

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

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Abstract: One important relationship between members of the internal audit profession and others in the work world is that of authority because it has the most pervasive direct and indirect influence upon the clarity of the internal auditors' role. Internal auditors have varying roles among which are control oversight, decision support and risk management. We noted that the lack of authority will affect the internal auditors' role clarity and hence its effectiveness. The main objective of this paper is to identify the relationship between the roles of the internal auditors and authority. The extent to which the internal auditors enjoy role clarity is determined by how they perceive their roles. This paper provides empirical evidence on the association between internal auditor roles and other aspects of a profession such as audit charter existence and employment type. The results show that although management intimidation is dominant in explaining the variance in authority, this construct only explains 13.7 per cent variance in authority. The results support the need for the regulators, the professional body which is the Institute of Internal Auditors (IIA) and the persons charged with governance (board of directors) to provide internal auditors with clear authority to identify appropriately their roles and responsibilities. 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 organisations concerned with the enhancement of the internal audit profession. This paper contributes towards the decision making of boards of directors, audit committees and other regulatory bodies, to augment the profession of internal auditors.

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1. Introduction

The increasing complexity of business transactions, together with a more dynamic regulatory environment in the Asian region, has directed attention on the internal audit function. Arguably, auditors are struggling to maintain their identity and purpose as the organisations they serve undergo drastic changes. 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. The role of the internal auditors is constantly evolving, spanning from reviewing governance, risk and control, to becoming internal consultants on mergers and acquisitions (Bartsiota and Marks, 2008; Ernst and Young, 2008; Harish, 2008; KPMG, 2007; PWC, 2008; Russell, 2007). In many organisations, they independently evaluate the effectiveness of management and aid in management itself. While undertaking the various roles, internal auditors are faced with the problems of role ambiguity (Brody and Lowe, 2000; Burns, Greenspan & Hartwell, 1994; Cooper, Leung & Mathews, 1996; Flesher and Zanzig, 2000; Fogarty and Kalbers, 2000; Glascock, 2002; McCall, 2002; Tarr, 2002; Van Peurseem, 2004, 2005) which 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). 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 (Rebele and Michaels, 1990; Viator, 2001a, 2001b). As long as role ambiguity is unresolved, internal auditors are likely to face attempts by various organisational interest groups to pressure them into performing certain tasks that conflict with their core role (Greenspan et al., 1994). 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 according the right authority to internal auditors.

Authority within the internal audit profession has been studied since the early 70's (Burns et al., 1994; Engel, 1970; Mort, 2001; Van Peurse, 2004, 2005), but it has not been clearly defined by the International Professional Practice Framework (IPPF). However IPPF requires that the charter of the internal audit department makes a definition which is based on their organisational context (IIA, 2009). 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 organisational 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 organisational setting. 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. 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 organisation (Burns et al., 1994). Concerns have been raised over internal auditors' real level of authority and the inherent strength their role has when viewed by others (Burns et al., 1994). To perform their role effectively, internal auditors need to overcome role ambiguity. Senatra (1980) found that the impact of authority levels was significant and correlated negatively with role ambiguity. This indicates that internal auditors with higher authority may receive higher recognition and thus they have lower role ambiguity. The lack of clarity in role expectations does have a negative consequence.

From the perspective of the Malaysian Code on Corporate Governance 2007, the internal auditor is one of the four cornerstones of corporate governance – along with the board, management and external auditor (IIA, 2003). The authority for each party is clearly defined except for the internal audit function, which is loosely explained, hence it creates ambiguity as well as causes misunderstanding about the role that internal auditors need to play in organisations, especially in public listed companies. 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 shareholders with regards to the financial statements. 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 other duties, 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. Based on the issues discussed, this paper examines the relationship between the roles of the internal auditors and the authority given to them. This paper also investigates the varying roles of the internal auditors and their relationship to having 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 paper are specified as follows: i) to determine the perception of internal auditors of their role; ii) to discover the factors that contribute to internal auditors' roles and their relationship to having authority; and, iii) to determine the differences between the perceived roles of internal auditors who work under conditions where an Audit Charter exists, and those who do not. The next section provides an overview of the literature that forms the underlying framework for the hypothesis. Then it is followed by a description of the research methodology. The findings are discussed in section 4 and, section 5 closes with the conclusion and recommendations.

2. Literature Review

Management today relies 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-Twajry, Brierly & Gwilliam, 2003). As mentioned, internal auditors have varying roles as shown in Table 1.

The role of internal auditors within a firm should become clearer for internal auditors over time. The expectation that role ambiguity will also be related to professionalism for internal auditing finds its basis in the conflicts between professional and organisational norms (Barber, 1963;

Table 1: Roles of Internal Auditors

Roles	Functions	Source
Communication	Fulfil requests from various levels of management for specific tasks.	IIA, 2009
Management Intimidation	Intimidate audience who threatens a profession's autonomy.	Friedrich, 1972
Technical	Improve an organisation's monitoring risks and internal controls through technical competency.	Abdolmohammadi and Usoff, 1987
Risk Management Support	Monitors risks for the management and the board, or the audit committee.	Sarens and De Beelde, 2006
Control Oversight	Evaluates and recommends improvements to an organisation's internal control.	Fadzil et al., 2005, Hass and Mohammad, 2006
Decision Support	Help managers identify, assess, and mitigate risks that can affect a unit or a process.	Verschoor, 2000
System Involvement	Provide system configuration input to make sure that new systems and modifications to existing systems are sufficiently documented.	Rishel and Ivancevich, 2003
Governance	Assess and make appropriate recommendations for improvement to the governance process.	Gramling and Hermanson, 2008

Chambers, 1995; Chambers, Selim & Vinten, 1987). 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 solely technical (Paton, 1971). Nevertheless, too much unresolved role ambiguity in the work may hinder the appearance of professional authority (Beckman, 1990). The basic understanding of the internal

auditors' role is one of fundamental "checks and balances" for sound corporate governance. A robust and objective internal auditor with the skills to identify problems with risk control and the authority to pursue its concerns, is essential to the proper discharge of responsibilities. A strong internal audit activity should be able to influence management, and explores the existing situation whereby management will be more likely to accept a recommendation if the internal audit team exhibits a strong sense of authority (Van Peurse, 2004). Internal audit authority is established through reporting lines or structure, relationships with the audit committee and senior management, professionalism and the internal audit's reputation and credibility (IIA, 2009). 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 organisation they serve, rather than as some type of stepping stone into corporate management. The empowerment will be stronger if it is embedded into the regulatory framework that binds the organisations that the internal auditor serves.

In the Malaysian context, it can be witnessed that the recognition and the empowerment of internal auditors has grown in the past few years. It began with the requirement by the revised Malaysian Code of Corporate Governance (MCCG) in 2007 (Securities Commission, 2007) and Bursa Malaysia Listing Requirement (LR) in 2008 that all public listed companies in Malaysia must have an internal audit function. However, MCCG 2007 is silent about the role, responsibilities and duties of internal auditors. Therefore, internal auditors in Malaysia may vary in their roles depending on the requirements and the needs of their respective employers. It is also noted that there are several companies who hire only one internal auditor for their own organisation who is then responsible for overseeing the performance of the internal audit work by an outsourced provider. Perhaps this is not only a Malaysian phenomenon as Arnold (2008) also noted that many companies in the USA outsource their internal audit function to public accounting firms, consulting firms or other service providers. However, Chapman and Anderson (2002) argued 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 position and, to a lesser extent, by the identity of the outsourced auditors (Ahlawat and Lowe, 2004). Outsourcing the internal audit is not necessarily the best response to cost-cutting pressure, especially when

a corporation is seeking to decentralise its decision-making authority (Hodgson and Puschaver, 1995). Internal audit should move into being a value-added activity or else the internal audit function risks being perceived as an overhead, and even worse, being outsourced (Liu, Woo & Boakye-Bonsu, 1997).

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 inappropriately. 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. 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, Dezoort & Hermanson (2003a, 2003b). 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'. On the basis of this discussion, we noted that there exists a different perception on the roles of internal auditors if they are in house, outsourced or even if they are working in government or public company settings.

The audit charter provides internal auditors with their rights, and authorises them to have direct access to any documents, people and records within the organisation. 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 bodies. 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 organisation. To undertake all the challenges in an organisational 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 can serve as a tool for keeping internal auditors relevant and up to date, or it can be a hindrance slowing down processes and progress (Charles, 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, 2009). Sarens and De Beelde (2005) formulated specific suggestions to reduce the gaps between the expectations and perceptions related to the interaction between the audit committee (AC) members and the internal auditors 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. Cenker 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 Peurse (2004) revealed that the existence of an audit charter does not appear to clarify the differences between role and authority. Therefore, it is unclear to what extent the audit charter helps to define the internal auditor's role in the organisation.

Earlier 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, the audit charter provides a mandate for their authority. Moreover, to effectively play their 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 internal auditor.

Organisations that establish the internal audit function believe that it is essential that it has a charter. The audit charter describes items such as authority, responsibility, method of operation, position in the organisation and reporting structure, but these are not enough (Mort, 2001). The author suggested that internal auditors can seek to increase or strengthen their authority within the organisation in a number of ways. In order to gain that authority, internal auditors need to embark on a range of complex audits to match the speed with which risks can take place in the organisation. The importance of authority, and the ability to earn the related 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 internal auditor's authority can be established through proper monitoring by the audit committee in terms of support and structure of decision-making. Theoretically, the Chief Audit Executive (CAE) should report functionally to the board or audit committee, and administratively to the chief executive officer of the organisation. 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 the 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, Attribute Standard 1000 of IPPF and its related guidance (IIA, 2009) suggests that the purpose, authority, and responsibility of the internal audit activity should be formally defined in a charter, consistent 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 and authorised 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 organisation. On the basis of the literature review, following research questions and hypotheses in Table 2 are set for this study:

Table 2: Research Questions and Hypotheses

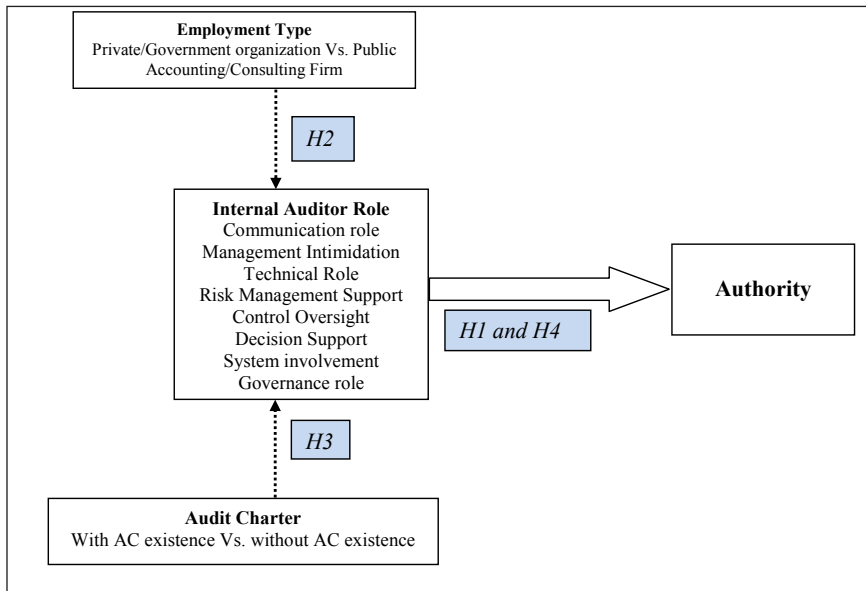
Research Questions	Hypotheses
<i>R1: What is the relationship between the internal auditor's Role and Authority?</i>	<i>H1 =There is a significant relationship between - internal auditor roles and authority.</i>
<i>R2: Are the perceptions on perceived roles different between private or government organisation internal auditor and public accounting or consulting firm internal auditor.</i>	<i>H2 =There is no significant difference in the perceived role between the outsourced internal auditor (public accounting or consulting firm) and the internally employed internal auditor (private or government organisation).</i>
<i>R3: Does the existence of the Audit Charter show a difference in the internal auditor's perceived role and authority?</i>	<i>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.</i>
<i>R4: To what extent does each role (element) predict the authority of the internal auditor?</i>	<i>H4 =Authority can be predicted by the role clarity enjoyed by internal auditor in the varying roles performed.</i>

3. Research Framework and Method

As depicted in Figure 1, the dependent variable (DV) is represented by authority given, and the independent variables (IV) are the eight roles performed by the internal auditors. This relationship answered the first hypothesis in 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.

In order to achieve the objectives of this research, we deliberated that we should utilise surveys as a means to get the general perception of internal auditors on matters relating to their role and authority. This is consistent with the approach by Van Peurse (2005, 2004) in which seven similar constructs were used to represent the varying roles of internal auditors. We adapt the instrument in Van Peurse (2005, 2004) and include an additional construct based on the current scenario of

Figure 1: Research Model



the Malaysian context. In this study, random sampling was used to obtain respondents. Random selection of the individual observation of the research sample is an appropriate means to obtain an accurate and representative sample (Abu Musa, 2008). The population base for this study was members of the IIA Malaysia (IIAM). Membership records, as at 2008, consisted of 244 corporate registered members and 2,013 individual registered members. The random sampling technique was applied to select individual registered members. The number of questionnaires distributed were 892 (samples) out of 2,257 population. Final questionnaires were sent through the mail and by email. Answered questionnaires received were 123. The response rate to the email survey was 4 per cent and 18 per cent for the mail survey. Although the questionnaires were sent through IIA Malaysia which is the professional body representing internal auditors, a high response rate was not achieved. In total, the number of questionnaires received was 123, and 114 acceptable observations were utilised in the analysis. First, the Cronbach's Alpha (α) (Cronbach, 1951) for each item was computed to ensure the internal validity of the questions. Based on the analysis, the communication role had to be deleted 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. Overall, 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. Therefore, this is consistent with Nunally (1978) who reveals that although there is not a generally agreed cut-off, 0.7 and above is acceptable. Next, descriptive statistic and multiple regression analysis were performed. Although Field (2000, 2005) suggested that factor scores can be used, this was not carried out due to the low sample size. The sample size should be taken into consideration, as correlations are not resistant (Moore and McCabe 2001), and, consequently, can seriously influence the reliability 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.

4. Empirical Results

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

4.1 Descriptive Statistics

The biggest number of the respondents was represented by internal auditors from private or government organisations, who made up 86 per cent, while the remaining balance of 14 per cent 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 an audit charter while the remaining 18 respondents were internal auditors who did not. 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).

Table 3 shows the profile of the respondents. The overall distribution of males and females in the sample were 61 per cent and 39 per cent respectively, with a slightly higher percentage of males within the IIAM 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 per cent), followed by 6 to 10 years (28.9 per cent). The lowest was less than 1 year (.9 per cent). In terms of the education level of the respondents, 77.2 per cent have a Bachelors Degree and 19.3 per cent

Table 3: 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 (%)
		<1	0.9	None	76.3
Certificate/ Diploma	3.5	1-5 Years	11.4	Computer/ IT	3.5
Bachelor Degree	77.2	6-10 Years	28.9	Engineering	2.6
Post Graduate Degree	19.3	11-15 Years	33.3	Science	1.8
		16-20 Years	14	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		

have a masters degree qualification. Only 3.5 per cent 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 per cent have academic qualifications outside the field, while the remaining 76.3 per cent respondents do not have any other tertiary qualifications. In the current study, 3.5 per cent of the respondents reported having a computer/Information Technology qualification followed by Engineering 2.6 per cent; Science 1.8 per cent and the residual accumulated to 15.8 per cent. It indicates a low level of multiple competencies among internal auditors in Malaysia. In contrast with the study by Van Peursam (2004), a total of 58 per cent 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 per cent reported having a computer/Information Technology qualification followed by Engineering (2.6 per cent), Science (1.8 per cent), and the residual accumulate to 15.8 per cent.

Finally, Table 3 shows that 36 per cent out of the 114 respondents do not have any professional designation, 5.3 per cent have more than one professional designation, and the majority, that is 58.7 per cent, has one professional designation. It was also evident that not all the 114 respondents were members of IIAM and that only 28.9 per cent have a Certified Internal Audit (CIA) professional designation. However, the IIAM 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).

4.2 Relationship between Internal Auditor Role and Authority

The three most important perceived authority elements, as ranked by the majority of the respondents, are: i) upholding the standard of the IIA profession (mean = 4.58), ii) audit charter existence representing authority of internal auditors (Mean = 4.50), and iii) free access to audit committees (Mean = 4.46). Furthermore, the majority of respondents also believe that decision making at the most senior level of the organisation (Mean = 3.59) and agreeing with managers as to the purpose of their investigation before commencing (Mean = 3.75), are the two least

Table 4: 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 organisation 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 Organisation	3.59	1.127

important for internal auditors' role clarity, in order to preserve the internal auditors' authority. Refer to Table 4.

4.3 Hypotheses Testing

4.3.1 Relationship between Internal Auditors role and authority

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

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

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

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

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

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

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

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

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

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

Table 5 indicates that there is a significant ($r = 0.38, p < 0.05$) moderate positive correlation between the 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 AUTHORITY, represented by $r = 0.24, p < 0.05$, therefore, *H1 (f)* is accepted.

In contrast, there is no significant correlation between the ContOversight; DecisionSupp; SystemInvolve and RiskMgmtSupp roles with 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, which is 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 SystemInvolve; ContOversight; DecisionSupp; RiskMgmtSupp and Governance roles with 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.

Generally, the results revealed that there is a weak correlation between the internal auditor's role and authority. This indicates that the internal auditor's authority is not strongly linked with the

Table 5: Pearson Product Moment Correlation between the Internal Auditor's Role and Authority (N=114)

	ContOversight	DecisionSupp	RiskMgmtSupp	Governance	SystemInvolve	Technical	MgmtIntimidation	AUTHORITY
ContOversight	Pearson Correlation Sig. (2-Tailed)	1 -0.680 0.473	0.29** 0.002	0.199* 0.034	-0.12 0.898	0.15 0.112	0.272** 0.003	0.168 0.075
DecisionSupp	Pearson Correlation Sig. (2-Tailed)	1	0.093 0.327	-0.054 0.565	0.583** 0.000	-0.024 0.797	-0.162 0.085	0.073 0.441
RiskMgmtSupp	Pearson Correlation Sig. (2-Tailed)		1	0.479**	0.182	0.141	0.202	0.159
Governance	Pearson Correlation Sig. (2-Tailed)			1	-0.031 0.746	0.215* 0.022	0.341** 0.000	0.178 0.058
SystemInvolve	Pearson Correlation Sig. (2-Tailed)				1	0.115 0.223	-0.087 0.357	0.05 0.595
Technical	Pearson Correlation Sig. (2-Tailed)					1	0.284** 0.002	0.242** 0.01
MgmtIntimidation	Pearson Correlation Sig. (2-Tailed)						1	0.384** 0.000
AUTHORITY	Pearson Correlation Sig. (2-Tailed)							1

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

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

internal auditor roles. This perhaps suggests that authority and the internal auditor roles are not measured equivalently. Role ambiguity is negatively associated with the job performance of auditors (Rebele and Michaels, 1990; Viator, 2001a, 2001b). Senatra (1980) found a negative, but not significant relationship, between the internal auditor’s role and authority, which emerged because of the authority levels they possess in the organisation. 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.

4.3.2 Association between the Employment Type and Internal Auditor 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 internal auditor (public accounting or consulting firm) and internally employed internal auditor (private or government organisation).

According to Table 6, the internal auditors from public accounting or consulting firms have higher mean scores compared to the internal

Table 6: 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

auditors from private or government organisations. 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 a higher mean score compared with those from private and government organisations, the management intimidation role mean score is higher for the internal auditors from private or government organisation (mean = 16.22 and 15.81) with the highest mean difference of .41. This implies that if the internal auditor 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 6 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 organisations worked under the existence of the audit charter, and it was found that internal audit outsourcing is not dominantly or widely practiced in Malaysian organisations.

4.3.3 Association between Audit Charter and Perceived Roles

The third hypothesis is to examine whether the existence of the audit charter affects internal auditor'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. Table 7 shows that 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 specialised skills of audit engagement without the existence of a charter. This result is consistent with Van Peurse (2004).

Table 7: 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	0.26724
	Without Charter	18	20.2778	2.76119	0.65082
DecisionSupp	With Charter	96	5.7292	2.1642	0.22088
	Without Charter	18	6.4444	2.52569	0.59531
RiskMgmtSupp	With Charter	96	6.8229	2.56698	0.26199
	Without Charter	18	7.1667	2.30728	0.54383
Governance	With Charter	96	7.4062	2.08543	0.21284
	Without Charter	18	7.3333	1.78227	0.42008
SystemInvolve	With Charter	96	30.2604	7.98979	0.81545
	Without Charter	18	30.0556	9.02592	2.12743
Technical	With Charter	96	21.875	4.17574	0.42619
	Without Charter	18	22.2778	3.64297	0.85866
MgmtIntimidation	With Charter	96	16.1042	1.90556	0.19448
	Without Charter	18	16.5	2.52633	0.59546

This result, answers the research question 3 (R3). It reveals that even though 85 per cent 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 by Bursa Malaysia's (2008) 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, 2009), is widely practiced by the internal audit activity in Malaysia given the large number of charter respondents.

4.3.4 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 internal auditor's management intimidation role explains 13.7 per cent variance (Adjusted R Square) in the internal auditor AUTHORITY. This regression line is significant from 0.00 ($F7, 106 = 3.563, p<.05$). The significant variables are shown in Table 8.

Table 8: Results for the Analysis of Variance - ANOVA

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

a. Predictors: (Constant t), MgmtIntimidation, SystemInvolve, ContOversight, Technical, RiskMgmtSupp, Governance, DecisionSupp

b. Dependant Variable: AUTHORITY

* indicate significance at the 0.05 level.

From the model parameter (Table 9) it is shown that the management intimidation role is significantly related to AUTHORITY, .591 (95 per cent 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.

Table 10 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. Since this study tested many variables, the Adjusted R Square is used instead of R Square.

Table 9: Model Parameter: Result on Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
(Constant)	14.450	3.460		4.177		7.591	21.310
ContOversight	.065	.124	.049	.525	NS	-.181	.312
DecisionSupp	.231	.170	.149	1.33	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	1.41	NS	-.041	.273
MgmtIntimidation	.591	.171	.342	3.45	S	.253	.929

Dependent Variable: Authority

Table 10: 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	.190	.137	3.22608	.190	3.563	7	106	.002

a. Predictors: (Constant t), MgmtIntimidation, SystemInvolve, ContOversight, Technical, RiskMgmtSupp, Governance, DecisionSupp

b. Dependant Variable: AUTHORITY

All the roles undertaken by internal auditors, except for the system involvement role, are positively related to the criteria variable. However, only MgmtIntimidate is a significant predictor of AUTHORITY, whereas, the SystemInvolve ($\beta = -.029, p > 0.05$) is negatively related to the criteria variable. Therefore, the predictor only accounts for 13.7 per cent variance in the DV and it is represented by the ‘management intimidation’ role.

Therefore the predicted equation for the internal auditor 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 et al. (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, 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 having 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 is consistent with 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 applying 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 interestingly describe the current state of practice, and should 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 internal auditor’s management intimidation role is a significant predictor of AUTHORITY, this construct only explained 13.7 per cent 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; existence of an audit charter; free access to the audit committee; producing regular reports for senior management/governing bodies; reporting to a higher level in the organisation (if the management fails to respond) and decision making at the most senior level of the organisation; all contribute to role clarity so that the internal auditor can act in the organisation’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. 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 elements of authority.

5. Discussion

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 step that what organisations can do. According to Fogarty and Kalbers (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 also revealed that the larger the number of in-house respondents with a charter, the weaker is the relationship between the internal auditor's role and authority, and the perceived importance of authority elements by the respondents through the upholding the IIA standard and strong audit charter. These collectively suggest that existing audit charters should be revised or updated accordingly. Considerable attention should be given to specify the varying levels of the internal auditors' authority, according to the nature and the business environment of the organisation as specified in the audit charter.

6. Conclusion and Suggestions for Future Research

The findings leads us to conclude that the roles and authority of internal auditors in Malaysia have not been clearly and explicitly set

out by the regulators as well as the person in charge of governance in the organisation (for example the Board of Directors of companies) However, on the context of regulation, there have been indicators of improvement. The recently released revised MCCG 2012 has recommended that:

“The board should establish an internal audit function and identify a head of internal audit who reports directly to the Audit Committee. The head of internal audit should have the relevant qualifications and be responsible for providing assurance to the board that the internal controls are operating effectively. Internal auditors should carry out their functions according to the standards set by recognised professional bodies. Internal auditors should also conduct regular reviews and appraisals of the effectiveness of the governance, risk management and internal controls processes within the company” (recommendation 6.2 MCCG, 2012, p. 20)

Therefore, the boards of directors should emphasise the proper establishment of an internal audit department, and that this is commensurate with the existence of a strong audit committee and clearer approved charter. The findings will facilitate the IIAM, to understand the impact of authority on the role of internal auditors. Subsequently all public companies may develop a specific measurement system, Key Performance Indicators, to evaluate the effectiveness of the internal auditor roles in public, private and government organisations. From a practical perspective, the study also provides feedback to the regulators (e.g. Bursa Malaysia) on the need for policies that support and enhance the internal auditor’s authority through recognised roles.

Given the limitations of this study (low response and focused on only one geographical area), there are opportunities for future research to extend the present study to cover a more extensive geographical location. Similar research can also be carried out to explore comparative data in several geographical locations in Asia.

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