

Digital Transformation and Financial Reporting Quality in Rural Banks: Evidence from Indonesia

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Abstract:

This study aims to analyze the impact of digital transformation on financial reporting quality in Rural Banks (BPR) in Indonesia. In addition, this research examines the role of internal control systems as a supporting factor in improving the reliability of financial statements. This study adopts a qualitative approach using a phenomenological design to explore the experiences of accounting practitioners in BPR. Data were collected through semi-structured interviews with internal auditors, external auditors, and accounting staff. The findings reveal that digital transformation significantly improves financial reporting quality by enhancing accuracy, timeliness, and transparency. However, several challenges were identified, including limited technological infrastructure, lack of human resource competence, and resistance to organizational change. Internal control systems play a crucial role in ensuring that digital implementation aligns with accounting standards and regulatory requirements. This study contributes to the literature by providing practical insights into how digitalization can strengthen financial reporting practices in small financial institutions

Keywords: Digital Transformation, Financial Reporting Quality, Internal Control, Rural Banks

INTRODUCTION

Rural Banks (BPR) play a significant role in supporting regional economic growth, particularly by providing financial services to micro, small, and medium enterprises (MSMEs). As financial institutions operating at the local level, BPR are required to maintain transparency and accountability in financial reporting to ensure stakeholder trust (Rasyad et al., 2022). In recent years, digital transformation has become a critical factor influencing organizational performance, including in the banking sector. The adoption of digital systems in accounting processes enables organizations to improve efficiency, reduce errors, and provide more timely financial information (Hutasoit, 2026). However, the transition from manual to digital systems requires substantial adjustments in terms of infrastructure, human resources, and internal control mechanisms.

The implementation of digital accounting systems also aligns with the decision usefulness theory, which emphasizes that financial information must be relevant and reliable to support decision-making processes (Surya & Supriyono, 2025). In this context, digital transformation has the potential to enhance the usefulness of financial reports by improving data accuracy and accessibility. Despite its benefits, digital transformation presents several challenges for BPR. Many institutions face limitations in technological readiness and employee competence, which may hinder the effective implementation of digital systems (Lusiono et al., 2024). Furthermore, organizational resistance to change can slow down the adoption process, particularly in smaller institutions with limited resources. Therefore, this study aims to explore how digital transformation affects

financial reporting quality in BPR and to identify the challenges and opportunities associated with its implementation.

LITERATURE REVIEWS

Institutional Theory

Institutional theory explains that organizations adopt new practices due to external pressures such as regulations and stakeholder expectations. According to Meyer & Rowan, (1977), organizations adopt formal structures and certain practices not only to improve performance, but also to gain legitimacy from the external environment. These structures are often symbolic in nature and may be decoupled from actual practices

Financial Reporting Quality

Financial reporting quality refers to the extent to which financial statements provide accurate, relevant, and reliable information for decision-making. High-quality financial reports enable stakeholders to assess an entity's financial performance and position effectively (Apriada et al., 2023)

Digital Transformation in Accounting

Digital transformation in accounting involves the use of information technology to automate and improve accounting processes. It enhances efficiency, reduces manual errors, and facilitates real-time reporting (Weri Sirait et al., 2025)

Internal Control Systems

Internal control systems are essential mechanisms that ensure the reliability of financial reporting and compliance with regulations. Effective internal controls help prevent fraud and errors in financial statements (Arum R et al., 2020)

RESEARCH METHODOLOGY

This study employs a qualitative approach with a phenomenological design to understand the experiences of accounting practitioners in BPR. The informants were selected using purposive sampling, consisting of three key participants: an internal auditor, an external auditor, and an accounting staff member. Data were collected through semi-structured interviews, allowing flexibility in exploring participants' perspectives. The data were analyzed using the Miles and Huberman model, which includes data reduction, data display, and conclusion drawing. To ensure data validity, this study applied triangulation and member checking techniques.

RESULTS AND DISCUSSION

Digital Transformation on Financial Reporting Accuracy

The findings indicate that the implementation of digital accounting systems significantly improves the accuracy of financial reporting in Rural Banks (BPR). Informants stated that automated systems reduce human errors commonly found in manual bookkeeping, such as misclassification of accounts and calculation mistakes. Accounting software enables real-time data processing, ensuring that financial information is consistently updated and aligned with actual transactions. This reduces discrepancies between recorded data and actual financial conditions. Furthermore, system-based validation features help detect inconsistencies early, minimizing the risk of material misstatements in financial reports (Satrio Ronggo Buwono et al., 2022).

However, despite these advantages, several informants highlighted that errors can still occur if the system is not properly configured or if users input incorrect data. This suggests that while digital systems enhance accuracy, they still depend on the competence of human resources managing them. The implementation of digital transformation in BPR is not without challenges. The study reveals that limitations in technological infrastructure, such as inadequate systems and unstable connectivity, hinder the optimal utilization of digital tools. In addition, the lack of human resource competence and resistance to organizational change remain critical obstacles that must be addressed. These challenges indicate that digital transformation is not merely a technological shift, but also an organizational process that requires comprehensive readiness (Saputra, 2022).

This study also highlights that the success of digital transformation depends on the alignment between technology, human resources, and organizational policies. Continuous training and capacity building are essential to improve employees' technical and analytical skills. Moreover, investment in technological infrastructure and system integration is necessary to support sustainable implementation.

Improvement in Timeliness and Efficiency

Another significant finding is the improvement in timeliness and operational efficiency. Digital transformation enables faster preparation of financial reports compared to traditional manual methods. Tasks that previously required several days, such as reconciliation and report compilation, can now be completed within a shorter time frame. This improvement allows management to access financial information more quickly, which supports timely decision-making. In addition, digital systems facilitate integration between departments, reducing duplication of work and increasing overall efficiency (Saputra, 2022).

Nevertheless, during the early stages of implementation, some BPR experienced delays due to system adaptation and learning curves among employees. This indicates that the benefits of efficiency are more evident after the organization has fully adapted to the new system.

Challenges in Technological Infrastructure

Despite the positive impact, the study found that limited technological infrastructure remains a major challenge. Smaller BPR often face difficulties in investing in advanced accounting systems due to financial constraints. Inadequate hardware, unstable internet connections, and lack of system integration were identified as key obstacles. These limitations can hinder the optimal use of digital accounting systems and reduce their effectiveness in improving financial reporting quality (Apriada et al., 2023). Additionally, some BPR rely on basic or outdated software that does not fully support comprehensive financial reporting requirements, which may affect the completeness and reliability of financial information.

Human Resource Competence and Training Needs

Human resource capability plays a crucial role in the success of digital transformation (Saputra, 2022). The findings reveal that many accounting staff in BPR still lack sufficient technical skills to operate digital accounting systems effectively. Informants emphasized the need for continuous training and professional development to enhance employees' understanding of both accounting standards and digital tools. Without adequate training, employees may struggle to utilize system features optimally, which can limit the benefits of digital transformation. Moreover, resistance to change was

observed among some employees, particularly those accustomed to manual processes . This resistance can slow down the adoption of new systems and reduce organizational efficiency.

Role of Internal Control Systems

The study also highlights the importance of internal control systems in supporting digital transformation. Effective internal controls ensure that digital processes are conducted in accordance with accounting standards and organizational policies. Digital systems can strengthen internal controls by providing audit trails, access restrictions, and automated monitoring features. These mechanisms help prevent fraud and ensure data integrity (Arum R et al., 2020). However, the effectiveness of internal controls depends on proper system design and implementation. Weak controls or lack of supervision can still lead to errors or manipulation of financial data.

The results of this study provide important insights into the relationship between digital transformation and financial reporting quality in Rural Banks. From the perspective of decision usefulness theory, the improvement in accuracy and timeliness enhances the relevance and reliability of financial information. This supports the idea that high-quality information is essential for effective decision-making (Ni Komang Laksmi Ayu et al., 2025). Digital transformation also reflects the principles of principle-based accounting, where accounting processes rely more on professional judgment supported by reliable data systems. The availability of real-time data allows accountants to make more informed decisions and produce financial reports that better represent the economic reality of the organization.

From an institutional theory perspective, the adoption of digital accounting systems can be seen as a response to external pressures, such as regulatory requirements and stakeholder expectations. BPR are encouraged to adopt modern systems to improve transparency and accountability, which are essential for maintaining public trust . The findings also highlight that technological advancement alone is not sufficient to ensure successful digital transformation. Organizational readiness, particularly in terms of human resources and infrastructure, plays a critical role. This is consistent with previous studies that emphasize the importance of aligning technology adoption with organizational capabilities (Surya & Supriyono, 2025)

Furthermore, the role of internal control systems is crucial in ensuring that digital transformation leads to improved financial reporting quality. Strong internal controls help mitigate risks associated with system errors and data manipulation, thereby enhancing the credibility of financial statements (Ginting et al., 2024). Despite the challenges, the study demonstrates that digital transformation provides significant opportunities for BPR to improve governance and operational efficiency. By investing in technology, training, and system integration, BPR can enhance their financial reporting practices and strengthen their competitive position in the financial sector.

CONCLUSION

This study aims to examine the role of digital transformation in improving financial reporting quality in Rural Banks (BPR), as well as to identify the challenges and supporting factors influencing its implementation. The use of digital accounting systems enables more efficient data processing, reduces the likelihood of human error, and provides real-time financial information that supports better managerial decision-making.

Furthermore, internal control systems play a vital role in ensuring the success of digital transformation. Effective controls, supported by system-based features such as

audit trails and access restrictions, contribute to enhancing the reliability and credibility of financial reports. Without strong internal controls, the benefits of digital systems may not be fully realized, and risks related to data inaccuracies and manipulation may persist.

From a theoretical perspective, the findings support the decision usefulness theory, which emphasizes that high quality financial information must be relevant and reliable to be useful in decision-making. Additionally, the results are consistent with institutional theory, suggesting that the adoption of digital systems is influenced by external pressures such as regulatory requirements and stakeholder expectations.

In practical terms, this study provides important implications for BPR management and policymakers. BPR are encouraged to develop strategic plans for digital transformation, including investment in technology, employee training, and strengthening internal control systems. Policymakers, on the other hand, should provide guidance and support to ensure that smaller BPR can adapt to digital changes effectively.

Despite its contributions, this study has limitations, particularly in terms of the number of informants and the qualitative approach used. Therefore, future research is recommended to employ quantitative methods or mixed approaches to provide more comprehensive and generalizable findings. Further studies may also explore the relationship between digital transformation and financial performance or organizational sustainability. In conclusion, digital transformation represents both a challenge and an opportunity for Rural Banks. With proper preparation and strategic implementation, it can significantly enhance financial reporting quality and contribute to long-term organizational sustainability.

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