

CHAPTER 5: CONCLUSION AND RECOMMENDATIONS

5.0. INTRODUCTION

The results of the description statistics were discussed in the previous chapter. In this chapter, a summary of the whole study is made, as well as the implications of the study are identified. Recommended areas for future research are also discussed.

5.1. SUMMARY OF STUDY

Internal audit itself is a key player in a company's overall governance system. This study provides useful insights on the role of internal audit in corporate governance. To meet the governance-related expectations of management and the audit committee, an internal audit department needs to be both independent and objective. Failure to meet these criteria can have serious consequences for the organisation and its key stakeholders.

Both the *Malaysian Code on Corporate Governance (MCCG) and Guidelines on Internal Audit Function* require the board to establish an internal audit function, though not mandatory. Some measure as to how the MCCG compare against actual corporate practices can be seen. However, it cannot be determined whether the more open the economy, the higher the maturity

level of corporate governance.

Spurred by the Asian financial crisis and an increasing recognition that global commerce requires rules that are more alike than different. Concepts governing corporate disclosure and corporate transactions, as well as GAAP, are serving as models for nations around the world. The MCCG attempts at instilling a high level of confidence in investors that their investment will not be frittered away by companies with bad management practices.

5.2. CONTRIBUTIONS OF STUDY

The results of the survey highlighted in Chapter 4 indicate that companies with internal audit department show more emphasis on internal controls, and the internal auditors in Malaysia believe that their companies have reasonable effectiveness in internal control system. This conclusion of effective internal control system is important because it is the fundamental of the overall professional view of the internal auditors on the perceived standard of controls in their companies.

The assessment viewed by the internal auditors could be subsequently translated into the standard of corporate governance in their companies, because internal control system is directly related to the corporate governance practices. Therefore, the survey in this paper indicates that internal auditors support the importance of internal auditing function in the

perseverance of good corporate governance in their companies. In view of this, it is envisaged that they will increase more audit effort.

5.3. LIMITATIONS OF STUDY

As in other studies, this study has its limitations. The sampling area of the study was limited to Klang Valley due to time constraint. Perhaps future research can expand the geographical areas of study given a longer time period.

The sampling was not done at random. It was initially the intention of the researcher to do a random selection of the sample from the list of internal auditors obtained from the IIAM members directory but due to inevitable factors for example the auditors were too busy, therefore non-random selection had to be the choice in this study. Some internal auditors were reluctant to answer the questionnaire, despite assurance given on the confidentiality of the requested information.

The original intention to obtain at least three respondents from each company, and preferably with different job levels (e.g. Audit Senior, Audit Manager and Head of Department) did not materialised. Hence the conclusion cannot be drawn on whether the internal auditors of different job level have different view and opinion toward the same internal control system in a company.

There could be other factors that affect the judgement of internal auditors in their decisions such as the length of their auditing experience and the complexity of their business environment, which have not been considered in this study. As mentioned in the introduction passage that internal auditors were required to give their ratings regarding the level of internal control when evaluating their respective companies. These variables have been somewhat controlled in this study as some tasks are limited to seniors, managers and department head level only. Nevertheless, this could be done in a more structured manner in future.

5.4. SUGGESTIONS FOR ADDITIONAL RESEARCH

An assessment of internal audit, whether conducted by internal audit itself or by an independent third party, needs to address a number of key questions pertaining to interactions with executive management, channels of communication with key stakeholder groups, independence and objectivity of internal audit's role and mission. Future research is thus suggested on whether: 'Different board structures, dual or combined roles of Chairman and CEO, director qualifications and the number and independence of non-executive directors explain variations in corporate performance, growth, or survival.'

In addition to the above, another possible research area will be related to the Sarbanes-Oxley Act (SOX) of 2002. SOX imposed significant and new requirements on listed companies in the US, mandating increased board independence and transparency and new standards of corporate accountability. To comply with Section 404 of SOX, companies are required to certify its internal controls over financial reporting, and the internal audit function will have to demonstrate sufficient objectivity and competence. Applying the principle of SOX, further research may be suggested, for example: 'To evaluate the emphasis and importance of enhancing oversight activities with respect to governance, ethics, risk and compliance among the Malaysian companies.'

5.5. IMPLICATIONS AND RECOMMENDATIONS

The research area proposed in the earlier paragraph may enable companies to fine-tune their search for capable Board members with the right skills and experience rather than planting a "yes" individual on Board.

The implications set out in the MCCG allow for a more constructive and flexible response to raise standards in corporate governance as opposed to a response of a statute or regulation. It is in recognition of the fact that there are aspects of corporate governance where statutory regulation, is neces:

and others where self-regulation, complemented by market regulation is more appropriate.

From the survey results, several areas of internal control are highlighted for improvement. On the questions of Control Environment, the respondents are of opinion that '*Employees do work excessive overtime and fulfil the responsibilities of more than one employee.*' This scenario is quite common among Malaysian companies. If it is due to manpower shortage, employers are advised to hire sufficient qualified workers to share the existing workload.

On the questions related to Risk Management, it is noticed that some Malaysian companies have not developed proper contingency plans for disaster discovery purpose. It is critical to have periodic tests of contingency and disaster recovery plans to make sure they are current, operational and effective.

On the issue related to Information and Communication, some companies do not provide feedback for persons who report suspected impropriety. It is important that good employee suggestions should be acknowledged and perhaps by providing incentives or other meaningful recognition.

It is also recommended that internal audit function should have adequate number of competent staff to perform their responsibilities. The management should put aside the cost factor. Among the steps most commonly planned by many organisations are training courses in fraud prevention and detection,

and an increased budget for internal audit (Blindell, J., 2003). This is in line with the KPMG's Fraud Survey 2003, which indicates the fraud occurrence can be reduced through improvements in audit technology and education at transaction level (Banks, D.G., 2004).

Malaysia has recently made amendments to the Securities Law and introduced the Provisions Governing Whistle Blowing. This is good in the sense that, whatever breaches of Securities Law and Listing Requirements, it will be mandatory for internal auditors to report the matters to the relevant authorities.

5.6. CONCLUSION

Internal auditing function, of its own accord, is part of a good corporate governance structure in an organisation. This is possible because internal audit function could provide independent roles of delivering assurance, consulting, process improvement and risk management to its organisation. These roles would increase enforcement to the activities of internal audit in the organisation in order to make sure that it meets the corporate objectives of maximising profit and becoming a responsible corporate entity.

Recent events in corporate scandals have increased the standing of internal auditing. In particular, the bankruptcies, financial reporting irregularities and fraudulent activities that took place in Enron, WorldCom and other firms and

these events have greatly increased deliberation on corporate governance. The growth of concern for corporate governance has been a great benefit to the standing of internal auditors and has boosted their claims to professional status by emphasizing the benefits of independence of judgement and objectivity in their reports.

By having a credible and independent presence in the organisation, internal audit is well placed to advocate the principle of good corporate governance and able to play a part in the deterrent to the acceptance of irresponsible management practices. Continuation and development of skills and knowledge of the business are essential if internal auditors are to carry on to be a key part of good corporate governance campaigners in the future.

The correlation of internal auditing and good corporate governance is evidently identifiable because internal auditing function is a fundamental part of internal controls. These internal control roles could act as a mechanism to ensuring good corporate governance through the activities of the internal auditing function. With appropriate support from the audit committee, the internal audit staffs are in a good position to gather intelligence on inappropriate accounting practices, inadequate internal controls, and ineffective corporate governance.