an instrument of suspicion and more as an act of demonstrating trustworthy stewardship of donated resources. Coule's broader review of nonprofit governance and accountability similarly cautions against treating accountability as a single, benign, technical function, arguing instead that how well an organization discharges it depends on organizational context, resources, and power relationships rather than governance structure alone (Coule, 2015). Orphanages, funded mostly by individual and congregational donors, rely on this act of demonstrated stewardship perhaps more than any other nonprofit subtype, because the people they serve, children, cannot themselves demand accountability, leaving that function almost entirely to whoever reads the financial statements.

A systematic mapping of nonprofit capacity research similarly concludes that financial management capacity, of which reporting quality is a core component, sits at the center of what determines whether a nonprofit organization can sustain its social mission over time, and that this capacity is shaped jointly by organizational systems, staff capability, and external standard setting rather than by any single factor in isolation (Nordin et al., 2024). This joint dependence is precisely the reasoning that motivates modeling standard implementation, staff competency, and internal control together in a single structural model, rather than examining any one of them alone.

2.2. Implementation of ISAK 335 and Financial Report Quality

ISAK 335 prescribes specific statement names, net asset classifications, and disclosure content for nonprofit oriented entities, replacing the more generic guidance nonprofit organizations previously borrowed from commercial accounting standards. Faithful implementation, in the sense used in this study, means the organization actually structures its financial position, financial performance, and cash flow statements according to the interpretation's requirements rather than merely being aware that the interpretation exists. Case evidence from Indonesian foundations and orphanages that have gone through this transition consistently links faithful implementation to statements that are more complete, more comparable across periods, and more usable by donors and oversight bodies, while organizations that only partially adopt the format tend to produce statements that are technically labeled correctly but still miss required classifications or disclosures (Ansari et al., 2023).

A netnographic study of Islamic nongovernmental organizations in Indonesia found that organizations, which visibly discussed and applied specific reporting standards in their public communications were perceived by their online communities as more accountable than those that reported in vaguer, less standardized terms (Zulfathurrahmah et al., 2024). In the same vein, a study contrasting accountability and transparency across several nonprofit institutions found that organizations with clearer alignment to prescribed financial reporting formats scored higher on both dimensions, suggesting that standard implementation and financial reporting quality tend to move together in this population (Julaika & Wardhani, 2024). Evidence from Indonesian local governments similarly shows that closer adherence to prescribed accounting standards is one of the more consistent predictors of financial reporting quality across studies, even after controlling for other organizational factors (Nuswantoro & Rahmawati, 2025). Building on this evidence, the first hypothesis states that:
H1: Implementation of ISAK 335 has a significant positive effect on the financial report quality of nonprofit orphanages.

2.3. Human Resource Competency and Financial Report Quality

Human resource competency, understood here as the knowledge, skill, and relevant educational background that staff bring to their financial reporting duties, is grounded in the resource based view of the firm, which treats human capital as a source of performance differences between organizations facing the same external rules (Gerhart & Feng, 2021). Applied to financial reporting, the logic is straightforward: a standard, however well written, still has to be interpreted and applied by a person, and a person without adequate accounting knowledge is more likely to misclassify transactions or omit required disclosures regardless of how clearly the standard is written. Empirical work in the Indonesian public sector generally supports this logic. A study of human competencies in Indonesian local government financial reporting found that staff competency was one of the stronger predictors of reporting quality, operating both directly and by improving how well accounting information systems were used (Mediaty et al., 2025). Similar results have been reported for village government financial reporting, where human resource competence combined with information technology use was associated with materially higher quality village financial reports, particularly when reinforced by structured training programs (Putra et al., 2023), and a related study of village fund accountability found that training quality played a central strategic role in translating raw staff competency into stronger reporting outcomes (Putra et al., 2026).

Competency has also been shown to matter beyond its direct effect: a study of a regional government finance office found that human resource competence significantly moderated the relationship between other organizational factors and financial report quality, meaning that the benefit

of other good practices depended in part on whether the staff applying them were competent to begin with (Nurhidayah et al., 2026). Because orphanage bookkeepers typically have less formal accounting training and less institutional support than salaried civil servants in these public sector studies, and because their role is layered onto child care and administrative duties rather than being a dedicated accounting position, competency is expected to matter for report quality in this setting as well, whether through a direct effect of the kind modeled here or through the sort of moderating role documented in the government finance literature. The second hypothesis therefore states that:
H2: Human resource competency has a significant positive effect on the financial report quality of nonprofit orphanages.

2.4. Internal Control and Financial Report Quality

Internal control refers to the everyday procedures an organization uses to safeguard assets, ensure accurate record keeping, and catch errors before they compound into materially wrong financial statements, such as pre-numbered cash vouchers, separation of duties between whoever handles cash and whoever records it, and periodic review of the books for inconsistencies. Determinants of quality of financial reports research has repeatedly identified internal control as one of the most consistent predictors of reporting quality across both government and nonprofit settings, on the reasoning that control procedures function as a built-in check that reduces the number of errors that ever reach the final statements (Anto & Yusran, 2023).

Studies of regional government financial reporting in Indonesia have found that internal control systems, alongside standard implementation and staff competency, jointly explain a large share of the variance in reporting quality, with internal control frequently emerging as the strongest or second strongest of the three predictors (Yenni et al., 2024). Village level evidence tells a similar story: village apparatus performance and internal control together were found to shape village fund accountability and, through it, the quality of village financial reports (Hendaris & Romli, 2021), and a separate study modeling human resource competency and internal control jointly against financial statement quality found internal control to be a robust predictor even after accounting for the moderating role of the accounting information system in use (Sumayasa et al., 2026). Orphanages, which typically operate with small, close-knit staff and no external audit requirement, may in principle be more vulnerable to control gaps than larger public sector entities, which makes internal control a plausible and important predictor to test in this setting. The third hypothesis therefore states that:
H3: Internal control has a significant positive effect on the financial report quality of nonprofit orphanages.

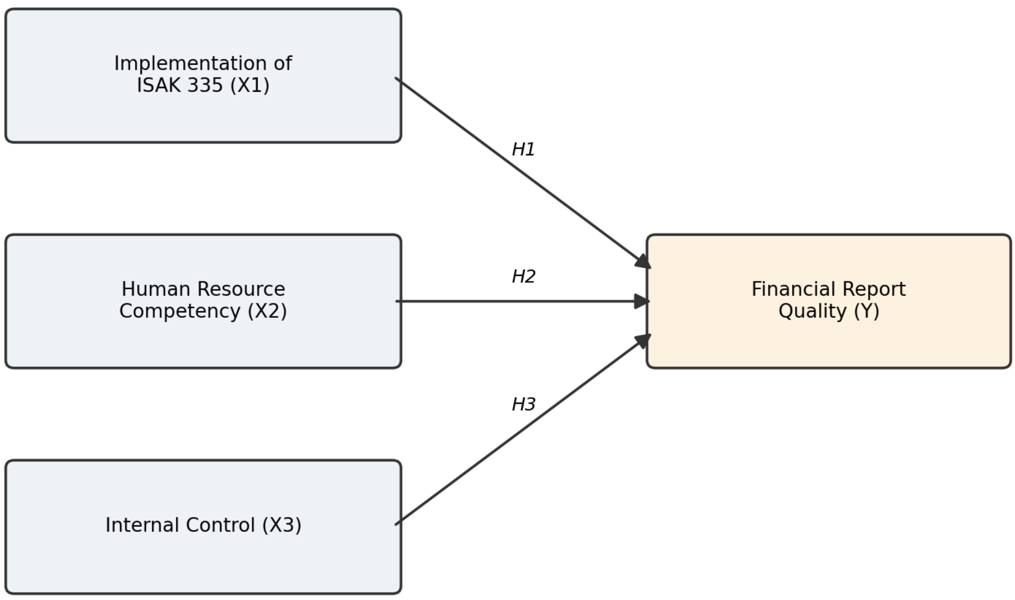

Figure 1. Conceptual Framework
Source: Developed for this study

Figure 1 summarizes the conceptual framework implied by the three hypotheses, in which implementation of ISAK 335, human resource competency, and internal control are modeled as three parallel, correlated predictors of financial report quality, consistent with how these constructs have been operationalized in the partial least squares structural equation modeling literature applied to comparable Indonesian public and nonprofit sector settings (Hair & Alamer, 2022).

3. RESEARCH METHOD

3.1. Research Design

This study used a quantitative, explanatory survey design intended to test the hypothesized causal relationships between implementation of ISAK 335, human resource competency, internal control, and financial report quality. Data were collected at a single point in time using a structured, self-administered questionnaire distributed electronically, making the design cross-sectional rather than longitudinal. All constructs were measured using the respondent's own perception of their organization's practices and their own competency, following the same self-report approach used in comparable studies of accounting practice in small and informally governed organizations (Ansari et al., 2023).

3.2. Population and Sample

The population consists of individuals directly involved in preparing or overseeing financial records at nonprofit orphanages operating in Indonesia, including treasurers, secretaries, chairpersons, deputy chairpersons, and staff assigned financial duties. Because Indonesia has no single, complete registry of orphanages that would allow a formal sampling frame to be constructed, a purposive, convenience based approach was used, similar to the sampling strategy adopted in prior case oriented studies of ISAK 335 implementation at individual orphanages and foundations (Ansari et al., 2023). An online questionnaire link was distributed to orphanage administrators through community and religious social welfare networks between June and July 2022, with respondents asked to confirm that they held a financial reporting or oversight role in their organization before proceeding.

A total of 100 complete and usable responses were retained after removing incomplete submissions, drawn from 97 distinct orphanages, meaning that in nearly every case only one respondent per organization completed the survey, with a small number of organizations contributing two respondents each. This sample size is consistent with, and in most cases larger than, the sample sizes used in comparable Indonesian studies of financial reporting quality determinants at the village and regional government level (Hendaris & Romli, 2021), and it exceeds the minimum sample size commonly recommended for partial least squares structural equation modeling given the largest number of predictors pointing at a single construct in this model.

Respondents were predominantly women, at 67 percent of the sample compared with 33 percent men, and were relatively young, with 57 percent between 20 and 25 years old, 28 percent between 25 and 30, 13 percent older than 30, and only 2 percent under 20. Educational attainment varied widely: 26 percent held a bachelor's degree, 25 percent held a diploma, 21 percent held a senior secondary school certificate, 21 percent held a master's degree, and 7 percent held a doctoral degree, indicating that financial duties in these organizations are not reserved for the most highly educated members. In terms of primary employment outside the orphanage, 63 percent worked as private sector employees, 28 percent were civil servants, and 9 percent were self employed or freelance workers, underscoring that financial reporting for these orphanages is typically a secondary, volunteer like responsibility layered onto respondents' main jobs rather than a dedicated paid position. Within the orphanage itself, respondents held the position of treasurer in 31 percent of cases, staff member in 27 percent, chairperson in 17 percent, deputy chairperson in 11 percent, secretary in 13 percent, and an unspecified or other role in the remaining 1 percent.

3.3. Operational Definition and Measurement

All four constructs were operationalized as reflective latent variables measured on the five-point Likert scale described above, ranging from 1 for strongly disagree to 5 for strongly agree. Implementation of ISAK 335 (X1) captures the extent to which the respondent's organization has adopted the interpretation's specific requirements, including awareness of its content, understanding of the associated accounting practices, and application of its prescribed statement formats, and was measured with eight items. Human resource competency (X2) captures the respondent's own knowledge, teamwork, work quality, training exposure, educational fit for the role, and their organization's competency standards for financial positions, measured with six items. Internal control (X3) captures whether the organization applies internal control and risk management procedures, documents cash disbursements with pre-numbered vouchers, and periodically reviews and evaluates control weaknesses, measured with three items. Financial report quality (Y), the endogenous construct, captures the timeliness, reliability, neutrality, faithful representation, comparability, and understandability of the reports the respondent's organization produces, measured with six items. Table 1 summarizes the operational definition of each construct together with representative indicators.

The wording of all items was adapted from prior Indonesian studies of accounting standard implementation, staff competency, and internal control in comparable public and nonprofit settings, then reviewed for face validity by two individuals experienced in nonprofit financial administration who confirmed that the terminology matched everyday usage inside orphanage bookkeeping before the questionnaire was finalized. All items were framed positively and in the first person or in terms of the respondent's own organization, asking respondents to rate agreement with statements about their own understanding, their organization's practices, and the qualities of the reports their organization produces.

Table 1. Operational Definition of Research Variables

Variable	Definition	Number of Items	Indicator Examples
Implementation of ISAK 335 (X1)	The extent to which the organization has adopted the nonprofit financial reporting interpretation's specific requirements, including awareness, understanding, and application of its prescribed formats.	8	Aware of the special reporting standard for nonprofits; understands the interpretation's content; applies its accounting practices; follows its prescribed statement format
Human Resource Competency (X2)	The respondent's own knowledge, teamwork, work quality, training exposure, and educational fit for financial reporting duties, and the organization's competency standards.	6	Understands job related theory; works well with colleagues; produces good quality work; attends technical training; has suitable educational background
Internal Control (X3)	The organization's application of control and risk management procedures, documentation of cash disbursements, and periodic review of control weaknesses.	3	Applies internal control and risk management; documents cash disbursements with pre numbered vouchers; reviews and evaluates control weaknesses
Financial Report Quality (Y)	The timeliness, reliability, neutrality, faithful representation, comparability, and understandability of the organization's financial reports.	6	Records transactions accurately and on time; reports are timely and decision useful; information is neutral and verifiable; reports are comparable and understandable

Source: Developed for this study

3.4. Data Analysis Technique

Data were analyzed using partial least squares structural equation modeling, a variance-based technique well-suited to this study's combination of a formative research model, a moderate sample size, and reflectively measured latent constructs (Hair et al., 2022). The analysis proceeded in two stages, following standard partial least squares reporting practice (Sarstedt et al., 2022). The first stage evaluated the measurement model, examining outer loadings and convergent validity through average variance extracted, internal consistency reliability through Cronbach's alpha and composite reliability, and discriminant validity through both the Fornell-Larcker criterion (Fornell & Larcker, 1981) and the heterotrait monotrait ratio of correlations (Henseler et al., 2015). The second stage evaluated the structural model, examining path coefficients, the coefficient of determination, and effect sizes, with the significance of each path coefficient assessed using bootstrapping with 3,000 resamples to obtain standard errors, t values, p values, and 95 percent confidence intervals rather than relying on distributional assumptions that a bootstrap procedure does not require. Because all constructs were measured through the same self-report instrument completed by a single respondent per organization, the potential for common method bias was considered throughout the interpretation of results, following established guidance on detecting and discussing this threat in survey-based accounting research (Podsakoff et al., 2003).

3.5. Ethical Considerations

Participation in the survey was voluntary, and respondents were informed, before beginning the questionnaire, that their answers would be used only for academic research and reported at an aggregated, construct level rather than in a way that could identify any individual respondent or organization. No orphanage or respondent name was collected beyond what was needed to avoid duplicate submissions from the same organization, and that identifying information was removed before analysis. Respondents were free to exit the questionnaire at any point without penalty, and no incentive was offered for participation beyond a brief explanation of the study's purpose, which is consistent with typical practice for survey-based organizational research involving nonprofit staff and volunteers in Indonesia.

4. RESULTS

4.1. Respondent Profile

Table 2 presents the complete distribution of respondent characteristics introduced in section 3.2, covering gender, age, education, primary employment, and position held within the orphanage for all 100 respondents.

Table 2. Respondent Profile (n = 100)

Category	Group	Frequency	Percentage
Gender	Female	67	67.0%
	Male	33	33.0%
Age	Under 20 years	2	2.0%
	20 to 25 years	57	57.0%
	25 to 30 years	28	28.0%
	Over 30 years	13	13.0%
Education	Senior secondary school	21	21.0%
	Diploma	25	25.0%
	Bachelor's degree (S1)	26	26.0%
	Master's degree (S2)	21	21.0%
	Doctoral degree (S3)	7	7.0%
Primary Employment	Private employee	63	63.0%
	Civil servant	28	28.0%
	Self employed / freelance	9	9.0%
Position in Orphanage	Treasurer	31	31.0%
	Staff	27	27.0%
	Chairperson	17	17.0%
	Secretary	13	13.0%
	Deputy chairperson	11	11.0%
	Other / unspecified	1	1.0%

Source: Primary data processed, 2026

4.2. Descriptive Statistics

Table 3 reports descriptive statistics for the four composite constructs, computed as the mean of each respondent's item responses on the five point scale. All four constructs showed similarly high mean scores, ranging from 4.33 for internal control to 4.37 for implementation of ISAK 335, with standard deviations clustered narrowly between 0.56 and 0.57. The consistently high means and the compressed range of variation across constructs are consistent with the discriminant validity concerns reported in section 4.4 and are revisited in the discussion.

Table 3. Descriptive Statistics of Research Constructs (Composite Scores)

Construct	Mean	Std. Deviation	Minimum	Maximum
Implementation of ISAK 335 (X1)	4.37	0.56	2.12	5.00
Human Resource Competency (X2)	4.36	0.56	2.50	5.00
Internal Control (X3)	4.33	0.57	2.33	5.00
Financial Report Quality (Y)	4.36	0.57	2.83	5.00

Source: Primary data processed, 2026

4.3. Measurement Model Evaluation

Table 4 reports the outer loadings for all twenty-three indicators across the four constructs. Twenty-two of the twenty-three loadings exceeded the conventional 0.70 threshold for convergent validity, ranging from 0.715 to 0.893. Only one item, the first financial report quality indicator concerning the timeliness and correct classification of recorded transactions, loaded marginally below this threshold at 0.687. The item was retained rather than dropped because, as shown in Table 5, the average variance extracted for the financial report quality construct as a whole remained comfortably above the 0.50 minimum even with this item included, and because removing a single conceptually central item from a six-item construct on the basis of one modestly low loading risked narrowing the construct's meaning more than it improved its statistics.

Table 4. Outer Loadings (Convergent Validity)

Construct	Item	Loading	Above 0.70
Implementation of ISAK 335 (X1)	isak_1	0.820	Yes
Implementation of ISAK 335 (X1)	isak_2	0.803	Yes
Implementation of ISAK 335 (X1)	isak_3	0.812	Yes
Implementation of ISAK 335 (X1)	isak_4	0.816	Yes
Implementation of ISAK 335 (X1)	isak_5	0.844	Yes
Implementation of ISAK 335 (X1)	isak_6	0.797	Yes
Implementation of ISAK 335 (X1)	isak_7	0.827	Yes
Implementation of ISAK 335 (X1)	isak_8	0.789	Yes
Human Resource Competency (X2)	hrc_1	0.836	Yes
Human Resource Competency (X2)	hrc_2	0.819	Yes
Human Resource Competency (X2)	hrc_3	0.844	Yes
Human Resource Competency (X2)	hrc_4	0.758	Yes
Human Resource Competency (X2)	hrc_5	0.795	Yes
Human Resource Competency (X2)	hrc_6	0.715	Yes
Internal Control (X3)	ic_1	0.748	Yes
Internal Control (X3)	ic_2	0.893	Yes
Internal Control (X3)	ic_3	0.861	Yes
Financial Report Quality (Y)	frq_1	0.687	Retained*
Financial Report Quality (Y)	frq_2	0.822	Yes
Financial Report Quality (Y)	frq_3	0.825	Yes
Financial Report Quality (Y)	frq_4	0.855	Yes
Financial Report Quality (Y)	frq_5	0.821	Yes
Financial Report Quality (Y)	frq_6	0.815	Yes

Source: Primary data processed with partial least squares structural equation modeling, 2026. *Item retained despite a loading below 0.70 because construct AVE remained above 0.50 (see Table 5).

Table 5 reports internal consistency reliability and convergent validity for all four constructs. Cronbach's alpha ranged from 0.782 for internal control to 0.927 for implementation of ISAK 335, and composite reliability ranged from 0.874 to 0.940, both comfortably above the 0.70 threshold conventionally used to judge internal consistency. Average variance extracted ranged from 0.633 for human resource competency to 0.699 for internal control, all above the 0.50 minimum, indicating that each construct's indicators shared more variance with their intended latent construct than with measurement error.

Table 5. Reliability and Convergent Validity

Construct	Cronbach's Alpha	Composite Reliability	AVE
Implementation of ISAK 335 (X1)	0.927	0.940	0.662
Human Resource Competency (X2)	0.883	0.912	0.633
Internal Control (X3)	0.782	0.874	0.699
Financial Report Quality (Y)	0.891	0.917	0.649

Source: Primary data processed with partial least squares structural equation modeling, 2026.

4.4. Discriminant Validity

Table 6 reports the Fornell-Larcker criterion, comparing the square root of each construct's average variance extracted against its correlations with the other constructs. Three of the four constructs satisfied the criterion, with the square root of average variance extracted on the diagonal exceeding the corresponding off-diagonal correlations. The exception involved implementation of ISAK 335 and financial report quality, where the correlation between the two constructs, at 0.822, exceeded the square root of average variance extracted for both implementation of ISAK 335, at 0.814, and financial report quality, at 0.806. This pattern indicates that, in this sample, implementation of ISAK 335 and financial report quality were not fully distinguishable using the Fornell-Larcker criterion alone.

Table 6. Discriminant Validity: Fornell Larcker Criterion

	X1	X2	X3	Y
X1	**0.814**	0.763	0.655	0.822
X2	0.763	**0.796**	0.716	0.757
X3	0.655	0.716	**0.836**	0.772
Y	0.822	0.757	0.772	**0.806**

Source: Primary data processed, 2026. Diagonal values (bold) are the square root of AVE. X1 = Implementation of ISAK 335; X2 = Human Resource Competency; X3 = Internal Control; Y = Financial Report Quality.

Table 7 reports the heterotrait monotrait ratio of correlations, a more conservative and increasingly preferred discriminant validity diagnostic (Henseler et al., 2015). Four of the six construct pairs fell below the conservative 0.90 threshold, ranging from 0.769 between implementation of ISAK 335 and internal control to 0.851 between human resource competency and internal control. Two pairs exceeded 0.90: implementation of ISAK 335 and financial report quality, at 0.901, and internal control and financial report quality, at 0.925, the latter being the highest ratio observed in the matrix. Taken together with the Fornell-Larcker result, these figures indicate that respondents in this sample tended not to sharply distinguish, in their own perception, between having implemented the reporting interpretation, maintaining internal control, and producing a report they considered high quality. This overlap is discussed further in section five as a limitation that qualifies how the structural path estimates that follow should be interpreted.

Table 7. Discriminant Validity: Heterotrait Monotrait Ratio (HTMT)

	X1	X2	X3	Y
X1	-	0.838	0.769	0.901
X2	0.838	-	0.851	0.849
X3	0.769	0.851	-	0.925
Y	0.901	0.849	0.925	-

Source: Primary data processed, 2026. Threshold: HTMT < 0.90 indicates discriminant validity. X1 = Implementation of ISAK 335; X2 = Human Resource Competency; X3 = Internal Control; Y = Financial Report Quality.

4.5. Structural Model and Hypothesis Testing

Table 8 reports the structural path coefficients, bootstrapped standard errors, t values, p values, 95 percent confidence intervals, and effect sizes for the three hypothesized paths, alongside the model's coefficient of determination. The three predictors jointly explained 77.6 percent of the variance in financial report quality, with an adjusted coefficient of determination of 76.9 percent, a very high figure for a survey-based structural model that is discussed further in section five alongside the discriminant validity findings above.

Implementation of ISAK 335 exerted the largest path coefficient on financial report quality, at 0.490, with a bootstrapped t value of 4.240 and a p value below 0.001, and a 95 percent confidence

interval of 0.256 to 0.711 that excluded zero. The corresponding effect size, an f-squared of 0.422, is considered large by conventional benchmarks, indicating that implementation of ISAK 335 made a substantial unique contribution to explained variance in financial report quality beyond that already contributed by human resource competency and internal control. This result supports hypothesis one.
Human resource competency exerted a small, positive path coefficient of 0.125 on financial report quality, but the bootstrapped t-value of 1.100 and p value of 0.272 did not reach conventional significance, and the 95 percent confidence interval, from negative 0.081 to 0.365, included zero. The corresponding effect size, an f squared of 0.023, is considered small to negligible. This result does not support hypothesis two: once implementation of ISAK 335 and internal control are accounted for, human resource competency as measured in this study did not make a statistically distinguishable contribution to financial report quality in this sample.

Internal control exerted the second largest path coefficient, at 0.361, with a bootstrapped t value of 4.492 and a p value below 0.001, and a 95 percent confidence interval of 0.206 to 0.527 that excluded zero. The corresponding effect size, an f squared of 0.268, is considered medium to large. This result supports hypothesis three. Table 9 summarizes the outcome of all three hypothesis tests.

Table 8. Structural Model: Path Coefficients and Hypothesis Testing (Bootstrap, 3,000 resamples)

Path	Beta	SE	t-value	p-value	95% CI	f-squared
ISAK 335 Implementation -> Report Quality	0.490	0.116	4.240	< 0.001	[0.256, 0.711]	0.422
HR Competency -> Report Quality	0.125	0.114	1.100	0.272	[-0.081, 0.365]	0.023
Internal Control -> Report Quality	0.361	0.080	4.492	< 0.001	[0.206, 0.527]	0.268

Source: Primary data processed with partial least squares structural equation modeling, 2026. R-squared = 0.776; Adjusted R-squared = 0.769.

Table 9. Summary of Hypothesis Testing

Hypothesis	Statement	Beta	p-value	Decision
H1	ISAK 335 implementation has a significant positive effect on financial report quality.	0.490	< 0.001	Supported
H2	Human resource competency has a significant positive effect on financial report quality.	0.125	0.272	Not supported
H3	Internal control has a significant positive effect on financial report quality.	0.361	< 0.001	Supported

Source: Primary data processed, 2026.

4.6. Discussion

The finding that implementation of ISAK 335 was the strongest predictor of financial report quality in this sample is consistent with case-level evidence from individual Indonesian orphanages and foundations, where organizations that more faithfully applied the interpretation's prescribed statement formats and classifications were repeatedly observed to produce more complete and comparable reports than those that only partially adopted it (Ansari et al., 2023). It is also consistent with the broader pattern in Indonesian local government research, where closer adherence to prescribed accounting standards has emerged as one of the more reliable predictors of reporting quality across many studies and settings (Nuswantoro & Rahmawati, 2025). For orphanages specifically, this result suggests that the single highest leverage intervention available to a foundation seeking better financial reports may simply be ensuring that its bookkeeper actually follows the interpretation's required statement structure, rather than assuming that general accounting knowledge will translate into standard-specific compliance on its own.

The absence of a statistically significant effect for human resource competency is a more surprising result given how consistently competency has predicted financial reporting quality in Indonesian public sector studies, including recent work on Indonesian local government reporting (Mediaty et al., 2025) and on village government reporting reinforced by structured training (Putra et al., 2023). Several explanations seem plausible. First, the resource based logic connecting human capital to organizational outcomes assumes that competency can be exercised, which requires enough organizational infrastructure, time, and authority for a competent individual to actually apply what they know (Gerhart & Feng, 2021); orphanage bookkeepers who hold financial duties alongside child care responsibilities and other administrative work may simply lack the time and institutional support to translate personal competency into report quality, even when their competency scores are high.

Second, competency and implementation of ISAK 335 were themselves correlated at 0.763 in this sample, meaning that once implementation is included in the same model, much of what individual competency would otherwise explain is already captured by the implementation construct, leaving comparatively little unique variance for competency itself to explain. Third, self reported competency measures are prone to overstatement, particularly among respondents who hold leadership positions in the organization they are describing, which can compress the variance in this construct relative to constructs describing observable organizational practices.

The strong effect of internal control aligns closely with findings from Indonesian village and regional government studies, where internal control has repeatedly emerged as one of the most consistent predictors of financial reporting quality, sometimes rivaling or exceeding the effect of standard implementation itself (Yenni et al., 2024), and with village level evidence linking internal control and apparatus performance jointly to stronger financial reporting outcomes (Hendaris & Romli, 2021). For orphanages, which typically operate without an external audit requirement and with financial duties concentrated among a small, trusted group of people, control procedures such as pre-numbered cash vouchers and periodic review of the books may substitute in part for the oversight that external audit or hierarchical civil service supervision would otherwise provide in a government setting.

The very high explained variance of 77.6 percent, together with the discriminant validity limits reported in section 4.4, both deserve caution rather than celebration. When two predictors, implementation of ISAK 335 and internal control, are found to overlap substantially with the outcome construct itself in respondents' own perception, part of what looks like a strong causal path may instead reflect that respondents who feel their organization does things properly tend to rate all three constructs favorably at once, a pattern consistent with common method bias arising from single source, self reported, cross sectional data collected from one respondent per organization (Podsakoff et al., 2003). This does not mean the hypothesized relationships are wrong, since the pattern of which paths were significant and which was not, with human resource competency notably falling short despite being measured with the same self-report method as the other two constructs, would be an unusual result to produce by method bias alone. It does mean that the magnitude of the path coefficients for implementation of ISAK 335 and internal control should be read as an upper bound on their true effect on financial report quality, pending replication with data collected from a source other than the person completing the financial reports being evaluated, such as an external reviewer's assessment of report quality.

For the foundations and boards that oversee individual orphanages, the practical takeaway is not that competency training is worthless, since it remains a reasonable and low-risk investment, but that it should not be treated as a sufficient response on its own to concerns about report quality. A foundation with limited resources to spend on improving its financial reporting would, on the evidence presented here, likely see a larger return from a concrete implementation checklist tied to the specific statement formats and disclosures required by ISAK 335, combined with simple, low cost control procedures such as pre numbered cash vouchers and a standing requirement that someone other than the preparer review the books each month, than from a generic bookkeeping course alone. For the professional associations, religious umbrella organizations, and government social welfare agencies that periodically run capacity-building programs for orphanages, the same evidence suggests that training curricula should be built around applying the interpretation to the organization's own transactions and around installing specific control routines, rather than around general accounting literacy, if the goal is a measurable improvement in the reports these organizations eventually produce.

5. CONCLUSION

This study finds that, in this sample of nonprofit orphanages, implementation of ISAK 335 and internal control are strongly associated with financial report quality while human resource competency is not, but it also finds that implementation, internal control, and report quality overlap heavily as measured constructs, a limitation that tempers any straightforward causal reading of the results and that points toward more rigorous, multi-source measurement in future studies of nonprofit financial reporting. For a regional journal covering small and nonprofit organizations such as this one, the broader lesson may be methodological as much as substantive: survey based accounting research on organizations with informal governance gains credibility not from reporting the highest possible coefficient of determination, but from reporting the full measurement diagnostics that let readers judge for themselves how much of that figure reflects genuine explanatory power and how much reflects the shared method and shared wording of a single self-report instrument.

5.1. Limitations

This study has several limitations. First, the cross-sectional, single-source, self-reported design cannot rule out common method bias as a contributor to the very strong implementation and internal control path coefficients and the correspondingly high coefficient of determination, and it cannot establish causal direction with certainty. Second, the sample, while adequate for partial least squares structural equation modeling, was drawn through convenience and community network sampling rather than a formal registry-based frame, which limits how confidently the findings can be generalized to the full population of nonprofit orphanages across Indonesia, particularly those without any social welfare network connections through which this survey was distributed. Third, and most importantly, the discriminant validity results indicate that implementation of ISAK 335, internal control, and financial report quality were not fully empirically distinguishable in this sample, which means the study cannot claim with full confidence that it has isolated three separate causal effects rather than one broad, favorably biased self-assessment of organizational competence.

Future research should address these limitations by collecting financial report quality data from a source other than the person being rated, such as an external accountant's structured review of the actual financial statements, by sampling orphanages across multiple provinces and organizational sizes, and by revisiting and sharpening the wording of the implementation and internal control items to draw a clearer conceptual boundary between them.

Abbreviations

ISAK 335: Interpretasi Standar Akuntansi Keuangan 335 (Interpretation of Financial Accounting Standards 335, formerly ISAK 35)
DSAK IAI: Dewan Standar Akuntansi Keuangan Ikatan Akuntan Indonesia (Financial Accounting Standards Board of the Indonesian Institute of Accountants)
PLS-SEM: Partial Least Squares Structural Equation Modeling
AVE: Average Variance Extracted
CR: Composite Reliability
HTMT: Heterotrait Monotrait Ratio of Correlations
R-Squared: Coefficient of Determination
f-Squared: Cohen's Effect Size Measure

Authors' contribution

All authors contributed to the design of the study, the interpretation of the results, and the writing of the article. RAH led data collection and initial analysis; FSA supervised the research design, verified the statistical analysis, and revised the manuscript.

Conflict of Interest

The authors declare no competing interests.

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Availability of data and materials

The survey data supporting this study are available from the corresponding author upon reasonable request, subject to respondent and organizational confidentiality.

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