

9828087

Role and Authority : An Empirical Study on Internal Auditors in Malaysia

By:

**Sarimah Umor, Nurmazilah Mahzan
and Norhayah Zulkifli.**

Paper presented at the **GSM-FEP-AGBA Conference** held in conjunction with 7th Annual AGBA World Congress on 1-3 December 2010 at the Graduate School of Management, Universiti Putra Malaysia.

Perpustakaan Universiti Malaya



A515110859



GSM-FEP-AGBA CONFERENCE 2010

7TH ANNUAL AGBA WORLD CONGRESS

www.agba.us

Graduate School of Management
Universiti Putra Malaysia
MALAYSIA

<http://gsm.upm.edu.my/GSM-FEP-AGBA-CONFERENCE2010>

December 1-3, 2010

CALL FOR PAPERS

"Business and Entrepreneurship Development in a Globalized Era"

AGBA Chair	Keynote Speaker	Conference Chair	Conference Co-Chair
Mary B. Teagarden Thunderbird School of Global Management, Glendale, Arizona USA	Shawn M. Carraher <i>Severson Chair Professor</i> <i>Director, Severson</i> Entrepreneurship Academy Minot State University Minot, North Dakota USA	C. P. Rao Morgan State University USA	Foong Soon Yau <i>Deputy Dean</i> Graduate School of Management Universiti Putra Malaysia MALAYSIA
Keynote Speaker	Distinguished Host	Director: Iran Country Focus	Guest Speaker
Daing Nasir Ibrahim <i>Vice Chancellor</i> University of Malaysia Pahang MALAYSIA	Zainal Abidin Mohamed <i>Dean</i> Graduate School of Management Universiti Putra Malaysia MALAYSIA	Hossein Nezakati Faculty of Economics and Management Universiti Putra Malaysia MALAYSIA	Nitish Jain <i>President</i> S. P. Jain School of Management Singapore, Dubai and India
Guest of Honor	Program Chair and Conference Director	AGBA President and CEO	Global Corporate Speaker
Sameh El-Namaki <i>President</i> Drucker Society for Gulf States and Dean (Retired) Eindhoven School of Management NETHERLANDS	Wolfgang Hinck School of Business Berkeley College New York - New Jersey USA	Zafar U. Ahmed Texas A&M University at Commerce USA	Lavanya Rastogi <i>President and CEO</i> Value One Corporation Inc. India

CONFERENCE SPONSORS

Thunderbird International Business Review, USA Inderscience Publishers, UK/Switzerland Value One Corporation Inc., India	Universiti Putra Malaysia Berkeley College, New York, USA Minot State University, USA
--	---

ADVANCES IN GLOBAL BUSINESS RESEARCH

Vol. 7 No. 1

ISSN 1549 - 9332

Edited By

Mary B. Teagarden

Thunderbird School of Global Management, Arizona, USA

Zainal Abidin Mohamed

Graduate School of Management, Universiti Putra Malaysia

Wolfgang Hinck

Berkeley College, New York, USA

Hossein Nezakati

Graduate School of Management, Universiti Putra Malaysia

Zafar U. Ahmed

Graduate School of Management, Universiti Putra Malaysia

Advances in Global Business Research

Vol. 7 No 1

ISSN 1549 - 9332

Proceedings of the 2010 Academy for Global Business Advancement
Seventh World Congress, Held at the Graduate School of Management,
Universiti Putra Malaysia on December 1—3, 2010.

Edited by Mary B. Teagarden, (Thunderbird School of Global
Management, Arizona, USA), Zainal Abidin Mohamed (Graduate School of
Management, Universiti Putra Malaysia) , Wolfgang Hinck, (Berkeley
College, New York, USA), Hossein Nezakati (Graduate School of
Management, Universiti Putra Malaysia) and Zafar U. Ahmed, (Graduate
School of Management, Universiti Putra Malaysia),

These proceedings are prepared from material supplied by the authors.
Manuscripts that were not sent to the editors on time for production may not
appear in the proceedings. In accordance with editorial policy, some tables,
graphs, figures, or references may have been edited or omitted. In the case of
errors, or omissions, please contact the respective author(s) directly.

Copyrights of the papers remain with the author(s) of each article.

Every effort has been made by the editors, publishers and printers of
these proceedings to see that no inaccurate data, opinion, or statement
appears in the proceedings, and the data and opinions appearing in the
articles herein are the responsibility of the author(s). Accordingly, the
publishers, printers, editors, and AGBA officials accept NO liability
whatsoever for the consequences of such inaccurate or misleading data,
opinion or statement.

Welcome to the 7th AGBA World Congress!

We would like to take this opportunity to extend a warm welcome to all delegates attending AGBA's 7th World Congress being held in collaboration with the Graduate School of Management (GSM), Universiti Putra Malaysia (UPM) on Dec. 1—3, 2010!

GSM at UPM has been designated as the "Top Business School of Malaysia", that is seeking AACSB accreditation.

More than 147 AGBA delegates are participating in a wonderful program, that includes more than 67 delegates hailing from Islamic Republic of Iran! AGBA is proud to offer special sessions in the Iranian language (Persian) to demonstrate its commitment to globalization. The main theme of our conference is "Business and Entrepreneurship Development in a Globalized Era". Our conference will feature competitive papers and special sessions.

Our conference's primary goal is to provide a unique global platform to facilitate the exchange of leading-edge ideas for effective advancement of knowledge in business and entrepreneurship; where academics and professionals from both developed and developing countries are engaged in intellectual discourse for the generation and dissemination of knowledge to facilitate the globalization process for the betterment of humanity. This will be achieved through multidisciplinary presentations and discussions of current business and development issues in emerging and developed countries. Your participation is helping us achieve these goals!!!!

Thank you for coming to Malaysia, a model nation for developing countries; that is determined to become a developed nation by 2020 under its New Economic Model (NEM).

We wish you good luck in your presentations.

Mary B. Teagarden
Thunderbird School of Global Management, Arizona, USA

Zainal Abidin Mohamed
Graduate School of Management, Universiti Putra Malaysia

Wolfgang Hinck
Berkeley College, New York, USA

Hossein Nezakati
Graduate School of Management, Universiti Putra Malaysia

Zafar U. Ahmed
Graduate School of Management, Universiti Putra Malaysia

AGBA Brief

Established in the American State of Texas as a "Not-for-Profit" organization in 2000, AGBA is proud to boast today a membership of more than 1000 members based in more than 50 countries, that include scholars from reputed academic institutions, corporate leaders, consultants, governmental officials and entrepreneurs based in western and developing countries.

AGBA, as a global organization, aims to help academics and scholars at business schools across the developing countries to connect with the western/developed world for mutual benefit. Such collaboration would accelerate the process of globalization by furnishing ample opportunities to scholars in emerging countries to get recognition, disseminate new knowledge and assert themselves on the global stage.

AGBA's Vision:

To be globally recognized as a leading "not-for-profit" organization dedicated to serve the academic, professional, government, corporate and entrepreneurial sectors worldwide.

AGBA's Mission:

Building on the dynamics of the ongoing globalization process, AGBA is committed to provide a global platform aimed at assisting academics, scholars, consultants, professionals, officials and entrepreneurs of developing countries to assert themselves on the global stage for recognition, networking and dissemination of knowledge.

AGBA's Core Business:

- Nurture globally competitive talents; expertise and skills across the developing world;
- Arrange apprenticeship for academics, scholars, professionals, officials, consultants, and entrepreneurs on the global stage;
- Provide advisory services in the fields of commerce, trade, industry;
- Offer customized training worldwide;
- Offer professional development programs;
- Provide knowledge management services; and
- Provide industry development services.

Environment:

AGBA believes in promoting strategic alliances among business schools across the emerging countries in order to assist them for upgrading their teaching pedagogy, research and professional services to global standards of excellence as mandated by Association to Advance Collegiate Schools of Business (AACSB --- www.aacsb.edu).

Sustainability:

- AGBA's power of sustainability comes from the following sources:
- Its tax-exempt status as an "Not-for-Profit" entity incorporated in the American State of Texas to support its endeavors and pursuits across the world;
- AGBA's affiliation with prominent business schools across the developing world provides flexibility and a springboard for professional programs, projects and pursuits;
- AGBA's global platform where West meets with the East, and the North meets with the South; and
- Variegated, rich, and vast expertise, skills and competencies of its more than 1000 members hailing from more than 50 countries significantly contribute to sustainability on the global stage.

Role and Authority:

An Empirical Study on Internal Auditors in Malaysia

Sarimah Umor, Nurmazilah Mahzan, Norhayah Zulkifli

Abstract: This paper addresses the relationship between the roles of the internal auditor (IA) and authority. The internal auditor's varying roles that include control oversight, decision support, risk management support, governance, system involvement, technical and intimidation, are determined by how the internal auditor himself perceives his work and the extent of which he enjoys role clarity. The results show that although the management intimidation role is dominant in explaining the variance in authority, this construct only explains 13.7 percent variance in authority. These results support the need for the Institute of Internal Auditors (IIA) to provide internal auditors with adequate interpretation of its standards to identify the appropriate level of authority for their roles. Considerable attention should be given to the audit charter, to specify the IA's varying roles, according to the nature and the business environment of the organization. In addition, by taking a holistic view of a what a true professional is, this study provides some empirical evidence on the association between internal auditor roles and other aspects of a true profession such as audit charter existence and employment type. The inclusion of these variables helps to conceptualize and explain the influence on the internal auditor's roles. From a practical standpoint, internal auditors may re-evaluate their actual roles, and from the various roles that they have undertaken, clarify the confusion that might have occurred concerning their roles. The results provide clear action directives for organizations concerned with the enhancement of the internal audit profession. Providing internal auditors with the authority to perform their work is perhaps the most important part of what organizations can do. Authority has the most pervasive direct and indirect influence upon internal auditors' role clarity. Thus, this study contributes towards the decision making of boards of directors, audit committees and other regulatory bodies, to augment the profession of internal auditors.

Key words: Role, Authority, Internal Auditors

1. Introduction

The increasing complexity of business transactions together with a more dynamic regulatory environment in the Asian region has created pressure on the internal audit profession to change and keep abreast with the ever increasing business challenges. Financial reporting of improprieties and business failures in companies such as the Satyam Group in India, Enron, AIG and Lehman Brothers in the USA, Megan Media Transmiles and Sime darby in Malaysia have brought the attention towards the important roles on internal audit function and whether it can become the “eyes and ears” of the senior management and directors. Ernst and Young in 2008 identified in their study that internal auditors in Malaysia primarily focusing on traditional role of giving assurance on control and risk management (Ernst and Young, 2008). The study did not address any work done by internal auditors with respect to the governance structure and process of the organization. It is also argued that internal auditors in Malaysia are struggling to maintain their identity and purpose as the organizations they serve undergo turbulent times while their findings are not acted upon.

Generally, the role of the internal auditors, as part of the standards framework, is to assist all members of the management team as well as the directors by furnishing them with analyses, appraisals, recommendations and pertinent comments concerning the activities reviewed. Globally, the role of the internal auditors is constantly evolving, spanning from reviewing governance, risk and control, to becoming internal consultants on mergers and acquisitions. (PWC, 2008; Harris Dua, 2008; Ernst & Young, 2008; George and Norman, 2008; KPMG, 2007; Russell J., 2007). Indeed, internal auditors in many organizations undertake various roles to independently evaluate management effectiveness and aid management; Evaluating management effectiveness and aiding management in turn, causes the problems of role ambiguity (Timothy and Lawrence, 2005; Van Peurse, 2005, 2004; Glascock, 2002; Mc Call, 2002; Tarr, 2002; Broody and Lowe, 2000; Flesher and Zanzig, 2000; Cooper et al., 1996; Burns et al., 1994). Role ambiguity is defined as the perception that one lacks the information necessary to perform a job or task, which results in the person feeling incapacitated (Vincent, 2008). If this fundamental issue of role ambiguity or uncertainty is unresolved, internal auditors are likely to face attempts by various organizational interest groups to pressure them into performing certain tasks that conflict with their core role (Greenspan et al.,

1994). The ambiguity and increasing complexity characteristic of today's professional work underline the need to provide internal auditors with clear and strong authority.

In many instances, the management of organizations have sought to redefine internal auditor roles. These attempts at redefinition create tension, confusion and vagueness among internal auditors, and must be addressed. To perform their roles effectively, internal auditors need independence from the management, and be allowed unrestricted evaluation of management activities and personnel. This could be achieved by means of the right authority. Extant literature reveals that the management is more likely to comply with internal auditors' recommendations if there is authority when the internal auditors press for action. In this situation, if senior management is externally motivated to follow the recommendations, internal auditors may enjoy certain "cruciality", which means the occupation has an indispensable, fateful relationship with its clientele, employers or other public. The authority to influence may be acquired in a number of ways: through the existence of an audit charter, a strong audit committee, a strong professional association, or through other policies that give internal auditors direct and influential access to the highest level of management within or outside an organization (Burns et al., 1994).

Internal auditing has undergone dramatic changes; its scope expanded in a way that allows it to make greater contributions to the organization it serves (KPMG, 2008; Ernst & Young, 2008; PWC, 2008; Fadzil et al., 2005). However, the varying roles of internal auditors in some situations create role ambiguity (Lawrence and William, 2007; Van Peursam, 2004; Glascock, 2002, Mc Call, 2002, Tarr, 2002, Broody and Lowe, 2000; Flesher and Zanzig, 2000; Timothy and Lawrence, 2000; Cooper et al., 1996; Burns et al., 1994; Gupta and Fogarty, 1993; Pincus, 1991; Budner, 1962). According to Jackson and Schuler (1985), role ambiguity has a negative relationship with autonomy, job tenure, and job performance. Role ambiguity is also negatively associated with the job performance of auditors (Gregson et al., 1994; Rebele and Michaels, 1990; Viator, 2001a, 2001b).

Authority has been studied in a wide variety of occupational and professional settings. Specifically, authority within the internal audit profession has been studied since the early 70's (Van Peurse, 2005, 2004; O'Regan, 2001; Mort, 2001; KPMG, 1997;

Iyers and Grambling, 1997; Sawyer and Vinten, 1996; Burns et al., 1994; Engermann, 1972; Engel, 1970). During the course of auditing, internal auditors undertake different roles, ranging from basic functions to more complex tasks. Internal auditors play an important role in evaluating the effectiveness of control systems. Because of their position and authority in the organizational setting, internal auditors often play a significant monitoring role (COSO, 2003). Therefore, the degree of involvement in different tasks due to the varying roles may be influenced by the authority they have in the organizational setting.

Concerns have been raised over internal auditors' real level of authority, in particular, regarding the mystique that they enjoy, and the strength in which their role is viewed by others (Burns et al., 1994). Mystique includes a great deal of what is meant by expertise, technical knowhow or specialized training; however, it involves much more than just competence or skill. The vital ingredient in mystique is that the work is seen as ambiguous, incomprehensible and consisting of doing things that ordinary humans, in the lay perception, cannot do (David and William, 1977). Mystique creates authority over clientele, employers or other work audiences. Authority has been defined as the suspension of judgment in the presence of a significant other (Friedrich, 1958). This particular sort of authority, arising out of the layman's suspension of judgment, is the difference that mystique makes in creating a profession.

Further initiatives and expansion of the findings were determined by Van Peurse (2004), who revealed that internal auditors in New Zealand do not enjoy the cruciality of mystique or the importance that marks true professionals. Without such influence, internal auditors may not be in the position to influence management when management's actions are inappropriate, and they may not be heard by, or influence, those in governance to the degree needed. Therefore, to perform their role effectively, internal auditors need to overcome role ambiguity. This is consistent with the findings by Senatra (1980), who found that authority was significant and negatively correlated with role ambiguity. This indicates that internal auditors with higher authority have lower role ambiguity. The lack of clarity in role expectations does have a negative consequence. Internal auditors reporting high role ambiguity tend to be less dedicated to their profession, and lack specified knowledge about how to perform well (Timothy and Lawrence, 2000).

...the varying roles of the internal auditors (A. Flamme and William, 2005).

From the Malaysian Code on Corporate Governance perspective, the internal auditor is one of the four cornerstones of corporate governance – along with the board, management and external auditor (IIA, 2003; Grambling et al., 2004). The authority for each party is defined except for the internal audit function, which is loosely explained. The code, for example, defines the board of directors as persons entrusted with the power and authority to act on behalf of the company. The board should establish an audit committee of at least three directors, the majority of whom are independent, with written terms of reference that deal with its authority and duties. External auditors, on the other hand, are the parties that should independently report to shareholders in accordance with statutory and professional requirements, and independently assure the board on the discharge of its responsibilities in accordance with professional guidance. Finally, for the internal audit function, the major descriptions are for the audit committee to review the adequacy of the scope, functions and resources of the internal audit function and, among others, to consider the major findings of internal investigations and management's response. The description in the code on the four cornerstones of corporate governance implies that internal auditors may not understand the power of the appropriate authority for their work. Thus, if the internal auditors are themselves confused about their functions and accountabilities, how can they perform their role? Therefore, based on the issues discussed, this paper intends to look into the relationship between the internal auditors' roles and authority, and what roles they enjoy role clarity, and how many roles contribute to predicting the authority of internal auditors.

Therefore motivation for this study is identify the relationship between authority and roles of internal auditors in Malaysia that influence their functions within the organization.

This paper is arranged in 5 sections beginning with introduction. The next section provides an overview of the literature that forms the underlying framework for the hypothesis. Then it is followed by a brief description of the research methodology used in this study. The findings are discussed in section 4 and, finally, section 5 closes with the conclusion and recommendations.

The aim of this study is to identify the relationship between the roles of the internal auditors and authority. Previous studies throughout the world have extensively

discussed the varying roles of the internal auditors IA (Lawrence and William, 2008; George and Norman, 2008; Timmoty and Lawrence, 2007; CBOK, 2006; IIA Belgium, 2006; Marco et al., 2006; Van Peurse, 2004, 2005; Burns et al., 1994). Thus, the aim of this study is also to investigate the varying roles of the internal auditors and their relationship to authority. This is done through responses derived from the internal auditors themselves on how they perceive their work. On the whole the objectives of this study are specified as follows:

- i. To determine the perception of internal auditors on their role.
- i. To discover the factors that contribute to internal auditors' role and their relationship to authority.
- ii. To determine the differences between the perceived roles of internal auditors who work under the existence of an Audit Charter, and those who do not.

In order to meet the objectives, the following research questions are developed.

- 1: What is the relationship between the IA's Role and Authority?
- 2: Does the existence of the Audit Charter show a difference in the IA's perceived role and authority?
- 3: How much does each role (element) predict the authority of the IA?
- 4: Which element of the IA's authority scores the highest?

Literature Review

The IA's role is unique because the IA is an agent that monitors the actions of another agent (management), both of whom are employed by the same principal (Adams, 1994). Internal auditors play an important role in evaluating the effectiveness of control systems, and contribute to the ongoing effectiveness of the organization. Internal auditors today do not just focus on financial information, which has typically been a priority for many firms, but have a much broader responsibility. Management today rely upon internal auditors not just to reduce the cost of external auditing, but to provide assurance, confidence and trust that the internal controls are operating effectively, and that the business itself is efficient (Al-Twajjry et al., 2003). Internal auditors can play a

tal role in adding value to the business. Having said this, it is inevitable that internal auditors are often placed in very difficult positions, especially when they are seen as the bearers of bad news about the performance of line management

The role as decision support makes internal auditors act positively for the organization by helping managers identify, assess, and mitigate risks that can affect a unit or a process. Claus and Peter (2007) suggest that the focus on risk management, and the role of the supervisory board in aligning the management's risk appetite with the strategy setting of the company has enhanced the importance of the function of the internal auditors. Internal auditors serve actively as risk monitors for the management and the board, or the audit committee. The internal auditors' role in risk assessment can be considered a necessary input for their evaluation of the internal control system, and is an integral part of their assurance role (Gerrit and Ignace, 2006). In the Malaysian scenario, it has been found that the role performed by internal auditors in risk assessment is still low due to the lack of management support (Norlida et al., 2007).

Corporate governance is an important entity-level factor that sets the tone for the overall control environment that has significant implications for auditors' risk judgments (Divesh et al., 2008). Conor and Jenny (2007) suggest that if internal audit is to be considered a critical component of corporate governance, it is important that practitioners in the area have strong support when making ethical decisions. According to Performance Standard 2130 of the IIA's International Professional Practices framework, internal audit activity should assess and make appropriate recommendations for improvement to the governance process (Gramling and Hermanson, 2008).

Kishel and Ivancevich (2003) reveal the important role of the internal auditors in the IT implementation process. Both authors argue that the internal auditors' role has traditionally focused on risk management issues and control testing, particularly in the pre-implementation and monitoring phases of IT projects, rather than them playing an integral role in enhancing the viability of IT implementation. The study suggests that internal auditors can and should provide input with regard to system configuration in order to ensure that the proper integral controls are in place, and that this should be

communicated to the IT team to make sure that new systems, and modifications to existing systems, are sufficiently documented.

Previous literature has highlighted the need for technical competency, which is positively related to auditor judgment performance when the complexity of the audit task is considered (Abdolmohammadi and Wright, 1987; Libby and Tan, 1994; Shelton, 1999; Lin et al., 2003). Therefore, internal auditors must review and refine their technical knowledge and skills continuously by mastering the latest automated technologies that can improve an organization's monitoring risks and internal controls.

Truly professional behavior is able to intimidate any audience who threatens a profession's autonomy, be they employers, clients or of other occupations. One important relationship between members of a profession and others in the work world is that of authority. When members of an occupation lack power, beyond that of argument or persuasion, in dealing with employers or clients, this implies equality between the parties. Argument or rational persuasion does not suggest a relationship characterized by authority. When an occupation must rely solely upon argument or persuasion in controlling others, this is prima facie evidence that it lacks the status of a genuine profession. Authority relationships have their roots in fears, doubts, anxieties and emotional dependencies, not in rationality. When critical issues arise to threaten their autonomy, professions have the means to protect their interests by intimidation (Friedrich, 1972). Thus, Friedrich reveals that intimidation has a significant relationship with authority.

The role of internal auditors within a firm should become clearer for internal auditors over time. Roles mean a set of expectations for behavior, which are poorly communicated and potentially dysfunctional (Kahn et al., 1964). This condition is related to the issue of clarity (role ambiguity). The expectation that role ambiguity will not be related to professionalism for internal auditing finds its basis in the conflicts between professional and organisational norms (Chambers, 1995; Chambers et al., 1987; Barber, 1963). The high degree of uncertainty in professional endeavors (Lortie, 1975) relates to the lack of confidence that an employee perceives about his or her responsibility and authority within the firm (Lawrence and William, 2007). Professionalism involves a certain degree of decision making, but in a way that is not

ly technical (Paton, 1971). Nevertheless, too much unresolved role ambiguity in the work may hinder the appearance of professional authority (Beckman, 1990).

yer et al. (2002) suggest a somewhat positive association between role ambiguity and continuance commitment. The basic understanding of the IA's role is one of fundamental "checks and balances" for sound corporate governance. A robust and effective IA with the skills to identify risk control problems and the authority to pursue concerns is essential to the proper discharge of responsibilities. A strong internal audit activity should be able to influence management, and the idea of cruciality explores the situation whereby management will be more likely to accept a commendation if the internal audit team exhibits a strong sense of authority (Van der Merwe, 2004).

Internal audit authority is established through reporting lines or structure, relationship with the audit committee and senior management, professionalism and the internal audit's reputation and credibility (IIA Standard). There has always been a question as to whether internal auditors will be more empowered if they think of internal audit as a profession in its own right; supported by the organization they serve, rather than as a mere type of stepping stone into corporate management.

Outsourcing the internal audit function performed by external auditors and other service providers is commonly known as outsourcing. Many companies outsource their internal audit function to outside public accounting firms, consulting firms or other service providers (Arnold, 2008). Economic pressures have forced many companies to consider outsourcing as an alternative. The internal audit function is evolving from its traditional oversight function to one that includes a wider spectrum of activities that add value to the organization (Chapman and Anderson, 2002). Their findings indicate that the extent of support was less significant in the case of outsourced auditors. This indicates that the judgment of internal auditors is significantly influenced by their support situation and, to a lesser extent, by the identity of the outsourced auditors (Ahlawat and Singh, 2004).

Outsourcing the internal audit is not necessarily the best response to cost-cutting pressure, especially when a corporation is seeking to decentralize its decision-making

hority (Hodgson and Puschaver, 1995). Internal audit should move into value-added activity or else the internal audit function risks being perceived as an overhead, and in worse, being outsourced (Liu et al., 1997). This implies that the roles performed outsourcing the IA are concerned with the technical aspects, which are known as value added activities, such as the technical role, system involvement role, governance and risk management support role. In-house IA, however, involves more of the traditional aspects of auditing such as operational and compliance.

Hold (2008) revealed that outsourced internal auditors are contractors rather than employees, and, thus, are not subject to the same potential degree of control by management as would internal auditors who are employees. The author found that outsourced internal auditors advocated management's position to a lesser extent than in-house internal auditors. The nature of the employer-employee relationship provided an environment in which the views and decisions of the internal auditors were influenced appropriately. Thus, the opinions of internal auditors were significantly influenced by their support position, and to a lesser extent, by the identity of the internal audit provider. This reinforces the view that objectivity in practice is essentially a myth (organ 1988). Caplan and Emby (2004) used a series of cases involving tests of control, such as a routine internal audit assignment, to compare internal auditors with outside auditors, and found a substantial similarity between the two groups. They include that there are minor feature differences between the internal and outside auditors. This is consistent with an earlier study by Hadden et al. (2003). The authors found no significant difference between in-house and outsourced internal auditors, in their perceived IT qualifications and activities, and suggested that the internal auditors' view on IT oversight was rated "above moderate".

The audit charter provides internal auditors with their rights, and authorizes them to have direct access to any documents, people and records within the organization. This involves communication with any member of staff, to examine any activity or entity of the clients, as well as access to any records, files or data of the clients, including management information and the minutes of all consultative and decision-making meetings. The charter usually states the terms and conditions whereby the internal audit activity can be called upon such as consulting or advisory services or other special tasks, and the charter is communicated throughout the organization. To undertake all

challenges in an organizational setting, the internal auditor relies on the audit charter, for his authority. The audit charter should be re-evaluated periodically, and be sufficiently flexible to incorporate a changing business environment. The audit charter serve as a tool for keeping internal auditors relevant and up to date or it can be an anchor slowing down processes and progress (Charles Zhang, 1999).

Previous literature has highlighted that the Internal Audit charter is an important mechanism to formally and indirectly convey the internal audit's scope, role and activities. The Attribute Standard 1000 in the IIA's standards for the Professional Practice of Internal Auditing states that the purpose, authority and responsibility of the internal audit activity should be formally defined in a charter (IIA Standard 1000). Brit and Ignace (2005) formulated specific suggestions to reduce the gaps between expectations and perceptions related to the interaction between the audit committee members and the IA in their case study. The authors revealed that both parties would benefit from a clear communication about the specific role and mission of internal auditors through the spread of the internal audit charter or a formal presentation of the function.

Miller and Nagy's (2004) study compared the charters of eight companies with the information gathered from their internal audit directors on the roles and activities of their departments. Their study revealed that properly constructed internal audit and audit committee charters can communicate the department's orientation and role to the appropriate parties. A breakdown in this communication could lead to a misunderstanding of the roles and functions of the internal auditor.

Internal auditors should have a reporting line to the audit committee that should be highlighted in internal audit charters (ICAEW, 2000). However, Van Peurse (2004) revealed that the existence of an audit charter does not appear to clarify the differences between role and authority. Therefore, it is questionable as to what extent the audit charter helps to define the IA role in the organization.

Other literature has highlighted that the internal audit charter is an important mechanism to formally and indirectly convey an internal auditor's scope, role and activities. To meet the challenges that internal auditors face in a changing environment, an audit charter provides a mandate for their authority. Moreover, to effectively play

r roles, internal auditors need unambiguous, practical and flexible terms of reference, usually referred to as the charter, and to be more effective, this charter should be accepted by the audit committee. For this reason, the audit charter should be re-evaluated periodically, and be sufficiently flexible to incorporate a changing business environment, and to spell out the responsibilities of the IA. The audit charter can serve as a tool for keeping internal auditors relevant and up to date or it can be an anchor slowing down processes and progress (Charles Zhang, 1999).

Organizations that precise internal audit believe that it is essential that it has a charter. An audit charter describes items such as authority, responsibility, method of operation, position in the organization and reporting structure, but these are not enough (Mort, 1991). The author suggested that internal auditors can seek to increase or strengthen their authority within the organization in a number of ways. In order to gain that authority, internal auditors need to embark on a range of complex audits and to match the speed with which risks can take place in the organization. The importance of authority, and the ability to earn that authority, is a never ending story. It is the professionalism and quality of the internal audit work that will show boards, senior management and regulators that the function does add value.

The IA's authority can be established through proper monitoring by the audit committee in terms of support and decision structure. Theoretically, the Chief Audit Executive (CAE) should report functionally to the board or audit committee, and administratively to the chief executive officer of the organization. The functional reporting line for the internal audit function is the ultimate source of independence and authority (Rolandas, 2005). Greenspan et al. (1994) developed an instrument by asking internal auditors to make tender offer recommendations to the management on an 8-point Likert scale. The instrument informed the subject on how each of the four different interest groups would stand to benefit from the tender offer, and asked the respondents to make a recommendation to the management based on how these different interest groups benefited. However, the results showed that there was no consensus as to which group internal auditors should place in the priority position. The author showed that existing standards result in considerable ambiguity in defining the role of internal auditors. To overcome ambiguity, HOCK (2006) suggests that the purpose, authority, and responsibility of the internal audit activity should be formally defined in a charter,

sistent with the Standards, and approved by the board. The internal audit charter provides internal auditors with a formal mandate to do their work. This charter should be written by, and authorized by, the board of directors and senior management. This charter also clarifies the authority that the internal audit activity has, to access records, personnel and physical properties within the organization.

On the basis of the literature review and the research questions, the following hypotheses are set for this study:

- H1 = *There is a significant relationship between -IA roles and authority.*
- H2 = *There is no significant difference in the perceived role between the outsourced IA (public accounting or consulting firm) and the internally employed IA (private or government organization).*
- H3 = *Internal auditors who operate under the authority of the audit charter have a different perceived role from those who do not operate under the audit charter.*
- H4 = *Authority can be predicted by the role clarity enjoyed by IA in the varying roles performed.*

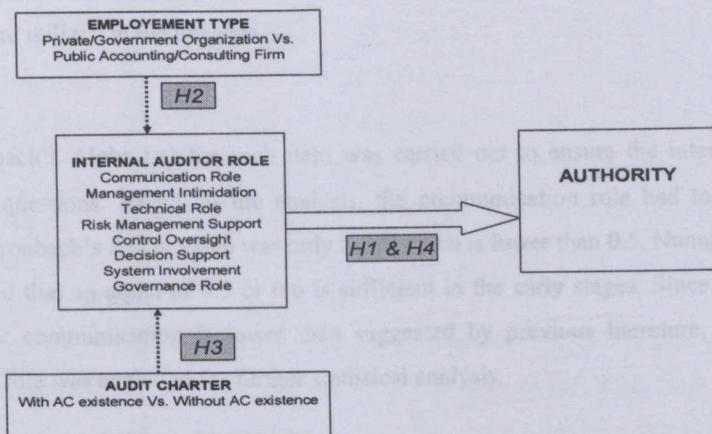
Research Framework

Methodology

A research model was developed to show the relationship or linkage between the independent variables (IV) and the dependent variables (DV). This model is the foundation on which the entire study is based. Figure 3.1 displays different kinds of variables and the relationships among them. The DV is represented by authority and the IVs are eight roles performed by the IA. This relationship answered the first hypothesis of this study (H1). Subsequently, additional variables were included such as the employment type, audit charter and respondent type for hypothesis testing. These variables were included to investigate whether differences exist in each of the variables concerned as two different groups exist in each of the variables. These three (3) variables are linked to the IVs of this study and answered hypotheses two to four (H2, H3, and H4). Finally, from the overall result a model was developed where the IVs predict a variance in DV.

Comment [NZ1]: I suggest we condense the whole literature review and bring some of them under a new sub-title "conceptual framework". Bring also the research model part into this new sub-topic. Section 4 becomes "methodology" only.

Figure 3.1: Research Model



Methodology

The basic research design utilized for this study was a survey. The questionnaire was adapted from Van Peurse (2004 and 2005) in which seven similar constructs were used to represent the varying roles of internal auditors. An additional construct was added based on the current scenario of the Malaysian context. In this study, random sampling was used to obtain respondents. Random selection of the individual members of the research sample is an appropriate means to obtain an accurate and representative sample (Abu Musa, 2006).

The population base for this study are members of the IIA Malaysia (IIAM). Membership records, as at 2008, consisted of 244 corporate registered members and 13 individual registered members. The random sampling technique was applied to select individual registered members. The number of questionnaires distributed were 257 (samples) out of 2,257 population. Final questionnaires were sent through the mail by email.

123 answered questionnaires received were 123. The response rate of for the email survey was 48 percent and 18 percent for the mail survey.. It is lower compared to the 73 percent received by Van Peurse(2004) in New Zealand in the latter's study on internal auditors. Although the questionnaires were sent through IIA Malaysia, which is

professional body representing internal auditors, a high response rate was not achieved. In total, the number of questionnaires received was 123, and 114 acceptable responses were utilized in the analysis.

Analysis

The Cronbach's Alpha (α) for each item was carried out to ensure the internal reliability of the questions. Based on the analysis, the communication role had to be excluded as the Cronbach's Alpha value was only 0.39, which is lower than 0.5. Nunnally (1978) suggested that an alpha of 0.5 or 0.6 is sufficient in the early stages. Since the alpha value for communication is lower than suggested by previous literature, the communication role was excluded for further statistical analysis.

In total, the Cronbach's Alpha value after the initial cleaning was .857, and it was highly reliable. The Alpha Coefficients ranged from 0.73 to 0.96. The higher the Alpha, the more reliable the test. Therefore, this is consistent with Nunnally (1978) who reveals that although there is not a generally agreed cut-off, 0.7 and above is acceptable.

Descriptive statistics and multiple regression analysis were performed. Although Nunnally (2000) suggested that factor scores can be used, it was not carried out due to the small sample size. The sample size should be taken into consideration, as correlations are sensitive (Moore and McCabe 2002), and, consequently, can seriously influence the stability of the factor analysis (Habing, 2003). In addition, small sample sizes may affect the factor analysis by making the solution unstable: the addition of more data may cause the variables to switch from one factor to another.

Findings and Discussion

In this section, the findings based on the statistical analyses performed on the data are presented. First, the data was analyzed to understand its demographic pattern. Next, hypotheses were tested and, finally, the results of multiple regressions are presented.

Demographic Analysis

Figure 5.1 shows the profile of the respondents. The overall distribution of males and females in the sample were 61 percent and 39 percent respectively, with a slightly

higher percentage of males within the IIA Malaysia membership subgroup. In this analysis, respondents' ages ranged from 21 to 41 and above. The respondents' audit work experience ranged from less than 1 year to more than 20 years. The highest duration of audit work experience was between 11 to 15 years (33.3 percent), followed by 6 to 10 years (28.9%). The lowest was less than 1 year (.9 percent). In terms of the education level of the respondents, 77.2 percent have a Bachelor Degree. A 19.3 percent have a master degree qualification. Only 3.5 percent of the respondents have academic qualifications equivalent to certificate/diploma level.

To a question concerning tertiary qualifications in areas other than accounting or auditing, only 23.7 percent have academic qualifications outside the field, while the remaining 76.3 percent respondents do not have any other tertiary qualifications. In the current study, 3.5 percent of the respondents reported having a computer/Information Technology qualification followed by Engineering 2.6 percent; Science 1.8 percent and the residual accumulated to 15.8 percent. It indicates a low level of multiple competency among internal auditors in Malaysia. In contrast with the study by Van Peursam (2004), a total of 58 percent of the auditors in New Zealand had a qualification in areas other than accounting (or in addition to accounting). In this study, only 3.5 percent reported having a computer/Information Technology qualification followed by Engineering (2.6%); Science, (1.8%); and the residual accumulate to (15.8%).

Finally, Table 5.1 shows that 36 percent out of the 114 respondents do not have any professional designation, 5.3 percent have more than one professional designation, and the majority, that is 58.7 percent, have one professional designation. It was also evident that not all the 114 respondents were members of IIA, Malaysia, and that only 28.9 percent have a Certified Internal Audit (CIA) professional designation. However, the IIA Malaysia is making serious efforts to encourage more internal auditors to undertake professional examinations, which can increase the overall internal audit quality. Furthermore, a strong professional association can help to improve the level of authority of internal auditors (Van Peursam, 2004).

INSERT TABLE 5 1 ABOUT HERE

5.2 Distribution of Respondents for Hypothesis Testing

The biggest number of the respondents was represented by internal auditors from private or government organizations, who made up 86 percent while the remaining balance of 14 percent of the respondents were internal auditors from public accounting or consulting firms. In relation to the audit charter, 98 out of 114 respondents worked under the existence of an audit charter while the remaining 18 respondents were internal auditors who did not work under an audit charter. In terms of the reporting line, all the respondents indicated that they report directly to audit committees, and in the absence of the committees, they ultimately report to the Board of Directors, senior executive management or shareholders. This is consistent with recent findings that the degree of interaction between the audit committees and internal audit functions has increased dramatically in recent years. This trend reflects an increased focus on corporate governance, greater scrutiny of risk management, and more direct audit committee oversight of internal audit (PWC, 2008).

5.3.1 Hypothesis Testing

The first hypothesis is to determine whether there is a significant relationship between IA roles and authority specifically between the roles clarity enjoyed by internal auditors who undertake varying roles, and Authority.

H1 = There is a significant relationship between the IA roles and authority

From the hypothesis above, seven (7) sub hypothesis were developed as follows:

H1(a) = There is a significant relationship between the IA's control oversight role and authority.

H1(b) = There is a significant relationship between the IA's decision support role and authority.

H1(c) = There is a significant relationship between the IA's risk management support role and authority.

H1(d) = There is a significant relationship between the IA's governance role and authority.

H1(e) = There is a significant relationship between the IA's system involvement role and authority.

H1(f) = There is a significant relationship between the IA's technical role and authority.

H1(g) = There is a significant relationship between the IA's management intimidation role and authority.

Table 5.2 below indicates that there is a significant ($r = 0.38, p < 0.05$) moderate positive correlation between the IA (MgmtIntimidate) role and (AUTHORITY), thus, *H1(g)* is accepted. This indicates that the respondents perceived the management intimidation role, which consists of four elements, namely, conducting follow up investigations; follow up testing; coordinating with external auditors; and regular reports to the governing body, as significant factors that can contribute to their authority. The technical role also reveals a significant but weak positive correlation with IA (AUTHORITY), represented by $r = 0.24, p < 0.05$, therefore, *H1 (f) is accepted*.

In contrast, there is no significant correlation between the IA ContOversight; DecisionSupp; SystemInvolve and RiskMgmtSupp roles with IA (AUTHORITY), as the value is close to zero represented by ($r = 0.17, p > 0.05$); ($r = 0.07, p > 0.05$); ($r = 0.50, p > 0.05$) and ($r = 0.16, p > 0.05$). The governance role, the additional role added by the current author, indicates the same result ($r = 0.18, p > 0.05$). There is no significant value for the correlation between the IA SystemInvolve; ContOversight; DecisionSupp; RiskMgmtSupp and Governance roles with IA (AUTHORITY). Therefore, *H1 (a), H1 (b), H1(c), H1 (d) and H1 (e)* were rejected as they signify a weak relationship, which may be derived by chance, accidentally or without planning.

INSERT TABLE 5.2 ABOUT HERE

Generally, the results revealed that there is a weak correlation between the IA's role and authority. This indicates that the internal auditor authority is not strongly linked with the internal auditor roles. This perhaps suggests that authority and the internal auditor roles are not equivalently measured. Role ambiguity is negatively associated with the job performance of auditors (Gregson et al., 1994; Rebele and Michaels, 1990; Viator, 2001a, 2001b). Senatra (1980) found a negative, but not significant relationship, between the IA's role and authority, which emerged because of the authority level they possess in the organization. The IIA should accentuate role clarity (measured by internal auditor's authority) as well as other elements that are needed to safeguard the internal auditor authority.

5.3.2 Association Between The Employment Type and IA Perceived Roles

The second hypothesis is to examine whether the employment type of internal auditors will affect their perceived roles.

H2 = There is no significant difference in the perceived role between the outsourced IA (public accounting or consulting firm) and internally employed IA (private or government organization).

According to table 5.3, the internal auditors from public accounting or consulting firms have higher mean scores compared to the internal auditors from private or government organizations. The results show differences between the two groups in terms of the control oversight role (mean = 20.69 and 20.35); risk management support role (mean = 7.19 and 6.83); governance role (mean = 7.50 and 7.38) and technical role (mean = 22.19 and 21.90). Even though the internal auditors from the public accounting or consulting firms have the higher mean score compared with those from private and government organizations, the management intimidation role mean score is higher for the internal auditors from private or government organization (mean = 16.22 and 15.81) with the highest mean difference of .41. This implies that if the IA functions were outsourced, it is less effective in asserting findings that can influence the management. Similarly, Ahlawat and Lowe (2004) found that the judgments of outsourced auditors were significantly influenced by their support position and to a lesser extent the identity as such.

INSERT TABLE 5.3 ABOUT HERE

Further, the results presented in Table 5.3 correlates consistently with the results revealed in the subsequent hypothesis test related to the existence of the audit charter (H3). A larger percentage of respondents from private or government organizations worked under the existence of the audit charter, and it was found that internal audit outsourcing is not dominantly or widely practised in Malaysian organizations. this paper will go into how the audit charter influences IA's perceived roles.

5.3.3 Association Between Audit Charter And Perceived Roles

The third hypothesis is to examine whether the existence of the audit charter affects IA's perceived roles.

H3 = Internal auditors who operate under the authority of the audit charter have different perceived roles from those who do not operate under the audit charter.

In this hypothesis, the existence of an audit charter (H3) is tested. From table 5.4, there is a significant mean difference among the different roles: decision support role (mean difference = .72); technical role (mean difference = .40); management intimidation role (mean difference = .40) and risk management support role (mean difference = .34). For the other three roles, the mean difference = < .20. This indicates that the internal auditors assumed more technical and specialized skills of audit engagement without the existence of charter. This result is consistent with Van Peurse (2004).

INSERT TABLE 5.4 ABOUT HERE

This result, which attempts to answer research question 3 (R3), revealed that even though 85 percent of the respondents have a charter, these internal auditors in Malaysia do not utilise the charter to enforce the authority available to them. Moreover, the internal auditors have the opportunity to enhance their role through the authority and mandate specified by the local regulatory bodies such as the recent reformed rules (2008) by Bursa Malaysia's listing requirements. These requirements make it mandatory

for companies listed on the stock exchange to have an internal audit department, which will work in conjunction with an audit charter.

Furthermore, the Attribute Standard 1000 in the IIA Standards for the Professional Practice of Internal Auditing, which states that the purpose, authority and responsibility of the internal audit activity should be formally defined in a charter (IIA, A.1000), is widely practised by the internal audit activity in Malaysia given the large number of charter respondents.

5.3.4 Role Clarity and Authority

H4 = Authority can be predicted by the role clarity enjoyed by the internal auditor in the varying roles they perform.

Analysis of variance (ANOVA) and multiple regressions are used for this hypothesis. ANOVA suggests whether the overall model is significant. Also, if the overall model is significant, then at least one or more of the individual variables will most likely have a significant relationship to the DV. The result revealed that only one out of seven IV's, that is the management intimidation role, has a significant relationship with AUTHORITY. Using the enter method, a significant model emerged through the management intimidation role. The model indicates that the correlation between the IVs and the DV is weak ($R=.190$). The IA's management intimidation role explains 13.7% (percent) variance (Adjusted R Square) in the IA AUTHORITY. This regression line is significant from 0.00 ($F7, 106 = 3.563, p<.05$). The significant variables are shown in Table 5.5.

INSERT TABLE 5.5 ABOUT HERE

From the model parameter (Table 5.6) presented below, the management intimidation role is significantly related to AUTHORITY, .591 (95% CI = .253 to .929). It indicates that the coefficient in population is also positive ($t=3.46; p<.05$). The Beta value of the coefficient for management intimidation role is weak (.34). The p -value for other variables, (ContOversight); (DecisionSupp); (RiskMgmtSupp); (Governance); (SystemInvolve) and (Technical) are more than $alpha = 0.05$. Therefore, these variables are not significant predictors.

INSERT TABLE 5.6 ABOUT HERE

Table 5.7 presents the model summary from the statistical analysis. The model summary presents R Square (R^2), which is the variance explained by the IVs and the $R^2 = .190$. The "Adjusted R Square" corrects the number of variables in the analysis. Each predictor explains some variance due to chance. Therefore, the more variables in the analysis, the higher the "R Square" due to chance. Since this study tested many variables, the Adjusted R Square is used instead of R Square. All the roles undertaken by internal auditors, except for the system involvement role, are positively related to the criterion variable. However, only MgmtIntimidate is a significant predictor of AUTHORITY, whereas, the SystemInvolve ($\beta = -.029, p > 0.05$) is negatively related to the criterion variable. Therefore, the predictor only accounts for 13.7% variance in the DV and it is represented by the management intimidation role.

INSERT TABLE 5.7 ABOUT HERE

Therefore the predicted equation for the IA Authority is:

$\text{AUTHORITY} = 14.45 + 0.59 \text{ MgmtIntimidate}$
--

The statistical result reveals that across the seven variables tested, only one model emerged. This is the only factor evidently representing clarity and these factors can be understood in terms of "intimidation".

The Burns, Greenspan and Hartwell (1994) intimidation model revealed the power of intimidation, exercised through the perceived value and complexity of a discipline, to determine whether or not a profession was likely to enjoy the real influence needed to

fulfill its roles. Furthermore, from the cruciality perspective, Burns et al., (1994) indicate that management will be more likely to accept a recommendation or a warning if the internal audit team exhibits a strong sense of authority. According to Burns and Haga (1977), the ultimate means of maintaining autonomy in their work world is, to put it bluntly, intimidation.

The above result consistently implies what was suggested and explored by Van Peurseem (2004). The author revealed that internal auditors enjoy the authority over, and the independence from management that they might expect from a professional, through the intimidation role. In the Malaysian context, there has not been much discussion about the authority of internal auditors. In general, it is perceived that the role and authority will comply with the International Professional Practice Framework (IPPF). The findings would interestingly describe the current state of practice, and assist internal auditors in strengthening their position.

The result of *H4*, which answered the fourth research question (*R4*) shows that, out of seven roles tested, only one role undertaken by internal auditors, which is the management intimidation role, contributes towards predicting the variance in the criterion variable. Subsequently, the governance role added in the current study does not act as a significant predictor to explain variance in the criterion variable, AUTHORITY. Though the IA's management intimidation role is a significant predictor of AUTHORITY, this construct only explained 13.7 percent variance in AUTHORITY.

The findings also suggest that the characteristics of a "true" professional exist through the management intimidation role undertaken by internal auditors. The authority made available to internal auditors through the Standards of the IIA profession; audit charter existence; free access to audit committee; producing regular reports for senior management/governing body; reporting to a higher level in the organization (if the management fails to respond) and decision making at the most senior level of the organization; all contribute to role clarity so that the IA can act in the organization's best interests. This suggests that internal auditors need some intimidation power in each role undertaken to preserve the authority associated with it. Van Peurseem (2004) suggested that the characteristics of a "true" profession exist due to the management intimidation role undertaken by the internal auditor. Authority is gained through a

strong audit charter and also the criteria described above. With strong authority, internal auditors would not feel like they were risking their employment when they performed their roles. . Likewise, armed with authority, auditors' access to senior executive management and the audit committee or board of directors would be significantly strengthened. Authority is gained through a strong audit charter, and also the criteria described above. In order to identify the type of elements that are crucial to enhance the authority of internal auditors, an analysis was carried out to rank the mean of the authority elements.

5.4 Results of Mean Rank for AUTHORITY Elements

The three most important perceived authority elements, as ranked by the majority of the respondents, are upholding the standard of the IIA profession (mean = 4.58), audit charter existence represents authority of internal auditors (Mean = 4.50) and free access to audit committee (Mean = 4.46). Furthermore, the majority of respondents also believe that decision making at the most senior level of the organization (Mean = 3.59) and agreeing with managers the purpose of their investigation before commencing (Mean = 3.75), are the two least important for internal auditors' role clarity in order to preserve the internal auditors' authority.

 INSERT TABLE 5.8 ABOUT HERE

Table 5.8: Mean Rank for Elements of AUTHORITY Reported by Respondents (N = 114)

	Mean	Std. Deviation
Upholding The Standard of the IIA profession	4.58	.530
Audit Charter Existence representing the Authority of Internal Auditor	4.50	.613
Free access to Audit Committee	4.46	.706
Reporting to a higher level in the organization if management fails to respond	4.34	.676

Producing regular reports for senior management or governing body	4.17	.703
Agreeing with managers the purpose of my investigation before commencing	3.75	1.012
Decision making at the most senior level of the Organization	3.59	1.127

The results indicate, consistent with the recommendation of Burns et al. (1994) that upholding the standard of the IIA profession possibly increases the profession's "cruciality", which means internal auditors with a strong sense of authority. Such authority to influence may be acquired in a number of ways: through the existence of an audit charter, a strong audit committee, a strong professional association, or other policies that give internal auditors direct and influential access to the highest level of management within (or outside) an organization.

6. Conclusion and Recommendations

From the findings discussed in the previous section, role ambiguity issues exist among internal auditors in Malaysia. From the seven roles tested, only the management intimidation role is clearly supported by the authority given to internal auditors. Six other roles (control oversight, decision support, risk management support, governance, system involvement and technical) lead to the possibility for role conflicts to take place. The regression results converge, in some cases, around "intimidation" influence. Providing internal auditors with the authority to perform their work is perhaps the most important aspect of what organizations can do. Authority has the most pervasive direct and indirect influence upon internal auditors' role clarity. According to Timothy and Lawrence (2000), the lack of clarity in role expectations has a negative consequence. Internal auditors reporting high role ambiguity tend to be less dedicated to their profession.

The findings indicate that the boards of directors should emphasize the proper set up of an internal audit department, and that this is commensurate with the existence of a strong audit committee and clearer approved charter. This result will facilitate the IIA,

Malaysia, to understand the impact of authority to the role of internal auditor. Subsequently, all public companies may develop a specific measurement system (KPI) to evaluate the effectiveness of the internal auditor roles in public, private and government organizations. From a practical perspective, the study also provides feedback to the regulators (e.g. KLSE) on the need for policies that support and enhance the IA's authority through recognized roles.

Finally, the larger number of in-house, and with charter, respondents; a weak relationship between the IA's role and authority; the perceived importance of authority elements by the respondents through the upholding the IIA standard and strong audit charter; collectively suggests that existing audit charters should be revised or updated accordingly. Considerable attention should be given to specify the IA's varying role authority, according to the nature and the business environment of the organization in the audit charter.

Given the limitations of this study (low response and focus on only one geographical area), there are opportunities for future research by extending the current model to cover a more extensive population sample. Similar research can also be carried out to explore comparative data in several geographical locations in the same region such as China, Hong Kong and Singapore.

References

- Abdolmohammadi M.J. and C.A. Usoff. (1987). *The Assessment of Task Structure Knowledge Base and Decision Aids for a Comprehensive Inventory of Audit Tasks*. Quorum Books. Westport City.
- Adams M.B. (1994). Agency Theory and the international audit. *Managerial Auditing Journal*. Vol. 9 No 8. pp. 8-12.
- Ahlawat S. S. and D. J. Lowe. (2004). An Examination of Internal Auditor objectivity: In-house versus Outsourcing Auditing. *A Journal of Practice & Theory*. 23 (2). pp. 147-58.

- Al-Twaijry A.A.M, Brierley J.A and Gwilliam D.R. (2003). The development of internal audit in Saudi Arabia: An Institutional Theory Perspective. *Critical Perspectives on Accounting*. Vol. 14 No. 5. pp. 507-31.
- Arnold Schneider. (2008). Outsourcing Internal Auditing. *Internal Auditing*. Nov/Dec. 23. 6. ABI/INFORM Global.
- Barber B. (1963). Some problems in the sociology of professions. *Daedalus* 21-45.
- Beckman S. (1990). Professionalization: borderline authority and autonomy in work. In Burrage M. and Torstendahl R. (eds.). *Professions in Theory and History*. 115-138. London. Sage.
- Brody R.G. and Lowe. D.J. (2000). The new role of the internal auditor: implications for internal auditor objectivity. *International Journal of Auditing*. Vol. 4. pp. 169-76.
- Budner S. (1962). Intolerance of Ambiguity as a Personality Variable. *Journal of Personality*. 30: 29-50.
- Burns D.C. Greenspan, J.W. and Hartwell. C. (1994). The state of professionalism in internal auditing. *The Accounting Historian's Journal*. Vol. 21 No. 2. pp. 85-116.
- Chambers A, Selim G. and Vinten G. (1987). *Internal Auditing*, 2nd ed. Chicago: Commerce Clearing House. Inc.
- Chambers A. (1995). Whistle blowing and the Internal Auditor'. *Business Ethics*. 4. 4 (October): 192-198.
- Chapman C. and U. Anderson (2002). Implementing the Professional Practices Framework. *The Institute of Internal Auditors*. Altamonte Springs. FL.
- Charles Zhang. (1999). A Check-up for your Charter. *The Internal Auditor*. 56.6. ABI/INFORM Global. pg. 42.
- Common Body of Knowledge. (2006). *The IIA Research Foundation's*

- Cooper B.J. Leung P and Mathews C. (1996). Benchmarking – a comparison of internal audit in Australia, Malaysia and Hong Kong. *Managerial Auditing Journal*. Vol. 11 No. 1. pp. 23-9.
- Cronbach L. J. (1951). Coefficient alpha and the internal structure of tests. *Psychometrika*. 16. 297-334.
- David C. Bums and William J. Haga. (1977). Much Ado about Professionalism: A Second Look at Accounting. *The Accounting Review*. Vol. LII. no. 3. July.
- Engel G. V. (1970). Professional Autonomy and Bureaucratic Organization. *Administrative Science Quarterly*. 15 (1). 12-21.
- Ernst & Young. (2008). Escalating The Role Of Internal Audit. *Ernst & Young Global Limited*. Internal Audit Survey. www.ey.com/businessrisk. pg. 34.
- Fadzil F.H., Haron. H. and Jantan. M. (2005). Internal Auditing Practices and Internal Control System. *Managerial Auditing Journal*. Vol. 20 No. 8. pp. 844-66.
- Field A. P. (2005). *Discovering Statistic Using SPSS*. (2nd. Edition). Sage. London.
- Field A. (2000). *Discovering Statistics using SPSS for Windows*. London. Thousand Oaks. New Delhi. Sage publications.
- Flesher D.L. and Zanzig J.S. (2000). Management Accountants Express A Desire for Change in the Functioning of Internal Audit. *Managerial Auditing Journal*. Vol. 15 No. 7. pp. 331-7.
- Fogarty T. J. and L. P. Kalbers. (2006). The Consequences of Internal Auditor Burnout. *Advances in Accounting Behavioral Research*. 9: 51-86.
- Friedrich Carl J. (1972). *Tradition and Authority*. Praeger. pp. 51-52.
- Friedrich Carl J. (1958). *Authority*. Harvard University Press. pp. 25-48.
- Garson D. G. (2008). *Factor Analysis: Statnotes*. North Carolina State University. Public Administration Program. <http://www2.chass.ncsu.edu/garson/pa765/factor.htm>

George Bartsiota and Norman Marks. (2008). Governance Perspective: An Expanding Role. *The Internal Auditor*. April.

Gerrit Sarens and Ignace De Beelde. (2005). Interaction between internal audit and different organisational parties: An analysis of expectations and perceptions. *Universities Gent*. Working paper. Hoveniersberg 24. B-9000 Gent.

Gerrit Sarens and Ignace De Beelde. (2006). Internal Auditors' Perception About Their Role in Risk Management A Comparison Between US and Belgian Companies. *Managerial Auditing Journal*. Vol. 21 No. 1. pp. 63-80.

Glascocock K.L. (2002). Auditees or clients? *The Internal Auditor*. Vol. 59 No. 4. pp. 84-5.

Gramling A.A. Maletta K.J. Schneider A. and Church B.K. 2004. The Role Of The Internal Audit Function In Corporate Governance. A Synthesis Of The Extant Internal Auditing Literature And Directions For Future Research. *Journal of Accounting Literature*. Vol. 23 No. 1.

Gregson T. (1992). The Advantages of LISREL for Accounting Researchers. *Accounting Horizons*. 6 (4). 42-48.

Greenspan J. W. D. C. Bums and S. Lightle. (1994). Gauging the Internal Auditor's Responsibility: The Case of a Tender Offer. *Auditing. A Journal of Practice & Theory*. 13 (Fall): 77-85.

Guadagnoli E. & Velicer W. F. (1988). Relation of sample size to the stability of component patterns. *Psychological bulletin*. 103. 265-275.

Gupta P. P. and T. J. Fogart. (1993). Governmental auditors and their tolerance for ambiguity: An examination of the effects of a psychological variable. *The Government Accountants Journal*. 42 (3): 25-35.

Habing B. (2003). Exploratory Factor Analysis.

Website: <http://www.stat.sc.edu/~habing/courses/530EFA.pdf>

- Hadden L.B, DeZoort F.T. and Hermanson D.R. (2003). IT Risk Oversight: The Roles of Audit Committees, Internal Auditors and External Auditors. *Internal Auditing*. Vol. 18. No. 6. pp. 28-31.
- Harish Dua. (2008). Emerging Challenges for Internal Audit. *Sigma-V Enterprises*.
- Hatcher L. (1994). A Step-by-Step Approach to Using the SASÂ® System for Factor Analysis and Structural Equation Modeling. Cary, NC. *SAS Institute*. Inc.
- HOCK International. (2006). Internal Auditors Activity's Role. *CIA*.
- Hodgson, David, Puschaver and Lee. (1995). Sourcing internal audit services: A threat or a best practice? *The CPA Journal*. Dec. 65. 12. ABI/INFORM Global. pg. 60.
- ICAEW. (2000). Risk Management and the Value Added by Internal Audit. *Institute of Chartered Accountants*. England and Wales Audit Facility. London.
- IIA.2003. Simply good business. Tone at the Top. Vol. 19 No. 2.
- IIA Belgium. (2006). Internal Audit in Belgium: The Shaping of Internal Audit Today and the Future Expectations – Survey Results. *The Institute of Internal Auditors Belgium*. Brussels. Available at: www.iibel.be.
- Jackson S. E. and R. S. Schuler. (1985). A Meta-analysis and Conceptual Critique of Research on Role Ambiguity and Role Conflict in Work Settings. *Organizational Behavior and Human Decision Processes*. 36: 16-78.
- Jenny Goodwin Stewart and Pamela Kent. (2006). The use of internal audit by Australian companies. *Managerial Auditing Journal*. Vol. 21 No. 1. pp. 81-101.
- K.A. Van Peurseem. (2005). Conversations with internal auditors: The power of . *Managerial Auditing Journal*. Vol. 20. No. 5. pp. 489-512.
- K.A. Van Peurseem. (2004). Internal Auditor Role and Authority. *Managerial Auditing Journal*. Vol. 19. No. 3. pp. 378-393.

Kahn R, Wolfe. D, Quinn. R, Snoek. J. and Rosenthal. R. (1964). *Organizational Stress: Studies in Role Conflict and Ambiguity*. J. Wiley. New York.

Kassim and Chan Peat Marwick. (2008). *Internal Audit's Role In Effective Corporate Governance*. KPMG International. *Audit. Tax & Advisory*. VICN00931RAS.

KPMG. (2007). *The Evolving Role of Internal Auditor. Value Creation and Preservation from internal auditor perspective*. *Audit Tax Advisory*.

Lawrence P. Kalbers and William J. Cenker. (2008). *The Impact of Exercised Responsibility, Experience, Autonomy and Role Ambiguity on Job Performance in Public Accounting*. *Journal of Managerial Issues*. Vol. XX. Number 3. Fall. pp. 327-347.

Lawrence P. Kalbers and William J. Cenker. (2007). *Organizational Commitment and Auditors in Public Accounting*. *Managerial Auditing Journal*. Vol. 22 No. 4. pp. 354-375.

Lawrence P. Kalbers and Timothy J. Fogarty. (2005). *Antecedents to Internal Auditor Burnout*. *Journal of Managerial Issues*. Vol XVII. No. 1. Spring: 101-118.

Lengermann. J. J. (1972). *Supposed and Actual Differences in Professional Autonomy among CPAs as Related to Type of Work Organization and Size of Firm*. *The Accounting Review*. (October): 665-675.

Lortie D. (1975). *Schoolteacher: A Sociological Study*. Chicago. *Nelson Hall*.

Meyer J. P, Stanley D.J, Herscovitch L. and Topolnytsky L. (2002). *Affective. Continuance and normative commitment to the organization: a meta-analysis of antecedent's correlates and consequences*. *Journal of Vocational Behavior*. Vol. 61. pp. 20-52.

Moore D.S. and McCabe G.P. (2001). *Statistiek in de Praktijk. Theorieboek*. Schoonhoven. *Academic Services*.

Mort Dittenhorfer. (2001). *Reengineering The Internal Audit Organization*. *Managerial Auditing Journal*. 16/8. pg 458 -468.

- Myers, P. and Gramling, A. (1997). The perceived benefits of certified internal auditor designation. *Managerial Auditing*. Vol. 12 No. 2/3. pp. 70-9.
- Norlida Abd Manab, Mohd Rasid Hussin and Isahak Kassim. (2007). Empirical Study on Theory and Practice of Enterprise-Wide Risk Management (EWRM) On Internal Auditing and Risk Management Functions Of Public Listed Companies in Malaysia. *MARA University of Technology (UiTM)*. Shah Alam. Selangor Darul Ehsan. Malaysia.
- Norusis Marija J. (2005). SPSS 13. *Statistical Procedures Companion*. Chicago. SPSS. Inc.
- Nunnally J. (1978). Psychometric theory. *McGraw-Hill*. New York.
- Viator R. E. (2001a). The Association of Formal and Informal Public Accounting Mentoring with Role Stress and Related Job Outcomes. *Accounting Organizations and Society*. 26: 73-93.
- Viator R. E. (2001b). The Relevance of Transformational Leadership to Nontraditional Accounting Services: Information Systems Assurance and Business Consulting. *Journal of Information Systems*. 15 (2). 99-125.
- Paton W. (1971). Earmarks of a profession and the APB. *Journal of Accountancy*. 37-45.
- Pincus K. V. (1991). Audit judgment confidence. *Behavioral Research in Accounting*. 3: 39-64.
- Pricewaterhouse Coopers. (2008). IT Internal Audit: The Evolving Role of a Technologist. Presented to: *The Dallas Chapter of the Institute of Internal Auditors*.
- Rebele J. E. and R. E. Michaels. (1990). Independent Auditors' Role Stress: Antecedent Outcome and Moderating Variables. *Behavioral Research in Accounting*. 2: 124-153.
- Rishel T.D. and Ivancevich. S.H. (2003). Additional opportunities for internal auditors in IT implementations. *Internal Auditing*. Vol. 18. No. 2. pp. 35-9.

Rolandas Rupsys. *The Analysis of Reporting Lines*. 2005

Russell Jackson. (2007). *CBOK: A Special Report on Today's Internal Auditors*. *The Internal Auditor*.

Sawyer L. and Vinten G. (1996). *The Manager and the Internal Auditor Partners for Profit*. Wiley. Chichester.

Senatra P. (1980). Role Conflict, Role Ambiguity and Organizational Climate in a Public Accounting Firm. *The Accounting Review*. 55(4): 594-603.

Tarr R. (2002). Built to last. *The Internal Auditor*. Vol. 59 No. 6. pp. 28-33.

Timothy J. Fogarty and Lawrence P. Kalbers. (2005). An empirical evaluation of the interpersonal and organisational correlates of Professionalism in Internal Auditing. *Journal of Accounting and Business Research*. Vol. 30. No.2. pp.125-136.

Van Peurseem K.A. (2004). Internal auditors' role and authority: New Zealand evidence. *Managerial Auditing Journal*. Vol. 19. No. 3. pp. 378-93.

Van Peurseem K.A. (2005). Conversations with internal auditors – the power of ambiguity. *Managerial Auditing Journal*. Vol. 20. No. 5. pp. 489-512.

Verschoor C.C. (1999). Book and research reviews. *Internal Auditing*. Vol. 14 No. 4. pp. 39-40.

Vincent Onyemah. (2008). Role Ambiguity Role Conflict and Performance: Empirical Evidence of an Inverted U Relationship. *Journal of Personal Selling & Sales Management*. Vol. XXVIII. No. 3. Summer. pp. 299-313.

Vinten G. (1996). *Internal Audit Research. The First Half Century*. Certified Accountants. Educational Trust. London.

William J. Cenker and Albert L. Nagy. (2004). Do Audit Charters Need A Reality Check? *Strategic Finance*. 85.7. ABI/INFORM Global pg. 49.

Table 5.1: Demographic Profile of the Respondents

Gender	Percentage (%)	Age	Percentage (%)	Ethnic	Percentage (%)
Male	61	21 – 25	2.6	Malay	56.1
Female	39	26 – 30	16.7	Chinese	38.6
		31 – 35	32.5	Indian	3.5
		36 – 40	21.1	Others	1.8
		> 40	27.2		

Highest level Education	Percentage (%)	Audit Experience	Percentage (%)	Other Tertiary Qualification	Percentage (%)
Certificate/Diploma	3.5	< 1 year	.9	None	76.3
Bachelor Degree	77.2	1 – 5 years	11.4	Computer/IT	3.5
Post Graduate Degree	19.3	6 – 10 years	28.9	Engineering	2.6
		11 – 15 years	33.3	Science	1.8
		16 – 20 years	14.0	Business	9.5
		> 20 years	11.4	Economy	6.3

Professional Designation	Percentage (%)	Professional Designation	Frequency	Number of Designation	Frequency
None	36	MACPA	2	= 1	67
= 1	58.7	ACCA	11	= 2	6
> 1	5.3	CIA	33	> 2	None
		CPA	8		
		Others	25		

Table 5.2: Pearson Product Moment Correlation between the IA's Role and Authority (N=114)

		ContOversight	DecisionSupp	RiskMgmtSupp	Governance	SystemInvolve	Technical	MgmtIntimidation	AUTHORITY
ContOversight	Pearson	1	-.068	.290 ^{**}	.199 [*]	-.012	.150	.272 ^{**}	.168
	Correlation								
	Sig. (2-tailed)		.473	.002	.034	.898	.112	.003	.075
DecisionSupp	Pearson		1	.093	-.054	.583 ^{**}	-.024	-.162	.073
	Correlation								
	Sig. (2-tailed)			.327	.565	.000	.797	.085	.441
RiskMgmtSupp	Pearson			1	.479 ^{**}	.182	.141	.202 [*]	.159
	Correlation								
	Sig. (2-tailed)				.000	.053	.134	.032	.091
Governance	Pearson				1	-.031	.215 [*]	.341 ^{**}	.178
	Correlation								
	Sig. (2-tailed)					.746	.022	.000	.058
SystemInvolve	Pearson					1	.115	-.087	.050
	Correlation								
	Sig. (2-tailed)						.223	.357	.595
Technical	Pearson						1	.284 ^{**}	.242 ^{**}
	Correlation								
	Sig. (2-tailed)							.002	.010
MgmtIntimidation	Pearson							1	.384 ^{**}
	Correlation								
	Sig. (2-tailed)								.000
AUTHORITY	Pearson								1
	Correlation								
	Sig. (2-tailed)								

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

Table 5.3: Mean Comparison for Perceived Roles by Employment Types

	Employment Type (N = 114)			
	In House Internal Auditor (n = 98)		Outsourced Internal Auditor (n = 16)	
	Mean	Standard Deviation	Mean	Standard Deviation
Control Oversight Role	20.35	2.65	20.69	2.55
Decision Support Role	5.88	2.17	5.63	2.63
Risk Management Support Role	6.83	2.57	7.19	2.26
Governance Role	7.38	2.09	7.50	1.71
System Involvement Role	30.27	8.22	30.00	7.69

Technical Role	21.90	4.10	22.19	4.09
Management Intimidation Role	16.22	1.97	15.81	2.29

Table 5.4: Mean Comparison for Audit Charter Existence

	Do you have charter for the Internal Audit Department?	N	Mean	Std. Deviation	Std. Error Mean
ContOversight	With Charter	96	20.4167	2.61842	.26724
	Without Charter	18	20.2778	2.76119	.65082
DecisionSupp	With Charter	96	5.7292	2.16420	.22088
	Without Charter	18	6.4444	2.52569	.59531
RiskMgmtSupp	With Charter	96	6.8229	2.56698	.26199
	Without Charter	18	7.1667	2.30728	.54383
Governance	With Charter	96	7.4062	2.08543	.21284
	Without Charter	18	7.3333	1.78227	.42008
SystemInvolve	With Charter	96	30.2604	7.98979	.81545
	Without Charter	18	30.0556	9.02592	2.12743
Technical	With Charter	96	21.8750	4.17574	.42619
	Without Charter	18	22.2778	3.64297	.85866
MgmtIntimidation	With Charter	96	16.1042	1.90556	.19448
	Without Charter	18	16.5000	2.52633	.59546

Table 5.5: Results for the Analysis of Variance - ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	259.573	7	37.082	3.563	.002 ^a
	Residual	1103.208	106	10.408		
	Total	1362.781	113			

a. Predictors: (Constant), MgmtIntimidation, SystemInvolve, ContOversight, Technical, RiskMgmtSupp, Governance, DecisionSupp
b. Dependent Variable: AUTHORITY

Table 5.6 Model Parameter: Result on Coefficients^a

Model	Unstandardized		Standardize	t	Sig.	95% Confidence Interval for B	
	Coefficients		d			Lower Bound	Upper Bound
	B	Std. Error	Beta				
(Constant)	14.450	3.460		4.177		7.591	21.310
ContOversight	.065	.124	.049	.525	NS	-.181	.312
DecisionSupp	.231	.170	.149	1.363	NS	-.105	.568
RiskMgmtSupp	.061	.145	.044	.420	NS	-.226	.348
Governance	.014	.180	.008	.078	NS	-.342	.370
SystemInvolve	-.013	.047	-.029	-.265	NS	-.107	.081
Technical	.116	.079	.136	1.461	NS	-.041	.273
MgmtIntimidation	.591	.171	.342	3.465	S	.253	.929

Dependent Variable: Authority

Table 5.7: Model Summary for Multiple Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.436 ^a	.190	.137	3.22608	.190	3.563	7	106	.002

a. Predictors: (Constant), MgmtIntimidation, SystemInvolve, ContOversight, Technical, RiskMgmtSupp, Governance, DecisionSupp
b. Dependent Variable: AUTHORITY