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

By:

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We wish you good luck in your presentations.

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Role and Authority:
An Empirical Study on Internal Auditors in Malaysia
Sarimah Umor, Nurmaizlah 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 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
he 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 aiding management in turn, causes the problems of role ambiguity (Timothy and Lawrence, 2005; Van Peursem, 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.,
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 valuation 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, faithful 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 Peursem, 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 Peursem (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).
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 to 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, 06; Marco et al., 2006; Van Peursem, 2004, 2005; Burns et al., 1994). Thus, the aim 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.
ii. To discover the factors that contribute to internal auditors’ role and their relationship to authority.
iii. 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 on 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-Twaijry 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).

Bushel 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 re-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 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 persuasion, in dealing with employers or clients, this implies equality between the ties. 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 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).

ey et al. (2002) suggest a somewhat positive association between role ambiguity
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
lores the situation whereby management will be more likely to accept a
recommendation if the internal audit team exhibits a strong sense of authority (Van
Herm, 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 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
We, 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
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 role and risk management support role. In-house IA, however, involves more of the additional aspects of auditing such as operational and compliance.

Arnold (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 conclude 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' role 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 dies. 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 serves 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). Ritt 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 could 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 to the function.

Ritter 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 enshrined in internal audit charters (ICAEW, 2000). However, Van Peursem (2004) noted 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.

Prior literature has highlighted that the internal audit charter is an important channel 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, the 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 reviewed 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 dragging down processes and progress (Charles Zhang, 1999).

Organizations that practise internal audit believe that it is essential that it has a charter. The audit charter describes items such as authority, responsibility, method of operation, location in the organization and reporting structure, but these are not enough (Mort, II). 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.

IA’s authority can be established through proper monitoring by the audit committee, 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, 2015). 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 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 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, documents, and physical properties within the organization.

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

1 = There is a significant relationship between IA roles and authority.
2 = 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).
3 = 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.
4 = 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 dependent 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 perceived 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.

![Figure 3.1: Research Model](image-url)
The basic research design utilized for this study was a survey. The questionnaire was adapted from Van Peursem (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 respondents 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 246 (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 is 4 percent and 18 percent for the mail survey. It is lower compared to the 73 percent received by Van Peursem (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
recorded. In total, the number of questionnaires received was 123, and 114 acceptable
responses were utilized in the analysis.

The Cronbach’s Alpha ($\alpha$) for each item was carried out to ensure the internal
consistency 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
1967) suggested that an alpha of 0.5 or 0.6 is sufficient in the early stages. Since the
value for communication is lower than suggested by previous literature, the
communication role was excluded for further statistical analysis.

In all, the Cronbach’s Alpha value after the initial cleaning was .857, and it was
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
although there is not a generally agreed cut-off, 0.7 and above is acceptable.

Descriptive statistic and multiple regression analysis were performed. Although
(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
resistant (Moore and McCabe 2002), and, consequently, can seriously influence the
validity of the factor analysis (Habing, 2003). In addition, small sample sizes 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,
hyotheses were tested and, finally, the results of multiple regressions are presented.

**Demographic Analysis**

Table 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).
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.

\[ H_1 = \text{There is a significant relationship between the IA roles and authority} \]

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

\[ H_1(a) = \text{There is a significant relationship between the IA's control oversight role and authority.} \]

\[ H_1(b) = \text{There is a significant relationship between the IA's decision support role and authority.} \]

\[ H_1(c) = \text{There is a significant relationship between the IA's risk management support role and authority.} \]
HI(d) = There is a significant relationship between the IA’s governance role and authority.

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

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

HI(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, HI(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, HI(f) is accepted.

In contrast, there is no significant correlation between the IA ContOversight; DecisionSupp; SystemInvolv 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 SystemInvolv; ContOversight; DecisionSupp; RiskMgmtSupp and Governance roles with IA (AUTHORITY). Therefore, HI (a), HI (b), HI(c), HI (d) and HI (e) were rejected as they signify a weak relationship, which may be derived by chance, accidentally or without planning.
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.
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.

\[ H3 = \text{Internal auditors who operate under the authority of the audit charter have different perceived roles from those who do not operate under the audit charter.} \]

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 Peursem (2004).

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

\[ H4 = \text{Authority can be predicted by the role clarity enjoyed by the internal auditor in the varying roles they perform.} \]

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 \((R=0.190)\). The IA’s management intimidation role explains 13.7\% (percent) variance (Adjusted \(R^2\)) 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.

\[ \text{INSERT TABLE 5.5 ABOUT HERE} \]

From the model parameter (Table 5.6) presented below, the management intimidation role is significantly related to AUTHORITY, \(0.591 (95\% CI = 0.253 \text{ to } 0.929)\). 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.
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” corrected 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.

Therefore the predicted equation for the IA Authority is:

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

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 Peursem (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 Peursem (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.

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

<table>
<thead>
<tr>
<th>Element</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upholding The Standard of the IIA profession</td>
<td>4.58</td>
<td>.530</td>
</tr>
<tr>
<td>Audit Charter Existence representing the Authority of Internal</td>
<td>4.50</td>
<td>.613</td>
</tr>
<tr>
<td>Free access to Audit Committee</td>
<td>4.46</td>
<td>.706</td>
</tr>
<tr>
<td>Reporting to a higher level in the organization if management fails to respond</td>
<td>4.34</td>
<td>.676</td>
</tr>
</tbody>
</table>
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.

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58.


Rolandas Rupsys. The Analysis of Reporting Lines. 2005


Table 5.1: Demographic Profile of the Respondents

<table>
<thead>
<tr>
<th>Gender</th>
<th>Percentage (%)</th>
<th>Age</th>
<th>Percentage (%)</th>
<th>Ethnic</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>61</td>
<td>21 - 25</td>
<td>2.6</td>
<td>Malay</td>
<td>56.1</td>
</tr>
<tr>
<td>Female</td>
<td>39</td>
<td>26 - 30</td>
<td>16.7</td>
<td>Chinese</td>
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<tr>
<td></td>
<td></td>
<td>31 - 35</td>
<td>32.5</td>
<td>Indian</td>
<td>3.5</td>
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<tr>
<td></td>
<td></td>
<td>&gt; 40</td>
<td>21.1</td>
<td>Others</td>
<td>1.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Highest level Education</th>
<th>Percentage (%)</th>
<th>Audit Experience</th>
<th>Percentage (%)</th>
<th>Other Tertiary Qualification</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certificate/Diploma</td>
<td>3.5</td>
<td>&lt; 1 year</td>
<td>9</td>
<td>None</td>
<td>76.3</td>
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<tr>
<td>Bachelor Degree</td>
<td>77.2</td>
<td>1 - 5 years</td>
<td>11.4</td>
<td>Computer/IT</td>
<td>3.5</td>
</tr>
<tr>
<td>Post Graduate Degree</td>
<td>19.3</td>
<td>6 - 10 years</td>
<td>28.9</td>
<td>Engineering</td>
<td>2.6</td>
</tr>
<tr>
<td>Degree</td>
<td></td>
<td>11 - 15 years</td>
<td>33.3</td>
<td>Science</td>
<td>1.8</td>
</tr>
<tr>
<td></td>
<td></td>
<td>16 - 20 years</td>
<td>14.0</td>
<td>Business</td>
<td>9.5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&gt; 20 years</td>
<td>11.4</td>
<td>Economy</td>
<td>6.3</td>
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</table>

<table>
<thead>
<tr>
<th>Professional Designation</th>
<th>Percentage (%)</th>
<th>Professional Designation</th>
<th>Frequency of</th>
<th>Number of Designation</th>
<th>Frequency</th>
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<tbody>
<tr>
<td>None</td>
<td>36</td>
<td>MACPA</td>
<td>2</td>
<td>= 1</td>
<td>67</td>
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<tr>
<td></td>
<td>58.7</td>
<td>ACCA</td>
<td>13</td>
<td>= 2</td>
<td>3</td>
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<tr>
<td>&gt; 1</td>
<td>5.3</td>
<td>CIA</td>
<td>8</td>
<td>&gt; 2</td>
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<td></td>
<td></td>
<td>CPA</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Others</td>
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</tbody>
</table>

Table 5.2: Pearson Product Moment Correlation between the IA’s Role and Authority (N=114)
Table 5.3: Mean Comparison for Perceived Roles by Employment Types

<table>
<thead>
<tr>
<th>Employment Type</th>
<th>In House Internal Auditor (n = 98)</th>
<th>Outsourced Internal Auditor (n = 16)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>Standard Deviation</td>
<td>Mean</td>
</tr>
<tr>
<td>Control Oversight Role</td>
<td>20.35</td>
<td>20.69</td>
</tr>
<tr>
<td>Decision Support Role</td>
<td>5.88</td>
<td>5.63</td>
</tr>
<tr>
<td>Risk Management Support Role</td>
<td>6.83</td>
<td>7.19</td>
</tr>
<tr>
<td>Governance Role</td>
<td>7.38</td>
<td>7.50</td>
</tr>
<tr>
<td>System Involvement Role</td>
<td>30.27</td>
<td>30.00</td>
</tr>
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</table>
### Table 5.4: Mean Comparison for Audit Charter Existence

<table>
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<tr>
<th></th>
<th>With Charter</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
<th>N</th>
</tr>
</thead>
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<td>2.61542</td>
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<td>1.78227</td>
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<td>18</td>
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<tr>
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<td>30.2604</td>
<td>7.98979</td>
<td>.81045</td>
<td>96</td>
</tr>
<tr>
<td>Technical</td>
<td></td>
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<td>2.76119</td>
<td>.20008</td>
<td>18</td>
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<tr>
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<td>4.04217</td>
<td>.42199</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>1362.781</td>
<td></td>
<td>.002*</td>
<td>113</td>
</tr>
</tbody>
</table>

**Table 5.5: Results for the Analysis of Variance - ANOVA**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>259.573</td>
<td>7</td>
<td>37.082</td>
<td>3.563</td>
<td>.002*</td>
</tr>
<tr>
<td>Residual</td>
<td>1103.208</td>
<td>106</td>
<td>10.408</td>
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<td></td>
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<tr>
<td>Total</td>
<td>1362.781</td>
<td>113</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

**Table 5.6 Model Parameter: Result on Coefficients**
## Table 5.7: Model Summary for Multiple Regression Analysis

<table>
<thead>
<tr>
<th>Model</th>
<th>B</th>
<th>Std. Error</th>
<th>Beta</th>
<th>t</th>
<th>Sig.</th>
<th>Lower Bound</th>
<th>Upper Bound</th>
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</thead>
<tbody>
<tr>
<td>(Constant)</td>
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<td>3.460</td>
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<td>4.17</td>
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<td>.149</td>
<td>1.36</td>
<td>NS</td>
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<tr>
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<td>NS</td>
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<td>.342</td>
<td>3.46</td>
<td>S</td>
<td>.253</td>
<td>.929</td>
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</tbody>
</table>

*Dependent Variable: Authority*