

THE TYPE OF CONTROL DEFICIENCY, INTERNAL AUDIT FUNCTION RELATIONSHIP AND INTERNAL AUDITOR'S EVALUATION: AN EXPERIMENTAL STUDY

LYRA RAISA FADHILA (lyralyra61@gmail.com)

IMAS NURANI ISLAMI (imas.islami@president.ac.id)

Universitas Presiden, Indonesia

ABSTRACT

This study aims to examine whether the type of internal control deficiency and the two parties that have a relationship with internal audit function influence the internal control evaluation by internal auditors. This study was conducted a behavioral experiment methodology in 2x2 between-subjects factorial design, and internal auditor as a participant. This study proved that there is an influence between the type of deficiency and the internal auditor's evaluation. In contrast, this study could not prove the effect of the internal audit function relationship toward auditor's evaluation of process-specific deficiency. This study has a great implication on internal control over financial reporting) in every part of the company. The limitation of this study is the findings are not generalizable beyond the internal control scenario depicted in the case materials. This study encourages future research to examine the usefulness of the role of the external auditor, and other parties charged with corporate governance, in mitigating any bias from this study.

Keywords : Internal Auditor, Audit Committee, Top Management, Internal Control Deficiency, Internal Audit Function

Penelitian ini bertujuan untuk menguji apakah jenis penyimpangan pengendalian internal dan pihak yang memiliki hubungan dengan audit internal memengaruhi evaluasi audit internal terhadap pengendalian internal. Penelitian ini menggunakan metode penelitian eksperimen perilaku yang dikemas dalam desain faktorial antara subjek 2x2, dengan auditor internal sebagai subjek. Penelitian ini dapat membuktikan adanya pengaruh jenis penyimpangan terhadap evaluasi pengendalian. Di sisi lain, penelitian ini tidak dapat membuktikan pengaruh pihak yang memiliki hubungan dengan IAF terhadap evaluasi penyimpangan pengendalian proses-spesifik. Studi ini memiliki implikasi yang besar terhadap pengendalian internal pada laporan keuangan di seluruh perusahaan. Limitasi dari studi ini adalah kurangnya generalisasi temuan di luar skenario pengendalian internal yang digambarkan dalam materi kasus. Studi ini juga memotivasi penelitian selanjutnya untuk menguji peran auditor eksternal dan pihak lain yang bertanggung jawab atas tata kelola perusahaan dalam mengurangi bias dari penelitian ini.

Kata kunci : Audit Internal, Komite Audit, Manajemen, Penyimpangan Pengendalian Internal, Fungsi Audit Internal

INTRODUCTION

Misreporting the internal control evaluation by the internal auditors may lead to the poor quality of the report and bring some consequence to the company. The poor quality of internal control that was not being known by the committee may lead an employee for doing something that its bad for a company, for instance fraud. Auditors provide internal control assessments that are more accurate than the internal control assessments made by finance officers (Elder, Randal, Susan, Kattelus and Ward, 1995). Thus, the quality of internal control can be improved through

the internal control assessment by auditors and also auditors' assessment has a significant impact on the effectiveness of the company. Previous research recognized that the relationship between Internal Auditor and both the audit committee and top management continues to be a noteworthy research field (Lenz and Hahn, 2015).

Otoritas Jasa Keuangan (OJK) or Financial Services Authority in Indonesia had established a regulation number 56 / POJK.04/2015 about an establishment and guidelines for internal audit unit charter. The regulation stated that internal audit is responsible to be cooperated with the audit

committee in reporting the effectiveness of internal control. In Nurhasanah's (2016) study of the effectiveness of internal control, it is shown that internal audit was sufficiently mitigating fraud, observed from internal control report's findings inspected by BPK (*Badan Pemeriksa Keuangan* or The Audit Board of the Republic of Indonesia). The research has found that the level of internal audit authority which is the auditor at the echelon level I is influential in reducing corruption cases in the ministry and institution in Indonesia (Nurhasanah, 2016). Therefore, internal audit has a pivotal role in supporting the application of good governance and it is necessary to observe further the quality of auditor's assessment in mitigating internal control misconduct.

Previous research has found there are two unique factors that internal auditors' evaluation can be objective when evaluating the Internal Control Deficiency (ICD) (Gramling and Schneider, 2018). First, the internal auditors' evaluation might be influenced by the type of ICD. In evaluating internal control, internal auditors will evaluate a deficiency from pervasive control along with a deficiency from a process-specific specific control. Prior research was using "tone at the top" as their pervasive control for conducting the experiment of internal auditor's evaluation (Gramling and Schneider, 2018). There was a potential bias on their result since auditor perceives that pervasive control as less important than other types of controls (Gramling and Schneider, 2018). As supported also by Hermanson, Smith and Stephens (2012), it showed that many companies do not regularly assess tone at the top. Previous research encouraged future research to use more pivotal control such as "controls over management override" for mitigating any bias from their study (Gramling and Schneider, 2018). The internal auditor will be more concerned and conscientious in evaluating the pervasive ICD reflective from management override controls. Additionally, another study has suggested the need for research relates to management override of internal controls since little is known about how this control deficiency

occurred due to the lack of research about this issue (Hermanson et al., 2012).

Second, internal auditors' evaluation might be influenced by the party that has a relationship with Internal Auditor Function (IAF) (Gramling and Schneider, 2018). The internal auditor has a relationship with both the audit committee and top management. The internal auditor has a responsibility to provide reliable and objective assurance to the audit committee and top management (COSO, 2015). Top management and audit committee are typically having oversight responsibility and influence towards the IAF, even though the relative influence of both audit committee and management varies across the organizations (Abbott, Parker and Peters 2010). Thus, ineffective internal control may reflect poorly from these two parties (Gramling and Schneider, 2018).

This study wants to examine the influence of the type of ICD and IAF relationship towards internal auditors' evaluation of ICD. This study was using behavioral experiment because according to Gay, a research experiment is the only research method that can examine accurately a hypothesis which concerns causal relationship (Cause-Effect) (Emzir, 2012). By applying behavioral experiments in 2x2 between-subject factorial design, we manipulated the type of ICD at two conditions (i.e process-specific ICD, pervasive ICD reflected from management override control) and IAF relationship at two conditions also (i.e with top management, or with audit committee). The result indicates that the type of ICD can influence the auditor's evaluation. Furthermore, the result showed there is no influence from the IAF relationship with both parties (top management and audit committee).

This study gives a better insight into ICD for standard setters, regulators, and researchers to assess further internal control misconduct and considerate issues related to internal control. This study will contribute to the literature of management override controls issues and contribute to psychological research, especially in the context of motivated reasoning theory by Kunda (1990).

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Perceiving the unique nature of management override fraud is necessary because this deficiency has long been considered as a major obstacle for preventing fraud (Bishop, Hermanson, Marks and Riley, 2019). KPMG (2016) has found that override of controls or collusion is common in fraud cases, and even worse it was involved in many major fraud causes (Bishop *et al.*, 2019). Some companies have implemented properly designed and effective controls, but management overrides those controls to perform fraud (Caplan 1999; Tipgos, 2002; Bishop *et al.*, 2019). As noted, management is the one who designs and implements internal controls, so that management is in a strategic position to override the controls (Bishop *et al.*, 2019). The previous study has argued that in some organizations, management overriding controls is not always appropriately reported (Hermanson *et al.*, 2012). Prior study has proved that management is unwilling to report a control deficiency to secure its private control benefits (Gong, Ke and Yu, 2013). Management overrides are famously hard to detect, which only management can stop a management override (Tipgos, 2002; Radin, 2008), but many auditing firms, have discovered management override before financial statements were issued, proving that they can be detected and prevented (Radin, 2008). To ensure such deficiency is always pursued, the prior study suggests internal auditors work for improving the audit committee's focus on management override of controls (Hermanson *et al.*, 2012).

Type of ICD: Pervasive vs Process-specific

A material weakness is one or a combination of deficiencies that may lead to the possibility that the controls of a company will not detect or prevent a material error in the balance or disclosure of an account (Lin Pizzini, Vargus and Bardhan, 2011). ICD that is assumed as a material weakness (an identified deficiency in Internal Control over Financial Reporting (ICFR) would affect the public company presenting an un-

suitable conclusion on internal control over financial report, and unsuitable conclusion have crucial consequences for companies such as unfavorable lending decision (Gramling and Schneider, 2018; Schneider and Church, 2008). In fulfilling their responsibility for evaluating the internal control, Internal auditor will evaluate ICD from pervasive control and ICD from process-specific controls (Gramling and Schneider, 2018). Pervasive controls are control that affects multiple processes (or known as entity-wide controls).

Control over management override is one of the pervasive control. "Management override" is a term used to describe the power of management to manipulate accounting entries by overruling the controls to present a fraudulent financial statement. If there are no controls over management override, top management such as a Chief Financial Officer may intentionally misstate the nature and timing of a transaction (i.e. to boost income and revenue) and thus influencing multiple accounts (Gramling and Schneider, 2018). Therefore, management override control is a pervasive control and have an entity-wide effect.

Management has a responsibility to design, implement, and maintenance of control, and thus, an institution is always exposed to the danger of management override of controls (Gramling and Schneider, 2018). The audit committee must oversee the actions of management (AICPA, 2016). The responsibility of the audit committee includes inquiry into the adequacy of their organization's internal control, both in theory and in practice, and to take actions, to reduce the possibility that internal control is overridden by management, thereby resulting in undetected fraud (AICPA, 2016). Thereby, control over management override reflects on both the quality of the audit committee and management.

Motivated reasoning theory claims that preferences influenced the decision and judgment of an individual (Kunda, 1990; Gramling and Schneider, 2018). Reporting a high degree of fraud risk may lead to internal auditors to receive personal menaces (Norman, Rose and Rose, 2010).

As supported by the theory, we posit that internal auditors would not want to displease both audit committee and top management since both of these parties have a responsibility and oversight regarding controls over management override, and thus, internal auditor will evaluate this pervasive deficiency as not material weakness. As a result, internal auditor will be encouraged to evaluate the pervasive control as effective. This supported by prior research that showed all specific entity-level or pervasive ICD represent lower possibility of remediation (Bedard, Hoitash, Hoitash and Westermann, 2012). Contrarily, when internal auditor evaluates a process-specific deficiency, they might assume the deficiency as not directly reflective from the activities of both audit committee and top management, as the control is more directly affect for a certain process (Gramling and Schneider, 2018). Because internal auditor did not regularly report to process-specific managers, they may be more honest in evaluating the process-specific controls rather than evaluating a pervasive control. Thus, the internal auditors will be less likely to evaluate a pervasive ICD as a material weakness rather than process-specific ICD.

H1: Internal auditors will evaluate more positively on pervasive ICD reflective from "Management Override Controls" compared to process-specific ICD.

IAF Relationship: Parties That Influence Internal Audit Function (IAF)

Institute of Internal Auditors required the internal auditors to be objective and independent in carrying out their responsibilities (IIA, 2008). Management is less likely to influence the objective of internal audit function (IAF) when evaluating controls and reporting internal control problems to the audit committee (Lin *et al.*, 2011). Sarbanes Oxley Act (SOX) of 2002 Section 404 required the management of public companies to assess the effectiveness of their internal control systems (Schneider, 2008). SOX 404 has expanded the internal auditor roles in serving audit committees and top management (Schneider, 2008; Clinton, Pinnello and Skaife, 2014). Internal auditors are responsible to make a report for the

audit committee and top management (Gramling and Schneider, 2018). The relationship between the IAF with the audit committee and top management are important in contributing to IAF effectiveness by ensuring independence and objectivity (Soh and Bennie, 2011). Reporting a high degree of fraud risk may lead to internal auditor to receive personal menaces (Norman *et al.*, 2010). However, the relationship between the IAF with those both parties could range from completely oversight by the audit committee to completely oversight by top management (Abbott *et al.*, 2010; Gramling and Schneider, 2018). The level of oversight given by both, either the audit committee or top management has been indicated to affect the allocation of IAF resources (Abbott *et al.*, 2010; Gramling and Schneider, 2018).

The prior study recognizes that the audit committee was reviewing and approving the IAF work plan and budget, provides support to the IAF and "gives credence to the IAF reports" (Soh and Bennie, 2011). Previous research recognized that the relationship between internal auditors and both parties (audit committee and top management) continues to be a noteworthy research field (Lenz and Hahn, 2015). Gramling and Schneider's 2018 study also showed the perceived level of oversight for internal control effectiveness by top management and audit committee is a significant factor for internal auditors' control evaluations.

Management is essentially responsible for implementing, designing, and maintaining the ICFR, while the audit committee is responsible for overseeing the ICFR (AICPA, 2016). When top management has the greatest influence over the IAF, the IAF will have a preference to please top management and concluding that top management is effectively performing its duty (Gramling and Schneider, 2018). And vice versa when the audit committee has the greatest influence over the IAF. This is in line with Kunda's (1990) motivated reasoning theory (1990), which says that preferences influence the decision and judgment of an individual. Pervasive ICD from management override controls is reflecting on

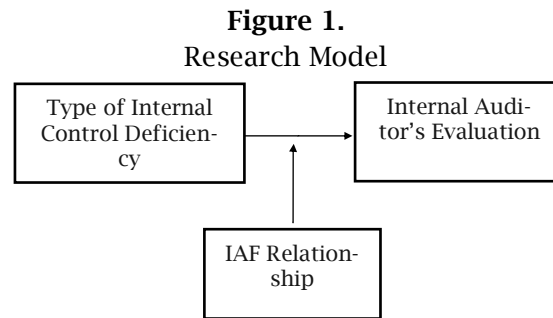
both the quality of the audit committee and management (AICPA 2016). Therefore, when pervasive deficiencies were identified as a material weakness, there will be no effect on control assessment negligible of which party has the greatest influence (Gramling and Schneider, 2018). In contrast, when there is a deficiency related to process-specific controls, internal auditors will assume that the audit committee has a less direct level of responsibility for the quality of the process-specific controls rather than top management (Gramling and Schneider, 2018). Lower-level management is more responsible for the specific-process control and having an important responsibility for the operation, design, and maintenance of the control (Gramling and Schneider, 2018).

However, the audit committee is likely not as known as top management in the details of process-specific controls. The top management is likely having more responsibility for a process-specific control rather than the audit committee (Gramling and Schneider, 2018). Thus, the internal auditor tends to make a conclusion that reflects more positively when the top management has the greatest influence on IAF. The internal auditor will assume that process-specific controls are not reflected from the effectiveness of the audit committee since the audit committee is not as directly related to these controls compared with the top management.

H2a: Internal auditor's evaluation of pervasive ICD reflective from "Management Override Controls" will not be affected by which parties that have the greatest influence on IAF.

H2b: Internal auditor's evaluation of process-specific ICD will be evaluated more positively when top management has the greatest influence on IAF compared to the audit committee.

Figure 1 shows the research model:



RESEARCH METHODOLOGY

Research Design

This study conducts a behavioral experiment in a 2x2 factorial design between-subjects. In Between-subjects, every different participant will get different manipulations scenario (Nahartyo, 2013). We choose behavioral experiments because this study wants to identify the effect of the type of ICD and IAF relationship towards internal auditor's evaluation (Nahartyo, 2013). This study uses a true experiment, in which the independent variables that had been manipulated were randomly distributed to participants. The manipulation scenario will be in the form of a research questionnaire. This study used internal auditors as participants. The factorial design is presented in table 1.

We were conducting a pilot test twice. The first pilot test was done by 20 participants who have internship experience in Public Accounting Company. Each group of the experiment was containing 5 participants but only the first 3 respondents of each group that we examined. The rest of the participants were failing to answer the right choice of manipulation checks. We examined the result by doing two-way ANOVA. According to Winer, Two-way ANOVA can be used to test the difference in the mean between the two or more different groups based on one research variables, where variables are measured on a

Table 1.
2x2 factorial design

		IAF Relationship	
		Management	Audit Committee
Type of Deficiency	Process-Specific	$X_{TPS,M}$	$X_{TPS,A}$
	Pervasive	$X_{TPV,M}$	$X_{TPV,A}$

scale interval or ratio (Usman, 2015). The results were insignificant $p > 0.347$ and $p > 0.172$. To minimize the participants' failure in recalling the right answer of manipulation checks, we modified the manipulation scenario. After that, we conducted the second pilot test. We were spreading the manipulation scenario to around 16 participants randomly and all of them were successful to answer the manipulation checks. Thus, we used the modified manipulation scenario to conduct the research. Then, we analyzed variance. The result was close to 0.05 or significant limit ($p > 0.057$).

Participant

This study wants to explore an issue about Internal Auditor's evaluation so that this study was using the internal auditor as participants. We were contacting the President of IIA (Institute of Internal Auditors) of Indonesia Mr. Hari Setianto, requesting him to distribute the research questionnaire to the member of IIA. Also, to randomize the distribution, we contacted some internal auditors from the various organizations through some channels (friends and LinkedIn). The minimum requirement sample for experiment study is 15 samples per treatment. And because there is a manipulation check, in which a sample that is not passed this check will not be used, we increase the sample size for reserve and set it to be 25 per treatment. We have 4 treatments so that the initial number of our sample is 100 persons. The final number of our sample is 94. The other 6 participants were excluded from our hypothesis analysis because they failed to answer the manipulation checks.

Definition of Variable

Dependent Variable

The dependent variable of this study is the internal auditor's evaluation of ICD. An internal auditor is responsible for evaluating the effectiveness of ICFR and thus, they will evaluate every deficiency of internal control. A material deficiency or a combination of deficiencies in ICFR is identified as a material weakness. For assessment, we were using "material weakness classification assessment" and the "likelihood of

concluding material weakness assessment" adapted from prior research (Earley, Hoffman and Joe, 2008; Gramling and Schneider 2018). First, the internal auditor as the participants will be asked with a binary type of question (yes or no), whether they would conclude the identified deficiency as a material weakness (Earley *et al.*, 2008; Gramling and Schneider 2018). Second, they will be asked how likely it is they would conclude the identified deficiency as a material weakness from the scale of 0= definitely not material weakness to 100= definitely material weakness (Earley *et al.*, 2008; Gramling and Schneider 2018).

Type of ICD

The ICD is a lack of not having sufficient internal control enough. Deficiency in ICFR is also known as a material weakness. The ICD was manipulated into two conditions; Process-specific ICD and pervasive ICD reflective from controls over management override. Pervasive internal control is an entity-level of controls which means it influences an organization. While process-specific internal control is an internal control that affects only a certain process and typically focuses on maintaining the output of a certain process.

IAF Relationship

Two parties have an oversight and influence relationship over the IAF which are top management and audit committee. Thus, the IAF Relationship variable was manipulated into two conditions; condition when top management has the greatest influence over IAF, and vice versa when the audit has the greatest influence.

Research Procedure

The experiment material provided by participants consists of general instruction, manipulations scenario, and the post-experiment questionnaire. The questionnaire has been pilot test twice to the students of president university that have an experiment as an auditor. The pilot test was conducted to evaluate and improve upon the manipulation scenario design.

First, participants were requested to open the manipulation scenario through a

link. Then the participants were instructed to evaluate internal control in a company. After that, the participant read the manipulation scenarios carefully. The participants were provided with two sets of manipulation scenarios. In the first set of manipulation scenarios, each participant was assigned 1 of 2 conditions concerning the greatest influence of IAF, audit committee, or management. The approach to manipulate was based on prior research and professional standards' guidance (IIA, 2016)

In the second scenario, participants were informed that, as part of the company's internal control reporting require-

ments, they will assist management to evaluate internal control, and that there was tone remaining ICD detected by the IAF. Participants received a tone of two conditions regarding this remaining ICD: process-specific ICD and pervasive ICD reflective from controls over management override. The manipulations are presented in the Appendix, especially in Panel B.

The participants were asked for the manipulation checks after finished reading the manipulation scenario. The purpose of the manipulation check is to know whether the participants already understand the scenario. The manipulation checks are at-

Table 2.
Demographic Participants Statistic

	N	Percent
Age		
21 - 30 years old	41	44%
31 - 40 years old	23	24%
41 - 50 years old	21	22%
51 - 60 years old	8	9%
> 60 years old	1	1%
Total	94	
Gender		
Male	72	77%
Female	22	23%
Total	94	
Job Title		
Chief Internal Auditor	9	10%
VP Internal Auditor	-	-
Audit Senior Manager or Audit Manager	28	30%
Audit Senior	20	21%
Audit Staff	28	30%
Other	9	10%
Experience	94	
Obtained accounting, audit or fraud certification		39%
Have some external audit experience		48%
Have issued an internal control opinion		57%
Have assisted management in complying with section 404		26%
Have reported a material weakness on an internal control report		80%
Have identified problems that were deemed significant deficiencies		82%
Experience in year		
< 1 years	6	6%
1 - 5 years	44	47%
6 - 10 years	22	23%
> 10 years	22	23%
	94	

tached in Appendix Panel C and D.

Then participants were asked whether they would classify the deficiency as a material weakness (binary option: yes or no). Also, the participants were asked how likely it is that they would conclude the identified ICD on their manipulation scenario as a material weakness. And the last, the participants were asked the gender, age, current position and years of experience. These questions were asked about obtaining the background information of participants. A two-way ANOVA is used to testing hypothesis 1 and hypothesis 2.

ANALYSIS AND DISCUSSION

Participants' Demographic

The research manipulation scenario was made in the form of an e-survey. The questionnaires were distributed to around 100 internal auditors. We were distributing the

manipulation scenario in some way. First, we contacted the chairperson of IIA Indonesia to spread the manipulation scenario to his colleagues. Second, we contacted several internal auditors from different companies through our channel. And third, we distributed the manipulation scenario through LinkedIn randomly.

We collected the demographic background of participants. The data is presented in Table 2 . The mean of participants age is around 31 - 40 years old while most participants are at around 21 - 30 years old (44 percent). Even though we spread randomly, participants are mostly male by 77 percent while the 23 percent are female. Most participants are currently from audit manager and audit staff with 30 percent respectively. We also found that participants are rarely to know that internal auditors have a role to assist management in

Table 3.
Material Weakness Classification Assesment

Material Weakness Classification Assessment				
Type of Deficiency	Primary influence over the IAF		Total	
	Top Management	Audit Committee		
Panel A : likelihood of concluding the deficiency as a material weakness - Mean (Standar Deviation) [Sample size]				
Process Specific	8,04	8,43	8,24	
	2,01	1,08	1,55	
	(24)	(23)	(47)	
Pervasive	5,61	6,92	6,26	
	1,99	2,34	2,17	
	(23)	(24)	(47)	
Total	6,83	7,68	7,25	
	2,33	1,97	2,15	
	(47)	(47)	(94)	
Panel B: Analysis of variance on likelihood of concluding the deficiency as a material weakness				
Test of Between-Subjects Effects				
Factor	df	Mean Square	F	Sig
Primary Influence over the IAF	1	15,680	4,391	0,039
Type of deficiency	1	97,219	27,224	0,000
Interaction	1	3,432	0,961	0,330
Error	90	3,571		
R Squared = ,267 (Adjusted R Square = ,243)				
Panel C : Simple Effects				
Type of Deficinecy	df	F	Sig	
Pervasive : effect from IAF Relationship (H2a)	1	1,9795545	0,163	
Process-specific : effect from IAF Relations (H2b)	1	0,579756	0,448	

complying with SOX section 404 since the percentage is the lowest from the experience category (26 percent). Mostly, the participants have experience as an internal auditor for around one until five years with 47 percent.

Hypothesis Testing

Descriptive statistics are presented in Table 3. Hypothesis 1 posits that internal auditors are likely to assess a process-specific ICD as a material weakness rather than a pervasive ICD from controls over management override. We were using the assessment of material weakness to represent auditors' evaluation as the dependent variable. As presented in Table 3 - Panel A, the mean likelihood of concluding a material weakness is 8,24 for the process-specific ICD and 6,26 for the pervasive ICD. This result proved Hypothesis 1. As shown in Table 3, the ANOVA results shown significant at $p < 0.000$. This confirms that the type of ICD influences the internal auditor assessment of internal control. The auditor is likely to evaluate the process-specific deficiency as a material weakness rather than a pervasive deficiency from the management override program. In summary, we can conclude Hypothesis 1 was supported.

Turn to Hypothesis 2a and Hypothesis 2b, we posit that internal auditor's evaluations of a pervasive ICD reflective from controls over management override will not be influenced by which party has the greatest influence over IAF. On the contrary, when it comes to process-specific ICD, we expect that internal auditors will likely evaluate as not material when management has the greatest influence than the audit committee. Table 3 shows the results for Hypothesis 2a and Hypothesis 2b using a participant's material weakness assessment as the measurement of internal auditor's evaluation.

Table 3 provides results for H2a and H2b, it presents the mean likelihood of participants to conclude the scenario as a material weakness. As shown in Panel C of Table 3, the simple effects of pervasive deficiency with both party that influences IAF were insignificant ($p = 0,163$). This indicates that internal auditor evaluation of

pervasive ICD is not affected by both parties influence the IAF. Thus, the result proved our H2a which presumed there is no influence from IAF relationship with the auditor's evaluation of pervasive deficiency. Turning to the H2b, Panel C of Table 3 indicates that the simple effects of process-specific ICD were not significant ($p = 0,448$). This showed there is no effect from IAF relationship towards process-specific ICD evaluation. It is contradictory with our H2b which presumed the auditor's evaluation of process-specific deficiency will be less likely evaluated as a material weakness when management has the greatest influence over IAF rather than the audit committee. This result cannot prove our H2b. In summary, the results from simple effect test from Panel C of table 3 were proven the H2a and rejected the H2b.

Discussion

Overall, the result has shown that the type of deficiency influences the internal audit's evaluation of internal control. Our result proved that the internal auditor would not want to displease neither management nor audit committee by assessing a pervasive deficiency reflective from management overriding control as a material weakness since both of the parties influences the IAF. It is consistent with motivated reasoning theory by Kunda (1990) that is "preferences influence an individual's judgment". Thus, compared to process-specific deficiency, internal auditors are less likely to assess a pervasive deficiency as a material weakness.

Furthermore, our result has proven the evaluation of pervasive deficiency (reflective from controls over management override) will not be affected by the parties influence the IAF. This was also consistent with prior research. Since a pervasive deficiency reflective from management override control is reflects on both quality of audit committee and top management, there will be no effect on control evaluations negligible of which party has the greatest influence (Gramling and Schneider, 2018). In contrast, there was insufficient evidence to prove that the internal auditor is less likely to evaluate a process-specific

deficiency as a material weakness when the top management has the greatest influence on IAF rather than the audit committee. There is a possibility of an extraneous variable that we have not manipulated and controlled, influenced our dependent variable which is internal auditor's evaluation. In conclusion, there is no effect from the IAF relationship towards the internal auditor's assessment of ICD.

LIMITATION AND SUGGESTION

A control deficiency reflective from management overriding control can have a great implication on evaluating the ICFR in every part of the company. Ignoring to evaluate this deficiency as a material weakness may result in giving incorrect information about the internal control quality. The limitation of this study is subject to the most common limitations in most of the experimental behavioral studies encountered, which is the findings were not generalizable beyond the control deficiency scenario depicted in the case materials. Even though we had applied a randomization approach, there is a possibility of an extraneous variable that we have not controlled, influenced our dependent variable.

We also conduct additional analyses on whether internal auditors in Indonesia has already aware of the importance of audit certification. The demographic data has shown that only less than a half participant has obtained a Certified Internal Auditor (CIA). This result was also supported by a local newspaper, *Pikiran Rakyat* has reported in 2017 there were only 360 persons has obtained the certification. In IIA Indonesia National Conference 2018, the VP of IIA also revealed only around 500 persons from thousands internal auditor has obtained the certification. The IIA Indonesia encourages internal auditors to increase capacity by obtained international certification to facing the big challenge that came from the fourth industrial revolution.

In a larger public company, an external auditor also has a responsibility to evaluate the ICFR. Thus, this study encourages future research to examine the usefulness of the role of the external auditor related to ICFR. This study gives important insight

for standard setters, regulators, internal and external auditors to focus on management override control issues. This study will give a better insight into internal auditor's evaluation of internal control for a researcher and encourage researchers to assess further the extent of internal control misconduct. This study will give a contribution to the literature of management override of controls issue and psychological research in the area of motivated reasoning theory by Kunda (1990). This study also contributes to the research experiment area, especially in 2x2 factorial design.

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