ANALYSIS OF FACTORS IN IMPLEMENTING RISK-BASED PERFORMANCE AUDITS THAT AFFECT FIRM VALUE

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Abstract: *As an external audit institution for the management and accountability of state finances, BPK is responsible for conducting financial, performance, and audit with a specific objective, including in BUMNs. However, BUMNs' financial reports are audited by a public accounting firm (KAP) following laws and regulations. Although the opinion of the BUMNs' financial statements and BUMNs' contributions to the State exhibit a positive trend, the opposite trend happens with the ratio of their overall financial performance, particularly the return on assets (ROA) trend of BUMN. This study was analyzed using the Structural Equation Modeling-Partial Least Square (SEM-PLS) approach to test a series of relationships. The analysis results indicate that the auditor must consider risk management in designing the performance audit scope, as the internal auditor's risk assessment and the performance audit scope impact the firm value. Nevertheless, the study's results indicate that the presence of risk management and the need for auditors to consider the internal auditor's risk assessment when determining the performance audit scope have no significant impact on the firm value.*

Keywords: *performance audit, risk-based audit, BPK, BUMN performance.*

Table of Contents

1. INTRODUCTION

The audit and its report are essential for any organization to increase public and stakeholders' confidence in all information about its performance that can affect the organization's value, mainly if independent and competent auditors conduct the audit (Nazarova, 2020). To meet that need in the government sector, Article 23E of the 1945 Constitution of the Republic of Indonesia (The 1945 Constitution) stipulated that The Audit Board of The Republic of Indonesia (BPK), as a Supreme Audit Institution (SAI), has the mandate to conduct an independent audit for the management and accountability of the state finance.

To implement the BPK mandate, Law Number (UU No.) 15 of 2004 and UU No. 15 of 2006 detailed the duties and authorities of BPK in conducting the audit. According to the Laws, BPK performs three kinds of audits: Financial Audit, Performance Audit, and Audit with Specific Objective on central government, regional government, and other state institutions, including State-Owned Enterprises (BUMN). However, BPK does not conduct the financial statement audit that generates audit opinion in BUMN sectors but is performed by Public Accounting Firm (KAP).

The International Organization of Supreme Audit Institutions (INTOSAI) in the International Standards of Supreme Audit Institutions (ISSAI) 300 defines performance audit as an independent, objective, and reliable audit to assess whether the organization runs its businesses, systems, operations, programs, or activities based on the principles of economy, efficiency, and effectiveness, as well as to establish room of improvement. Performance audit aims to supply new information, analysis, or insights and, where appropriate, recommendations for improvement. Based on the BPK Strategic Plan 2020 – 2024, performance audit is currently at the fourth oversight level and keeps growing to the next stages, insight and foresight. According to The Accountability Organization Maturity Model by Government Accountability Office (GAO), the role of BPK performance audit at the current level is to enhance economics, efficiency, ethics, fairness, and effectiveness.

ISSAI 300 also stipulates that the auditor must actively manage dan reduce audit risks, such as obtaining wrong or incomplete conclusions, providing unbalanced information, or failing to add user value. BPK Regulation Number 1 of 2017 about The State Financial Audit Standards, Conceptual Framework section, requires its auditors to be aware, recognize, assess, and manage the audit risk. BPK also requires its auditors to obtain an understanding of the entity and/or the subject matter/information on the subject matter being audited by considering the results of previous audits, including the results of an understanding of internal control. The effectiveness of internal controls relevant to the audit can affect audit risk and coverage. Auditors must understand the internal control system relevant to the audit coverage, including the risk management of the auditee and its sufficiency to support the organization's goals.

Although BPK has organized risk management and an understanding of internal control, BPK received several critical notes about its implementation in the peer review reports published by the SAI of a colleague country (Peer Review Report, 2019). First, to make risk assessment more efficient and effective, BPK must consider the top-down and bottom-up approaches and the use of various sources of information in annual plans for risk assessment. Second, referring to INTOSAI auditing standards, BPK must have dedicated auditors to conduct performance audits with economic, efficiency, and effectiveness expertise and to train them to examine the organization's outputs and outcomes. In addition, the reviewer suggested that BPK continues to increase risk-based audits practice and to aspire the law amendment through the legislature to increase the portion of risk-based performance audits.

With the issuance of UU No. 11 of 2020 on Job Creation (the Omnibus Law) and the Corona Virus Disease 2019 (COVID-19) pandemic conditions, BPK faces a higher challenge in auditing the BUMNs' performance. The Job Creation Law provides valuable opportunities for BUMNs to run their business, and government can give assignments to BUMNs with a reimbursement assurance for all costs if the assignment is not financially feasible. If BUMNs cannot manage it properly, they will face a higher risk of inefficiency, affecting their overall financial performance. However, with risk management implementation, BUMNs can anticipate the risk, which Decree of the Minister of SOEs Number: Kep-117/M.BU/2002 on Implementing Good Corporate Governance (GCG) Practices in BUMNs has regulated it.

During this pandemic, auditing is an effective tool for minimizing disruption of the economy. Recently, the audit opinion and the BUMN contribution to the state revenues are two indicators of the BUMN financial performance with a positive trend. In contrast, overall financial performances, particularly the Return on Asset (ROA) of BUMNs, have not indicated satisfactory results. In order to analyze the contrary trends and their relationship with the company risk management implementation, a performance audit can provide a more in-depth examination. The BPK audit on BUMNs' performance aims to ensure they have implemented risk management and mitigation effectively to reduce disruption to BUMN performance. Therefore, the auditor needs to cooperate with the auditee to ensure that the level of disclosure is consistent, and the level of assurance is confident from the audit report. Auditors must consider developing an alternative audit framework to collect sufficient and appropriate audit evidence through its process (FRC, 2020).

For this reason, considering the room for improvement required by BPK in conducting performance audits and audit risk management, it is necessary to study the effect of risk-based performance audit factors on firm value. This research is expected to fill the gap of previous ones that focused on studying the audit of the readiness of state institutions and state companies in dealing with disasters, including pandemics, and the risks associated with handling these disasters. Other previous studies find that internal control, corporate governance, and performance audit are significantly related. Another paper has also provided notes on the weaknesses of performance audits at BPK but has yet to discuss how to develop risk-based performance audits by external auditors or BPK. Thereby, there needs to be more research that discusses the impact of risk on the performance of state companies that needs to be considered by the auditors when conducting a performance audit.

This study will provide additional insight and knowledge about the risk-based performance audit framework and encourage future research. Besides, it will deliver input and reference in designing a risk-based performance audit framework for BUMNs to improve risk management and achieve the desired performance targets.

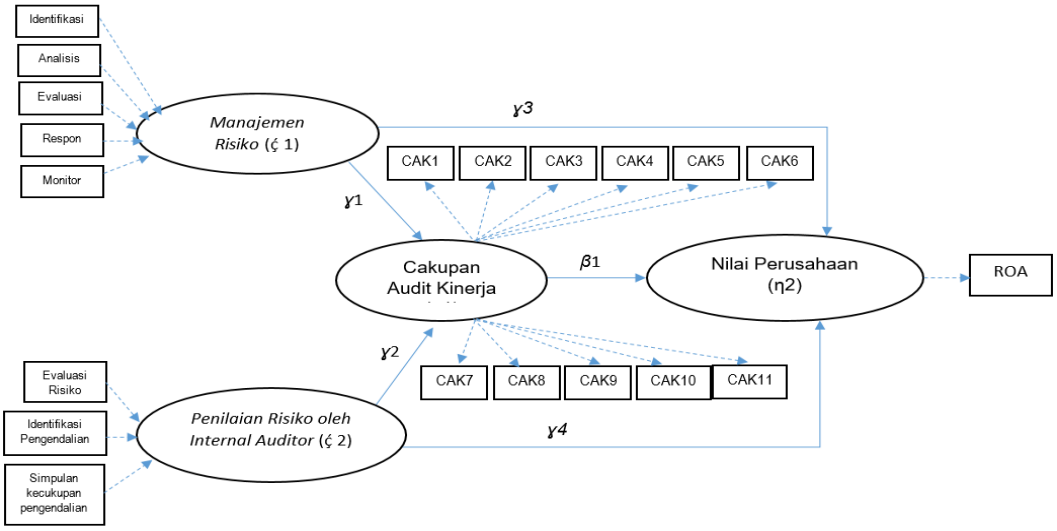
2. METHOD

This study uses a mixed method, which is qualitative and quantitative approaches. Situational analysis and descriptive qualitative are used to describe the depth and extent of the performance audit scope. Data were collected using in-depth interviews and Forum Group Discussions (FGD). The quantitative method used in this study is Structural Equation Modelling-Partial Least Square (SEM-PLS) analysis as a statistical approach for testing a series of relationships about how risk management and risk assessment affect performance audits and also firm value at the end.

The types of data used in this study are primary and secondary data. Primary data was collected through Questionnaire surveys, interviews, or discussions with experts/key persons, while secondary data was through literature studies, internet searches, and data source institutions such as Statistics Indonesia (BPS).

This study uses Structural Equation Modelling (SEM) as the analytical method to determine the effect of risk-based performance audit scope factors on firm value. The SEM model has seven stages in developing a complete model: 1) Theoretical model development. The first stage is to seek or develop a model with a solid theoretical justification (Ferdinand, 2000); 2) Path diagram development. This diagram gives the researchers an advantage in analyzing the examined causality relationship. The flowchart is illustrated by the relationship between constructs through arrows. Figure 1 displays the path diagram of the relationship between variables; 4) Selecting the input data matrix and estimating the proposed model. SEM analysis only uses covariance or correlation matrix as input data for all estimates; 5) Determining the model being studied as not an under-identified or unidentified model because the estimation process cannot be trusted; 6) Review and evaluate the criteria of the goodness of fit test. At this stage, the various goodness of fit criteria evaluated the model's suitability through a review; 7) The validity of the indicators used to regulate the constructs of the measurement model can be seen from the data processing figures using LISREL 8.80. The indicator used must have a T value greater than 1.96.

One of the aims of this study is to consider knowledge management and risk management in performance audit strategy and the relationship between performance audit strategy and firm value creation, described in Figure 1. Based on this framework, research hypotheses and path analysis will be developed.



Picture 1 Path Analysis Model of Variable Relationships

Based on the SEM-PLS model, the following hypotheses are:

Hypothesis 1

H0: Auditors do not consider risk management to determine performance audit scope.

H1: Auditors consider risk management to determine performance audit scope.

Hypothesis 2

H0: Auditors do not consider the internal auditor's risk assessment to determine performance audit scope.

H1: Auditors consider the internal auditor's risk assessment to determine performance audit scope.

Hypothesis 3

H0: Risk management does not affect firm value.

H1: Risk management affects firm value.

Hypothesis 4

H0: Internal auditor's risk assessment does not affect firm value.

H1: Internal auditor's risk assessment affects firm value.

Hypothesis 5

H0: Performance audit scope does not affect firm value.

H1: Performance audit scope affects firm value.

Table 1 Definition of Variables and Indicators

Variables	Indicators	References
Risk Management	Risk Identification	ISO 31000
	Risk Analysis	
	Risk Evaluation	
	Risk Response	
	Risk Monitoring	
Internal Auditor's Risk Assessment	Risk Evaluation	Risk-Based Audit Guidelines-BPKP (2020)
	Control Identification	
	Conclusion of Adequacy of Control	
Performance Audit Scope	Organizational Structure	Wheat (1991)
	Planning, Decision-Making, and Personnel Procedures	
	Company Compliance with Regulations	
	Information Systems	
	Procurement of Goods and Services	
	Operation Efficiency	

Variables	Indicators	References
	Comparative Data or Performance Indicators	
	Cost-Benefit Analysis	
	Performance Standards	
	Policy	
	Strategy of Company Goals Achievement	
Firm Value	Return On Asset	Kasmir (2016)

3. RESULTS AND DISCUSSION

Evaluation of the measurement model on each latent variable is performed by testing the validity and reliability of the construct. Validity is an instrument used to measure the truth of a measurement. In SEM, the measurement of validity uses construct validity to explain that the instrument used can measure the concept as proposed by the theory. Reliability measurement indicates that the instrument is unbiased, ensuring consistent measurement over time.

Based on the fit model analysis results, the saturated and estimated models are suitable, indicating a match between Ha and Ho. As displayed in Table 2, the SRMR meets the marginal fit criteria of 0.096 < 0.08. Likewise, the value on d_ULS meets the criteria because it is greater than the Cut-Off value of 0.05 (1.925 > 0.05). The d_G value is greater than the Cut-Off value of 0.05 (1.081> 0.05), showing a good model. The Normed Fit Index (NFI) has an output value of 0.698 <0.90, indicating a marginal fit model. Because most suitability models meet the criteria, the model designed in the study is good.

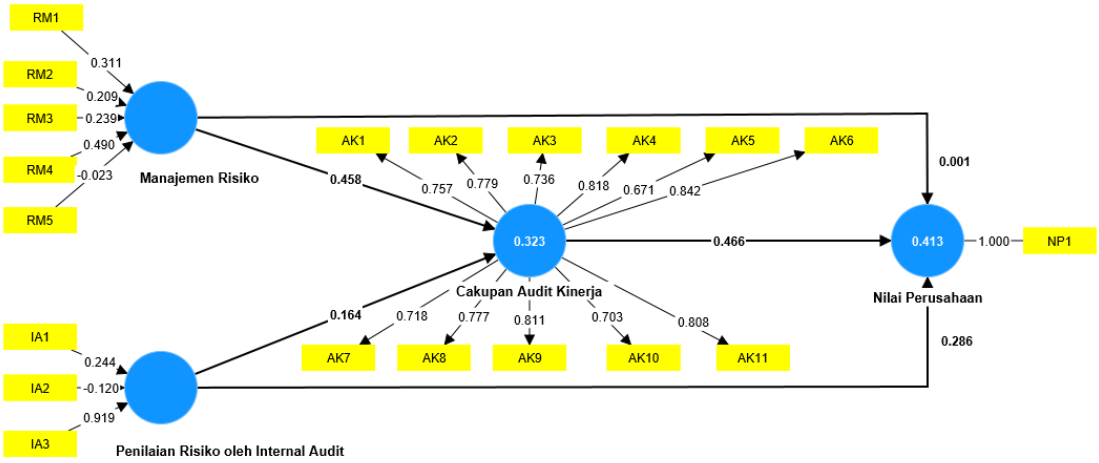
Table 2 Goodness of Fit Test of Overall Model

GOF	Cut off Value	Saturated Model	Estimated Model	Explanations
SRMR	SRMR ≤ 0.08	0.096	0.096	Marginal fit
d_ULS	d_ULS > 0,05	1.925	1.925	Good fit
d_G	d_G > 0,05	1.081	1.081	Good fit
Chi-square	Preferably smaller than Df	458.486	458.486	Good fit
NFI	NFI ≥ 0.90	0.698	0.698	Marginal fit

Based on the endogenous and exogenous variables, a structural model is designed to answer the research objectives in Figure 2 and Figure 3. The path diagram in this research consists of the variables Risk Management, Internal auditor's risk assessment, Performance Audit Scope, and Firm Value.

A validity test for reflective indicators was conducted using the correlation between the indicator and construct scores. Measurements with reflective indicators show that other indicators will follow an indicator change in the same construct. The following is the calculations result using the Smart PLS program.

Picture 2 SEM Output (Standardized Solution)



4. VALIDITY TEST

The discriminant validity test consists of two types of calculations, where the first validity test was conducted by comparing the AVE root score with the latent variable correlation (R-square). The AVE root must be greater than the R-square value of the model. Table 3 displays the R-square value and standard deviation.

Table 3 R-Square Value and Standard Deviation

Variabel	R-square	R-square adjusted	Standard Deviation
Performance Audit Scope	0.365	0.340	0.797
Firm Value	0.530	0.540	0.686

The next step is comparing The R-square value of the model with the AVE square root value. As displayed in the Fornell-Larcker table (Table 4), the AVE root score for each variable is greater than the R-square value, which means that the AVE root score has fulfilled the requirements and the model's reliability (Hair et al., 2010).

Table 4 Fornell-Larcker Criterion Value

Variabel	Performance Audit Scope	Firm Value
Cakupan Audit Kinerja	0.833	
Nilai Perusahaan	0.693	1.000

The output results in Table 5 show the second calculation that all the loading factors of the research indicators have met convergent validity because their values are > 0.5.

Table 5 Loading Values for All Constructs

Variabel Laten	Indikator	Nilai Loading	Keterangan
Risk Management			
	Risk Identification (RM1)	0.311	Meets convergent validity
	Risk Analysis (RM2)	0.209	Meets convergent validity
	Risk Evaluation (RM3)	0.239	Meets convergent validity
	Risk Response (RM4)	0.490	Meets convergent validity
	Risk Monitoring (RM5)	-0.023	Does not meet convergent validity
Internal Auditor's Risk Assessment			
	Risk Evaluation (IA1)	0.244	Meets convergent validity
	Controls Identification (IA2)	-0.120	Does not meet convergent validity
	Conclusion of Adequacy of Control (IA3)	0.919	Meets convergent validity
Performance Audit Scope			
	Organizational structure (AK1)	0.757	Meets convergent validity
	Planning, Decision-Making, and Personnel Procedures (AK2)	0.779	Meets convergent validity
	Company Compliance with Regulations (AK3)	0.736	Meets convergent validity
	Information System (AK4)	0.818	Meets convergent validity
	Procurement Of Goods and Services (AK5)	0.671	Meets convergent validity
	Operation Efficiency (AK6)	0.842	Meets convergent validity
	Comparative Data or Performance Indicators (AK7)	0.718	Meets convergent validity
	Cost-Benefit Analysis (AK8)	0.777	Meets convergent validity
	Performance Standard (AK9)	0.811	Meets convergent validity
	Policy (AK10)	0.703	Meets convergent validity
	Strategy of Company Goals Achievement (AK11)	0.808	Meets convergent validity
Firm Value			
	Return On Asset (NP1)	1	Meets convergent validity

5. RELIABILITY TEST

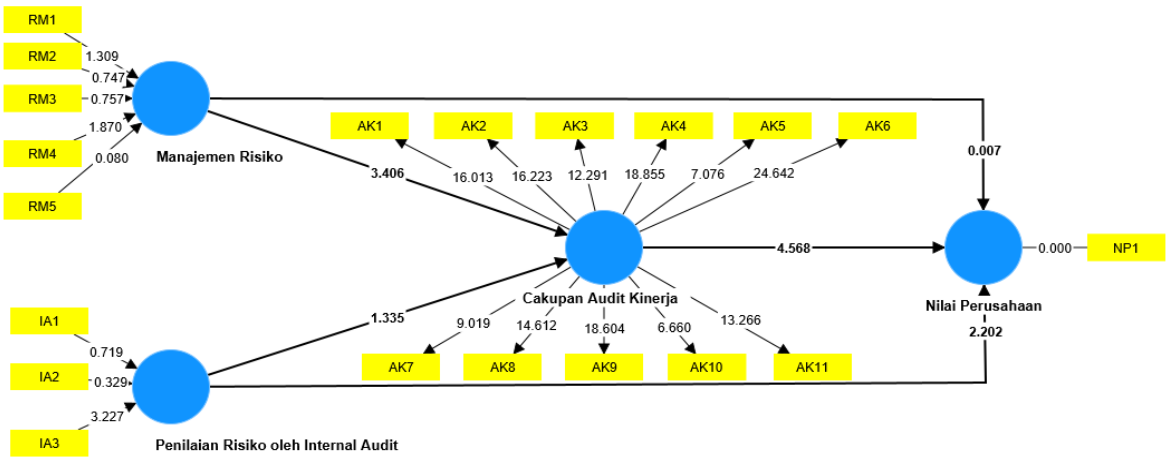
The analysis result using SmartPLS in Table 6 shows that the construct's AVE (Average Variance Extracted) value is more than 0.50, and the construct's Composite Reliability value is more than 0.7, indicating that all variables have high reliability.

Table 6 SmartPLS Algorithm Output

Variabel	AVE	Composite Reliability	Keterangan
Performance Audit Scope	0.588	0.940	Reliable

6. EVALUATION OF THE STRUCTURAL MODEL (INNER MODEL)

In PLS, each relationship was tested using a simulation using the Bootstrapping method for samples. This test aims to minimize the problem of abnormal research data. Figure 3 shows the Bootstrapping method test results from the PLS analysis.



Picture 3 Boostrapping Output (t-value)

The significance of the prediction model in structural model testing can be seen from the t-statistic value between the independent and the dependent variable in the Path Coefficient table. Table 7 shows the results of this study's structural model hypothesis testing, in which three of the five hypotheses are accepted.

Table 7 Hypothesis Testing Results

Hypotheses	Path (Relationship)	t-value 5% (≥1.96)	Effect		Conclusion
			Direct	Total	
H1	RM→AK	3.406	0.458	0.458	Accepted
H2	IA→AK	1.335	0.164	0.164	Rejected
H3	RM→NP	0.007	0.001	0.001	Rejected
H4	IA→NP	2.202	0.286	0.286	Accepted
H5	AK→NP	4.568	0.466	0.466	Accepted
Total Effect				1.375	

This section discusses the results of the research hypothesis testing, which compares the results of descriptive analysis and verification analysis with the theories and previous studies. The result shows that auditors consider risk management to determine performance audit scope, with a t-value of 3.406 > 1.96 (5% significance level). It concludes that **Hypothesis 1 is accepted**. Therefore, each increase in risk management considerations by one unit can increase performance audit scope by 0.458 units.

Corporate risk management can be applied at all levels of the organization, from the lowest to the top management. ISO 31000 Risk Management gives five stages in the risk management process: 1) identify the risks, 2) analyze the likelihood and impact of each risk, 3) prioritize risks based on

business objectives, 4) treat (or respond to) the risk conditions, and 5) monitor results and adjust as necessary. COSO (2004) explains that enterprise risk management is a process carried out by the entity's board of directors, management, and other personnel, which is applied in strategic settings and throughout the enterprise, that designed to identify potential events that may affect the entity and manage its risks based on their appetite, to provide reasonable assurance regarding the achievement of the entity's objectives. Daujotaite (2013) said that risk assessment factors related to performance assessment are an integral part of performance audits.

The following result concludes that auditors do not consider the internal auditor's risk assessment to determine performance audit scope because the t-value is 1.335 < 1.96 (5% significance level). Thus, Hypothesis 2 is rejected. The internal auditor's risk assessment has no effect in determining performance audit scope because the scope of a performance audit must consider all of the internal control elements: Control Environment, Risk Assessment and Management, Control Activities, Informations and Communications, and Monitoring that affect auditor accountability (Febriana et al., 2017). Performance audit scope cannot be done only by examining one or several internal audit elements.

Risk management also does not affect firm value because the t-value is 0.007 < 1.96 (5% significance level). Hence, Hypothesis 3 is rejected. Risk management does not affect firm value because less understanding and implementation of risk management make the high probability of performance failure, although the company has a good risk management design (Sari et al., 2022).

Conversely, the internal auditor's risk assessment affects firm value because the t-value is 2.02 > 1.96 (5% significance level), which makes Hypothesis 4 accepted. The result concludes that each increase in the internal auditor's risk assessment can increase the firm value by 0.286 units. Internal controls are designed, implemented, and maintained so that management and other employees can address business risks and fraud that threaten the achievement of entity objectives and decrease the firm value (Soleman, 2013). Internal control positively influences good corporate governance, while good corporate governance can generate firm value because it can help reduce agency problems and build investor confidence (Ulhøi, 2007). In order to achieve and improve company performance, company value can be increased through effective internal control (Pangaribuan et al., 2022). The study by Dzikrullah et al. (2020) explains that an internal audit is responsible for overseeing company operations and is designed to provide added value and improve company operational activities by evaluating the effectiveness of risk management, controls, and corporate governance processes. In addition, Azizah and Islam (2014) conclude that companies that implement risk assessments on internal control can increase firm value because risk management and internal control are essential in improving company performance by reducing the cost of capital and increasing investor trust.

The last result of this research delivers that performance audit scope affects firm value because the t-value is 4.568 > 1.96 (5% significance level). Thus, Hypothesis 5 is accepted. It concludes that each increase in performance audit scope can increase the firm value by 0.466 units. The audit is an activity carried out by those with independence and professional competence to examine whether existing performance follows established standards. An audit is a process to reduce information asymmetry between managers and shareholders by utilizing external parties to increase the confidence level in financial statements. Companies with solid governance can raise the quality of performance audits that creates good firm value (AlQadasi & Abidin, 2018). Donker et al. (2017) suggested that firm values indicators that influence performance audits are accountability, resources, excellence, fairness, honesty, honor, respect, trust, integrity, and responsibility.

7. CONCLUSIONS AND SUGGESTIONS

Finally, this research confirms that risk management is essential to consider by auditors in determining the scope of the performance audit. Moreover, the internal auditor's risk assessment and performance audit scope affect firm value. Nevertheless, the study's findings indicate that the presence of risk management and the need for auditors to consider the internal auditor's risk assessment when determining the performance audit scope have no significant impact on the firm

value. Therefore, this study suggests that auditors pay more attention to risk management and risk assessment in determining performance audit scope to increase firm value.

In the future, BUMNs are expected to strengthen their risk management in managing the company and maintaining their firm value by optimizing the internal auditor's role in the risk assessment process. In addition, BUMNS must improve cooperation and communication between internal and external auditors to ensure the effectiveness of risk management implementation and improve the quality of performance audits. Therefore, the firm value of BUMNs will continue to increase and make a better contribution to the Indonesian economy.

Suggestions for further research are to extend previous research by deepening and detailing the effect of risk management, risk assessment by the internal auditor, the performance audit scope by the external auditor, and other factors on the organization's performance and its firm value. Further research on that issue will provide more comprehensive and practical insights for related parties to improve the effectiveness of risk management and company performance.

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