

## DOES THE QUALITY OF INTERNAL AUDIT IN THE NORTH SUMATRA GOVERNMENT BECOME IMPACTED BY SUPERIOR'S ORDERS?

Yulisfan<sup>1</sup>, Erlina<sup>2\*</sup>, Idhar Yahya<sup>3</sup>, Zulkarnain<sup>4</sup>

Faculty of Economics and Business Universitas Sumatera Utara<sup>1,2,3,4</sup>

\*Correspondence: [erlina@usu.ac.id](mailto:erlina@usu.ac.id)

### Abstract

The objective of this study is to examine the potential impact of superior's orders on the quality of internal audits conducted inside the North Sumatra Government. The primary objective of this research is to ascertain the dynamics and determinants that exert an influence on the conduct of internal auditors when confronted with directives or coercion from higher-ranking individuals, and to examine the subsequent ramifications on the quality of audits produced. This study examines the factors that influence the behavior of internal auditors when they encounter pressure to fulfil organizational demands, and the potential consequences on the quality of the audit process and outcomes. The present study examines the impact of superior's orders on professional standards, ethical conduct, and the overall efficacy of the internal audit function. The research methodology employed in this study involves the utilization of a survey method approach, wherein a representative sample of internal auditors within the North Sumatra Government is collected. The present study employs the Partial Least Squares (PLS) methodology to examine the association among variables. This study aims to identify the primary factors that lead to the variation in Internal Audit Quality (IAQ), with a specific focus on the issues encountered by internal auditors who work inside intricate government settings. The aforementioned discoveries not only constitute a valuable contribution to the scholarly conversation surrounding the influence of compliance demands and professional conduct, but they also provide practical knowledge for policymakers and practitioners who aim to enhance the efficiency of internal audit practices within the public sector. This study adds to the expanding corpus of literature about the behavioral dimensions of internal audit and offers empirical findings that might guide efforts to enhance the quality of audits in governmental organizations, specifically within the distinct setting of North Sumatra.

**Keywords:** *Obedience pressure, Superior's order, Agency theory, Obedience theory, Internal audit quality.*

### INTRODUCTION

Internal Audit (AI) has a crucial role in ensuring accountability, transparency, and operational efficiency of government entities. In this context, the quality of internal audit is a determining factor in producing reliable information for stakeholders. In the Government of North Sumatra, as in many other government entities, internal auditors operate in a complex environment, where superior orders can play a significant role in shaping their behavior and decisions. The quality of the internal audit carried out will be related to the competence and objectivity of the organization's internal auditor staff (Adams, 1994; Bou-Raad, 2000). Internal auditors are very dependent on their organization as an employer because, as employees, they receive pay from the company where they work. Conversely, internal auditors have a duty to maintain their independence as part of their obligation to the public and their profession (Abdolmohammadi & Owoso, 2000). Here audit conflicts arise when internal auditors carry out internal audit activities. Internal auditors as workers in the organization being audited will experience problems when they must report findings that may be unfavorable in assessing management performance or the audit objects they carry out.

Effective internal auditing is a prerequisite for putting good governance into practice. The public sector is often seen as a source of inefficiency, waste, a source of leaks, and an institution that always experiences financial losses. Audit opinions on local government financial reports reflect the level of local government financial accountability. The quality of internal audits in the

*Yulisfan, Erlina, Idhar Yahya, Zulkarnain*

government environment is becoming increasingly important along with demands for transparency, accountability, and effectiveness in managing public resources. The obedience and professional behavior of internal audit employees is a key factor in assessing the extent to which internal audit can make a significant contribution to good governance. The quality of government internal audits is very important, because internal audit quality will increase financial accountability which will produce reliable financial reporting as a basis for decision making by stakeholders (Davey, 2009; Havens, 1990).

Audit quality can be interpreted as whether or not an audit has been carried out by the auditor. The inspectorate or internal auditor of the Regional Government is usually called APIP (Government Internal Auditor Agency). The quality of audits produced by APIP is needed to encourage the realization of good governance and clean government in the government system. This is because the aim of APIP supervision is to support the smooth and accurate implementation of government activities and development. APIP's role as an internal auditor is needed to provide guidance, supervision, and inspection to minimize the potential for errors and fraud. The President of the Republic of Indonesia hopes that by 2019 all APIPs within the Regional Government will have level 3 maturity. In accordance with PP Number 60 of 2008, SPIP (Government Internal Control System) consists of five elements, namely: control environment, risk assessment, control activities, information and communication, and internal control monitoring (Badan Pengawasan Keuangan dan Pembangunan (BPKP) Sumatera Utara, 2022). SPIP is an integral process of actions and activities carried out continuously by 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 laws and regulations.

However, as table 1. shows, only 11 regencies/cities in North Sumatra have attained this level.

Tabel 1. North Sumatra's APIP Capability Maturity Level by

| Unit APIP             | L2        | L2+      | L3        | Total     |
|-----------------------|-----------|----------|-----------|-----------|
| Inspektorat Propinsi  | -         | -        | 1         | <b>1</b>  |
| Inspektorat Kabupaten | 13        | 5        | 7         | <b>25</b> |
| Inspektorat Kota      | 3         | 2        | 3         | <b>8</b>  |
| <b>TOTAL</b>          | <b>16</b> | <b>7</b> | <b>11</b> | <b>34</b> |

Source: BPKP North Sumatra, data processed

Transparency and accountability in regional financial management requires regional government supervisory institutions, in this case internal auditors (inspectors), to improve their quality. Internal audit quality helps in achieving accountability in the government system. This is confirmed by the results, (Baltaci & Yilmaz, 2006) that audit quality can increase financial transparency and accountability. The audit function as a balance in the implementation of the Regional Revenue and Expenditure Budget (APBD) contributes to the development of Regional Government Work Units (SKPD) within the scope of regional government. The quality of government internal audits is very important, because internal audit quality will increase financial accountability which will produce reliable financial reporting as a basis for decision making by stakeholders (Davey, 2009; Havens, 1990).

There's no denying that fraud and irregularity-related events will cast doubt on the calibre of internal audit, which, if unanticipated, may lead to mistrust of the field and ultimately threaten the survival of the internal audit profession. Agency theory explains the differences in interests between local government and society, as well as openness of public information as a way of accountability (Mack & Ryan, 2006). Agency theory views that regional government as an agent for the community which is projected through the DPRD as (principal) will act in accordance with the tasks given by the community. Agency problems occur when fraud generally originates from the aim of minimizing the level of effort in order to increase compensation received through misuse

*Yulisfan, Erlina, Idhar Yahya, Zulkarnain*

of public office for one's own interests which is interpreted in the form of corruption (Leruth & Paul, 2021).

Pressure or orders from superiors in the context of government internal audit have a crucial role in ensuring that internal audit can identify problems, provide relevant recommendations, and overall, contribute to improving government processes and governance. The obedience of internal audit employees is a key factor in assessing the extent to which internal audit can make a significant contribution to good governance. Milgram (1974) states that obedience pressure is related to people who have authority in a hierarchical context. One person's influence over others is due to authorization because it is a form of legitimized power. A person with authority can influence the behavior of others through his or her orders. Authority orders in an organization will influence the behavior of subordinates because superiors have a position as legitimate authority so that all orders ordered must be obeyed (Lord & DeZoort, 2001). Subordinate obedience in a pressure situation will change the condition of psychological autonomy into a condition of agentic shift. Obedience pressure from superiors or authorities is a factor that can have a significant influence on audit quality. These factors can have a positive or negative impact depending on how they are managed in the audit process. Auditors can be in an ethical dilemma if instructions from superiors' conflict with ethical principles or audit standards. They must decide between obeying superiors or maintaining professional integrity.

Excessive pressure or orders from superiors can threaten the auditor's independence. Auditors who feel bound by orders or desires of superiors may tend to reduce their independence, which should be an important prerequisite for an objective audit. Audit reports that are influenced by pressure or orders from superiors may be less reliable. Pressure or orders from superiors can influence auditors in choosing the findings and recommendations they report. Auditors may tend to adjust their findings to suit management or authority expectations, compromising the objectivity and integrity of the audit report. In extreme situations, excessive pressure or orders from superiors can give rise to ethical dilemmas. Auditors may be in a position where they must choose between obeying a superior's orders or maintaining the integrity and ethical principles of auditing. A review of key concepts in superior pressure or orders will be a first step in understanding the relevant issues at the government internal audit level. In addition, an analysis of empirical data will be carried out which will make it possible to investigate the extent to which internal audit quality is influenced by factors such as ethics, integrity, competence, as well as internal and external pressures that internal audit employees may face. Pressure or orders from superiors refer to factors that encourage or limit auditors in complying with the guidelines, procedures and regulations governing internal audits. This factor plays an important role in maintaining independence, the quality of audit findings, and the ability of internal audit to provide added value to the organization.

This research aims to investigate the influence of superior orders on the quality of internal audits in the North Sumatra Government. In an organization, superior orders can shape direction, provide guidance, and, in some cases, create pressure that can affect the integrity and independence of internal auditors. This influence can have a significant impact on the quality of the resulting audit and, therefore, influence the success of internal audit objectives. North Sumatra Province, as one of the regional government entities in Indonesia, is also faced with various challenges in ensuring optimal internal audit quality. Therefore, the in-depth empirical research in this article will help understand the extent to which superior pressure or orders impact internal audit quality in the local government context. With a deeper understanding of the role of pressure or orders from superiors in internal audit quality, we can identify recommendations and steps that the North Sumatra Provincial Government, as well as other local government entities, can strengthen their internal audit function, increase accountability, and ensure more efficient use of public resources. This research can also provide valuable insights for practitioners, researchers, and other stakeholders interested in issues related to government internal audit and good governance in general.

## LITERATURE REVIEW

### Agency Theory

In government, the legislature plays the main role, while government agencies play the role of agents (Douglas & Franklin, 2006 ;Jiraporn et al., 2011). Agency theory explains the differences in interests between local government and society, as well as openness of public information as a means of accountability (Mack & Ryan, 2006). Agency theory views that regional government as an agent for the community which is projected through the DPRD as (principal) will act in accordance with the tasks given by the community. However, in reality the agent (regional government) will carry out actions that are contrary to their duties so that this will influence the public (principal) in assessing the performance of the regional government (agent).

Some researchers believe that agency theory is inappropriate for governments and other nonprofit organizations (Bhandari, 2010). However, this view does not take into account the internal checks and balances designed within government structures. While it is true that governments do not have easily identifiable owners, the internal structure, and different branches of government function as a similar system of checks and balances, resulting in a principal-agent relationship. Some researchers have shown that government entities function as agents of higher institutions and legislatures (Jiraporn et al., 2011). Problems related to the quality of financial reports often occur due to conflicts of interest when management/government commit fraud solely to maximize their own welfare and secure their position without considering the impact on society. Agency problems occur when fraud generally originates from the aim of minimizing the level of effort in order to increase compensation received through misuse of public office for one's own interests which is interpreted in the form of corruption (Leruth & Paul, 2021).

The literature also indicates that legislatures use a mix of budgeting techniques in an effort to increase efficiency, provide flexibility, and maintain control of agency functions (Hilgers, 2010; Lienert & Ljungman, 2009; Mikesell & Mullins, 2011). Agency theory in regional government has begun to be put into practice, especially since the implementation of regional autonomy since 1999. The implementation of regional autonomy which began in 2001 was based on Law (UU) no. 22/1999 concerning regional government (UU No 22, 1999) which was later replaced by Law no. 32 of 2004 and finally changed to Law no. 23 of 2014 which was then issued a Government Regulation in lieu of Law no. 2 of 2014 concerning Amendments to Law no. 23 of 2014 and Law no. 9 of 2015 concerning the second amendment to Law no. 23 of 2014, and Law no. 25/1999 concerning Financial Balance between the Central Government and Regional Governments (UU No 25, 1999) which was later replaced by Law no. 33 of 2004 and was finally replaced by Law no. 1 of 2022. The application of agency theory can be studied from two perspectives, namely the relationship between the executive and the legislature, and the legislature and the people, the implications of which can be positive things in the form of efficiency, but more negative things in the form of opportunistic behavior (Subhan, 2011). This consequence occurs because the agent understands financial information better than the principal, while the principal tends to enforce his personal interests (self-interest) because he has authority. Agency problems arise when executives tend to maximize their personal interests starting from the budgeting process, decision making, to preparing fair financial reports to show that they have good performance, in addition to securing their position in the legislature and society.

### Internal Audit Quality

Reliable audit quality is a prerequisite for ensuring that supervision over the Regional Government's administration operates effectively and efficiently in compliance with legal requirements. This can only be achieved by implementing internal audits. Kualitas audit yang baik diharapkan dapat menghasilkan laporan keuangan yang dapat diandalkan sebagai dasar pengambilan keputusan. Good audit quality is expected to produce reliable financial reports as a basis for decision making. Therefore, a competent and highly independent auditor is needed to find and report a violation in his client's accounting system (DeAngelo, 1981). Audit quality is an auditor's ability to carry out his duties, where in carrying out an audit an auditor can find client errors and report them. DeAngelo (1981), audit quality is the probability that the auditor will find and report violations in the client's accounting system. Public accountants in carrying out their



*Yulisfan, Erlina, Idhar Yahya, Zulkarnain*

audit duties must be guided by the applicable Public Accountant Professional Standards (SPAP), it is hoped that the audit can reduce the mismatch of interests between management and shareholders. By adhering to applicable standards and principles, the desired goal will be achieved, namely a quality audit. According to (Botha & Wilkinson, 2020) the internal audit function can make recommendations for efficiency improvements, or to limit losses, or can detect fraudulent activity. These activities will add value but will not be reflected in the organization's current year financial returns. Libby & Frederick (1990), Bonner (1990) dan Soh & Martinov-Bennie (2011) states that auditor competency obtained from experience and knowledge plays an important role in improving audit quality.

### **Obedience Pressure**

Lord & DeZoort (2001) states that obedience pressure is social pressure faced by individuals from their superiors in the organization which can influence their behavior. Pressure from superiors or agencies has an impact on the audit process which can reduce the quality of internal audits. Compliance pressures have serious negative consequences on auditors, such as potential litigation, loss of professionalism, public trust, and social credibility (DeZoort & Lord, 1994). Milgram (1974) states that obedience pressure is related to people who have authority in a hierarchical context. One person's influence on others is due to authorization which is a form of legitimized power. Obedience theory (Milgram, 1974) states that individuals who are under pressure from authority orders will obey those orders even if they conflict with their attitudes, beliefs and values. Obedience theory is rooted in power theory (DeZoort & Lord, 1994). Blass (1999) states that subordinates tend to obey authority orders even though they have the freedom to behave, but they allow authority to determine the decisions and behavior that must be taken. According to Rittenberg (2015) some internal auditors reported being pressured to change or ignore findings.

DeZoort & Lord (1994) found that auditors were more likely to make unethical decisions when faced with obedience pressure from superiors. They also found evidence of a positive relationship between a supervisor's hierarchical status (partner versus manager) and the magnitude of influence. A previous report raised similar concerns by showing that more than 50 percent of responding internal auditors were approached with a request to change their findings (Miller & Rittenberg, 2015). This means that quite a lot of internal auditors report experiencing pressure as internal audit professionals.

### **Superior's orders**

Orders from superiors or pressure from management can affect the quality of internal audits. This influence can be positive or negative depending on the nature and purpose of the command. If the auditor is given orders to complete the audit quickly without carrying out the necessary checks, this can be detrimental to the quality of the audit. Excessive time pressure can also cause auditors to miss risks or not perform adequate testing. Authority orders in an organization will influence the behavior of subordinates because superiors have a position as legitimate authority so that all orders ordered must be obeyed (Lord & DeZoort, 2001). Park & Peterson (2006) found that individuals who lack strength of character may not "do what is right" or "take the right action" in certain situations. Milgram (1965) shows that normal people can commit destructive actions when faced with great pressure from legitimate authorities. DeZoort & Lord (1994) found that auditors tend to make unethical decisions when faced with obedience pressure from superiors.

It is important for auditors to understand expectations and ensure that orders from superiors do not harm the independence, integrity, and quality of internal audit. The auditor's independence and objectivity must be maintained to ensure that the audit report provides an accurate and objective picture of the state of the organization. Wilhelm (2012) obedience to persons in authority can have a major influence on individual decision makers to support unethical behavior even when they individually would not support such behavior. Some internal auditors reported being pressured to change or ignore their findings (Rittenberg, 2015).

H1: Superior's orders has an impact on the internal audit quality.

**METHOD**

The quality of internal audits is influenced by demand factors from superiors/authorities. The conceptual framework of this research can be seen in Figure 1. below:

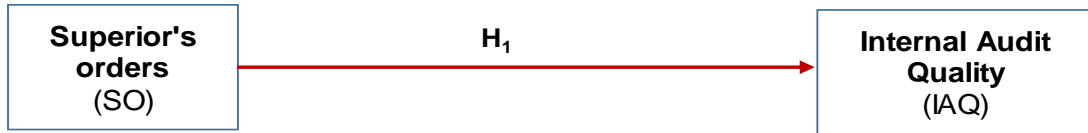


Figure 1. Theoretical Framework

**RESULTS AND DISCUSSION**

**Findings**

**Convergent Validity**

Test concurrent validity for any research using Cronbach's alpha to test construct validity and reliability. This work uses PLS Algorithm to calculate factor loadings, composite reliability (López-Arceiz et al., 2022), and the average variance extracted (AVE) value. The Cronbach's alpha of each variable exceeded the threshold of 0.70 suggested by(Hair et al., 2019). Additionally, each construct had a factor loading greater than 0.60, a CR greater than 0.60, and an AVE greater than 0.50, as suggested by (Hair et al., 2019). The reliability and validity of this research are very high. The results are presented in Figure 2. and Table 2.

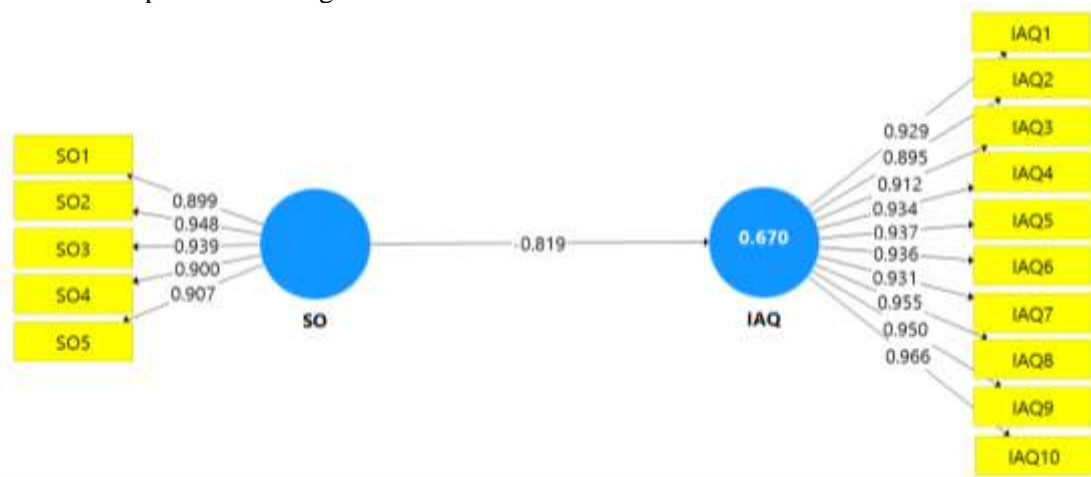


Figure 2. Measurement Model

SO = Superior's order and IAQ = Internal Audit Quality

**Discriminant Validity**

The discriminant validity of each study was tested to examine differences between study constructs. Modern research tests discriminant validity with the Heteritrait-Monotrait (HTMT) method. Therefore, this study used the HTMT method to test discriminant validity, and all discriminant validity values were below 0.90 recommended by (Hair et al., 2021). Therefore, the research construct has significant discriminant validity. The results are available in Table 3.

**The PLS-SEMs Results**

The direct effects results taken by PLS Bootstrapping are presented in this part of the study (Figure 3). SO has significant impact on IAQ ( $\beta = -0.819$ ,  $t = 29.357$  and  $P = 0.000$ ) and the hypothesis is significant.

Tabel 2. Convergent Validity

| Variables                    | Cronbach's Alpha | Constructs | Loadings | Composite Reliability | AVE   |
|------------------------------|------------------|------------|----------|-----------------------|-------|
| Superior's orders (SO)       | 0.954            | SO1        | 0.899    | 0.964                 | 0.844 |
|                              |                  | SO2        | 0.948    |                       |       |
|                              |                  | SO3        | 0.939    |                       |       |
|                              |                  | SO4        | 0.900    |                       |       |
|                              |                  | SO5        | 0.907    |                       |       |
| Internal Audit Quality (IAQ) | 0.984            | IAQ1       | 0.929    | 0.986                 | 0.873 |
|                              |                  | IAQ2       | 0.895    |                       |       |
|                              |                  | IAQ3       | 0.912    |                       |       |
|                              |                  | IAQ4       | 0.934    |                       |       |
|                              |                  | IAQ5       | 0.937    |                       |       |
|                              |                  | IAQ6       | 0.936    |                       |       |
|                              |                  | IAQ7       | 0.931    |                       |       |
|                              |                  | IAQ8       | 0.955    |                       |       |
|                              |                  | IAQ9       | 0.950    |                       |       |
|                              |                  | IAQ10      | 0.966    |                       |       |

SO = Superior's order and IAQ = Internal Audit Quality

Tabel 3. Discriminant Validity

|     | IAQ   | SO |
|-----|-------|----|
| IAQ |       |    |
| SO  | 0.843 |    |

SO = Superior's order and IAQ = Internal Audit Quality

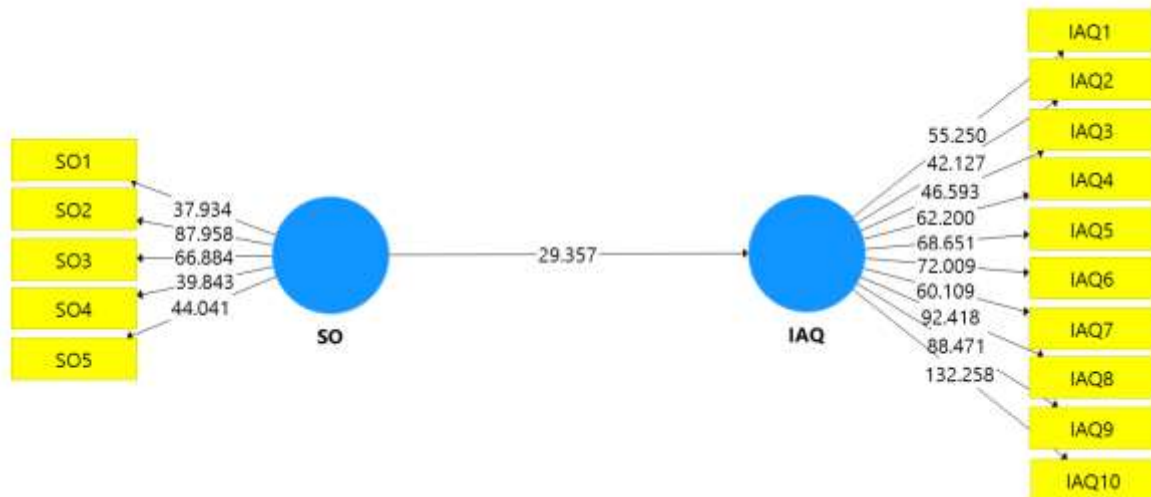


Figure 3. Structural Model

SO = Superior's order and IAQ = Internal Audit Quality

Tabel 4. Direct Effects

| Direct Effects | Beta Value | Standard Deviation | t Value | P Value | Remarks     |
|----------------|------------|--------------------|---------|---------|-------------|
| SO -> IAQ      | -0.819     | 0.028              | 29.357  | 0.000   | Significant |

SO = Superior's order and IAQ = Internal Audit Quality

## CLOSING

### Conclusion

Orders from superiors or authorities have an impact on the quality of internal audit, this makes H1 significant. Orders from superiors or authorities have a significant impact on the quality of internal audit because they affect the work environment, independence, and decision-making processes within the audit team. If superiors have certain relationships or interests with clients or other stakeholders, there is a potential conflict of interest that could affect the independence and quality of the audit. If the auditor feels that superiors prioritize positive end results or client-friendly conclusions, this can also affect the auditor's independence and objectivity, as well as the overall quality of the audit. Orders from superiors can provide direction and guidance, the auditor's integrity and independence must be maintained. Auditors have the responsibility to comply with ethical and audit standards and ensure that audits are carried out with high integrity and objectivity to achieve optimal audit quality. The conclusions of this study are in accordance with previous research on internal audit quality (AL Fayi, 2022; Bello et al., 2018; Gamayuni, 2018; Kaawaase et al., 2021; Kabuye et al., 2019; Pitt, 2014; SHBAIL, 2018; Zeyn, 2018).

Excessive pressure from superiors on internal audit quality can have a significant negative impact. Some possible negative impacts include:

1) Non-neutrality and non-objectivity:

If superiors place excessive pressure on the audit team to obtain certain results or steer the audit in a certain direction, the auditor may lose impartiality and objectivity. This can lead to errors in judgment or an inability to identify true risks.

2) Non-Compliance with Professional Standards:

Auditors are expected to comply with professional standards in carrying out their duties. Pressure from superiors to ignore or violate ethical and professionalism standards can cause auditors to violate their integrity and create legal risks.

3) Decreased Quality of Inspection:

Pressure to complete an audit quickly or without taking sufficient inspection steps can lead to a reduction in audit quality. This can increase the risk that significant problems go undetected or are ignored.

4) Inability to Communicate True Findings:

If the auditor feels forced to report findings that are in accordance with the wishes of superiors, rather than the findings that were revealed during the audit, then the audit report will not reflect the actual situation and management may not get accurate information.

5) Psychological Pressure on Audit Teams:

Excessive pressure can create an unhealthy work environment among the audit team. This can lead to stress, burnout, and job dissatisfaction, which in turn can have a negative impact on the team's mental wellbeing and performance.

6) Risk of Conflict of Interest:

If superiors have interested that conflict with the audit results, their pressure may cause the auditor to place the superior's interests above those of the organization or society.

7) Loss of Stakeholder Trust:

If fraud or serious problems are not uncovered due to pressure from superiors, this can undermine stakeholder confidence in the integrity and quality of internal audit. This trust is very important to ensure the effectiveness of the internal control system.

It is important for organizations to ensure that the work culture supports ethical, professional, and transparent audit practices. This can involve approaches that promote auditor independence and provide support for high standards of ethics and professionalism.

In order to mitigate the adverse effects of heightened pressure on the quality of internal audits, it is imperative to undertake the following measures:

1) Organizational Culture that Supports Independence:

Build an organizational culture that encourages auditor independence and independence. Ensure that each member of the audit team feels free to report their findings without fear of repression.



- 2) **Clarification of Expectations and Goals:**  
Clearly explain the expectations and objectives of the audit to all related parties, including superiors. This helps avoid disagreements and ensures that all parties understand the scope and objectives of the audit.
- 3) **Ethical Training and Awareness:**  
Provide regular training to audit and management teams on their ethical standards, professionalism, and responsibilities. Raise awareness of the importance of complying with audit standards and professional ethics.
- 4) **Clear and Documented Audit Procedures:**  
Ensure that there are clear and documented audit procedures. This helps in ensuring that each audit is conducted with a consistent and thorough method, reducing the risk of unhealthy external influences.
- 5) **Management Commitment to Ethics and Integrity:**  
Management must demonstrate a commitment to ethics and integrity at every level of the organization. This creates a foundation for ethical business practices, including internal audit processes.
- 6) **Safe Reporting Mechanism:**  
Provide a secure and confidential reporting mechanism for audit team members who wish to report pressure or ethical violations. This may include communication channels that are independent of direct management.
- 7) **Fair Performance Evaluation:**  
Performance evaluations should be fair and based on achieving goals and quality of work, not just on achieving targets or financial expectations. This helps prevent undue stress on the audit team.
- 8) **External Monitoring and Independent Evaluation:**  
Involve external parties or independent evaluators in evaluating audit quality and ensuring compliance with professional standards. This can provide an objective view of the quality of internal audits.
- 9) **Open Communication:**  
Encourage open communication between management, audit team and superiors. A clear understanding of expectations and potential problems can reduce unhealthy tension and stress.
- 10) **Involvement of External Parties:**  
Involving external parties such as the supervisory board or independent auditors in reviewing and supervising internal audit activities. This can increase the accountability and independence of the audit process.

By applying the aforementioned procedures, organizations may effectively mitigate the adverse effects of superior pressure on the quality of internal audits. This will enable them to uphold ethical standards and maintain professional boundaries in their audit practices.

## REFERENCES

- Abdolmohammadi, M. J., & Owhoso, V. D. (2000). Auditors' ethical sensitivity and the assessment of the likelihood of fraud. *Managerial Finance*, 26(11), 21–32. <https://doi.org/10.1108/03074350010766963>
- Adams, M. B. (1994). Agency Theory and the Internal Audit. *Managerial Auditing Journal*, 9(8), 8–12.
- AL Fayi, S. M. (2022). Internal audit quality and resistance to pressure. *Journal of Money and Business*, 2(1), 57–69. <https://doi.org/10.1108/jmb-11-2021-0053>
- Badan Pengawasan Keuangan dan Pembangunan (BPKP) Sumatera Utara. (2022). Laporan Kinerja Tahun 2021.

Yulisfan, Erlina, Idhar Yahya, Zulkarnain

- Baltaci, M., & Yilmaz, S. (2006). Keeping an eye on subnational governments: Internal control and audit at local levels. *The International Bank for Reconstruction and Development/The World Bank*, January 2006, 31.
- Bello, S. M., Ahmad, A. C., & Yusof, N. Z. M. (2018). Internal audit quality dimensions and organizational performance in Nigerian federal universities: the role of top management support. *Journal of Business & Retail Management Research*, 13(01), 156–171. <https://doi.org/10.24052/jbrmr/v13is01/art-16>
- Bhandari, S. B. (2010). Ethical Dilemma of Nonprofits in the Agency Theory Framework. *Journal of Leadership, Accountability and Ethics*, 8(2), 33–40. <http://esc-web.lib.cbs.dk/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=57667218&site=ehost-live&scope=site>
- Blass, T. (1999). The Milgram Paradigm After 35 Years: Some Things We Now Know About Obedience to Authority'. *Journal of Applied Social Psychology*, 29(5), 955–978.
- Bonner, S. (1990). Experience Auditing: The Effects Role in of Knowledge Task-Specific Knowledge. *American Accounting Association*, 65(1), 72–92. <http://www.jstor.org/stable/247877>
- Botha, L. M., & Wilkinson, N. (2020). A framework for the evaluation of the perceived value added by internal auditing. *Meditari Accountancy Research*, 28(3), 413–434. <https://doi.org/10.1108/MEDAR-02-2019-0448>
- Bou-Raad, G. (2000). Internal auditors and a value-added approach: the new business regime. *Managerial Auditing Journal*, 15(4), 182–187. <https://doi.org/10.1108/02686900010322461>
- Davey, K. (2009). Making Government Accountable: local government audit in post communist Europe. *Local Government and Public Service Reform Initiative*, Open Society Institute–Budapest. [https://www.cesd.az/html/lg\\_2010.pdf](https://www.cesd.az/html/lg_2010.pdf)
- DeAngelo, L. E. (1981). Auditor size and audit fees. *Journal of Accounting and Economics*, 3(3), 183–199.
- DeZoort, F. T., & Lord, A. T. (1994). An investigation of obedience pressure effects on auditors' judgments. *Behavioral Research in Accounting*, 6, 1–30.
- Douglas, J. W., & Franklin, A. L. (2006). Putting the Brakes on the Rush to Spend Down End-of-Year Balances: Carryover Money in Oklahoma State Agencies. *Public Budgeting and Finance*, 26(3), 46–64. <https://doi.org/10.1111/j.1540-5850.2006.00854.x>
- Gamayuni, R. R. (2018). The Effect of Internal Auditor Competency on Internal Audit Quality and Its Implication on the Accountability of Local Government. *XXI(4)*, 426–434.
- Hair, J. F., Black, W. C., Babin, B. J., & Anderson, R. E. (2019). *Multivariate Data Analysis* (8/E, p. 832). Cengage Learning.
- Hair, J. F., Hult, G. T. M., Ringle, C. M., Sarstedt, M., Danks, N. P., & Ray, S. (2021). *Partial Least Squares Structural Equation Modeling (PLS-SEM) Using R*. Springer Nature Switzerland AG. <https://doi.org/https://doi.org/10.1007/978-3-030-80519-7>
- Havens, H. S. (1990). The Evolution of the General Accounting Office : From Voucher Audits to Program Evaluations. 1–27. <https://www.gao.gov/assets/op-2-hp.pdf>
- Hilgers, M. (2010). The three anthropological approaches to neoliberalism. *International Social Science Journal*, 61(202), 351–364. <https://doi.org/10.1111/j.1468-2451.2011.01776.x>
- Jiraporn, P., Kim, J. C., & Kim, Y. S. (2011). Dividend payouts and corporate governance quality: An empirical investigation. *Financial Review*, 46(2), 251–279. <https://doi.org/10.1111/j.1540-6288.2011.00299.x>
- Kaawaase, T. K., Nairuba, C., Akankunda, B., & Bananuka, J. (2021). Corporate governance, internal audit quality and financial reporting quality of financial institutions. *Asian Journal of Accounting Research*, 6(3), 348–366. <https://doi.org/10.1108/AJAR-11-2020-0117>
- Kabuye, F., Bugambiro, N., Akugizibwe, I., Nuwasiima, S., & Naigaga, S. (2019). The influence of tone at the top management level and internal audit quality on the effectiveness of risk management practices in the financial services sector. *Cogent Business and Management*, 6(1), 1–25. <https://doi.org/10.1080/23311975.2019.1704609>

Yulisfan, Erlina, Idhar Yahya, Zulkarnain

- Leruth, L., & Paul, E. (2021). A Principal-Agent Theory Approach to Public Expenditure Management Systems in Developing Countries. SSRN Electronic Journal. <https://doi.org/10.2139/ssrn.934463>
- Libby, R., & Frederick, D. M. (1990). Experience and the Ability to Explain Audit Findings. *Journal of Accounting Research*, 28(2), 348. <https://doi.org/10.2307/2491154>
- Lienert, I., & Ljungman, G. (2009). Carry-over of budget authority. *Public Financial Management - Technical Guidance Note*.
- López-Arceiz, F. J., del Río, C., & Bellostas, A. (2022). The mediating effect of sustainability strategy between sustainability committees and business performance: can persistent assessment condition this effect? *Sustainability Accounting, Management and Policy Journal*, 13(3), 708–739. <https://doi.org/https://doi.org/10.1108/SAMPJ-06-2021-0193>
- Lord, A. T., & DeZoort, F. T. (2001). The impact of commitment and moral reasoning on auditors' responses to social influence pressure. *Accounting, Organizations and Society*, 26(3), 215–235. [https://doi.org/10.1016/S0361-3682\(00\)00022-2](https://doi.org/10.1016/S0361-3682(00)00022-2)
- Mack, J., & Ryan, C. (2006). Reflections on the theoretical underpinnings of the general-purpose financial reports of Australian government departments. *Accounting, Auditing and Accountability Journal*, 19(4), 592–612. <https://doi.org/10.1108/09513570610679146>
- Mikesell, J. L., & Mullins, D. R. (2011). Reforms for Improved Efficiency in Public Budgeting and Finance: Improvements, Disappointments, and Work-in-Progress. *Public Budgeting and Finance*, 31(4), 1–30. <https://doi.org/10.1111/j.1540-5850.2011.00998.x>
- Milgram, S. (1965). Some Conditions of Obedience and Disobedience to Authority. *Human Relations*, 18(1), 57–76. <https://doi.org/10.1177/001872676501800105>
- Milgram, S. (1974). *Obedience to Authority*. Tavistock Publications Ltd.
- Miller, P. K., & Rittenberg, L. E. (2015). *The Politics of internal auditing*. The Institute of Internal Auditors Research Foundation (IIARF).
- Park, N., & Peterson, C. (2006). Moral competence and character strengths among adolescents: The development and validation of the Values in Action Inventory of Strengths for Youth. *Journal of Adolescence*, 29(6), 891–909. <https://doi.org/10.1016/j.adolescence.2006.04.011>
- Pitt, S.-A. (2014). *Internal audit quality : developing a quality assurance and improvement program* (Vol. 59). John Wiley & Sons, Inc., Hoboken, New Jersey.
- Rittenberg, L. E. (2015). *Ethics and Pressure*. In *The Global Internal Audit Common Body of Knowledge*. The IIA Research Foundation, LakeMary, FL.
- SHBAIL, M. O. A. L. (2018). A Theoretical Discussion of Factors Affecting the Internal Audit Quality in Jordanian Public Shareholding Companies. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 8(2), 218–227. <https://doi.org/10.6007/ijarafms/v8-i2/4273>
- Soh, D. S. B., & Martinov-Bennie, N. (2011). The internal audit function: Perceptions of internal audit roles, effectiveness and evaluation. *Managerial Auditing Journal*, 26(7), 605–622. <https://doi.org/10.1108/02686901111151332>
- UU No 22. (1999). *Undang-Undang Republik Indoensia Nomor 22 Tahun 1999 tentang Pemerintahan Daerah* (Issue Lembaran Negara Republik Indonesia).
- UU No 25. (1999). *Undang-Undang Republik Indonesia Nomor 25 Tahun 1999 Tentang Perimbangan Keuangan Antara Pemerintah Pusat dan Daerah*. Lembaran Negara Republik Indonesia Tahun 1999 Nomor 72, 2.
- Wilhelm, W. (2012). Financial Decision Making: a study of Board room Decision-Making Dynamics. *Delta Pi Epsilon Journal*, Volume LIV(1), 27–40. <https://www.proquest.com/scholarly-journals/financial-decision-making-study-board-room/docview/1326249086/se-2?accountid=50257>
- Zeyn, E. (2018). The Effect of Internal Audit Quality on Financial Accountability Quality at Local Government. *Journal of Accounting, Business and Finance Research*, 4(2), 74. <https://doi.org/10.20448/2002.42.74.82>