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Analysis of Factors Affecting Public Sector Audit Quality in Indonesia

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Abstract. *Public sector auditing plays a crucial role in ensuring accountability and transparency in the management of state finances. However, the quality of audits across government institutions remains uneven and is influenced by auditor competence, independence, understanding of audit standards, and the effectiveness of internal supervision. This study aims to identify issues in public sector auditing and analyze the factors affecting audit quality. The method employed is a literature review of relevant studies and regulations. The findings indicate that auditor competence and independence are the most decisive factors in improving the quality of public sector audits.*

Keywords: *public sector audit; audit quality; auditor competence; independence; SPKN*

1. Introduction

Public sector auditing plays a very important role in ensuring that state financial management is conducted transparently, accountably, and in compliance with applicable regulations. Unlike private sector audits, which are oriented toward profit and shareholder interests, public sector audits emphasize broader public interests, budget management effectiveness, and government accountability in the use of public funds. Therefore, the quality of public sector audits greatly determines the level of public trust in government institutions.

However, field realities indicate that public sector auditing in Indonesia still faces various challenges. Several studies have identified issues such as low competence among internal auditors in certain institutions, weak independence, limited understanding of audit standards, and suboptimal internal oversight functions. Moreover, audit reports issued by government auditors sometimes fail to produce significant improvements in governance, raising questions about the effectiveness of public sector audits conducted thus far.

On the other hand, government regulations are actually quite comprehensive. The State Financial Audit Standards (SPKN) serve as guidelines for public sector auditors, accompanied by other regulations such as Law No. 15 of 2004 on the Audit of State Financial Management and Accountability. However, the implementation of these standards is not uniform, resulting in varying audit quality among government institutions.

Considering these conditions, research on public sector auditing has become increasingly important. Studies that examine factors influencing audit quality—such as auditor competence, independence, and regulatory support—can provide clearer insights into the strengths and weaknesses of public audit implementation in Indonesia.

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Furthermore, this research is relevant to improving governance and enhancing transparency in state budget utilization.

Therefore, this study aims to identify the main problems in public sector auditing, analyze factors influencing its implementation, and explain how regulations can support improvements in audit quality in Indonesia.

2. Literature Review

2.1 Auditing Concepts in the Public Sector

Auditing is defined as a systematic and objective process of obtaining and evaluating evidence related to economic activities to determine the degree of conformity with established criteria. In the public sector, audits extend beyond financial statement examination to include compliance and performance audits, which assess efficiency, effectiveness, and adherence to regulations.

Public sector audits provide assurance to stakeholders that government activities are conducted responsibly and transparently. They also function as an external control mechanism that complements internal control systems within public organizations.

2.2 Public Sector Audit Characteristics

Public sector audits are conducted within government institutions and organizations that manage public funds. Their objectives differ from private sector audits, as they prioritize public accountability rather than financial gain. Key characteristics include complex audit scopes, reliance on national audit standards, and audit outcomes that influence public policy decisions.

In Indonesia, public sector audits encompass ministries, local governments, state-owned enterprises, and other publicly funded institutions, reflecting the extensive scope of public financial oversight.

2.3 Audit Quality

Audit quality refers to the auditor's ability to detect material misstatements and report them objectively. It is commonly associated with two dimensions: detection capability and reporting integrity. High-quality audits produce credible findings that contribute to improved governance and public sector performance.

Previous studies identify auditor competence, independence, experience, regulatory understanding, and internal control effectiveness as primary determinants of audit quality.

2.4 Auditor Competence

Auditor competence encompasses technical knowledge, professional skills, education, and experience required to conduct audits effectively. In the public sector, competence also includes familiarity with government financial systems and regulatory frameworks. Insufficient competence often limits auditors' ability to evaluate complex public sector activities, resulting in reduced audit quality.

2.5 Auditor Independence

Independence is a core principle of auditing that ensures objectivity and credibility. Public sector auditors must remain free from political influence, bureaucratic pressure, and conflicts of interest. A lack of independence undermines the reliability of audit findings and diminishes public confidence.

2.6 Internal Control and Regulation

Effective internal control systems support audit processes by reducing risks and preventing irregularities. In Indonesia, the implementation of the Government Internal Control System (SPIP) is intended to enhance accountability and audit effectiveness. Nevertheless, inconsistent implementation continues to pose challenges.

3. Methods

This study employs a literature review approach by systematically examining academic journals, professional standards, and regulatory documents related to public sector auditing in Indonesia. No primary data were collected. The method aims to synthesize existing theoretical and empirical findings to identify key determinants of public sector audit quality.

4. Results

Based on a comprehensive review of academic journals, textbooks, and regulatory documents related to public sector auditing in Indonesia, this study identifies several key findings concerning the determinants of public sector audit quality. The results indicate that audit quality is not shaped by a single factor, but rather by the interaction of multiple professional, institutional, and regulatory elements.

4.1 Auditor Competence as a Primary Determinant of Audit Quality

The literature consistently emphasizes auditor competence as a fundamental determinant of audit quality in the public sector. Arens, Elder, and Beasley (2017) argue that auditors possessing adequate technical knowledge, professional skills, and audit experience are more capable of applying audit procedures effectively and exercising sound professional judgment. In the Indonesian public sector context, studies by Mulyadi (2016) and Bastian (2014) further confirm that auditors with relevant educational backgrounds and sufficient exposure to public sector audits tend to produce more reliable and comprehensive audit reports.

Competent auditors demonstrate a stronger ability to understand the complexity of government financial systems, identify potential risks, detect material misstatements, and evaluate compliance with applicable regulations. Moreover, auditors who are well-versed in the State Financial Audit Standards (SPKN) are more likely to structure audit findings systematically and provide recommendations that are relevant to improving public financial governance. Conversely, limited competence often leads to procedural audits that focus merely on administrative compliance without generating substantive value for institutional improvement.

4.2 The Role of Auditor Independence in Ensuring Objectivity

Another significant finding from the literature is the critical role of auditor independence in maintaining audit credibility and objectivity. Arens et al. (2017) and Messier et al. (2017) emphasize that independence enables auditors to report findings honestly and without undue influence. In the public sector, however, independence remains a persistent challenge, particularly for internal auditors who operate within the same bureaucratic structure as the audited entities.

Several Indonesian studies highlight that weak independence may discourage auditors from disclosing sensitive or politically risky findings (Mulyadi, 2016). As a result, audit reports may understate existing problems or fail to address systemic weaknesses. The literature indicates that higher levels of independence—both in appearance and in practice—are associated with increased transparency, stronger public trust, and higher audit quality. Therefore, independence is not merely an ethical requirement but a structural necessity for effective public sector auditing.

4.3 Understanding and Application of Audit Standards and Regulations

The findings also reveal that auditors' understanding and consistent application of audit standards and regulations significantly influence audit quality. Standards such as SPKN, Law No. 15 of 2004, and Government Regulation No. 60 of 2008 provide a formal framework for conducting audits in the public sector. Studies by the Audit Board of Indonesia (BPK RI, 2017) demonstrate that auditors who adhere closely to these standards produce audit reports that are more systematic, transparent, and defensible.

However, the literature indicates that disparities in training and professional development contribute to inconsistent implementation of these standards across institutions. In some cases, audits are conducted as a formality to fulfill regulatory requirements, rather than as a substantive evaluation of financial management and performance. This inconsistency ultimately affects the comparability and credibility of audit results among government entities.

4.4 Effectiveness of Internal Control Systems

The effectiveness of internal control systems emerges as another important factor influencing audit quality. Previous studies indicate that strong internal controls facilitate the audit process by reducing the likelihood of recurring irregularities and enabling auditors to focus on higher-risk areas (Mahmudah & LS, 2016; Willyanto et al., 2024). Effective internal control systems also support accountability by ensuring that corrective actions are implemented following audit recommendations.

Conversely, weaknesses in internal control systems are frequently associated with repeated audit findings and low levels of follow-up on audit recommendations (Sari & Darmastuti, 2025). Such conditions increase audit workload and reduce the overall effectiveness of the audit function. The literature further suggests that internal control quality is closely linked to broader governance outcomes, including institutional performance and adherence to principles of good governance (Family Irene et al., 2024; Kurniawati & Musonef, 2024).

4.5 Overall Assessment of Public Sector Audit Quality in Indonesia

Taken together, the results of this literature review indicate that public sector audit quality in Indonesia remains uneven across institutions. Variations in auditor competence, independence, regulatory understanding, and internal control effectiveness contribute to differences in audit outcomes. Institutions with well-trained auditors, strong independence safeguards, and effective internal controls tend to demonstrate higher audit quality and stronger governance practices.

These findings suggest that improving public sector audit quality requires a holistic approach rather than isolated interventions. Enhancing auditor competence without addressing independence or internal control limitations is unlikely to yield optimal results. Therefore, coordinated efforts at the institutional and regulatory levels are essential to strengthen the effectiveness and credibility of public sector audits in Indonesia.

Consistent with DeAngelo's (1981) framework, audit quality depends on auditors' ability to detect and report misstatements. Competent auditors are better equipped to handle regulatory complexity and provide meaningful recommendations. However, structural constraints within government institutions often limit auditor independence. Furthermore, while Indonesia's audit regulations are comprehensive, inconsistent implementation weakens their impact. Strengthening auditor capacity, enhancing independence, and reinforcing internal control systems are therefore essential for improving public sector audit quality.

Conclusions

This study concludes that variations in public sector audit quality in Indonesia are primarily driven by differences in auditor competence and independence, supported by regulatory understanding and internal control effectiveness. Improving audit quality requires continuous professional development, institutional safeguards for auditor independence, and consistent application of audit standards.

Future research is encouraged to adopt empirical approaches using primary data and explore additional variables that may influence public sector audit quality.

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Conflicts of Interest

The authors declare no conflict of interest.

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