

MODERATION OF INTERNAL CONTROL SYSTEM ON THE INFLUENCE OF AUDITOR COMPETENCE ON THE QUALITY OF AUDIT REPORTS

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ABSTRACT

The quality of audit reports is crucial because it serves as the primary basis for maintaining public accountability, preventing budget misappropriation, and serving as a valid reference for strategic government decision-making. The quality of audit reports issued by government institutions serves as a reflection of transparent financial governance. If these documents are inaccurate, the risk of corruption increases and public trust in the relevant agencies is undermined. In the government sector, the quality of audit reports is crucial because it relates to the use of public funds. This research examines the effect of auditor competence on the quality of financial reports, with the internal control system as a moderator, at the Inspectorate General of a Ministry in the Republic of Indonesia. This research involved 100 auditors from the Inspectorate General. The results showed that auditor competence significantly influenced the quality of audit reports, the internal control system significantly influenced the quality of audit reports, and the internal control system moderated the effect of auditor competence on the quality of audit reports.

Keywords: Auditor Competence, Internal Control System, Quality of Audit Report

1. INTRODUCTION

The Audit Result Report is the most important primary product for government internal auditors, whether at the Financial Supervisory Agency, the Financial and Development Supervisory Agency, or the Inspectorate at the ministry, agency, or regional level.

Why is the Audit Result Report so important? The Audit Result Report holds an irreplaceable strategic position within the government ecosystem. The importance of this report can be seen in several key aspects:

1. As a Basis for Leadership Decision-Making

A regional head, minister, or agency head cannot possibly oversee every operational detail in the field. The Audit Result Report provides structured, valid, and reliable information. By reading the recommendations in the Audit Result Report, leaders can make tactical and strategic decisions to improve organizational performance, terminate ineffective programs, or reform corrupt systems.

2. As a Tool for Enforcing Accountability and Transparency

The Constitution requires that every rupiah of the State Budget and Regional Budget be accounted for. The Audit Result Report is tangible evidence of this oversight. This document ensures that government agencies are not only working hard but also operating properly within the applicable regulatory framework.

3. Early Warning System

Before a minor violation escalates into a major corruption scandal, internal auditors typically detect it through an Audit Report. The preventive and corrective nature of an Audit Report helps organizations mitigate risks early, saving state finances before greater losses occur.

4. Catalyst for Governance Improvement

The most crucial point of an Audit Report lies in the Recommendations. Auditors don't simply come to find fault (fault-finding), but rather to provide solutions (problem-solving). The recommendations in an Audit Report compel the auditee (the party being audited) to undertake bureaucratic reform, improve outdated Standard Operating Procedures, and tighten internal control systems.

An Audit Report will only truly "come to life" and be meaningful if its recommendations are seriously followed up by management. Without a commitment to follow-up, an Audit Report will simply remain a dead file in a cupboard.

According to (Solichin et al., 2022) , a good internal control system will strengthen the influence of auditor competence on the quality of audit reports. In general, an internal control system (or internal control system) is all policies, procedures, and processes designed by management to protect organizational assets, ensure the accuracy of financial data, and ensure compliance with regulations, a similar statement is made (Novatiani et al., 2024). This system is not simply a written manual, but rather an ongoing process involving all levels of employees, from staff to the board of directors or top management (Long, 2024).

In Indonesia, the government's internal control system is officially known as the Government Internal Control System. This regulation is stipulated in Government Regulation Number 60 of 2008. Government Internal Control System is an integral process carried out continuously by management and all employees. Its purpose is to provide reasonable assurance that government administration is running on track.

Government sector performance can be seen from government performance reports and financial reports. Before these reports are reviewed by external government auditors, they undergo audits by internal government auditors. For example, in a ministry, the performance and financial reports of work units, agencies, and/or institutions under that ministry are submitted to the ministry, which then reviews them by the internal auditor, namely the Ministry's Inspectorate General. Therefore, the role of internal government auditors is crucial to ensure that future audit reports do not lead to findings by external auditors.

This research examines the effect of auditor competence on audit report quality, moderated by the internal control system, at one of the Inspectorates General within a Ministry in the Republic of Indonesia.

2. LITERATURE REVIEW

2.1. Quality of Audit Reports

The quality of an audit report is a normative measure indicating that the report is prepared based on strict quality standards, resulting in information that is reliable, accurate, timely, relevant, easy to understand, and objective. In the context of a formal audit, report quality ensures that the findings, conclusions, and recommendations are valid and support transparency and public accountability. Characteristics of a Quality Report To achieve high quality standards, an audit report must meet the following indicators: a. Accurate: Presents valid data and figures that are free from errors; b. Reliable; and can be trusted and verified for the accuracy of the evidence; c. Relevant: Provides information that aligns with the scope and objectives of the audit; d. Timely: Submitted on schedule for immediate use in decision-making; e. Objective: Based on real facts on the ground without bias or external intervention; f. Clear & Concise: Uses language that is easily understood by stakeholders (Janssen, 2025).

2.2. Auditor Competence

Auditor competence is the ability, expertise, and in-depth knowledge that an auditor must possess to perform audit tasks effectively, objectively, and professionally in accordance with applicable standards. This competence serves as the primary foundation that ensures the credibility of the opinions, findings, and recommendations in the audit report.

Broadly speaking, the main components of Auditor Competence are divided into three main dimensions: a. Knowledge: A strong understanding of accounting standards, legal regulations, audit methodology, and the audited entity's business processes; b. Skills: Technical expertise such as data sampling techniques, investigative interviews, risk analysis, and proficiency in using audit software (data analytics); c. Professional Attitude: The application of professional skepticism (constantly questioning evidence), thoroughness, and strict adherence to the professional code of ethics (Long, 2024).

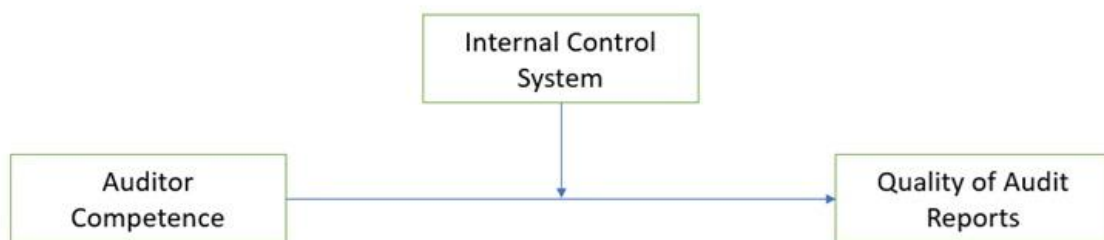
2.3. Internal Control System

In Indonesia, the internal control system for government audits in Indonesia is officially known as the Government Internal Control System . Based on Government Regulation No. 60 of 2008, SPIP is an integral process of actions and activities carried out continuously by leaders and all employees to provide reasonable assurance that organizational goals are being achieved. This control system must be implemented across all ministries, state institutions, and local governments.

The implementation of internal control in the government sector is designed to achieve the following targets: a. Effectiveness and Efficiency: Ensuring that bureaucratic operations are efficient, effective, and on target; b. Reliability of Financial Reporting: Producing valid financial reports; c. Safeguarding State Assets: Preventing loss, damage, waste, or corruption of public assets; d. Legal Compliance: Ensuring that all policies comply with applicable laws and regulations (O. Ray Whittington, 2022).

3. METHODS

3.1. Research Conceptual Framework



Picture 1
Research Conceptual Framework

In the conceptual framework above, it can be seen that this research aims to analyze the influence of auditor competence on quality of audit reports, moderated by the internal control system.

3.2. Hypothesis

The hypotheses in this research are:

H1: Auditor Competence has a significant effect on the Quality of Audit Reports

H2: The Internal Control System has a significant effect on the Quality of Audit Reports

H3: The Internal Control System significantly strengthens the influence of Auditor Competence on the Quality of Audit Reports

3.3. Population and Sample

The research population consisted of 177 auditors assigned to the Inspectorate General of one of the Ministries of the Republic of Indonesia. The sample used a census technique, where all auditors in the population were selected (Ghozali, 2018).

From the questionnaires distributed via Google Forms, 100 questionnaires were returned to the researcher. This resulted in a sample size of 100.

3.4. Data Analysis Techniques

In this research, Moderated Regression Analysis (MRA) was used for data analysis). In this research, Moderated Regression Analysis (MRA) was used for data analysis (Ghozali, 2018), MRA, or interaction testing, is a specific application of multiple linear regression, where the regression equation contains an interaction element (the multiplication of two or more independent variables). This research conducted several stages of testing:

- 1) Determinant Test for Regression Model 1, to determine the extent of influence of the independent variables on the dependent variable before moderation.
- 2) F-Test for Regression Model 1, to determine the model's goodness of fit/accuracy.
- 3) T-Test for Regression Model 1, to determine the effect of the independent variables on the dependent variable before moderation.
- 4) Determinant Test for Regression Model 2, to determine the extent of influence of the independent variables on the dependent variable after moderation.
- 5) F-Test for Regression Model 2, to determine the model's goodness of fit/accuracy.
- 6) T-Test for Regression Model 2, to determine the effect of the moderating variables.

4. RESULTS AND DISCUSSION

Classical assumption tests must be conducted to avoid bias in the data (Ghozali, 2018). The initial data in this research has passed the classical assumption test.

Regression Model 1

In regression model 1, the regression results show the following results:

Determinant Test of Regression Model 1:

Table 1
Determinant Test of Regression Model 1

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,799 ^a	,638	,630	4,19591

a. Predictors: (Constant), Internal Control System (ICS), Auditor Competence (AC)

Source: Processed Data, 2026

The Adjusted R Square value in Table 1 is 0.630, meaning that the ability of the Auditor Competence (KA) variable and the Internal Control System (SKI) variable to explain the Audit Result Report Quality (QAR) variable is 0.630 or 63.0%.

F-Test/Goodness of Fit Model Test Model 1:

Table 2
Goodness of Fit Test Results for Regression Model 1

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3007,001	2	1503,500	85,399	,000 ^b
	Residual	1707,749	97	17,606		
	Total	4714,750	99			

a. Dependent Variable: Quality of Audit Reports (QAR)

b. Predictors: (Constant), Internal Control System (ICS), Auditor Competence (AC)

Source: Processed Data, 2026

The F-Test is used to see the goodness of fit of the model which shows the accuracy of the research model used (Ghozali, 2018). The significant value in Table 2 is $0.000 < 0.05$, indicating that the research model in model 1 used is appropriate.

t-Test Model 1:

Table 3
Test Result t-Test Model 1

Coefficients ^a					
Model		Unstandardized Coefficients		Standardized Coefficients	Sig.
		B	Std. Error	Beta	
1	(Constant)	-11,979	3,280		,000
	Auditor Competence (AC)	,305	,135	,192	,026
	Internal Control System (ICS)	,936	,121	,653	,000

a. Dependent Variable: Quality of Audit Reports (QAR)

Source: Processed Data, 2026

The t-test in this research was used to examine the effect of the independent variables on the dependent variable. Table 3 shows that:

1. With a significance value of $0.026 < 0.05$, Auditor Competence (AC) significantly influences the Quality of the Audit Report (QAR)
2. With a significance value of $0.000 < 0.05$, the Internal Control System (ICS) significantly influences the Quality of the Audit Report (QAR)

Regression Model 2

In regression model 2, the regression results show the following results:

Determinant Test of Regression Model 2:

Table 4
Determinant Test Regresi Model 2

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,814 ^a	,663	,652	4,07096

a. Predictors: (Constant), AC_QAR, Auditor Competence (AC), Internal Control System (ICS)

Source: Processed Data, 2026

The Adjusted R Square value in Table 4 is 0.652, indicating that the Auditor Competence (AC) and Internal Control System (ICS) variables can explain the Quality of Audit Reports (QAR) variable, with the Internal Control System (ICS) as a moderating variable, at 0.652, or 65.2%.

The determination value in regression 2, at 0.652, is greater than the determination value in regression 1, which is 0.630. This indicates that the Internal Control System (ICS) variable, as a moderating variable, can strengthen the influence of Auditor Competence (AC) on Quality of Audit Reports (QAR).

F-Test/Goodness of Fit Model Test:

Tabel 5
Hasil Uji Goodness of Fit Regresi Model 2

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3123,767	3	1041,256	62,829	,000b
	Residual	1590,983	96	16,573		
	Total	4714,750	99			

a. Dependent Variable: Quality of Audit Reports (QAR)

b. Predictors: (Constant), AC_QAR, Auditor Competence (AC), Internal Control System (ICS)

Source: Processed Data, 2026

The F-Test was used to assess the goodness of fit of the model, indicating the accuracy of the research model used. The significance value in Table 5 is $0.000 < 0.05$, indicating that the research model used in Model 2 is appropriate.

t-Test Model 2:

Tabel 6
Moderated Regression Analysis (MRA)

		Coefficients ^a		Standardized Coefficients	t	Sig.
		Unstandardized Coefficients				
Model		B	Std. Error	Beta		
1	(Constant)	34,170	17,675		1,933	,056
	Auditor Competence (AC)	-1,266	,606	-,797	-2,088	,039
	Internal Control System (ICS)	-,486	,548	-,339	-,885	,378
	AC_QAR	,048	,018	1,830	2,654	,009

a. Dependent Variable: Quality of Audit Reports (QAR)

Source: Processed Data, 2026

The Moderated Regression Analysis (MRA) test in Table 6 shows that:

1. With a significance value of $0.000 < 0.05$, the Internal Control System (ICS) can significantly moderate the effect of Auditor Competence (AC) on Quality of Audit Reports (QAR).

Hypothesis 1: Auditor Competence has a significant effect on the Quality of Audit Reports

With a significance value of $0.026 < 0.05$, Auditor Competence (AC) significantly influences the Quality of Audit Reports (QAR). Hypothesis 1 in this research is accepted. This statement aligns with various accounting/auditing theories and empirical research findings in the field of public sector oversight.

Competence is not simply a matter of educational background, but rather a combination of several crucial aspects: a. Knowledge: In-depth understanding of audit standards, state financial regulations, and business processes in higher education and research environments; b. Skills: Technical ability to develop audit work programs, gather and analyze evidence objectively, and utilize data analytics to detect fraud or program ineffectiveness; c. Experience: Auditors' experience in dealing with various entity characteristics, which hones their professional judgment.

The results of this research align with those of (Arman Jaya Ndruru et al., 2025), (Insanuadi & Muhyarsyah, 2025) and (Hubais et al., 2023). Although other studies disagree with this research, this may be due to differences in the research subjects, namely the variables influencing the quality of audit reports, the type of entity, and the year of observation.

Hypothesis 2: The Internal Control System has a significant effect on the Quality of Audit Reports

With a significance value of $0.000 < 0.05$, the Internal Control System (ICS) significantly influences the Quality of Audit Reports (QAR). Hypothesis 2 in this research is accepted. The

Internal Control System influences the quality of Audit Reports: 1. The role of the Internal Control System as Quality Assurance within the Government Internal Supervisory Apparatus, such as the Inspectorate General, is implemented through a multi-level quality control mechanism (supervision and review).

With a good Internal Control System, the audit process ensures that the Audit Report is free from bias and fatal errors through: a. Multi-level Review: The concept of Peer Review or review by the Technical Controller and the Person in Charge before the Audit Report is issued. A well-functioning Internal Control System ensures that every finding is supported by sufficient and competent objective evidence (sufficient and appropriate evidence). b. Standardization of Procedures: The Internal Control System ensures that all auditors comply with standard audit procedures and guidelines, thereby minimizing the risk of missing important procedures (audit risk).

The results of this research align with those of (Solichin et al., 2022) and (Novatiani et al., 2024). Although other studies disagree, this may be due to differences in the research subjects, namely the variables influencing the quality of audit reports, the type of entity, and the year of observation.

Hypothesis 3: The Internal Control System significantly strengthens the influence of Auditor Competence on the Quality of Audit Reports.

With a significance value of $0.000 < 0.05$, the Internal Control System (ICS) can significantly moderate the influence of Auditor Competence (AC) on the Quality of Audit Reports (QAR). Hypothesis 3 in this research is accepted. A strict internal control system directly filters and improves the quality of report output in several aspects: a. Accuracy and Objectivity: Layered internal controls force auditors to objectively confirm (clearhouse) with the auditee. This prevents the Audit Reports from presenting one-sided, unvalidated data. b. Constructiveness and of Recommendations: Through reviews by senior/technical controllers with more experience in control systems, recommendations in the Audit Reports will be directed to be more applicable and target improvements to the control system in the audited work unit, rather than simply formal sanctions. 3. The Context of the Internal Control System at the Inspectorate General at the Ministry of Education, Science, and Technology, which must be adaptive. A robust internal control system helps the Inspectorate General map supervisory risks at a macro level, ensuring that audit resources are allocated to the appropriate audit targets (risk-based audits). If the target is identified correctly from the outset, based on risk, the resulting audit report will automatically be of much higher quality and add value to the ministry.

The results of this research align with those of (He, 2023) and (Diya, 2022). Although other studies disagree, this is likely due to differences in the research subjects, namely the variables influencing the quality of audit reports, the type of entity, and the year of observation.

5. CONCLUSION AND LIMITATIONS

From the results of this research, it can be concluded that research on the importance of producing quality audit reports, especially in the government sector, is crucial. For example, a quality audit report within a ministry is a catalyst for quality. Without a credible audit report, oversight will become a meaningless routine. Conversely, with a quality audit report, the Inspectorate General acts not only as a "watchdog" but also as a strategic partner, ensuring that Indonesia's higher education, science, and technology ecosystem moves along a clean, accountable, and globally competitive path.

This research indicates that auditor competence significantly influences audit report quality, the internal control system significantly influences audit report quality, and the internal control system significantly strengthens the influence of auditor competence on audit report quality.

This research has limitations, as the research object is only one ministry in the Republic of Indonesia, so the results cannot be generalized to different types of industries.

Moving forward, this research recommends that relevant research utilize different research objects and variables, which are expected to influence the quality of audit reports, to expand the literature on the importance of audit report quality.

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