CHAPTER 5: CONCLUSION

5.1 INTRODUCTION
The results of the hypothesis testing and the descriptive statistics were discussed in the previous chapter. In this chapter, a summary of the whole study is made and as well as the implications of the study. Recommended areas for future research are also discussed.

5.2 SUMMARY
The objective of the study is to empirically investigate the relationship between audit committee effectiveness and internal auditors professional objectivity and independence, and is focused on non-financial institutions of the KLSE listed companies. Objectivity and independence is crucial for internal auditors, because their reports are to have integrity, if third parties are to rely on them.

Objectivity and independence are a must in internal auditing and should not be compromised, if the internal auditor is to effectively serve his organisation. The management of an organisation will have trust and confidence in the internal auditor only if he is objective and independent. Literatures suggest that the audit committee can enhance the internal auditors professional objectivity and independence, by insulting them from management’s influence or pressures. The audit committees can also ensure that the internal auditor has the authority as well as the required resources to enable them to carry out their work efficiently.

The data for the study was collected through a questionnaire, which was sent to both the audit committee members and the internal auditors. The opinions of both the audit committees and the internal auditors, regarding the effectiveness of audit committees and their enhancement of the internal auditors professional objectivity and independence, are tested using a one-sample t-test. A parametric sample t-test was use to test eight hypotheses for audit committee effectiveness
and whether effective audit committee can improve the internal auditors' professional objectivity and independence.

The KLSE listing requirements are intended to make audit committees effective in order to fulfill their objective of enhancing the credibility of financial statements, thereby protecting the interest of the shareholders. However, the findings revealed a number of violations of the listing requirements by some companies (these violations excludes section 15.10.1b and 1c, which will be effective in June, 2002). Some of the violations include, board of directors failing to review the audit committee members term of office, audit committee chairmen not being independent directors, etc. These violations could defeat the purpose of having audit committees.

The findings revealed that the audit committee members rated their effectiveness higher than the internal auditors perceived them. The audit committees also rated their likelihood of enhancing the internal auditors' professional objectivity higher than the internal auditors. However, the group believes that internal auditors' professional objectivity and independence are enhance where the audit committee approves the internal audit charter, and are responsible for the hiring, firing, and determining the incentives of the internal auditor. The group believes that their audit committees are "somehow effective" and have "some likelihood" of enhancing the internal auditors professional objectivity. It is therefore concluded that effective audit committees enhances the internal auditors professional objectivity and independence.

5.3 IMPLICATIONS
This study adds to existing local literature on audit committees and internal auditors. Although previous studies have examined the effectiveness of audit committees (from various perspectives), and internal auditors, no known study was conducted on the relationship between audit committees effectiveness and the internal auditors professional objectivity and independence, in Malaysia.
The results of the study will also be useful to the Security Commission of Malaysia. This commission has set up a taskforce that is charged with the responsibility of providing guidelines for the internal audit function. The taskforce had already issued a draft statement and is currently reviewing the comments on the draft, received from those in practice. Thus the findings of this study would provide important feedback for them.

The study having revealed a number of violations of the KLSE requirements would provide valuable information to the Malaysian stock exchange. These violations are summarised in table 5.1 below.

### Table 5.1: Violations of the KLSE listing Requirements

<table>
<thead>
<tr>
<th>Listing Requirements</th>
<th>AC Members</th>
<th>Internal Auditors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No</td>
<td>%</td>
</tr>
<tr>
<td>AC chairman being an independent director</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Board of directors review of AC members term of office</td>
<td>4</td>
<td>14</td>
</tr>
<tr>
<td>AC’s review of internal and external auditors independence, work, plans scope, etc.</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>AC’s monitoring of corrective actions taken by management on audit findings</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>AC’s properly reviewing the financial statements.</td>
<td>1</td>
<td>3</td>
</tr>
</tbody>
</table>
These violations may prompt the KLSE to further strengthen their checks for compliance by listed companies. To strengthen the effectiveness of audit committees even more, the KLSE may further regulate the composition of audit committees to exclude executive directors. The chief executives membership of audit committees is likely to impair the objectivity and independence of the internal auditor, thereby making him ineffective (Abdullah, 2001).

5.4 RECOMMENDATIONS FOR FUTURE RESEARCH
This study provides useful insights on the relationship between audit committee effectiveness and internal auditors professional objectivity and independence, but some aspects deserve further investigation.

Audit committees are suppose to oversee the internal auditor in order to strengthen the effectiveness of the internal audit functions in their respective organisations. Therefore, if the audit committees themselves are not effective, they can never enhance the effectiveness and efficiency of the internal auditors. However, the internal auditors work with management and they make recommendation for improving the internal controls of the organisation. Thus a study should be conducted to include the chief executives opinion (in addition to audit committees members and the internal auditors) as to the effectiveness of their audit committees and their likelihood of enhancing the internal auditors professional objectivity.

Further research should also be done on the similarities or difference between the opinions of audit committee members and internal auditors, regarding the effectiveness of audit committees and the likelihood of such committees to enhance the internal auditors professional objectivity. This study touches on it but that was not the focus of the research.
committees effectiveness and compliance with the KLSE listing requirements. This will reveal whether compliance do make audit committees effective, thereby protecting the interest of the shareholders, or further regulation would be needed to make them more effective.

5.5 SCOPE LIMITATION
The responses received for this study is very small. If the response rate was high, this could have some effect on the hypotheses testing.

5.6 CONCLUSION
The importance of the internal auditors professional objectivity and independence cannot be overemphasized. Both the audit committee members and the internal auditors believe that effective audit committees enhance the internal auditors professional objectivity and independence. The Securities Commission of Malaysia and the KLSE could possibly come up with additional regulations to make the audit committees even more effective. Thus the internal auditors effectiveness would also be enhanced, and could therefore serve their organisations better. Further research could also be conducted on the effectiveness of audit committees from an internal auditors perspective. Research could also be done on the relationship between compliance with the KLSE requirements and audit committee effectiveness.