

# Can Risk Culture Implementation Raising Internal Audit Quality in Case Time Budget Pressure is High?

Agung Wahyudhi Atmanegara, Erlina\*, Iskandar Muda, Abdhy Aulia Adnans  
{[erlina@usu.ac.id](mailto:erlina@usu.ac.id)}

Doctoral Programme, Universitas Sumatera Utara, Medan, Indonesia

**Abstract.** This study examined implementing risk culture and work pressure affects internal audit quality. The research population is internal auditor of local government. The hypothesis tested by using PLS through 3 stages. The results conclude that the application of risk culture has a positive effect on internal audit quality, time budget pressure has a negative impact on internal audit quality and the effect of applying risk culture on internal audit quality is lower if time budget pressure is high.

**Keyword:** Internal Audit Quality; Risk Culture; Time Budget Pressure.

## 1 Introduction

Local government internal auditor quality is being questioned. Cases of bribery, corruption, and authority carried out by local officials could not be found. Often, the audit report of the audit board of republic Indonesia becomes the basis for conducting an examination. The results of their work should be used as the initial guidelines for the audit board of republic Indonesia to carry out the examination [1].

The number of internal auditors in local governments is relatively low. As a result, an auditor is burdened with working simultaneously; then, the auditor has high time budget pressure. In this situation, an auditor will choose to have dysfunctional behavior. For example, the internal auditor will reduce some audit procedures, not report audit time, and make audit reports even though the audit process has not been completed. This behavior causes the quality of internal audit work to decline. With high work pressure, to maintain the quality of work, an approach or strategy is needed. Currently, several audit approaches have changed from process-based audits and systems-based audits to risk-based audits. A risk-based audit can only be carried out if the local government has implemented risk management. Risk management cannot be adequately implemented if a risk culture has not been instilled in organizational life. Risk culture is the behavior of all personnel interacting and the perception of everything related to risk. Perceptions of these risks will be reflected in the decisions taken and the way of doing work [2].

Internal auditors are required to be able to provide added value to the agency. The strategy that can be implemented is through increasing the risk-based assurance function and strengthening the consulting function. Several agencies currently have also implemented three lines of defense, namely a supervisory system through three lines of defense: management, internal compliance unit, and internal auditors. The internal auditor is undoubtedly required to assess the extent of the agency condition being supervised and how much of the percentage of assurance and consultation must be carried out [3]. The approach used must also consider the

principle that internal auditors are a catalyst to achieve organizational goals. Of course, intelligent and advanced thoughts are needed for every auditor.

The technical implementation of supervision must also change to be more focused, in accordance with audit standards and integrated conclusions, in order to further improve the efficiency and quality of Internal Auditor resources and to provide added value to the Regional Government, as reflected in the achievement of the Regional Head's vision and mission. With enhanced macro planning and technical oversight, obtaining complete level 3 Internal Auditor competency by 2021 is no longer a silly idea. Based on local government internal audit problems and challenges, to improve audit quality, it is necessary to have organizational support, implementation of risk culture, and decrease workload. Perception of organizational support has a strong influence on employee work commitment. By meeting socio-emotional demands, perceived organizational support can improve employee relations with the organization, resulting in superior affective organizational commitment.

The certification auditor in the districts/cities and provinces of North Sumatra is relatively tiny; overall, the number of internal auditors of the local government is relatively small, while the number of programs and activities from various regional apparatus organizations is relatively small-large [4]. Auditors work under pressure of time and work so that with the density of activities and tasks that must be done piled up at a specific time, the work pressure becomes high. High work pressure and time make internal auditors work less than optimally, so it is suspected that it will reduce the quality of their work [5].

## **2 Literature Review**

### **a. Audit Quality**

Internal audit function quality is critical to how successfully it conducts its governance, control, and risk management functions. Internal audit quality and earnings management were examined through the responses of chief audit officers at 216 public businesses in the United States from 2014 to 2018. Their analysis discovered a substantial negative correlation between the quality of internal audits and irregular accruals [6]. Additionally, they suggest that the quality of internal audits is critical in minimizing management's opportunistic conduct that impairs financial reporting and performance information quality.

### **b. Risk Culture**

Risk culture is becoming increasingly critical as the implementation of a risk management system entails everyday operations duties. In actual life, risk-related work culture elements will have a greater impact on the effectiveness of a system deployment than the system itself. Risk culture processes are typically driven by top management motivation and a commitment to continuously manage risk. To begin, top management must set an example of risk culture implementation, and then subordinates will follow. So, from this description, the following hypothesis can be drawn:

**H1:** Risk Culture has a positive and significant influence on internal audit quality

### **c. Time Budget Pressure**

The Company's level of interest in achieving the time budget can also contribute to the time budget pressure felt by the auditor. [6] found that British accountants of the Big Six companies place high importance on achieving time budgets. Anderson-Gough et al. claim

"failure to perform and even lack of enthusiasm for [unreported and unpaid] overtime are believed by trainees to be detrimental to individual career prospects." In other terms, the 'cultural norms' at these organizations appear to compel accountants to submit time reports on time in order to progress their careers. So, from this description, the following hypothesis can be drawn:

**H2:** Time Budget Pressure has a positive and significant effect on internal audit quality.

### 3 Method

This study uses a type of quantitative research. The data in this study are primary and secondary data. The population in this study were auditors who were grouped as Functional Auditors (PFA), which consisted of auditors at level 1, level 2, level 3, and level 4 (senior) in the North Sumatra regional government. Data testing is done by using the PLS application. Hypothesis testing consists of (1) inner model test, (2) outer model test, and (3) hypothesis test.

### 4 Result and Discussion

The first method utilized in this study is descriptive statistics, which refers to techniques for gathering and presenting data in order to provide valuable information in research. This strategy allows for the data set to be presented succinctly and elegantly while still providing essential information from the existing data set. Table 1 summarizes descriptive data for research variables:

**Table 1.** The Descriptive Statistics

Description	Variable	N	Mean	
Gender				
Woman	Internal Audit Quality	70	3.8400	High
	Time Budget Pressure		2.8744	Low
	Risk Culture		3.8323	High
Man	Internal Audit Quality	81	3.7502	Moderate
	Time Budget Pressure		2.8444	Low
	Risk Culture		3.9235	High
Length of Service				
1	Internal Audit Quality	17	3.9359	High
	Time Budget Pressure		2.8912	Low
	Risk Culture		3.9876	High
2	Internal Audit Quality	103	3.7150	High
	Time Budget Pressure		2.8589	Low
	Risk Culture		3.8577	High
3	Internal Audit Quality	28	4.0718	High
	Time Budget Pressure		2.7686	Low
	Risk Culture		4.0107	High
	Internal Audit Quality	3	3.0000	Moderate
	Time Budget Pressure		3.4900	Moderate
	Risk Culture		2.8767	Low
Total				

Source: data proceed

After testing through the PLS application, all data has been met. The test results conclude that the application of risk culture and time budget pressure affects internal audit quality (see Table 2). There is no correlation between Time budget pressure and risk culture with internal auditor level; on the other hand, there is a high correlation between internal audit quality with internal auditor level.

The next test carried out in this research is hypothesis testing. Hypothesis testing is used in this study to ensure that the test results are statistically significant. The following table summarizes the findings of this study's hypothesis testing:

**Table 2.** Hypotheses Testing

	Original Sample	Sample Mean	Standard Deviation	T Statistics	P Values
Risk Culture -> Internal Audit Quality	0.202	0.219	0.052	3.917	0.000
Time Budget Pressure -> Internal Audit Quality	-0.686	-0.681	0.056	12.211	0.000

Source: data proceed

It thus implies that there is always a subculture, including a risk culture within the organization. Risk culture or risk management practices seem to be considered one of the prominent subcultures of an organization. Implementation of a risk culture will improve the quality of work of members of the organization. As stated by Deal and Kennedy, strong risk culture is precious in improving employee performance, leading to overall organizational performance. Employee performance is described as "the ability of employees to achieve both personal and organizational goals by using resources efficiently and effectively". A risk-aware culture must support all employees to be encouraged and maintained always to conduct business legally and ethically [7]. In addition, implementing a risk culture will reduce the tendency of an internal auditor to dysfunctional audit behavior. To that end, the organization must create a work environment that promotes integrity throughout the organization, including ensuring fair treatment of employees.

Three essential things that must be built as pillars of the organization's overall risk culture development include (1) Risk Governance, (2) Risk Appetite Statement, and (3) Reward Practices. Good risk management is one of the keys that must be applied in every business. The role of risk management, which is mainly behind the scenes, is not widely seen. However, its function is too big to be underestimated. Like digging to close a hole, without a well-managed risk, the penetration of effort will be meaningless. Its function is to build a robust analytical base so that various business decision-making steps carried out by the Company can avoid the risk of harm and even encourage profit expansion at an optimal level. Risk awareness culture is fundamental and at the same time critical to the successful implementation of risk management in an organization. Human resource behavior and culture significantly affect all aspects of risk management at all levels and stages (SNI ISO 31000) [8].

High work pressure will reduce the quality of a person's work. A person who works with high work pressure will produce a low audit report. Time budget pressure can lead to behavior and reduce audit quality. It is following research conducted by [9] stating that: "when the time budget pressure was high, the low-risk audit task was subject to a higher level of reduced audit quality," [10] mentions some of the effects caused by time budget pressure, including (1) Impacting attitudes which include stress (psychological and behavioral reactions that affect concentration); feeling of failure (guilt); undesired turnover; and job dissatisfaction (dissatisfaction in work); (2) Impacting Intentions consisting of underreporting intentions

(deviant behavior); and accepting a weak form of evidence during the audit and (3) Impacting Behavior including premature sign-off, and neglect needed research and accounting standards [11].

Based on Figure 1, it can be seen that if the work pressure is high, then the effect of applying risk culture on internal audit quality will be minor when compared to low time budget pressure. The value of R square if the time budget pressure is 0.145, while if the time budget pressure is low, the value of r square will be 0.291. The results of this study indicate that in conditions of high time budget pressure, the implementation of a high-risk culture will still reduce audit quality.

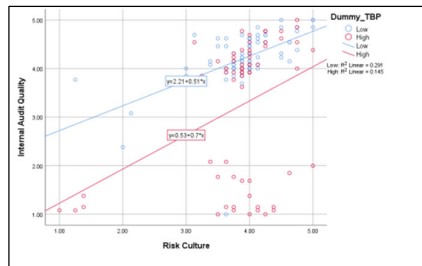


Figure 1. The effect of applying risk culture on internal audit quality

This study builds on prior research in this field by examining the reactions of four different types of audit employees, namely auditor grade 1 through auditor grade 4 (senior). There is evidence that both auditor seniors and junior, at least on occasion, respond to time budget pressures in dysfunctional ways [12] and auditors at higher and lower ranks respond differently to pressures [3]. However, much research on time budget pressure has focused primarily on senior and junior audit behavioral responses [8]. By analyzing results from audit staff with varying levels of responsibility within audit firms, this study provides additional insight into auditors' behavioral responses to time and money constraints.

Strong risk culture is invaluable in improving employee performance which leads to overall organizational performance [9]. Employee performance is described as "the ability of employees to achieve both personal and organizational goals by using resources efficiently and effectively" [11]. Therefore, a risk-aware culture must be able to support all employees in order to achieve organizational goals. Indicators of an organization that has implemented a risk culture are (1) periodic evaluation of the possibility of risk, (2) evaluating possible changes in the control environment, (3) evaluation of possible threats, and (4) monitoring of risk factors.

## 5 Conclusion

Based on the results of the data in the study, it can be concluded as follows: 1) The implementation of risk culture has a positive effect on internal audit quality, 2) while time budget pressure has a negative impact on internal audit quality. if the time budget is high, then the effect of risk culture implementation will be smaller.

## References

- [1] Sinha, V. K., & Arena, M: Manifold Conceptions of the Internal Auditing of Risk Culture in the Financial Sector. *Journal of Business Ethics*, 162(1), pp. 81-102 (2020).
- [2] Agarwal, R., & Kallapur, S: Cognitive Risk Culture and Advanced Roles of Actors in Risk Governance: A Case Study. *The Journal of Risk Finance*. (2018).
- [3] Gorzen-Mitka, I: Leading Markers of Risk Culture in Organization. *European Journal of Sustainable Development*, 7(1), pp. 425-425 (2018).
- [4] Hussaini, U., Bakar, A. A., & Yusuf, M. B. O: The Effect of Fraud Risk Management, Risk Culture, on the Performance of Nigerian Banking Sector: Preliminary Analysis. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 8(3), pp. 224-237 (2018).
- [5] Bianchi, N., Carretta, A., Farina, V., & Fiordelisi, F: Does Espoused Risk Culture Pay? Evidence from European banks. *Journal of Banking & Finance*, 122, 105767 (2021).
- [6] Kesuma, I. B. G. P. W., & Dwirandra, A. A. N. B: Professional Commitments and Pressure of Obedience in Mediating on the Effect of Time Budget Pressure in Quality Audits. *International Research Journal of Engineering, IT and Scientific Research*, 5(1), pp. 27-38 (2019).
- [7] Meidawati, N., & Assidiqi, A: The Influences of Audit Fees, Competence, Independence, Auditor Ethics, and Time Budget Pressure on Audit Quality. *Jurnal Akuntansi dan Auditing Indonesia*, 23(2), pp. 117-128 (2019).
- [8] Putu, I., Rasmimi, N., Budiarta, I., & Widanaputra, A. A. G. P: The Mediating Effect of Auditor Dysfunctional Behavior on Machiavellian Character and Time Budget Pressure of Audit Quality. *Accounting*, 6(6), pp. 1093-1102 (2020).
- [9] Said, L. L., & Munandar, A: The Influence of Auditor's Professional Skepticism and Competence on Fraud Detection: The Role of Time Budget Pressure. *Jurnal Akuntansi dan Keuangan Indonesia*, 15(1), pp. 6 (2018).
- [10] Monoarfa, R., & Dama, H: The Influence of Time Budget Pressure and Dysfunctional Behavior to Audit Quality at Bawasda in Gorontalo Province. *Jurnal Akuntansi*, 22(3), pp. 420-436 (2018).
- [11] Hazaea, S. A., Tabash, M. I., Khatib, S. F., Zhu, J., & Al-Kuhali, A. A: The Impact of Internal Audit Quality on Financial Performance of Yemeni Commercial Banks: An Empirical Investigation. *The Journal of Asian Finance, Economics, and Business*, 7(11), pp. 867-875 (2020).
- [12] Boskou, G., Kirkos, E., & Spathis, C: Classifying Internal Audit Quality using Textual Analysis: The Case of Auditor Selection. *Managerial Auditing Journal*. (2019).