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FACTORS THAT INFLUENCE THE EFFECTIVENESS OF INTERNAL AUDIT IN MALAYSIA

By

SITHRA A/P SANMUGAVELU (828836)

Universiti Utara Malaysia

Thesis Submitted to

Tunku Puteri Intan Safinaz School of Accountancy (TISSA-UUM)

Universiti Utara Malaysia

in Partial Fulfillment of the Requirement for the Master of Science

(International Accounting)

Kolej Perniagaan
(College of Business)
Universiti Utara Malaysia

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Program Pengajian
(Programme of Study) : M20D – MASTER OF SCIENCE (INTERNATIONAL ACCOUNTING)

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ABSTRACT

The paper examines the influencing factors on Malaysia Internal Audit Efficiency. Descriptive statistical analysis, interpretive statistics including Pearson Correlation, and multiple regression analysis of variance are used to examine factors such as independence of internal auditing, basic competence of internal auditors, the relationship between internal auditors and external auditors and management support for the effectiveness of the internal audit. The SPSS statistical package was also used for quantitative and qualitative analyses, such as the multiple relapsing model and other tests. According to the results, when it comes to internal audit efficiency, multiple factors have a significant relationship with one another (internal auditor independence and managerial staff assistance for internal audit) throughout a favourable encouragement on the efficacy of internal audits. A good communication system between external auditors and internal auditors can result in efficient exchange of information and effective control over the company's internal audit. In addition, this research looks at how the activity theory might provide insight into the impact that board qualities and important audit matter disclosure have on publicly traded companies in Malaysia. It is suggested that future studies use additional panel data to evaluate factors over a longer period and with larger samples and to account for confounding variables like profit and company size.

Keywords: Internal Audit Effectiveness, Independence, Competencies, Relationship, Management Support Internal Auditors & External Auditor.

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ABSTRAK

Kertas kerja ini mengkaji faktor-faktor yang mempengaruhi Kecekapan Audit Dalaman Malaysia. Analisis statistik deskriptif, statistik tafsiran termasuk Korelasi Pearson, dan analisis regresi berganda bagi varians digunakan untuk mengkaji faktor-faktor seperti kebebasan pengauditan dalaman, kecekapan asas juruaudit dalaman, hubungan antara juruaudit dalaman dan juruaudit luar dan sokongan pengurusan untuk keberkesanan Audit dalaman. Pakej statistik SPSS juga digunakan untuk analisis kuantitatif dan kualitatif, seperti model berulang berbilang dan ujian lain. Mengikut keputusannya, apabila bercakap tentang kecekapan audit dalaman, pelbagai faktor mempunyai hubungan yang signifikan antara satu sama lain (kebebasan juruaudit dalaman dan bantuan kakitangan pengurusan untuk audit dalaman) sepanjang galakan yang menggalakkan terhadap keberkesanan audit dalaman. Sistem komunikasi yang baik antara juruaudit luar dan juruaudit dalaman boleh menghasilkan pertukaran maklumat yang cekap dan kawalan yang berkesan ke atas audit dalaman syarikat. Di samping itu, penyelidikan ini melihat bagaimana teori aktiviti mungkin memberikan gambaran tentang kesan kualiti lembaga pengarah dan pendedahan perkara audit yang penting terhadap syarikat dagangan awam di Malaysia. Kajian masa depan dicadangkan menggunakan data panel tambahan untuk menilai faktor dalam tempoh yang lebih lama dan dengan sampel yang lebih besar serta mengambil kira pembolehubah yang mengelirukan seperti keuntungan dan saiz syarikat.

Kata kunci: Keberkesanan Audit Dalaman, Kebebasan, Kecekapan, Hubungan, Sokongan Pengurusan Juruaudit Dalaman & Juruaudit Luar.

ACKNOWLEDGMENT

I would like to express my truly gratitude to my supervisor Dr Ifa Rizad binti Mustapa, for her priceless information besides supervision, which has gone a long way in helping me to complete this project paper. I would also like to rapid my thankfulness to my mother for her inspiration and continuous support to me during the period of this masters program. Once again, I am grateful to my supervisor Dr Ifa Rizad binti Mustapa.

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LIST OF ABBREVIATIONS

AAA: Audit and Assurance

AAER: Accounting and Auditing Enforcement Releases

AAR: Acceptable Audit Risk

CAE: Chief Audit Executive

CAE: Computer-Aided Engineering

IA: Internal auditing

IAF: International Accreditation Forum

IIA: Institute of Internal Auditors

IPPF: International Professional Practices Framework

ISPPIA: Professional Practice of Internal Auditing

MCCG: Malaysian Code Corporate Governance

MFSB: Malaysian Federal Statutory Bodies

NAD: National Audit Department

1MDB: 1 Malaysia Development Fund Bhd

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CHAPTER 1 INTRODUCTION

1.0 Introduction

Internal auditing (IA) has experienced significant expansions in recent years that have widened its possibility and allowed it to be more valuable to a firm. The guarantee of compliance, financial control, and asset protection has always been the primary focuses of IA. Numerous changes have strengthened the roles of IA in boosting corporate governance processes later the company monetary dishonours of the 2000s (International Federation of Accountants 2006). According to (Cohen 2010) IA has therefore transformed into a charge maker by enhancing the efficiency of risk-managing controllers besides authority structures. Changes to the political and economic climates and information technology advancements have profoundly impacted corporate Governance. Many business risks have resulted in various financial frauds in recent years.

Organisations rely heavily on internal audit (IA) operations to help them reach their goals and keep their assets safe. Furthermore, the IA has developed into a crucial management instrument for establishing efficient command in businesses (Endaya, 2016). International Professional Practice Framework emphasises the importance of a strong IA function, believing that a well-executed IA's role will significantly enhance the efficiency with which an organisation manages risk, controls its operations, and government. According to (Endaya, 2016) the Institute of Internal Auditor’s meaning of internal auditing, "An independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its

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7.0 APPENDIX

7.1 The SPSS Software Results and output

Notes

Output Created		24-SEP-2023 22:02:43
Comments		
Input	Data	C:\Users\jaymz\OneDrive\Desktop\Assignments\Kisshen\Internal Audit SPSS -
	Active Dataset	DataSet1
	Filter	<none>
	Weight	<none>
	Split File	<none>
	N of Rows in Working Data File	148
Missing Value Handling	Definition of Missing	User-defined missing values are treated as missing.
	Cases Used	Statistics are based on cases with no missing values for any variable used.

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Syntax		REGRESSION /MISSING LISTWISE /STATISTICS COEFF OUTS R ANOVA /CRITERIA=PIN(.05) POUT(.10) /NOORIGIN /DEPENDENT EffectivenessOfInternalAudit /METHOD=ENTER IndependeceOfinternalAuditors RelationshipBetweenInternaExternallAuditors CompetencyOfInternalAuditors ManagementSupportfInternalAuditors /RESIDUALS DURBIN HISTOGRAM(ZRESID).
Resources	Processor Time	00:00:00.36
	Elapsed Time	00:00:00.54
	Memory Required	5264 bytes
	Additional Memory Required for Residual Plots	264 bytes

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Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method

1	ManagementSupportfInternalAuditors, IndependeceOfinternalAuditors, CompetencyOfInternalAuditors, RelationshipBetweenInternaExternallAuditors[b]	.	Enter

a. Dependent Variable: EffectivenessOfInternalAudit
b. All requested variables entered.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.975[a]	.950	.948	.09218	.681

a. Predictors: (Constant), ManagementSupportfInternalAuditors, IndependeceOfinternalAuditors, CompetencyOfInternalAuditors, RelationshipBetweenInternaExternallAuditors
b. Dependent Variable: EffectivenessOfInternalAudit

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	22.935	4	5.734	674.829	.000[b]
	Residual	1.215	143	.008		
	Total	24.150	147			

a. Dependent Variable: EffectivenessOfInternalAudit
b. Predictors: (Constant), ManagementSupportfInternalAuditors, IndependeceOfinternalAuditors, CompetencyOfInternalAuditors, RelationshipBetweenInternaExternallAuditors

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Coefficients[a]

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-.431	.105		-4.125	.0
	IndependeceOfinternalAuditors	.344	.038	.364	9.074	.0
	RelationshipBetweenInternaExternallAuditors	.427	.049	.406	8.645	.0
	CompetencyOfInternalAuditors	.176	.046	.152	3.780	.0
	ManagementSupportfInternalAuditors	.145	.038	.131	3.825	.0

a. Dependent Variable: EffectivenessOfInternalAudit

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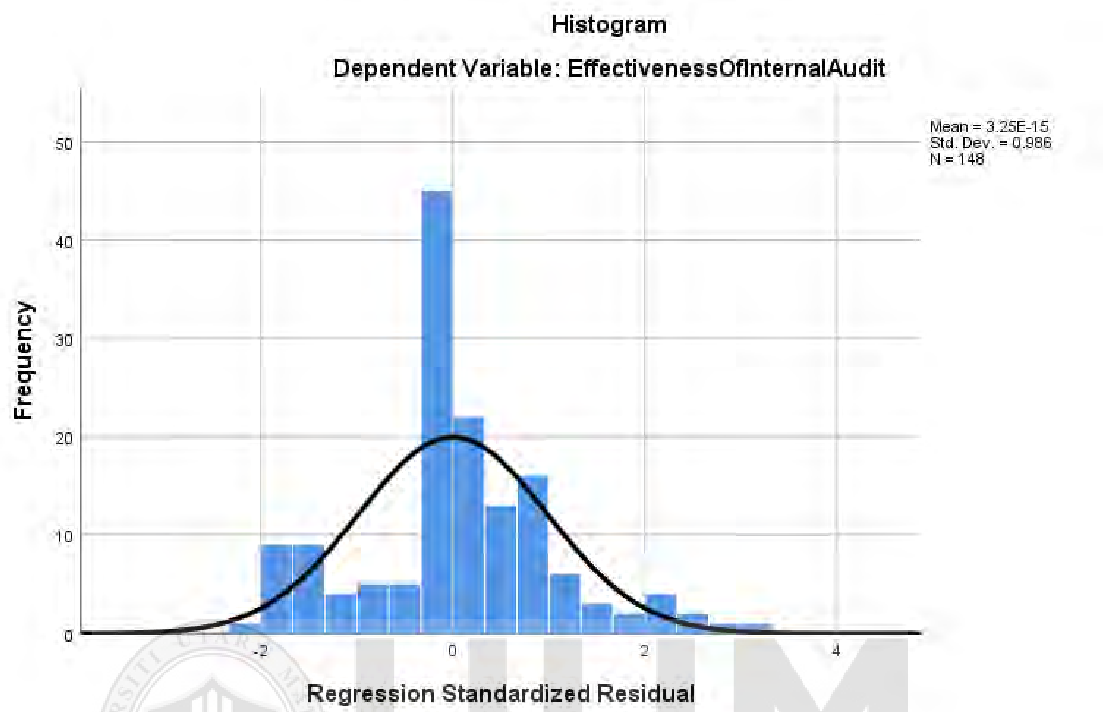
Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	3.9367	5.0286	4.6500	.39499	148
Residual	-.20274	.27793	.00000	.09091	148
Std. Predicted Value	-1.806	.959	.000	1.000	148
Std. Residual	-2.199	3.015	.000	.986	148

a. Dependent Variable: EffectivenessOfInternalAudit

Charts



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	N	Minimum	Maximum	Mean	Std. Deviation
F1-Independence of Internal Auditor (IV)	30	1.00	5.00	4.4000	.85501
F2-Competency of Internal Auditor (IV)	30	3.00	3.00	4.4333	.56832
F3-Relationship between Internal Auditor and External Auditor (IV)	30	4.00	5.00	4.5333	.50742
F4-Management Support for Internal Audit (IV)	30	4.00	5.00	4.5000	.50855
Internal Audit Effectiveness (DV)	30	4.00	5.00	4.5333	.50742
Valid N (listwise)	30				

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Correlations

		F1-Independence of Internal Auditor (IV)	F2-Competency of Internal Auditor (IV)	F3-Relationship between Internal Auditor and External Auditor (IV)	F4-Management Support for Internal Audit (IV)	Internal Audit Effectiveness (DV)
F1-Independence of Internal Auditor (IV)	Pearson Correlation	1	.412*	.270	.079	.032
	Sig. (2-tailed)		.024	.149	.677	.868
	N	30	30	30	30	30
F2-Competency of Internal Auditor (IV)	Pearson Correlation	.412*	1	.351	.060	.128
	Sig. (2-tailed)	.024		.057	.754	.502
	N	30	30	30	30	30
F3-Relationship between Internal Auditor and External Auditor (IV)	Pearson Correlation	.270	.351	1	.000	.339
	Sig. (2-tailed)	.149	.057		1.000	.067
	N	30	30	30	30	30
F4-Management Support for Internal Audit (IV)	Pearson Correlation	.079	.060	.000	1	.000
	Sig. (2-tailed)	.677	.754	1.000		1.000
	N	30	30	30	30	30
Internal Audit Effectiveness (DV)	Pearson Correlation	.032	.128	.339	.000	1
	Sig. (2-tailed)	.868	.502	.067	1.000	
	N	30	30	30	30	30

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

Survey Form.

Pusat Pengajian Perakaunan
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TUNKU PUTERI INTAN SAFINAZ SCHOOL OF ACCOUNTANCY

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DC222 JAN 2022/2023

BPMZ 6996 MASTERS PROJECT

TITLE

FACTORS THAT INFLUENCE THE EFFECTIVENESS OF INTERNAL AUDIT IN MALAYSIA

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Survey on Factors that Influence the Effectiveness of Internal Audit In Malaysia.

The objective of this questionnaire is to investigate the influence of several factors on the effectiveness of internal audit in the Malaysian environment.

This survey comprises of TWO (2) sections, SECTION A: DEMOGRAPHIC INFORMATION and SECTION B: FACTORS

SECTION A: DEMORAPHIC INFORMATION.

***Instruction**: The following items are related to individual personal information. Please choose the most appropriate answer for each item.*

Gender	: Female	☐
	: Male	☐
Work Experience	: Less Than 1 Year	☐
	: 1 Year - 5 Years	☐
	: More Than 5 Years	☐
Job Position	: Audit Manager	☐
	: Senior Auditor	☐
	: Junior Auditor	☐
Accounting/Audit Firm	: PriceWaterhouseCoopers Plt.	☐
	: Grant Thornton Malaysia Plt.	☐
	: KPMG.	☐
	: Deloitte.	☐
	: Vee Loo Guna & Associates	☐
	: Param & Co.	

SECTION B: FACTORS THAT INFLUENCE THE EFFECTIVENESS OF INTERNAL AUDIT

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***Instruction:** The following items are related to the factors that could have some influences on the effectiveness of internal audit. Please indicate your degree of agreement by selecting the number that best suits your condition ranging from the scale of 1 to 5 [1= Strongly Disagree; 2= Disagree; 3= Neutral; 4= Agree; 5= Strongly Agree]*

1= Strongly Disagree; 2= Disagree; 3= Neutral; 4= Agree; 5= Strongly Agree	**---Select ONE ---**				
Factor A : Independence of Internal Auditors	**1**	**2**	**3**	**4**	**5**
Auditor independence is part of the foundation of the auditing profession. An independent, reliable, and ethically sounds audit gives a company credibility and allows the public to trust in the accuracy of the results and the integrity of the accounting profession. An independent auditor is typically expect to avoid conflicts of interest and ensure the integrity of performing an audit.					
Independent auditors are often expected to protect shareholders and potential investors from occasional fraudulent or unrepresentative financial claims made by public companies. Independence in appearance is what third parties would perceive an auditor as being independent.					
Independence is achieved by assuring that the internal audit activity has no management responsibility for any of the organization's non-audit functions subject to internal audit assessments and by separating management of the internal audit activity					

1= Strongly Disagree; 2= Disagree; 3= Neutral; 4= Agree; 5= Strongly Agree	**---Select ONE ---**				
Factor B : Competency of Internal Auditors	**1**	**2**	**3**	**4**	**5**
Auditors need to be competent in "Communication", "Persuasion and Collaboration", and "Critical Thinking" in order to deliver internal audit engagements, and drive improvement and innovation in an organization.					
Auditor competence is demonstrated by personal attributes, the ability to apply knowledge and skills, experience, continuous development and assessment. The assessment of auditors may include reviewing records, gathering feedback or observing internal audits efficiencies.					
Knowledge of audit principles, practices and techniques indicate the competency of internal auditor. It includes knowledge of client products, processes and organization, language skills appropriate to all levels within the client organization, note-taking and report-writing skills.					
The auditor's competence can be seen from knowledge, skills and experience which are able to influence audit quality. The higher the competence level of an auditor, the better the audit quality. An auditor is required to possess competence in order to obtain significance audit performance.					

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1= Strongly Disagree; 2= Disagree; 3= Neutral; 4= Agree; 5= Strongly Agree	**---Select ONE ---**				
Factor C : Relationship between Internal Auditors and External Auditors	**1**	**2**	**3**	**4**	**5**
An internal audit and an external audit are similar in that they both follow similar audit processes including the planning phase, fieldwork phase and reporting phase.					
By referring to the work of the internal auditor, an external auditor can gain additional insights of the entity.					
A good communication system between external auditors and internal auditors can result in an efficient exchange of information and effective control over the financial statements. Through this, both the internal and external auditors can plan the timing of their work while minimizing the interference of the management.					
External auditors and internal auditors are clearly separated and distinct in their respective functions and duties but there should be regular communication between the two for an efficient internal audit.					
Both internal and external auditors help companies to ensure that their financial reporting agrees with the accounting principles, that internal controls are working correctly, and that the company is in compliance with relevant laws and regulations to achive an efficient internal audit process.					

1= Strongly Disagree; 2= Disagree; 3= Neutral; 4= Agree; 5= Strongly Agree	**---Select ONE ---**

Factor D : Management commitments and supports for internal audit	1	2	3	4	5
Management of the company coorporates with the internal audit documents requests.					
The management provides supporting documents requested for internal audit on time.					
Management's commitments and supports for internal audit unit are important factors that determine the extent to which the unit can fulfil its objectives and are essential for effective internal audit.					
In order to maintain effective internal controls, management should i) maintain adequate policies and procedures; ii) communicate entity's policies and procedures; and iii) monitor compliance with policies and practices.					
Management is responsibles for maintaining an adequate system of internal controls. Internal auditors independently evaluate the adequacy of the existing internal control systems by analyzing and testing those controls.					

Your kind participation in responding to this questionnaire will be very much appreciated. Thank you in advance for your valuable time.

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