

CHAPTER 4: RESEARCH RESULTS

4.0. INTRODUCTION

In the previous chapter research methodology were discussed, explaining survey sampling, method adopted, survey questionnaires as well as assessment and analysis of questionnaires. In this chapter the questionnaire responses received are analysed with respect to the variables identified in Chapter 3. This analysis includes a descriptive statistics.

4.1. SUMMARY OF RESPONDENTS

Ideally, if each of the 50 companies identified in Section 3.1 (Survey Sample) provided 3 responses, total responses could achieve 150. However at the time of writing, only 37 replies were received.

The respondents consist of 5 heads of audit, 22 audit managers, 8 audit seniors and 2 audit juniors. Of all the respondents, 25 are male, 12 are female, and all with a minimum education at the tertiary level. APPENDIX B summarised the demographic profile of respondents.

Among these 37 respondents, majority of their age groups fall between 35 and 39, 26 (about 70%) are members of Institute of Internal Auditors, and only

6 out of the 37 respondents carry Certified Internal Auditor title. Most of the respondents are from banking and finance industry. APPENDIX C shows respondent profile both by company and by industry.

4.2 ANALYSIS OF RESEARCH RESULTS

The questionnaire requires the respondents to give their opinion on internal audit's roles toward corporate governance in Malaysia. These questions used six Likert scale, ranging from 0 = Non-Applicable, 1 = Strongly Disagree to 5 = Strongly Agree. The results obtained from the survey are summarised in APPENDIX E, and detail analysis is presented according to the following headings: Part 1 – Control Environment, Part 2 – Risk Assessment, Part 3 – Control Activities, Part 4 - Information and Communication and Part 5 – Monitoring.

4.2.1. Part 1 Questionnaire - Control Environment

A company's control environment is influenced by its history and culture. It is the foundation for all other components of internal control, providing discipline and structure. The control environment has a pervasive influence on the way business activities are structured, objectives established, and risks assessed.

It also influences control activities, information and communication systems, and monitoring activities.

Effectively controlled companies strive to have competent people, instil a company-wide attitude of integrity and control consciousness, and set a positive “tone at the top”. They establish policies and procedures, including a written code of conduct, which fosters shared values and teamwork in pursuit of the company’s objectives.

The mean of the overall questions in Part 1 lies between 3.5 and 4 (i.e. between “neutral” and “agree”). Table 4-1 below reveals that control environment and “tone at the top” are influenced significantly by the entity’s board of directors and audit committee. The higher mean is found on Question 4. Respondents agree that information with their company is communicated timely

Table 4-1: Board and Audit Committee

Descriptive Statistics	N	Min	Max	Mean	Std. Deviation
1. Board challenges management's planned decisions and probes for explanation	37	2.00	5.00	3.5676	.92917
2. Directors have sufficient knowledge, experience and time to serve effectively.	37	2.00	5.00	3.5946	.89627
3. Audit committee reviews the scope of activities of the auditors.	37	3.00	5.00	3.6216	.82836
4. A process exists for informing the board of significant issues.	37	2.00	5.00	3.9730	.83288
5. Board and audit committee are involved in evaluating the effectiveness of the "tone at the top".	37	2.00	5.00	3.6757	.91451

Table 4-2 below presents the mean of management's philosophy and operating style, which affect the way the company is managed, including the kinds of business risk accepted. The higher mean found on Questions 6 and 7, indicating that most of the internal auditors agree that management accepts the appropriate amount of business risk and key personnel have not resigned unexpectedly.

Table 4-2: Management Philosophy and Operating Style

Descriptive Statistics	N	Min	Max	Mean	Std. Deviation
6. Management accepts the appropriate amount of business risk.	37	2.00	5.00	3.9459	.57474
7. Key personnel have not resigned unexpectedly.	37	2.00	5.00	3.9459	.81466
8. Management meetings are held periodically within your function.	37	3.00	5.00	3.7297	.73214
9. Management views accounting treatment for transactions or activities in a balanced manner.	37	.00	5.00	3.6216	1.06331
10. Management focuses on short-term reported results with long-term business objectives.	37	3.00	5.00	3.5135	.69208
11. Estimates function's activities are based on sound models, verifiable market data, and fair assumptions.	37	1.00	5.00	3.6757	.97337

Table 4-3 in the next page shows significant aspects of establishing a relevant organisational structure, which includes defining key areas of authority and responsibility and establishing appropriate lines of reporting. A lower mean is found on Question 16. It may be the manpower shortage or tedious investigation work that causes the internal auditors to have to work extra hour.

Table 4-3: Organisational Structure

Descriptive Statistics	N	Min	Max	Mean	Std. Deviation
12. Management treats your function as an integral part of the Company's overall operations.	37	1.00	5.00	3.6486	1.00599
13. The current organisational structure facilitates the flow of information within your function and across to other functions.	37	3.00	5.00	3.8378	.79977
14. Managers and process owners in your function have ready access to senior management.	37	3.00	5.00	3.6757	.78365
15. Management periodically evaluates the organisational structure relevant in the scope, nature or extent of your operation.	37	2.00	5.00	3.5405	.80259
16. Employees do not fulfil the responsibilities of more than one employee.	37	2.00	5.00	3.2432	1.23391

In Table 4-4, the higher mean of between 4 and 4.1 is obtained for the questions on assignment of authority and responsibility.

Table 4-4: Assignment of Authority and Responsibility

Descriptive Statistics	N	Min	Max	Mean	Std. Deviation
17. Specific limits are established for certain types of transactions and understood by employees within your function.	37	3.00	5.00	4.1081	.69856
18. Job descriptions include specific references to control related responsibilities.	37	2.00	5.00	4.1351	.71345
19. Management accepts responsibility for information generated within your function.	37	3.00	5.00	4.1081	.65760
20. Managers in your function are appropriately empowered.	37	2.00	5.00	4.0000	.81650

Respondents agree that control environment is greatly influenced by the extent to which individuals recognise their own accountability. Chairman and CEO have ultimate responsibility for all activities within a company, including the internal control system.

4.2.2. Part 2 Questionnaire - Risk Assessment

Risks affect each company's ability to survive, successfully compete within its industry, maintain financial strength and positive public image, and maintain the overall quality of its products, services, and people. There is no practical way to reduce risk to zero. Indeed, the decision to be in business creates risk. Management must determine how much risk is to be prudently accepted, and strive to maintain risk within these levels. Objective setting is a precondition to risk assessment. There must first be objectives before management can identify risks to their achievement and take necessary actions to manage the risks. Objective setting, then, is a key part of the management process. While not an internal control component, it is a prerequisite to and an enabler of internal control.

Table 4-5 in next page reveals the overall mean of questions in Part 2, pertaining to risk assessment. The risk assessment component of control is evaluated based upon the following factors:

- Company-Wide Objectives (Questions 21 to 23)

- Risk Identification (Questions 24 to 26)

- Managing Change (Questions 27 and 28)

Table 4-5 Mean responses to Part 2 of the questionnaire

Descriptive Statistics	N	Min	Max	Mean	Std. Deviation
21. Management has established and communicated the mission, strategy and business objectives.	37	3.00	5.00	3.9459	.84807
22. Feedback mechanisms are in existence to periodically assess whether Company-wide objective have been achieved.	37	3.00	5.00	4.1892	.56949
23. Key performance indicators and measurement criteria for achieving Company-wide objectives have been communicated and understood.	37	3.00	5.00	4.0000	.70711
24. Adequate mechanisms are in place to identify and assess barriers to achieving objectives for processes.	37	3.00	5.00	3.8108	.81096
25. The process used to analyse risks in your function is clearly understood & includes estimating the significance of risks.	37	3.00	5.00	3.7568	.86299
26. Adequate mechanisms are in place to identify and assess barriers to achieving Company-wide objectives.	37	3.00	5.00	3.7027	.87765
27. Mechanisms exist that anticipate, identify, and respond to routine events or activities that could have an impact on Company-wide objectives.	37	2.00	5.00	3.7568	.86299
28. Mechanisms exist to incorporate changes to the Company mission and strategy into Company-wide objectives.	37	3.00	5.00	3.7297	.83827
Valid N (listwise)	37				

The mean rates between 3.7 and 4.1 (“neutral” and “agree”) indicating that the internal auditors are agreeable to the following statements:

Questions 21 to 23 – Company-wide objectives are linked and integrated with more specific objectives established for various activities

Questions 24 to 26 – The process of identifying and analysing risk is an on-going process and is a critical component of an effective internal control system. Management must focus carefully on risks at all levels of the company and take necessary actions to manage them.

Questions 27 and 28 – Fundamentals to risk assessment is a process to identify changed conditions and take actions as necessary

4.2.3. Part 3 Questionnaire - Control Activities

Control activities are policies and procedures used to ensure management directives are met. Control activities vary depending upon the nature of the risk mitigated and are carried out to ensure that the risks are minimized to an acceptable level. Control activities can be divided into three categories, based on the nature of the company's objectives to which they relate, i.e., operations, financial reporting, or compliance. Depending on circumstances, controls could help to satisfy company objectives in one or more of the three categories. The control activities component of control is evaluated based on:

- Policies and Procedures (Questions 29 to 31)
- Control Activities in Place (Questions 32 to 36)

Table 4-6 presents mean responses to Part 3 of the questionnaire. The overall mean falls between 3.5 and 3.8, except 3 (i.e. "neutral") for question number 35. This could be due to the fact that some Malaysian companies have not really developed proper contingency plans for disaster discovery purpose.

Table 4-6 Mean responses to Part 3 of the questionnaire

Descriptive Statistics	N	Min	Max	Mean	Std. Deviation
29. Appropriate policies & procedures have been developed and implemented.	37	3.00	5.00	3.7027	.84541
30. Appropriate & timely actions are taken on exceptions to your function's policies & procedures.	37	2.00	5.00	3.5405	.86905
31. Policies & procedures identify how processes are to be performed & monitored & who is responsible for carrying them out.	37	3.00	5.00	3.6757	.85160
32. Ctrl activities described in policy & procedure manuals are actually applied the way they are intended to be applied.	37	3.00	5.00	3.7027	.81189
33. Effective procedures have been established for the routine verification of the accuracy of data.	37	3.00	5.00	3.8649	.75138
34. Individuals from your function have appropriate responsibility for ctrl over assets and data and the processing of transactions.	37	1.00	5.00	3.7838	.94678
35. Effective contingency plans have been developed and documented for your function to deal with service interruptions if they occur.	37	.00	5.00	3.0000	1.29099
36. Periodic tests of contingency and disaster recovery plans take place to make sure they are current, operational and effective.	37	.00	5.00	3.2703	1.26158
Valid N (listwise)	37				

4.2.4. Part 4 Questionnaire - Information and Communication

Pertinent information must be identified, captured, and communicated in a form or time frame that enables people to carry out their responsibilities. Information gathering mechanisms produce reports containing operational, financial reporting, and compliance related information that makes it possible to run and control the business. They deal not only with internally generated data, but also with information about external events, activities, and conditions necessary for informed business decision-making and external reporting. Effective communication also must occur in a broader sense, flowing down, across, and up the organisation. All personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream. There also needs to be effective communication with external parties such as customers, suppliers, regulators, and shareholders. The information and communication component of control is evaluated based upon the Quality of Information as well as the Effectiveness of Communication.

Table 4-7 reveals that overall mean for questions in Part 4 falls between 3.5 and 3.8, but lower mean (i.e. 2.9 and 3.3) for questions number 43 and 44. The mode for questions 43 and 44 also shows that Likert scale of 2 (i.e. "Disagree") is the highest chosen answer. It indicates that most respondents

disagree that persons who report suspected impropriety are provided feedback, and good employee suggestions are acknowledged. It implies that most Malaysian companies do not have a culture of providing incentives or other meaningful recognition to employees who propose good suggestions.

Table 4-7 Mean responses to Part 4 of the questionnaire

Descriptive Statistics	N	Min	Max	Mean	Std. Deviation	Mode
37. Adequate info gathering mechanisms are in place to capture & process data.	37	3.00	5.00	3.8108	.77595	3
38. Reports generated &/or used by your function are adequate.	37	3.00	5.00	3.7568	.72286	4
39. Mechanisms exist for identifying emerging info needs.	37	2.00	5.00	3.5405	.76720	3
40. An info technology plan has been developed for your function that is linked to achieving your function's objectives.	37	.00	5.00	3.5946	.92675	4
41. Employees' roles & responsibilities regarding internal ctrl & risk assessment are communicated clearly & effectively by mgmt.	37	3.00	5.00	3.7027	.84541	3
42. Information is communicated effectively within your function & across to other functions.	37	3.00	5.00	3.7297	.87078	3
43. Persons who report suspected impropriety are provided feedback and are immune from reprisals.	37	.00	5.00	2.9459	1.20060	2
44. Good employee suggestions are acknowledged by providing incentives or other meaningful recognition.	37	2.00	5.00	3.2703	1.21675	2
Valid N (listwise)	37					

4.2.5. Part 5 Questionnaire - Monitoring

Internal control systems need to be monitored. It is a process that assesses the quality of the system's performance over time. This is accomplished through on-going monitoring activities, separate evaluations of a combination of the two. On-going monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties. The scope and frequency of separate evaluations (or audits) will depend primarily on assessment of risks and the effectiveness of on-going monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported to senior management and the board.

The monitoring component of control is evaluated based upon the following factors:

- On-Going Monitoring (Questions 45 to 48)
- Separate Evaluations (Questions 49 to 51)
- Reporting Control and Process Deficiencies (Questions 52 to 55)

As shown in Table 4-8 in the following page, the minimum and maximum scales of 2 and 4 denote that some internal auditors disagree but some do agree to the questions in Part 5 of questionnaire. The mean ratings fall between 3.5 and 4.1 (i.e. between "neutral" and "agree"). Therefore, the internal auditors agree and acknowledge the importance of on-going

monitoring procedures, frequency of separate evaluations, as a deficiency may represent a perceived, potential, or real shortcoming to strengthen the control system to provide a greater likelihood that the company's objectives will be achieved.

Table 4-8 Mean responses to Part 5 of the questionnaire

Descriptive Statistics	N	Min	Max	Mean	Std. Deviation	Mode
45. Management has established performance measures for processes and receives periodic reports of results against those measures.	37	3.00	5.00	3.8378	.86646	3
46. Personnel responsible for reports are required to "sign off" on their accuracy and integrity.	37	2.00	5.00	4.0270	.72597	4
47. In the event of known control breakdowns or deficiencies controls that should have prevented or detected problems are reassessed and modified as appropriate.	37	2.00	5.00	4.1622	.72700	4
48. Controls most critical to mitigating high priority risks in your function are evaluated with requisite frequency.	37	3.00	5.00	3.6757	.85160	3
49. Evaluations of the entire internal control system are performed when there are major strategy changes.	37	2.00	5.00	3.5405	.86905	3
50. The corporate audit function has personnel who have the experience and skills.	37	2.00	5.00	4.1351	.71345	4
51. An appropriate level of documentation is developed to facilitate the understanding of how internal control system works.	37	2.00	5.00	4.1622	.60155	4

Table 4-8 continued

52. Control deficiencies are identified by on-going monitoring activities of the Company.	37	2.00	5.00	4.0541	.62120	4
53. Control deficiencies are identified during separate evaluations of your internal control system.	37	2.00	5.00	3.8649	.91779	3
54. Internal control deficiencies that can effect the attainment of the Company's objectives are reported and also to one level of management above the person directly responsible.	37	2.00	5.00	3.7568	.86299	3
55. Senior management ensures that the necessary follow-up actions are taken.	37	2.00	5.00	4.0270	.79884	4
Valid N (listwise)	37					

4.3. INFLUENCE OF RESPONDENT PROFILE ON RESEARCH RESULT

This section further observes whether the respondent profiles e.g. years of working experience, job level, educational level, gender and IIA memberships influence the respondents' opinion (APPENDIX D).

Educational Level

The respondents with higher educational level seem to be less agreeable that their internal control function is effective, as shown in Table 4-9 below. This is probably because of the higher expectation they have on a good internal control system.

Table 4-9 Mean Responses with Educational Level

Educational Level	Mean	N	% of Total N
Diploma	0.0000	0	0
Degree	3.4510	22	59.46%
Post Grad.	3.2870	15	40.54%
Doctoral	0.0000	0	0.00%
		37	100.00%

Gender

Table 4-10 in the following page shows the difference in the opinion of male and female internal auditors. We can see that female respondents' mean rating is lower than that of male respondents. This result probably indicates

that male auditors are more lenient, and female auditors are stricter on internal control issues. This finding also indicates that, perhaps females are more suitable, and able to perform better in the profession of internal auditing.

Table 4-10 Mean Responses with Gender Differences

Gender	Mean	N	% of Total N
Male	3.8029	25	67.57%
Female	3.2870	12	32.43%
		37	100.00%

IIA Membership

In determining if the IIA membership has an influence on the research finding, Table 4-11 shows that it does. 70.27% of the respondents are IIA members, and the mean of their responses on overall questionnaire is 3.6951, which is slightly lower compared to mean responses of non-IIA members. This is probably due to the fact that IIA members have a better understanding of overall internal auditing function, and they recognise internal control failure as an intolerable situation.

Table 4-11 Mean Responses with IIA Membership

IIA Membership	Mean	N	% of Total N
Yes	3.6951	26	70.27%
No	3.8760	11	29.73%
		37	100.00%

Although it is not compulsory for internal auditors to join IIA in Malaysia, to certain extent it is highly recommended. Being governed by the code of ethic

of their association, internal auditors with IIA membership can be more focused and more objective when performing their duties. Furthermore, the IIA always keep its members informed of latest information in the field of internal audit, this will certainly improve its members' understanding in the current audit trend.

4.4. CONCLUSION

An effective internal control system with the five components (i.e. Control Environment, Risk Assessment, Control Activities, Communication and Monitoring) work to support the achievement of an entity's mission, strategies and related business objectives. These components also work to establish the foundation for sound internal control within a company through directed leadership, shared values and a culture that emphasizes accountability for control. The various risks facing the company are identified and assessed routinely at all levels and within all functions in the organisation.

Control activities and other mechanisms are proactively designed to address and mitigate the significant risks. Information critical to identifying risks and meeting business objectives is communicated through established channels up, down, and across the company. The entire system of internal control is monitored continuously and problems are addressed timely.

The overall results of this research indicate that the internal auditors believe and are agreeable to the effectiveness of internal control system in their companies. This is probably due to the fact that most respondents are from large organisations, which consider internal control as critical to their business success. As assumed in Section 3.1: Survey Sample, that major companies in Malaysia are more likely to have an internal audit function, this research further supports the presumption, that internal audit function contributes a effective internal control system which ultimately attributable to better corporate governance.

The conclusions and implications of this study as well as recommendations for future research are discussed in the next chapter.