

Audit Quality Elements And Auditor Performance In Pakistan: An Empirical Evidence

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ABSTRACT

This paper aims to investigate some elements that are necessary to improve the quality of government auditors' audits. In Pakistan, the quality of audits is insufficient to attract public confidence in governmental functionaries. This evidence proves the underperformance of government audit personnel. The current survey assesses the influence¹ of top management support, career planning, effort and reward fairness, and employee participation on auditor performance, focusing on audit quality elements that the Pakistan Audit Department has not sufficiently studied. The study revealed the positive significance of higher management support, effort & reward fairness, and employee participation. On the other hand, the impact of career planning on auditor performance was not significant. The researcher first applied the EFA method to extract potential factors. Subsequently, the results were validated using OLS regression techniques.

Keywords: *Audit Quality, Auditor Performance, Top Management Support, Effort and Reward Fairness, Employee Participation, Career Planning.*

INTRODUCTION

An audit is a critical method for achieving a certain level of assurance in financial and administrative matters, intending to minimize fraud and extravagance in public sector organizations. A weak financial mechanism and absence of integrity in governmental operations can lead to an unstable situation of extreme danger. Therefore, a quality audit is indispensable to achieving a trusting relationship between public institutions and the people of that country. The increased level of corruption in Pakistan makes it one of the most corrupt nations among the others (Transparency International, 2020). This indicates a lack of transparency in government institutions, leading to underperformance by government auditors in achieving productive audit results. In any country, transparent and accountable public administration is essential for delivering enhanced public services, as it underpins the trust of the financial market and other relevant institutions. In this contemporary world, government institutions' poor performance, particularly in emerging economies, is a matter of significant concern. The fundamental cause of this phenomenon is the poor performance of government employees, as human resource practices play a crucial role in any organization. To address this

issue, the United Nations mandated institutional reforms as a sustainable development goal. For this research, a survey was conducted in the Pakistan Audit Department, which oversees government auditors.

The audit institution is divided into more than thirty field audit offices across the country to conduct audits of the entire public sector, including federal, provincial, and district governments. The Pakistan Audit Department is also responsible for inspecting various semi-governmental and commercial institutions. In today's world, an audit is a critical tool for ensuring transparent mechanisms in government organizational infrastructure. To produce high-quality audits, government auditors need to be well-versed in the latest audit techniques. International standards generally categorize government audits into compliance, financial, and performance audits. Currently, government functionaries have weak transparency in Pakistan. This trend depicts the underperformance of government auditors. To establish a transparent and accountable mechanism in public sector organizations, the prevalence of quality audits is required. Many factors can empirically stimulate the productivity of government auditors.

This paper aims to shed light on the numerous factors that significantly influence the performance and quality of government auditors. The current study's outcome will help establish the influence of auditor performance and quality audit reports in Pakistan. Afterward, we can expand its scope to include other government employees, enabling them to evaluate their performance across various organizations.

Research Objectives

- To learn about the crucial factors that are having an influential impact on the government auditor's performance to produce quality audits.
- To observe their relations and magnitude upon the performance of government auditors.

Literature Review

According to Guest (2011), social sciences prioritize examining personnel practices and employee performance. Therefore, observational studies are needed to explore human resources and productivity. To keep any business on track, productivity depends on tactical features and the best HR practices. Superior human resource techniques can boost performance, according to frequent studies. Observational studies are necessary to fill the research gap on human resources and employee output by measuring both dependent and independent factors and revealing their significance. In the contemporary world, auditor performance is crucial to produce quality audit reports in corporate and public sectors. Ng'eni et al. (2016) assert that government auditing plays a crucial role in analyzing the efficient and effective use of public resources through a set of established standards. The quality of the audit solely depends on the performance of the government auditors, who are liable to produce quality audits. Researchers and scholars used different tools to ascertain the quality of the audit. It includes formal education, an understanding of statutory laws, and professional practitioner rules and regulations. According to Zahmatkesh & Rezazadeh (2017), an auditor's attributes have a significant effect on audit quality. They investigated working experience, professionalism, integrity, and motivation but found that motivation did not significantly affect audit quality. Masood and Lodhi (2015) found that several factors, including less independence, affect government auditor performance. They determined that a lack of transparency and accountability among Pakistani government officials hinders manufacturing quality audits. Alktanii and Ghareebii (2014) found that auditors' diminished independence and lack of professionalism hinder government audits in Saudi Arabia. An effective auditing procedure must produce quality audits economically, considering parliament as a user, audit organizations

as auditing firms, public sector functionaries as clients, and the public as the recipient of government auditors' audit reports.

Dependent Factor

Auditors Performance

Guest (2011) states that tracking human resource performance has no defined method; therefore, different operational settings use different methodologies to measure staff productivity. Investigating the mutual relations between performance and personnel management practices, such as the physical working environment, employee participation, internal and external collaboration, and job commitment and satisfaction, can help analyze it effectively. He also contended that a particular institution or working atmosphere solely links performance, making it inapplicable to all businesses or organizations. Today, organizations debate employee performance to enhance their human resources (Pradhan et al. 2017). Sanjiwani and Wisadha (2016) measure the auditor's performance by his ability to fulfill assigned responsibilities and generate productive outcomes. The auditor must be diligent, fearless, honest, fair, and methodical to perform and deliver quality audits (Kusumawati and Syamsuddin, 2017). According to Robbins (2003) and Saleem & Amin (2013), auditor experience helps to uncover audit flaws. They also suggest studying coworkers, self-practicing, and reading case studies to improve these encounters. An auditor's educational background shows their professional affluence as a competency level to produce quality audits (Kusumawati and Syamsuddin, 2017). Duff (2004) states that competency, ethical standards, collaboration, and time constraints help define auditor performance. Lestari et al. (2021) measure auditor performance based on their working efficiency, productive capacity, completion of job targets, and coordination to minimize errors.

Independent Factors

Trust & Support by Higher Management

Trust and assistance from top management are essential for government auditors to succeed. For this, an organization must fully support and equip its employees to work hard. Some researchers reframe supervisory support as higher management trust and support to determine senior management's function. Motivating subordinates to increase productivity requires senior management support. Many studies have found that better management trust and support improves government worker performance. Senior management's reliance on subordinates drives them to perform well. The study argues auditor independence is essential for quality audits, but it's challenging to prove. Without management support, auditor independence is impossible. Supervisory and higher management support is essential for an auditor to perform independently and produce quality audit reports in both the private and public sectors. Higher management backing is strategic in improving professional behavior in the workforce by equipping them with appropriate guidance, as described by different studies (Mahzan et al., 2015). Bello et al. (2018) found that higher management support improves audit quality. Higher management often neglected honest and efficient auditors to depute in the auditing process and discouraged them from performing independently. Trust and assistance from top management have a growing effect on public sector auditor performance.

H₁: Trust and support by higher management have a positive association with auditor performance.

Career Planning

Gerhart (2005) states that career planning is a key aspect of human resource management that affects worker performance in all settings. Any company that offers expedited career paths

attracts more workers. Some ineffective organizations in developing countries cannot offer career growth chances to their employees, resulting in low labor productivity. Employees are more interested in professional progress before providing various services (Weng & McElroy, 2012). They also identify career development factors, including achieving career goals, excelling professionally, climbing the job ladder, and earning substantial financial benefits. It encourages employees to be vigilant and capable of critical work in specified situations. Hameed & Waheed (2011) say career advancement might drive employees to perform well. Improved employee performance will benefit the employer's organization and lead to promotions.

H_2: Career planning positively impacts auditor enactment.

Effort & Reward Fairness

Pay and motivation boost public sector audits. Institutions are better off with dynamic incentives and rewards. Financial reward motivates and retains staff (Amah et al., 2013). To succeed, HR must provide tangible incentives and attractive rewards. Many observational studies show that workstation fairness improves employee behavior. Money and recognition motivate employees in any organization. Quality services and fair remuneration motivate workers to handle massive tasks. Low-paid workers lack motivation. Over five metrics are used to assess Dutch effort-based remuneration in people management and employee productivity (Jassen, 2004). Muthengi (2017) says liquidity funds motivate workers more than other benefits. Moderators, objective priority, and passion link financial incentives to employee productivity over time say Bonner & Sprinkle (2002).

H_3: Effort & Reward Fairness has a positive impact on auditor performance.

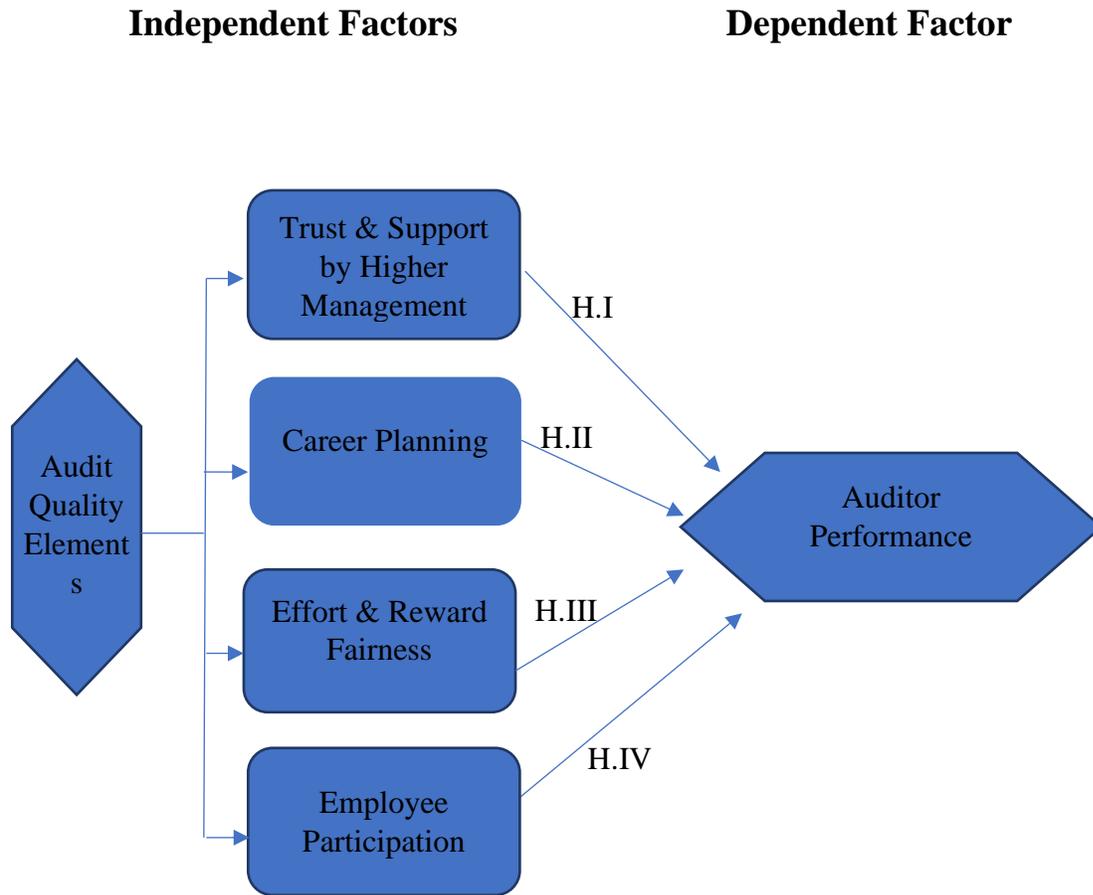
Employee Participation

Employee-based HR techniques increase production (Bhatti & Qureshi, 2007). Employee competency levels vary by working domain, yet better performance can help organizations succeed (Khalid et al., 2014). Thus, prominent institutions struggle to use the optimal HR practices for each individual to increase performance. (Baptiste, 2008) claim employee involvement in organizational goals boosts performance. He advised the administration to define employee participation for institutional efficiency. It is important because senior management may design remuneration plans to motivate personnel. Effective management-employee communication demands employee input. This tendency will improve staff communication and performance (Zwick, 2004). Staff management research and organizational productivity rise with contribution (Greenan & Mairesse, 2002).

H_4: Employ Participation also boosts auditor performance.

Theoretical Framework

Figure: Theoretical Framework



Methodology and Research Design

Audit quality determinants and auditor performance criteria were utilized to examine cross-sectional data from this survey.

By employing an appropriate sample size, the survey approach helps study large populations and understand statistical data. This paper uses online sampling for timely and appropriate responses. A closed-ended survey was used to obtain government auditor responses. This study will use descriptive statistics. Survey questionnaires are used to gather primary data from the working auditors of the audit department. This survey is pretty much in accordance with the prior research in the field of auditor performance and audit quality.

Target Audience and Sample Size

Government auditors are the target audience from the Pakistan Audit Department. Because only the Auditor General of Pakistan audits all government offices. These audits include municipal, provincial, district, and federal governments and corporations. The Pakistan Audit Department audits these government agencies with approximately 1500 auditors. The senior auditor, assistant audit officer, audit officer, and director are typically auditing team members administered by field audit offices. This study used convenient sampling to gather government

auditor responses. An online sample calculator determined the sample size with 95% confidence and 7.5% error and recommended 145 samples for this study.

Table 1: Description of responses received from across the country

Place of Posting by Regions	Response Frequency	Proportion
Islamabad, GB	25	17.5
Punjab	80	55.1
Sindh	22	15.2
KPK	10	6.9
Baluchistan	7	5.1
Total	146	

Instruments for Data Collection

A 28-question survey questionnaire was created for this empirical investigation. It includes 7 demographic questions to determine respondents' backgrounds. Independent factors such as higher management support, career progression, effort and reward fairness and staff participation were measured in 13 questions to affect auditor performance. Eight questioning assertions measured auditor performance. Researchers have studied these variables in previous studies conducted in different nations. In 2021, Lesrari et al. and Masood & Lodhi (2016) have also employed certain pertinent parameters. All five factors were rated on a one-to-five Likert scale.

Controls

Based on prior research, this study includes seven demographic factors: auditor age, academic background, professional experience, pay, workplace, and audit department classification in Pakistan. Most governmental agencies in Pakistan employ men; therefore, the audit department is no exception. Men dominate the audit department, accounting for over 70% of responses.

Table 2: Detail of Demographics

Variable Name	Description	Frequency	Percentile
Age	30s	81	55.8
	40s	60	41
	50s	5	3.2
Gender	Male	112	76.8
	Female	34	23.2
Qualification	Bachelor	80	54.8
	Masters	63	43.4
	Post Masters	3	1.8
Working Experience (In years)	6-10	71	49.1
	11-15	58	39.8
	16-20	12	8.1
	Above 20	5	3
Designation	Sr. Auditor	5	3.1
	Assist. Audit Officer	83	57.2
	Audit Officer	54	36.7
	Director	5	3

	Below 50k	5	3.1
Monthly Remuneration (In PKR)	50k-100k	80	55.3
	100k-150k	57	38.9
	150k-200k	4	2.7

Analytical Procedures (EFA and OLS)

Exploratory factor analysis and statistical tests were carried out to measure the consistency and accuracy of the questionnaire. This also indicates the relational reliability amongst construct and manifest variables. OLS is used to define the model in this study. Five construct variables were being used to measure the equation of this model such as higher management support, career advancement, effort & Reward fairness, employee participation, and auditor performance. It is impossible to measure the latent variables directly therefore, it is inevitable to use manifest variables. Comparison and interpretation of variables become easier while using factor loadings and factor rotation techniques in exploratory factor analysis. Various researchers applied EFA in their studies to investigate the effects of dependent and independent variables. Several researchers exemplified that EFA is a suitable way to define the quantity of retained factors through observing exposed variation, studying obtained eigenvalues, and explaining variability in factors through preserved maximum loadings (Costello & Osborne, 2005). To ensure the reliability and consistency of this research, this paper uses STATA to run OLS regression. This study considers auditor performance (AP) as a dependent variable whereas, trust & support by higher management (TSM), career planning (CP), effort & reward fairness (ERF), and employee participation (EP) are taken as independent variables to develop the model as below:

$$AP = \beta_0 + \beta_1(TSM) + \beta_2(CP) + \beta_3(ERF) + \beta_4(EP) + e$$

- AP: Auditor Performance
- TSM: Trust & Support by Higher Management
- CP: Career Planning
- ERF: Effort& Reward Fairness
- EP: Employee Participation
- e: Error term

RESULTS

Descriptive Statistics, Measurement of Reliability, and Validity

The table below contains the summary statistics, including the Cronbach alpha. Cronbach alpha is a suitable technique for measuring the consistency and validity of the experiential variables. According to various studies, the Cronbach alpha value for any variable appears highly reliable if it is greater than 0.75. Conversely, a value of alpha less than 0.50 is deemed unreliable and should be excluded from further exploration. This model has an overall alpha of more than 0.90 among twenty-one manifest variables. The auditor's performance is dependent on an alpha value of 0.927. Four independent variables, namely top support management, effort & reward fairness, employee participation, and career growth, exhibit reliable Cronbach alpha values of 0.885, 0.849, 0.778, and 0.703, respectively.

Table 3:Detail of Summary Statistics and Consistency of All Variables

No.	Variable Description	Mean	Std. Dev.	Cronbach alpha (Individual)	Cronbach alpha (Collectively)
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1	AP (satisfy with retirement benefits)	1.651	.915	.9380	
2	AP (suitable working condition)	2.166	.949	.9381	
3	AP (spatial flexibility)	2.176	.722	.9384	
4	AP (feeling secure & safe)	2.040	.643	.9370	.9270
5	AP (amount of work)	1.788	.979	.9392	
6	AP (work on time)	1.899	.923	.9372	
7	AP (minimal error)	1.854	.892	.9378	
8	AP (recognition received)	1.797	.971	.9383	
9	TSM (obtained support)	2.969	.512	.9376	
10	TSM (honesty & integrity)	1.838	.851	.9385	.8859
11	ERF (fringe benefits)	1.848	.816	.9389	
12	ERF (standard of living)	1.676	.828	.9383	.8496
13	ERF (earnings and motivation)	1.949	.759	.9394	
14	EP (contributory performance)	2.969	.512	.9393	
15	EP (control without pressure)	2.924	.620	.9414	
16	EP (collaboration)	2.989	.542	.9398	
17	EP (Job objective achieved)	2.959	.586	.9413	.7784
18	EP (comparison of salary)	2.611	.672	.9429	
19	Career (timely promotion)	1.707	.664	.9427	
20	Career (promotion mechanism)	2.050	.651	.9414	.7039
21	Career (role of trainings)	2.005	.833	.9412	
	Overall			.9421	

Exploratory Factor Analysis

EFA is useful for statistical inference by removing unrelated information, latent variable estimates, and manifest variable relationships can be simplified. Regression analysis can establish dependent and independent variables using the EFA results. Consistent with earlier research, this study uses 21 manifest variables to quantify construct variable significance. A scale of twenty-six manifest factors was examined; however, five-question statements were deleted due to low scores. After examining the pattern and factor loading matrix, researchers recommend studying variables with over 0.50 scores since they increase the study magnitude.

Number of Factors

The appendix contains factor extraction and numerous factor outcomes. The study uses the relevant eigenvalues of 9.61, 1.11, 0.93, 0.70, and 0.59 to extract five elements, and the model does not contain any uncertain variables. Numerous scholars consider manifest variables to be worrisome and must be denied if the uniqueness value is greater than 0.90; hence, all variables in this study are reliable. After examining all factors, the findings support the mental model.

Unique Variances and Factor Loadings Sorted

The tabulated findings below demonstrate that factor scoring and uniqueness values are satisfactory due to the clearness of the factors. To illustrate the trend and significance of each element, we have highlighted the factor values exceeding 0.50. The study's basic framework identified five construct factors to examine through manifest variables. The results show five

factors describing the suggested model. After eliminating some difficult and low-scoring manifest variables, the combinations changed slightly.

Table 4: Factor loadings (Sorted)

Variable Detail	Factor .1	Factor .2	Factor .3	Factor .4	Factor .5	Uniqueness
AP (satisfy with retirement benefits)	.7769	.1123	.2615	.2603	-.0133	.2476
AP (suitable working condition)	.7497	.2311	.1773	.0539	.2334	.2957
AP (spatial flexibility)	.7182	.2880	.1802	.1928	-.0230	.3311
AP (feeling secure & safe)	.6831	.2601	.1531	.2869	.2834	.2797
AP (amount of work)	.6606	.0671	.3129	.0780	.1943	.4174
AP (work on time)	.6325	.4209	.3250	.1634	.0837	.2835
AP (minimal error)	.5811	.4708	.1944	.1720	.1759	.3423
AP (recognition received)	.5320	.3976	.2455	.0823	.3155	.3922
TSM (obtained support)	.3957	.7286	.2732	.2023	.1414	.1769
TSM (honesty & integrity)	.3468	.5970	.2629	.2977	.1129	.3528
ERF (fringe benefits)	.2946	.2701	.7002	.1845	.1464	.2945
ERF (standard of living)	.3722	.2896	.6102	.1955	.1612	.3411
ERF (earnings and motivation)	.3786	.1871	.6047	.0831	.2073	.4062
EP (contributory performance)	.2069	.2620	.3106	.6739	.1463	.3165
EP (control without pressure)	.0847	.2897	.1234	.5858	.3111	.4537
EP (collaboration)	.4239	.2835	.0216	.5250	.0979	.4543
EP (Job objective achieved)	.4566	.1371	.0405	.5207	-.0995	.4900
EP (comparison of salary)	.3045	-.2291	.2754	.4300	.1667	.5662
Career (timely promotion)	.0841	.1497	.2625	.0916	.6589	.4590
Career (promotion mechanism)	.2736	.1203	.1115	.2151	.5754	.5208
Career (role of trainings)	.2089	.2146	.2299	.2441	.4200	.6215

Correlation Matrix Analysis

The table below presents the correlation among all five variables. According to Ashford and Tsui (1992), the correlations among all variables are acceptable if remain under 0.75. The maximum correlation in this study is below the margin line whereas, others are all satisfactory.

Table 5: Correlation Results

	AP	TMS	ERF	EP	CG
AP	1				
TMS	0.7118	1			
ERF	0.7013	0.6222	1		
EP	0.6276	0.5638	0.5341	1	
CG	0.4973	0.5080	0.5080	0.4813	1

OLS Regression Results

The table below shows the most statistically significant regression results. Higher management trust, effort-reward fairness, and staff participation all have a positive and significant impact on auditor performance (p-value <0.000). Career planning has little effect on auditor performance. The F-value (66.06, p-value<0.00) indicates the validity and importance of this

regression model, r-squared shows the strength of variables defining auditor performance. This model's understudy factors can characterize auditor performance at about 65%, while the exogenous variables define the other 35%. According to studies, r-squared and adjusted r-squared should be between .20 and .80 to designate minor to significant effects. We have conducted additional experiments to assess multicollinearity, variance inflation factor, KMO, and other factors. In regression analysis, VIF (variance inflation factor) measures multicollinearity. VIF shows reciprocal tolerance; low VIF means low factor correlation. The optimal situation is when VIF is below 3 ($VIF < 3$). A value below 10 is also acceptable. While VIF depends on the study, most experts recommend 10. VIF typically assesses how much multicollinearity in the observable mental model affects regression variance. All tests were satisfactory, as shown in the appendix. The VIF was below 3.3, as recommended by Knock and Lynn (2012) and Gashema and Kadhafi (2020). All results support the hypothesis, as they significantly link with auditor performance.

Results support Hypothesis-1: Higher management trust and support positively impact auditor performance in public sector auditing ($\beta=0.311$, $p<0.000$). If the audit department's upper management supports its subordinates, employee performance can improve. A genuine and supportive supervisor, along with top management, can motivate and inspire personnel. Junior staff will intentionally inherit the honesty and integrity of senior staff. As a result, government auditors require trustworthy and helpful management to improve their morale and produce high-quality audits.

Hypothesis-2: Career planning does not impact auditor performance, as indicated by regression findings yielding $\beta=0.05$, which is not significant at 10%. Khalid et al.'s 2014 survey also yielded this unexpected result. This suggests that government auditors who remain in the same position for years experience frustration, which in turn leads to suffering employee performance.

The results of Hypothesis-3 show a significant correlation between effort and reward fairness and auditor output ($\beta = 0.354$, $p<0.001$). In general, increasing employee pay boosts productivity. As a result, the Pakistan audit agency's higher pecuniary awards will improve auditor performance. This result matches the model's prediction.

The regression results support Hypothesis-4: Employee participation positively correlates with auditor performance ($\beta=.397$, $p<0.001$). It shows how employee involvement boosts productivity. Remote work environments and organizational behaviors can negatively impact job satisfaction and employee participation in shared goals. The Pakistan audit agency has to prioritize staff engagement to boost government auditor productivity.

Table 6: Regression Matrix for Variables

Model	Unstandardized Coefficients		Standardized Coefficients Beta	T-Stats	Sig.	
	B	Std. Error				
Top management support	.311	.061	.351	5.10	.000	Supported
Effort & Reward Fairness	.354	.070	.340	5.01	.000	Supported
Employee Participation	.397	.111	.228	3.56	.001	Supported
Career Planning	.050	.079	.039	0.64	.523	Not Supported

(Constant)	-.554	.266		-2.08	.039
R ²	.6521	Adj.R ²	.6422		
Prob.	0.000				
F-Stats	66.06				
Obs.	146				
Dependent Variable: Auditor Performance					

Discussion

An audit plays an essential role in minimizing corrupt practices and helps underpin trust in public institutions in any country. Without an effective supreme audit institution in any country, it is impossible to achieve the requisite fairness in governmental operations. For an effective audit function, an audit institution has to depend on its workforce. The management of personnel resources, including their influence on working efficiency, is a long-lasting question in public sector organizations to measure human productivity. Numerous types of research are available in this regard; however, further exploration is inevitable to analyze their mutual relationships from different perspectives (Guest, 2011).

This paper's main purpose is to investigate the different variables and their impact on auditors' performance in the Pakistan audit department. Four independent variables have been analyzed about employees' performance in the audit department. Different measuring techniques, including EFA and OLS, were utilized for comparing both empirical and theoretical results. The majority of the obtained results support the theory, as they have a significant impact on auditor performance. Presently, Pakistan has been besieged with institutional inefficiency. Concerning this backdrop, these results are very important for critics and policymakers who are engaged with institutional restructurings.

Decision-makers should evolve their thinking to rectify the attitude of top-level management in every government agency to outspread their support amongst the workforce. The performance of government auditors and other employees can be improved to overcome Pakistan's ineffective institutions. Compensation, or incentives, is another important factor in motivating and encouraging workers in the field of human resource management. Without adopting this factor, the performance of the employees will remain disturbed. This dilemma is directly applicable to Pakistan. The majority of government employees in Pakistan are unhappy with their pay structure. They argued that the monthly remuneration is not enough to survive. The obtained results demonstrated the significance of this factor for auditors' productivity in producing quality audits. This result's generalizability can also be extended to other public sector employees to improve their output in Pakistan.

Employee involvement in achieving the organization's common goals has also played a significant role in HRM practices. The purpose of observing this element in this study is to learn its influential effect on auditor productivity and audit excellence. It has been observed that the auditor's contribution to producing quality audit reports in Pakistan is inexorable. This means that satisfied and motivated government auditors can effectively contribute to achieving the audit department's common goals for the prevalence of institutional transparency and accountability. Generally, if government employees are not intended to participate effectively, the overall organizational performance will remain compromised. Because of the complicated procedures for dismissing any government employee in Pakistan, they eventually have no fear of performing their best. The last independent element, such as career planning, has no result in this study. Although it is consistent with previous research, Career advancement is also important for stimulating human resources to increase productivity. Employees feel more secure and affiliated with long-term career orientation. This element is exclusively related to Pakistani public sector institutions, particularly audit departments. The career opportunities for public sector auditors remained limited. The lack of career development options leads to

disappointment among audit employees and decreases their productivity. Overall, the elements observed in this study are consistent with prior studies; however, their impact and significance regarding the Pakistan audit department are novel.

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