

# THE EFFECT OF INTERNAL AUDITOR'S COMPETENCE AND INTERNAL CONTROL EFFECTIVENESS ON FINANCIAL STATEMENTS QUALITY

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## ABSTRACT

This study aims to analyze the effect of the influence of internal auditor competence and the effectiveness of internal control on the quality of financial statements with professional scepticism as a moderating variable. The population in this study were 32 respondents at the Inspectorate of the Ministry of Youth and Sports. The sampling technique in this study is a saturated sample technique. The sample in this study was 32 respondents based on the Functional Position of Auditor and Supervision for the Implementation of Government Affairs (JFT) at the Inspectorate Office of the Ministry of Youth and Sports. The results of this study indicate that the competence of internal auditors and the effectiveness of internal control have a positive and significant effect on the quality of financial reports. This study proves that professional scepticism moderates the effect of internal auditor competence and the effectiveness of internal control on the quality of financial reports. Therefore, for further researchers to be able to conduct an ethnographic study.

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## INTRODUCTION

The Ministry of Youth and Sports must adapt to good governance and public sector management reforms through new public management with three main principles: professionalism, transparency and accountability. This is interpreted by reforming financial management through planning and budgeting, treasury (budget implementation and reporting, and accountability).

Accountability in the 2021 Government Accounting Standards is defined as accounting for the management of resources and the application of policies entrusted to reporting bodies in accomplishing periodic goals. A financial report is an excellent method of government accountability that carries the trust of the people who give the mandate. The Ministry's financial reports are reviewed by both internal and external parties. Internal inspections are quarterly examinations of work units by the Government Internal Supervisory Apparatus (APIP).

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Furthermore, the Ministry's Financial Statements are frequently audited by the Supreme Audit Agency (BPK). BPK examination leads in follow-up reviews and reports, which lead to Audit Opinions.

Alexander Marwata (2017) "KPK sees that the APIP control system is almost not functioning. Because it is appointed and responsible to regional heads. It is not independent,". Criticizing the structure of the inspectorate's responsibility as a factor causing corruption. The structure of the inspectorate's accountability to the head of the local area is considered to make the supervisory agency of the regional Government a dwarf and not independent. In Perka BPKP No. 8 of 2021 concerning the implementation of the Internal Control System, there is a concept of internal control that includes audit, review, evaluation, monitoring, and other supervisory activities on the implementation of organizational tasks and functions which generally aim to realize good governance. In the organizational structure of the public sector in Indonesia, the internal control activities are carried out by the Government's Internal Supervisory Apparatus (APIP). Therefore, APIP should carry out a necessary process for actions and activities carried out continuously by the leadership and all employees to provide adequate confidence in achieving organizational goals through effective and efficient activities, reliability of financial reporting, safeguarding state assets, and compliance with legislation. In Internal Controls, it is necessary to have comprehensive supervision over the duties and functions of each section, both in the central Government and local governments. With the Internal Control implemented by APIP, it is expected to improve the quality of the financial reports of Ministries/Agencies.

BPK Regulation No. 1 of 2017 Law Number 15 of 2004 concerning Audit of State Finance Management and Responsibility states that during the audit process, BPK has the authority to obtain the data needed for inspection and the Government must follow up on the results of the examination. In this regard, BPK needs to monitor and inform the results of the follow-up monitoring. When examining the Central Government Financial Statements (LKPP) and Regional Government Financial Reports (LKPD), the Supreme Audit Agency always provides opinions to classify.

BPK's findings on the Internal Control System of organizational units will influence the opinion generated. State ministries/agencies must implement effective and better internal controls to improve the quality of financial reports. Therefore, to improve the quality of government financial reports, it is necessary to implement a Government Internal Control System. PP No. 60 of 2008 concerning the Government's Internal Control System explains that to achieve efficient, effective, transparent and accountable management of state finances, the ministers/ heads of institutions, governors and regents/ mayors are obliged to exercise control over the implementation of government activities. Compliance with laws and regulations is an important element directly related to government agencies' performance accountability. With this in mind, it is hoped that the accountability reports produced will be precise and appropriate in fulfilling obligations to the Central Government and public information needs. However, local governments tend not to implement the legislation in question.

Research facts regarding internal auditor competence have implications for financial statements, in line with (Septidiany, 2014) research that the internal auditor competence variable has a very significant effect on the implementation of internal audits and has significant implications for the quality of financial reports.

The problem of the quality of internal auditors was also raised by (Usman et al., 2014) stating that the auditor's competence influences the quality of the audit results. Government Regulation Number 60 of 2008 states that the implementation of internal audits within government agencies is carried out by officials who have the task of carrying out supervision and who have met the requirements of expertise competency as auditors. Auditor/examiner skill

competency requirements can be met through participation in and passing the certification program.

Public accountability is accountability carried out by reporting entities on financial management and implementation of policies in order to achieve the goals that have been set periodically. With the existence of public accountability, the regional Government and the central Government are obliged to account for all activities in the financial management of the Ministry by providing good results not only in the form of financial reports but with physical evidence.

The Financial Statements of the Ministry of Youth and Sports received a Disclaimer Opinion twice in 2015 and 2016, then a Qualified Opinion in 2017 and 2018. This is because the administration and reporting of fixed assets are still inadequate; namely, some assets are reported in the financial statements with details of assets that cannot be explained, fixed assets that cannot be detailed and whose status is unclear, fixed assets that cannot be traced, and fixed assets that have no value and have not been presented in the financial statements. The Ministry of Youth and Sports received an Unqualified Opinion in 2019 because it has managed to account for transparency and accountability well.

The Government Internal Control System (SPIP) is a critical component of any public-sector organization. The Internal Control System is an integral process of actions and activities carried out continuously by the leadership and all employees to provide adequate confidence in the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, safeguarding state assets, and compliance, according to the Government Regulation of the Republic of Indonesia, Number 60 of 2008. A good internal control system in government is intended to improve the quality of local government financial reporting. SPIP is also a method of directing, monitoring, and measuring an organization's resources. Through the strengthening of the internal control system (SPIP) implemented by APIP, it is hoped that efforts to improve the quality of the preparation of financial reports can be further spurred so that in the future, it can obtain WTP opinions, meaning that these opinions can be trusted as a decision-making tool by stakeholders. In addition, a good internal control system can prevent implementing activities that are not under applicable regulations to obtain efficiency and effectiveness and prevent state financial losses (*Laporan Hasil Pemeriksaan Atas Sistem Pengendalian Intern, 2012*). Professional scepticism plays an important role in determining audit quality. The sceptical mindset tends to lead to a more conservative audit judgment, increasing the likelihood of auditors detecting fraud (Cohen et al., 2014; Popova, 2013). High levels of professional scepticism can reduce the risk of audit failure or a negative reputation from disciplinary sanctions and litigation.

This research is based on previous studies, such as (Kintaatmaja, 2015) and other research conducted by (Karsana & Suaryana, 2017). The results of this study state that the influence of the internal control system, understanding of the regional financial accounting system, human resource competence and the application of SAP significantly affect the quality of local government financial reports.

The difference between this study and previous research is the dimensions and time of the study. Previous research was conducted at the DPPKAD Sukoharjo Regency and the Bangli Regency Government. In this study, the authors add Professional Skepticism as a moderating variable and conduct research at the Ministry of Youth and Sports.

Based on the research background that has been described, the author is interested in conducting research with the title: "The Effect of Internal Auditor Competence and Effectiveness of Internal Controls on the Quality of Financial Statements with Professional Skepticism as a Moderating Variable (Case Study at the Ministry of Youth and Sports)". Furthermore, the study's objectives are to demonstrate empirically the following: (1) the effect

of internal auditor competence on the quality of the Ministry's financial statements, (2) the effect of the effectiveness of internal control on the quality of the Ministry's financial statements, (3) the effect of professional skepticism can moderate the effect of auditor competence and the effect of the effectiveness of internal control on the Quality of Ministry Financial Reports.

## **METHOD**

### **A. Types of Research**

In this study, the researcher uses quantitative research in which the process of extracting information is manifested in numbers as a tool to find information about what is known. A quantitative research method is based on positivism's philosophy, which is used to examine certain populations or samples (Creswell & Poth, 2016). The sampling technique is generally done randomly, and data collection uses research instruments and quantitative data analysis to test the established hypothesis.

Research data on a quantitative approach in the form of numbers and analysis using statistics. The quantitative research used is causal quantitative because it aims to test the hypothesis about the effect (Moleong, 2021). Based on the type of investigation, this research is included in causal research because this research wants to find answers to the problems at hand.

A causal study is one in which the researcher seeks to determine the root cause of one or more problems. This is a causal research (cause and effect) study to determine the causal relationship of the variables researched in order to answer research questions. The purpose of this study was to identify and describe how to comprehend the impact of internal auditor competency and the efficacy of internal control on the quality of financial reports.

### **B. Definition of Operationalization of Research Variables**

#### **1. Internal Auditor Competence (X1)**

According to (Sedarmayanti, 2017), the notion of human resource competence is competence related to knowledge, expertise (skills), and behaviour (attitude) that directly affect their performance."

#### **2. Effectiveness of Internal Control (X2)**

Internal Control System (SPIP) is a necessary process of actions and activities carried out continuously by the leadership and all employees to provide adequate confidence in the achievement of organizational goals through activities that are effective and efficient, the reliability of financial reports, the safeguarding of state assets, and compliance with laws and regulations, according to Government Regulation No. 60 of 2008.

#### **3. Professional Skepticism (Y)**

According to (Hilmi, 2011) research conducted by Fullerton and Durtschi on the effect of professional skepticism on the ability to detect fraud in internal auditors, auditors with high professional skepticism will always seek information that is more and more significant than auditors with a low level of professional skepticism, and this results in auditors with a high level of professional skepticism will be able to detect fraud because The same results were achieved in (Herman, 2009) study, which assessed the influence of auditor experience and professional skepticism on fraud detection and discovered that auditor professional skepticism had a substantial effect on fraud detection. Thus, the greater the professional scepticism of an auditor, the higher the level of ability to detect fraud.

#### 4. Quality of Financial Reports (Z)

This study's dependent variable is the Quality of Local Government Financial Reports (Y). PP No. 71 of 2010, financial statements are as follows: "A structured report on the financial position and transactions carried out by a reporting entity."

#### C. Research Population and Sample

The population in this study were all 32 internal auditors at the Inspectorate of the Ministry of Youth and Sports. In this study, a sampling technique was used using a saturated sampling technique, and this was done because members of the population had the same opportunity to be selected as samples. Thus, the researchers determined a sample of all internal auditors of the Ministry of Youth and Sports inspectorate, which was a representative sample of all population members.

#### D. Data Collection Techniques

This study uses primary and secondary data; primary data is survey research in the field, which takes samples from one population and uses questionnaires as the main data. Secondary data refers to information collected from existing sources.

Respondents in this study will receive three groups of questionnaires: Questionnaire 1 contains the application of internal auditor competence, Questionnaire 2 contains the implementation of the effectiveness of internal control, and Questionnaire 3 contains the quality of financial reports.

#### E. Data Analytical Methods

An analytical technique is needed to test the model and relationships developed in this study. The analytical technique used in this study requires an analytical technique. The analysis technique used in this research is Structural Equation Modeling (SEM) using SmartPLS. The reason for SmartPLS is that it is used to develop theory in exploratory research. It explains the dependent variable's variance when examining the model. PLS-SEM was developed as a statistical modelling technique (Hair et al., 2019).

The validity test on Smart PLS can be done in two ways: with discriminant and convergent validity. Convergent validity is related to the principle that a construct's metrics (manifest variable) should be highly correlated. The convergent validity reflexive indicators can be seen from (1) The size of the loading factor to determine the correlation between each indicator and the construct, (2) the Internal consistency of the dimensions of the constructed format is measured by looking at Composite Reliability, Cronbach Alpha, and average variance extracted (AVE). The AVE test can be used to see convergent and divergent validity. The AVE test results will reflect each latent factor in the reflective model. The reflective model is considered close if the AVE value is greater than 0.50 (Höck & Ringle, 2006). The AVE value must be higher than the cross-loading correlation value. AVE below 0.50 is considered to have a high error.

The reliability test was carried out by using Cronbach Alpha. To find out the consistency of the respondents until there is information that is used as a reference to test the reliability of the information. The consistency or reliability of respondents is measured by the value of Cronbach alpha and composite reliability on Smart PLS. The information is reliable if Cronbach alpha and composite reliability are positive or 0.6.

1. The effect of the application of internal auditor competence (X1) on the quality of financial reports (Z)
2. The effectiveness of internal control (X2) on the quality of financial reports (Z).

3. Professional Skepticism (Y) can moderate the relationship between the competence of internal auditors (X1) on the quality of financial reports (Z).
4. Professional Skepticism (Y) can moderate the relationship between the effectiveness of internal control (X2) on the quality of financial reports (Z).

## **RESULTS AND DISCUSSION**

### **A. Results**

#### **1. General Description of Respondents**

The questionnaires were distributed and collected from September 21, 2020, to January 25, 2021. The questionnaires distributed were 32 questionnaires according to the number of respondents or research samples. The research questionnaires returned were 32 questionnaires or 100%. The results of the profile of respondents based on gender were 17 male respondents (53.12%) and 15 female respondents (46.88%). Judging from the age variation, most respondents were aged > 35 years, namely 18 respondents (51%). Based on the type of education level, 1 respondent has a D3 education. 19 respondents with undergraduate education (S1) and 12 with postgraduate education (S2). From the length of work, most of the respondents have worked 5-10 years, namely as many as 14 respondents (43.74%).

#### **2. Description of Research Object**

##### **a. Description of Auditor Competency Variables**

Based on the description above, the auditor competence variable is highly categorized. The average value of the Auditor Competence variable is 4.03 in the high category. The lowest score of 3.72 is on the indicator of Supporting the application of conservative accounting principles and estimates, and the highest score of 4.22 is on the indicator of being able to prepare and present Cash Flow Statements, Statements of Changes in Equity and Notes to Financial Statements properly. This illustrates that the competence of auditors has high competence.

##### **b. Description of Internal Control Effectiveness Variable**

Based on the description above, the auditor competence variable is highly categorized. The average value of the Internal Control Effectiveness variable is 3.91, with a high category. The lowest score of 3.53 is found on the indicator that the leader sets rules regarding ethical behaviour and standards, and the highest score of 4.22 is found on the indicator that the leader has a management plan or reduces the risk of violation of accounting systems and procedures. This illustrates that the dimensions such as the control environment, risk assessment, control activities, information and communication contained in the Effectiveness of Internal Control have high effectiveness.

##### **c. Variable Description of Professional Skepticism (Z)**

The average value of the Professional Skepticism variable is 3.97 in the high category. The lowest score of 3.44 is found on the indicator of being interested in what causes other people to behave in the ways they do, and the highest score of 4.56 is on the indicator of asking friends as a means to add information. Based on the description above, the Professional Skepticism variable is highly categorized. This illustrates that professional scepticism is in the high category.

##### **d. Description of the Financial Report Quality Variable (Y)**

The average value of the Financial Statement Quality variable is 3.95 in the high category. The lowest score of 3.44 is found in the indicator. The information in the financial statements produced can be compared with the financial statements of the previous period, and the highest score of 4.19 is found in the indicators of

financial statements prepared by Government Accounting Standards. Based on the description above, the variable Quality of Financial Statements is highly categorized. This illustrates that the Quality of Financial Reports is in the high category.

From the description above, it can be concluded in table 1 as follows:

**Table 1**  
**Respondents' Score in Each Variable**

<b>Respondents</b>	<b>KP</b>	<b>EPIP</b>	<b>SP</b>	<b>KL</b>	<b>Mean</b>
SKPD 01	4,70	4,13	3,11	4,29	4,06
SKPD 02	4,80	3,69	3,61	3,43	3,88
SKPD 03	4,40	4,56	4,00	4,07	4,26
SKPD 04	3,70	4,19	3,94	3,43	3,82
SKPD 05	4,70	4,06	4,72	4,71	4,55
SKPD 06	4,70	3,25	4,28	4,50	4,18
SKPD 07	1,60	1,50	1,67	2,36	1,78
SKPD 08	4,50	4,44	4,72	4,64	4,58
SKPD 09	4,20	4,50	4,78	4,79	4,57
SKPD 10	4,00	4,38	2,67	3,79	3,71
SKPD 11	4,50	4,31	4,17	4,29	4,32
SKPD 12	4,20	4,19	4,39	4,36	4,28
SKPD 13	4,20	4,25	4,83	4,86	4,54
SKPD 14	2,20	3,06	2,61	1,57	2,36
SKPD 15	2,50	2,56	2,44	2,21	2,43
SKPD 16	4,50	4,50	4,33	4,36	4,42
SKPD 17	4,40	4,50	4,50	4,43	4,46
SKPD 18	4,10	3,06	4,89	4,57	4,16
SKPD 19	4,20	4,56	4,83	4,29	4,47
SKPD 20	2,80	4,00	3,56	3,21	3,39
SKPD 21	4,00	4,56	4,56	4,79	4,48
SKPD 22	4,90	1,50	4,22	3,86	3,62
SKPD 23	4,60	4,56	4,39	4,43	4,49
SKPD 24	4,20	4,56	4,50	4,29	4,39
SKPD 25	4,60	4,13	4,17	4,64	4,38
SKPD 26	4,20	4,50	4,11	4,50	4,33
SKPD 27	2,40	1,88	1,56	1,43	1,81
SKPD 28	4,80	4,38	4,17	3,71	4,26
SKPD 29	4,70	4,88	4,50	4,64	4,68
SKPD 30	4,40	3,25	4,00	3,21	3,72
SKPD 31	4,00	4,56	4,61	4,50	4,42
SKPD 32	3,20	4,63	4,11	4,29	4,06

Table 1 shows that the highest average score was achieved by SKPD 29, with a score of 4.68, while the lowest average score was achieved by SKPD 7. There was 1 SKPD that achieved the highest score of 4.90 in terms of auditor competence, while the lowest score was achieved by SKPD 7 with a score of 1.60. The effectiveness of Government Internal Control, which has the highest score, is achieved by 1 SKPD with a score of 4.88, while the lowest score is achieved by 1 SKPD with a score of 1.50. Professional scepticism achieved the highest score of 4.89, 1 SKPD, while the lowest score was achieved by 1 SKPD, with a score of 1.56. The category of financial report quality that achieved the highest score was obtained by 1 SKPD with a score of 4.86, while the lowest score was achieved by SKPD 1 with a score of 1.43.

### 3. Validity and Reliability Test (Outer Model)

#### a. Validity Test

The results of the output factor loading of the application of an accrual-based government accounting system, the application of an internal control system, and a regional financial accounting system on the quality of financial reports and their impact on performance accountability can be seen in the following figure:

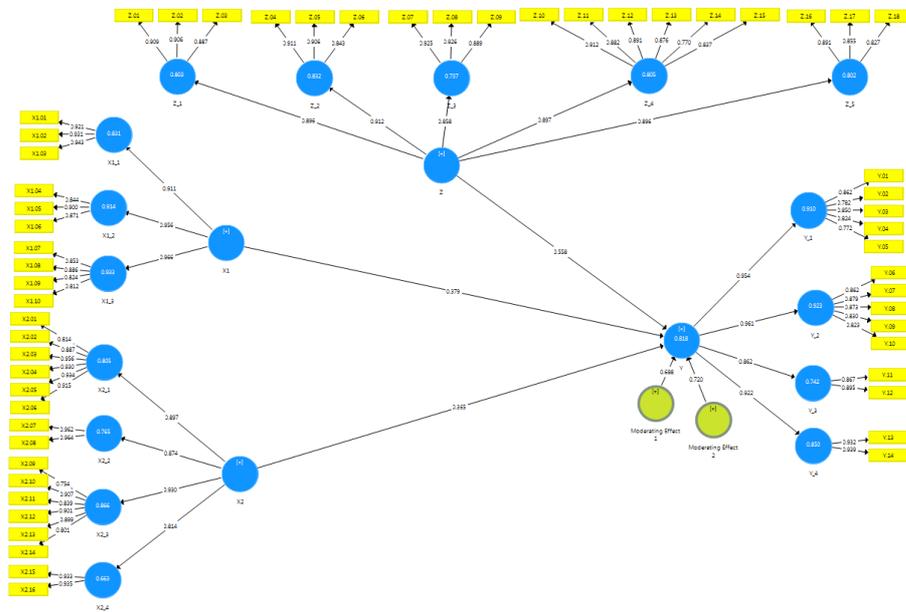


Figure 1. Outer Loading Research

From the results of the loading factor above, it can be concluded that it has a high convergent validity value. Then the indicator has a loading factor above 0.5, so the indicators are valid.

Table 2  
Convergent Validity Test Results

Variables	Dimensions	Indicator	Loading Factor	Description	
Auditor Competency (X1)	knowledge	X.1.1	0,787	Valid	
		X.1.2	0,828	Valid	
		X.1.3	0,922	Valid	
		skill	X.1.4	0,804	Valid
			X.1.5	0,876	Valid
	attitude	X.1.6	0,818	Valid	
		X.1.7	0,781	Valid	
		X.1.8	0,904	Valid	
		X.1.9	0,779	Valid	
		X.1.10	0,789	Valid	
Effectiveness of Government Internal Control (X2)	Control Environment	X.2.1	0,770	Valid	
		X.2.2	0,787	Valid	
		X.2.3	0,873	Valid	
		X.2.4	0,803	Valid	
		X.2.5	0,861	Valid	
		X.2.6	0,779	Valid	
	Risk Assessment	X.2.7	0,832	Valid	
	Control Activities	X.2.8	0,852	Valid	
		X.2.9	0,755	Valid	
		X.2.10	0,847	Valid	
		X.2.11	0,816	Valid	

Variables	Dimensions	Indicator	Loading Factor	Description	
<b>Sceptics (Z)</b>	Information and Communication	X.2.12	0,787	Valid	
		X.2.13	0,794	Valid	
		X.2.14	0,748	Valid	
		X.2.15	0,754	Valid	
		X.2.16	0,766	Valid	
		X.2.16	0,766	Valid	
	Questioning Mind	Z.1	0,792	Valid	
		Z.2	0,824	Valid	
		Z.3	0,804	Valid	
		Suspension of Judgment	Z.4	0,840	Valid
			Z.5	0,803	Valid
			Z.6	0,783	Valid
	Search For Knowledge	Z.7	0,806	Valid	
		Z.8	0,812	Valid	
		Z.9	0,732	Valid	
	Interpersonal Understanding	Z.10	0,789	Valid	
		Z.11	0,777	Valid	
		Z.12	0,751	Valid	
Z.13		0,744	Valid		
Z.14		0,748	Valid		
Z.15		0,824	Valid		
Self Determination	Z.16	0,758	Valid		
	Z.17	0,775	Valid		
	Z.18	0,771	Valid		
<b>Report Quality (Y)</b>	Relevant	Y.1	0,760	Valid	
		Y.2	0,793	Valid	
		Y.3	0,812	Valid	
		Y.4	0,765	Valid	
		Y.5	0,770	Valid	
	Skilful	Y.6	0,806	Valid	
		Y.7	0,887	Valid	
		Y.8	0,807	Valid	
		Y.9	0,781	Valid	
		Y.10	0,812	Valid	
	Reliable	Y.11	0,716	Valid	
		Y.12	0,799	Valid	
	Understandable	Y.13	0,840	Valid	
		Y.14	0,885	Valid	

**b. Reliability Test**

The following is a table of mixed reliability test results and Cronbach's alpha from Smart PLS on each research variable:

**Table 3**  
**Reliability Test Results**

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Moderating Effect 1	1,000	1,000	1,000	1,000
Moderating Effect 2	1,000	1,000	1,000	1,000
X1	0,949	0,952	0,957	0,689
X1_1	0,924	0,930	0,951	0,867
X1_2	0,841	0,844	0,905	0,760
X1_3	0,865	0,870	0,908	0,713
X2	0,963	0,964	0,967	0,644
X2_1	0,956	0,959	0,965	0,823
X2_2	0,922	0,922	0,962	0,928
X2_3	0,923	0,925	0,941	0,726
X2_4	0,853	0,853	0,931	0,872

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Y	0,957	0,959	0,962	0,646
Y_1	0,877	0,877	0,910	0,671
Y_2	0,907	0,908	0,931	0,729
Y_3	0,713	0,719	0,874	0,777
Y_4	0,858	0,860	0,934	0,876
Z	0,963	0,964	0,967	0,617
Z_1	0,884	0,884	0,928	0,811
Z_2	0,864	0,866	0,917	0,788
Z_3	0,901	0,905	0,938	0,835
Z_4	0,930	0,931	0,946	0,744
Z_5	0,820	0,820	0,893	0,736

A variable is considered reliable if its composite reliability value is greater than 0.70 and its Cronbach's alpha is greater than 0.60. According to the statistics above, all variables have a composite reliability value greater than 0.70 and a Cronbach's alpha greater than 0.60. As a result, it is possible to determine that the indicators utilized in each variable are reliable or can assess the construct.

#### 4. Evaluation of the Goodness of Fit Structural Model (Inner Model)

The structural model in PLS is evaluated for the R-Square (R<sup>2</sup>) value using the predictive relevance (Q<sup>2</sup>) value. The predictive-relevance (Q<sup>2</sup>) value is calculated using the following formula

$$Q^2 = 1 - (1 - R^2_1) (1 - R^2_2) \dots n$$

$$Q^2 = 1 - (0.818)$$

$$Q^2 = 0.182$$

**Table 4**  
**Results of R-Square**

Variables	R-Square
Report Quality Finance	0.818
Predictive-Relevance (Q <sup>2</sup> )	0.182

Testing the structural model using the R-square (R<sup>2</sup>) is a goodness-of-fit model test. The coefficient of determination for the financial statement quality variable gives an R-square value of 0.818 which means that the variability of the construct of financial report quality can be explained by the constructed variable of accrual-based government accounting standards application, internal control system implementation, the regional financial accounting system is 81.8%. In comparison, 18.2 % is explained by other variables not included in this research model.

### 5. Hypothesis Testing

The following is an image that explains the path diagram for testing the hypothesis:

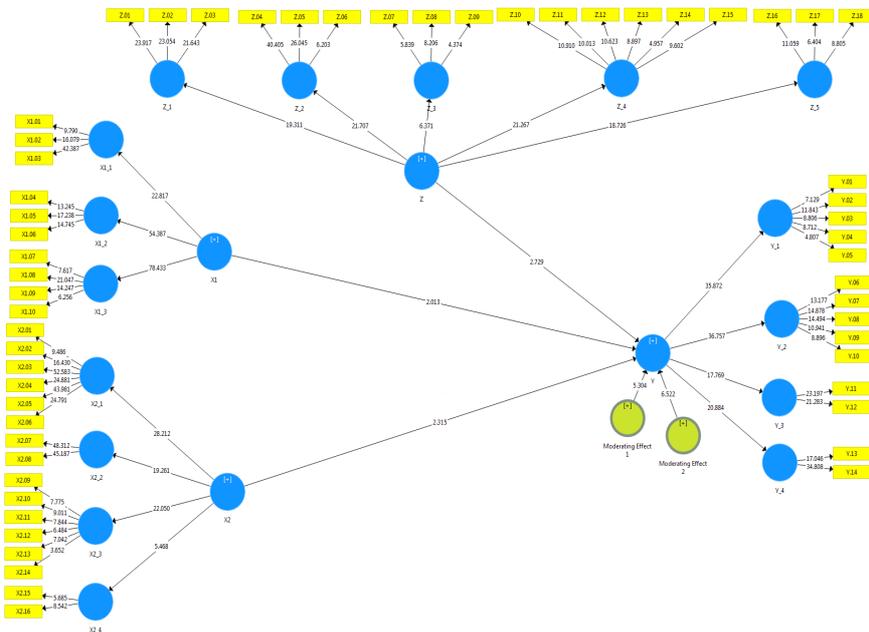


Figure 2. T Values

The complete hypothesis testing can be explained as follows;

Table 5  
Hypothesis Testing Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
Moderating Effect 1 -> Y	0,688	0,591	0,346	5,304	0,000
Moderating Effect 2 -> Y	0,720	0,682	0,306	6,522	0,000
X1 -> Y	0,379	0,303	0,181	2,089	0,037
X2 -> Y	0,365	0,256	0,201	2,315	0,019
Z -> Y	0,558	0,559	0,201	2,782	0,006

Based on table 5, the research equation model formed can be explained in the figure like the model proposed in this study. The effect of the relationship between exogenous latent variables on endogenous latent variables in the table above can be explained as follows;

#### a. The Influence of Internal Auditor Competence on the Quality of the Ministry's Financial Statements

The path parameter coefficient determined from the influence of the Internal Auditor Competence variable on the Quality of Financial Statements is 0.379 with a t-statistical value of 2.089 > 1.689 with a significance level of = 0.05 (5%) than t table. This suggests that Internal Auditor Competence has a considerable and beneficial impact on Financial Statement Quality. The parameter coefficient value of 0.379 indicates that the higher the Internal Auditor Competence, the higher the quality of financial reports. The findings of this study confirm the first hypothesis (H1), which states that Internal Auditor Competence has a significant and favorable effect on Financial Statement Quality.

**b. The Effect of Internal Control on the Quality of the Ministry's Financial Statements**

The path parameter coefficient obtained from the influence of the Internal Control variable on the Quality of Financial Statements is 0.365 with a t-statistical value of 2.315 > 1.689 with a significance level of = 0.05 (5%) from the t table. This suggests that internal control has a considerable and beneficial impact on financial statement quality. The parameter coefficient value of 0.365 indicates that the stronger the Internal Control, the higher the quality of financial reporting. The findings of this study confirm the second hypothesis (H2) that internal control has a considerable and beneficial effect on the quality of financial statements.

**c. Professional Skepticism Strengthens the Effect of Internal Auditor Competence on the Quality of Ministry Financial Statements**

Professional Skepticism Strengthens the Effect of Internal Auditor Competence on the Quality of Financial Statements yields a path parameter coefficient of 0.688 with a t-statistic value of 5.304 > 1.689 and a significance level of = 0.05 (5%). T statistic has a higher value than t table. This suggests that professional skepticism enhances the effect of internal auditor competence on financial statement quality. This study's findings confirm the third hypothesis (H3), which states that Professional Skepticism can mitigate the association between internal auditor competency and the quality of the Ministry's financial statements. This suggests that the influence of the Internal Auditor's expertise on the Quality of Financial Statements will be greater if Professional Skepticism is also present.

**d. The Effect of Professional Skepticism Strengthens the Effect of the Effectiveness of Internal Control on the Quality of Financial Statements**

The path parameter coefficient derived from the Professional Skepticism Effect Strengthens the Effect of Internal Control Effectiveness on Financial Statement Quality is 0.720 with a t-statistic value of 6.522 > 1.689 and a significance level of = 0.05 (5%). T statistic has a higher value than t table. This suggests that the influence of professional skepticism amplifies the effect of internal control effectiveness on financial statement quality. The value of 0.720 on the parameter's coefficient indicates the influence of professional skepticism on the efficacy of internal control on the quality of financial statements. The results of this study support the fourth hypothesis (H4) that Professional Skepticism can moderate the relationship between the effectiveness of internal control and the quality of the Ministry's financial statements.

**B. Discussion**

**1. The Effect of Internal Auditor Competence on the Quality of Financial Statements.**

Internal auditor competency has a considerable and favorable impact on financial statement quality. This suggests that the higher an agency's Internal Auditor Competence, the higher the Quality of Financial Reports. Human resource capacity can aid in the generation of information. As a result, human resources play a significant role in increasing the quality of financial statements in the presentation of financial statements during the financial reporting process. As a result, the quality of financial reports will naturally improve.

According to (Pramudiarta & Juliarto, 2015), competent human resources will be able to understand accounting logic well because they have an accounting education background, frequently attend education and training, and have expertise in finance in

implementing accounting systems. Human resource expertise is critical in producing quality (trustworthy) information. Assume the human resources in charge of implementing the accounting system are incompetent and lack the necessary capacity. In that scenario, it will create barriers and delays in the implementation of the accounting function, and finally, the quality of accounting information as a product of the accounting system would be bad. The resulting information is information that has little or no value, one of which is reliability.

This study backs up the findings of prior studies by (Usman et al., 2014). Their findings indicate that auditor competence has a favorable and significant impact on audit quality.

Kintaatmaja (2015) discovered that internal control, accounting system understanding, and human resource capacity all have a considerable simultaneous effect on the quality of financial statement information. According to (Ramlah et al., 2018), audit quality can be attained if the auditor is competent. Another study by (Nandari & Latrini, 2015) found that competence had a favorable but small effect on audit quality. According to (Sagara, 2015), several research findings indicate that human resource competences do not significantly affect the quality of financial reporting.

## **2. The Effect of Internal Auditor Competence on the Quality of Financial Statements**

Internal auditor competency has a considerable and favorable impact on financial statement quality. This suggests that the higher an agency's Internal Auditor Competence, the higher the quality of financial reporting. Human resource capacity is critical for the government to meet financial statement objectives. Human resource capacity can aid in the generation of information. As a result, human resources play a significant role in increasing the quality of financial statements in the presentation of financial statements during the financial reporting process.

According to (Pramudiarta & Juliarto, 2015), competent human resources will be able to understand accounting logic well because they have an accounting education background, frequently attend education and training, and have expertise in finance in implementing accounting systems. Human resource expertise is critical in producing quality (trustworthy) information. Assume the human resources in charge of implementing the accounting system are incompetent and lack the necessary capacity. In that scenario, it will create barriers and delays in the implementation of the accounting function, and finally, the quality of accounting information as a product of the accounting system would be bad. The resulting information is information that has little or no value, one of which is reliability.

The findings of this study are consistent with those of (Iskandar & Setiyawati, 2015; Karsana & Suaryana, 2017; Kintaatmaja, 2015; Ramlah et al., 2018; Setiyawati et al., 2018; Syaifuddin et al., 2019; Yendrawati, 2013) who concluded that there is a positive and significant influence on internal auditor competence.

This study's findings differ from those of (Kesuma et al., 2017; Sagara, 2015). His investigation discovered that internal auditor skill has no effect on the quality of financial reports.

## **3. Professional Skepticism can moderate the relationship between the competence of internal auditors and the quality of the Ministry's financial**

According to the test findings prior to moderation, the internal auditor's competence has a substantial impact on the quality of the Ministry's financial accounts. Internal auditors' competency has an impact on financial statements after being mitigated by professional skepticism. Professional skepticism is thus characterized as

quasi-moderation in this scenario, which amplifies the influence of internal auditor competence on the quality of ministry financial reports.

Professional skepticism can help to mitigate the relationship between internal auditor competency and the quality of the Ministry's financial reports. This means that if an auditor has a skepticism variable, the influence of auditor competence on the quality of financial statements will be greater. According to a prior study by (Baharud-din et al., 2014), competency is related to a person's capacity to do a job or task based on education, professional experience, and continual attempts to build abilities. Auditors with a higher educational background have a better understanding and knowledge of the fields studied by auditors. As a result, ongoing competency is required to improve the quality of audits delivered by auditors (Efendi, 2010).

Scepticism is an individual feature that can be innate (trait), which is a stable and long-lasting component in a person, or situational (state), which is a momentary condition that is impacted by (Hurt et al., 2003). A sceptical mindset and sceptical acts will emerge from the framework of professional skepticism, intrinsic skepticism, and situational skepticism.

According to (Tuanakotta, 2010), the IFAC definition contains the following parts of professional skepticism: 1) a critical assessment - there is a critical assessment, not taking it for granted; 2) with a questioning mind - a way of thinking that constantly asks and questions; 3) of the validity of audit evidence obtained - the validity of the evidence obtained; 4) be alert to audit evidence that contradicts - be alert to contradictory evidence; 5) calls into question the reliability of documents and responses to inquiries and other information, and 6) obtained from management and those charged with governance.

The findings of this study are consistent with those of (Carpenter & Reimers, 2013). Their research results imply that professional scepticism is a reasonably easy and inexpensive technique to boost the effectiveness of auditors' fraud assessments.

While Triono (2021) research does not confirm the findings of this study, it does claim that professional skepticism does not affect audit quality, gender differences do not effect auditor skepticism because male and female auditors perform the same job. When considering audit concerns, male and female auditors have the same judgment or judgment; individual audit outcomes are not influenced by each other's behavior, role, or emotional level.

#### **4. Professional Skepticism can moderate the relationship of internal control to the quality of the Ministry's financial reports**

Internal control has a substantial impact on the quality of the Ministry's financial statements based on the test findings before they are moderated. Internal control influences the quality of financial reports after it has been mitigated by professional skepticism. Professional skepticism is defined as quasi-moderation in this scenario, which increases the influence of internal control on the quality of the Ministry's financial reports.

Professional skepticism can help to mitigate the relationship between internal control efficacy and the quality of the Ministry's financial reports. This indicates that if the auditor has professional skepticism, the impact of internal control on the quality of financial reports will be greater. According to the State Financial Auditing Standard (2007), audit quality results from an examination containing weaknesses in internal control, fraud, deviations from the provisions of laws and regulations, and impropriety, which is accompanied by a response from the entity being audited's leadership or official. Feedback is provided in relation to results, recommendations, and planned corrective measures. Audit quality, according to (DeAngelo, 1981), is represented in the auditor's

ability to find and report his findings in the audit report. Therefore, audit quality will be reflected in the findings reported by the auditor. According to previous research, the following factors: competence, task complexity and professional scepticism of auditors can affect audit quality.

Audit quality, according to (DeAngelo, 1981), is defined as "all the possibilities in which the auditor, while auditing the client's financial statements, might uncover violations that occur in the client's accounting system and report the findings in the audited financial statements."

Dewi, Wirakusuma, Rasmini, and Ramantha (2020) discovered that audit judgements influenced auditors, such as professional skepticism locus of control, and auditor integrity, which had a beneficial effect on audit judgment.

While research from Muslim, Rahim, Pelu, and Pratiwi (2020) does not confirm the findings of this study, it does state that auditor professional skepticism as a moderating variable is unable to improve the influence of audit fees on audit quality. Furthermore, professional skepticism of the auditor as a moderating variable cannot improve the influence of audit risk on audit quality.

## CONCLUSION

Internal Auditor competence influences the quality of the Ministry's financial reports. This means that the better the quality of financial reports, the higher the competence of an agency's auditors.

Internal control has a considerable and favorable impact on financial statement quality. This indicates that improving internal control effectiveness will increase the quality of financial reports. The attainment of the WTP audit opinion demonstrates that the internal control system has been appropriately implemented.

Professional skepticism can help to mitigate the relationship between internal auditor competency and the quality of the Ministry's financial reports. This indicates that if an auditor has professional skepticism, the influence of their skill on the quality of the Ministry's financial accounts will be stronger.

Professional skepticism can help to temper the relationship between internal control efficacy and the quality of the Ministry's financial reports. This indicates that if the auditors are skeptical, the efficacy of internal control on the quality of the Ministry's financial accounts will be increased.

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