

**CONSULTING ROLE OF INTERNAL AUDITORS:
THE INFLUENCING FACTORS AND THE IMPACT ON
THE FIRM'S GROWTH OPPORTUNITIES AND
PERFORMANCE**

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**THESIS SUBMITTED IN FULFILMENT OF THE
REQUIREMENTS FOR THE DEGREE OF DOCTOR OF
PHILOSOPHY**

**FACULTY OF BUSINESS AND ACCOUNTANCY
UNIVERSITY OF MALAYA
KUALA LUMPUR**

2016

UNIVERSITY OF MALAYA
ORIGINAL LITERARY WORK DECLARATION

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Title of Thesis: Consulting Role of Internal Auditors: The Influencing Factors and the Impact on the Firm's Growth Opportunities and Performance

Field of Study: Internal Audit and Corporate Governance

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ABSTRACT

For the past few decades, the business environment has experienced rapid and revolutionary change with extensive consequences for organizations all over the world. In this radical changed phenomenon, internal auditing gained an important role in organizations. The Institute of Internal Auditors has delineated new changes on the definition of internal auditing which have widen the internal audit scope by explicitly incorporating consulting activities. Maximizing the internal audit function (IAF) is imperative to meet the challenges of today's business environment and to add value to different stakeholders' expectations. Yet, it has highlighted two issues i.e. internal auditors face the balancing act of dual roles (consulting and assurance) and stress of "to do more with less" in the current economic situations. Therefore, this study explores the consulting role of internal auditors in Malaysian context as it identifies factors that can influence its success and whether the internal audit contribution to consulting activities gives impact on firm's growth opportunities and performance. Future growth is an important element to most companies especially to boost the economy of developing countries such as Malaysia. Stewardship theory is used to explain the internal audit role in consultancy and motivations created within IAF to support the board and audit committee in achieving organizational goals by providing professional advice. An exploratory study is conducted in Malaysian context as the study in internal audit consulting is relatively new. In preliminary stage, five interviews were conducted with the Chief Audit Executives of large Malaysian organizations to investigate the extent of consulting activities that internal auditors perform in Malaysia. Internal audit consulting's survey instrument was developed based on past literature and exploratory interviews' findings. A pilot study was conducted to gain feedback on the readability and clarity of the survey questions, to improve the scaling and the survey questions. For full data collection, these questionnaires were sent to all in-house internal audit

departments (IADs) of public listed companies (417 companies) on Bursa Malaysia. Finally, in-depth interviews were conducted with 10 Chief Audit Executives in IAD from different organizations for further insights on issues of internal audit consulting and to validate the survey data. Random sample was adopted and the final number of sample was 112. The analyses included multivariate regression, reliability test, descriptive statistics, factor analysis and naming the factors. The results revealed that corporate governance variables i.e. 1) intentions/ambitions of IAD (all dimensions) and 2) expectations of board and audit committee (partially), influenced internal audit contribution to consulting activities. From survey and interview data, internal audit consulting was shown to influence firm's growth opportunities and performance. It is inferred that IAF is effective in delivering their consulting job to help in achieving organizational goals. The quantitative and qualitative phases of empirical enquiry undertaken contributed significantly to the study. The interviews fully complimented survey questionnaires' design as well as interpretation of results. Finally, this study highlights aspects of goal congruence and motivation derived within IAF as suggested by the stewardship theory to support the board audit committee to navigate the organization.

ABSTRAK

Untuk beberapa dekad yang lalu, persekitaran perniagaan telah mengalami revolusi perubahan yang cepat, yang telah memberi impak kepada semua organisasi di seluruh dunia. Disebabkan fenomena radikal dan pantas ini, audit dalaman telah memperolehi peranan yang penting dalam organisasi. Institut Juruaudit Dalaman telah membuat beberapa perubahan kepada definisi audit dalaman di mana skop kerja audit dalaman diperluaskan dengan menambahkan aktiviti perundingan dalam tugas mereka. Memaksimumkan fungsi audit dalaman (“IAF”) adalah sangat penting bagi menghadapi cabaran dalam persekitaran perniagaan dan menambah nilai kepada jangkaan pelbagai pemegang stek. Namun, terdapat dua isu iaitu juruaudit menghadapi keadaan mengimbangi dua tugas tersebut (jaminan audit dan perundingan) dan tekanan untuk bekerja lebih dengan menggunakan sumber yang kurang dalam keadaan ekonomi sekarang. Oleh itu, projek ini meneroka peranan perundingan juruaudit dalaman dalam konteks Malaysia di mana ia mengenal pasti faktor-faktor yang boleh mempengaruhi kejayaan kerja-kerja pengauditan. Ia menyiasat sama ada audit dalaman menyumbang kepada aktiviti-aktiviti perundingan dan seterusnya memberikan kesan kepada peluang-peluang pertumbuhan firma dan prestasi. Pertumbuhan masa depan adalah satu elemen yang penting kepada syarikat terutamanya bagi meningkatkan ekonomi negara-negara membangun seperti Malaysia. Teori kepimpinan digunakan untuk menerangkan peranan audit dalaman dalam perundingan dan menjelaskan motivasi yang wujud dalam IAF bagi membantu Lembaga Pengarah mencapai matlamat organisasi menerusi nasihat professional yang diberikan. Suatu kajian penerokaan dijalankan dalam konteks Malaysia di mana kajian dalam perundingan audit dalaman adalah agak baru. Lima temubual telah diadakan dengan Ketua-Ketua Audit Dalam dari organisasi besar Malaysia untuk menyiasat sejauh mana juruaudit dalaman menjalankan perundingan di Malaysia. Instrumen kajian perundingan audit dalaman telah direkacipta berdasarkan

kesusasteraan lepas dan hasil penerokaan temubual. Satu kajian rintis telah dijalankan untuk mendapatkan maklum balas tentang pembacaan dan kejelasan soalan-soalan kaji-selidik; menambahbaikkan sistem skala dan soalan-soalan kaji selidik. Bagi pengumpulan data lengkap, borang soal-selidik telah dihantar kepada Jabatan Audit Dalaman di semua syarikat awam tersenarai (417 buah syarikat) di Bursa Malaysia. Temu bual mendalam dan terperinci telah dijalankan dengan Ketua Audit Dalaman (10 orang) dalam IAD dari organisasi yang berbeza bagi mendapatkan pandangan lanjut mengenai isu-isu yang berkaitan dengan perundingan audit dalaman ini dan untuk mengesahkan data kaji-selidik yang diperolehi sebelumnya. Sampel rawak telah digunakan. Sampel akhir kajian adalah 112. Analisis ini adalah termasuk regresi “multivariate”, ujian kebolehpercayaan, statistik deskriptif, analisis faktor dan menamakan faktor-faktor. Keputusan menunjukkan bahawa pembolehubah tadbir urus korporat iaitu: 1) niat/cita-cita IAD (semua dimensi) dan 2) jangkaan Jawatankuasa audit dan Lembaga Pengarah (sebahagian dimensi) mempengaruhi sumbangan audit dalaman kepada aktiviti perundingan. Seterusnya, perundingan audit dalaman mempengaruhi peluang-peluang pertumbuhan dan prestasi firma. Ini boleh disimpulkan bahawa IAF berkesan dalam menyampaikan kerja mereka dalam perundingan bagi membantu mencapai matlamat organisasi. Fasa-fasa kuantitatif dan kualitatif pertanyaan empirikal yang dijalankan telah memberikan sumbangan yang penting dan berbeza kepada kajian projek. Temuduga yang diberikan kekayaan dan konteks, dibantu secara signifikan dalam menyokong keputusan borang soal selidik kajian serta juga tafsiran keputusan soal-selidik kajian. Akhirnya, kajian projek ini memperlihatkan penggunaan teori kepimpinan dalam aspek matlamat yang selaras pada semua pihak dalam organisasi dan motivasi yang diperolehi dalam IAF itu untuk menyokong Jawatankuasa audit Lembaga Pengarah dalam mengemudi organisasi.

ACKNOWLEDGEMENTS

First of all, praise be to Allah for giving me the strength, courage and good health upon the completion of this thesis.

I would like to extend my sincere and deepest appreciation to my supervisor Dr. Nurmazilah Dato' Mahzan for all her constructive advice, invaluable guidance and continuous patience throughout my PhD candidature. Thank you for knowing when I needed a push and for making me believe that completion is not an impossible task.

I wish to convey my thanks to Professor Dr. Mokhtar Abdullah from the Faculty of Business, Universiti Selangor (UNISEL) for his immense guidance in my data analysis despite his busy schedule. I am also thankful to my senior colleague Dr. Norhayah Zulkifli for her insightful comments and suggestions.

And lastly, I would like to express my deepest gratitude to my parents for their constant advices, encouragement and above all their willingness to help me taking care of my children when I needed them most. To my parents and husband, thank you so much. This work is specially dedicated to my four beautiful children, Muhammad Haikal, Nur Sabrina, Nabil Ramdhan and Iman Nawfal.

TABLE OF CONTENTS

Abstract	iii
Abstrak	v
Acknowledgements	vii
Table of Contents	viii
List of Figures	xv
List of Tables	xvi
List of Symbols and Abbreviations.....	xviii
List of Appendices	xx
CHAPTER 1: INTRODUCTION.....	1
1.1 Preamble	1
1.2 Problem Statement	5
1.3 Study Gap and Motivation	13
1.4 Research Questions and objectives	16
1.5 Contributions and Significance of Study	19
1.6 Organization of Thesis	23
CHAPTER 2: LITERATURE REVIEW.....	26
2.1 Introduction	26
2.2 The Evolution of Internal Auditing	26
2.3 The Contemporary Definition of Internal Auditing	34
2.4 "Wearing Two Hats" Roles	37
2.5 Internal Auditing with Business Consulting Dimension	44

2.6	Underlying Theory: Stewardship Theory	49
2.6.1	Assumptions of the Stewardship Theory	51
2.6.2	Extensive Arguments of Stewardship Theory	53
2.7	Conclusion	56

CHAPTER 3: CONCEPTUAL FRAMEWORK AND HYPOTHESES

	FORMULATION.....	57
3.1	Introduction	57
3.2	Exploratory Study	58
3.2.1	Exploratory Interview Sample and Administration	58
3.3	Hypotheses Development	61
3.3.1	Intentions/Ambitions of IAD	61
3.3.1.1	Catalyst for Change	62
3.3.1.2	Extensive Staff Expertise	63
3.3.1.3	Challenging Work Environment	63
3.3.1.4	Organizational Alignment	64
3.3.1.5	Participative Qualitative and Real-time Assessment	65
3.3.1.6	Array of Services	66
3.3.1.7	Findings of Exploratory Interviews Support the Intentions/Ambitions of IAD	67
3.3.2	Expectations of Board and Audit Committee	70
3.3.2.1	'Partnership' with Management.....	73
3.3.2.2	Training Ground for Future Managers	75
3.3.2.3	Facilitator of Risk Management and Internal Control.....	76
3.3.2.4	Comfort Provider	77
3.3.2.5	Monitor of Corporate Culture	78

3.3.2.6	Findings of Exploratory Interviews Support the Expectations of Board and Audit Committee.....	78
3.3.3	Moderating Effect of Expertise, Skills and Competencies of Internal Audit	82
3.3.3.1	Findings of Exploratory Interviews to Support the Moderating Effect of Expertise, Skills and Competencies of Internal Audit	85
3.3.4	Internal Auditors' Involvement in Consulting Activity and Firm's Growth Opportunities and Firm's Performance	87
3.4	Conceptual Framework Development	97
3.5	Conclusion	100
CHAPTER 4: RESEARCH METHODOLOGY		102
4.1	Introduction	102
4.2	Research Design	104
4.3	Data Collection Procedure	110
4.4	The Exploratory Interviews	112
4.5	The Survey	115
4.5.1	Survey Questionnaire	115
4.5.2	Overview of Survey Questionnaire	116
4.5.3	Pilot Study	118
4.5.4	Survey Administration	124
4.5.5	Survey Sample	126
4.6	Model Specification	129
4.6.1	The Influence of Intentions/Ambitions of IAD and Board and Audit Committee towards Consulting Role of Internal Auditors (Model 1)	130

4.6.1.1	Dependent Variable	132
4.6.1.2	Control Variables	133
4.6.1.3	Independent Variables	134
(a)	<i>Intentions/Ambitions of IAD</i>	134
(b)	<i>Expectations of Board and Audit Committee</i>	135
4.6.1.4	Moderating Variable	136
4.6.2	The Relationship between Internal Auditors' Involvement in Consulting Activity and Firm's Growth Opportunities and Firm's Performance (Model 2)	137
4.6.2.1	Dependent Variables	138
4.6.2.2	Control Variables	139
4.6.2.3	Independent Variable	140
4.7	Data Analyses Strategy	140
4.7.1	The Statistical Analysis on Quantitative Data	141
4.7.2	The Qualitative Data Analysis Process	145
4.8	Semi-structured Interviews.....	146
4.8.1	Interview Administration	146
4.8.2	Sample Selection	147
4.8.3	Semi-structured Interview Questionnaire	148
4.9	Overview of the Chapter	149
 CHAPTER 5: RESULTS AND DISCUSSION ON QUANTITATIVE DATA.....		150
5.1	Introduction	150
5.2	The Mail Survey Questionnaire.....	151
5.2.1	Data Cleaning and Screening	151
5.2.2	Demographic Profile of Respondents	153
5.3	Results	157

5.3.1	Descriptive Statistics	157
5.3.2	Factor Analysis	161
5.3.2.1	Intentions/Ambitions of IAD	161
5.3.2.2	Expectations of Board and Audit Committee	165
5.3.3	Cronbach's Coefficient of Reliability	169
5.4	Multivariate Analysis	173
5.4.1	Results of Model 1 - Equation 1 (no moderating effect - Hypothesis 1(a,b,c,d,e,f), 2(a,b,c,d,e))	179
5.4.2	Results of Model 1 - Equation 2 (with moderating effect - Hypothesis 3(a,b))	183
5.4.2.1	Results of Model 1 - Equation 2 (with moderating effect - Hypothesis 3a)	184
5.4.2.2	Results of Model 1 - Equation 2 (with moderating effect - Hypothesis 3b)	188
5.5	The Relationship between Internal Auditors' Assessment of Their Contribution to Consulting Activities and Firm's Growth Opportunities Firm's Performance (Firm's Growth Opportunities and Firm's Performance Model (Hypotheses 4 and 5)	196
5.5.1	Results of Model 2 (Firm's Growth Opportunities and Firm's Performance Model)	198
5.6	Overview of the Chapter	204
CHAPTER 6: RESULTS AND DISCUSSION ON QUALITATIVE DATA.....		209
6.1	Introduction	209
6.2	Interview Sample and Administration	210
6.3	Interview Findings	213

6.3.1	Perceptions on the Nature and Effectiveness of Internal Audit in respect of Consulting Role of Internal Auditors	213
6.3.2	Perceptions of Internal Auditors concerning the Relevant Factors Influencing the Implementation of their Role in Consultancy	223
6.3.3	Perceptions of Internal Auditors on their Extended Contribution towards Consulting Activities and the Implications on Firm's Growth Opportunities and Performance of the Firm, as well as their Views on the Plan and Strategy on Internal Audit Staffing and Competency	230
6.3.4	Summary of Interview Findings	240
6.4	Discussion of Overall Results	247
6.4.1	Overview of Results	247
6.4.2	Intentions/Ambitions of IAD and Expectations of Board Audit Committee (Hypothesis 1(a,b,c,d,e,f) and 2(a,b,c,d,e))	252
6.4.3	Moderating Effect of Expertise, Skills and Competencies of Internal Audit on the Relationship between Intentions/Ambitions of IAD and Expectations of Board and Audit Committee and Internal Auditors' Role in Consulting Activities (Hypotheses 3a and 3b)	257
6.5	The Relationship between Internal Auditors' Role in Consulting Activities and Firm's Growth Opportunities and Firm's Performance (Hypotheses 4 and 5)	263
6.5.1	Control Variables	265
6.6	Overview of the Chapter	269

CHAPTER 7: CONCLUSION, LIMITATIONS AND RECOMMENDATIONS

FOR FUTURE RESEARCH.....	270
7.1 Introduction	270
7.2 Summary of Key Findings	270
7.3 Theoretical Contributions and Managerial and Policy Implications	273
7.3.1 Contribution to Theory and Knowledge	273
7.3.2 Contribution of Findings to Practice	278
7.4 Limitations of the Current Study	280
7.5 Recommendations for Future Research	283
7.6 Conclusions	285
References	287
Appendices	306

LIST OF FIGURES

Figure 2.1: Relationship between Internal Audit and Governance Bodies.....	30
Figure 2.2: Differences between Assurance and Consulting Services.....	33
Figure 2.3: Assurance/Consulting Continuum.....	35
Figure 3.1: Major Constituents and Request from Internal Audit	70
Figure 3.2: Summary of Literatures and Findings of Exploratory Interviews on On Types on Consulting Assignments	88
Figure 3.3: Conceptual Framework – Firm’s Growth Opportunities, Firm’s Performance, Consulting Activities, and Influencing Variables	99
Figure 4.1: A Summarized Diagram of Research Design.....	109
Figure 5.1: Revised Conceptual Framework - Firm’s Growth Opportunities, Firm’s Performance, Consulting Activities, and Influencing Variables	167

LIST OF TABLES

Table 3.1: Summary of Five Interviewees that Supports the Research Construct	60
Table 3.2: Summary on Types of Consulting Work by Five Interviewees	60
Table 4.1: Reliability Test for Pilot Responses.....	123
Table 4.2: Analysis of Industry Distribution	128
Table 5.1: Analysis of Respondents.....	151
Table 5.2: Demographic Profiles of Respondents and Firms	155
Table 5.3: Descriptive Statistics for Variables (N = 112).....	160
Table 5.4: Factor Loadings for Intentions/Ambitions of IAD	163
Table 5.5: Factor Loadings for Expectations of Board and Audit Committee	166
Table 5.6: Reliability Analysis.....	171
Table 5.7: Variables Description and Expected Direction for Model 1.....	178
Table 5.8: OLS Regression Results: Internal Audit Consulting Model.....	182
Table 5.9: Moderating Effects (Five Dimensions) towards Intentions/Ambitions of IAD (Six Dimensions) and Internal Auditors' Assessment of their Contribution to Consulting Activities.....	186
Table 5.10: Moderating Effects (Five Dimensions) towards Expectations of Board and Audit Committee (Five Dimensions) and Internal Auditors' Assessment of their Contribution to Consulting Activities.....	191
Table 5.11: Variables Description and Expected Direction for Model 2.....	198
Table 5.12: OLS Regression Results: Firm's Growth Opportunities and Performance Model.....	199
Table 5.13: Summary of Hypotheses	205
Table 5.14: Summary of Equations from the Results	208
Table 6.1: Demographics Details and Background of Organizations.....	215

Table 6.2: Perceptions of Internal Auditors on the Nature and Effectiveness of Internal Audit in respect of Consulting Role of Internal Auditors.....	218
Table 6.3: Perceptions of Internal Auditors on Relevant Factors Influencing Consulting Role of Internal Auditors as Added Value to Business.....	234
Table 6.4: Perceptions of Internal Auditors on Consulting Role of Internal Auditors Help Increases Firm's Growth Opportunities and Firm's Performance, Plan and Strategy on Internal Audit Staffing and Competency.....	236

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LIST OF SYMBOLS AND ABBREVIATIONS

ACCA	:	Association of Chartered Certified Accountants
ACIB	:	Associate of the Chartered Institute of Bankers
ACMA	:	Chartered Management Accountant
AICPA	:	American Institute of Certified Public Accountants
CA	:	Chartered Accountant
CAE	:	Chief Audit Executive
CBOK	:	Common Body of Knowledge
CB-SEM	:	Covariance-based Structural Equation Modeling
CEO	:	Chief Executive Officer
CFO	:	Chief Financial Officer
COO	:	Chief Operating Officer
CRO	:	Chief Risk Officer
CGMA	:	Chartered Global Management Accountant
CIA	:	Certified Internal Auditors
CIMA	:	Chartered Institute of Management Accountants
CMIIA	:	Corporate Member of Institute of Internal Auditors
CPA	:	Certified Public Accountant
CRMA	:	Certification in Risk Management Assurance
CSA	:	Control Self-Assessment
DBA	:	Doctorate of Business Administration
ERM	:	Enterprise Risk Management
ERP	:	Enterprise Resource Planning
FDI	:	Foreign Direct Investment
GLCs	:	Government Link Companies

GTF	: Guidance Task Force
IAD	: Internal Audit Department
IAF	: Internal Audit Function
IAS	: International Accounting Standards
IFRS	: International Financial Reporting Standards
IIA	: Institute of Internal Auditors
IIAM	: Institute of Internal Auditors Malaysia
IIARF	: Institute of Internal Auditors Research Foundation
IPPF	: International Professional Practices Framework
IT	: Information technology
M&A	: Mergers and Acquisition
MBA	: Masters in Business Administration
MCCG	: Malaysian Code of Corporate Governance
MIA	: Malaysian Institute of Accountants
MIS	: Management Information System
NYSE	: New York Stock Exchange
PLS-SEM	: Partial Least Squares - Structural Equation Modeling
QAR	: Quality Assurance Review
ROA	: Return on Asset
ROE	: Return on Equity
SAS	: Statements on Auditing Standards
SC	: Securities Commission
SEC	: Securities and Exchange Commission (US)
SEM	: Structural Equation Modeling
SPSS	: Statistical Package for the Social Science

LIST OF APPENDICES

Appendix A1: Factors Influencing Consulting Role of Internal Auditors	305
Appendix A2: An Examination of the Factors Influencing Consulting Role of Internal Auditors	306
Appendix B1: The Exploratory Interviews Data Matrix	311
Appendix B2: The Consulting Assignments Data Matrix	318
Appendix C1: Cover Letter of Preliminary Internal Audit Consulting Survey Instrument	324
Appendix C2: Preliminary Internal Audit Consulting Survey Instrument	325
Appendix D1: Cover Letter of Final Internal Audit Consulting Survey Instrument	332
Appendix D2: Final Internal Audit Consulting Survey Instrument	333
Appendix E1: The Consulting Role of Internal Auditors in Malaysia: Its Relevant Factors, Issues on Internal Audit objectivity and Independence, Internal Audit Competency and Staffing Strategy and the Impact on Firm's Growth Opportunities and Firm's Performance	340
Appendix E2: An Examination of the Consulting Role of Internal Auditors in Malaysia and Its Relevant Factors, Issues on Internal Audit objectivity and Independence, Internal Audit Competency and Staffing Strategy and the Impact on Firm's Growth Opportunities and Firm's Performance	341
Appendix F: Bursa Malaysia Listing Requirement (MAIN MARKET) Chapter 15 Corporate Governance	343
Appendix G: Meta-Analysis – Analysis of Assurance versus Consulting	344
Appendix H: Results of Statistical Analysis	356

CHAPTER 1: INTRODUCTION

1.1 Preamble

“The area of internal auditing is ripe for a wide variety of research (Rittenberg, 1999, p. 35)”. Likewise, Sarens and De Beelde (2004, p. 27) said that “the area of internal auditing is still ripe for a wide variety of research”.

For the past few decades, the business environment has experienced rapid and revolutionary change with extensive consequences for organizations all over the world. In this radical changed phenomenon, internal auditing gained an important role in organizations. Internal audit practice has a long history but its goals have incessantly changed over the years. The emergence of the internal audit profession begins in the 1940s and the scope and the reporting relationship was rather simple (IIARF, 2003); its nature has gradually revolutionized since the first issuance of its Statement of Responsibilities of Internal Auditing in 1947 by the Institute of Internal Auditors (IIA) (Krogstad, Ridley & Rittenberg, 1999); its objective of function was to aid organizational members to discharge their duties and focused on assessing the correctness of financial operations and the effectiveness of varying types of controls (Rittenberg & Covalleski, 1997; Bou-Raad, 2000; Sarens & De Beelde, 2004). A new definition of internal auditing officially adopted by the IIA in June 1999, developed by the Guidance Task Force (GTF) where it defines the function as “an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations” (Nagy & Cenker, 2002; IPPF, 2013). Sarens and De Beelde (2004) also stated that the widely definition of internal audit resulting in the internal auditor’s expanded roles are to support management, the audit committees, the board of directors, the external auditors and other key stakeholders (IIARF, 2003; IIARF,

2011a). In other words, the internal auditors have played their vital role in the governance of an organization (Balkaran, 2008) since early 1940s and this role has evolved over time, thus, suggesting that internal audit function (IAF) can improve corporate governance (Sarens, Abdolmohammadi & Lenz, 2012; Gramling, Maletta, Schneider & Church, 2004; Paape, Scheffe&Snoep, 2003); as a result, the importance of internal audit has been raised as a key component of good corporate governance practice (Abdolmohammadi, Burnaby & Hass, 2006; Burnaby, Abdolmohammadi & Hass, 2007; Spira & Page, 2003; Leung, Cooper & Robertson, 2003). According to Hermanson and Rittenberg, (2003), internal auditors play a unique role in the governance processes in which it has been widely debated over the decades. Like Deloitte & Touche (2005), Steinberg and Pojunis (2000) agreed that “today...internal auditors have the opportunity to be recognized as delivering value at the highest levels of their organizations by enhancing corporate governance” (p. 36).

Rezaee (2009) stated that “recent corporate governance reforms require an effective corporate governance structure based on a vigilant board of directors; diligent, competent, and ethical management; a credible independent audit function; and effective internal audit function” (p. 228), resulting in strengthening the role and responsibility of internal auditors. The purpose of modern corporate governance is to maximize shareholder and economic health in a sustainable way, to align the interests of various parties such as boards, management, and shareholders, and to provide accurate information in a timely manner besides assisting accountability to shareholders and other stakeholders (IIARF, 2010a, 2011a,b; Healy, 2003; Chia, 2004).

As a crucial function of the business to identify and manage risk, internal audit should be an effective contributor to the priorities of stakeholders and the organization (PricewaterhouseCoopers, 2014)¹. In addition, the appreciation of internal audit by management is a critical component identified by Geis (2010), interviewing eight (8) Chief Audit Executives (CAEs) and studying potential benefits of internal audit within the German context. As a matter of fact, recent regulation in Malaysia has made internal audit function mandatory with effect from January 2008 to all the listed issuers on Bursa Malaysia (local stock exchange) and internal auditors must report function directly to the audit committee (Balkaran, 2008, Bursa Malaysia Listing Requirements, 2013 – Appendix F). Furthermore, it is claimed that firms listed on the New York Stock Exchange (NYSE) must have an internal audit function, either in-house or outsourced (Balkaran, 2008). Similarly, in Malaysian context, internal auditors are urged to focus on risks and controls within the company and therefore have a key role in a company's governance and financial reporting process. They should also provide independent and objective opinion in order to achieve its objectives by adequately evaluating, managing and controlling the risks plus internal auditors can provide advice and back up improvements for organizational governance structure and practices' enhancement. Therefore, the Bursa Malaysia Listing Requirements and the Malaysian Code of Corporate Governance (MCCG) put emphasis on the importance of internal audit by mandating this function to all listed companies (MCCG, 2012)².

¹ Pricewaterhouse Coopers 2014;s annual survey (i.e., 2014 state of the internal audit profession study) results suggest that alignment of stakeholder expectations and matching skills and capabilities to these expectations, helps the delivery of value enhancement of internal audit. Nearly 1,400 CAEs (includes internal audit directors) and more than 520 stakeholders, representing 24 industries and 37 industries, participated in the *2014 State of the Internal Audit Profession Study*.

² MCCG 2012 issued by the Securities Commission Malaysia is the first deliverable of the CG Blueprint 2011 and supersedes the *Malaysia Code on Corporate Governance 2007*. IAF is required to include information pertaining to their professional advice on business improvement and practices' enhancement in the annual reports.

Despite the assurance role traditionally performed by internal audit, they need to expand and prove their existence by demonstrating the added value they can bring to the organization. In other words, internal auditors need to promote the value of the function and demonstrate their wider understanding of the business and the critical issues it faces in order to offer support that should put internal audit in a fundamental position within the organizations. Therefore, the new definition of internal auditing has delineated the expanded role of internal auditors in which it encompasses the activities of assurance and consultancy, for that, they can be more proactive (adding value) and customer-focused oriented in order to aid organization achieving its goals and objectives (Krogstad et al., 1999; IIA, 2011c; IPPF, 2013). The argument is that internal auditors hold the knowledge of the company, thus, they can position themselves as consultant when there is a necessity as part of enriching value-adding internal audit within the organization. Consistently, during the previous 2011 International Conference of Internal Auditing held in Kuala Lumpur, one of the concurrent session speakers have said that “organization are generally better served when internal audit predominantly takes on a counsel role, performing the other roles when needed” (Peirson, 2011).

Regardless of adding value to organization served, internal auditors do face challenges or conflicts such as maintaining independence and objectivity (e.g. Brody and Lowe, 2000; Fraser and Henry, 2007; Christopher, Sarens & Leung, 2009; De Zwaan, Subramaniam & Stewart, 2009) , adequacy of audit resources (McCall, 2002) etc. in discharging and balancing their dual roles (Ramamoorti, 2003). As a matter of fact, the changes to the definition do increase the scope of internal audit with respect to clearly embracing consulting activities (IPPF, 2013; Reding, Sobel, Anderson, Head, Ramamoorti & Salamasick, 2013; Selim, Woodward & Allergini, 2009). However,

apparently not many following research has been done in respect of its recognition and clarification of the new role in consultancy (Ramamoorti, 2003; Selim et al., 2009).

1.2 Problem Statement

Organizations are constantly facing a myriad of changing pressures brought about by economic volatility, regulatory changes, market pressures or simply organization development resulting in internal auditors that are expected to become a change agent within organizations to best support business objectives (PricewaterhouseCoopers, 2014). In fact, the current business world is facing phenomenal transformation whereby many people have conducted simultaneously their business in many regions or countries, hence, no restrictions found in dealing business over the world (Williams, 2002).

Industries, markets and competitors have become more complex and diverse caused by expanded economy thereby many companies strive for a competitive advantage in the midst of other existing pool of business strategies. “Internal audit is no exception” due to the impact of globalization, in addition, “adaptation and proactive assimilation by internal auditing profession must occur or else complacency and obsolescence will result” (p. 3), and to be firmed, internal auditors must react to the new challenges that are faced by those high growth companies (Williams, 2002). Skills such as networking, continual self-education, innovation and the ability to develop a strategic vision for internal audit is crucial for the future of the function (IIARF, 2011b,c).

Therefore, the advent of globalization, increase in business complexity and major advancement of information technology lead to a paradigm shift in the activities performed by internal auditors (value-added function), for instance:-

- Internal auditors are perceived as business partner rather than attest function (PricewaterhouseCoopers, 2014; Baker, 2011; Yee et al., 2007, 2008; Chia, 2004; Thevenin, 1997);
- Internal auditors become catalyst for change/agent of change (Stern, 1994; Anderson, 2003; IIA, 2011a);
- Internal auditors are perceived by management to implement consultative/participative approach (Common Body of Knowledge (CBOK) study: IIA, 2011a,d; Cooper, Leung & Wong, 2006; Burnaby et al., 2007; other studies such as Selim et al., 2009; White, 2007; Dounis, 2006, 2008; McCall, 2002; Chapman, 2001; Cooper, Leung & Mathews, 1996).

As suggested by the professionals, internal audit departments (IADs) can deliver value by shifting to a customer-centric model in which adopting some of the same means of that externally oriented departments use i.e. maintaining dialogues with business units within organization, developing appropriate skills besides gaining knowledge of business and implementing a pervasive customer-centric approach during audit engagement (Campbell, Adams, Campbell & Rose, 2006; Selim et al., 2009). One of the primary ways internal auditors add value is via consulting services whereby the activities are (beyond traditional assurance work) designed to help management meet the objectives of the company (Chapman, 2001). Most consulting assignments focus directly on specific, customer-oriented issues (Richards, 2001). Besides, White (2007) stated that the auditor's willingness in the negotiation of satisfying business manager's needs shows an adoption of customer-oriented consulting approach in their consulting

engagement. Chapman (2001) argued that involvement in consulting activities has promoted internal audit to play a more strategic role in the organization. In fact, she further suggested that consulting activities are problem-solving nature in general, with internal audit working closely with management to assist them in achieving the organizational objectives (supported by Chia, 2004; Yee, Sujana & James, 2007, 2008). Moreover, consulting entails a more proactive approach in which internal audit becomes a partner with management (Bou-Raad, 2000; Christopher et al., 2009; KPMG, 2009) or becomes a partner with business whereby internal audit can leverage their expertise to aid organization improve its operations (Baker, 2011). In a more specific situation such as IT project management, Buckley (2011) commented that internal auditors should engage with project team members to help deliver some technology projects.

As corporate governance gains its prominence in today's corporate world, Chia (2004) reported that audit committees in Malaysia meet more frequently and strongly encourage internal auditors to have a good working relationship with management without sacrificing their independence and objectivity. Since the internal auditors hold the knowledge of the company, they can use their broad and specialized business knowledge to help management to achieve the organizational goals and objectives as well as to meet other stakeholders' expectations (for example, board of directors, audit committee, employees and etc.). Similarly, PricewaterhouseCoopers (2014)'s annual survey results suggested that alignment of stakeholder expectations (i.e., board, executive officers, line management), matching internal audit skills and capabilities to these expectations, help internal audit to enhance their value added to the organization.

Despite the internal auditors' function as value-added partners, this has probably created a great challenging balancing act and not many of them are well-equipped to handle this dual role (Chia, 2004). Besides, this is one of the important issues they have

to handle when performing consulting activities (e.g. Anderson, 2003; Anderson & Dahle, 2009). According to Ramamoorti (2011), in his speech at the Educator's Forum³ in 2011, internal auditors have to deal with two importance roles i.e. consulting role as value creation opportunities in order to maintain a good relationship with the management and at the same time they need to perform assurance role. This specific role relates to value preservation (independent appraisal function) of the organization in which internal auditors are regarded as the "eyes and ears" of the audit committee in the post corporate governance reforms era. For example, in the case of mobile computing, C-suite (i.e. CEO/CFO/COO/CRO) executives are the individuals who actually stuck among integrating mobile computing into the business's on-going operations, and it's the auditor's job to offer them the tools to get unstuck or find a room in that discomfort area (Jackson, 2011). Therefore, it becomes a great challenge for internal auditors to balance this value creation against value(s) preservation towards achieving organizational goals and increasing firm performance. Also consistent with the 2010 survey⁴ data in which it supports the notion that IADs have made significant change and that they have the right priorities; although there is still a critical performance gap in achieving the key attributes of high-performing internal audit functions (IAFs) such as aligning value proposition with stakeholders' expectations, leveraging technology effectively, promoting quality improvement and innovation and etc. (PricewaterhouseCoopers, 2010).

³ Dr.SridarRamamoorti, Associate Professor of Kennesaw, USA was one of the speakers at the pre-conference session of 2011 International Conference of Internal Auditing held on 10th July 2011 at the Kuala Lumpur Convention Centre, Kuala Lumpur.

⁴ PricewaterhouseCoopers US 13th Annual Global CEO Survey, January 2010. "Setting a Smarter Course for Growth".

Lenz and Sarens (2012) stated that the role gives a challenge to internal audit in practice to position as agent to the board/audit committee, and simultaneously to act as partner to management. However, PricewaterhouseCoopers(2010)'s survey revealed that internal audit must seize opportunities to enhance its relevance by assessing more future governance, risk management and control along with improving day-to-day business performance, and ultimately supporting the execution of strategy initiatives.

In conjunction with the issue of balancing role, it pertains to the possibility of compromising the objectivity of internal auditors and becoming threats to independence in respect of assurance role (Bou-Raad, 2000; Brody & Lowe, 2000; McCall, 2002; Sarens & De Beelde, 2006a; Fraser & Henry, 2007; Ahmad & Taylor, 2009; Christopher, Sarens & Leung, 2009; De Zwaan et al., 2009; Selim et al., 2009; Stewart & Subramaniam, 2010) when performing consulting activities. Bou-Raad (2000) further explains that the benefits derived from this new value-added approach might create a problem between proactive behaviour and organizational independence (i.e. internal audit independence). According to McCall (2002), internal auditors need to prioritize between consulting and monitoring (assurance) although they are committed to meeting management requests for consulting services to add value and help improve the business operations. In this regard, internal consulting work should not be conducted at the expense of their monitoring responsibilities.

Sarens and De Beelde (2006a) also found that there is a lack of perceived objectivity when internal audit operates mainly in a management support role as well as the relationship with audit committee is relatively in a weak position. Ahmad and Taylor (2009) however in their findings explained that the effect of a number of dimensions of role ambiguity and role of conflict on internal auditors' commitment to independence

was somewhat low, suggesting that Malaysian internal auditors do not perceive a conflict when discharging their dual roles of providing consulting and assurance services. This is consistent with the study in Italian large companies, yet, in contrast with UK/Ireland large companies by Selim et al. (2009) in which they reported that there is a significant increase of the ability to be independent and objective pertaining to internal audit involvement in consulting assignments in Italy.

Another issue involves determining how best internal auditors could provide their value-added services, which include consultancy as fittingly needed. Everybody, including internal auditors, is stressed 'to do more with less' in current economic situations; when costs cannot further be reduced, successful audit shops would look for new ways to fully utilize their resources (Head et al. 2010), thus, incorporating consulting work when there is a necessity within an organization. Therefore, in certain situations, it may be appropriate to conduct a 'blended' engagement incorporating both aspects of consulting and assurance activities into one consolidated approach (Anderson 2003; Sarens and De Beelde 2004, 2006b; Reding et al. 2013; Head et al. 2010). It is argued that blended engagement is continually conducted in order to not only gain efficiency on the whole audit process without sacrificing its effectiveness but to also seize opportunities for enhancing its relevance. To support that, nearly every internal audit engagement, including assurance engagements, has some elements of consulting or advisory service (Anderson & Dahle 2009). While going beyond core assurance, the internal auditors also advise and discuss options with process owners pertaining to the issues highlighted based on their experience and expertise. This situation is seen as providing value by internal audit stakeholders and to a certain extent, it has been perceived by internal auditors as a trait for better internal audit (Anderson & Dahle, 2009; IIARF, 2011b,d). Similarly, Vallabhaneni (2005) commented on the

interrelationship between assurance and consulting, in which, consulting can be a direct result of assurance services, whilst in certain circumstances, it should be recognized that assurance could also be generated from consulting engagement, concluding that internal audit consulting could indirectly enrich the value-adding internal audit.

Notwithstanding, a few things need to be considered to attain a value-adding IAD. Head et al. (2010) identified four factors that the auditor must take into account such as sufficient time for consulting opportunities reserved in annual audit plan, efficient integration of two services which needs real time planning, integration of facilitation and training activities with assurance which is more straightforward as compared to advisory consulting, and finally, the nature of the specific activities (i.e. advisory consulting) within each of the phases (plan, perform, communicate, and follow-up varies significantly). Reding et al. (2013) consistently reported that care need to be considered for neither compromising objectivity nor independence. Furthermore, Gupta (2001) commented that internal auditor should conduct his/her task with less budget amount as compared to the prior year even if they would become a value-added partner to aid management “in managing business risk effectively and offering innovative state-of-the-art services” (p. 59) and this creates pressures for internal auditors as well as the organizations towards protecting and enhancing shareholder value in the new era of globalization and emergence of information technology. Internal auditors are more likely to be seeking for a proactive contribution in the situation where firms associate with uncertain investment opportunities and internal auditors need to have good training and experience pertaining to the risk assessments associated with uncertain growth opportunities that can give positive outcomes in respect of firm’s strategies (Hutchinson & Mat Zain, 2009).

Consistently, due to a high-risk environment, the consulting paradigm of internal audit would possibly be sought and encouraged (Mihret & Woldeyohannis, 2008). As a result, the management's demand for internal audit with regards to risk management may be greater (Felix et al., 2001; Mihret, 2010). Further, organizations that promote for aggressive strategies (e.g. new ventures) may also request for consulting services from internal auditors (Dounis, 2006; Mihret & Woldeyohannis, 2008). To date, studies that provide empirical evidence on the new role of internal auditors in consulting is still in infancy stage (Selim et al., 2009; Stewart & Subramaniam, 2010) and the need for such research is critical considering the recent changes in the definition of internal auditing that embrace the consulting aspect of internal audit scope of work. There is a possibility that internal auditors currently perform their consulting work due to current business operations that are more complex and dealt with uncertainties of growth opportunities. However, still the internal auditors need to have firm-specific knowledge and experience in order to deal with those business risks that would contribute to the future investments (i.e. growth opportunities) of the firm as well as the performance of the organization, for instance profitability and efficiency (IIARF, 2011a). To summarize, this present study is timely in providing the much needed empirical support on the consulting role of internal auditors and its influencing factors; hence the study on the impact of implementing consulting role on the firm's growth opportunities and performance is significant since it has not been tested in prior studies or at most limited. Nonetheless, internal auditors face the balancing act of dual roles (i.e. consulting and assurance) and stress of "to do more with less" (for example, blended engagement) issues, which in essence this situation is a motivation of the present study. In the following section, the details about the gap of the study are discussed. Basically, it is about what drives the author to conduct the research on internal audit with business consulting dimension.

1.3 Study Gap and Motivation

Many researches focus on internal audit effectiveness and audit quality (institutional or organizational context, see Appendix G – meta analysis of assurance versus consulting) particularly on assurance services (e.g. Mihret & Yismaw, 2007; Mihret & Azzone, 2009; Arena & Azzone, 2009; Lenz & Sarens, 2012; Lenz, Sarens & D’Silva, 2013; Lenz & Hahn, 2013, 2015), internal audit relationship with other cornerstones i.e. audit committee, external auditor and management (Gramling et al., 2004; Lenz & Sarens, 2012), internal audit and audit committee (Mat Zain et al., 2006; Mat Zain & Subramaniam, 2007; Sarens, De Beelde & Everaert, 2009), internal audit and senior management (Sarens & De Beelde, 2006a), internal audit independence (Fraser & Henry, 2007; Ahmad & Taylor, 2009; Christopher et al., 2009); internal audit quality, audit committee independence, growth opportunities and firm performance (Hutchinson & Mat Zain, 2009). Study on new role of consulting is still in its infancy stage (Selim et al., 2009; Stewart & Subramaniam, 2010). The International Professional Practices Framework (latest revision) (IPPF, 2013) is an authoritative guidance to internal auditors where the new changes of definition of internal auditing has widen the scope of internal audit by explicitly incorporating consulting activities. However, not many subsequent researches are done in consistent with its recent recognition and clarification (Selim et al., 2009). After doing some empirical work, Selim et al. (2009) found that consulting practices are increasingly being carried out after the 1999 definitional change in both countries, UK/Ireland and Italy as compared to the prior year of 1999, meaning that the companies in both countries are seeking consultation from internal auditors to improve their business operations in the current economic situation.

In Malaysian environment most recently, Kassim (2011) revealed that internal auditors of government link companies (GLCs) do play their legitimate roles with safeguards (consulting role) in Enterprise Risk Management (ERM); specifically, internal auditors performed 42% of their ERM assurance roles, 33% on the consulting roles and the remaining 25%, internal auditors had also involved in performing the prohibitive roles as stated in the Position Paper (IIA, 2004). Yet, Kassim's (2011) study reported no significant relationship between ERM implementation and firm's financial performance as it claimed that the ERM implementation was not the significant variable to predict the variation in the financial performance of the firm. That would be possibly the insignificant result due to sole measure like financial measures (i.e., accounting yardstick – ROA/ROE). Consistently, another identical research on the ERM conducted in Malaysia by Norlida (2009) revealed similar results. Furthermore, Kassim (2011) did not mention why the percentage is as such and what factors have influenced the performance of such roles (especially consulting) in which it is going to be addressed in the present study. In fact, Kassim (2011) adopted the stewardship theory in explaining the consulting role of internal auditors in ERM implementation. Therefore, by adopting the stewardship theory into the current study, we may explore the internal process of delivering consulting role of internal auditors; the stewardship is the motivation to bring the factors to influence the consultancy without compromising their independence and objectivity (i.e. "...without the internal auditor assuming management responsibility" (IPPF, 2013, p. 42)).

Malaysia is a rapidly developing economy in Asia; a middle-income country that has transformed itself since 1970s from a producer of raw materials into an emerging multi-sector economy. The size of Malaysia's capital market has more than tripled to Malaysian Ringgit 2.5 trillion since 2000, equivalent to 264% of the country's gross

domestic product, according to Securities Commission (SC) deputy chief executive Datuk Nik Ramlah Mahmood⁵. Malaysia's economy has been on a gradual uptrend in since 2010, keeping abreast with global recovery from the subprime mortgage crisis; the Malaysian Government has responded by taking a number of economic stimulus measures including the promotion of foreign direct investment (FDI) and reinforcement of Malaysian Ringgit towards obtaining its target of emerging a high income economy⁶. This phenomenon has given opportunity to lots of companies in Malaysia to improve and expand their business, to invest in new product developments and so forth. Internal auditors as "business trusted advisor" of the organization per se are encouraged to exercise their expertise in giving professional advice to their clients (i.e. management team) in order to achieve the organizational goals (micro level) and to boost the economy of the country (macro level).

Therefore, my aim is to look further on the role of internal auditors in consulting activities in Malaysian listed companies (focusing on developing countries with high geared multi-sector economy), what factors influencing their role of consulting not only in risk management but also other types of consulting assignments such as change management, project management, strategic management, mergers and acquisitions (M&A) and governance. In addition, I would expect a positive association between the consulting role of internal auditors and the firm's growth opportunities as well as firm's performance discretely (that is, the measurement scales would be non-financial and financial measures – profoundly discussed in Chapter 4).

⁵ The capital market is, of course, one important venue for capital raising, and over the years, the SC has sought to ensure that there are different products and funding mechanisms, through equity and debt, that cater for companies at every stage of their growth," Nik Ramlah said.
<http://www.thestar.com.my/business/business-news/2013/07/04/malysias-capital-market-at-rm25tril/>

⁶ Article titled "Malaysia: Boosting the Regulatory Framework." Supplement – The 2010 Guide to Mergers and Acquisitions, 10 June 2010. <http://www.iflr.com/Article/2594251/Malaysia-Boosting-the-regulatory-framework.html>

Future growth opportunities of the firm can be an important element to many companies especially in contributing to boost the economy of certain developing countries such as Malaysia. Furthermore, the IIA (IPPF, 2013) has stated that an IAF is designed to render a value-adding; the quality and the effectiveness of the IAD which are paramount for firms with uncertain investment opportunities (Hutchinson & Mat Zain, 2009). Furthermore, it gives me impetus to study more on consulting role of internal auditors in Malaysia as it aligns with the changes to the definition of internal auditing by explicitly including consulting activities in the scope of internal audit, also due to business complexity and the advancement of information technology that requires the contribution of internal consulting.

To summarize, this has turned out to be the main focus of my entire study. In total, due to the problems that have been raised earlier, it is very important to know what factors have influenced the internal audit practice to engage with consulting services. Having said that, this research attempts to explore in detail the role of internal auditors in consultancy in a developing country such as Malaysia, and the implications of implementation of such role on the firm's growth opportunities as well as the business performance, like profitability and efficiency.

1.4 Research Questions and Objectives

As being addressed earlier, the purpose of my study is to look further on the role of internal auditors in consultancy in Malaysian context. The study aims to investigate the factors influencing the consulting role of internal auditors in Malaysia and whether the role affects the firm's growth opportunities and firm's performance. By adopting some

of the attributes in prior studies (for example, Roth, 2003; Stern, 1994; Anderson, 2003; Macdonald & Colombo, 2001; Head et al., 2010; Anderson & Dahle, 2009; Sarens & De Beelde, 2004, 2006a,b; Selim et al., 2003; Sarens et al., 2009; Dounis, 2006; Mihret & Wildeyohannis, 2008; Mihret & Yismaw, 2007; Mihret, 2010; Arena et al., 2006; Arena & Azzone, 2009; White, 2007; Yee et al., 2007, 2008; Chia, 2004; Mat Zain et al., 2006; Hutchinson & Mat Zain, 2009; etc.) several research questions are addressed and transformed into specific objectives accordingly.

Given that the study on the consulting role of internal auditors is relatively new, an exploratory study is conducted to investigate to what extent internal auditors perform such role, in addition to gain some realistic view about internal audit contribution to its consulting services and factors influencing such role in current practice. This is to gain understanding of who requires internal audit to perform consulting activities, when and why in regard to internal audit consulting, besides what constitutes internal audit to perform the engagement. This exploratory study has turned out to be a starting point of the whole research project. Five (5) semi-structured interviews with the head of internal audit units of large Malaysian organizations are conducted and the findings of exploratory interviews⁷ are discussed in the Conceptual Framework and Hypotheses Formulation section accordingly. In addition, the findings contribute to the development of research hypotheses and survey questionnaire in latter stages. Based upon the attributes identified in the previous studies and the inputs obtained from the exploratory interviews, five (5) research questions to address research objectives are developed as follows:

- 1) To what extent the intentions/ambitions of IAD correlate with the consulting role of internal auditors in Malaysia?
- 2) To what extent the expectations of board and audit committee correlate with the consulting role of internal auditors in Malaysia?
- 3) What is the moderating effect of the expertise, skills and competencies of internal auditor in the relationship between the intentions/ambitions of IAD and expectations of board and audit committee and the consulting role of internal auditors in Malaysia?
- 4) To what extent there is an association between internal audit contribution to consulting activities and firm's growth opportunities?
- 5) To what extent there is an association between internal audit contribution to consulting activities and firm's performance?

This study is built on the current body of knowledge of the role of internal auditors in corporate governance context. The following section outlines the literature review on internal audit focusing on the consulting oriented services.

⁷ The findings of exploratory interviews have been incorporated in a Conference Paper titled "Consulting Role of Internal Auditors: Exploratory Evidence from Malaysia". The paper was accepted and presented at 3rd Global Accounting and Organizational Change (GAOC) Conference 2012 (July 14-17) at Sunway University, Malaysia.

1.5 Contributions and Significance of Study

This study aims to contribute to enhancement of academic literature as well as guidance to practitioners. Internal auditors have been perceived as change agent within organizations to best support business objectives and consulting role is becoming prominent in meeting today's business challenges. This study explores the application of stewardship theory in examining the motivation of internal auditors to add value to organization. Furthermore, the consulting role of internal auditors in the present study is determined by internal organizational and corporate governance related factors (supported by stewardship theory) that influence the performance of consulting activities. Moreover, the use of underlying theory seemed accurate in explaining the internal auditors' consulting role as part of their vital role in corporate governance. Yet, such theory's application to consulting role of internal auditors was very minimal in previous researches. Therefore, the application of stewardship theory could enhance the existing body of literature (internal audit consulting literature) particularly, on the applicability of the theory in the present research setting. That means the study contributes to the extant literature by providing primary and archival data from Malaysia on the influence of intentions/ambitions of IAD and expectations of board and audit committee in the consulting role of internal auditors and its impacts on firm's growth opportunities as well as firm's performance. The findings of this study eventually add to research evidence from countries with developing market as to enhance the role of internal auditors in good corporate governance in the aspect of consulting. Moreover, this study seeks more evidence from countries with rapidly developing economy in Asia, such as Malaysia. In respect of theoretical justification, stewardship theory is reflected to explain the value-adding role of internal audit by

expanding to the consulting activities hence they can help their companies to grow and perform.

Further, this study also makes the following contributions. First, to organizations, once they have recognized the importance of consulting assignments, it could increase the allocation of resources to the audit department and the function would give necessary support to assist top management in the improvement of business processes (business performance) and future undertakings (for example, future investments or growth opportunities). For instance, the empirical evidence of this study shows that accounting qualification, tertiary qualification (MBA, Masters or DBA) and tertiary qualification (HR, IT or Engineering) inflated the expectation of board and audit committee on the internal auditors to perform consulting assignments if and when they are needed. Therefore, the related parties like management or board and audit committee would have to broaden the scope of recruiting of internal audit staff or equip the existing staff with such qualification so as to establish and maintain the effective IAF.

Second, the IIA (macro level) can play a constructive role in promoting these kinds of services (types of consulting services such as risk management, system development, corporate governance, human resource management, cash management etc. as highlighted in the exploratory study and in-depth interviews in Chapter 3 and Chapter 6 respectively). The attention is to make organizations and management around the globe responsive to the benefits of having IADs that perform consulting services, also for the IIA to pursue implementing their motto “progress through sharing”. The study offers the following extensions on factors such as intentions/ambitions of IAD and expectations of board and audit committee influencing the extent of internal audit contribution to

consulting activities. As a matter of fact, those factors are stemmed from the issues delineated earlier in that, internal auditors face the balancing act of dual roles (consulting and assurance) and stress of “to do more with less”. The issue of facing the balancing act of dual roles is countered when the study shows that the expectations of board and audit committee (such as “facilitator of risk management and internal control”), comfort provider and safeguard of corporate culture positively influencing the contribution of internal auditors to consulting activities. In addition, stress of “to do more with less” issue is reacted when the study proves that the higher the proportion of intention/ambitions of IAD (catalysts for change, extensive staff expertise, challenging work environment, organizational alignment, “participative, qualitative and real-time assessment”, and array of services), the greater the contribution of internal auditors to consulting activities. The in-depth interviews findings of this study further highlights that internal auditors need to prioritize between consulting and assurance while they are committed to meeting management requests for consulting services to add value and help improve the business operations. In other words, internal auditors have to deal with two important roles that is consulting role (“value creation opportunities”) to maintain a good relationship with the management while they need to perform assurance role that relates to independent appraisal function (“value preservation”) of the organization. It is also explained that consulting work should not be conducted at the expense of their assurance responsibilities. The study also emphasizes that some basic principles are to be followed such as independent in consulting, proper disclosure to audit committee, right expertise and needs to do it. Therefore, the IIA may provide further specific in-depth guidance on consulting assignments and on independence and objectivity, hence, the internal auditors may not jeopardize their traditional role (assurance services) while involving in consulting activities.

Third, CAEs at micro level could promote through internal marketing, the consulting activities, where the audit department possesses expertise, so as to increase the demand for consulting assignments by internal audit customers. The results reported in this study can be useful for practitioners who wish to benchmark their IAF especially in the practice of consulting. Having said all that, internal auditors may have a persuasive power to provide professional advice during consulting engagement without assuming management responsibility. Individual auditors must be aware of both benefits and the emerging issues in consulting via acquiring knowledge and expertise in respect of consulting role as well as complying with the Standards (IPPF) and the Code of Ethics when performing the audit assurance or consulting engagement.

Finally, higher learning centre such as university could modify their internal audit course syllabus (hands-on practice using audit software tools such as ACL), expand or introduce a specific course on consulting activities that increase the students' awareness of the substance of consulting activities in internal audit field. This is due to fully equip the university students with the knowledge of entire consulting process, the basic technical and soft skills to manage it effectively and efficiently. Furthermore, this will enable the graduates to be marketable in the industry when they embark into practice. The contributions of the study are discussed more thoroughly in Chapter 7.

1.6 Organization of the Thesis

This thesis consists of the following chapters:

Chapter 1: Introduction

Chapter 1 reviews, in general, the role of consulting of internal auditors as part their vital role in corporate governance within the organization. It also discusses the balancing act issues as well as conducting “blended engagement” in the problem statement, the study gap and motivation, and the objectives of the study. In the last sections, the contributions and significance of the study are addressed.

Chapter 2: Literature Review

Chapter 2 reviews the literature and prior studies conducted by a large number of researchers with regards to the issue of consulting role of internal auditors and its variables under study. Each issue is critically analysed and the latest literature is considered (i.e. meta-analysis is included in the chapter). The review consists of the evolution of internal auditing, contemporary definition of internal auditing, internal auditing with business consulting dimension and the underlying theory i.e., stewardship theory.

Chapter 3: Conceptual Framework and Hypotheses Formulation

Chapter 3 contains a discussion of the theoretical framework that generally provides the foundations of this study. This present study utilises stewardship theory to explain the relationship between variables. It is followed by the development of testable hypotheses. The consulting role of internal auditors is explained by the adoption of stewardship theory as well as the association of such role with the growth opportunities and performance of the firm.

Chapter 4: Research Methodology

Chapter 4 covers the research methods used, i.e. questionnaire survey and semi-structured interviews. A multi-method approach is adopted by using both quantitative and qualitative data. The chapter also provides the details of the findings of exploratory study (semi-structured interviews with five (5) heads of internal audit from large organizations) that contributes to the literature as well as the sources for development of survey instrument (i.e., survey questionnaire). It further discusses the background on how the pilot study, sample selection, and survey administration were undertaken. In addition, the main statistical test of Hierarchical Multiple Regressions is briefly described. Finally, this chapter explains and defines variables and measurements used in the study.

Chapter 5: Research Findings (Mail Questionnaire Survey)

Chapter 5 discusses the results of the quantitative analysis in relation to the impact of the intentions/ambitions of IAD and expectations of board and audit committee and the degree of the internal auditors' assessment of their contribution to consulting activities (Model 1). The results on the moderating effects of skills, expertise and competencies of internal audit towards the relationships between intentions/ambitions of IAD and expectations of board and audit committee and the degree of the internal auditors' assessment of their contribution to consulting activities are also reported. Furthermore, the relationships between the internal auditors' assessment of their contribution to consulting activities and the degree of the firm's growth opportunities and firm's performance (Model 2) are discussed in this chapter. The summary of the entire hypotheses as well as the equations for each hypothesis are also presented.

Chapter 6: Research Findings (In-depth Interviews) and Discussion of Results

Chapter 6 documents the results of the qualitative data which is a part of this study derived from the interviews with chief internal auditor of ten (10) companies listed on the Bursa Malaysia. The interviews explored issues regarding the nature and effectiveness of internal audit in respect of consulting role of internal auditors including the independence and objectivity issues in consulting engagement, other relevant factors (i.e. other related factors) and the impact on the growth opportunities and performance. Their views of the plan and strategy on internal audit staffing and competency are duly documented. The interview results are basically used to gain deeper insight on survey findings as well as to validate the survey results. This chapter then provides thorough discussion of results from both survey questionnaires and in-depth interviews phases.

Chapter 7: Conclusion, Limitations and Recommendations for Future Research

Chapter 7 discusses the overall conclusion, theoretical contributions and managerial and policy implications, limitations of the current study, recommendations and direction for future research.

All relevant information including the survey instruments, interview guides and results of interviews in matrix framework are presented in the Appendices.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This chapter comprises four (4) sections. The first section provides an overview of the development of internal auditing and its importance across the decades as well as their relationships with the governance bodies. The second section focuses on the contemporary definition of internal auditing which emphasises on the increased scope by explicitly including consulting activities. Further, second section also present the review of past studies on the assurance versus consulting as well as the independence and objectivity during the performance. Next, the third section presents the issues of internal auditing with business consulting dimension where internal auditor is likely viewed as an internal business consultant. The last section then highlights the underlying theory applied in this present study.

2.2 The Evolution of Internal Auditing

The emergence of the internal auditing begins in the 1940s and the scope and the reporting relationship was rather simple (IIARF, 2003). Its nature has gradually revolutionised since the first issuance of its Statement of Responsibilities of Internal Auditing in 1947 by the Institute of Internal Auditors (IIA) (Krogstad et. al., (1999). Its objective of function was to aid organisational members to discharge their duties and focused on assessing the correctness of financial operations and the effectiveness of varying types of controls (Rittenberg & Covalesski, 1997; Bou-Raad, 2000; Sarens & De Beelde, 2004). A new definition of the internal auditing officially adopted by the IIA in June 1999, developed by the Guidance Task Force (GTF) where it defines the function

as “an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations” (Nagy & Cenker, 2002). Sarens and De Beelde (2004) also state that the widely definition of internal audit resulting in the internal auditor’s expanded roles are to support management, the audit committees, the board of directors, the external auditors and other key stakeholders (IIARF, 2003; IIARF, 2010a, 2011a,b). As a matter of fact, in recent years, the role of internal audit in corporate governance has received increasing attention, due to its links to the internal control-risk management system. In other words, IA is enjoying a level of prominence and attention unlike ever before.

Accounting scandals at Enron and WorldCom, both are US cases as well as other companies especially in the Malaysian context (i.e. Perwaja, Megan Media, Pan Electric Inc. etc.) have led to an intense focus on corporate governance, effective oversight, and sound internal controls. According to Sammer (2004), “in the post-SOX business world, executive and audit committee expectations of the IAF have changed in profound ways. As a result, many internal auditors are now getting involved in what they call front end planning, and are benefiting from a newfound prominence” (p. 1). In fact, given the current challenges and stakeholders’ expectations, it is imperative for internal auditors to change their trajectory towards greater performance, and to add value. Scaling greater heights requires internal auditors to step up and take on the challenge of providing formal regular assessments on governance, risk management, and related controls. Internal auditors should drive change within their organizations and leverage on technology, in order to extend the quality and breadth of assurance and consulting services. This is consistent with the issuance of IIA Position Paper in January 2013 entitled “The Three Lines of Defence in Effective Risk Management and Control” in which Position Papers are part of The IIA’s International Professional Practices

Framework (IPPF) (IPPF, 2013); the attributed Position Paper was published in the IIA's "Tone at the Top" newsletter in February 2013 (IIA, 2013). In this case, internal auditors play their important role as the third-line-defence (ECIIA/FERMA, 2011)⁸ in order to help the organizations achieve their organizational roles. The Three Lines of Defence model provides a fresh look at the operations, helping to assure the introduction of continuing success of risk management and its appropriateness for any organization regardless of size or complexity.

Many national and international corporate governance regulations and guidelines, including Malaysian's recent initiatives taken by the Finance Committee on Corporate Governance (FCCG) (2000), Securities Commission (SC) of Malaysia and Bank Negara Malaysia, clearly demand that boards of directors and executive management abide by sound risk management, and demonstrate openly that they are in control of their organizations. Established guidelines such as Malaysian Code of Corporate Governance (the Code), the Capital Market Master Plan (2001), and the Financial Sector Master Plan (2001) have addressed the aims which is to strengthen corporate governance (CG) standards in Malaysia by emphasizing the role and responsibilities of various CG participants ("cornerstones") mainly the executive management and board of directors, audit committee, internal and external auditors.

⁸ This document complements the Guidance on the 8th EU Company Law Directive (Art. 41), published by FERMA and ECIIA on 21 September 2010, with recommendations for implementing operationally the statement of the Directive: "Monitoring the effectiveness of the internal control, internal audit and risk management systems. The goals and missions of enterprise risk management (ERM), internal control and internal audit are explained in these documents, yet the purpose is not to promote any particular organization model. These functions need to be implemented, whether dedicated departments are created for each one or not would depend on the size, the organization and the culture of the company.

Recognizing the significance of internal audit, the New York Stock Exchange (NYSE) recently mandated that each listed company have an IAF [Securities and Exchange Commission (SEC), 2003]. With respect to the IAF within Malaysian context, it has been mandated for all public listed companies and the board need to be responsible for ensuring adherence to the scope of internal audit as specified by SC. Particularly, with effect from January 2008, listed issuers on Bursa Malaysia, the exchange holding company in Malaysia is required to have an IAF reporting directly to the audit committee (i.e. to increase organizational independence) as per amended provision under *paragraph 15.27* – establishment of IAF for listed companies in Malaysia (Balkaran, 2008; Bursa Malaysia Listing Requirement, 2013 – Appendix F). Therefore, the relationship of internal audit to audit committee, external audit and board of directors can be depicted in Figure 2.1 (adopted from Lee, M., Haron, H., Ismail, I., Che Haat, M.H., Zaini, N., Tong, S. Y., et al., 2009). Similarly, firms that are listed on the New York Stock Exchange (NYSE) must have IAF, either in-house or outsourced (Balkaran 2008). Consistently, the latest version of the Malaysian Code of Corporate Governance 2012 (“MCCG 2012”) as shown in Appendix F emphasizes the importance of internal auditing by mandating this function and thus all listed companies are required to include information pertaining to this in their annual reports.

In Singapore, all listed companies should establish an IAF either in-house or outsourced to a reputable audit firm, or performed by a major shareholder, holding company, parent company or controlling company with an internal audit staff (Singapore’s Code of Corporate Governance 2005). Moreover, internal audit is appreciated if it serves as a business partner as perceived by internal audit customers such as senior and junior managers in the Singaporean environment (Yee et al., 2007, 2008). Inversely, in other countries such as UK and Hong Kong, the IAFs are not

mandatory for companies listed at respective stock exchange, yet, establishment is encouraged to assist all board members and management when auditors discharge their responsibilities by furnishing clients with analyses, appraisals, recommendations and pertinent advice on activities reviewed (UK Corporate Governance Code 2010, Hong Kong Code on Corporate Governance Practices 2005, Hong Kong Institute of Certified of Public Accountants 2005). The new role of internal audit thus clearly increases the scope of IA by including the role of consultation (IPPF 2013; Redinget al. 2013; Selimet al. 2009). However, not many researches were conducted to justify, clarify and recognize IA's new role in consultancy (Ramamoorti 2003; Selimet al. 2009).

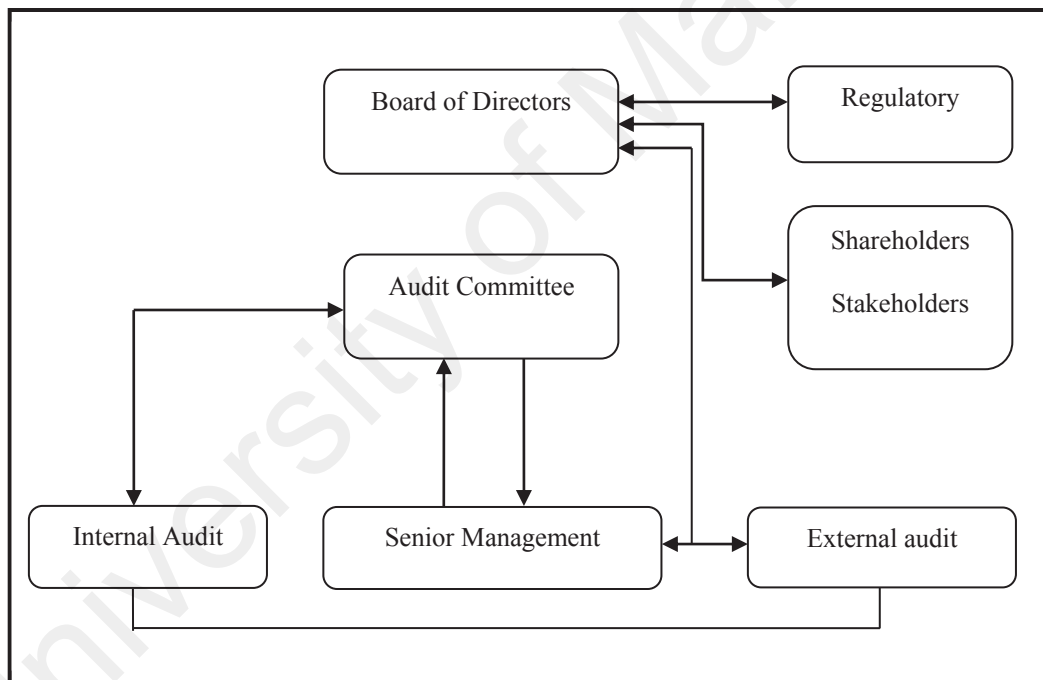


Figure 2.1: Relationship between Internal Audit and Governance Bodies

Internal auditing is a sub-field of auditing that has been continuously evolving, requiring synthesis of research findings (Cooper et al., 2006) and constant updates of the professional body of knowledge (Abdolmohammadi et al., 2006; Burnaby et al., 2007; IARF, 2010a,b; IARF 2011a,b,c,d). The move away from a narrow scope of measuring and evaluating the effectiveness of internal controls towards a wider

spectrum of activities created opportunities for the profession to re-examine its role due to augmentation of marketplace competitiveness (Selim et al., 2009); aim of manifest of profession value added to different stakeholder expectations and optimization of IAF as consulting recourse (IIARF, 2011a). As a matter of fact, the IIA has recently released a new practise guide (non-mandatory guidance which is strongly recommended) that shows how internal audit can provide significant assistance in business continuity management⁹. IAFs basically have the skills, qualifications, and in-depth knowledge of the organization to help develop, implement, and evaluate the effectiveness of crisis management plans (IIA, 2014).

Consulting services which is one of the two services provided by internal auditors encompasses a wide range of activities based on management's needs which is tailored to resolve specific issues that required attention. The types of consulting engagements are classified into three categories: advisory, educational (training), and/or facilitative in nature that limit to the organizational needs & resources of function as far as the objectivity & independence are not in conflict (IPPF, 2013; Reding et al., 2013). Likewise, Head et al. (2010) posited examples of consulting which consist of providing advice to process owners for them to streamline activities to gain efficiencies, facilitating senior management and process owners on how to assess business risks, and educating or training management on a new released authoritative guidance.

⁹ Business continuity management (BCM) is a risk management approach based on business value; it matches business continuity capabilities and risks. The goal of BCM is to assist any organization to restore critical operational activities, manage communications, and reduce financial and other effects of a disaster, business disruption, or other major events. The IIA Inc. has issued this practice guide specifically discusses the definitions of Business Continuity Management (BCM) and Crisis Management (CM), the activities that internal audit may perform before, during, and after a crisis and internal audit's evaluation of vital BCM elements. It was retrieved on August 13, 2014, from www.theiia.org.

As the organizations are facing a lot of changes in business activities, many internal auditors are called upon to provide advice especially on redesign of business operations or staff reductions (Reding et al., 2013). Among those three, advisory consulting engagement is commonly offered by internal auditors in an organization while training session given by internal auditors require necessary skills or specialized knowledge in various areas that are vital to the organization. The third category is a facilitative consulting engagement in which requires internal auditors to go one step further and be involved in depth with the activity such as conducting control self-assessment (CSA) workshop, due diligence process for mergers and acquisition (M&A) issues as well as integration process and these activities are grouped as a pure consulting service at times (Sarens & De Beelde, 2004; Reding et al., 2013).

Prior to that, the internal auditors need to be aware of the differences between the assurance and consulting services in aspects pertaining to the number of parties involved in the engagement, the application of the ISPPIA to both types of services, purpose, and communication of results. Therefore, the details are illustrated in a tabular format as shown in Figure 2.2. Sarens and De Beelde (2004) further commented that internal auditors in order to add value must embrace the forces of change in their business environment and expand their role in organizations, thus by incorporating the consulting concept in the new definition and Standards, it becomes one of the major adjustments made for a better reflection of contemporary internal auditing practices. Moving on, the new definition of internal auditing is discussed in the next subsection deliberately.

Fundamental difference in the aspects of:-	Assurance Services	Consulting Services
1) Engagement Parties	Three parties involved i.e. auditee, IAF & user (third party)	Two parties involved i.e. engagement customer & IAF
2) Application of Standards	Implementation Standards for assurance – more stringent & numerous (the structure more complex)	Implementation Standards for consulting less stringent & numerous (less complex structure)
	Note: While Attribute & Performance Standards apply equally to both services, there is a set of Implementation Standards for each type of service – difference reflect differences in terms of parties involved.	
3) Engagement Purpose	Providing independent assessments on risk management, control, or governance for the organization	Providing advisory, training, or facilitation services – upon request (based on customer's needs) to improve organization's governance, risk management & control processes without assuming management responsibilities – to add value to organization
4) Nature & scope of work	Determined by the auditor	Agreed upon by the requested parties
5) Engagement Communication	Auditee & members of third party (user) – use the information; formal or informal final communications; specific criteria for communicating i.e. engagement's objectives & scope, applicable conclusions, recommendations, action plans	Engagement customer; Communication of outcomes varies in form and content depending on nature & needs of customers; formal or informal & can be distributed in any different formats – based on most effective & efficient system of delivery

The source from Reding et al. (2013). Chapter 15: The Consulting Engagement. In *Internal Auditing: Assurance and Consulting Services*. (pp. 15-4-15-5). Altamonte Springs, FL: Institute of Internal Auditors Research Foundation.

Figure 2.2: Differences between Assurance and Consulting Services

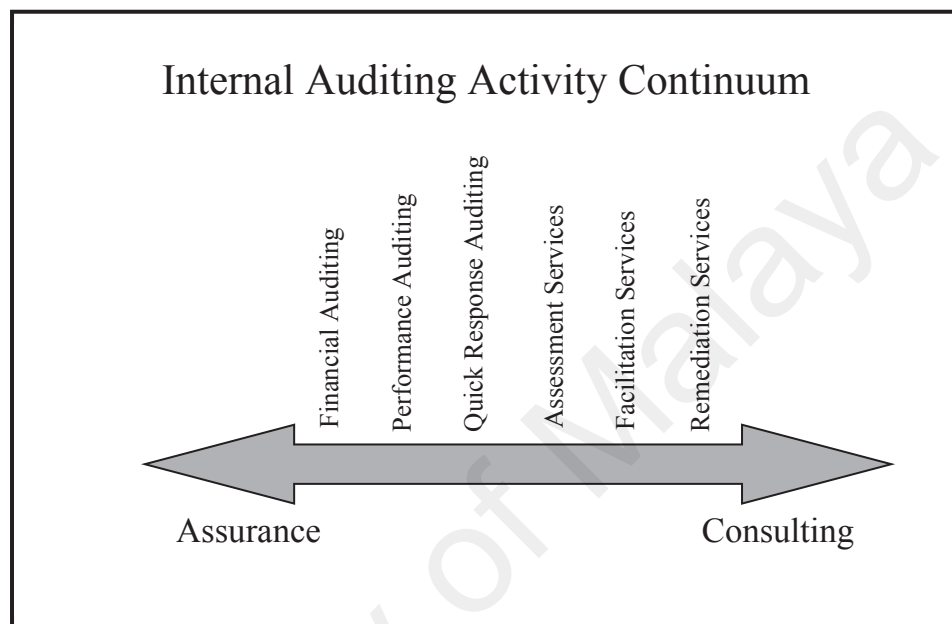
2.3 The Contemporary Definition of Internal Auditing

In 1999, the IIA Inc. has issued the revised definition of internal auditing that enhance the job scope of internal auditors including consulting services after much debate between practitioners, academics, consultants and the accountancy professions as stated below:

“Internal auditing is an independent objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process” (IIA, 1999; IPPF, 2013).

This definition of internal auditing promotes the role of internal auditors in corporate governance and their contributions to the emerging corporate governance reforms worldwide, in particular those in developed countries such as United States (Rezaee, 2009). According to Sarens and De Beelde (2004), the GTF Report (1999) has stated the suggestion of adopting a broader, more proactive way definition which includes both assurance and consulting services and it is built on the essence of adding value and promoting the auditor’s organizational focus to include risk management and governance processes. Anderson (2003) in his comment, states that there is a continuum of six basic types of internal audit services (so called Assurance/Consulting Continuum) and this *taxanomy* model has been developed by the Government Audit Training Institute, the Graduate School, the United States Department of Agriculture and motivates the assurance and consulting implementation standards of the current IIA Standards as illustrated in Figure 2.3. He further continues that the three extremely left side of the continuum represent audit assurance services while the three extremely right side of the continuum are consulting activities in nature inclusive of assessment, facilitation and remediation services. Quick response auditing is seen to be liked

consulting due to its characteristics which typically occurred by special request from management, but in this context, it is not because it involves a third party looking for assurance, for example fraud investigations, valuation and due diligence engagements (Anderson, 2003).



The source from Anderson, U. (2003). Chapter 4: Assurance and Consulting Services. In Bailey, A. D., Gramling, A. A. & Ramamoorti, S. (Eds.), *Research Opportunities in Internal Auditing* (p.107). Altamonte Springs, FL: Institute of Internal Auditors Research Foundation.

Figure 2.3: Assurance/Consulting Continuum

As one of the first academics, Nagy and Cenker (2002) provided answers to the question raised of whether the new definition actually reflects the daily activities of IADs in large publicly traded US firms where it shows the audit focus has shifted several years prior to the definitional change and the new definition simply better reflects existing practice. They confirmed that most of the internal audit executives agreed with the new expanded roles of the internal auditors and those new roles were in fact already in practice. Similarly, Richards (2001) agreed that in actual consulting, it has been part of internal auditing for many years before the new definition takes place

and suggests that internal auditors can add value to consulting assignments through appropriate methodologies, facilitation, focus, knowledge, technology, best practices and independence that aid in customers' problem solving. This was supported by Anderson (2003) that consulting activities despite its new to the definition of internal auditing and the Professional Standards, the services has long been provided by internal auditors in their audit engagement. Another study reported that internal auditors in large Italian companies tended to focus on consulting activities. Internal auditors attempt to add value to the organization by actively supporting the risk management initiatives and aligning the internal objectives towards the organizational strategic goals (Allegrini & D'Onza, 2003). Eventually, another study by Allegrini and Bandettini (2006) on the consulting nature of internal auditors in Italy found that the nature of consulting activities changed in accordance with the definition of internal auditing. They also revealed a very positive perception among the respondents on the consulting activities of the internal auditors. In fact, they also found that internal auditors had performed 60 percent of the consulting activities to set up the internal control structure.

In another scenario, PricewaterhouseCoopers (2011) reported the results of its survey and noticed that as companies emerge from recession, internal auditors have the opportunity to enhance their roles by aligning their business objectives with new company priorities. It was found that internal audit professionals, with a broad understanding of their companies, can play an important role to advocate company growth strategies, particularly in the areas of emerging markets, M&A, social media, and cloud computing and also to navigate the regulatory web (maze). Internal auditors (as part of their value creation opportunities) can aggressively play their role in consulting to assist the board and management especially in expanding the business, participating in M&A activities, and developing new products

(PricewaterhouseCoopers, 2011). Yet, PricewaterhouseCoopers (2013) identified the fact that many IAFs struggled in maximizing the impact of their contribution; as a result they were in danger to suffer the loss of relevance to other risk and compliance functions in the organization. In contrast, one year later, the survey results indicated that when an organization has wide expectations of internal audit, and internal audit has invested in the right capabilities to deliver these stakeholders' expectations (for example, board, executive officers, line management), that has made stakeholder satisfaction and performance significantly higher hence internal audit is viewed as a trusted advisor (PricewaterhouseCoopers, 2014). In other words, PricewaterhouseCoopers (2014)'s annual survey results suggested that the alignment of stakeholder expectations (i.e., board, executive officers, and line management), matching with internal audit skills and capabilities to these expectations, help internal audit to enhance their value added to the organization.

2.4 “Wearing Two Hats” Roles

A review paper on the development of internal auditing in Europe reported that a study involving 508 Chief Audit Executives (CAEs) in France highlighted that the assurance function of internal auditors was still dominating the profession with a 73 percent for the whole function by internal auditors. However it was found that internal auditors do perform their consulting roles on specific projects or working teams in an organization (Allegrini, D'Onza, Paape, Melville & Sarens, 2006). A study by IIA Belgium (2006) that involved 260 IA departments of Belgium private companies also revealed similar findings concerning the consulting roles of internal auditors. It was reported that the internal auditors allocated 12 percent of their annual working time on consulting activities and 9 percent on risk management related activities. In Asian

country environment like Malaysia, a survey conducted by KPMG in 2007 reported that internal auditors in Malaysia perceived themselves as consultant instead of policeman despite their prevailing focus on the assurance activities (KPMG, 2007). However, in another similar survey on the internal audit practice conducted by KPMG in Malaysia in the following year reported majority internal auditors perceived themselves as consultant or business partner (KPMG, 2009). Furthermore, Kassim (2011) had subsequently showed similar pattern about 91 percent respondents perceived themselves as consultant or business partner despite their higher level of assurance role in ERM in banking industry as compared to those in non-banking industry.

A global study on internal audit was conducted in 2006 by IIA Research Foundation known as the 2006 Global Common Body of Knowledge (CBOK). The study was part of on-going research programme designed to document how internal audit was practiced. There were three sets of questionnaires distributed to 9,366 internal auditors in 91 countries concerning the attributes of an effective internal audit activity, its compliance with the IIA's standards, the skills and competency of the internal auditors, internal audit tools and techniques and the emerging roles (Burnaby et al., 2007). Based on the study, it was concluded that the role of the internal auditors evolved as a value-added activity to facilitate organisations in risk management. Subsequently, in accordance with the IIA's 2010 Global Internal Audit Survey, maximizing the IAF is imperative to meet new challenges of today's business environment and the value of internal auditing will be measured by its ability to drive positive change and improvement (IIARF, 2010a). In this global CBOK 2010 study (IIARF, 2010a), a comprehensive database was developed, including more than 13,500 useable responses from respondents in more than 107 countries. It was emphasized that globalization and

the rapid pace of change have in several ways altered the critical skill framework necessary for success at various levels of the IAF. Furthermore, internal auditing's value will be measured by its ability to drive positive change and improvement. It is crucial for internal auditing to examine current trends within the profession hence enable to make recommendations for changes within the internal audit activity. This should help internal auditing first, to deliver the greatest value to its organization, second, to anticipate and meet organizations' needs and finally to strategically position the profession for the long term. In retrospect, by January, 2004, the IIA Internal Auditing Standards Board had revised significantly its International Standards for the Professional Practice of Internal Auditing (known as Standards) within five years from year 1999 to reflect current risk management and governance requirements and also to highlight consulting opportunities and it is at a voluntary level (IIA, 2004 cited in Selim et al., 2009). The definition of consulting services given by the Institute and yet to be maintained in the revised IPPF (2013) is:

“Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training” (IPPF, 2013, p. 42).

It is clear from the new definition that the internal auditors are expected to perform not only assurance but also consulting roles. In fact, in the prior study by Munro and Steward (2010), they found the involvement of internal auditors in consulting (i.e. direct involvement in financial systems consultancy) impacts the external auditors' reliance on work undertaken and the use of internal auditors as assistants for control assessment (consistent with the first type of consulting services known as “assessment services” by Anderson (2003, p. 112). Moreover, external auditors make greater use of internal auditors to assist them in performing the substantive testing when internal audit is

provided in-house. On the whole, external auditors were found to use internal audit more for assessment of control in a system design tasks. Staciokas and Rupsys (2005) likewise found that internal auditors were not only seen as assistants for external auditors and dealt largely with accounting and finance fifty-sixty years ago but also internal audit is perceived as management consultants, providing substantial advice in strategic process improvement. In addition, Steward and Subramaniam (2010) claimed that internal auditors are in a unique situation as both assurance services providers within the organization as well as consultancy services providers to managers. In the most recent survey by PricewaterhouseCoopers (2014)¹⁰, the results reveal that when the expectations of internal audit's varied stakeholders are aligned, the function can be delivered well and be seen as providing significant value as trusted advisors (67 percent) as compared to being assurance providers (33 percent).

In tabular format, a meta-analysis of assurance versus consulting (illustrated in Appendix G) indicates results where the issue was the proportion of the assurance and consulting roles of the internal auditors. It shows that internal auditors are engaging in a greater amount of consulting activities and appears as they support this move as one that adds value to the organization. Nonetheless, both of these roles do not necessarily negatively affect the independence and objectivity of the internal auditors.

¹⁰ PricewaterhouseCoopers (2014) survey revealed that internal audit enable to deliver more at a "trusted advisor" level of service (i.e., meeting a broader set of stakeholder expectation, based upon a track record of providing value-added services and proactive strategic advice to the business) versus function delivering at an "assurance providers" level of service (i.e., meeting limited expectation focused on merely traditional audit plan to be executed effectively and efficiently).

Despite the mixed results on the proportion of roles performed and the impairment of the independence and objectivity perceived by the internal auditors, the existence of internal auditors as wearing ‘two hats’ remains significant. For instance, the internal auditors may focus more on the independent verification for the preparation of the financial statements (assurance services). Concurrently, the internal auditors may also facilitate the management team or the board in evaluating new opportunities (consulting services). In addition, the internal auditors may propose an improvement in the current business processes.

Both of these assurance and consulting roles are important in the scope of corporate governance, risk management and control processes within an entity (Popescu, Ghita & Ion, 2009; Sarens, Abdolmohammadi & Lenz, 2012). Ahmad and Taylor (2009) provided evidence of the impact of a number of dimensions of role ambiguity and role conflict on the commitment of internal auditors to independence. Even though the results of a survey of 101 Malaysian internal auditors showed a significant relationship between commitment to independence and role conflict (performing both an advisory role and an oversight role), this dimension of role conflict was found to be moderately low. Therefore, Ahmad and Taylor suggested that Malaysian internal auditors do not perceive a conflict between their consulting and assurance roles. In contrast, Lenz and Sarens (2012) revealed on the uncertainty in regard to ultimate internal audit customer (“chief stakeholder of internal audit” as identified by Lenz and Hahn (2013, 2015) and the ambiguity of assurance and consulting services that may potentially damage the legitimacy and status of internal audit profession. Similarly, Brody and Lowe (2000) and Ahlawat and Lowe (2004) investigated whether internal auditors can remain unbiased when providing support to management in a corporate acquisition setting; the studies involved internal auditors acting for the buyer or seller in an acquisition. They

concluded that internal auditors who act as consultants probably are unable to maintain their objectivity (Brody & Lowe, 2000; Ahlawat & Lowe, 2004).

In other environment, Van Peurseem (2004, p. 379) conducted a survey in New Zealand to gain internal auditors' perceptions on identifying functions that would be essential to their role. The survey apparently sought to comprehend the nature of "role dilemma" of internal auditors which stems from the internal auditors' expectation that they will both assist and independently evaluate management. Furthermore, the respondents' comments indicated that the role of internal audit has changed in recent years from "policeman" to consultant. Most of those who commented did not perceive the change as a problem. A year later, Van Peurseem (2005) provided valuable insights to the understanding of how internal auditors balance their assurance and consulting roles in which her evidence was drawn from interviews with six New Zealand internal auditors. Van Peurseem found that the tension exists to maintain this dual role which leads to role ambiguity, although this ambiguity is unnecessarily undesirable. Three themes developed from the interviews which give effect on the ability of internal auditors to maintain their independence: 1) the ways of creating and establishing their own role and duties, 2) the role of professional status, and 3) the nature of the communications that they engage.

Schneider (2003) found a direct result of internal auditors' involvement in business consulting in incentive-based compensation schemes such as bonuses and/or stock ownership. Two studies (DeZoort, Houston & Reisch, 2000; Dickins & O'Reilly, 2009) confirmed that this practice is dominant among US internal auditors. DeZoort et al. (2000) highlighted that incentive-based compensation was available to internal auditors in their organization (nearly half of the 179 survey respondents' perceptions). The most

popular incentive-based schemes including bonuses are based upon overall company performance, IAF performance, and individual performance. Almost one third of survey respondents perceived that such schemes enabled to impair internal audit objectivity and independence. Likewise, Dickins and O'Reilly (2009) found that 89 percent of the 99 CAEs of US medium-sized listed companies responding to the survey were qualified to get involved in stock-based awards and/or bonuses based upon operating results. This indicates a substantial participation of internal auditors in business consulting in incentive-based compensation schemes.

As mentioned earlier, consulting engagements are conducted for the purpose of providing advisory, training, or facilitation services based on needs and these involve only two parties (the engagement customer and the IAF) hence their structure is less complex as compared to assurance which involve three parties i.e. the auditee, the IAF and the third party user indeed (Anderson, 2003; Reding et al., 2009). Internal audit can duly provide vital assistance in business continuity management whereby internal auditors typically have the skills, qualifications, and in-depth knowledge of business to help develop, implement, and evaluate the crisis management plans' effectiveness (IIA, 2014). Through these consulting engagements, internal auditors are seen to transform their audit function from "isolated, even punitive events into integrated recommendations that bring meaning and value to the whole organization" (Thevenin, 1997, p. 58) where in brief it is called IAF with business consulting dimension.

2.5 Internal Auditing with Business Consulting Dimension

By incorporating a business perspective into current control and compliance processes, the internal auditor is becoming more likely as an internal business consultant. As a consultant, the movement of internal auditor will shift into the 'grey area' of who the client really is, therefore they will provide recommended solutions for the problems arise and apparently, the operational management become more of a client where their business units gain benefit from the auditor's recommendations (Thevenin, 1997). The result is, largely, a hybrid auditing function that fulfils the dual need of organizations for comfort regarding compliance and for value added suggestions on business improvement exists (Sarens et al., 2009). Internal auditors attempt to work proactively in terms of providing possible solutions and ideas for improvement (Thevenin, 1997). Yee et al. (2007) in their survey of a group of Singaporean managers, revealed that internal auditors are perceived as consultants who work with senior management to suggest improvements to business processes under the concept of business partner model of 'modern' internal auditing. Based on the structured interviews with 83 Singaporean various levels of manager in the following year, Yee et al. (2008) suggested that internal auditors are being appreciated to play a business partner role and those various levels of managers are important internal audit customers. In fact, most consumer-oriented companies incessantly are facing significant challenges, and growth is overwhelmingly topping the list (PricewaterhouseCoopers, 2010).

Furthermore, an IAF survey in top countries in the European Union (Paape et al., 2003) reported that almost two-thirds of respondents stating that their services include consultation on risk assessment/management and other types of consulting assignments. According to Melville (2003), internal auditors make positive contribution to strategic

management as well as actively involved in the strategic objectives' development as per result of their questionnaire global study of internal audit's role in strategic management. Meanwhile, Dounis (2006) reported that about 70 percent of the respondents perceive IAF has a role to play in M&A process, adding that their role should be more proactive than post-mortem. Two years later, Dounis (2008) revealed that the high rate of M&A failures shows that organizations frequently underestimate the importance of risk management in M&A decision-making, as a result, the IAF can participate in the improvement of quality of risk management all through the M&A process by conducting due diligence job and lending some expertise in business process integration. Sarens and De Beelde (2006c) in their qualitative study of ten cases in Belgian subsidiaries of US firms indicate that internal auditors do play proactive role in risk management and provide more attention on internal controls. Consistently, Staciokas and Rupsys (2005) in their survey found that internal audit has started from accounting and financial information, assessment of internal control and operating activities and ended with consultations to senior management concerning strategic issues and risk management.

The Professionals suggest that internal audit departments are able to deliver more value by taking a customer-centric approach (Campbell et al., 2006) and enhancing shareholders' value (Deloitte & Touche, 2005) with internal auditors mastering the principles of effective internal consulting via using Meislin's techniques in their work (White, 2007). To implement the approach, Campbell et al. (2006) pointed out that internal auditor must use some of the same approaches implemented by "externally-oriented" departments such as open dialogue with all business units, anticipate the needs of business units, 'partnering' with management besides gaining business knowledge - not only focusing on audit skills, and finally, play a proactive role in lieu of traditional

'rule-keeper' role. Studies by Roth (2000, 2002, 2003), Gupta (2001) and Yee et al. (2007, 2008) apparently indicate the increasing prevalence of value-added internal audit with a consulting approach. In total, the literature hitherto, reveals that one person can see the needs of adding value as a focal point of the very existence of internal audit (Mihret & Woldeyohannis, 2008). This notion also supported by the studies across two decades (taken into account the context country and time period, that is, meta analysis of assurance versus consulting, see Appendix G).

Moreover, consulting entails a more proactive approach where internal audit becomes a partner with management (Thevenin 1997; Bou-Raad 2000; Christopher et al. 2009; Cooper et al. 2006; Burnaby et al. 2007). Chapman (2001) commented that involvement in consulting activities has uplifted internal audit to another level of strategic role in the organization. She further suggested that consulting activities are that of a problem-solving nature, within their capabilities to work closely with management to achieve organizational objectives. In fact, organizations are generally better served when internal auditors take on a predominant counselling role while performing other roles as and when needed (Peirson, 2011)¹¹. In a more specific situation such as managing an IT project, Buckley (2011) commented that internal auditors should engage with project team members to help deliver projects. PricewaterhouseCoopers (2011) reported the results of its survey¹² and notices that as companies emerge from recession, internal auditors have the opportunity to enhance their roles by aligning their business objectives with new company priorities.

¹¹ John Peirson was one of the concurrent session speakers i.e. representative of Deloitte & Touche, USA at the recent event of 2011 International Conference of Internal Auditing held from 10-13 July 2011 at the Kuala Lumpur Convention Centre, Kuala Lumpur, Malaysia.

¹² The 2011 *Global State of the Internal Audit Profession* survey was conducted in the fourth quarter of 2010 and includes responses from over 2,000 participants from more than 50 territories.

The results also found that internal audit practitioners, with wide knowledge of their companies, can play a vital role to promote company growth strategies, such as in the areas of emerging markets, M&A, social media and cloud computing as well as to navigate the regulatory web (maze). The results however indicate that many internal auditors failed to address the risks pertaining to these strategies (i.e. strategic growth, IT and regulation). This therefore highlights the importance of IAF to keep up with the dramatic changes, where it can elevate the good perceptions of managers and other stakeholders towards value-adding internal audit; matching skills and capabilities to these stakeholders' expectations which are critical to enhance internal audit value (PricewaterhouseCoopers, 2011, 2014).

Internal auditors (as part of their value creation opportunities) can aggressively play their role in consulting to assist the board and management especially in expanding the business, participating in M&A activities and developing new products. This is well supported by Sarens and De Beelde (2006a) where the chief executive officer (CEO) expects the IAD to play a value-added role in due diligence work, given the importance of acquisitions for the growth of organizations. Their results show that IA always has a member on any ad-hoc composed acquisition teams and it is confirmed that internal auditors had spent an average of 15 per cent of their annual work time on due diligence work (Sarens and De Beelde, 2006a). Sarens and De Beelde comment that any CEO would expect the future importance of internal audit's advisory role to increase in the area of strategic project management while the chief internal auditor has clear intentions of playing a more proactive consultative role in making management more receptive in anticipating potential problems. Besides, in its position is the role of a "trusted business advisor" who can help the organization to achieve not only regulatory compliance, but also focusing on efficiency, growth and profitability (IIARF, 2011a). This has raised the

importance of internal audit as a key component towards good corporate governance practice (Spira and Page 2003; Gramling et al. 2004).

As far as internal audit profession is concerned, internal auditors are indirectly helping increase the firm's financial performance, for instance, improving the existing business operations through their valuable recommendations on the crucial areas which involve high risk. Financial and non-financial performances are main indicators of corporate achievement in which is it subjected to various attributes. According to Kassim (2011), significant increase in consumer demand, overall economic growth and recession, product design, marketing strategies, effectiveness of management team, fraud, governance policy and ERM are examples of attributes that could affect firm's financial performance. According to Ittner, Larcker and Landall (2003), they found consistent evidence that firms making more extensive use of a broad set of financial and (particularly) non-financial measures than firms with similar strategies or value drivers have higher measurement system satisfaction and stock market returns. Besides that, the impact of good governance was also reported to influence other firms' financial measures including returns on asset (ROA), returns on equity (ROE) and operating profit. Klapper and Love (2003) revealed a positive association between governance and operating performance measured by ROA. Core et al. (2004) in their study on the relationship between governance and operating performance by using the governance index (G-Index) for the period of 1991 to 1999 had revealed a significant correlation between the G-Index and operating performance. Moreover, they also predict that poor operating performance may signal the market, thus resulting in lower stock returns. Nonetheless, they concluded that governance score did not trigger a weak stock return i.e. ROE. In a study by Ertugrul (2005), companies with strong governance mechanism were found to have higher stock return and operating performance. Yang (2005) also

revealed a positive association between governance index and firm performance. Moving on to the next subsection, relevant theory applied to internal auditing in respect of consulting role of internal auditors is deliberated.

2.6 Underlying Theory: Stewardship theory

Most theories of corporate governance use personal self-interest (for example, agency theory) as a starting point, yet, stewardship theory rejects self-interest criteria. Stewardship theory has been widely used in the accounting literature for more than a decade (see Rosenfield, 1974) in that it stated “An objective of financial statements is to report on the control and use of resources by those accountable for their control and use to those to whom they are accountable” (p. 126). In conjunction with that, Gjesdal (1981) argued that the stewardship objective is well accepted in the accounting literature in preference to a result of the theory of financial reporting. Chen (1975) explained that the stewardship concept was extended since the social relationship became more complex. “In the accounting literature, the origin of stewardship accounting is generally traced to the medieval period, either the feudal, or the manorial system...” (Little & Zimmerman, 1962, p. 23-24); the stewardship theory in which it is originated in psychology and sociology was designed to enable to investigate the relationship between the executives who acted as stewards and motivated to perform for the interest of the principals (Davis, 1991; Donaldson & Davis, 1991; Stevenson, 2004; Wasserman, 2006). In fact, Chen (1975) stated that social responsibility is specified as the primary stewardship responsibility. Recently, the theory has been increasingly used in internal audit literature. For instance, Selim et al. (2009) argued that stewardship theory is assumed to be more relevant instead of agency theory in their study pertaining to internal auditing and its consulting practice in UK/Ireland and Italy. This was

supported by Donaldson and Davis (1991) in which their results of empirical test fail to support agency theory (i.e. agency theory is the original work by Jensen and Meckling (1976)) and provide some support for stewardship theory. Donaldson and Davis explain that the returns to shareholders (ROE) are improved by combining instead of separating, the role holders of the chair and CEO positions. This theory is an alternative view of agency theory in which by using agency theory, managers are assumed to act in their own self-interests at the expense of shareholders (Barney & Hesterly, 2008).

Selim et al. (2009) suggested that stewardship theory and/or resource-dependence theory are to support the involvement of internal auditors in terms of consulting assignments delivering positive benefits for adding value to organization. However, stewardship theory is adopted to explain the framework in the present study. There are reasons for not adopting resource-dependence theory in this present study which are as follows. Firstly, resource-dependence theory is the study of how the external resources of organizations give impact on the behaviour of the organization (Pfeffer & Salancik 1978); it derives from one of the many theories of organizational studies that characterize organizational behaviour (Pfeffer, 1982). The present study focuses on the internal resources (that is, in-house internal auditors), as part of their value-adding role in assisting the organization to grow and perform. Secondly, resource-dependence theory shares some aspects with institutional theory (Di Maggio & Powell, 1983) in which it is not appropriate to support the consulting services provided by internal auditors per se. Institutional theory basically explains the adoption of managerial practices in a context where there is a legislative pressure combined with the fact that companies copy each other in order to be efficient and competitive in the challenging market (Di Maggio & Powell, 1983; Sarens & De Beelde, 2006a). Thirdly, the consulting role of IAD in the present study is not determined by the factors suggested in

the institutional theory but by more internal organizational and corporate governance related factors in the stewardship perspective and those factors are thoroughly discussed in the latter chapter - Chapter 3. Therefore, stewardship theory is an appropriate underlying theory to support the consulting role of internal auditors in the aspect of good corporate governance, its influential factors towards such role and the impact on the growth opportunities as well as the performance of the organization. Besides, stewardship is the motivation to bring the factors to influence the internal audit consultancy. In a nutshell, stewardship theory is reflected to explain the value-adding role of internal audit by expanding to the consulting activities so that they can help their companies to grow and perform. The theory explicates all the variables in the conceptual framework in Chapter 3.

2.6.1 Assumptions of the Stewardship Theory

The assumption incorporates the nature of the stewards who are reported to be trustworthy individuals (Donaldson & Davis, 1991; Nicholson & Kiel, 2007), be pro-organizational, acquire collective attitudes that stress on higher utility than individualistic, be motivated to act in a way that are consistent with the organization's objectives and are organizationally centred (Davis, Schoorman & Donaldson, 1997). Davis et al. (1997) firmly stated that the stewardship theory provide a more humanistic model of man that based on the self-actualization model introduced in the management theory by McGregor's Theory X and Theory Y in which interestingly, the stewardship theory utilizes Theory Y (pioneered by McGregor (1972)) to describe human characters whereby the management is not expected to betray the principal; is assumed to be organization centred whilst seeking to improve the organizational performance by satisfying the principals. In fact, the stewardship theory claims that the individual can

“turn off” his self-interest (Davis et al., 1997; Arthur & Busenitz, 2003). Moreover, it was claimed that the stewardship theory has generally characterized manager or human beings as having a high order need for self-esteem, self-actualization, growth, pro-organization, achievement and affiliation (Arthur & Busenitz, 2003). In addition, the steward believes that by working towards the organizational objectives, his personal needs are eventually satisfied. Arthur and Busenitz also stated that the benefits or the utilities gained from his pro-organizational action are higher than the benefits gained through individualistic behaviour. The decision made by the steward in the case of a goal incongruent through his pro-organizational behaviour has realigned his goal towards that of principal’s (Caers, et al, 2006; Davis et al., 1997; Sundaramurthy & Lewis, 2003). The three studies then concluded that steward’s utility is increased via the maximization of the firm’s performance that eventually improves the shareholder’s wealth.

In the earlier work of McClelland (1961) and Herzberg, Mausner and Snyderman (1959), implied that managers are described to be intrinsically motivated in their needs for achievement. These managers obtain intrinsic satisfaction through successful performance of natural challenging work to execute their responsibilities and authorities that finally gain recognition from their peers and bosses. The above argument illustrates that the managers are motivated by non-financial attribute. The level of attachment of the managers to the corporation makes them feel associated to the corporate success and motivated to achieve the congruent goals (Donaldson & Davis, 1991). This attachment level comes from the long tenure of the managers in the organization. This was advocated by Dicke and Ott (2002) who used the stewardship theory in explicating the accountability in government agencies.

2.6.2 Extensive Arguments of Stewardship Theory

Propositions by Donaldson, Schoorman and Davis (1997) would be the best to describe the overall foundation of the stewardship theory. They argue that people who are motivated by higher order needs are more in the likelihood to become stewards. The higher order needs are constant with the self-actualization posited by Maslow (1954) in his theory on the hierarchy of human needs. It refers to the highest and most complex level of human needs in which they are signified by the achievement of the highest human potentials. This is said to motivate the steward to explore challenging situations and manage complex business entities. Besides, stewards are people who are motivated by intrinsic elements instead of extrinsic ones. They feel rewarded when performing a task due to enjoying doing it and are motivated in completing the task successfully (Deci & Koestner, 1999). In this case, there is no external force to control the behaviour of the steward in assuring the success of particular tasks (Davis et al., 1997). Consistently, Deci and Richard (1985) revealed that for some people, a challenging job seems to be enjoyable. Finally, Donaldson et al. (1997) described stewards as people who have a high value commitment and whose behaviours are motivated by goal internalization; adopt the specific organization's goals owing to the goals' content that congruent with the stewards' value system. For instance, the aim of the organization is to aggressively utilizing all relevant resources to achieve the goals. The stewards will then embrace this concept as it reflects the value in themselves that it targets to be the best in respect of perfection and quality (Davis et al., 1997). Furthermore, the stewards' values are consistent with those of the corporation, hence resulting in more accountable behaviours of the stewards (Block, 1993; Denhardt, 1988; Dicke, 2000).

The stewardship theory also argues that the use of control may not necessarily improve the organization's performance or reduce agency conflict. Instead, the stewardship theory has been proposed for the environment that can promote high commitment, authority and being involved oriented (Nicholson & Kiel, 2007; Tosi, Brownlee, Silva & Katz, 2003). It is found that over emphasis on monitoring is not necessary for the board to improve the corporate performance as managers are inherently trustworthy (Wasserman, 2006). The agency cost can be reduced as the management or stewards are unlikely to take advantage of shareholders' interests because it may jeopardize their reputations (Donaldson & Davis, 1993). In addition, organizations that apply the definition of the stewardship are people building rather than people using; these organizations promote the culture of trust and encourage the team to solve problem across the various level in and out of organizations (Stevenson, 2004).

Selim et al. (2009) explained that, overall, internal audit involvement in consulting assignments deliver positive benefits in order to add value to organization and the respondent companies in Italy mostly concentrated in family-owned business making the stewardship theory more relevant due to those particular structure of shareholding and existence of goal congruence between the management and the board (i.e. shareholders' representatives) besides not much issue on independence impairment. In respect of this, interest of both parties can be aligned especially when the managers own a significant portion of equity in the organization in which they are less likely to issue misleading information to shareholders and as a result the auditors are less likely to conduct additional testing, meaning that less monitoring is required (O'Sullivan, 2000).

As said by the Donaldson et al. (1997), the organization aims to aggressively utilizing all relevant resources to achieve the goals hence in the case of the IAF, internal

auditors are uniquely positioned themselves to add value and make an impact on the organization when performing consulting engagements. This is due to that of internal auditors are often viewed as risk and control experts in the organization; this expertise can be leveraged to help the company to keep abreast of emerging risks (Reding et al., 2013). In other words, internal auditors are in a unique position with their appropriate skills to advise the management or board audit committee members about how to deal effectively with the changes possibly occurred in those business areas.

Furthermore, organizations that adopt the definition or assumptions of stewardship are people building rather than people using. According to Stevenson (2004), these organizations promote the culture of trust and it was further advocated that these organizations encouraged the team to problem solve across the various levels within and outside them. Such collaboration or teamwork is literally in the development of corporate network and information gathering among the stakeholders. The collaborations are highly encouraged and fairly rewarded in which it may enhance the thinking and learning activities (Fox & Hamilton, 1994). Ultimately, people work for the good of the organization to increase value rather than emphasizing on their own financial gain. In the previous study, due to the subject of the presence of goal congruence, Kassim (2011) stated that internal auditors in Malaysia support the board and management team through consulting roles, particularly, in the ERM implementation. Therefore, stewardship theory is applied in this study to explain the role of internal audit in consultancy (for example, Selim et al., 2009; Kassim, 2011). It further explains about the motivations which are created within IAF and the utilization of their expertise to assist organization with respect to business expansion and performance.

2.7 Conclusion

This chapter provides a detailed review of literature concerning overall issue on the expanded internal auditing roles encompassing the consulting activities in particular. First, it provides an overview of the evolution of internal auditing and its importance across the decades as well as their relationships with the governance bodies. Second, it focuses on the contemporary definition of internal auditing which emphasizes on the increased scope by explicitly including consulting activities. Further, it also presents the review of past studies on the assurance versus consulting as well as the independence and objectivity during the performance. Third, it presents the aspect of internal auditing with business consulting dimension where internal auditor is likely viewed as an internal business consultant. The IAF is uniquely positioned to add value and make an impact on the organization through consulting role; play their vital role in the governance of the organization and further can improve corporate governance. Moreover, internal auditors could perform their consulting work due to current complex business operations or could have dealt with uncertainties of growth opportunities.

Finally, using a stewardship theory perspective, internal audit would support the board and management team through consulting role and are expected to provide advice on the business improvement or future investment opportunities if the company is aggressive for new ventures etc. Furthermore, internal auditors are highly motivated and expected to utilize their expertise in assisting the organization to grow and perform. The next chapter provides the detailed review of the variables influencing the internal audit consulting in which it gives an impact on the firm's growth opportunities as well as performance. In addition, the theoretical linkages between each relationship in the framework of this study are presented in the next chapter.

CHAPTER 3: CONCEPTUAL FRAMEWORK AND HYPOTHESES

FORMULATION

3.1 Introduction

The purpose of this chapter is to develop a conceptual framework and formulate the hypotheses for this study. The conceptual framework was developed based on the extant literature on internal auditing (for example, CBOK studies: Cooper et al., 2006; Burnaby et al., 2007; IARF, 2010a,b; IARF, 2011a,b,c,d etc.), underlying theory, namely stewardship theory and the findings of exploratory interviews by the present researcher. The first part of this chapter explains the development of hypotheses based on the literature and findings of exploratory interviews. It presents a detailed review of the variables influencing the internal audit consulting in which it gives an impact on the firm's growth as well as the performance. Finally, the theoretical linkages between each relationship in the framework of this study are presented in this chapter.

Given that the study on the consulting role of internal auditors is relatively new, an exploratory study is conducted to investigate to what extent internal auditors perform such role, in addition to gain some realistic view about internal audit contribution to its consulting services and factors influencing such role in current practice. This is to gain an understanding of who requires internal audit to perform consulting activities, when and why in regard to internal audit consulting, besides what constitutes internal audit to perform the engagement. This exploratory study has turned out to be a foundation of the whole research project in which further details is discussed in the following section.

3.2 Exploratory Study

An exploratory study was conducted in early stage (see the interview guide in Appendix A1& A2) to obtain information from respondents (Malhotra, 2010); gaining inputs for building new constructs and validating the existing constructs captured from the literature (Bryman & Bell, 2007). Therefore, five (5) CAEs of large Malaysian organizations were interviewed in March and April, 2011 and their views were analyzed and used to support the hypotheses development of the present study and the measurement of constructs). The overall aim of the interviews is to gain some realistic view about the internal audit contribution to its consulting oriented services including the nature, type and extent to which internal auditors perform their consulting role, their level of independence and objectivity when performing such role as well as the factors influencing consulting role of internal auditors in their current practice. The exploratory interviews phase is designed in addition to the development of a research instrument (that is, survey questionnaire) for the next level of the project.

3.2.1 Exploratory Interview Sample and Administration

As mentioned earlier, there are five (5) interviews undertaken with the Heads of Internal Audit units (CAEs), identified as Participant 1 (P1), Participant 2 (P2), Participant 3 (P3), Participant 4 (P4) and Participant 5 (P5) in the study (see details in a matrix table in Appendix B1). Three (3) participants (P1, P3 and P5) work in large companies listed on the Main Market (previously known as Main Board) of Bursa Malaysia (local stock exchange); mostly are services industry and the other two participants are respectively from publicly-funded university (P2) and non-profit professional organization (P4). Of the CAEs who have participated in the interviews,

the male participants are more than females by one (1) person. All participants hold an accounting qualification and are the members of the Institute of Internal Auditors Malaysia (IIAM) and the Malaysian Institute of Accountants (MIA). Further, two out of five hold a Certified Internal Auditors (CIA) qualification and one has a Master in Business Administration (MBA). The participants had reported having at least nine years experiences as internal auditors (i.e. range of nine to twenty-over years of experience as reported in the findings), and each participant holds his or her position in the organization as CAE for a minimum of one and a half (1 ½) years. Besides, most participants have external auditing experience as well as other areas of experience include banking operation, finance, accounting, marketing, and line resources. The interviews were tape-recorded except for one (due to certain constraints). Each interview lasted approximately 45 minutes: the shortest being about 30 minutes, and the longest was about one and a half (1 ½) hours.

Interviews were conducted at the participants' organization and a semi-structured questionnaire (see Appendix A1&A2) is utilized to guide the interview. Besides that, in the process of exploratory interviews, all participants were given a list of twenty-two (22) consulting assignments (with its detailed sub-activities) and they were asked to indicate which assignment(s) is/are taken up or will be taken up as future plan as well as who request for it (see Appendix A2). Table 3.2 below provides a summary on types of consulting work by five (5) participants (see also Appendix B2 for details). With the guidance by Patton (2002) and Gibbs (2002), the interviews' transcriptions were first coded using the key themes related to the main research questions and rechecked for errors in the classification of themes that were reviewed and consensus reached before pre-coding. Further, a matrix framework was used to compare the responses across the five (5) Heads of IAD. Table 3.1 below shows the summary of interviewed respondents

in which they support the research constructs (see Appendix B1 for detailed thematic analysis).

Table 3.1: Summary of Five Interviewees that Supports the Research Construct

Research Constructs		P1	P2	P3	P4	P5
Independent variable	1. Intentions/Ambitions of IAD	✓	✓	✓	✓	✓
	2. Expectations of Board and Audit Committee	✓	✓	✓	✓	✓
Moderating variable	3. Expertise, Skills and Competencies of Internal Audit	✓	✓	✓	✓	✓
Dependent variable	4. Internal Auditors' Involvement in consulting activity	✓	✓	✓	✓	✓
	5. Firm's Growth Opportunities	0	0	0	0	0
	6. Firm's Performance	0	0	0	0	0

✓= Yes; 0 = No

Table 3.2: Summary on Types of Consulting Work by Five Interviewees

Consulting Assignments	P1	P2	P3	P4	P5
1. Due Diligence	0	0	0	✓	0
2. System Development	0	✓	✓	✓	✓
3. Process Reengineering	0	0	0	0	0
4. Risk Management	0	✓	0	✓	✓
5. Implementation of ERP system, new software, new accounting standards (IAS/IFRS)	0	✓	✓	✓	✓
6. Integration process after merger or acquisition (M&As)	0	0	0	✓	✓
7. Strategy development of M&As	0	0	0	✓	✓
8. High-risk projects such as Information systems development	0	0	✓	✓	✓
9. Project Management	0	✓	✓	✓	0
10. Evaluation of external auditor's audit work	0	0	✓	✓	0
11. Evaluation of work by outside professionals other than external auditors	0	✓	✓	✓	✓
12. Review outsourced services	✓	0	✓	✓	✓
13. Cash Management	✓	✓	✓	✓	0
14. Business valuation	0	0	✓	✓	0
15. Change management	0	0	0	✓	0
16. Inventory management	✓	✓	✓	✓	1
17. Capital investment analysis	0	✓	0	✓	0
18. Human Resource management	✓	✓	✓	✓	✓
19. Strategic management	✓	✓	✓	✓	0
20. Employee performance and remuneration	✓	✓	0	✓	0
21. Feasibility studies	0	0	0	✓	0
22. Corporate governance	✓	✓	✓	✓	✓
Total consulting assignments taken up (in unit)	7	12	13	21	11
Total consulting assignments taken up (in %)	32	55	59	95	50

✓= Yes; 0 = No

The matrix format highlights the presence or absence of consistency and consensus across different participants (Miles & Huberman, 1984; Gibbs, 2002), besides it is a

useful tool for determining commonalities and differences in the research themes (Martin & Meyerson, 1988a, b).

In the following sub sections, this study presents detail discussion on independent variables that form the conceptual framework which are: i) intentions/ambitions of IAD, ii) expectations of board and audit committee and iii) expertise, skills and competencies of internal audit and the other three dependent variables, namely a) internal auditors' involvement in consulting activity, b) firm's growth opportunities and c) firm's performance. These variables are derived from literature and the findings of the exploratory interviews. Besides, stewardship is the motivation to bring the factors to influence the internal audit consultancy.

3.3 Hypotheses Development

3.3.1 Intentions/Ambitions of IAD

It is noted that internal auditors who perform consulting role are inspired by their great intentions or ambitions for being a world class IAD and such role is determined by the internal organizational and corporate governance related factors described in the stewardship perspective (stewardship theory has been thoroughly discussed in Chapter 2). Therefore, some attributes of a value-adding audit department's profile may contribute to the dimensions of the subject of intentions or ambitions of IAD towards their role of consulting. The profile is such as 1) becoming catalyst for change or change agent (Stern, 1994; MacDonald & Colombo, 2001; Anderson, 2003), 2) extensive staff expertise i.e. top-notch audit staffs are multi-disciplinary, with expert such as engineers and accountants or individuals versed in other disciplines who need a thorough understanding of business rotating through the department, *secondment* from other

department, in-house resources complementing with selective outsourcing – knowledge transfer (Roth, 2002, 2003; Selim et al., 2009), 3) challenging work environment (Roth, 2000, 2003), 4) organizational alignment (Stern, 1994; Roth, 2003), 5) participative, qualitative, real-time risk assessment i.e. flexible annual audit plans with higher percentage of time remaining unallocated (Roth, 2003; Head et al., 2010), and 6) array of audit services i.e. consistent with the revised definition of internal audit, not seeing themselves as “appraisal function” but as broader assurance and consulting activity (Roth, 2003; Anderson & Dahle, 2009).

3.3.1.1 Catalyst for Change

Outsourcing IAF is one way to broaden the IA’s ability to add value to the various control processes and business plans, yet, instead of outsourcing, the management may recruit a new leader for IA with a history of being a change agent in the profession (MacDonald & Colombo, 2001). Furthermore, MacDonald and Colombo reported that, this is one of the steps to transform IAD into a world-class function by initiating a comprehensive reengineering effort (well supported by Anderson, 2003).

According to Stern (1994), becoming a catalyst for change and action within the organization was well embedded in the internal auditors’ profession recently. Internal auditors must become a change agent within their organizations to best support business objectives. Besides, the internal auditors are encouraged to improve the company’s competitive edge; provide business process improvement suggestions as well as observing how the company operates across a business-wide operation. He further said that internal auditors may help the company decide what changes to be made to increase the profitability and return on assets. Besides, internal auditors have played a role of a

“trusted business advisor” who can help the organization achieving not only regulatory compliance, but also targeting on efficiency, growth and profitability (IIARF, 2011a). This has raised the importance of internal audit as a key constituent towards good corporate governance practice (Spira & Page 2003; Gramling et al. 2004).

3.3.1.2 Extensive Staff Expertise

In respect of the extensive staff expertise dimension, top-notch audit staffs are multi-disciplinary, becoming a team of experienced business experts (such as engineers and accountants or individuals experienced in other disciplines), qualified to perform world-class internal consulting work rotating through the department (Roth, 2002, 2003). The department has a mix of internal transfer, new hires, and a core of experienced audit practitioners that provides continuity and in-depth knowledge of audit skills (Roth, 2002, 2003). According to Roth (2003), the IA departments aim to be highly trained and professionally certified as well as the members of the departments tend to actively participate in their local professional organizations besides complementing their own resources with selective outsourcing. This would give opportunities for the internal auditors to learn more in terms of knowledge transfer (Selim et al., 2009).

3.3.1.3 Challenging Work Environment

In terms of a challenging work environment, talented, motivated internal audit members are easily bored and look for challenging task and their creativity need to be encouraged and rewarded whereby the most important aspect is that their professional challenges must surpass regular audit assignments (Roth, 2003). According to Roth (2000), today’s internal auditors need to be challenged regardless what their

backgrounds are; they need to learn and develop rapidly for the purpose of adding value to the organization, or else the motivation of becoming world-class internal audit work will slip away. He further claimed that the internal audit nowadays is becoming a multidisciplinary team of experienced business experts, with sufficient qualifications to perform world-class internal consulting work. Roth (2003) posited that most IADs tend to involve audit staffs extensively in decision-making processes without compromising their independence and objectivity which means that staff members are helping to determine the direction of the department, project a tone at the top that shapes a value-adding culture. The auditors are encouraged to be trainers or facilitators of internal control instead of simply being assessors and they are taught to find ways to improve the business in lieu of merely identifying control weaknesses (Roth, 2003).

3.3.1.4 Organizational Alignment

The intentions of IAD to be one of the leading audit departments would be involving assigning a number of audit managers to specific lines of business just to develop in-depth knowledge of business unit activities and long-term relationships with those personnel-in-charge in respective departments (auditees). This scenario illustrates the element of organizational alignment. According to Roth (2003), the term such as “relationship managers” is used for assigning the experienced managers or yet all members of the department who will be assigned to specific areas within the lines of business to stay in touch with the area managers is inclusive of formal meetings with those managers at an assigned frequency or impromptu discussions. Similarly, Stern (1994) commented that audit staffs would meet with key business managers to learn the problem areas and ask those managers where they would like to see auditors to focus their efforts. The questions that are usually asked by internal auditors to business

managers are such as “What is it that you need to run the business? What controls are important to you? How can we help you monitor them?” (p. 4). Therefore, it is vital to keep abreast oneself with the customers (internal audit customers, in this case) and to understand their needs, as it is a crucial way for auditors to operate in the organization.

3.3.1.5 Participative, Qualitative and Real-time Assessment

Meanwhile, today, the best audit department (known as value-adding audit department) is in the process of reducing or eliminating the cycle of audits. To be more participative and qualitative internal auditors involve proactively in the discussions with executive managers (Roth, 2003, MacDonald & Colombo, 2001) rather than just assign the risk score to every organizational unit, using weighted risk factors (mostly financial or quantitative in nature) such as transaction volume and average transaction size to determine the frequency of each unit to be audited (Roth, 2003). This is to achieve goal alignment (goal congruence) particularly to align audit plans with the organizational strategic plan, deliberately to help management to achieve objectives in a cost-effective way. The way to achieve this goal, internal auditors will review management’s documented plan, meeting with each executive manager, often once a quarter, to keep in line with the organization’s evolving strategy and ever-changing risk profile. Therefore, Roth (2003) argued that annual audit plans should be more flexible, with a significant time reserved for any contingencies and this is considered to incorporate a real-time risk assessment in their nature of work. In short, these three elements i.e. participative, qualitative and real-time risk assessment are closely interconnected therefore, it is combined as one dimension of intentions/ambitions of IAD factor.

3.3.1.6 Array of Services

The aim of IAD to provide an array of services has also become one of the important aspects in which not to seeing themselves as ‘appraisal function’ but as broader assurance and consulting activity. In fact, prior studies also have strongly emphasized the need for audit committee to be knowledgeable and experienced as well as financially expert (MCCG, 2012; Bursa Malaysia Listing Requirement, 2013) so that they can contribute in giving input for any emerging issues as well as useful feedback and proper direction (Mat Zain & Subramaniam, 2007). Therefore, to achieve certain level of effectiveness of audit committee, Rezaee (2009) argued that internal auditors can provide a variety of consulting services to the board of directors, the audit committee, management and other personnel at all levels whereby audit committee can seek advice (for achieving audit committee oversight effectiveness) from internal auditors on overseeing financial reports, internal controls, risk assessment, whistleblower program and codes of business ethics. In addition, Campbell et al. (2006) revealed that one of the best practices in internal audit is to educate the board on business, controls and internal audit’s role where internal auditors proactively communicates key issues to the board and management and suggests corrective action (consistent with Practice Advisory (PA) 1111-1, IPPF, 2013). According to Sarens et al. (2011), those internal audit functions that were set up in the early days of the IIA (established in 1941) are more likely to use the IIA Standards and have more internal auditors with internal audit qualifications; a quality assurance and improvement program is more common among older internal audit functions and they have a more diversified internal audit agenda and more frequently perform advanced internal audit activities.

Other previous findings also provide mixed results (see for example Maher and Akers, 2003; Sarens and De Beelde, 2004; 2006a, b; Sarens et al., 2009; Yee et al., 2007, 2008; Dounis, 2006). According to Dounis (2006), the study showed that more than half (70%) of respondents i.e. CAEs have involved actively in merging and acquisition (M&A) process, adding that their roles are more proactive rather than post-mortem due to certain factors in which one of them is active involvement of the CAE with the audit committee, by which in turn, the audit committee is aware of their responsibility and credibility to convince top management for the internal audit department to participate in the M&A process (i.e. demand for consulting) without jeopardizing their role as internal control experts.

3.3.1.7 Findings of Exploratory Interviews Support the Intentions/Ambitions of IAD

Consistently, the findings of exploratory interviews posited the implementation of internal audit outsourcing such as seeking outside expert to perform consulting tasks if no expertise found in the consulting area to improve internal control system and it must be under full control of IAD (P2); buying-in expertise from outside (outsourcing), consistent with PA 1210.A1-1, IPPF (2013) or second somebody from other department within organization to perform consulting activities (P4). Besides, one interviewee (P4) emphasized on the flexibility of annual audit plan (i.e. quarterly-reviewed annual audit plan particularly on risk assessment as known as best practices) so that the audit objectives will align with the organizational objectives (i.e. goal congruence). This portrays an attribute of real-time risk assessment highlighted in the literature earlier. One interviewee (P4) also mentioned that performing consulting work is part of the definition of internal audit i.e. in accordance with the IPPF, (2013), yet, it must be done

in an independent way in terms of giving advice on the improvement of the process of risk management, control and governance.

In summary, the findings of exploratory interviews are consistent with the extant literature in respect of intentions/ambitions of IAD towards internal audit practices. In accordance with the literature on intentions/ambitions of IAD and the findings of our exploratory interviews, we therefore concentrate on those six (6) dimensions of intentions/ambitions of IAD i.e. catalyst for change, extensive staff expertise, challenging work environment, organizational alignment, participative, qualitative, real-time risk assessment, and array of audit services that might influence the consulting role of internal auditors.

Based on the previous discussion the first hypothesis is then developed to answer the first research question identified in page 18 (Chapter 1) as follows:

H1: There is a significant correlation between the intentions/ambitions of IAD and the internal auditors' assessment of their contribution to consulting activities in Malaysia.

The main hypothesis is further divided into a few detailed hypotheses to facilitate data analysis. For instance, H1 is further divided into six specific hypotheses coded as H1a, H1b, H1c, H1d, H1e, and H1f. All of these hypotheses are illustrated as follows:

H1a: There is a significant correlation between the intention to be the catalyst for change and the internal auditors' assessment of their contribution to consulting activities in Malaysia.

H1b: There is a significant correlation between the extensiveness of staff expertise and the internal auditors' assessment of their contribution to consulting activities in Malaysia.

H1c: There is a significant correlation between the element of challenging work environment and the internal auditors' assessment of their contribution to consulting activities in Malaysia.

H1d: There is a significant correlation between the element of organizational alignment and the internal auditors' assessment of their contribution to consulting activities in Malaysia.

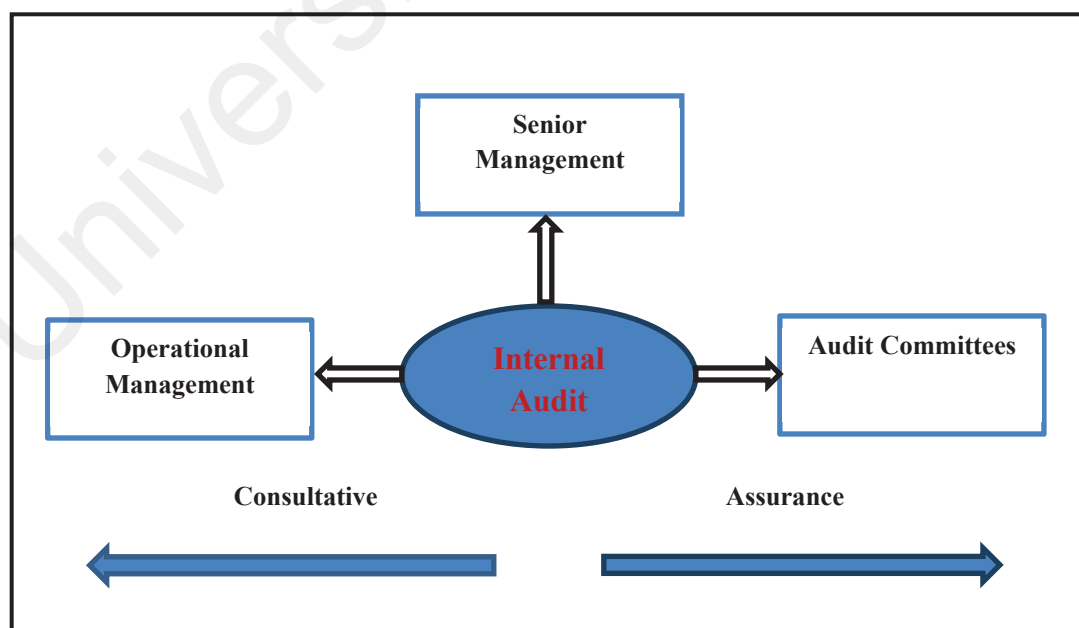
H1e: There is a significant correlation between the intention to be “participative, qualitative and real-time risk assessment” and the internal auditors' assessment of their contribution to consulting activities in Malaysia.

H1f: There is a significant correlation between the intention to provide an array of services and the internal auditors' assessment of their contribution to consulting activities in Malaysia.

University of Malaysia

3.3.2 Expectations of Board and Audit Committee

Expectation of board and audit committee is another factor that may influence role of internal auditors as consultants and this is supported by the stewardship theory that explains the goal congruence between internal audit and expectation of board and audit committee in demonstrating their added value function which is the internal audit consultancy. Previous literature has depicted that the demand for assurance and consulting services comes immensely from the management and audit committee constituents. For instance, IIARF (2003) reported that there is an overlapping of demands by management and audit committee. That means there is a convergence of expectation from both parties. Initially, the results showed that audit committees are interested in assurance services pertaining to risk and control, while operational management is more concerned on consulting services in terms of improving the operations' efficacy and adequacy of control system and senior management with both assurance and consulting services (see Figure 3.1).



The source from Institute of Internal Auditors Research Foundation (IIARF). (2003). *Internal Audit Reporting Relationships: Serving Two Masters*. (p. 4). Altamonte Springs, FL: Institute of Internal Auditors Research Foundation.

Figure 3.1: Major Constituents and Requests from Internal Audit

However, the overlapping demand is possibly occurred in which operational management may also look for assurance about the effectiveness of control system, whereas audit committees may consult auditors for risk assessment and control processes (IIARF, 2003). Besides, today, organizations are facing global economic challenges. In response, management, boards of directors and leaders throughout the organization are taking fresh looks at virtually all parts of the business; they think and respond collaboratively on how to enhance productivity, processes and systems, albeit still stay “in control”. This notion is supported by Chia (2004), in which she reported that audit committees in Malaysia meet more frequently and strongly encourage internal auditors to have a good working relationship with management without sacrificing their independence and objectivity. Currently, internal audit reports functionally to audit committee; audit committee approves the internal audit plan as part of their oversight function role. Since the internal auditors hold the knowledge of the company, they can use their broad and specialized business knowledge to help management to achieve the organizational goals and objectives as well as to meet other stakeholders’ expectations (for example, board of directors, audit committee, employees and etc.). Similarly, the result of PricewaterhouseCoopers (2014)’s annual survey suggested that alignment of stakeholder expectations (i.e., board, executive officers, line management), matching internal audit skills and capabilities to these expectations, thereby helping internal audit to enhance their value added to the organization in which internal auditors are viewed as trusted advisors.

Likewise, Head et al. (2010) provided examples of consulting that shows overlapping demands such as providing advice to process owners about the way to streamline activities for gaining efficiencies, facilitating senior management and process owners on how to assess business risks besides educating management and the audit committee on

newly released authoritative guidance (IPPF etc.). Chapman (2001) commented that involvement in consulting activities has uplifted internal audit to another level of strategic role in the organization. This notion thereby fits into the stewardship perspective in which internal audit, with their expertise is expected to help the board and audit committee to improve and expand the business. She further suggested that consulting activities are that of a problem-solving nature, within their capabilities to work closely with management to achieve organizational objectives. In fact, organizations are generally better served when internal auditors takes on a predominant counselling role while performing other roles as and when needed (Peirson, 2011).

The expectations of board and audit committee towards internal consulting on certain areas are also a reflection of organizational support especially in respect of board and management support and collaboration towards IAF. Consistently, PricewaterhouseCoopers US (2014) revealed that when the expectations of internal audit's varied stakeholders are aligned, the function can deliver well and be seen as providing significant value as trusted advisors (67 percent) as compared to being assurance providers (33 percent). A review of the Standards and PA 1110-1 (IPPF, 2013) clearly explains about the support from organization (i.e. senior management and the board) which is needed to assist internal audit function and their day-to-day activities in gaining auditees' (engagement clients) cooperation and to perform their work without any interference from them. Besides, the CAE must have direct interaction with the board (PA 1111-1, IPPF, 2013), for that the CAE's attendance and participation of strategic business and operational developments, and to highlight high-level risk, systems, procedures, or control issues at beginning stage which is vital. The meeting attendance is also to provide an opportunity for exchanging information relating to internal audit activity's plans and activities and keeping each other informed

upon any other matters of mutual interest. And this is aligned with the assumption in the stewardship theory which it incorporates the nature of the stewards who are reported to be trustworthy individuals (Donaldson & Davis, 1991; Nicholson & Kiel, 2007), be pro-organizational, acquire collective attitudes that stress on higher utility than individualistic, be motivated to act in a way that are consistent with the organization's objectives and are organizationally centred (Davis et al., 1997). Other several studies as well show positive association between management support and collaboration and internal audit practices (for example, Arena et al., 2006; Yee et al., 2007, 2008; Mihret & Yismaw, 2007; Selim et al., 2009) and these have consequently enhanced the expectations of varied stakeholders to have a value-adding IAD, with their ability to use broad and specialized business knowledge to consult with other department managers (MacDonald & Colombo, 2001).

Furthermore, the expectations of board and audit committee may indirectly influence internal audit agenda or planning since the best practices incorporate the latest view of audit plan to be reviewed on a quarterly basis (supported by the findings of exploratory interviews); thereby, motivate the internal auditors to perform consulting activity whenever it is needed. Having said all that, few dimensions of expectations of board and audit committee that may influence internal audit role of consulting are sought and discussed individually in the following subsections. In other words, such role is determined by internal organizational and corporate governance related factors as described in the stewardship perspective.

3.3.2.1 'Partnership' with Management

As mentioned above, expectation of board and audit committee is another factor that may influence IA's role as consultants. Therefore, the first dimension of the factor of expectation of board and audit committee is that internal auditor is viewed as partners to management (supported by Chia (2004)). That means internal auditors are positioned to help protect the organization against both traditional and emerging risks; provide consultation about how opportunities and vulnerabilities can be balanced; and make valuable recommendations for assessing and strengthening corporate governance. Arena et al. (2006) found that integration with management (that is, 'partnership' with management) significantly influences the development of internal audit department in Italy. Moreover, Arena et al. reported that the degree of collaboration of internal auditors with managers in highlighting problems and threats becomes the main focus, for instance in one of the case illustrated, the IAD utilized its resources for consulting engagements, resulting in the improvement of business processes (those are, the problems can be solved in a timely manner). In the survey of a group of Singaporean managers, Yee et al. (2007) revealed that internal auditors are perceived as consultants who work with senior management to suggest improvements to business processes under the concept of business partner model of 'modern' internal auditing. Based on the structured interviews with 83 Singaporean various levels of manager in the following year, Yee et al. (2008) suggested that internal auditors are being appreciated to play a business partner role and those various levels of managers are important internal audit customers.

Moreover, the internal auditors' broad understanding of the organization and its culture prepares them to effectively monitoring risks associated with new business lines; mergers, acquisitions, joint ventures and other partnerships; new systems deployments; restructuring; management estimates, budgets and forecasts; environmental issues; and

regulatory compliance (Sarens & De Beelde, 2004; Dounis, 2006, 2008; Reding et al., 2013). Thus, it is believed that of increasing concern to management today are the risks associated with information technology and the control and auditability specifications of new systems. In conjunction with that, Buckley (2011) stated that the auditor should bring an independent set of eyes to the process and a mind-set of a project partner so as to enable to provide advice before developing and implementing solution for IT project management. Besides, internal auditors' independent review of information systems and other high-tech projects can help ensure a controlled and reliable IT environment. And their consulting services add value to the decision-making process when management must consider the cost and benefit trade-off of IT control implementation.

3.3.2.2 Training Ground for Future Managers

Concerning internal audit which is considered as important strategic function, the IAD focuses on attracting inexperienced talented individuals who are exposed to broad experience for 2 to 3 years that will then migrate to line management positions. Besides, the department is expected to consist of experienced internal auditors who will stay with the IAF and employs experienced internal auditors who eventually will migrate to line management positions. Also, the team of internal auditors within the department consists of experienced internal auditors and inexperienced internal auditors who will deploy their talent and migrate to other management positions (McDonald & Colombo, 2001; Roth, 2003). These elements are included in the career model developed by CNA Financial Corporation, a Chicago-based insurance company and PricewaterhouseCoopers in order to align the staff capabilities and stakeholder expectations (McDonald & Colombo, 2001). While, Sarens and De Beelde (2006a) claimed that in one of the cases, the CFO expected internal auditors to function as a

training ground for future potential managers, Sarens and De Beelde (2004) explained that this phenomenon exists because of the support given by management to the IAF as well as their opinions and recommendations frequently accepted and appreciated by the organization. Recently, Burton, Starliper, Summers and Wood (2012) found in a US experiment that experienced auditors have higher interest in looking for an internal audit position when the position advertises a short stint in internal audit and next, promotion into management positions and work mainly related to consulting services rather than assurance services.

Consistently, Arena et al. (2006) found that internal audit was considered as a management training ground in two of the six cases in their Italian study. It was also reported that 56% of respondents in the Australian study, indicated that internal audit staff were relocated to other management positions in the company and their results confirmed that IAF is perceived as a stepping stone for future potential managers to enhance their working careers (Christopher et al., 2009). In another environment, Selim et al. (2003) discovered an establishment of rotation programs in some organizations in their study of US and European mergers and acquisitions where new staffs were offered to join internal audit as part of the training program.

3.3.2.3 Facilitator of Risk Management and Internal Control

Sarens and De Beelde (2006a) reported that there is a clear demand from the senior management for the internal auditors to serve a supportive function to compensate for the loss of control due to increased organisational complexity. Besides, internal auditors are expected to become facilitators to design internal control framework, if there is no proper internal control established. Furthermore, they are to serve as supportive function

by assisting with the formalisation of the risk management system; whilst the prime responsibility for risk management lies with the directors and senior management, internal auditors are duly seen as key contributors as consultants as well as assurance providers on risk management processes and systems (Steward & Subramaniam, 2010). In another environment, Allegrini and D'Onza (2003), in a survey of internal auditors make to risk assessment process in these companies. They found that 30 percent of respondents co-operate with external consultants in the risk management process while 37 percent support the risk management process directly in co-operation with line management by providing methodologies or engaging in consultancy services in risk management activities.

Furthermore in the Malaysian environment, Kassim (2011) found that internal auditors play their consulting role in ERM (i.e. 33 percent) among Government-link companies (GLCs). As a matter of fact, 91 percent of the respondents in his study claimed that they were best described as a consultant or business partner. Thus, it shows that internal auditors do play their role in consultancy in ERM, defined by the Committee of Sponsoring Organisations (COSO) (2004, p. 2) of the Treadway Commission i.e. legitimate internal audit roles with safeguards in Malaysian phenomenon.

3.3.2.4 Comfort Provider

As being experienced by audit committee in the study of relief of discomfort conducted by Sarens et al. (2009), it was obviously appeared that internal audit's role of advisory, support and facilitation are significant when the weak internal control, reinforced by a weak control environment exist in certain cases. Sarens et al. (2009)

then found that the assurance role of internal auditors become the source of relieving discomfort with respect to control environment and internal controls which are inspired by feeling of discomfort caused by the information asymmetry problem as recommended by Raghunandan et al. (2001). However, knowing that management would seek help from internal auditors through consulting activities, thereby contributing to the improvement of internal controls seems to be even more significant as the source of comfort for audit committee (Sarens et al., 2009).

3.3.2.5 Monitor of Corporate Culture

Apart from being comfort providers to audit committee, internal auditors are expected to be the safeguard or monitor of corporate culture (the term of 'monitor of corporate culture' was used in Sarens and De Beelde's (2006a) study) since their nature of work involves interacting with people in the field. In respect of their nature of work which is interacting with people in the organization, internal auditors are likely to have appropriate communication skills during their work engagement. The demand is that of ranging from assurance to consulting such as providing independent assurance on internal control and business processes' effectiveness and efficiency, actively contributing to improve business processes and internal control, and finally, assisting management with the formalization of the risk management system (Sarens & De Beelde, 2006a). Besides that, internal auditors are seemed to act as facilitators for whistle-blowing program in respect of maintaining a good corporate culture.

3.3.2.6 Findings of Exploratory Interviews Support the Expectations of Board and Audit Committee

In respect of the demand for consulting, the findings of exploratory interviews also revealed that only audit committee and management (for example, senior management or operational management) had requested for consulting services with the approval of audit committee, while no other parties found to be interested to request for internal audit consulting services (consistent with Anderson (2003) and IIARF (2003)). The findings of exploratory interviews highlighted that the expectations of audit committee and senior management are basically different but in certain circumstances as in the environment of organization and weak control system, their expectations are inclined to be similar (all participants i.e. P1, P2, P3, P4 and P5) and this was supported by Sarens et al. (2009). In addition, all participants agreed that independence and objectivity are not real issues when performing consulting activities because everyone can see the rationale and the benefits of the service, such engagement depends on the Terms of Reference and internal audit charter maintained in the IADs. Apart from that, one of the interviewees (P4) has mentioned that internal audit involvement in consulting activity depends on the maturity of governance and control (i.e. maturity of organization) whereby for less matured companies, they do not have a proper internal control framework or internal control processes thereby there are possibilities that audit committee could also ask internal audit for consulting work. For instance, the interviewee (P4) had revealed his experience in the involvement of the consulting work for ACE (previously known as MESDAQ) companies (i.e. smaller companies listed on Bursa Malaysia as compared to Main Market companies) to design risk management framework (internal audit acts as risk management facilitator or coordinator).

Constantly, the findings of exploratory interviews also showed that management support and collaboration (to reflect the expectations of board and audit committee factor) do influence the consulting role of internal auditors (according to all participants

i.e. P1, P2, P3, P4 and P5). In terms of acceptance and appreciation of advice and recommendations, they believed it was part of the management support and collaboration and comfort provider to audit committee; in terms of human and material resources, all IADs in the study were provided with human resources; also noted audit tools i.e. audit software were used to assist internal auditors in their audit work plus consulting project especially in the facilitation of risk management and internal control whereby a bulk of work was saved in the repository database situated in the IAD (P2). In addition, the findings of the exploratory interviews revealed that internal audit is perceived as important strategic function as a training ground for future managers (i.e. guest auditor program); however, one of the interviewees claimed that he/she had neither implemented such program nor established any rotation program as it would become a future planning (P1). Apart from that, there is an IN-OUT-IN concept introduced in some established organizations in which it becomes a clear policy (30/70 rule) (P4); *secondment* of other staffs from other departments to be based at IAD with audit committee's approval, for instance, taking engineer to be based at the IAD to perform audit or any specialized project (non-audit service) related to engineering project (P5).

In accordance with the comprehensive literature on expectations of board and audit committee and the findings of exploratory interviews, the interviews were therefore concentrated on those five (5) dimensions of expectations of board and audit committee, which are 'partnership' with management, training ground for future managers, facilitator of risk management and internal control, comfort provider, and monitor of corporate culture that might affect the consulting role of internal auditors. Based on the previous discussion the second hypothesis is then developed to answer the second research question identified in page 18 (Chapter 1) as follows:

H2: There is an association between the expectations of board and audit committee and the internal auditors' assessment of their contribution to consulting activities in Malaysia.

Likewise, H2 is further divided into five detailed hypotheses coded as H2a, H2b, H2c, H2d and H2e. All of these hypotheses are depicted as follows:

H2a: There is an association between the board and audit committee's expectations on internal auditors to have 'partnership' with management and the internal auditors' assessment of their contribution to consulting activities in Malaysia.

H2b: There is an association between the board and audit committee's expectations on internal audit as a training ground for managers and the internal auditors' assessment of their contribution to consulting activities in Malaysia.

H2c: There is an association between the board and audit committee's expectations on internal audit as the "facilitator of risk management and internal control" and the internal auditors' assessment of their contribution to consulting activities in Malaysia.

H2d: There is an association between the board and audit committee's expectations on internal audit as the comfort provider and the internal auditors' assessment of their contribution to consulting activities in Malaysia.

H2e: There is an association between the board and audit committee's expectations on internal audit as the monitor of corporate culture and the internal auditors' assessment of their contribution to consulting activities in Malaysia.

3.3.3 Moderating Effect of Expertise, Skills and Competencies of Internal Audit

Internal auditors must have sufficient knowledge, experience and technical expertise to perform consulting activities as well as soft skills for example, communication skills and leadership skill (supported by the findings of exploratory interviews). Based on the literature, internal audit characteristics commonly consists of unit size, internal audit knowledge, experience and skills as well as the maturity of audit department which have been increasingly used as an important variable to determine internal audit effectiveness (value-added function) in the corporate governance context. Most studies have focused on the direct relationship between internal audit skills and expertise and the audit practices (for example, Sarens & De Beelde, 2004, 2006a), the internal audit effectiveness (for example, Mihret & Yismaw, 2007; Arena & Azzone, 2009), and firm performance (Hutchinson & Mat Zain, 2009); in which case most of the results have shown positive significant relationships. However, the variable acting as moderator has often been overlooked in prior literature. Thus, this study attempts to address the internal audit skills and expertise as a moderating variable and indeed it is one of the contributions of the present study (see Chapter 1, section 1.5; Chapter 7, section 7.1 and 7.2). In fact by leveraging the existing competencies and experience, internal auditors are more likely to contribute to the consulting role, when requested by management and/or board audit committee (supported by Roth (2000), Head et al. (2010), PricewaterhouseCoopers (2014), and the findings of exploratory interviews). Therefore, the skills and competencies possessed by the internal auditor can be the catalyst to the factors comprising ambitions and of IAD as a world-class IAD and the expectations of board as well as audit committee in their reliance on internal auditors to assist management to improve risk management systems. In addition, internal auditors are needed in areas involving internal controls as well as to provide advice on future

business opportunities and organizational performance. This notion fits into the stewardship perspective in which the more internal audit expertise coupled with motivated IAD to be a world-class IAD and expectations of board and audit committee, the more likely internal auditors contribute to internal consulting work.

Mat Zain et al. (2006) reported that well-resourced internal audit units (based on unit size and internal auditor's expertise) are likely to be positively associated with the internal auditors' assessment of their contribution to the financial statement audits. Internal audit competencies as stated in accordance with the Statements on Auditing Standards (SAS) 65 (AICPA, 1991) includes internal auditor's educational, certification (for example, CIA/CPA) and prior experience and these elements were used as a proxy of internal audit quality by Hutchinson and Mat Zain (2009) and Prawitt et al. (2010). Consistently, the Attribute Standards 1210 on internal auditor's proficiency describes the acquired knowledge, skills and other relevant competencies that the internal auditors should have, so as to ensure audit effectiveness in their work performance (IPPF, 2013). This interprets that internal auditors are encouraged to show their proficiency through gaining appropriate professional certifications and qualifications, for instance the certified internal auditor designation as well as other designations offered by The IIA and other appropriate professional organizations (PA 1210-1, IPPF, 2013). This statement is supported by the empirical evidence of Mihret and Yismaw's (2007) study, highlighting that internal audit effectiveness is significantly influenced by internal audit quality in which one of the criteria is internal audit staff expertise. In the light of recent changes in the 'mission' of internal auditing with a focus of value-added internal audit range of activities, it was consistently shown that the characteristics of internal audit such as internal audit resources (that is, unit size) and competencies (those are,

professional certification and broad accounting competencies) of internal audit team significantly contributes to the internal audit effectiveness (Arena & Azzone, 2009).

According to Mihret (2010), internal auditors who possess technical competence and undergo continuous trainings may contribute to performing effective internal audit sequentially and those criteria become important characteristics of effective IADs. This notion was well supported by Gramling and Meyers (1997) in which internal audit certification is viewed as one of the internal audit competence element while Al-Twaijry et al. (2003) noted that internal auditors are powerless if they do not have necessary knowledge and experiences. As contemporary internal audit covers a wide range of activities, it is a necessity for internal audit departments to hire internal auditors with various skills to perform audits beyond financial activities (Flesher & Zanzig, 2000; Mihret & Woldeyohannis, 2008). Professional competence, for instance, is forecasted with an observable value such as having professional certification (Krishnamoorthy, 2002); measurable benefit of such internal audit qualifications of internal audit staff and CAEs and the designation of CAEs are the indication of internal audit effectiveness level (Lenz, Sarens & D'Silva, 2013). Notwithstanding, tertiary qualification (for example, Masters in Business Administration (MBA) or other Masters Degree or Doctorate of Business Administration (DBA)) and other specialization (for example, Human Resource, Information Technology or Engineering) might be helpful in performing audit or consulting activities within the organization (suggested by the respondents during piloting process of internal audit consulting survey instrument in which it is discussed in details in the following chapter – Chapter 4: Research Methodology).

Apart from those technical (hard) skills, Arena et al. (2006) provided evidence of the influence of additional elements such as leadership and other soft factors (those are, effective communication with client, establishment of credibility, and resistance minimization), as suggested by White (2007)) in their IADs' development with a focus of value-added function of internal audit. Consistent with this notion, White (2007) perceived internal auditors are required to be good at "the-off-record" conversation which is claimed as more vital than the written internal audit report and besides, internal auditors "can use related methods and techniques to dig deeper and deliver truth" if they "master the principles of effective internal consulting" (p. 60) via using Meislin's techniques in their work. According to Chia (2004), "It requires a very strong influencing behaviour, or set of soft skills. Internal auditors must have very good communication skills to market their function as value-added partners..." (p. 6). Consistently, in some recent studies, Mihret, James and Mula (2010) and Soh and Martinov-Bennie (2011) emphasized that the critical skill of internal auditors is that of they are able to speak up particularly in controversial situation.

3.3.3.1 Findings of Exploratory Interviews to Support the Moderating Effect of Expertise, Skills and Competencies of Internal Audit

Apart from prior studies, the findings of exploratory interviews also revealed that internal auditors must have sufficient knowledge, experience and technical expertise to perform consulting activities as well as soft skills such as communication skills (P1, P3, P4, and P5) and leadership skill (P2). One of the interviewees (P3) emphasized that the ability to perform consulting activities is all about subject matter expertise, for instance having expertise in procurement area among internal audit staffs. Meanwhile, one of the interviewees (P4) mentioned about internal audit core competencies as stated in CBOK 2010 study (IIARF, 2010b) in respect of performing internal audit activities either

assurance or consulting. Complimentary to the indications found in the literature and the findings of exploratory interviews, it is suggested that taking this moderating variable of expertise, skills and competencies of internal audit into account can deepen the understanding of the relationship between intentions or ambitions of IAD and expectations of board and audit committee and internal auditors' role in consulting activities. The third hypothesis is then developed to answer the third research question identified in page 18 (Chapter 1) as follows:

H3a: There is a moderating effect of the expertise, skills and competencies of internal audit (auditing skill and experience, accounting qualification, professional certification) on the association between the intentions or ambitions of IAD (catalyst for change, extensive staff expertise, challenging work environment, organizational alignment, “participative, qualitative and real-time risk assessment” and array of services) and the internal auditors' assessment of their contribution to consulting activities in Malaysia.

H3b: There is a moderating effect of the expertise, skills and competencies of internal audit (auditing skill and experience, accounting qualification, professional certification) on the association between the expectations of board and audit committee (‘partnership’ with management, training ground for future managers, “facilitator of risk management and control”, comfort provider, and monitor of corporate culture) and the internal auditors' assessment of their contribution to consulting activities in Malaysia.

3.3.4 Internal Auditors' Involvement in Consulting Activity and Firm's Growth Opportunities and Firm's Performance

Consistent with the changes to the definition of internal audit that have increased the scope of internal audit by clearly including consulting activities, prior studies (e.g. Head et al., 2010; Selim et al., 2009; IPPF, 2013; Rezaee, 2009; Gramling & Myers, 2006; IIA, 2004; Sarens & De Beelde, 2004; Maher & Akers, 2003) depicted that several types of consulting assignments are taken up by internal auditors mostly in US, UK and some European countries. Nevertheless, these assignments have also been carried out in some developing countries such as Malaysia, based on the recent findings of exploratory interviews with five (5) CAEs of Malaysian large organizations. The literature and the support of the findings of the exploratory interviews on the types of consulting assignments are summarized in a tabular form (see Figure 3.2).

In respect of the independence and objectivity matters, four out of five participants (based on the findings of the exploratory interviews) perceived no issues of impairment arise when performing consulting activity. The reason is that as internal auditors, they were aware of their work scope, a timely disclosure of time spent on consulting, work boundaries, internal audit Standards (IPPF), plus their independent reporting line i.e., functionally to audit committee and administratively to their direct boss (senior or top management). These elements have been clearly stated in the Terms of Reference and internal audit Charter that are maintained in the IADs. As a result, the three interviewees (P2, P3 and P5) showed their commitments towards carrying out consulting assignments, with the percentages of 55%, 60% and 50% of the total of 22 assignments (as per list in the Appendix A2) respectively.

Types of consulting assignments	Literatures and Findings of Exploratory Interviews
Due diligence, system development, process reengineering, risk management	<p><u>Literature</u> Involve in design, facilitating the process, training key personnel and advisory role (Head et al., 2010); ERM process (IIA, 2004; Gramling & Myers, 2006; Sarens & De Beelde, 2006a; Dounis, 2008); CAEs emphasize the need for internal auditors acting as consultant in system development (Maher & Akers, 2003); CIA confirmed internal auditors spend, on average, 15% of their annual work time on due diligence work (Sarens & De Beelde, 2006a); two-third respondents say actively involved in risk management consultation in top countries in European Union (Paape et al. 2003); actively involved in the strategic objectives' development based on global study of internal audit's role in strategic management (Melville, 2003).</p> <p><u>Findings of Exploratory Interviews</u> Mostly system development and risk management were carried out upon request (senior management and audit committee).</p>
Implementation of ERP system, new software, new accounting standards (IAS/IFRS)	<p><u>Literature</u> Greater involvement in value-adding activities (Sarens & De Beelde, 2004); facilitate SM's and process owners' assessment of business risks as well as educate management and audit committee on newly released authoritative guidance (Head et al., 2010).</p> <p><u>Findings of Exploratory Interviews</u> Four over five took up the assignments upon management requirement.</p>
Integration process after merger & acquisitions (M&As), system development of M&As, MIS implementation, project management	<p><u>Literature</u> Integration process after merger & acquisition (Sarens & De Beelde, 2004; Dounis, 2006, 2008); advise on high-risk projects – information systems development (Reding et al., 2009); the auditor should bring an independent set of eyes to the process and a mind-set of a project partner so as to enable to provide advice before developing and implementing solution for IT project management (Buckley, 2011).</p> <p><u>Findings of Exploratory Interviews</u> Three out of five took up the assignments upon management request.</p>
Evaluation of external auditor's audit work, evaluation of work by outside professionals other than external audit, review outsourced services, cash management, business valuation, change management, inventory management, capital investment analysis, human resource management, strategic management, employee performance and remuneration, feasibility studies, Corporate Governance	<p><u>Literature</u> Significant differences revealed in respect of taking on consulting assignments between two countries Italy and UK, strategic and project management significantly undertaken in UK (Selim et al. (2009), also supported by IIA (1999, 2004); participation in both internal & external CG process to improve effectiveness in post-corporate governance reform (Rezaee, 2009).</p> <p><u>Findings of Exploratory Interviews</u> All took up inventory management, HRM & CG. Four over five took up evaluation of work by outside professionals other than EA, review outsourced services, business valuation, cash and strategic management. The least taken up assignment i.e. change management (i.e. not applicable).</p>
Fraud prevention & whistle-blowing program, financial analysis (business continuity), CSA, procurement, Network engineering (not included in the list of types of consulting assignments in Appendix A2)	<p><u>Literature</u> CSA has been highlighted by Sarens & De Beelde (2004) and IPPF (2013) as a facilitative consulting engagement and requires internal auditors to go one step further and get involved in depth with the activity.</p> <p><u>Findings of Exploratory Interviews</u> All were highlighted by interviewees (P1,P2 & P3).</p>

Figure 3.2: Summary of Literatures and Findings of Exploratory Interviews on Types of Consulting Assignments

The results also identified that there are several new consulting assignments conducted such as counselling on “fraud prevention program” and “whistle blowing program” (P1), and financial analysis (business continuity) as viewed by the interviewee (P2). The rest are such as control self-assessment, procurement and advising on Network Engineering project as viewed by the interviewee (P3). The other two participants (P1 and P4) showed their commitments towards consulting activities with the percentages of 27% and 95% of the total of 22 assignments respectively based upon their work experience and opinion on internal audit consulting matters. A vast difference in percentage is due to certain factors such as skills and expertise, sufficient knowledge and experience, even sometimes it relates to the independence and objectivity matters. However, as a whole, the results showed that independence and objectivity were not real issues because everyone could see the rationale and the benefits of the consulting services provided by internal auditors as long as the key was that the management was the one who owned the project throughout. As further noted by the interviewee (P4) in which it is consistent with prior studies (for example, Roth, 2003; Head et al., 2010),

“The Standard clearly says...the definition of internal auditing allows you to do both...but most importantly when you decided to go into consulting mode/engagement you need to define your time spent on consulting work on the regular basis back to the audit committee, because your work plan you’ve defined at the beginning of the year (annual planner...not three-year annual planner – very conventional), now turn to quarterly basis (quarterly plan) – reviewed quarterly basis (the audit plan) – best practices...you revise audit plan it become almost 50 – 50 or 40 – 60...as long as the audit committee and the Board aware that the scope of work has changed, they are aware of the maturity of governance and internal control structure that requires internal audit more to do consulting work.”
(P4)

Consistently, Sarens and De Beelde (2004) in their prior study commented that internal auditors must embrace the forces of change in their business environment and expand their role in organizations in order to add value, thus by incorporating the

consulting concept in the new definition and Standards, it becomes one of the major adjustments made for a better reflection of contemporary internal auditing practices. In the stewardship perspective, internal auditors would support the board and audit committee as well as management team through consulting roles. Internal audit consulting role is part of proactive (value-adding) role of internal auditors in which IAF is considered from a different perspective i.e. from the stewardship point of view to help organization to improve the risk management, control and governance processes. Internal auditors who play their role in consulting are expected to give advice on the business improvement provided they acquire firm-specific knowledge and technical skills as well as giving advice on future investment opportunities if the company is aggressive for new ventures etc. Besides, Chapman (2001) commented that involvement in consulting activities has elevated internal audit to another level of strategic role in the organization. This notion thus fits into the stewardship perspective in which internal audit, with their expertise is expected to help the board and audit committee to grow the business and improve the existing business operations. Furthermore, Vallabhaneni (2005) pointed out that in an effort to increase revenues and market growth, companies would conduct business process reviews (either through business process reengineering or business process improvement) in which they are parts of internal audit consulting engagements. He further elaborates that consulting engagements are that of solving problems and making recommendations to improve a client's operations and processes by making changes whereby the steps involved are that of defining problems, developing alternatives, selecting and executing the best alternative.

Meanwhile, Hutchinson and Mat Zain (2009) claimed that the quality and the effectiveness (in this case, the skills, expertise and other competencies) of internal audit is paramount for firms with uncertain investment opportunities and their results showed

that internal audit quality contributes to firm performance in the high-risk conditions of high growth opportunities, yet, the positive relationship is weakened by increasing audit committee independence. Hutchinson and Mat Zain further suggested that not the independence of the audit committee that turned into a main focus but the right mix of members with the necessary skills to evaluate the risks are faced by the organisation that need to be emphasized. Apparently, risk was defined by Boritz (1990) as the possible loss resulting from a combination of uncertainty and exposure as a result of the investment decisions made. Boritz further elaborated that high growth firm have high levels of inherent risk, thus, firms need to establish sound internal controls so that risk can be managed effectively. Therefore, internal auditors with good skills, expertise, adequate knowledge and experience are encouraged to give advice and recommendations on business process improvement and strengthening the internal control systems.

According to Hutchinson and Mat Zain (2009), low growth firms are valued independently of the future investment opportunities of the firm while high growth firms are valued according to the firm's future discretionary investment decisions (i.e. expenditures by managers) including capacity expansion projects, new product lines, maintenance and replacement of existing assets (also supported by Mason & Merton (1985)). In this case, the internal auditors should have training and experience in addressing the risks associated with uncertain growth opportunities for positive outcomes related to company's strategies. Following Myers (1977), growth opportunities are measured as the proportion of company value accounted for by assets-in-place in which the lower the fraction of company value represented by assets-in-place, the greater are the firm's growth opportunities or in other words, the greater are the investment opportunity set. With reference to the empirical evidence of Hong Kong

listed companies provided by Ho et al. (2004), growth of firms in an emerging Asian market have lower debt-to-equity ratios and dividend yields, paying higher cash compensation and bonus amounts to their top executives, and financing a higher percentage of their asset acquisitions via operating leases. This inferred that growth of firms tend to associate with the expenditures undertaken by managers including expanding the projects and new product lines, maintaining and replacing the existing assets to be utilized excessively and effectively for the business expansion. In fact, both studies had used market-to-book value of equity as future financial performance yardstick to portray the firm's growth opportunities element.

PricewaterhouseCoopers (2011) announced the results of its survey and noticed that as companies emerge from the recession, internal auditors have the opportunity to enhance their roles by aligning their business objectives with new company priorities and it was found that IA professionals who have a bigger picture of their companies can play an important role in advocating company growth strategies by getting involved in the areas such as emerging markets, mergers and acquisitions, social media, the cloud and navigating the regulatory labyrinth. Yet, the results indicated that many internal auditors failed to address the risks pertaining to these strategies (those are, strategic growth, IT and regulation), thus, the study highlighted the importance of IAF to keep up with the dramatic changes, reciprocally, it can elevate good perceptions of managers and other stakeholders towards value-adding internal audit (PricewaterhouseCoopers, 2011).

As part of the value creation opportunities, internal auditors can therefore aggressively play their role in consulting to assist the board and management with skill and courage that they have in circumstances such as expanding the business, involving

in M&A activity and developing new product. In other words, they need to expand their role with changing business environment. This was well supported by Sarens and De Beelde (2006a) where the CEO expects the IAD to play a value-adding role in due diligence work, given the importance of acquisitions for the growth of the organization. As a result, internal audit has a member on any ad hoc composed acquisition teams in confirming that internal auditors to spend, on average 15% of their annual work time on due diligence work (Sarens& De Beelde, 2006a). Sarens and De Beelde further commented that CEO expects the future importance of internal audit's advisory role in strategically important projects and as a result, chief internal auditor has clear intentions to concentrate more on assisting and supporting management by being a proactive consultant to aid management to be capable of anticipating would-be problems.

With the visibility and a mandate (which is by US Security Commission (SEC) and Bursa Malaysia Listing Requirement in which it cuts across the entire organization, large organizations acknowledge that IAF has an opportunity to aid the organization in dealing with the major challenges and risks they face (PricewaterhouseCoopers, 2010). In other words, internal auditors must seize opportunities to enhance its relevancy by assessing future governance, risk management and control as well as improving day-to-day business performance (that is, reflected the firm performance) and ultimately supporting the execution of strategic initiatives. Based on the findings of exploratory interviews it indicates that internal auditors would perform consulting activity whenever it is necessary as long as some basic principles are being followed such as independence in consulting, proper disclosure to audit committee, right expertise and needs to do it.

In terms of firm's growth opportunities, every major industry was once a growth industry, yet, some situations in which wave of growth enthusiasm are very much

declined due to failure of management (for example, Malaysian case, Transmile Group Berhad); the failure is at the top and the executives are accountable for it. In particular as in the final analysis, are those who take care of broad aims and policies (Levitt, 1964). This phenomenon is caused apparently by poor corporate governance within the organization. In view of that, Baker (2011) highlighted that the internal audit's partnership with the business is necessary in which internal auditors are called upon to help management to develop new corporate governance framework for one insurance company and the role is to assist and facilitate using their expertise in policies, processes and controls. In a larger scale, it is generally assumed that growth in highly developed economies depends to a large extent on national efforts to increase productivity through innovations. Consistent with this notion, Goedhuys and Veugelers (2011) stressed that innovative performance is an important driver for firm growth. In this context, innovation is a vital precondition for growth, maintaining employment and competitiveness and it becomes the source of motivation towards changes in technology and structure and consequently, the role of technical consultants or business services are considered very important (Czarnitzki & Spielkamp, 2000). In respect of the implications of technology transfer, some firms are expanding to take on new roles, integrating new activities into their enterprises and some rather outsourcing certain activities to outside specialists (Czarnitzki & Spielkamp, 2000).

As far as internal audit profession is concerned, internal auditors indirectly do help increase the firm's financial performance i.e. improving the existing business operations through their valuable recommendations on the crucial areas which involve high risk. Financial and non-financial performances are main indicators of corporate achievement in which is it subjected to various attributes. According to Kassim (2011), significant increase in consumer demand, overall economic growth and recession, product design,

marketing strategies, effectiveness of management team, fraud, governance policy and ERM are examples of attributes that could affect firm's financial performance. Furthermore, it was highlighted in the limitation of the study of Kassim (2011) that the dependent variables was limited to purely financial measures; no significant result was found when using the financial measures proxies. Therefore, Kassim has suggested future research should probably consider non-financial measures such as quality of governance and board effectiveness and other measures with respect to long-term survival of an organization. According to Ittner, Larcker and Landall (2003), they found consistent evidence in that firms make more extensive use of a broad set of financial and (particularly) non-financial measures than firms with similar strategies or value drivers that have higher measurement system satisfaction and stock market returns.

In addition, the performance measures suggested by Ittner and Larcker (2000) earlier such as improving the productivity levels (for example, employees' job descriptions and required output or production), increasing the sales revenues and decreasing the transaction costs could be part of the internal audit contributions in respect of consulting activities within an organization. They mentioned that employee relations (in this case, it is part of productivity levels) is a significant proportion of company's value which leads to firm's success in performance. According to them also, improving the customer satisfaction programs and increasing the loyalty of existing customers and attracting new customers are the drivers of success in many industries. Thus, it is believed that internal auditors are able to perform their consulting role in those areas provided they have the expertise as to influence the firm's performance to a greater success. Notwithstanding, financial measures of firm's performance have been widely used in prior studies. Some of the examples like Kassim (2011), Klapper and Love (2003) and Lin, Wu, Penm and Terrell (2005) in which case they have used return on assets (ROA)

and return on equity (ROE) as proxies to the financial measures of firm's success rate. In respect of consulting role of internal auditors, it is believed that they could contribute to influence the firm's financial performance across the years with the strong supports from the management and board/audit committee. As a result, it gives some impact on the new role internal auditors to act as consultants provided they have broad and specialized knowledge about the business operations. The consulting role of internal auditors becomes vital especially in the high-risk conditions of high growth opportunities as well as the firm's performance.

Based on the previous discussion, the fourth and fifth hypotheses are then developed to answer the fourth and fifth research questions respectively as identified in page 18 (Chapter 1) as follows:

H4: There is a positive relationship between internal auditors' assessment of their contribution to consulting activities and firm's growth opportunities.

H5: There is a positive relationship between internal auditors' assessment of their contribution to consulting activities and firm's performance.

3.4 Conceptual Framework Development

In this section, the study posits the conceptual framework that comprises two (2) models adapted from Mat Zain's (2005) conceptual model. As depicted in Figure 3.3, Model 1 focuses on the relationships between two (2) sets of independent variables, namely intentions/ambitions of IAD and expectations of board and audit committee and the dependent variable, namely internal auditors' assessment of the contribution to consulting activities. It also includes a moderating effect (Baron & Kenny, 1986) of expertise, skills and competencies of internal audit on the relationship between intentions/ambitions of IAD and expectations of board and audit committee and the internal auditors who perform such role (internal auditors' assessment of the contribution to consulting activities). Model 2 sequentially explores the relationships between internal auditors' assessment of the contribution to consulting activities and firm's growth opportunities as well as firm's performance. On top of that, those hypotheses (including the detailed hypotheses) are developed based upon the design of the theoretical framework. In summary, the hypotheses are tested so as to answer the research questions and research objectives developed earlier (Chapter 1, section 1.4) in which to examine the factors influencing the consulting role of internal auditors in Malaysia and to investigate the impact of such contribution to consulting activities on firm's growth opportunities and firm's performance. Those variables in the framework are thoroughly explained by the underlying theory which is stewardship theory. The theory explains that internal auditors (associated with their skills and expertise) are motivated to perform internal audit consulting as part of their value-added function and the level of attachment to the corporation makes them feel associated (also gained from the trust and expectations of the board and audit committee) to the corporate success

and motivated to achieve the congruent goals such as firm's growth opportunities and performance (Donaldson & Davis, 1991).

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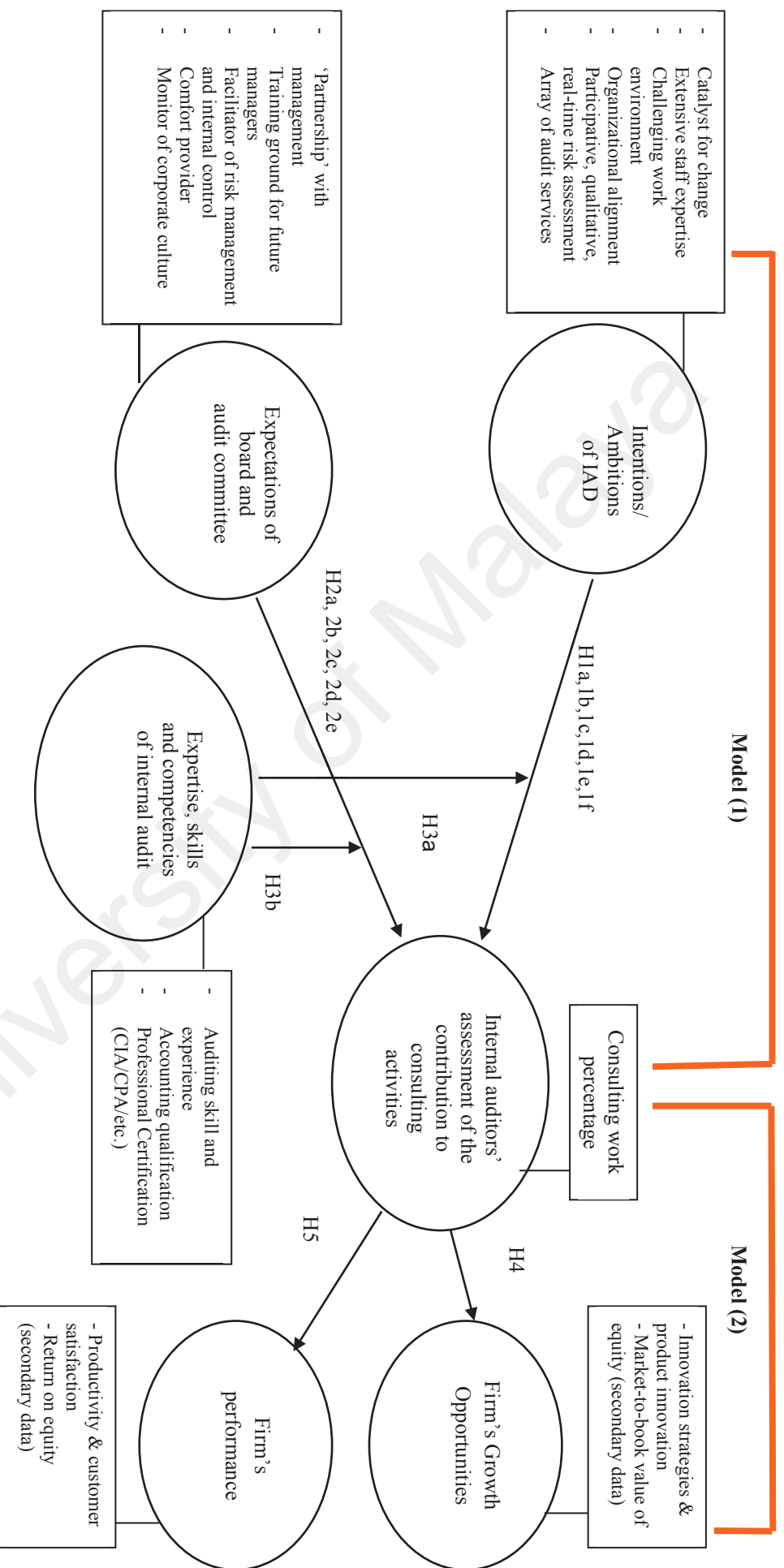


Figure 3.3: Conceptual Framework - Firm's Growth Opportunities, Firm's Performance, Consulting Activities and Influencing Variables

3.5 Conclusion

This chapter provides the definitions and justifications for selecting variables based upon the extant literature and the findings of exploratory interviews (i.e. conducted during the course of current research project) for Model 1 (Internal Audit Consulting Contribution) and Model 2 (Firm's Growth Opportunities and Firm's Performance). As mentioned earlier, Model 1 focuses on the relationships between two (2) sets of independent variables, namely intentions/ambitions of IAD and expectations of board and audit committee and the role of internal auditors in consulting activities, including a moderating effect (Baron & Kenny, 1986) of expertise, skills and competencies of internal audit on the relationship between intentions/ambitions of IAD and expectations of board and audit committee and the internal auditors who perform such role. Model 2 sequentially explores the relationships between internal auditors' involvement in consulting activity and firm's growth opportunities as well as firm's performance.

The relationships among the variables are supported by the underlying theory which is stewardship theory (the theory is thoroughly explained in Chapter 2, section 2.6) in that it explains the role of internal audit in consultancy; the motivations are created within IAF and internal audit is expected by the board and audit committee to utilize their expertise in assisting organization to grow and perform. In addition, it is hypothesized that the higher the intention/ambitions of IAD and the greater the proportion of the expectations of board and audit committee, the greater the proportion of internal auditors' involvement in consulting activity. Finally, with respect to Model 2, it is hypothesized that there would also be a positive correlation between internal audit consulting activity and firm's growth

opportunities as well as firm's performance. To test all the hypotheses, a proper research methodology is used and thoroughly discussed in the next chapter.

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CHAPTER 4: RESEARCH METHODOLOGY

4.1 Introduction

This chapter illustrates how the study is designed and implemented. A multi-method approach using both quantitative and qualitative methods is adopted for collecting data. Specifically, the methods used include conducting personal interviews, questionnaire survey and using archival data (i.e. data from annual reports of participant companies). A multi-method approach is chosen as it enables data triangulation to take place. Data triangulations according to Saunders, Lewis and Thornbill (2009), refers to the use of variety of data collection methods within a study so as to enhance the validity of the study. Furthermore, the validity is concerned with whether the findings are really about what they appear to be (Saunders et al., 2009). For instance, they further mentioned that semi structured interviews maybe a valuable way of triangulating data collected by other means, such as questionnaires.

This study is situated in the neo-positivist paradigm as the main purpose is to look further on the role of internal auditors in consultancy in Malaysian context; specifically investigating the factors influencing consulting role and the impact on firm's growth opportunities as well as the firm's performance. Basically, both the positivist and neo-positivist paradigms consist of the elements of objectivity in respect of the epistemology and ontology of research, yet, neo-positivist paradigm has further incorporated the element of subjectivity in the research undertaken. According to Johnson and Duberley (2000), neo-positivists argue that in order to understand human behaviour in organizations, the

researcher must gain access to those actors' subjective interpretation of reality (world) by deploying reputedly qualitative methods of data collection. This is to obtain more insights (i.e. deeper understanding) about the assumptions built in the area of research. The quantitative research methods such as secondary data collection and survey questionnaire are usually used to gain knowledge for the research that mainly situated in the positivist paradigm (Johnson & Duberley, 2000). However, in the case of neo-positivism, this study incorporated both quantitative (for example, survey and secondary data) and qualitative methods (for example, interviews) so as to gain knowledge about the role of internal auditors in consulting activities across sectors plus its influencing factors and the impact on firm's growth opportunities and firm's performance. Qu and Dumay (2011) argued, in respect of neo-positivism, the interview method is frequently used as a pilot study to gather preliminary data before a survey is designed even though it is not the main method of data collection in a quantitative study. Moving on, this chapter discusses in details the research design, including the application of the methods of prior researches, relevant to this study, so as to test the hypotheses and to answer the research questions and research objectives developed earlier. Furthermore, the chapter discusses the data collection procedure, model specification, measurement scales for each variables and statistical analyses strategy.

4.2 Research Design

The study is motivated by the influence of intentions/ambitions of IAD and expectations of board and audit committee that have on the breadth and scope of the internal auditing, which in turn, affected the potential for internal auditors to contribute to consulting activities in the context of Malaysia. In addition, stewardship theory is used to support as a whole, the epistemology of the present research. In this case, the theory is applied to explain the role of internal audit in consultancy in Malaysian context. It further explains that the motivations are created within IAF to utilize their expertise, to assist organization in the aspect of business improvement and expansion. In other words, through consulting role, internal auditors are expected to give advice on the business process improvement or future investment opportunities. That means they can leverage their expertise to help organization to grow and perform. Furthermore, it has been stated in Chapter 1 that this study aims to investigate the factors influencing the consulting role of internal auditors in Malaysia and whether the role give impact to the firm's growth opportunities and firm's performance.

As mentioned earlier, a multi-method approach using both quantitative and qualitative methods was adopted for collecting data in this study. Given the study on the consulting role of internal auditors is rather new, an exploratory study was conducted to investigate to what extent internal auditors perform such role, in addition to attain some realistic view about internal audit contribution to its consulting services and factors influencing such role in current practice. This is to gain understanding of who requires internal audit to perform consulting activities, when and why in regard to internal audit consulting, besides what

constitutes internal audit to perform the engagement. This exploratory study has yet turned out to be a starting point of the whole research project. Five (5) semi-structured interviews with the Head of IADs of large Malaysian organizations were conducted; resulting in the contribution of the findings of exploratory interviews to the development of research hypotheses in Chapter 3 and survey questionnaire in this chapter.

From the literature, Al-Twajry et al. (2003) described that a multi-method approach is used in which the survey questionnaire and interview were conducted for data collection. They further claimed that the purpose of the questionnaire sent to the directors of internal audit departments was to collect data about internal audit practice in the Saudi Arabian corporate sector and to evaluate their compliance with SPPIA and the interview process was designed to enhance and supplement the information gained from the questionnaires of the nature and practice of internal audit in the country of Saudi Arabia. In their conclusion, Al-Twajry et al. (2003), suggested one possible avenue for future research in using case study research (critical perspective paradigm) at the micro level (Zucker, 1977, 1988) and giving more attentions directly on the attitudes towards and perceptions of internal audit by auditees at all levels in individual organizations with internal audit departments.

Another example, Sarens et al. (2009) reported that the use of qualitative research is feasible such as conducting interviews (semi-structured) with internal auditors and audit committee members (interviewees) in order to “provide insights on (1) what drives the audit committee to look for the support of the internal audit function; and (2) what makes the internal audit function an expert at providing comfort to the audit committee”. They selected, based upon previous research on internal auditing and audit committee practices

in Belgium (IIA Belgium, 2006), four companies that can be considered representative, in terms of four specific variables (those are, firm size, international operations, listing, and risk profile) of those Belgium companies that have both an audit committee and an internal audit function. Sarens et al. (2009) adopted case study approach (Yin, 2003), and supported by Turley and Zaman (2007) where they advocate field studies to complement extant research. According to Beasley et al. (2009), qualitative data, inclusive of in-depth interviews combined with relevant internal documents, provide a significant potential for understanding the relationship between the audit committee and internal audit in their organizational context. However, using single methodology dictates several weaknesses such as it is unable to make generalization to population, provide limited explanation if using only quantitative or qualitative (Bryman & Bell, 2007; Creswell, 2012), thus they suggested for a multi-method approach.

According to Bryman and Bell (2007), there are three (3) types of multi method approach i.e. Hammersley's Approaches to multi-strategy research (triangulation, facilitation and complementary). Data triangulation refers to the use of a variety of data collection methods within a study in order to increase the validity of the study (Saunders et al., 2009). In fact, it was supported by Hoque and Hoper (1997) and Zikmund, Babin, Carr and Griffin (2013) whereby each type of data collection methods has some bias associated with it; qualitative methods entail weaknesses such as the researcher's detachment, whilst quantitative methods, for instance the questionnaire lacks richness in detail of the phenomenon studied. In addition, collecting data via a triangulation method from multiple sources lends to greater rigor in the research findings (Sakaran, 2003; Collis & Hussey, 2009). Facilitation approach is where quantitative research facilitates qualitative research or

vice-versa. Complimentary is the combination of two former strategies (those are, triangulation and facilitation).

Based on the previous discussion, this study thereby, chooses a facilitation strategy (combining qualitative and quantitative) in the process of data collection and data analysis; to balance limitation of single methodology (Bryman & Bell, 2007). Moreover, Selim et al. (2009) focus only on descriptive statistic in which they are unable to make generalization to the population; the rest involve in proving limited explanation when using single method, merely quantitative or qualitative (Christopher et al., 2009, Arena & Azzone, 2009; Yee et al., 2007, 2008). In addition, this study chooses qualitative in facilitating quantitative research because of two reasons and these are supported by prior researchers (for example, Zikmund et al., 2013; Bryman & Bell, 2007; Arena & Azzone, 2007; Oppenheim, 1992). Firstly, qualitative research that is, semi-structured interview can be used to guide quantitative by providing hypotheses due to its propensity towards unstructured, open-ended approach to data collection as the area of internal audit consulting is still new. Furthermore, there is no instrument for survey research on consulting activities yet to be established; helpful as a source of hypotheses that can be eventually tested using quantitative strategy. Secondly, it aids the construct/variable measurement in which the in-depth knowledge of social context (i.e. internal audit consulting attributes) acquired via qualitative research and helpful in the design of survey questions for self-completion questionnaires. This is consistent with Kassim's (2011) study in which he gained input for the modification of the measurement scales in the instruments through focus group interview sessions. In the present study, even so, the semi structured interviews are designed to conduct qualitative exploratory study on internal audit consulting to gain some

insights about internal audit consulting in current practice; subsequently, to enhance and supplement the information gained from the questionnaire survey as well as to validate the survey data pertaining to the internal audit consulting, firm's growth opportunities and firm's performance issues.

Preliminary survey questionnaire set was developed based on the sources of the findings of exploratory interviews and extant literature. A pilot study was conducted for the establishment of the content validity of the survey instrument and the improvement of the survey questions, format and scales (well supported by Greener (2008), Saunders et al. (2009) and Creswell (2012)). Survey questionnaires (the final survey questionnaire set) are utilized to collect data concerning the 1) influencing factors which are intentions/ambitions of IAD and expectations of board and audit committee, 2) the moderating variable i.e. expertise, skills and competencies of internal audit, and 3) the dependent variables such as internal auditors' assessment of the contribution to consulting activities, firm's growth opportunities and firm's performance. For full data collection, a total of 417 postal questionnaires were sent to companies listed on Bursa Malaysia, primarily those that have in-house IAD. The survey questionnaires were pre-numbered (pre-coded) as soon as it was completed and returned to the present researcher. The process of collecting secondary data from the annual report of the respondent company for several variables (dependent variables in Model 2, see subsection 4.6.2) was carried out eventually. It was backed up by the financial data collected from the DATASTREAM database (see details in section 4.7). Finally, semi structured interviews were designed and conducted to enhance the information gained from the survey questionnaire as well as to validate the data gathered during the survey pertaining to the internal audit consulting, internal audit staffing and

strategy, firm's growth opportunities and firm's performance issues. A summary of the process of the research design is depicted in Figure 4.1.

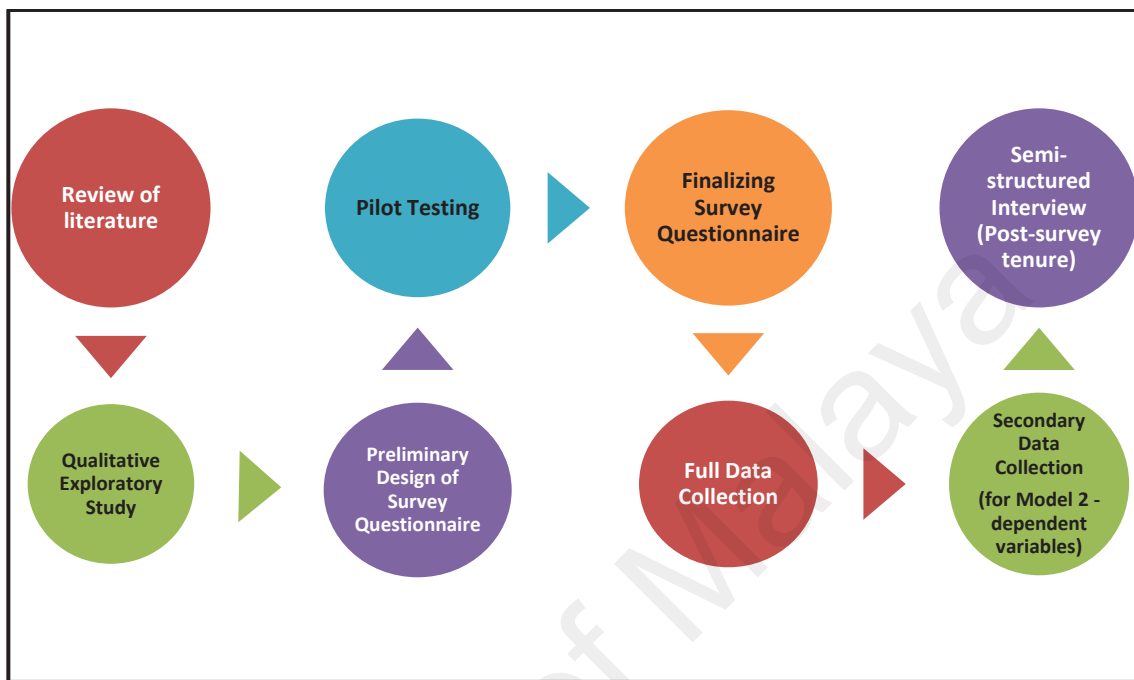


Figure 4.1: A Summarized Diagram of Research Design

4.3 Data Collection Procedure

To gather a full range of views on the relationship between the internal audit influential factors, consulting activities and firm's growth opportunities and performance, the present study employs both a questionnaire survey and semi-structured interviews. In the initial stage, an exploratory interview was conducted to obtain inputs to develop constructs of the study and validate the existing constructs captured from the literature. In this case, five (5) CAEs of large organizations were interviewed; the views were analyzed and used to support the hypotheses development of the present study and the measurement of constructs in which it is discussed thoroughly in Chapter 3. In the next stage, survey questionnaire was developed based on the results of qualitative exploratory study and a review of prior literature, which in turn produced a design of a preliminary survey questionnaire set (refer figure 4.1 in previous section).

Prior to the final distribution of survey questionnaire, a pilot study was conducted to provide feedback for the readability and clarity of the purpose of the questions (Saunders et al., 2007). Thus, a total number of 33 returned and usable questionnaires from various organizations such as internal auditors from government sector, private sector and PLCs (particularly, not the CAE) was then reported in the pilot study process (details as per the Pilot Study section in latter page). A review of past literature and the feedback from the pilot study initiated the selection of appropriate instruments, which was then produced the final design of the survey questionnaire. Random sampling was adopted in this study (well supported by Mat Zain, 2005; Mat Zain et al. 2006). The population of the study mainly focuses on companies that have in-house IAD by which it is in line with the objective of the

study. Therefore, a total of 417 postal questionnaires were sent to companies listed on Bursa Malaysia, mainly those that have in-house department of internal audit as at November 2012. The survey questionnaires were pre-numbered (pre-coded) when it was completed and returned to the present researcher. The process of collecting secondary data from the annual report of the respondent company for several variables was carried out eventually. In order to conduct the secondary data collection process, this study has adapted the design of prior researches such as Mat Zain (2005), Mat Zain et al. (2006) and Hutchinson and Mat Zain (2009).

According to Dounis (2006), a process of validating the data of returned survey questionnaires can be done via individual interviews or group interviews (for example, focus group discussions) to get some insights concerning the reasons for the gaps identified via the comparison of the current, expected and ideal situations. Another group interviews for example is Kassim's (2011), in which he conducted a focus group discussions with twenty-two (22) CAEs/Internal Audit Managers/Practitioners. However, the present study opts for individual interviews according to the availability of the respondents. Therefore, in the last stage, ten interviews were conducted with the chief internal auditors of publicly listed companies to elicit their perceptions of factors influencing the interaction between the internal audit consulting factors, consulting activities and their implications for the internal audit processes, and consequently for the firm's growth opportunities and firm's performance. Besides, there are opportunities to ask for clarification of views expressed and to increase the understanding of how respondents conceptualize and prioritize certain issues (Mat Zain, 2005) around internal audit consulting in this study.

4.4 The Exploratory Interviews

The overall aim of the interviews is to gain some realistic view about the internal audit contribution to its consulting oriented services and the factors influencing consulting role of internal auditors in their current practice, in addition to the development of a research instrument (survey questionnaire) for the next phase of the study (Bryman & Bell, 2007; Arena & Azzone, 2007; Oppenheim, 1992). Specifically, the objective of this exploratory study is to conduct a preliminary investigation into the nature, type and extent to which internal auditors perform in the consulting role and their understanding of factors influencing the implementation of such a role as their added value to business (see Appendix A1 & A2). In fact, the use of semi-structured interviews is particularly appropriate for a more exploratory study of this nature (Kidder & Judd, 1986). Therefore, a series of semi-structured interviews with the CAEs from various large Malaysian organizations (those are, three public listed companies, a publicly funded university and a profit professional organization) was conducted.

The interviews focus on the perceptions of internal auditors on their contributions to consulting oriented services across two main areas. First, the interviews focus on the nature, type and extent to which internal auditors perform their consulting role, and their level of independence and objectivity when performing such a role. Particularly, it refers to: 1) performing consulting activities in terms of numbers and types of consulting assignments, 2) seeking expertise from an external provider if they do not possess proficiency in the area of consulting, 3) examining stakeholders' demand for consulting, 4) maintaining an organizational policy authorizing internal audit to indicate internal auditors' commitments,

5) examining internal audit reporting relationship, and 6) looking at how they execute in order to not jeopardize their independence and objectivity when perform consultation. Second, the interviews focus on internal auditors' perceptions of factors affecting internal audit consulting activity such as: 1) expectations from management and AC, 2) internal audit characteristics such as technical expertise, sufficient knowledge, work experience and soft skills, 3) management support and collaboration in terms of acceptance and appreciation of advice, recommendations and allocation of human and material resources, and 4) internal audit as an important strategic function. The interviews were conducted at the respondents' organizations respectively and a semi-structured questionnaire was used to guide the interviews (see Appendix A2). In the exploratory interviews, all respondents were also given a list of twenty-two consulting assignments (with detailed sub-activities). The list is developed based on prior literature (for example, Selim et al. 2009; Rezaee 2009; Reding et al. 2013; Head et al. 2010; Dounis 2006, 2008; Sarens & De Beelde 2006a; Sarens et al. 2009; Gramling & Myers 2006; IIA 2004; Maher & Akers 2003) and the respondents were asked to indicate which assignment(s) was/were taken up or will be taken up in the future as well as who requests for such consulting activities (see Appendix A2).

The thematic approach is adopted in analyzing the qualitative data that is of exploratory interviews (see subsection 4.7.2). The interviews' transcriptions are first coded using key themes related to the main research questions and rechecked for errors where the classification of themes are reviewed and consensus is reached before pre-coding with the guidance of Patton (2002) and Gibbs (2002). Further, a matrix framework is used to compare the responses across the five CAEs (see Appendix B1 & B2). The matrix format highlights the presence or absence of consistency and consensus across different

respondents (Miles & Huberman 1984, Gibbs 2002) besides functioning as a useful tool for determining commonalities and differences in the research themes (Martin and Meyerson 1988a, 1988b). The details of the exploratory interviews process yet has been thoroughly discussed in Chapter 3, section 3.2; the findings of exploratory interviews are presented in Chapter 3 as it contributes to the hypotheses development of the present study and measurement of constructs or variables (see Chapter 3, section 3.3). As mentioned in Chapter 1 section 1.4, the results of exploratory interviews have turned out to be the support for the development of hypotheses (Chapter 3) and survey questionnaire in this chapter.

University of Malaysia

4.5 The Survey

4.5.1 Survey Questionnaire

The main objective of the questionnaire survey in the present study is to test the hypotheses in Chapter 3. Based on the literature and the support of the findings of the exploratory interviews, one set of questionnaire was prepared to gain the perceptions of the internal auditors on the extent that they play their role in consultancy and what factors influencing their consulting activities and what they perceived of their role on the implication on the firm's growth opportunities and firm's performance. The questionnaire was sent to the directors of IAD/chief internal auditors to gather their assessment of the extent to which the IAF contributes to consulting activities.

The development of the questionnaires involved a review of past literature and the support of the findings of the exploratory interviews with the objective of identifying and constructing the appropriate instruments to measure the variables of the study. Additionally, a pilot study was conducted to provide feedback by giving them to the selected samples of internal auditors to answer the preliminary questionnaire developed for this study. In specific, it is to provide some comments on the readability and clarity of the survey questions (supported by Greener, 2008). In short, a review of past literature, the support of the findings of the exploratory interviews and the feedback from the pilot study led to the selection of appropriate instruments, which in turn led to the design of a final questionnaire set.

4.5.2 Overview of Survey Questionnaire

Initially, a preliminary questionnaire (see Appendix C1 & C2) was designed based on the prior literature and the support of the findings of the exploratory interviews for internal auditors in which eventually it was piloted to provide feedback and it entailed four (4) sections:

Section A relates to the internal auditors' assessment of their contribution to consulting activities and the expertise, skills and competencies internal auditors have in their organization. Internal auditors who play their role in consulting are expected to give advice on the business improvement provided they acquire firm-specific knowledge and technical skills. In this section, internal auditors need to use the ratio scale provided from the range of zero (0) to hundred (100) percent in order to indicate the percentage of their contribution towards the consulting activity or the most recently completed consulting assignments in the immediate prior year. Besides, the respondents need to provide absolute number on the duration of the establishment of IAD in their organisation, plus the number of audit staffs and the number of staffs who have accounting background, audit working experience and professional qualification. The questions were developed based on prior studies such as McLeod (2007) study, Kassim (2011), Mat Zain (2005), Mat Zain et al. (2006), Burnaby et al. (2007), Prawitt et al. (2010), Hutchinson and Mat Zain (2009).

Section B of the questionnaire is concerned with assessing intentions/ambitions of the Internal Audit Department. The respondents were asked to provide their perceptions from the Likert scale of 1 to 7 i.e. from strongly disagree to strongly agree in regards of the information like catalyst for change, extensive staff expertise, challenging work

environment, organizational alignment, participative, qualitative, real-time risk assessment, array of audit services. Most of the questions were adapted from Campbell et al. (2006), IIA (2011a), Stern (1994), Anderson (2003), MacDonald and Colombo (2001), Roth (2002, 2003), Baker (2011), Selim et al. (2009), Miller and Smith (2011), Reding et al. (2013), Anderson and Dahle (2009) Sarens and De Beelde (2004), Dounis (2006) and the support of the findings of the exploratory interviews.

Section C requires information on expectations of board and audit committee such as 'partnership' with management, training ground for future managers, facilitator of risk management and internal control, comfort provider, and monitor of corporate culture. The respondents were asked to provide their perceptions from the Likert scale of 1 to 7 which is, from strongly disagree to strongly agree. Questions were adapted from previous studies by Bogler (2011), Yee et al. (2007, 2008), Sarens and De Beelde ((2004, 2006a, 2006b), Chia (2004), Arena et al. (2006), Miller and Smith (2011) Sarens et al. (2009), Selim et al. (2003), MacDonald & Colombo (2001), Roth (2003) as well as the support of the findings of the exploratory interviews.

Then, questions from **Section D** relate to all general information about the respondents and their companies. All questions were in categorical scale. For example, the respondents were being asked to provide information regarding their position such as the number of years they have been working in that organisation, their present position in the organisation, the number of years they have been an internal auditor and their professional qualification. Besides, they were asked about the type of organisation, the sector they are in, number of employees and some information about the internal audit Charter, their report functions and

seeking expertise from outside in regards of consulting activity (as per IPPF, 2013). Further, the respondents were also asked to provide the name of their company but it was on optional basis.

4.5.3 Pilot Study

According to Cooper and Schindler (2011), a pilot study is conducted to detect weaknesses in the design and instrumentation (also supported by Greener (2008) and Saunders et al. (2009)). Constantly, Creswell (2012) stated that pilot testing or field testing the survey is important to establish the content validity of an instrument and to improve questions, format, and scales. He further mentioned that indicating the number of people who will test the instrument and the plans to incorporate their comments into final revision of the instrument revisions. In particular, the pilot survey was chosen to provide a range of perspectives with respect to the role of chief internal auditors as consultants for the organization, and their relationship with other related corporate governance factors such as intentions/ambitions of IAD and expectations of board and audit committee. Before these questionnaires were sent to companies listed on Bursa Malaysia, we need their assistance for piloting process of the questionnaire. Therefore, the questionnaire was pilot-tested by the internal auditors from government sector, private sector, PLCs (non-CAE, who is from the range of senior audit/audit/assistant manager to audit senior/executive) plus the education centres in which all totalled to 33 respondents. The total number of questionnaires distributed was 77 (by hand and via e-mail) and only 36 answered questionnaires were returned. However, due to uncompleted information and unreliable information (one organization did not have IAD), the final usable questionnaires were 33.

The pilot study illustrates the percentages (and/or number) of private organizations and government agencies as 36.40 percent (12) and 63.60 percent (21) respectively.

The package of the draft questionnaire contained a cover letter explaining the objective of the pilot study, copy of questionnaire and the pilot survey evaluation form. All the seventy-seven (77) were hand distributed as well as via e-mail and it took for almost two months to receive a sufficient number of responses. The cover letter delineated the objectives of the pilot study and assured respondents of their anonymity. The respondents were requested to complete the questionnaire and to mark any item they found to be unclear. Only thirty-six (36) participants returned their questionnaires but due to some incomplete information, the final usable questionnaires were thirty-three (33). With respect to the pilot study responses, the thirty-three (33) pilot data in the SPSS was tested to look at the reliability of the survey questions and the normal distribution of the data. Therefore, the detailed results for the reliability analysis for both constructs (i.e. intentions/ambitions of IAD and expectations of board and audit committee) are shown in Table 4.1. Meanwhile, normality test of the pilot data is explained accordingly in the chapter. The time taken to complete the questionnaire by the internal auditors was reported to vary from 15 – 40 minutes (a copy of cover letter and the internal audit consulting questionnaire as well the pilot survey evaluation form are provided in Appendices C1 and C2).

According to the survey evaluation forms collected together with the questionnaires, all participants generally agreed that the questionnaire was easy to read, only some suggested reordering and minor changes to the wording of the questions or to remove completely from the survey and to add with an appropriate one suggested by the participants. For

example, there was a comment received for the question number IA5 related to “provide operating managers with tools to accomplish the organizational goals” was vague and it was not an auditor’s job. The word ‘tool’ was unclear hence the question was suggested to be excluded from the survey. Another example that was highlighted in the pilot survey was a new question suggested by one (1) participant that is, “Have sufficient talent among internal audit staffs to do consulting” in which it was categorized as ‘extensive staff expertise’ dimension (“extensive staff expertise” dimension was referred to the conceptual framework in Chapter 3) in Section B of the survey. In addition, some respondents were not clear with the term “specific line of business” (refer to Section B, question IA18 and IA19), thus, it was suggested to change the term as “operation side” in order to be more justified. Likewise, Some new questions were also being suggested for Section B (consistent with Roth (2003)) that is, “Encourage internal auditors to be trainers, coaches and counsellors of internal control, not just evaluators”, and “Internal auditors are taught to always look for new ways to improve the business instead of simply identifying control weaknesses”. Other comment included a preference for not-too-technical language, restating the respective questions in simple English. For instance, in Section C, question E8 was commented as a too-technically-worded (as claimed by one participant) with the term “rate of return on capital”, hence it was changed as “efficiency and profitability of a company’s capital investment”. That is a simple definition of rate of return on capital stated by Brigham and Ehrhardt (2011).

In regards of the skills and expertise of internal auditor (refer to section A, question 2), nine (9) participants suggested that tertiary qualification (for example, Masters in Business Administration (MBA) or other Masters Degree or Doctorate of Business Administration

(DBA)) and other specialization (for example, Human Resource, Information Technology or Engineering) might be helpful in performing audit or consulting activities within the organization. In addition, they also commented on Questions 1 in Section A that the question should be divided into types of consulting work percentages instead of one lump sum percentage of overall consulting activity (refer to section A, question 1). Therefore, those were then incorporated in the final revisions of the survey instrument as well as the revised conceptual framework shown in Chapter 5 (that is, Figure 5.1). Other general comments included the instructions for completing the sections that should be mentioned clearly (for example, “If yes, please proceed to Section A, B, C, D, E instead of Section A only) and the layout of the survey such as using words like instruction and note, instead of using boxes for each sections. In addition, IA35 and IA26 that represented the rows of additional comments of both Section B and C were removed as to make the final revision of survey instrument more concise and firm. As mentioned earlier, the following table is the summary of result of the reliability analysis for both constructs which are, intentions/ambitions of IAD (with six dimensions) and expectations of board and audit committee (with five dimensions).

In reference to Table 4.1, after initial cleaning of construct (see “Item Deleted” column), the result of the reliability test shows that the questionnaire design is highly reliable, and the collected data are highly reliable and consistent. For overall reliability (i.e. each construct), Cronbach’s Alpha values for “intentions/ambitions of IAD” and “expectations of board and audit committee” are 0.923 and 0.922 respectively. The overall reliability tests for both constructs were run after the removal of all three (3) deleted items (shown in Table 4.1). These are highly reliable. Nevertheless, the alpha for each dimensions ranged from

0.538 to 0.905. It is agreed that the higher the Alpha, the more reliable the test is. This is consistent with Malhotra (2010) who reveals a value 0.7 and above generally indicates satisfactory internal consistency reliability, also supported by Sheridan & Lyndall (2007) and Pallant (2001). Further, Nunally and Bernstein (1994) has mentioned about the value of satisfactory internal consistency reliability which is acceptable from 0.6 and above. Even though, the last dimension of the second construct which is “Monitor of corporate culture” has shown slightly lower reliability value (0.538), the questions in the final revision of survey instrument are retained after a thorough discussion with supervisor. Some positive comments were received from other assessors during the Doctoral Colloquium held on 10th July 2012, organized by the Graduate School of Business, Faculty of Business and Accountancy, University of Malaya, Kuala Lumpur. Besides that, a normality test was conducted for both of the constructs; those are, intentions/ambitions of IAD and expectations of board and audit committee. In SPSS, *skewness* and *kurtosis* refer to the shape of the distribution and are used with interval and ratio level data.

Table 4.1: Reliability Test for Pilot Responses

Construct Variables (survey questions)	Cronbach Alpha (initial)	Item Deleted	Cronbach Alpha (Final)
Intentions/Ambitions of Internal Audit Department (6 dimensions – Conceptual Framework)			
Catalyst for change (IA1 to IA6)	0.796	IA5: Provide operating managers with tools to accomplish the organizational goals.	0.817
Extensive staff expertise (IA7 to IA12)	0.815	-	0.815
Challenging work environment (IA13 to IA17)	0.843	-	0.843
Organizational alignment (IA18 to IA22)	0.699	IA21: Keep in touch with the organisation’s changing risk profile via meeting those managers.	0.703
Participative, qualitative, real-time risk assessment (IA23 to IA 28)	0.687	IA23: Reduce or eliminate the cyclical audits.	0.730
Array of audit services (IA29 to IA34)	0.737	-	0.737
Expectations of Board and Audit Committee (5 dimensions - Conceptual Framework)			
‘Partnership’ with management (E1 to E8)	0.905	-	0.905
Comfort provider (E9 to E13)	0.852	-	0.852
Training ground for future managers (E14 to E19)	0.836	-	0.836
Facilitator of risk management and internal control (E20 to E22)	0.728	-	0.728
Monitor of corporate culture (E23 to E25)	0.538	-	0.538

For intentions/ambitions of IAD construct, the *skewness* and *kurtosis* are -.0115 and -1.044 respectively. Meanwhile, for expectations of board and audit committee construct, the *skewness* and *kurtosis* are -0.443 and -0.474 in respective manner. As long the range is between -2 and 2, hence the pilot data for both variables/constructs are normally distributed (Sheridan & Lyndall, 2007).

Furthermore, some significant comments were received from the assessors during the Doctoral Colloquium held on 10th July 2012 as aforementioned in regards of the dependent variable which is firm's growth opportunities that some perceptive questions need to be developed in the survey questionnaire instead of relying solely on the secondary data that is financial data from annual reports. Besides, some questions were developed on the firm's performance matters for the final data collection based upon their comments too. This is to gain the perceptions from the final respondents; not only proxy by secondary data (financial data), but also primary data collected from the survey. The secondary data solely might have not given a significant result as compared to primary data. For instance, Kassim (2011) has not shown the significant results when he used merely secondary data to represent firm's performance attribute. In respects of scales, the ratio and seven-point Likert scales were maintained to be used in the questionnaire. Conclusively, on the basis of the above feedback and comments, the questionnaire was thoroughly refined especially in terms of sentence structure, addition and removal of questions and other general format changes (a copy of cover letter and refined questionnaire are provided in Appendices D1 and D2).

4.5.4 Survey Administration

A total of 846 companies listed on Bursa Malaysia Main Board for the year-end 2012 were identified. Out of the total, about half are outsourcing their internal audit activity to external provider and in-house department within those companies has not yet established. Random sample selection was chosen in this study. The population of the study mainly concentrates on companies that have in-house IAD in which is in line with the objective of

the study. After excluding such companies (the companies which outsourced their internal audit) the final sample numbered 417 companies. The unit of analysis is the Head of internal audit or the senior manager (whoever is appropriate in the department delegated by the Head to answer on behalf of him/her, see Appendix D1). In particular, the survey questionnaires were sent out to gain perceptions of internal auditors (see Appendix D2).

The selection of the Bursa Malaysia companies offers several advantages over non-listed companies. Firstly, annual reports are publicly available. All listed companies must submit their annual reports to the Bursa Malaysia within a stipulated period. Moreover, they are required by the Companies Act, 1965, to file annual reports to the Registrar of Companies. Secondly, the sample from the Bursa Malaysia comprises publicly listed companies, which represents various industries that operate their business activities in Malaysia. In addition, these companies serve their stakeholders' interests and all the important information pertaining to the financial performance are well reported publicly. It is also consistent with the theory used in this study that is, stewardship theory which explains the consulting role of internal auditors (for example, Selim et al., 2009; Kassim, 2011) and the creation of motivations within IAF to use their expertise to aid organization in improving its operations and future business opportunities. Finally, the financial and non-financial data extracted from annual reports were verified using the Bursa Malaysia annual handbook and reports. Thus, it is justified why the present study chooses the publicly listed companies rather than non-listed companies.

4.5.5 Survey Sample

A total number of 417 questionnaire packages containing a cover letter, the questionnaire and a reply-paid pre-addressed envelope were mailed to the chief internal auditor of the publicly listed companies listed on the Bursa Malaysia Main Board. The distribution was done in two batches i.e. the first batch was mailed via IIAM (127 companies in which they are the members of IIAM) and the second batch was mailed by the researcher one week after (the remaining number of 290 companies). The final sample also reflected companies from various industries such as consumer products, construction, finance/insurance, industrial products, plantations, properties, trading/services, technology, hotels and manufacturing. The cover letter assured anonymity, explained the objectives of the study, and emphasized on the need and importance of their co-operation. The first follow-up telephone call was made one month after mailing the questionnaires. Then, the second follow-up call was done as the response was so low. It was made in the third month after the mailing of questionnaires. For some companies, the soft copy of the survey questionnaires was emailed to the Head of internal audit as they claimed they had not received the posted one. Survey data collection occurred over a six-month period (8 November 2012 until 8 May 2013). Of the 417 questionnaires distributed to chief internal auditors, a total of 112 responses were returned, yielding a response rate of 26.8 per cent. Those 112 samples of data were used to run the data analyses. Further, details on survey responses are provided in Table 5.1 in Chapter 5 that is, Data Analysis. The survey questionnaires were pre-coded as when it was completed and returned to the researcher.

As mentioned earlier, the response rate was so low in the first three months hence a third follow-up was conducted via telephone calls to those who had not yet responded; some were by emails in the fourth month. The following reasons were elicited from the non-respondents for not replying or had not yet responding during the stipulated time: i) lack of time to attend to the survey questionnaire due to their busy schedule; ii) claim of not received mail survey package; and iii) due to the new appointment of the Head of internal audit, new chief internal auditor claimed they did not have sufficient information about the past consulting activity in the organization, if they would have had those in the previous years. Therefore, the copy of survey package was then sent again through e-mails to those who claimed that they had not received the posted survey. Despite the challenges, there are certain advantages on sending surveys through email such as Wright (2005) who stated that the advantages of incorporating a questionnaire in e-mail embrace speed of distribution, faster turnaround time, lower distribution and professing costs, more flexibility and less handling of paper-and-pencil surveys. Finally, in the sixth month a total of 112 fully answered questionnaires was managed to attain. It is a final usable number and is sufficient enough to analyze the data. This is supported by Sheridan and Lyndall (2007) in which they suggested an absolute minimum ratio of five (5) participants to one variable but not less than a hundred (100) participants as per analysis, though, a sample size of 200 or more is preferred. The details on survey data analytical processes are further provided in Chapter 5.

Non-response bias was then conducted to identify reliability and validity of the data. In the first approach, to address the possibility of non-response bias, the respondents' firms were compared with the total population of listed companies on Main Board in Malaysia during 2012. As shown in Table 4.2, an analysis of industry distribution of all companies

listed on the Bursa Malaysia Main Board (population distribution) and the sample of respondents' companies (sample distribution) was undertaken. The results indicate that the distribution is largely comparable. For example, while 23.5 per cent of the population (total population = 417 companies) made up of trading and services sector, 29.5 per cent of the sample distribution (total responses = 112 companies) is also made up from trading and services sector.

Table 4.2: Analysis of Industry Distribution

Industry Classification	Total companies	Sample Frequency	Population Distribution (Per cent)	Sample Distribution (Per cent)
Trading/Services	98	33	23.5	29.5
Industrial Product	87	15	20.9	13.4
Properties	57	14	13.6	12.5
Finance/Insurance	22	11	5.3	9.8
Plantation	37	10	8.9	8.9
Manufacturing	20	10	4.8	8.9
Construction	20	8	4.8	7.1
Consumer Product	54	6	12.9	5.4
Technology	15	4	3.6	3.6
Hotels	7	1	1.7	0.9
	417	112	100	100

The majority of companies in the population are from two (2) sectors made up from trading and services and industrial product sectors. Likewise, for the sample respondents the two largest respondents are duly from these two (2) sectors namely trading and services and industrial product sectors.

As suggested by Oppenheim (1992) and Brosius (2011, p. 859 and 880-881), the existence of a non-response bias is further tested by comparing the responses of the early and late respondents (also supported by Lenz et al., 2013). Therefore, a second test for non-response bias was also conducted, whereby a t-test was run for all variables used in Models 1 and 2 to test for any differences between the first mailing and those received after the

follow-up letter or e-mail was sent. In this case, early ten (10) and late ten (10) responses were taken to test the significant difference of groups applying the t-test for continuous variables (supported Arena & Azzone, 2009). No significant differences were found ($p > .05$) between the early and late responses, suggesting that non-response bias is not a problem (in consistent with Lenz et al.'s (2013) study).

4.6 Model Specification

This section discusses the model specification in accordance with the conceptual framework shown in the Chapter 3. This section further presents the measurement scales of each of the variables for the purpose of data analyses strategy that would be presented subsequently. Therefore, each model (Model 1 and 2) and its equations as well as the measurement scales of each of the variables involved are discussed in the following subsections.

4.6.1 The Influence of Intentions/Ambitions of IAD and Expectations of Board and Audit Committee towards Consulting Role of Internal Auditors (Model 1)

The first part of this study examines the factors such as intentions/ambitions of IAD and expectations of board and audit committee influencing the role of internal auditors in consulting. The development of survey questions and measurement scales pertaining to the individual variable in this study was done via replication and adaptation of prior researches (for example, Gave & Gaver, 1993; Gul, 1999; Ho et al., 2004; Mat Zain et al., 2006; Sarens & De Beelde, 2006b; Hutchinson & Mat Zain, 2009; Arena & Azzone, 2009; Selim et al., 2009; Prawitt et al., 2010; Kassim, 2011) and findings of exploratory interviews. To test Hypotheses 1, 2 and 3 (discussed in details in Chapter 3), internal audit consulting model that is, Model 1 is developed based on the studies by Mat Zain (2005), Hutchinson and Mat Zain (2009) and Kassim (2011) as shown below .

Model 1 (no moderating effect): Equation 1

$$\text{IAC_CONTRB} = \beta_0 + \beta_1\text{IAIAD1} + \beta_2\text{IAIAD2} + \beta_3\text{IAIAD3} + \beta_4\text{IAIAD4} + \beta_5\text{IAIAD5} + \beta_6\text{IAIAD6} + \beta_7\text{EXMAC1} + \beta_8\text{EXMAC2} + \beta_9\text{EXMAC3} + \beta_{10}\text{EXMAC4} + \beta_{11}\text{EXMAC5} + \beta_{12}\text{INDUSTRIAL} + \beta_{13}\text{TRADING} + \beta_{14}\text{FINANCE} + \beta_{15}\text{TECHNOL} + \varepsilon$$

Model 1 (with moderating effect): Equation 2

$$\text{IAC_CONTRB} = \beta_0 + \beta_1\text{IAIAD1} + \beta_2\text{IAIAD2} + \beta_3\text{IAIAD3} + \beta_4\text{IAIAD4} + \beta_5\text{IAIAD5} + \beta_6\text{IAIAD6} + \beta_7\text{EXMAC1} + \beta_8\text{EXMAC2} + \beta_9\text{EXMAC3} + \beta_{10}\text{EXMAC4} + \beta_{11}\text{EXMAC5} + \beta_{12}\text{AUDSE} + \beta_{13}\text{ACCQ} + \beta_{14}\text{CIACPAQ} + \beta_{15}\text{TERQ} + \beta_{16}\text{IAOTHERSPE} + \beta_{17}\text{INDUSTRIAL} + \beta_{18}\text{TRADING} + \beta_{19}\text{FINANCE} + \beta_{20}\text{TECHNOL} + \varepsilon$$

Where:

Hypotheses	Variables	Exp. sign	Measurement of variables
	Dependent variable		
	IAC_CONTRB		Internal auditors' assessment of percentage of internal audit contribution to consulting engagements (0% = internal audit not perform any consulting work to 100% = internal audit perform all consulting work recommended by IIA Professional Standard)
	Control variable		
	INDUSTRIAL	?	Dummy variable, 1 = industrial, 0 = others
	TRADING	?	Dummy variable, 1 = trading/services, 0 = others
	FINANCE	?	Dummy variable, 1 = finance/insurance, 0 = others
	TECHNOL	?	Dummy variable, 1 = technology, 0 = others
	Independent variables		
1a	IAIAD1	+	Internal auditors' assessment of proportion of catalyst for change towards internal audit consulting services (seven-point scale ranging from strongly agree to strongly disagree)
1b	IAIAD2	+	Internal auditors' assessment of proportion of extensive staff expertise towards internal audit consulting services (seven-point scale ranging from strongly agree to strongly disagree)
1c	IAIAD3	+	Internal auditors' assessment of proportion of challenging work environment towards internal audit consulting services (seven-point scale ranging from strongly agree to strongly disagree)
1d	IAIAD4	+	Internal auditors' assessment of proportion of organizational alignment towards internal audit consulting services (seven-point scale ranging from strongly agree to strongly disagree)
1e	IAIAD5	+	Internal auditors' assessment of proportion of participative, qualitative, real time assessment towards internal audit consulting services (seven-point scale ranging from strongly agree to strongly disagree)
1f	IAIAD6	+	Internal auditors' assessment of proportion of array of services towards internal audit consulting services (seven-point scale ranging from strongly agree to strongly disagree)
2a	EXMAC1	+	Internal auditors' assessment of proportion of 'partnership' with management towards internal audit consulting services (seven-point scale ranging from strongly agree to strongly disagree)
2b	EXMAC2	+	Internal auditors' assessment of proportion of training ground for managers towards internal audit consulting services (seven-point scale ranging from strongly agree to strongly disagree)
2c	EXMAC3	+	Internal auditors' assessment of proportion of facilitator of risk management and internal control towards internal audit consulting services (seven-point scale ranging from strongly agree to strongly disagree)
2d	EXMAC4	+	Internal auditors' assessment of proportion of comfort provider towards internal audit consulting services (seven-point scale ranging from strongly agree to strongly disagree)

2e	EXMAC5	+	Internal auditors' assessment of proportion of monitor of corporate culture towards internal audit consulting services (seven-point scale ranging from strongly agree to strongly disagree)
	Moderating variable		
3a, 3b	AUDSE	+	the proportion of internal audit staff with prior work experience in auditing to the size of internal audit function (Number of auditors with prior work experience in auditing / Total staff in the internal audit function)
3a, 3b	ACCQ	+	the proportion of internal audit staff who have accounting qualification to the size of internal audit function (Number of auditors with accounting qualification / Total staff in the internal audit function)
3a, 3b	CIACPAQ	+	The percent of internal auditors who have the CIA or CPA certification (Number of auditors with CIA or CPA certification / Total staff in the internal audit function)
3a, 3b	TERQ	+	the proportion of internal auditors who have tertiary qualification over total number of staff in the IAD (Number of auditors with tertiary qualification / Total staff in the internal audit function)
3a, 3b	OTHERSPE	+	the proportion of internal auditors who have other specialization over total number of staff in the IAD (Number of auditors with other specialisation / Total staff in the internal audit function)

4.6.1.1 Dependent Variable

The dependent variable in the present study is the internal audit contribution to consulting activities in percentage (IAC_CONTRB) in Model 1. Consistent with the changes to the definition of internal audit (latest revised IPPF, 2013) that have increased the scope of internal audit by clearly including consulting activities, prior studies (e.g. Head et al., 2010; Selim et al., 2009; IIA Belgium, 2006; Rezaee, 2009; Gramling & Myers, 2006; IIA, 2004; Sarens & De Beelde, 2004; Maher & Akers, 2003) have addressed several types of consulting assignments taken up by internal auditors mostly in US, UK and some European countries. These assignments have also been taken up in some developing countries such as Malaysia based on the recent findings of exploratory interviews with five (5) CAEs of Malaysian large organizations. The measure of IAC_CONTRB is in

continuous scale ranging from 0% to 100% (internal audit not performing any consulting work to internal audit performing all consulting work recommended by IIA Professional Standard [IPPF]) as it is able to provide high degree of data (ratio data). The scale has been used by prior studies such as Kassim (2011) and McLeod (2007).

4.6.1.2 Control Variables

In assessing the strength of an independent link between the dependent variable (IAC_CONTRB) and the independent variables (IAIAD1, IAIAD2, IAIAD3, IAIAD4, IAIAD5, IAIAD6, EXMAC1, EXMAC2, EXMAC3, EXMAC4, EXMAC5) in Model 1, four (4) sectors will be included in the model to control for industry effect. These industry controls are firms classified under industrial product (INDUSTRIAL); trading and services (TRADING); finance/insurance (FINANCE); and technology (TECHNOL) sectors and largely based on previous literature as the factor that might be associated with dependent variable (e.g. Felix et al., 2001; Mat Zain, 2005; Mat Zain et al., 2006). The variable is dichotomous, with “1” representing the sectors and “0” all other companies. The first two, industrial product (INDUSTRIAL) and trading and services (TRADING) were classified due to the highest two levels of responses received from these sectors. Meanwhile, the technology (TECHNOL) sector was controlled because of the higher complexity of its operation in the firm classified under technology (TECHNOL); the finance/insurance (FINANCE) was controlled for its various additional regulatory requirements (BNM, 2009). Therefore, organizations tend to seek help from the internal auditors to contribute some advice on the complexity and uncertainties. As business complexity and uncertainties increases, internal auditors might be called upon to contribute some advice on the business

improvement and expansion given that they are well-equipped with good skills, expertise, adequate knowledge and experience especially in the situation such as high-risk environment and promoting for aggressive ventures (for example, new ventures and mergers and acquisition) (Dounis, 2006; Mihret & Woldeyohannis, 2008). The larger the size of the company, the more complex is the business entity.

4.6.1.3 Independent Variables

(a) *Intentions/Ambitions of IAD*

The measure of intentions/ambitions of IAD is in Likert scale i.e. seven-point scale ranging from strongly disagree to strongly agree (1 to 7) and it is widely used by prior studies (e.g. Melville, 1999; Mat Zain, 2005; Mat Zain et al., 2006; Hutchinson & Mat Zain, 2009; Selim et al., 2009). Internal auditors who perform consulting role are inspired by their great intentions or ambitions for being a world class IAD. Therefore, some profiles of a value-adding audit department contributed to the dimensions of the subject of intentions or ambitions of IAD towards their role of consulting such as follows: (1) becoming catalyst for change (Stern, 1994, Anderson, 2003); (2) extensive staff expertise, those are, internal audit as management training ground and has important role in training future managers (e.g. Macdonald & Colombo, 2001), secondment from other department, in-house resources complementing with selective outsourcing – knowledge transfer (Roth, 2003); (3) challenging work environment; (4) organizational alignment (Stern, 1994; Roth, 2003); (5) participative, qualitative, real-time risk assessment such as flexible annual audit plans with higher percentage of time remaining unallocated (Roth, 2003; Head et al., 2010); and (6) array of audit services, that is, consistent with the revised definition of internal

audit, not seeing themselves as ‘appraisal function but as broader assurance and consulting activity (Roth, 2003; Anderson & Dahle, 2009). In summary, all six variables (IAIAD1, IAIAD2, IAIAD3, IAIAD4, IAIAD5, and IAIAD6) are expected to have positive coefficients. That means as the higher the levels of intentions/ambitions of IAD, the higher the expected contribution of internal audit towards consulting activity.

(b) *Expectations of Board and Audit Committee*

The measure of expectations of board and audit committee is also in Likert scale i.e. seven-point scale ranging from “strongly disagree” to “strongly agree” (1 to 7). Previous literature has depicted the demand for assurance and consulting services which comes immensely from the management and audit committee sides. However, IIARF (2003) reported that indicate overlapping of demands by management and audit committee resulting in a convergence of expectation from both parties. In accordance with the comprehensive literature on expectations of board and audit committee (for example, Selim et al., 2003; Sarens & De Beelde (2004, 2006a, b; Sarens et al., 2009; Arena et al., 2006; Yee et al., 2007, 2008; Mihret & Yismaw, 2007; Selim et al., 2009) and the findings of exploratory interviews (discussed in details in Chapter 3), this study concentrates on those five dimensions of expectations of board and audit committee which are ‘partnership’ with management (EXMAC1), training ground for future managers (EXMAC2), facilitator of risk management and internal control (EXMAC3), comfort provider (EXMAC4), and safeguard of corporate culture (EXMAC5) that might affect the consulting role of internal auditors. In short, all five variables (EXMAC1, EXMAC2, EXMAC3, EXMAC4, and EXMAC5) are expected to have positive coefficients. That means as the higher the levels

of the expectations of board and audit committee, the higher the internal audit to contribute towards consulting activity.

4.6.1.4 Moderating Variable

The internal audit's expertise, skills and competencies was hypothesized to be the moderating variable in this study. This variable is expected to moderate the relationship between the two influencing variables i.e. intention/ambitions of IAD and expectations of board and audit committee and the internal audit contribution to consulting activities (as shown in the 3.2 Conceptual Framework - Chapter 3). The measures of the expertise, skills and competencies of internal audit (AUDSE, ACCQ, CIACPAQ, TERQ, OTHERSPE) are the proportion of respective dimension over the total staff in the internal audit function (i.e. size of IAF). The measure was supported by the previous studies such as Gul and Chia (1994), Hutchinson and Mat Zain (2009) and Prawitt et al. (2010), to test the hypotheses (the details of hypotheses development has been discussed thoroughly in Chapter 3).

4.6.2 The Relationship between Internal Auditors' Involvement in Consulting Activity and Firm's Growth Opportunities and Firm's Performance (Model 2)

The second part of this study examines the relationship between internal auditors' assessment of the contribution to consulting activities and firm's growth and firm's performance. The firm's growth opportunities and performance model (Model 2) is used to test Hypothesis 4 and 5 in this study (the hypotheses development is discussed in details in Chapter 3). The model is depicted in Equation 1 and 2 and developed based on the studies by Mat Zain (2005), Hutchinson and Mat Zain (2009) and Kassim (2011).

Model 2: Equation 1

$$FG_OPPOR = \beta_0 + \beta_1 IAC_CONTRB + \beta_2 SIZE + \beta_3 LEVERAGE + \beta_4 INDUSTRIAL + \beta_5 TRADING + \beta_6 FINANCE + \beta_7 TECHNOL + \varepsilon$$

Model 2: Equation 2

$$FPERFORM = \beta_0 + \beta_1 IAC_CONTRB + \beta_2 SIZE + \beta_3 LEVERAGE + \beta_4 INDUSTRIAL + \beta_5 TRADING + \beta_6 FINANCE + \beta_7 TECHNOL + \varepsilon$$

Where:

Hypotheses	Variables	Exp sign	Measurement of variables
	Dependent Variable		
	FG_OPPOR		1 st proxy: Internal auditors' assessment of proportion of firm's growth opportunities (seven-point scale ranging from strongly agree to strongly disagree) 2 nd proxy: Market-to-book value of equity (financial data collected from annual report/DATASTREAM database)
	FPERFORM		1 st proxy: Internal auditors' assessment of proportion of firm's performance (seven-point scale ranging from strongly agree to strongly disagree) 2 nd proxy: Return on equity (financial data collected from annual report/DATASTREAM database)
	Control variables		
	SIZE	+	Total assets for client at the end of the fiscal year (natural log used in the regression model)
	LEVERAGE	-	Total liabilities divided by total assets for client at the end of the fiscal year

	INDUSTRIAL	?	Dummy variable, 1 = industry, 0 = others
	TRADING	?	Dummy variable, 1 = trading/services, 0 = others
	FINANCE	?	Dummy variable, 1 = finance/insurance, 0 = others
	TECHNOL	?	Dummy variable, 1 = technology, 0 = others
	Independent variable		
4,5	IA_CONTRB	+	Internal auditors' assessment of percentage of internal audit contribution to consulting engagements (0% = internal audit not perform any consulting work to 100% = internal audit perform all consulting work recommended by IIA Professional Standard)

4.6.2.1 Dependent Variables

The dependent variables for a cross sectional regression model are the firm's growth opportunities (FG_OPPOR) and firm's performance (FPERFORM) in Model 2. They are proxy by non-financial and financial measures as being explained in the Chapter 3. The first measurement is Likert scale, that is, seven-point scales ranged from strongly disagree to strongly agree (1 to 7) and the second measurement is ratio scale (financial data collected from annual report of companies). The first measure of FG_OPPOR was developed based on the previous studies such as Czarnitzki & Spielkamp (2000) and PricewaterhouseCoopers (2010, 2011). Meanwhile, the second measure of FG_OPPOR is ratio data, market-to-book value of equity, used extensively in prior researches (for example, Smith & Watts, 1992; Gaver & Gaver, 1993; Gul, 1999; Ho et al., 2004) and was obtained from the annual reports of the companies that complete the usable responses to the questionnaire. On the other hand, the first measure of FPERFORM was developed based upon prior studies such as Ittner and Larcker (2000) and Ittner et al. (2003). However, financial measures of firm's performance (second measure of FPERFORM) have been widely used in prior studies. Some of the examples are Kassim (2011), Klapper and Love (2003) and Lin, Wu, Penm and Terrell (2005) in which they have used return on assets

(ROA) and return on equity (ROE) as proxies to the financial measures of firm's success rate. The argument of financial data collection for second measure of FG_OPPOR and FPERFORM is explained in detail in subsection 4.7.1 (latter page).

4.6.2.2 Control Variables

As business complexity and uncertainties increases, organizations may tend to seek help from the internal auditors to contribute some advice on the business improvement and expansion given that they are well-equipped with good skills, expertise, adequate knowledge and experience especially in the situation such as high-risk environment and promoting for aggressive ventures (for example, new ventures, mergers and acquisition etc.). The larger the size of the company, the more complex is the business entity. Therefore, total assets value at the end of the fiscal year (natural log used in the regression model) was used as proxy of company size (SIZE). Apart from that, growth firms in an emerging Asian market have lower debt-to-equity ratios (Ho et al., 2004) and this has been supported by Smith and Watts (1992) and Gaver and Gaver (1993) in which firms with substantial growth opportunities are expected to pursue a low debt financing policy. Firms would finance growth with equity, in place of debt, to control the potential under-investment problem due to risky debt (Myers, 1977). Thus, LEVERAGE was controlled in this study and proxy by total liabilities divided by total assets for client at the end of the fiscal year in which it is supported by Ho et al.'s (2004) study. Finally, consistent with prior studies by Gul and Tsui (1998), Tsui, Jaggi and Gul (2001), Wiilekens, Bauwhede and Gaeremynck (2004), Mat Zain (2005), Mat Zain et al.(2006) and Kassim (2011) to control

for possible industry effects, indicator variables for different industries are also included (aforementioned in subsection 4.6.1.3 in this chapter).

4.6.2.3 Independent Variable

The measure of IAC_CONTRB is in continuous scale ranging from 0% to 100% (internal audit not perform any consulting work to internal audit perform all consulting work is recommended by IIA Professional Standard [IPPF]) as it is able to provide high degree of data (ratio data) whereby the scale has been used by prior studies such as Kassim (2011) and McLeod (2007). Statistically, this type of data (ratio data) is the highest quality of data permitting various tests (Green & Salkind, 2008; Keller & Warrack, 2000; Sheridan & Lyndall, 2007).

4.7 Data Analyses Strategy

This section represents a data analyses strategy which encompasses qualitative and quantitative data analytical process. As being discussed in the Research Design section earlier, qualitative data is collected through exploratory study (pre-survey tenure) and in-depth interviews (post-survey tenure). Quantitative data is acquired through survey questionnaires. These are primary data collections. Besides that, secondary data is gathered as to measure dependent variables, firm's growth opportunities and firm's performance in Model 2 and they represent as second proxies respectively (see subsection 4.6.2). Subsequent sections explain in detail each step of statistical analysis for quantitative data (primary and secondary) and qualitative data that have been conducted.

4.7.1 The Statistical Analysis on Quantitative Data

Quantitative data collected through survey (primary data) is analyzed using statistical method. The survey data is first descriptively analyzed before hypotheses testing are conducted. Normality test is conducted to examine the normal distribution of data (primary and secondary data) for each of the variables presented in this study. On top of that, there are two main assumptions made in this study concerning the respondents in respect of their homogeneity status. As all the respondents are in the executive position, they are assumed to possess similar level of knowledge concerning internal auditing regardless of whether they are member of the IIA. In addition, the respondents in the banking or non- banking industry are assumed to have the same level of knowledge in terms of internal auditing.

In general, a reliability test is conducted to ensure that the research findings have the ability to provide consistent results in repeated incidences (Al-Ghamdi et al., 2007). In this study, a statistical test for survey instrument reliability is performed to check its degree of consistency. Specifically, the items in the survey questionnaire that are grouped into meaningful clusters through factor analysis were tested for reliability and validity. Thus, internal consistency analysis was performed and revised coefficient alpha (Cronbach's) was calculated (Malhotra, 2010). This coefficient varies from 0 to 1, and value of 0.6 or less generally indicates unsatisfactory internal consistency reliability (Malhotra, 2010; Nunally; 1967). However, as reported by Wittchen et al. (1998, p. 568), "test-retest reliability as examined mostly in patient samples with 1±3 days between assessments by independent interviewers varied between moderate (kappa coefficient value of 0.5 and above) and excellent (0.75 and above)". Factor analysis is basically an *interdependence* technique

which aimed to identify common grouping of variables or factors from each set of measurements (Malhotra, 2010; Kassim, 2011). In this study, there were two sets of factor analyses performed; two sets of variables measuring: 1) the intentions/ambitions of IAD, and 2) the expectations of board and audit committee. In respect of factor analysis, for this study, two statistical tests, namely Kaiser-Meyer-Olkin (KMO) and Bartlett's test of *sphericity* were performed to check on the adequacy of number of sample and the appropriateness of factor analysis (Malhotra, 2010). Besides, naming of factors is done accordingly in the test performed.

An ordinary-least regression (OLS) multiple regression analysis is performed to test the IA consulting model (Model 1) and firm's growth opportunities and performance model (Model 2) and is widely used in previous studies (for example, Mat Zain et al., 2006; Hutchinson & Mat Zain, 2009; Arena & Azzone, 2009; Prawitt et al., 2010; Kassim, 2011; Gul, 1999). Multiple regression analysis is used to provide explanation and it is able to make generalization to population (R^2) instead of descriptive alone (e.g. study by Selim et al., 2009). In conjunction with that, in this study there are two types of multiple regression analyses that are applied include hierarchical multiple regression and stepwise multiple regression. Hierarchical multiple regression is a regression procedure used to assess the moderating effect of additional variable(s) towards the relationship between two other variables (Aguinis, 1995¹³; Sheridan & Lyndall, 2007; Green & Salkind, 2008).

In this study, the expertise, skills and competencies of internal audit are hypothesized to be the variable that moderates the association between the independent and dependent variables (those are, H3a and b). It is predicted that moderating effect in Model 1 (Equation

2) might influence the strength of relationship of intentions/ambitions of IAD and expectations of board and audit committee with the extent of internal auditors' assessment of their contribution to consulting services (R-Square (R^2) to be higher or lower than R^2 in Model 1 [Equation 1]). On the other hand, the stepwise approach of the multiple regressions is utilized to test the rest of the hypotheses concerning: i) the relationship between intentions/ambitions of IAD and expectations of board and audit committee and the internal auditors' assessment of their contribution to consulting activities, and ii) the relationship between the internal auditors' assessment of their contribution to consulting activities and firm's growth opportunities and firm's performance. Finally, both stepwise and hierarchical multiple regressions retain all the variables that show significant contribution to the equation and drop all variables that reported no significant results (Hair et al., 1998; Hair et al., 2010; Malhotra, 2010).

¹³ Due to increasing importance of moderating (i.e. interaction effects), the use of moderated multiple regression (MMR) has become pervasive in various specialities such as organizational behaviour, human resource management, and strategy, to name a few (Aguinis, 1995). It is easily conducted on statistical package such SPSS using regression procedure (hierarchical multiple regression).

The process of collecting financial data (secondary data) of the respondent company for several variables such as firm's growth opportunities and firm's performance is done soon after the survey data (primary data) is mustered. The DATASTREAM database (available online in University of Malaya's library) is one of the reliable sources for acquiring financial data of listed companies on Bursa Malaysia. All information pertaining to financial ratios as well as absolute financial numbers for each year is presented in the database. Therefore, the financial data for aforementioned variables is aptly retrieved from the database in this study. Nevertheless, some of the financial data of respondent's company is unavailable in the database hence the alternative way is by using the related annual report to retrieve the particular financial data. The annual report for each listed company is available online in the Bursa Malaysia's website (www.bursamalaysia.com).

The argument of collecting financial data (secondary data) for firm's growth opportunities and firm's performance is that in the prior studies, they were using financial ratios to measure those variables and presented mixed results (significant and non-significant results). For example, Kassim (2011) and Norlida (2009)'s studies showed insignificant result towards ERM effectiveness and firm's performance. Furthermore, Kassim (2011) had suggested in his future research, non-financial data ought to be employed to measure firm's performance alongside with the financial data. Another example, Hutchinson and Mat Zain (2009) had shown significant relationship audit quality towards firm performance moderated by growth opportunities when using secondary data for growth and performance variables. Therefore, in this study, financial data is collected as the second measure for the respective variables which are firm's growth opportunities and firm's performance. In terms of using both primary and secondary data together in the

study to test relationships among variables, the approach has been implemented largely in prior researches (for example, Kassim 2011; Prawitt et al., 2010; Hutchinson and Mat Zain, 2009; Norlida, 2009). Thus, there is no issue on the distortion of data while using both primary and secondary data in the study. Having said all that, the primary and secondary data are then analyzed using SPSS version 19 (Brosius, 2011).

4.7.2 The Qualitative Data Analysis Process

As mentioned earlier, qualitative data is collected through exploratory study (pre-survey tenure) and in-depth interviews (post-survey tenure). The process of analyzing both exploratory interviews and in-depth interviews in post-survey tenure is similar due to the qualitative in nature. The thematic approach is employed to analyze the qualitative data. The interviews' transcriptions are first coded using key themes related to the main research questions and rechecked for errors in which the classification of themes are reviewed and consensus is reached before pre-coding with the guidance of Patton (2002) and Gibbs (2002). Further, a matrix framework was used to compare the responses across the five CAEs (exploratory interviews, see Appendix B1 & B2) and ten CAEs in post-survey tenure (see Table 6.1 in Chapter 6).

The matrix format highlights the presence or absence of consistency and consensus across different interviewees (Miles & Huberman 1984, Gibbs 2002). Moreover, it is functioning as a useful tool to determine commonalities and differences in the research themes (Martin and Meyerson 1988a, 1988b). Comparisons can be made across the rows to see the differences or similarities in the themes retrieved by the researcher during the

interviews. On top of that, to produce such a matrix, a qualitative software program can be used in which it has the matrix function such as NVivo (Creswell & Plano Clark, 2007). However, in this study, it is opted to transcribe the tape-recorded interviews data manually (translation of Malay terminology to English terms is done concurrently) due to some limitations of language used during the interviews (some bilingual Malay-English responses found) in which NVivo could not solve.

4.8 Semi-structured Interviews

4.8.1 Interview Administration

In the final stage, a series of semi-structured interviews was undertaken with ten Heads of IAF (also referred to as chief internal auditors) from various sectors listed on the Bursa Malaysia. As mentioned earlier, the use of semi-structured interviews is particularly appropriate for a more exploratory study of this nature (Kidder & Judd, 1986). The benefit of a semi-structured interview, in comparison to a survey questionnaire, is that it is possible for the discussion to widen and go for in-depth pertaining to a topic of interest. During the interview, there are opportunities to seek for clarification of views expressed and to elevate the understanding of how interviewees conceptualise and prioritise related issues (Sakaran, 2003).

The interviews were structured relying on the themes chosen based on research framework. It was chosen to provide a range of perspectives in relation to the role of chief internal auditors, in their internal audit consulting capacity within the organization, Specifically, they were asked to provide their opinion on: a) the nature and the extent of

their internal audit consulting; b) their views of the internal audit effectiveness in terms of having sufficient knowledge, experience and technical expertise as well as soft skills to perform internal audit consulting; c) the objectivity and independence level when performing consulting; d) the relevant factors (i.e. other related factors) that may influence the implementation of their role in consultancy; e) the extent of their contribution towards role of consultancy and its impact on firms' growth opportunities and performance; and f) their views of the plan and strategy on internal audit staffing and competency.

4.8.2 Sample Selection

A fundamental criteria for sample selection for the in-depth interviews was that the interviewees need to have an in-depth understanding of the IAF and its reflection with other corporate governance mechanisms as such the chief internal auditor of the organization was seen as suitable subject. Thirty companies listed on the Bursa Malaysia were randomly chosen. The key criterion of being selected is that only companies around Kuala Lumpur and Selangor were chosen due to limitation of PhD research timing. Initially, the Human Resource Managers of each company were contacted to clarify the intention of contacting the company. Based on the information provided by the human resource manager of each company, the Head of internal audit were individually contacted via their respective secretaries. Of the 30 firms contacted, only 10 chief internal auditors agreed to participate in the interviews. Fifteen of the chief internal auditors that declined participation cited that they were too busy and another five were initially agreed to participate in the interviews also cancelled the appointment at the last minute due to work reasons and were unable to reschedule the appointment. A description of the sample and the results of the interviews

are reported in Chapter 6. The format of the semi-structured questionnaires employed in the interviews is provided in the next subsection.

4.8.3 Semi-structured Interview Questionnaire

The interview questionnaire comprised of five (5) sections (similar to the instrument of exploratory interviews, except for the add-on of Section D):

Section A included a number of general questions pertaining to demographic details such as the interviewee's professional designations (qualifications), the number of years the interviewee has been in the present position as internal auditor in that particular organization and his/her experience working as an internal auditor.

Section B began by asking the interviewees questions pertaining to the size and structure of their organization, such as the total number of employees within the organization; the number of employees in the IAD; estimated total asset for the previous year; internal audit reporting functions.

Section C inquired into whether IAD perform consulting activity; their reasons for performing; what skills internal audit acquired to perform consulting; their perceptions on the matters of objectivity and independence of internal audit in regards of consulting engagement; and the relevant factors (i.e. other related factors) that may influence the implementation of their role when providing professional advice to clients as their added value to business.

Section D is where the internal auditors were asked to give opinion regarding the extent of their role of consulting that may help increase firm's growth opportunities and firm's performance.

Section E required internal auditors to give their views on the plan and strategy on internal audit staffing and competency.

A matrix framework was used to compare the information across 10 chief internal auditors. A copy of the semi-structured interview and the statement of confidentiality are provided in Appendices E1 and E2 respectively.

4.9 Overview of the Chapter

This chapter describes the research design, data collection procedure, model specification and data analyses strategy for the current study. Specifically, this chapter gives an overview of two (2) approaches those are, the quantitative and qualitative approach used in this study. The chapter also discusses the background on how the pilot study, sample selection, and survey and interviews administrations were undertaken. Moreover, this chapter explains and defines variables and measurement scales employed in the study. The next chapter provides the results of the mail survey questionnaire.

CHAPTER 5: RESULTS AND DISCUSSION ON QUANTITATIVE DATA

5.1 Introduction

This chapter correspondingly presents all the results from the statistical analysis performed in achieving the research objectives. Therefore, the detailed descriptions of the preliminary data screening of the second phase are presented. A careful consideration was applied in performing all the statistical analyses specifically the specific assumptions before attempting to run analysis with the aim to ensure proper interpretation. The results are organised in this chapter based on the five research questions or objectives (presented earlier in the Chapter 1). Then, the results of the factor analysis and the descriptive statistics of the respondents' details were presented before it highlights the results of the primary statistical analysis to test the hypotheses. In a more specific nature, this study is aimed to achieve the following research objectives:

- 6) To what extent the intentions/ambitions of IAD correlate with the consulting role of internal auditors in Malaysia?
- 7) To what extent the expectations of board and audit committee correlate with the consulting role of internal auditors in Malaysia?
- 8) What is the moderating effect of the expertise, skills and competencies of internal audit in the relationship between the intentions/ambitions of IAD and expectations of board and audit committee and the consulting role of internal auditors in Malaysia?
- 9) To what extent there is an association between internal audit contribution to consulting activities and firm's growth opportunities?

- 10) To what extent there is an association between internal audit contribution to consulting activities and firm's performance?

It is aimed that the above objectives can be achieved through research questions and hypotheses tested in this chapter.

5.2 The Mail Survey Questionnaire

5.2.1 Data Cleaning and Screening

Prior to data analysis, each of the variables used in Model 1 and 2 were examined for accuracy of data entry, missing values, and fit between their distributions using SPSS program (Pallant, 2011). Of the 417 questionnaires distributed to chief internal auditors, a total of 112 responses were returned, yielding a response rate of 26.8 percent. Those 112 samples of data were used to run the data analyses for Model 1 and 2. Nevertheless, no missing values or incomplete responses were found in this study. The summary of the analysis of respondents is depicted in Table 5.1.

Table 5.1: Analysis of Respondents

Description	Sample	Usable Response Rate
Distributed questionnaires	417	100%
Returned questionnaires	112	26.8%
Usable questionnaires for the data analyses for Model 1 and 2	112	26.8%

Prior to analyzing the data, it is essential to check data set for errors or any outliers; the data must be free from errors otherwise it affects the results later on (Pallant, 2011). The technique used is “*winsorising*” for data cleaning process. It is the transformation of statistics by limiting extreme values in the statistics to reduce the effect of possibly spurious outliers¹⁴. The effect is the same as clipping in signal processing. The distribution of many statistics can be heavily influenced by outliers. A typical strategy is to set all outliers to a specified percentile of the data, for instance, a 90% “*Winsorisation*” would see all data below the 5th percentile set to the 5th percentile, and data above the 95th percentile set to the 95th percentile (Westfall & Henning, 2013; Brillinger & Tukey, 2002). *Winsorised* estimators are usually more robust to outliers than their more standard forms, although there are alternatives, such as trimming, that will achieve a similar effect (Hasings, Mosteller, Tukey & Winsor, 1947; Dixon, 1960; Tukey, 1962). Therefore, the technique over the trimming (trimming technique may reduce the number of cases as it deletes the good ones) was chosen in this study so as to maintain the number of responses in which no deleted cases was done. Each continuous independent variable was then tested for normality. To some extent, normality can be assessed by obtaining *skewness* and *kurtosis* values (Pallant, 2011). Furthermore, Hair, Anderson, Tatham and Black (1998) have claimed that on a *univariate* basis, normality of data can be examined in four steps. Firstly, an analysis of the skew value for each variable is conducted by calculation of the Z value.¹⁵

¹⁴ It is named after the engineer-turned-biostatistician Charles P. Winsor (1895–1951).

¹⁵ Where $z = \text{skewness}/(\sqrt{6/n})$, where n is the sample size (Hair, Anderson, Tatham & Black, 1998), using the critical z value of ± 2.58 or rejecting normality assumption at 0.01 error level. On the other hand, Malhotra (2010) claimed that the skewness and kurtosis values of ± 1.96 (z value) indicate rejecting normality assumption at 0.05 error level.

Secondly, the kurtosis value is considered using the critical non-normality value of greater than 10. Thirdly, the frequency distributions are inspected for any deviations from the normal distribution. Then fourthly, transformation of the data for each variable reduces the normal assumption induced by *skewness* and/or kurtosis. For each variable that violates the assumption of normality, either a logarithmic or a square root transformation is applied. Further, logarithm transformation can be applied only to data which are strictly positive besides reducing impact of outliers and smoothing out time series. On the other hand, any missing responses and outliers should be treated in manageable ways and any remedy applied without affecting the original distribution whenever possible (Hair, Black, Babin, Anderson & Tatham, 2006). On the whole, data cleaning and screening were conducted using frequency distribution of SPSS version 19. This is to ensure the accuracy and completeness of data used in this study.

5.2.2 Demographic Profile of Respondents

This subsection provides a general overview of the respondent's demographic elements. The overall data collection procedures adopted in this present study managed to provide a favourable rate of 26.8 percent as presented in Table 5.2. This response rate is comparable to other survey based studies in the internal audit literature. Carcello, Hermanson and Raghunandan (2005, p. 76) yield a usable response rate of approximately 25 percent, and Sarens and Abdolmohammadi's (2011, p. 13) sample base indicates 28 percent of the study's target population. Despite Lenz et al.'s (2013, p. 5) response rate is somewhat higher (that is, 34 percent), the current study yields an acceptable rate of response of approximately 27 percent (i.e. 26.8 percent) among the immediate aforementioned studies.

The primary focus of the present study is on the Main Board PLCs in which all the results were aimed to be used as a benchmark for all other PLCs (such as MESDAQ) in Malaysia. Moreover, the results of this study could be valuable to an international audience as it presents the nature and drivers of role of internal auditors in consulting in which it is an advanced role of internal auditors that requires lots of specific skills and expertise. The present study that focuses on a developing country may also contribute to the existing body of literature that is largely concentrated on developed countries like US and UK.

According to Pallant (2011), the quality of the data (known as data quality) should be checked as early as possible; it can be assessed in several ways, using different types of analyses such as frequency counts, descriptive statistics (i.e. mean, standard deviation, median) and normality (for example, *skewness*, kurtosis, frequency and histograms). Table 5.2 represents a demographic profiles of respondents and firms consisting of items such as position in your organization, years the IAD has been established, corporate member of IIAM, corporate member of other professional body, type of industry employed, number of employees, audit charter, “report functionally”, “report administratively” and “Hiring outside expert, if no expertise in consulting area”. The majority of the respondents comprise CIAs, the senior audit and audit managers. Further, the majority of the respondents’ firms were reported to have established the IAD between six (6) to fifteen (15) years. The trading and services sector was reported to receive the highest level of responses (29.5%) followed by industrial products (13.4%) and properties sectors (12.5%). About 30 percent of the respondents are corporate members of IIAM. The respondents are also found to maintain an organizational policy authorizing internal audit (that is, internal audit charter) which indicates the organizational commitment of internal auditors to perform

internal audit activities. In addition, they also report functionally to the audit committee and administratively to chief executive officer (CEO) so as to maintain their level of independence within organization. Finally, majority of the respondents are perceived to have hired outside expert to perform consulting tasks if there was no expertise in the particular area. In summation, these descriptions are hoped to enable to provide some insights on the overview of the respondents who participated in the present study.

Table 5.2: Demographic Profiles of Respondents and Firms

	Frequency	Percent
<i>Position in organization</i>		
CAE	57	50.9
Senior Audit Manager	13	11.6
Audit Manager	33	29.5
Assistant Audit Manager	5	4.5
Audit Senior/Supervisor	3	2.7
Audit Executive	1	0.9
Other	0	0
Total	112	100.0
<i>Years the IAD has been established</i>		
Less than 1 year	0	0
1-5 years	4	3.6
6-10 years	40	35.7
11-15 years	39	34.8
10-20 years	11	9.8
More than 20 years	18	16.1
Total	112	100.0
<i>Corporate member of IIAM</i>		
Yes	34	30.4
No	78	69.6
Total	112	100.0
<i>Corporate member of other professional body</i>		
Yes	9	8.0
No	103	92.0
Total	112	100.0

Table 5.2: continued

	Frequency	Percent
<i>Type of industry employed</i>		
Consumer products	6	5.4
Construction	8	7.1
Finance/insurance	11	9.8
Industrial Products	15	13.4
Plantation	10	8.9
Properties	14	12.5
Trading/services	33	29.5
Technology	4	3.6
Hotels	1	0.9
Manufacturing	10	8.9
<i>Number of employees</i>		
Less than 100 employees	2	1.8
100 to 999 employees	20	17.9
1000 to 2999 employees	23	20.5
3000 to 4999 employees	26	23.2
5000 to 6999 employees	22	19.6
More than 7000 employees	16	17.0
Total	112	100.0
<i>Audit Charter</i>		
Yes	109	97.3
No	3	2.7
Not applicable	0	0
Total	112	100.0
<i>Report functionally</i>		
Yes	112	100.0
No	0	0
Not applicable	0	0
Total	112	100.0
<i>Report administratively</i>		
Yes	111	99.1
No	1	0.9
Not applicable	0	0
Total	112	100.0
<i>Hiring outside expert, if no expertise in consulting area</i>		
Yes	88	78.6
No	9	8.0
Not applicable	15	13.4
Total	112	100.0

5.3 Results

5.3.1 Descriptive Statistics

Descriptive statistics summarize data in terms of its mean value, standard deviation and the minimum as well as maximum amount of actual and theoretical range of data. Table 5.3 shows descriptive statistics of the variables used in the study. All independent and dependent variables have the theoretical range of 1 to a maximum of 7. The table shows that all variables i.e. independent variables, dependent variables (consulting activities, firm's growth opportunities and firm's performance), moderating variable (five dimensions i.e. AUDSE, ACCQ, CIACPAQ, TERQ, OTHERSPE) and control variables (company size, leverage and sectors) are normally distributed except for certain values of some variables. Apparently, the values of *skewness* and *kurtosis* in the Table 5.3 are in the range between -2 and 2 (Malhotra, 2010) except for certain values of MKTB EQ and ROE (i.e. secondary data as well as a second proxy for the dependent variables of firm's growth and firm performance respectively, see the explanation of secondary data in Chapter 4) and the three sectors such as industrial product (INDUSTRIAL), finance/insurance (FINANCE) and technology (TECHNOL). That means all variables are normally distributed except for values of MKTB EQ and ROE as well as three sectors (INDUSTRIAL, FINANCE and TECHNOL) (see Table 5.3). Moreover, those secondary data of MKTB EQ and ROE are generally considered as "massaging data" retrieved from DATASTREAM database.

Overall, the mean values are between 0.03 and 14.16 with the standard deviation between 0.05 and 16.57. Amongst the variables, company size (SIZE) has the highest score of a mean of 14.16. This represents that respondent companies are large organization (i.e.

PLCs). Yet, the standard deviation of 16.57 signifies the relative highly variable and widely dispersed data from the mean value among the variables. Nonetheless, this variable (SIZE) is merely incorporated as control variable in Model 2 (Equation 3 and 4 as shown in Chapter 3). For all the eleven dimensions of two independent variables (shown in Table 5.3), the mean values are between 4.97 and 5.98 with the standard deviation between 0.68 and 1.27. Apart from that, for the moderating variable (five dimensions those are, AUDSE, ACCQ, CIACPAQ, TERQ and OTHERSPE), the means of the extent to which internal auditors have such technical expertise, skills and competencies to assist in performance of consulting activity are ranging from 0.11 to 0.78. Nevertheless, the average proportions of internal auditors with CIA or CPA certifications (CIACPAQ), tertiary qualification (TERQ) and other specialization (OTHERSPE) is relatively low (i.e. 0.2288, 0.1321 and 0.1132 respectively), with a minimum score of zero (0) and a maximum of one (1) for CIACPAQ, 0.60 for TERQ and 0.50 for OTHERSPE.

As mentioned in Chapter 4, the measurement scales for internal audit's expertise, skills and competencies (five dimensions) are that of proportions of number of audit staffs with related qualifications to the size of IAF (see section 4.6). Thus, it appears that the number of internal auditors that have those types of qualifications (CIACPAQ, TERQ, and OTHERSPE) in proportion of the total number of audit members in the department is moderately minimal. This is in contrast with the average proportions of internal auditors with prior work experience in auditing (AUDSE) and accounting qualification (ACCQ) which are much higher (0.7876 and 0.7511 respectively), with a minimum score of zero (0) and a maximum of one (1) for both dimensions of internal audit's expertise, skills and competencies. That means the number of internal auditors as proportioned from the total

number of staff in the audit department hold more auditing and accounting knowledge and experience in Malaysian environment.

Four (4) sectors of the listed sectors, namely industrial product (INDUSTRIAL), trading/services (TRADING), finance/insurance (FINANCE) and technology (TECHNOL), are included as control variables in Models 1 and 2. Industrial product (INDUSTRIAL), trading/services (TRADING) are included as control variables due to the high level of responses received from these sectors (see Table 5.2) and finance/insurance (FINANCE) and technology (TECHNOL) are controlled for which it is owing to the various additional regulatory requirements (BNM, 2009) in the firm classified under finance/insurance (FINANCE) and also, because of the higher complexity of its operation in the firm classified under technology (TECHNOL).

Table 5.3: Descriptive Statistics for Variables (N = 112)

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
						Statistic	Std. Error	Statistic	Std. Error
TAIAD1	112	3.40	7.00	5.7143	.85391	-.993	.228	.804	.453
TAIAD2	112	2.50	7.00	4.9777	1.01157	-.293	.228	-.327	.453
TAIAD3	112	3.43	7.00	5.6696	.68365	-.463	.228	.203	.453
TAIAD4	112	3.25	7.00	5.2009	.98172	-.066	.228	-.846	.453
TAIAD5	112	3.20	7.00	5.4893	.90398	-.274	.228	-.723	.453
TAIAD6	112	3.17	7.00	5.3631	.69071	-.117	.228	.076	.453
EXMAC1	112	3.88	7.00	5.9185	.76001	-.779	.228	.130	.453
EXMAC2	112	2.00	7.00	5.1176	1.27336	-.586	.228	-.346	.453
EXMAC3	112	2.67	7.00	5.3869	1.00803	-.469	.228	-.069	.453
EXMAC4	112	3.20	7.00	5.9804	.86032	-.779	.228	.151	.453
EXMAC5	112	3.00	7.00	5.7827	.86612	-.853	.228	1.594	.453
AUDSE	112	.00	1.00	.7876	.22883	-.815	.228	-.122	.453
ACCCQ	112	.06	1.00	.7511	.26964	-1.007	.228	-.090	.453
CIACPAQ	112	.00	1.00	.2288	.23140	1.427	.228	2.002	.453
TERQ	112	.00	.60	.1321	.16433	1.321	.228	.698	.453
OTHERSPE	112	.00	.50	.1132	.13735	1.180	.228	.957	.453
IAC_CONTRB	112	2.11	2.35	2.2485	.05404	-.438	.228	-.553	.453
FG_OPOR (mean_FGO)	112	1.00	7.00	4.4613	1.16934	-.823	.228	1.131	.453
FPERFORM (mean_FP)	112	2.33	7.00	5.0863	1.03129	-.524	.228	.243	.453
FG_OPOR (MKTBKEQ)	112	.18	17.51	1.4573	1.83950	6.425	.228	53.016	.453
FPERFORM (ROE)	112	-101.15	71.20	8.5353	16.56676	-2.698	.228	20.126	.453
SIZE	112	10.69	19.93	14.1600	1.86421	.992	.228	1.143	.453
LEVERAGE	112	-.73	.94	.1230	.29114	-.040	.228	.718	.453
TRADING	112	.00	1.00	.2946	.45793	.913	.228	-1.188	.453
INDUSTRIAL	112	.00	1.00	.1339	.13735	2.179	.228	2.798	.453
TECHNOL	112	.00	1.00	.0357	.18641	5.072	.228	24.155	.453
FINANCE	112	.00	1.00	.0982	.29894	2.737	.228	5.590	.453
Valid N (listwise)	112								

5.3.2 Factor Analysis

There are two sets of factor analyses performed; two sets of variables measuring: 1) the intentions/ambitions of IAD, and 2) the expectations of board and audit committee. In respect of factor analysis for the present study, two statistical tests, namely Kaiser-Meyer-Olkin (KMO) and Bartlett's test of *sphericity* were performed to check on the adequacy of number of sample and the appropriateness of factor analysis (Malhotra, 2010). The detailed descriptions of the results of the factor analysis for each set of the variables are presented in the following subsections.

5.3.2.1 Intentions/Ambitions of IAD

The first cycle of factor analysis in this study involved all variables (i.e. dimensions) to measure the intentions/ambitions of IAD. The KMO test indicated a result of 0.777 and the Bartlett's test is significant at 0.000. The anti-image covariance matrix revealed that all the measurements of sampling adequacy are all above the acceptable level of 0.50 (i.e. KMO is 0.777). The results of the communalities range from 0.458 to 0.829 in which the score is above 0.3. The present analysis resulted in six factors with an eigenvalue for factor 1 of 10.663, factor 2 of 3.069, factor 3 of 2.573, factor 4 of 1.701, factor 5 of 1.554, factor 6 of 1.358. These factors account for 63.390 percent of the variances. Table 5.4 illustrates all the items that are loaded in all the six factors (see also, Appendix H). According to Malhotra (2010), factors loadings are simple correlations between the variables and the factors and factors loading of 0.5 and above are substantial to interpret the factors. However, some

prior studies have mentioned that factor loadings of 0.4 and above are considered significant in interpreting the factors. This is well supported by the works of several researches (for example, Rennie, 1997; Al-Ghamdi, Sohail & Al-Khaldi, 2007; Charvet, Cooper & Gardner, 2008). Generally, they have stated that factor loadings of 0.4 and higher are displayed in the factor loadings table in their study and factor loading minimum of 0.4 is considered acceptable for the factors' interpretations.

Therefore, in the present study, there are five items loaded into factor 1 with factor loadings ranging from 0.590 to 0.764. Six items are loaded into factor 2 with factor loadings from 0.472 to 0.791. Seven items are loaded into factor 3 with factor loadings ranging from 0.477 to 0.737. Four items are loaded into factor 4 with factor loadings ranging from 0.523 to 0.714. Further, five items are loaded into factor 5 with factor loadings ranging from 0.472 to 0.728. Finally, there are six items loaded into factor 6 with factor loadings ranging from 0.420 to 0.690. All the six factors are named accordingly based on the common theme in each factor. Factor 1 is termed as Catalyst for Change; factor 2, Extensive Staff Expertise; factor 3, Challenging Work Environment; factor 4, Organizational Alignment; factor 5, Participative, Qualitative and Real-time Risk Assessment; and factor 6, Array of Audit Services. The factor scores of these six variables (i.e. dimensions) are utilized for further analysis in this study.

Table 5.4: Factor Loadings for Intentions/Ambitions of IAD

Factor description and variables (Loading ≥ 0.40)				
Factor	The Question		Load.	% VE
Factor 1: Catalyst for Change	B1	Become a catalyst for change and action within the organization.	0.764	32.312
	B2	Is encouraged to improve the company's competitive edge.	0.677	
	B4	Observe how the company operates across a business-wide operation.	0.613	
	B3	Provide business process improvement suggestions.	0.590	
	B5	Help the company decide what changes to be made to increase profitability and return on assets.	0.590	
Factor 2: Extensive Staff Expertise	B8	Internal auditors are highly trained, professionally certified and actively participate in their local professional organizations.	0.791	9.301
	B9	Internal auditors are skilled in data analysis, thus, becoming integrated auditors with the combination of IT and business-audit skills.	0.714	
	B7	Has a mix of internal transfer, new hires, and a core of experienced audit practitioners that provides continuity and in-depth knowledge of audit skills.	0.555	
	B11	Use outside contract auditors to co-source a substantial portion of their work, thus, gives benefit to internal auditors in terms of knowledge transfer.	0.499	
	B6	Internal audit staffs are multi-disciplinary, with specialized business knowledge rotating via the department.	0.480	
	B10	Complement in-house resources with selective outsourcing.	0.472	
Factor 3: Challenging Work Environment	B13	Have talented and motivated internal auditors who look for challenging task.	0.737	7.797
	B17	Encourage internal auditors to be trainers, coaches and counsellors of internal control, and not just evaluators.	0.633	
	B16	Also involve staff auditors extensively in decision-making processes besides the audit managers to determine the direction of the department.	0.630	
	B15	Internal auditors' professional challenges must extend beyond regular audit assignments.	0.584	
	B14	Internal auditors' creativity need to be encouraged and rewarded.	0.581	
	B12	Have sufficient talent among internal audit staffs to do consulting.	0.482	
	B18	Internal auditors are taught to always look for new ways to improve the business instead of simply identifying control weaknesses.	0.477	

Table 5.4: Continued

Factor description and variables (Loading ≥ 0.40)				
Factor	The Question		Load.	% VE
Factor 4: Organizational Alignment	B21	During audit planning, internal audit managers meet with key business managers at an assigned frequency or impromptu discussions regarding problem areas.	0.714	5.155
	B22	Participate in major oversight committees, process design and/or redesign teams to contribute their knowledge of controls.	0.644	
	B20	Internal audit managers are assigned to specific lines of business (operation side) to develop long-term relationships with those in charge.	0.626	
	B19	Internal audit managers are assigned to specific lines of business (operation side) to develop in-depth knowledge of business-unit activities.	0.523	
Factor 5: Participative, Qualitative and Real-time	B23	Involve proactively in discussions with executive managers.	0.728	4.709
	B27	Perform a detailed and timely risk assessment for each potential project before committing to it.	0.690	
	B24	Align its audit plan with the organizational strategic plan as to help management accomplish its objectives without time-consuming surprises (costly).	0.686	
	B25	Review management's documented plan and meet with each executive managers, usually once a quarter.	0.654	
	B26	Include significant consultative time in the annual audit plan.	0.472	
Factor 6: Array of Audit Services	B29	Offer an extensive menu of services.	0.727	4.116
	B28	Involve in a broader "assurance and consulting activity" instead of "appraisal function".	0.690	
	B30	Conduct risk-based audits in consultation with management team to identify the business risks.	0.661	
	B32	Conduct self-assessment i.e. hosting workshops, administering questionnaires, and conducting structured interviews to address soft controls.	0.613	
	B33	Provide internal control education formally or on ad-hoc basis.	0.470	
	B31	Conduct pre-implementation reviews on new product or system development and/or project at certain defined milestones.	0.420	
Cumulative variance explained				63.390

5.3.2.2 Expectations of Board and Audit Committee

The second cycle of factor analysis involved all variables (i.e. dimensions) that measure the expectations of board and audit committee. Table 5.5 illustrates all the items that are loaded in all five factors (see also, Appendix H). The KMO test indicated a result of 0.796 and the Bartlett's test is significant at 0.000. The anti-image covariance matrix reveals that all the measurements of sampling adequacy are all above the acceptable level of 0.50 (i.e. KMO is 0.796). The results of the communalities range from 0.447 to 0.989 in which the score is more than 0.30 which indicated a suitability of the data set for factor analysis. The present analysis results in six factors with an eigenvalue for factor 1 of 8.382, factor 2 of 3.352, factor 3 of 2.221, factor 4 of 1.828, factor 5 of 1.282. These factors account for 68.262 percent of the variances. As mentioned earlier, (in subsection 5.3.2.1), factor loadings of 0.4 and above are considered significant in interpreting the factors (Rennie,1997; Al-Ghamdi et al., 2007; Charvet et al., 2008). Therefore, in this study, there are eight items loaded into factor 1 with factor loadings ranging from 0.513 to 0.881. Six items are loaded into factor 2 with factor loadings ranging from 0.504 to 0.905. Three items are loaded into factor 3 with factor loadings ranging from 0.483 to 0.826. Five items are loaded into factor 4 with factor loadings ranging from 0.658 to 0.785.

Table 5.5: Factor Loadings for Expectations of Board and Audit Committee

Factor description and variables (Loading ≥ 0.40)				
Factor	The Question		Load.	% VE
Factor 1: 'Partnership' with Management	C1	Become a consulting resource.	0.881	33.528
	C4	Work closely with management to develop a strong control mechanism.	0.820	
	C3	Work closely with management to improve the organization's operations.	0.788	
	C2	Serve as an advisor to management.	0.779	
	C6	Suggest solutions to problems in a timely manner.	0.777	
	C5	Help to address risks or problems in a timely manner.	0.719	
	C7	Play a value-adding role in due diligence work as they know the business well and provide invaluable judgment and advice for the growth of the company.	0.638	
	C8	Assist in maximizing the efficiency and profitability of a company's capital investment.	0.513	
Factor 2: Training Ground for Future Managers	C11	Train inexperienced talented individuals who are exposed to broad experience for 2 to 3 years, then migrate to line management positions.	0.905	13.408
	C10	Establish rotation programs where new staffs are offered to join internal audit as part of the training program.	0.836	
	C13	Employ experienced internal auditors who then will migrate to line management positions.	0.830	
	C14	Consist of both experienced and inexperienced internal auditors who will deploy their talent and migrate to other management positions.	0.777	
	C9	Develop top talent for leadership positions throughout the organization.	0.734	
	C12	Consist of experienced internal auditors who will stay with the internal audit function.	0.504	
Factor 3: Facilitator of Risk Management and Internal Control	C17	Serve as a supportive function to compensate for the loss of control due to increased organizational complexity.	0.826	8.885
	C16	Serve as a supportive function by assisting with the formalization of the risk management system.	0.631	
	C15	Become a facilitator to design internal control framework, if no proper internal control framework established.	0.483	
Factor 4: Comfort Provider	C19	Serve as an expert at providing comfort to the audit committee.	0.785	7.313
	C21	Provide comfort to the audit committee with respect to control environment continuous improvement.	0.768	
	C20	Provide comfort to the audit committee with respect to risk management and internal control.	0.760	
	C18	Serve as an advisor to the audit committee.	0.745	
	C22	Play role of advisory, support and facilitation when the weak internal controls reinforced by a weak control environment exist.	0.658	
Factor 5: Safeguard of Corporate Culture	C25	Become a facilitator for whistle-blowing program in respect of maintaining a good corporate culture.	0.774	5.128
	C23	Become a safeguard of corporate culture since internal auditors' nature of work is interacting with people in the field.	0.625	
	C24	Have appropriate communication skills during the interaction with people in the field.	0.448	
Cumulative variance explained				68.262

Finally, there are three items loaded into factor 5 with factor loadings ranging from 0.448 to 0.774. All the five factors are also named accordingly based on the common theme in each factor. Factor 1 is termed as 'Partnership' with Management; factor 2, Training Ground for Future Managers; factor 3, Facilitator of Risk Management and Internal Control; factor 4, Comfort Provider; and factor 5, Safeguard of Corporate Culture. Therefore, from the total of 25 items included in the instrument to gauge the expectations of board and audit committee, the factor analysis has regrouped all the items into five main variables (i.e. dimensions) as proxies to measure the expectations of board and audit committee. The factor scores of these five variables (i.e. dimensions) are then utilized for further analysis in this study. The variables' names are revised in the theoretical framework to reflect the items particularly the independent variables. For instance, the name "monitor" is changed to "safeguard" for fifth dimension of expectations of board and audit committee. Basically, the factorial groups extracted are given the appropriate name in accordance with the criteria that they have presented from the proposed research model (that is, conceptual framework in Chapter 3). The detailed conceptual framework (with revision from pilot study in Chapter 4 and factor analysis in this chapter) is re-presented in Figure 5.1.

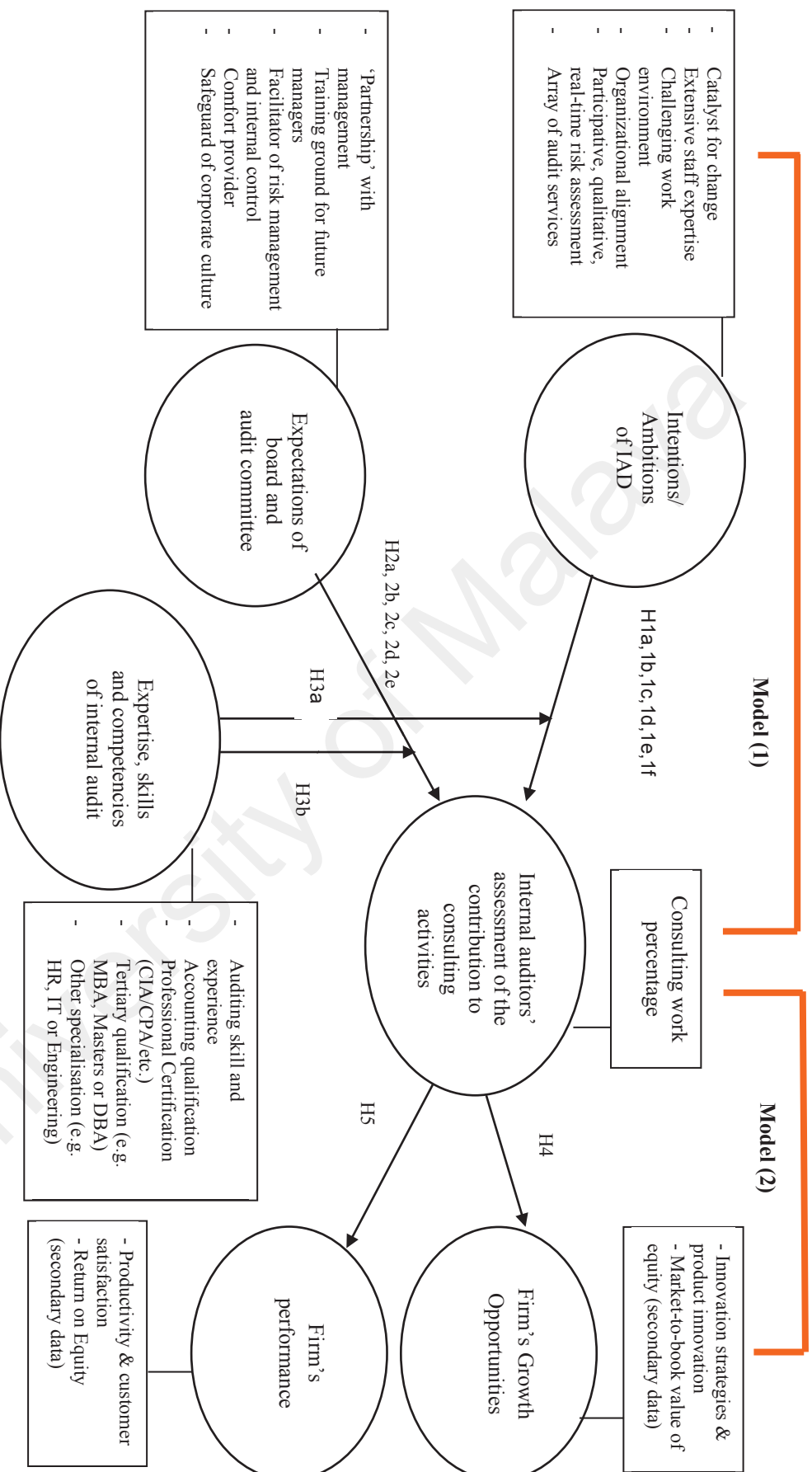


Figure 5.1: Revised Conceptual Framework - Firm's Growth Opportunities, Firm's Performance, Consulting Activities and Influencing Variables

5.3.3 Cronbach's Coefficient of Reliability

The items in the factorial groups are also tested for reliability and validity. Thus, the reliability analyses were conducted for intentions/ambitions of IAD and expectations of senior management/audit committee scales. Besides that, the reliability tests were also conducted for firm's growth opportunities and firm's performance scales (dependent variables of Model 2). Basically, according to Ader (2008), reliability analysis is known as an analysis of homogeneity (internal consistency) that gives an indication of the reliability of a measurement instrument (i.e. part of measurement quality). Further, a reliability test was conducted to ensure that the research findings have the ability to provide consistent results in repeated incidences (Nunally, 1967). Supported by Malhotra (2010), internal consistency reliability determines the extent to which different parts of a summated scale are consistent in what they indicate about the characteristic being measured. The most commonly used is Cronbach's alpha, the average of all possible split-half coefficients resulting from different ways of splitting the scale items. This coefficient varies from 0 to 1, and a value of 0.6 or less generally indicates unsatisfactory internal consistency reliability (Malhotra, 2010). However, according to Cortina (1993), the value 0.5 and above is considered acceptable for showing satisfactory internal consistency reliability. During this analysis, one inspects the variances of the items and the scales, the Cronbach's alpha of the scales, and the changes in the cronbach's alpha when an item would be deleted from a scale (Ader, 2008).

Therefore in this study, internal consistency analysis was performed in order to check the reliability aspect of the items and its factorial groups. The items were grouped into their

respective factorial groups and revised coefficient alpha (Cronbach's) was calculated. The results have shown the values of Cronbach's alpha for four scales which profoundly illustrated in Table 5.6. From the Table 5.6, the alpha ranged from 0.561 to 0.910 in which it delineates that the higher the alpha is, the more reliable the test is. This indicates that all items and factorial groups in this study are sufficient reliable measures, as all of these are well above the acceptable value of showing satisfactory internal consistency reliability, supported by Nunally (1967) and Cortina (1993). In summation, the result of the reliability test shows that the questionnaire design is reliable and consistent. A reliability test for both scales of intentions/ambitions of IAD and expectations of board and audit committee (as in total of all items for each scale) is also done and the final Cronbach's alpha values are stated as 0.915 and 0.899 respectively. In fact, this is consistent with Malhotra (2010) who reveals a value of 0.7 and above which generally indicates satisfactory internal consistency reliability, also supported by Sheridan and Lyndall (2007) and Pallant (2011). Nevertheless, Nunally stated that the value of 0.6 and above are sufficient reliable measures. Furthermore, Cortina (1993) revealed that the value of 0.5 and above is considered acceptable in showing satisfactory internal consistency reliability.

Table 5.6: Reliability Analysis

Variables	Cronbach's Alpha (Initial)	Item Deleted	Cronbach's Alpha (Final)	Remarks
Intentions/Ambitions of Internal Audit Department (6 dimensions)				
Catalyst for change (five items)	0.814	-	0.814	According to Malhotra (2010), a value 0.7 and above generally indicates satisfactory internal consistency reliability. Also supported by Sheridan and Lyndall, (2007) and Pallant (2011).
Extensive staff expertise (six items)	0.763	-	0.763	Same as above.
Challenging work environment (six items)	0.719	-	0.719	Same as above.
Organizational alignment (four items)	0.600	-	0.600	Supported by Nunnally (1967) – as a value of 0.6 and above is reliable. No cronbach's alpha value is above 0.600 if any of the items deleted. Thus, the existing cronbach's alpha is remained as such.
Participative, qualitative, real-time risk assessment (five items)	0.758	-	0.758	According to Malhotra (2010), a value 0.7 and above generally indicates satisfactory internal consistency reliability. Also supported by Sheridan and Lyndall, (2007) and Pallant (2011).
Array of audit services (six items)	0.654	-	0.654	Supported by Nunnally (1967) – as a value of 0.6 and above is reliable. No cronbach's alpha value is above 0.654 if any of the items deleted. Thus, the existing cronbach's alpha is remained as such.

Table 5.6: Continued

Variables	Cronbach's Alpha (Initial)	Item Deleted	Cronbach's Alpha (Final)	Remarks
Expectations of Board and Audit Committee (5 dimensions)				
'Partnership' with management (eight items)	0.831	-	0.831	According to Malhotra (2010), a value 0.7 and above generally indicates satisfactory internal consistency reliability. Also supported by Sheridan and Lyndall, (2007) and Pallant (2011).
Training ground for future managers (six items)	0.888	-	0.888	Same as above.
Facilitator of risk management and internal control (three items)	0.663	-	0.663	Supported by Nunnally (1967) – as a value of 0.6 and above is reliable. No cronbach's alpha value is above 0.654 if any of the items deleted. Thus, the existing cronbach's alpha is remained as such.
Comfort Provider (five items)	0.780	-	0.780	According to Malhotra (2010), a value 0.7 and above generally indicates satisfactory internal consistency reliability. Also supported by Sheridan and Lyndall, (2007) and Pallant (2011).
Safeguard of corporate culture (three items)	0.561	-	0.561	The final Cronbach's alpha was 0.561 for the overall scale of safeguard of corporate culture whereby the value was below 0.6 which it indicated unsatisfactory internal consistency reliability (Malhotra, 2010). However, according to Cortina (1993), the value of 0.5 and above is considered acceptable in order to show satisfactory internal consistency reliability. Therefore, the final alpha of 0.561 is acceptable in accordance with Cortina (1993)'s work.
Firm's Growth Opportunities				
Firm's growth opportunities (six items)	0.900	-	0.900	According to Malhotra (2010), a value 0.7 and above generally indicates satisfactory internal consistency reliability. Also supported by Sheridan and Lyndall, (2007) and Pallant (2011).
Firm's performance				
Firm's performance (six items)	0.910	-	0.910	Same as above.

5.4 Multivariate Analysis

The fourth and fifth research objectives were to investigate to what extent the intentions/ambitions of IAD and expectations of board and audit committee respectively correlate with the consulting role of internal auditors in Malaysia. Basically, two sets of regression analyses were performed to test the internal audit consulting model (Model 1), particularly Equation 1 and 2 (no moderating effect and with moderating effect respectively) between the dependent variable and independent variables. In this case, internal auditors' assessment of their contribution to consulting activities (IAC_CONTRB) acted as a dependent variable and intentions/ambitions of IAD [IAIAD1, IAIAD2, IAIAD3, IAIAD4, IAIAD5, IAIAD6] and the expectations of board and audit committee [EXMAC1, EXMAC2, EXMAC3, EXMAC4, EXMAC5] as the independent variables. In addition, expertise, skills and competencies of internal audit [AUDSE, ACCQ, CIACPAQ, TERQ, OTHERSPE] were included as moderating variable. To control for industry, four (4) types of industry [INDUSTRIAL, TRADING, FINANCE and TECHNOL] were also included in this model. Logarithm transformation was applied to the dependent variable i.e. IAC_CONTRB for several common reasons such as to reduce impact of outliers, to give some rates of changes and to give an elasticity to further perform the regression analysis (Stine & Foster, 2010; Keller & Warrack, 2000). Further, the logarithm transformation can be applied to data which are strictly positive. Analysis is performed using SPSS REGRESSION for evaluation of assumptions. Model 1 is shown as follows:

Equation 1(no moderating effect):

$$\text{IAC_CONTRB} = \beta_0 + \beta_1\text{IAIAD1} + \beta_2\text{IAIAD2} + \beta_3\text{IAIAD3} + \beta_4\text{IAIAD4} + \beta_5\text{IAIAD5} + \beta_6\text{IAIAD6} + \beta_7\text{EXMAC1} + \beta_8\text{EXMAC2} + \beta_9\text{EXMAC3} + \beta_{10}\text{EXMAC4} + \beta_{11}\text{EXMAC5} + \beta_{12}\text{INDUSTRIAL} + \beta_{13}\text{TRADING} + \beta_{14}\text{FINANCE} + \beta_{15}\text{TECHNOL} + \varepsilon$$

Equation 2 (with moderating effect):

$$\text{IAC_CONTRB} = \beta_0 + \beta_1\text{IAIAD1} + \beta_2\text{IAIAD2} + \beta_3\text{IAIAD3} + \beta_4\text{IAIAD4} + \beta_5\text{IAIAD5} + \beta_6\text{IAIAD6} + \beta_7\text{EXMAC1} + \beta_8\text{EXMAC2} + \beta_9\text{EXMAC3} + \beta_{10}\text{EXMAC4} + \beta_{11}\text{EXMAC5} + \beta_{12}\text{AUDSE} + \beta_{13}\text{ACCQ} + \beta_{14}\text{CIACPAQ} + \beta_{15}\text{TERQ} + \beta_{16}\text{IAOTHERSPE} + \beta_{17}\text{INDUSTRIAL} + \beta_{18}\text{TRADING} + \beta_{19}\text{FINANCE} + \beta_{20}\text{TECHNOL} + \varepsilon$$

IAC_CONTRB = Internal auditors' assessment of percentage of internal audit contribution to consulting engagements (0% = internal audit not perform any consulting work to 100% = internal audit perform all consulting work recommended by IIA Professional Standard) (Natural log of Internal auditors' assessment of percentage of internal audit contribution to consulting engagements used in the regression model)

INDUSTRIAL = Dummy variable, 1 = industrial, 0 = others

TRADING = Dummy variable, 1 = trading/services, 0 = others

FINANCE = Dummy variable, 1 = finance/insurance, 0 = others

TECHNOL = Dummy variable, 1 = technology, 0 = others

IAIAD1 = Internal auditors' assessment of proportion of catalyst for change towards internal audit consulting services (seven-point scale ranging from strongly agree to strongly disagree)

IAIAD2 = Internal auditors' assessment of proportion of extensive staff expertise towards internal audit consulting services (seven-point scale ranging from strongly agree to strongly disagree)

IAIAD3 = Internal auditors' assessment of proportion of challenging work environment towards internal audit consulting services (seven-point scale ranging from strongly agree to strongly disagree)

IAIAD4 = Internal auditors' assessment of proportion of organizational alignment towards internal audit consulting services (seven-point scale ranging from strongly agree to strongly disagree)

IAIAD5 = Internal auditors' assessment of proportion of participative, qualitative, real time assessment towards internal audit consulting services (seven-point scale ranging from strongly agree to strongly disagree)

IAIAD6 = Internal auditors' assessment of proportion of array of services towards internal audit consulting services (seven-point scale ranging from strongly agree to strongly disagree)

<i>EXMAC1</i>	=	Internal auditors' assessment of proportion of 'partnership' with management towards internal audit consulting services (seven-point scale ranging from strongly agree to strongly disagree)
<i>EXMAC2</i>	=	Internal auditors' assessment of proportion of training ground for managers towards internal audit consulting services (seven-point scale ranging from strongly agree to strongly disagree)
<i>EXMAC3</i>	=	Internal auditors' assessment of proportion of facilitator of risk management and internal control towards internal audit consulting services (seven-point scale ranging from strongly agree to strongly disagree)
<i>EXMAC4</i>	=	Internal auditors' assessment of proportion of comfort provider towards internal audit consulting services (seven-point scale ranging from strongly agree to strongly disagree)
<i>EXMAC5</i>	=	Internal auditors' assessment of proportion of safeguard of corporate culture towards internal audit consulting services (seven-point scale ranging from strongly agree to strongly disagree)
<i>AUDSE</i>	=	the proportion of internal audit staff with prior work experience in auditing to the size of internal audit function (Number of auditors with prior work experience in auditing / Total staff in the internal audit function)
<i>ACCQ</i>	=	the proportion of internal audit staff who have accounting qualification to the size of internal audit function (Number of auditors with accounting qualification / Total staff in the internal audit function)
<i>CIACPAQ</i>	=	The percent of internal auditors who have the CIA or CPA certification (Number of auditors with CIA or CPA certification / Total staff in the internal audit function)
<i>TERQ</i>	=	The proportion of internal auditors who have tertiary qualification(e.g. MBA, Masters or DBA)over total number of staff in the IAD (Number of auditors with tertiary qualification / Total staff in the internal audit function)
<i>OTHERSPE</i>	=	The proportion of internal auditors who have other specialisation(e.g. HR, IT or Engineering)over total number of staff in the IAD (Number of auditors with other specialisation / Total staff in the internal audit function)

Table 5.7 describes the variables and the expected direction of their relationship with internal auditors' assessment of their contribution to consulting activities (IAC_CONTRB) for Model 1. Table 5.8 presents the OLS regression results of Model 1 (without moderating effect - Equation 1). The overall model is significant ($p=0.000$), with an R^2 of 99.6 per cent.

For convenience, Hypotheses 1 to 3 developed in Chapter 3 are repeated here (including some revision done for H2e [naming of factor ‘safeguard’], H3a and H3b [both hypotheses includes five dimensions of expertise, skills and competencies of internal audit]).

H1a: There is a significant correlation between the intention to be the catalyst for change and the internal auditors’ assessment of their contribution to consulting activities in Malaysia.

H1b: There is a significant correlation between the extensiveness of staff expertise and the internal auditors’ assessment of their contribution to consulting activities in Malaysia.

H1c: There is a significant correlation between the element of challenging work environment and the internal auditors’ assessment of their contribution to consulting activities in Malaysia.

H1d: There is a significant correlation between the element of organizational alignment and the internal auditors’ assessment of their contribution to consulting activities in Malaysia.

H1e: There is a significant correlation between the intention to be “participative, qualitative and real-time risk assessment” and the internal auditors’ assessment of their contribution to consulting activities in Malaysia.

H1f: There is a significant correlation between the intention to provide an array of services and the internal auditors’ assessment of their contribution to consulting activities in Malaysia.

H2a: There is an association between the board and audit committee’s expectations on internal auditors to have ‘partnership’ with management and the internal auditors’ assessment of their contribution to consulting activities in Malaysia.

H2b: There is an association between the board and audit committee’s expectations on internal audit as a training ground for managers and the internal auditors’ assessment of their contribution to consulting activities in Malaysia.

H2c: There is an association between the board and audit committee’s expectations on internal audit as the “facilitator of risk management and internal control” and the internal auditors’ assessment of their contribution to consulting activities in Malaysia.

H2d: There is an association between the board and audit committee's expectations on internal audit as the comfort provider and the internal auditors' assessment of their contribution to consulting activities in Malaysia.

H2e: There is an association between the board and audit committee's expectations on internal audit as the monitor of corporate culture and the internal auditors' assessment of their contribution to consulting activities in Malaysia.

H3a: There is a moderating effect of the expertise, skills and competencies of IA (auditing skill and experience, accounting qualification, professional certification, tertiary qualification, and other specialisation) on the association between the intentions/ambitions of IAD (catalyst for change, extensive staff expertise, challenging work environment, organisational alignment, "participative, qualitative and real-time risk assessment" and array of services) and the internal auditors' assessment of their contribution to consulting activities in Malaysia.

H3b: There is a moderating effect of the expertise, skills and competencies of IA (auditing skill and experience, accounting qualification, professional certification, tertiary qualification, and other specialisation) on the association between the expectations of management/audit committee ('partnership' with management, training ground for future managers, "facilitator of risk management and control", comfort provider, and safeguard of corporate culture) and the internal auditors' assessment of their contribution to consulting activities in Malaysia.

Table 5.7: Variables Description and Expected Direction for Model 1

Variable (s)	Description and Measurement	Predicted Direction	Relevant Hypotheses
Dependent variable			
Internal auditors' assessment of their contribution to consulting activities (IAC_CONTRB)	Internal auditors' assessment of percentage of internal audit contribution to consulting engagements (0% = internal audit not perform any consulting work to 100% = internal audit perform all consulting work recommended by IIA Professional Standard) (Natural log of Internal auditors' assessment of percentage of internal audit contribution to consulting engagements used in the regression model)		
Independent variable (s)			
Intentions/ambitions of IAD	1) Internal auditors' assessment of proportion of catalyst for change towards internal audit consulting services (IAIAD1)	+ve	1a
	2) Internal auditors' assessment of proportion of extensive staff expertise towards internal audit consulting services (IAIAD2)	+ve	1b
	3) Internal auditors' assessment of proportion of challenging work environment towards internal audit consulting services (IAIAD3)	+ve	1c
	4) Internal auditors' assessment of proportion of organizational alignment towards internal audit consulting services (IAIAD4)	+ve	1d
	5) Internal auditors' assessment of proportion of participative, qualitative, real time assessment towards internal audit consulting services (IAIAD5)	+ve	1e
	6) Internal auditors' assessment of proportion of array of services towards internal audit consulting services (IAIAD6)	+ve	1f
Expectations of board and audit committee	1) Internal auditors' assessment of proportion of 'partnership' with management towards internal audit consulting services (EXMAC1)	+ve	2a
	2) Internal auditors' assessment of proportion of training ground for managers towards internal audit consulting services (EXMAC2)	+ve	2b
	3) Internal auditors' assessment of proportion of facilitator of risk management and internal control towards internal audit consulting services (EXMAC3)	+ve	2c
	4) Internal auditors' assessment of proportion of comfort provider towards internal audit consulting services (EXMAC4)	+ve	2d
	5) Internal auditors' assessment of proportion of safeguard of corporate culture towards internal audit consulting services (EXMAC5)	+ve	2e

Table 5.7: Continued

Variable (s)	Description and Measurement	Predicted Direction	Relevant Hypotheses
Moderating variable			
AUDSE	the proportion of internal audit staff with prior work experience in auditing to the size of internal audit function (Number of auditors with prior work experience in auditing / Total staff in the internal audit function)	+ve	3a, 3b
ACCQ	the proportion of internal audit staff who have accounting qualification to the size of internal audit function (Number of auditors with accounting qualification / Total staff in the internal audit function)	+ve	
CIACPAQ	The percent of internal auditors who have the CIA or CPA certification (Number of auditors with CIA or CPA certification / Total staff in the internal audit function)	+ve	
TERQ	The proportion of internal auditors who have tertiary qualification(e.g. MBA, Masters or DBA)over total number of staff in the IAD (Number of auditors with tertiary qualification / Total staff in the internal audit function)	+ve	
OTHERSPE	The proportion of internal auditors who have other specialisation(e.g. HR, IT or Engineering)over total number of staff in the IAD (Number of auditors with other specialisation / Total staff in the internal audit function)	+ve	
Control variable			
INDUSTRIAL	Dummy variable, 1 = industrial, 0 = others	?	
TRADING	Dummy variable, 1 = trading/services, 0 = others	?	
FINANCE	Dummy variable, 1 = finance/insurance, 0 = others	?	
TECHNOL	Dummy variable, 1 = technology, 0 = others	?	

5.4.1 Results of Model 1- Equation 1(no moderating effect – Hypotheses 1(a,b,c,d,e,f), 2(a,b,c,d,e))

In standard multiple regression, all the independent (or predictor) variables are entered into the equation simultaneously. The approach is used to determine whether the independent variables could explain significant variation in the dependent variable. In this case, the dependent variable is “internal auditors’ assessment of their contribution to consulting activities” (see Table 5.9). From the Table 5.9, the adjusted R Square is shown 0.987 and to be expressed in percentage, meaning that the model (which included eleven

independent variables stated below the table) explained 98.7 percent of the variance in the internal auditors' assessment of their contribution to consulting activities (IAC_CONTRB). To look whether the model was significant, Table 5.8 (F-test column) is referred and it showed that p-value is equalled to 0.000 and therefore the model was significant at 0.05 level.

Further, as shown in Table 5.8, the coefficients for the independent variable, intentions/ambitions of IAD (i.e. IAIAD1 until IAIAD6) are significant at the five (5) per cent level of significance (all shows 0.000) hence supporting Hypotheses 1a until 1f and the directions are positive in the manner as predicted. The results indicate strong positive relationships between intentions/ambitions of IAD in which they are represented by six dimensions (IAIAD1 until IAIAD6) and internal auditors' assessment of their contribution to consulting activities (IAC_CONTRB). Therefore, Hypothesis 1 is well supported. However, Hypotheses 2 is merely partially supported, in that, of the five (5) different dimensions of expectations of senior management/audit committee, only facilitator of risk management and internal control (EXMAC3), comfort provider (EXMAC4) are significant at the five (5) per cent level of significance ($p=0.006$ and 0.003 respectively) and safeguard of corporate culture is significant at the ten (10) per cent level of significance ($p=0.084$). The results support Hypotheses 2c, 2d and 2e and the directions are positive in the manner as predicted. The other dimensions of expectations of board and audit committee i.e. 'partnership' with management and training ground for managers are not significant at ($p=0.316$, and $p=0.187$ respectively).

In terms of control variable, the variable relating to different industry sectors, only companies that fall under industrial product sector (INDUSTRIAL) is found to be negatively associated with the internal auditors' assessment of their contribution to consulting activities (IAC_CONTRB) at five (5) per cent level of significant ($p=0.030$). This indicates that internal auditors working in "industrial product" companies contribute less to the consulting activities, which tend to be higher than the non-industrial product companies. The other three (3) types of sectors, i.e. trading/services (TRADING), finance/insurance (FINANCE) and technology (TECHNOL) however, are found not to be significantly related to the internal auditors' assessment of their contribution to consulting activities at ($p=0.824$, $p=0.159$ and $p=0.517$) respectively.

Furthermore, in the present study such relationships between the independent variable do not present any multicollinearity problem in which the VIF scores reported in the OLS regression results (Table 5.8) are well below the level that would suggest problems with multicollinearity (Neter, Wasserman & Kutner, 1990; Kutner, Nachtsheim & Neter, 2003; Mat Zain, 2005; Mat Zain et al., 2006). According to Kutner et al. (2003), the general rule of thumb is that VIFs exceeding 4 warrant further investigation, while VIFs exceeding 10 are signs of serious multicollinearity requiring correction.

Table 5.8: OLS Regression Results: Internal Audit Consulting Model

Variables	Relevant Hypotheses	Expected Sign	Coef. (β)	t-value	p-value	Collinearity Diagnostics (VIF)
<i>Constant</i>			1.379	15.003	0.000*	
IAIAD1	H1a	+	0.277	16.177	0.000*	3.007
IAIAD2	H1b	+	0.272	15.914	0.000*	2.619
IAIAD3	H1c	+	0.210	11.566	0.000*	2.905
IAIAD4	H1d	+	0.220	13.931	0.000*	2.365
IAIAD5	H1e	+	0.073	4.406	0.000*	3.387
IAIAD6	H1f	+	0.243	15.307	0.000*	2.627
EXMAC1	H2a	+	-0.019	-1.008	0.316	3.518
EXMAC2	H2b	+	0.021	1.329	0.187	2.219
EXMAC3	H2c	+	0.049	-2.820	0.006*	2.851
EXMAC4	H2d	+	0.048	3.038	0.003*	2.702
EXMAC5	H2e	+	0.030	1.747	0.084**	2.533
INDUSTRIAL		?	-0.016	-2.208	0.030*	1.288
TRADING		?	-0.002	-0.223	0.824	1.182
FINANCE		?	-0.012	-1.420	0.159	1.174
TECHNOL		?	0.004	0.650	0.517	1.208

a. Dependent Variable: log_totAlitoAliv

Model 1:

R Square 0.988

Adjusted R Square 0.987

F-value/ (p-value) 753.938/
(0.000)

N 112

*Significant at 5% level; **Significant at 10% level.

Where:

IAC_CONTRB = Internal auditors' assessment of their contribution to consulting activities (Natural log of Internal auditors' assessment of percentage of internal audit contribution to consulting engagements used in the regression model)

INDUSTRIAL = Dummy variable, 1 = industrial, 0 = others

TRADING = Dummy variable, 1 = trading/services, 0 = others

FINANCE = Dummy variable, 1 = finance/insurance, 0 = others

TECHNOL = Dummy variable, 1 = technology, 0 = others

IAIAD1 = Catalyst for Change

IAIAD2 = Extensive Staff Expertise

IAIAD3 = Challenging Work Environment

IAIAD4 = Organizational Alignment

IAIAD5 = Participative, Qualitative, Real-time Assessment

IAIAD6 = Array of Services

EXMAC1 = 'Partnership' with Management

EXMAC2 = Training Ground for Managers

EXMAC3 = Facilitator of Risk Management and Internal Control

EXMAC4 = Comfort Provider

EXMAC5 = Safeguard of Corporate Culture

5.4.2 Results of Model 1- Equation 2 (with moderating effect – Hypotheses 3(a,b))

This section presents the results of the hierarchical multiple regressions concerning the two independent variables i.e. intentions/ambitions of IAD with its six dimensions (IAIAD1 until IAIAD6) and expectations of board and audit committee with its five dimensions (EXMAC1 until EXMAC5). This regression analysis was conducted to answer the seventh research objective that was to investigate the moderating effect of the expertise, skills and competencies of internal audit in the relationship between the intentions/ambitions of IAD and expectations of board and audit committee and the consulting role of internal auditors in Malaysia.

University of Malaya

5.4.2.1 Results of Model 1- Equation 2 (with moderating effect – Hypotheses 3a)

Table 5.9 presents the results of the hierarchical multiple regressions concerning the intentions/ambitions of IAD with its six dimensions (IAIAD1 until IAIAD6). Overall, the results have supported the expected or hypothesized relationship of internal auditors' assessment of their contribution to consulting activities (IAC_CONTRB). By looking at each dimension of expertise, skills and competencies of internal audit (moderating variable), the results indicate significant moderating capability to influence the relationship between some dimensions of intentions/ambitions of IAD and the internal auditors' assessment of their contribution to their consulting activities. As a matter of fact, the R Squares for five dimensions of moderating effects are shown 0.997 (each of them) in which there is slight increase for each as compared to the R Square with no moderating effect (see Table 5.8). Besides, the movement of the moderating effects as a whole is positive in nature. For instance, two dimensions of moderating variable i.e. audit experience (AUDSE) and accounting qualification (ACCQ) indicate a significant moderating capability to influence the relationship between intentions/ambitions of IAD and the internal auditors' assessment of their contribution to their consulting activities (IAC_CONTRB). For audit experience moderating effect, of six dimensions of intentions/ambitions of IAD, only four (catalyst for change, challenging work environment, organizational alignment and array of services) that have shown positive significant relationships with consulting activities (IAC_CONTRB). In addition, for accounting qualification moderating effect, three dimensions (organizational alignment, "participative, qualitative, real-time assessment" and array of services) have shown the same direction (i.e. positive) in which they are

significantly associated with the internal auditors' assessment of their contribution to consulting activities (IAC_CONTRB). Table 5.9 presents the result of analysis.

From Table 5.9, catalyst for change (IAIAD1) is moderated by audit experience (AUDSE), CIA/CPA qualification (CIACPAQ), tertiary qualification (TERQ), and other specialization (OTHERSPE) towards influencing the consulting activity by internal auditors. Thus, it indicates that audit experience, CIA/CPA qualification, tertiary qualification and other specialization are important. Next, challenging work environment (IAIAD3) is moderated by audit experience (AUDSE) whereas “participative, qualitative, real-time assessment” is moderated by accounting qualification (ACCQ). On the other hand, organizational alignment (IAIAD4) and array of services (IAIAD6) are moderated by audit experience (AUDSE), accounting qualification (ACCQ), and other specialization (OTHERSPE). Therefore, it shows that these five dimensions of expertise, skills and competencies of internal audit are important and demonstrates the moderating capabilities to influence the predictive ability of the equation between the intentions/ambitions of IAD (six dimensions) and internal auditors' assessment of their contribution to their consulting activities.

Table 5.9: Moderating Effects (Five Dimensions) towards Intentions/Ambitions of IAD (Six Dimensions) and Internal Auditors' Assessment of their Contribution to Consulting Activities

Variables	Audit Experience (AUDSE)		Accounting Qualification (ACCO)		CIA/CPA qualification (CIACPAQ)		Tertiary Qualification (TERO)		Other Specialization (OTHERSPE)	
	Coef.	t-value	Coef.	t-value	Coef.	t-value	Coef.	t-value	Coef.	t-value
<i>Constant</i>	1.804*	57.551	1.812*	57.180	1.807*	56.640	1.805*	56.846	1.811*	55.575
IAIAD1	0.207*	16.391	0.212*	19.422	0.205*	14.853	0.219*	18.674	0.200*	15.547
IAIAD2	0.251*	23.566	0.272*	25.940	0.264*	26.008	0.260*	24.586	0.278*	22.569
IAIAD3	0.244*	21.799	0.227*	18.904	0.235*	20.858	0.221*	21.112	0.226*	18.657
IAIAD4	0.179*	18.370	0.169*	17.339	0.196*	18.269	0.182*	17.616	0.187*	16.661
IAIAD5	0.208*	15.293	0.235*	17.472	0.188*	13.083	0.206*	15.694	0.196*	14.062
IAIAD6	0.188*	18.255	0.178*	17.767	0.197*	17.762	0.188*	16.613	0.189*	18.222
Z_IAIAD1	0.032*	2.563	0.000	0.003	0.026**	1.805	0.017**	1.717	0.037*	2.599
Z_IAIAD2	0.007	0.613	-0.019	-1.482	0.016	1.149	-0.016	-1.501	0.007	0.427
Z_IAIAD3	0.027*	2.683	0.012	0.706	0.010	0.666	-0.004	-0.371	-0.008	-0.590
Z_IAIAD4	0.021*	2.067	0.040*	3.411	-0.010	-0.942	0.013	1.278	0.028**	1.759
Z_IAIAD5	0.084	1.008	0.050*	3.294	-0.009	-0.784	-0.006	-0.395	-0.020	-1.230
Z_IAIAD6	0.168*	2.065	0.030*	2.235	0.020	1.449	0.001	0.074	0.014	1.405
INDUSTRIAL	-0.023*	-3.177	-0.024*	-3.555	-0.017*	-2.306	-0.018*	-2.272	-0.020*	-2.729
TRADING	-0.006	-0.839	-0.14**	-1.870	0.002	0.234	-0.008	-1.091	-0.004	-0.468
FINANCE	-0.007	-0.766	0.004	0.421	-0.014	-1.635	-0.013	-1.641	-0.016**	-1.942
TECHNOL	0.003	0.463	0.001	0.113	0.007	1.042	0.005	0.792	0.004	0.529
R Square		0.997		0.997		0.996		0.997		0.996
Adj. R Square		0.996		0.996		0.995		0.996		0.996
F-value		705.183		712.726		687.124		685.774		689.537
p-value		0.000		0.000		0.000		0.000		0.000
Collinearity Diagnostics (VIP)		1.797		1.939		1.269		1.313		1.391

a. Dependent Variable: log_totAItoAIiv
 *Significant at the 5% level; **Significant at the 10% level.

Where:

<i>IAC_CONTRB</i>	=	Internal auditors' assessment of their contribution to consulting activities (Natural log of Internal auditors' assessment of percentage of internal audit contribution to consulting engagements used in the regression model)
<i>INDUSTRIAL</i>	=	Dummy variable, 1 = industrial, 0 = others
<i>TRADING</i>	=	Dummy variable, 1 = trading/services, 0 = others
<i>FINANCE</i>	=	Dummy variable, 1 = finance/insurance, 0 = others
<i>TECHNOL</i>	=	Dummy variable, 1 = technology, 0 = others
<i>IAIAD1</i>	=	Catalyst for Change
<i>IAIAD2</i>	=	Extensive Staff Expertise
<i>IAIAD3</i>	=	Challenging Work Environment
<i>IAIAD4</i>	=	Organizational Alignment
<i>IAIAD5</i>	=	Participative, Qualitative, Real-time Assessment
<i>IAIAD6</i>	=	Array of Services
<i>Z_IAIAD1</i>	=	Moderating effects of five dimensions on Catalyst for Change
<i>Z_IAIAD2</i>	=	Moderating effects of five dimensions on Extensive Staff Expertise
<i>Z_IAIAD3</i>	=	Moderating effects of five dimensions on Challenging Work Environment
<i>Z_IAIAD4</i>	=	Moderating effects of five dimensions on Organizational Alignment
<i>Z_IAIAD5</i>	=	Moderating effects of five dimensions on Participative, Qualitative, Real-time Assessment
<i>Z_IAIAD6</i>	=	Moderating effects of five dimensions on Array of Services
<i>AUDSE</i>	=	The proportion of internal audit staff with prior work experience in auditing to the size of internal audit function (Number of auditors with prior work experience in auditing / Total staff in the internal audit function)
<i>ACCQ</i>	=	The proportion of internal audit staff who have accounting qualification to the size of internal audit function (Number of auditors with accounting qualification / Total staff in the internal audit function)
<i>CIACPAQ</i>	=	The percent of internal auditors who have the CIA or CPA certification (Number of auditors with CIA or CPA certification / Total staff in the internal audit function)
<i>TERQ</i>	=	The proportion of internal auditors who have tertiary qualification(e.g. MBA, Masters or DBA)over total number of staff in the IAD (Number of auditors with tertiary qualification / Total staff in the internal audit function)
<i>OTHERSPE</i>	=	The proportion of internal auditors who have other specialization(e.g. HR, IT or Engineering)over total number of staff in the IAD (Number of auditors with other specialization / Total staff in the internal audit function)

Overall, the intentions/ambitions of IAD coupled with the expertise, skills and competencies of internal audit (moderating variable) could significantly explain the variation of the internal auditors' assessment of their contribution to consulting activities. Apart from that, industry classification also demonstrated a significant influence in explaining the variation in the internal auditors' assessment of their contribution to consulting activities. Only companies that fall under industrial product sector (INDUSTRIAL) is found to be negatively associated with the internal auditors' assessment of their contribution to consulting activities (IAC_CONTRB) at five (5) per cent level of significance for all the five (5) equations with moderating effects. Meanwhile, finance/insurance (FINANCE) and trading/services (TRADING) are found to have inverse relationships with the internal auditors' assessment of their contribution to consulting activities at ten (10) per cent level of significance. Those however, are limited to accounting qualification (ACCQ) and other specification (OTHERSPE) moderating effects' equations respectively. Therefore, H3a is partially supported as there are some moderating effects on the relationships between intentions/ambitions of IAD and the internal auditors' assessment of their contribution to consulting activities.

5.4.2.2 Results of Model 1- Equation 2 (with moderating effect – Hypotheses 3b)

A similar analysis is performed to test hypothesis H3b which states that the relationship between expectations of board and audit committee and internal auditors' assessment of their contribution to consulting activities is significantly moderated by the expertise, skills and competencies of internal audit. Table 5.10 presents the results of the hierarchical multiple regressions concerning the expectations of board and audit committee with its five

dimensions (EXMAC1 until EXMAC5). The expertise, skills and competencies of internal audit (represented by five dimensions) demonstrates its moderating capabilities to influence the predictive ability of the equations between the expectations of board and audit committee and internal auditors' assessment of their contribution to consulting activities. The results of significance relationships however, are limited to three moderating effects i.e. accounting qualification (ACCQ), CIA/CPA qualification (CIACPAQ) and tertiary qualification (TERQ). In addition, the directions are mixed, inclusive of positive and negative patterns. As a matter of fact, the R Squares for three dimensions of moderating effects are shown 0.997 (each of them) in which there is a slight increase for each as compared to the R Square with no moderating effect (see Table 5.8).

From the Table 5.10, 'partnership' with management (EXMAC1) is inversely moderated by CIA/CPA qualification (CIACPAQ) but positively moderated by tertiary qualification (TERQ) towards influencing the consulting activity by internal auditors. Thus, it indicates that the expectation of board and audit committee on internal audit being the 'partner' to the management coupled with CIA/CPA qualification is less influencing the consulting activity. On the other hand, tertiary qualification is shown not important when tested together with the construct 'partnership' with management in which there is statistical weak evidence to indicate the positive moderating effect of tertiary qualification on the equation of 'partnership' with management and internal auditors' assessment of their contribution to their consulting activities (significant at the 10% level). Next, training ground for managers (EXMAC2) shows an inverse pattern instead when it is moderated by tertiary qualification (TERQ). This infers that the expectation of board and audit committee on internal auditors as training ground for managers is unlikely to contribute in performing

consulting activities when they have tertiary qualification. Nevertheless, it is somewhat interesting to see that those three cases have shown similar beta coefficient values of 0.025 (with positive and negative values, see Table 5.10). Next, facilitator of risk management and internal control (EXMAC3) is positively moderated by accounting qualification (ACCQ) and tertiary qualification (TERQ). That shows both accounting and tertiary qualifications are essential (beta coefficient values of 0.027 and 0.020 individually). Yet, there is statistical weak evidence to indicate the positive moderating effect of tertiary qualification on the equation of facilitator of risk management and internal control and internal auditors' assessment of their contribution to their consulting activities (significant at the 10% level, see Table 5.10). Finally, safeguard of corporate culture (EXMAC5) is moderated by CIA/CPA qualification (CIACPAQ) and it indicates the importance of having CIA/CPA qualification (beta coefficient value of 0.029). This demonstrates its moderating capability to influence the predictive ability of the equation between safeguard of corporate culture and internal auditors' assessment of their contribution to their consulting activities. Having said all that, there are no significant relationships on the moderating effects of the other two dimensions of expertise, skills and competencies of internal audit found in the relationships between the expectations of board and audit committee (five dimensions) and internal auditors' assessment of their contribution to consulting activities.

Table 5.10: Moderating Effects (Five Dimensions) towards Expectations of Board and Audit Committee (Five Dimensions) and Internal Auditors' Assessment of their Contribution to Consulting Activities

Variables	Audit Experience (AUDSE)		Accounting Qualification (ACCO)		CIA/CPA qualification (CIACPAQ)		Tertiary Qualification (TERQ)		Other Specialization (OTHERSPE)	
	Coef.	t-value	Coef.	t-value	Coef.	t-value	Coef.	t-value	Coef.	t-value
<i>Constant</i>	1.804*	57.551	1.812*	57.180	1.807*	56.640	1.805*	56.846*	1.811*	55.575
EXMAC1	-0.018	-1.424	0.000	0.032	-0.028*	-2.362	-0.006	-0.472	-0.023**	-1.705
EXMAC2	-0.004	-0.451	-0.008	-0.913	-0.006	-0.600	-0.005	-0.491	0.007	0.659
EXMAC3	0.027*	2.038	0.000	0.003	0.012	0.991	0.004	0.367	0.005	0.488
EXMAC4	-0.013	-1.208	-0.014	-1.298	-0.006	-0.526	-0.003	-0.272	0.010	0.842
EXMAC5	0.005	0.423	-0.016	-1.102	0.011	0.855	0.004	0.398	-0.011	-0.801
Z_EXMAC1	0.014	1.336	0.003	0.257	-0.025*	-2.291	0.025**	1.820	0.003	0.263
Z_EXMAC2	-0.004	-0.355	0.013	1.468	0.004	0.349	-0.025*	-2.122	0.001	0.057
Z_EXMAC3	-0.011	-0.914	0.027*	2.111	-0.005	-0.350	0.020**	1.862	-0.007	-0.624
Z_EXMAC4	0.100	1.398	-0.002	-0.143	0.014	0.948	-0.014	-1.077	0.018	1.566
Z_EXMAC5	0.007	0.610	0.019	1.114	0.029*	2.429	0.000	-0.029	-0.017	-1.278
INDUSTRIAL	-0.023*	-3.177	-0.024*	-3.555	-0.017*	-2.306	-0.018*	-2.272	-0.020*	-2.729
TRADING	-0.006	-0.839	-0.14**	-1.870	0.002	0.234	-0.008	-1.091	-0.004	-0.468
FINANCE	-0.007	-0.766	0.004	0.421	-0.014	-1.635	-0.013	-1.641	-0.016**	-1.942
TECHNOL	0.003	0.463	0.001	0.113	0.007	1.042	0.005	0.792	0.004	0.529
R Square		0.997		0.997		0.996		0.997		0.996
Adj. R Square		0.996		0.996		0.995		0.996		0.996
F-value		705.183		712.726		687.124		685.774		689.537
p-value		0.000		0.000		0.000		0.000		0.000
Collinearity Diagnostics (VIF)		1.797		1.939		1.269		1.313		1.391

a. Dependent Variable: log_totAiv

*Significant at the 5% level; **Significant at the 10% level.

Where:

<i>IAC_CONTRB</i>	=	Internal auditors' assessment of their contribution to consulting activities (Natural log of Internal auditors' assessment of percentage of internal audit contribution to consulting engagements used in the regression model)
<i>INDUSTRIAL</i>	=	Dummy variable, 1 = industrial, 0 = others
<i>TRADING</i>	=	Dummy variable, 1 = trading/services, 0 = others
<i>FINANCE</i>	=	Dummy variable, 1 = finance/insurance, 0 = others
<i>TECHNOL</i>	=	Dummy variable, 1 = technology, 0 = others
<i>EXMAC1</i>	=	'Partnership' with Management
<i>EXMAC2</i>	=	Training ground for managers
<i>EXMAC3</i>	=	Facilitator of Risk Management and Internal Control
<i>EXMAC4</i>	=	Comfort Provider
<i>EXMAC5</i>	=	Safeguard of Corporate Culture
<i>Z_EXMAC1</i>	=	Moderating effects of five dimensions for 'Partnership' with Management
<i>Z_EXMAC2</i>	=	Moderating effects of five dimensions for Training Ground for Managers
<i>Z_EXMAC3</i>	=	Moderating effects of five dimensions for Facilitator of Risk Management and Internal Control
<i>Z_EXMAC4</i>	=	Moderating effects of five dimensions for Comfort Provider
<i>Z_EXMAC5</i>	=	Moderating effects of five dimensions for Safeguard of Corporate Culture
<i>AUDSE</i>	=	The proportion of internal audit staff with prior work experience in auditing to the size of internal audit function (Number of auditors with prior work experience in auditing / Total staff in the internal audit function)
<i>ACCQ</i>	=	The proportion of internal audit staff who have accounting qualification to the size of internal audit function (Number of auditors with accounting qualification / Total staff in the internal audit function)
<i>CIACPAQ</i>	=	The percent of internal auditors who have the CIA or CPA certification (Number of auditors with CIA or CPA certification / Total staff in the internal audit function)
<i>TERQ</i>	=	The proportion of internal auditors who have tertiary qualification(e.g. MBA, Masters or DBA)over total number of staff in the IAD (Number of auditors with tertiary qualification / Total staff in the internal audit function)
<i>OTHERSPE</i>	=	The proportion of internal auditors who have other specialisation(e.g. HR, IT or Engineering)over total number of staff in the IAD (Number of auditors with other specialization / Total staff in the internal audit function)

The said dimensions are audit experience (AUDSE) and other specialization (OTHERSPE).

In summary, among the three dimensions of moderating effects that have significant influences, tertiary qualification is proved to moderate more the relationships between the expectations of board and audit committee and the internal auditors' assessment of their contribution to consulting activities. 'Partnership' with management (EXMAC1) and facilitator of risk management and internal control (EXMAC3) except for training ground for managers (EXMAC2) apparently shows positive patterns whereby when they are moderated by tertiary qualification (TERQ) (the fourth dimension of expertise, skills and competencies of internal audit), it is more likely to contribute in performing consulting activities. Training ground for managers (EXMAC2) has shown an inverse pattern instead when it was moderated by tertiary qualification (TERQ). The results suggest that the expectation of board and audit committee on internal auditors as training ground for managers has little influence to internal auditors performing consulting activities when they have tertiary qualification. Inverse relationship is found on the moderating effect from CIA/CPA qualification (CIA/CPAQ) in the relationship between 'partnership' with management and internal auditors' assessment of their contribution to consulting activities. In contrast, positive pattern is found between safeguard of corporate culture and the internal auditors' assessment of their contribution to consulting activities when moderated by CIA/CPA qualification (CIA/CPAQ). This has implied that the expectations of board and audit committee in terms of internal auditors being a safeguard of corporate culture has likely to influence the contribution towards consulting activities when they have CIA/CPA qualification. A significant relationship on the moderating effect of accounting qualification (ACCQ) is found between the facilitator of risk management and internal control and the

internal auditors' assessment of their contribution to consulting activities. That has apparently showed a positive pattern that implies the more accounting qualification coupled with the expectations of board and audit committee in terms of internal auditors being facilitator of risk management and internal control, the more contribution of internal auditors towards consulting activities. It is fascinating to note that the patterns of the relationships are mixed (positive and negative in mode) as the moderating effects (i.e. accounting qualification, CIA/CPA qualification and tertiary qualification) are placed into the equations. This result though substantiates the definition of internal auditing that the internal auditors are expected to perform not only assurance but also consulting roles.

Moreover, the industry (sector) classification is reported to have significant influence in the internal auditors' assessment of their contribution to consulting activities. It is apparent that merely companies that fall under industrial product sector (INDUSTRIAL) are found to be negatively associated with the internal auditors' assessment of their contribution to consulting activities (IAC_CONTRB) at five (5) percent level of significance for all the five (5) equations with moderating effects. Furthermore, finance/insurance (FINANCE) is found to have inverse relationships with the internal auditors' assessment of their contribution to consulting activities at ten (10) percent level of significance, although it is a weak evidence to indicate as such for moderating effect of accounting qualification's equation. Similarly, trading/services (TRADING) is found to be inversely associated with the internal auditors' assessment of their contribution to consulting activities (significant at 10% level) for other specification (OTHERSPE) moderating effect's equation. In contrast, technology sector (TECHNOL) is found not to be significantly related with the internal auditors' assessment

of their contribution to consulting activities when all five moderating effects' equations are run separately.

Conclusively, H3b is also partially supported as there are some moderating effects on the relationships between expectations of board and audit committee and the internal auditors' assessment of their contribution to consulting activities. The next section describes the results of multiple regressions concerning the independent variable i.e. internal auditors' assessment of their contribution to consulting activities (IAC_CONTRB) acted as an independent variable (or hypothesis variable).

In terms of multicollinearity issue, in the present study such relationships between the independent variable inclusive of moderating variable do not present any multicollinearity problem in which the VIF scores reported in the OLS regression results (Table 5.9 and table 5.10) are well below the level that would suggest problems with multicollinearity (Neter, et al., 1990; Kutner et al., 2003; Mat Zain, 2005; Mat Zain et al., 2006). As stated earlier, the general rule of thumb is that VIFs exceeding 4 warrant further investigation, while VIFs exceeding 10 are signs of serious multicollinearity requiring correction; incidentally, in terms of the adjusted R^2 -value, it could be higher (close to 100%) as the VIFs is very low (Kutner et al., 2003).

5.5 The Relationship between Internal Auditors' Assessment of Their Contribution to Consulting Activities and Firm's Growth Opportunities and Firm's Performance (Firm's Growth Opportunities and Performance Model – Hypotheses 4 and 5)

The final research objective is to investigate the association between internal audit contribution to consulting activities and firm's growth opportunities and firm's performance. Similarly, two sets of regression analyses are performed to test the Firm's Growth Opportunities and Performance Model (Model 2), namely Equation 3 and 4 (individually) between the dependent variable and independent variable. In this case, internal auditors' assessment of their contribution to consulting activities (IAC_CONTRB) acted as an independent variable (or hypothesis variable) and firm's growth opportunities (FG_OPPOR) and the firm's performance (FPERFORM) as the dependent variables. Control variables from previous researches (e.g. to control for industry, four (4) types of industry [INDUSTRIAL, TRADING, FINANCE and TECHNOL] are also included in this model. The other control variables such as size and leverage are widely used in prior researches particularly when the dependent variables are proxy by secondary data (financial data acquired from annual report etc.). Those prior researches are such as Mat Zain (2005), Mat Zain et al. (2006), Sarens (2007), Ho et al. (2004), Felix et al. (2001), Gul (1999), Gul and Tsui (1997), and Francis (1984). Model 2 is as shown below:

Equation 3:

$$\text{FG_OPPOR} = \beta_0 + \beta_1 \text{IAC_CONTRB} + \beta_2 \text{SIZE} + \beta_3 \text{LEVERAGE} + \beta_4 \text{INDUSTRIAL} + \beta_5 \text{TRADING} + \beta_6 \text{FINANCE} + \beta_7 \text{TECHNOL} + \varepsilon$$

Equation 4:

$$\text{FPERFORM} = \beta_0 + \beta_1 \text{IAC_CONTRB} + \beta_2 \text{SIZE} + \beta_3 \text{LEVERAGE} + \beta_4 \text{INDUSTRIAL} + \beta_5 \text{TRADING} + \beta_6 \text{FINANCE} + \beta_7 \text{TECHNOL} + \varepsilon$$

The internal auditors' assessment of their contribution to consulting activities is hypothesized in Chapter 3 to have an impact on the firm's growth opportunities and firm's performance individually. Thus, the following hypotheses are developed:

H4: There is a positive relationship between internal auditors' assessment of their contribution to consulting activities and firm's growth opportunities.

H5: There is a positive relationship between internal auditors' assessment of their contribution to consulting activities and firm's performance.

Where:

<i>FG_OPPOR</i>	=	1) Internal auditors' assessment of proportion of firm's growth opportunities (seven-point scale ranging from strongly agree to strongly disagree) 2) Market-to-book value of equity (financial data collected from annual report)
<i>FPERFORM</i>	=	1) Internal auditors' assessment of proportion of firm's performance (seven-point scale ranging from strongly agree to strongly disagree) 2) Return on equity (financial data collected from annual report)
<i>IA_CONTRB</i>	=	Internal auditors' assessment of percentage of internal audit contribution to consulting engagements (0% = internal audit not perform any consulting work to 100% = internal audit perform all consulting work recommended by IIA Professional Standard) (Natural log of Internal auditors' assessment of percentage of internal audit contribution to consulting engagements used in the regression model)
<i>SIZE</i>	=	Total assets for client at the end of the fiscal year (natural log used in the regression model)
<i>LEVERAGE</i>	=	Total liabilities divided by total assets for client at the end of the fiscal year
<i>INDUSTRIAL</i>	=	Dummy variable, 1 = industry, 0 = others
<i>TRADING</i>	=	Dummy variable, 1 = trading/services, 0 = others
<i>FINANCE</i>	=	Dummy variable, 1 = finance/insurance, 0 = others
<i>TECHNOL</i>	=	Dummy variable, 1 = technology, 0 = others

5.5.1 Results of Model 2 (Firm's Growth Opportunities and Performance Model)

A separate set of analyses are performed involving all the variables used as proxies for the internal auditors' assessment of their contribution to consulting activities with the firm's growth opportunities and the firm's performance, primary (non-financial) and secondary (financial) values in which shown in Table 5.11.

Table 5.11: Variables Description and Expected Direction for Model 2

Variable (s)	Description and Measurement	Predicted Direction	Relevant Hypotheses
Dependent Variable			
Firm's growth opportunities (FG_OPPOR)	1 st proxy: Internal auditors' assessment of proportion of firm's growth opportunities (seven-point scale ranging from strongly agree to strongly disagree) 2 nd proxy: Market-to-book value of equity (financial data collected from annual report/DATASTREAM)		
Firm's performance(FPERFORM)	1 st proxy: Internal auditors' assessment of proportion of firm's performance (seven-point scale ranging from strongly agree to strongly disagree) 2 nd proxy: Return on equity (financial data collected from annual report/DATASTREAM)		
Hypothesis variable			
Internal auditors' assessment of their contribution to consulting activities (IAC_CONTRB)	Internal auditors' assessment of percentage of internal audit contribution to consulting engagements (0% = internal audit not perform any consulting work to 100% = internal audit perform all consulting work recommended by IIA Professional Standard)	+ve	4,5
Control variables			
SIZE	Total assets for client at the end of the fiscal year (Natural log of total assets used in the regression model)	+ve	
LEVERAGE	Total liabilities divided by total assets for client at the end of the fiscal year	-ve	
INDUSTRIAL	Dummy variable, 1 = industry, 0 = others	?	
TRADING	Dummy variable, 1 = trading/services, 0 = others	?	
FINANCE	Dummy variable, 1 = finance/insurance, 0 = others	?	
TECHNOL	Dummy variable, 1 = technology, 0 = others	?	

Table 5.12: OLS Regression Results: Firm's Growth Opportunities and Performance Model

Model 2 (Equation 1): $FG_OPPOR = \beta_0 + \beta_1 IAC_CONTRB + \beta_2 SIZE + \beta_3 LEVERAGE + \beta_4 INDUSTRIAL + \beta_5 TRADING + \beta_6 FINANCE + \beta_7 TECHNOL + \varepsilon$								
Model 2 (Equation 2): $FPERFORM = \beta_0 + \beta_1 IAC_CONTRB + \beta_2 SIZE + \beta_3 LEVERAGE + \beta_4 INDUSTRIAL + \beta_5 TRADING + \beta_6 FINANCE + \beta_7 TECHNOL + \varepsilon$								
Variables	FG_OPPOR 1st proxy		FG_OPPOR 2nd proxy		FPERFORM 1st proxy		FPERFORM 2nd proxy	
	Coef./ (p-value)	t-value	Coef./ (p-value)	t-value	Coef./ (p-value)	t-value	Coef./ (p-value)	t-value
Constant	-17.205 (0.000)*	-4.096	0.495 (0.948)	0.066	-13.801 (0.000)*	-3.667	-99.384 (0.117)	-1.579
Control variables								
SIZE	-0.214 (0.037)*	-2.117	0.276 (0.018)*	2.394	-0.065 (0.530)	-0.631	0.326 (0.003)*	3.058
LEVERAGE	0.006 (0.951)	0.061	-0.026 (0.800)	-0.254	-0.074 (0.424)	-0.802	-0.331 (0.001)*	-3.468
INDUSTRIAL	0.236 (0.012)*	2.569	-0.107 (0.311)	-1.019	0.103 (0.273)	1.101	-0.056 (0.569)	-0.572
TRADING	0.096 (0.303)	1.035	-0.048 (0.654)	-0.450	0.036 (0.707)	0.377	0.006 (0.948)	0.065
FINANCE	0.066 (0.508)	0.665	-0.150 (0.191)	-1.317	0.179 (0.079)**	1.772	-0.055 (0.601)	-0.524
TECHNOL	0.120 (0.189)	1.322	0.030 (0.769)	0.294	0.174 (0.062)**	1.890	-0.081 (0.401)	-0.843
Hypothesis variable								
IAC_CONTRB	0.479 (0.000)*	5.491	-0.035 (0.728)	-0.348	0.449 (0.000)*	5.061	0.102 (0.274)	1.100
R Square		0.274		0.054		0.250		0.187
Adj. R Square		0.225		-0.009		0.200		0.133
F-value		5.596		0.855		4.961		3.426
p-value		0.000*		0.545		0.000*		0.002*

*Significant at the 5% level **Significant at the 10% level

FG_OPPOR (1 st proxy)	=	Internal auditors' assessment of proportion of firm's growth opportunities (seven-point scale ranging from strongly agree to strongly disagree)
FG_OPPOR (2 nd proxy)	=	Market-to-book value of equity (financial data collected from annual report/DATASTREAM)
FPERFORM (1 st proxy)	=	Internal auditors' assessment of proportion of firm's performance (seven-point scale ranging from strongly agree to strongly disagree)
FPERFORM (2 nd proxy)	=	Return on equity (financial data collected from annual report/DATASTREAM)
SIZE	=	Total assets for client at the end of the fiscal year (Natural log of total assets used in the regression model)
LEVERAGE	=	Total liabilities divided by total assets for client at the end of the fiscal year
INDUSTRIAL	=	Dummy variable, 1 = industry, 0 = others
TRADING	=	Dummy variable, 1 = trading/services, 0 = others
FINANCE	=	Dummy variable, 1 = finance/insurance, 0 = others

<i>TECHNOL</i>	=	Dummy variable, 1 = technology, 0 = others
<i>IA_CONTRB</i>	=	Internal auditors' assessment of percentage of internal audit contribution to consulting engagements (Natural log of Internal auditors' assessment of percentage of internal audit contribution to consulting engagements used in the regression model)

From Table 5.12, the results reveal that there are significant relationships between the degree of the internal auditors' assessment of their contribution to consulting activities and the firm's growth opportunities as well as the firm's performance individually when the dependent variables are proxy by primary data (non-financial data). Both are significant at the five (5) percent level of significance ($p = .000$) with positive coefficients respectively. Furthermore, it is fascinating to note that the coefficient of the internal auditors' assessment of their contribution to consulting activities ($\beta = 0.479$) in the relationship towards the firm's growth opportunities was slightly higher than the coefficient of the internal auditors' assessment of their contribution to consulting activities ($\beta = 0.449$) in the relationship towards the firm's performance. Based on the two relationships, the internal auditors' assessment of their contribution to consulting activities can explain individually 27.4 and 25 percent the variation in the firm's growth opportunities and the firm's performance.

The results hence validate the hypotheses and indicate that the internal audit professionals who have a bigger picture of their companies can play an important role in advocating company growth strategies by getting involved in the areas of 1) strategic growth such as emerging markets, mergers and acquisitions, innovation and new product development; 2) information technology like social media and cloud computing; 3) regulation such as regulatory labyrinth navigation and sustainability reporting (supported by PricewaterhouseCoopers' (2011) study). In other words, the results substantiate that they need to expand their role with changing business environment. This is well supported by

Sarens and De Beelde (2006a) where the CEO expects the IAD to play a value-adding role in due diligence work, given the importance of acquisitions for the growth of the organization. Therefore, there is sufficient evidence to infer that the degree of the internal auditors' assessment of their contribution to consulting activities was significantly related to the firm's growth opportunities. In addition, the results also substantiate that internal auditors indirectly do help increase the firm's financial performance such as improving the existing business operations via their valuable recommendations on the crucial areas which involve high risk. Consequently, there is sufficient evidence to infer that the degree of the internal auditors' assessment of their contribution to consulting activities was significantly associated with the firm's performance when proxy by non-financial measures. The results hence indicate that there is sufficient evidence to accept the alternative hypotheses.

Moreover, the industry (sector) classification is reported to have significant impact on the firm's growth opportunities but not firm's performance. It is apparent that merely companies that fall under industrial product sector (INDUSTRIAL) are found to be positively associated with the firm's growth opportunities (FG_OPPOR) at five (5) per cent level of significance. This indicates that internal auditors working in "industrial product" companies implicate more on the firm's growth opportunities, as compared to internal auditors working in the non-industrial product companies. In addition, the p-values of finance/insurance sector (FINANCE) and technology sector (TECHNOL) are significant ($p=0.079$, $p=0.062$) respectively at ten (10) percent level of significance. However, there is weak evidence to indicate that both sectors are statistically significantly impacting firm's performance. In other words, it shows a weak evidence to illustrate that internal auditors working in "finance/insurance" and "technology" companies giving bigger impact on the

firm's performance, as compared to those working at the non-finance/insurance and non-technology companies. The other three (3) types of sectors, i.e. trading/services (TRADING), finance/insurance (FINANCE) and technology (TECHNOL) however, are found not to be significantly related to the firm's growth opportunities at ($p=0.303$, $p=0.508$ and $p=0.189$). Further, companies that fall under industrial product sector (INDUSTRIAL) are also found not to be significantly related to the firm's performance at ($p=0.273$).

Evidently, the other control variable such as company size (SIZE) is found to be inversely related to firm's growth opportunities but not statistically related to firm's performance. It indicates that the internal auditors working in small organizations implicate more on the firm's growth opportunities, which tend to be lower than internal auditors working in large organizations. However, leverage (LEVERAGE) is found to be insignificantly associated with the firm's growth opportunities and firm's performance respectively.

Nonetheless, from Table 5.12, the results reveal that there are no significant relationships between the degree of the internal auditors' assessment of their contribution to consulting activities and the firm's growth opportunities as well as the firm's performance individually when the dependent variables are proxy by secondary data from annual report or DATASTREAM (financial data database). Therefore, overall results of using both non-financial measures and financial measures indicate that Hypotheses 4 and 5 are partially supported.

Consistently, Kassim (2011) found no significant relationship between the degrees of the ERM implementation and the financial performance when it is proxy by secondary data (financial data such as EBITDA and ROE). However, the results of the present study show some significant variables in explaining the variation in the firm's performance (R Square=0.187; $p=0.002$). Those are the control variables of company size (SIZE) and leverage (LEVERAGE) which are significantly related to the firm's performance at ($p=0.003$ and $p=0.001$) respectively. Furthermore, the industry classification is not a significant variable in explaining the variation in the firm's growth opportunities and firm's performance respectively.

Furthermore, the results suggest that irrespective of the industry classification, the internal auditors' assessment of their contribution to consulting activities is not directly related to the firm's growth opportunities and firm's performance individually when secondary data is used as proxy. Nevertheless, size is found to be significantly associated (positive in manner as predicted, see Table 5.11) in both equations (see Table 5.12). That means the bigger the size of the company, the higher the firm's growth opportunities and firm's performance. Furthermore, leverage is duly found to have a significant inverse relationship with the firm's performance, thus the result demonstrates that the lower the debt equity of the company, the higher the performance of the firm and it is well supported by prior study such as Ho et al. (2004).

5.6 Overview of the Chapter

This chapter provides the results of the mail survey questionnaires. All the hypothesized relationships highlighted in Chapter 3 are tested through the relevant statistical tests. The relationships between the intentions/ambitions of IAD and expectations of board and audit committee and the degree of the internal auditors' assessment of their contribution to consulting activities (Model 1) reveal mostly significantly results. The same results apply to the relationships between the internal auditors' assessment of their contribution to consulting activities and the degree of the firm's growth opportunities and firm's performance (Model 2). The summary of the entire hypotheses as well as the equations for each hypothesis is presented in Table 5.13 and Table 5.14. Furthermore, the results of this study could be valuable to an international audience as it presents the nature and drivers of role of internal auditors in consulting in which it is an advanced role of internal auditors that requires lots of specific skills and expertise. The present study that focuses on a developing country may also contribute to the existing body of literature that is largely concentrated on developed countries. The next chapter provides the results in final phase (in-depth interviews) and the discussions of findings for the whole results of mail survey questionnaires and in-depth interviews.

Table 5.13: Summary of Hypotheses

No.	Hypothesis (√ = Supported, X = Unsupported)	Results
Intentions/Ambitions of IAD and Consulting Role of Internal Auditors		
H1a	There is a significant correlation between the catalyst for change and the internal auditors' assessment of their contribution to consulting activities in Malaysia.	√
H1b	There is a significant correlation between the extensive staff expertise and the internal auditors' assessment of their contribution to consulting activities in Malaysia.	√
H1c	There is a significant correlation between the challenging work environment and the internal auditors' assessment of their contribution to consulting activities in Malaysia.	√
H1d	There is a significant correlation between the organisational alignment and the internal auditors' assessment of their contribution to consulting activities in Malaysia.	√
H1e	There is a significant correlation between the "participative, qualitative and real-time risk assessment" and the internal auditors' assessment of their contribution to consulting activities in Malaysia.	√
H1f	There is a significant correlation between the array of services and the internal auditors' assessment of their contribution to consulting activities in Malaysia.	√
Expectations of Board and Audit Committee and Consulting Role of Internal Auditors		
H2a	There is an association between the 'partnership' with management and the internal auditors' assessment of their contribution to consulting activities in Malaysia.	X
H2b	There is an association between the training ground for managers and the internal auditors' assessment of their contribution to consulting activities in Malaysia.	X
H2c	There is an association between the "facilitator of risk management and internal control" and the internal auditors' assessment of their contribution to consulting activities in Malaysia.	√
H2d	There is an association between the comfort provider and the internal auditors' assessment of their contribution to consulting activities in Malaysia.	√
H2e	There is an association between the safeguard of corporate culture and the internal auditors' assessment of their contribution to consulting activities in Malaysia.	√

Table 5.13: Continued

No.	Hypothesis (√ = Supported, PS = Partially Supported, X = Not Supported)	Results
Intentions/Ambitions of IAD and Consulting Role of Internal Auditors Moderated by Expertise, Skills and Competencies of Internal Audit		
H3a [AUDSE]	The association between the intentions/ambitions of IAD (catalyst for change, extensive staff expertise, challenging work environment, organisational alignment, “participative, qualitative and real-time risk assessment” and array of services) and the internal auditors’ assessment of their contribution to consulting activities in Malaysia is moderated by the expertise, skills and competencies of internal audit (auditing skill and experience)	PS
H3a [ACCQ]	The association between the intentions/ambitions of IAD (catalyst for change, extensive staff expertise, challenging work environment, organisational alignment, “participative, qualitative and real-time risk assessment” and array of services) and the internal auditors’ assessment of their contribution to consulting activities in Malaysia is moderated by the expertise, skills and competencies of internal audit (accounting qualification)	PS
H3a [CIACPAQ]	The association between the intentions/ambitions of IAD (catalyst for change, extensive staff expertise, challenging work environment, organisational alignment, “participative, qualitative and real-time risk assessment” and array of services) and the internal auditors’ assessment of their contribution to consulting activities in Malaysia is moderated by the expertise, skills and competencies of internal audit (CIA/CPA qualification)	PS
H3a [TERQ]	The association between the intentions/ambitions of IAD (catalyst for change, extensive staff expertise, challenging work environment, organisational alignment, “participative, qualitative and real-time risk assessment” and array of services) and the internal auditors’ assessment of their contribution to consulting activities in Malaysia is moderated by the expertise, skills and competencies of internal audit (tertiary qualification)	PS
H3a [OTHERSPE]	The association between the intentions/ambitions of IAD (catalyst for change, extensive staff expertise, challenging work environment, organisational alignment, “participative, qualitative and real-time risk assessment” and array of services) and the internal auditors’ assessment of their contribution to consulting activities in Malaysia is moderated by the expertise, skills and competencies of internal audit (other specialization)	PS

Table 5.13: Continued

No.	Hypothesis (√ = Supported, PS = Partially Supported, X = Not Supported)		Results
Expectations of Board and Audit Committee and Consulting Role of Internal Auditors Moderated by Expertise, Skills and Competencies of Internal Audit			
H3b [AUDSE]	The association between the expectations of management/audit committee ('partnership' with management, training ground for future managers, "facilitator of risk management and control", comfort provider, and safeguard of corporate culture) and the internal auditors' assessment of their contribution to consulting activities in Malaysia is moderated by the expertise, skills and competencies of internal audit (auditing skill and experience)		X
H3b [ACCO]	The association between the expectations of management/audit committee ('partnership' with management, training ground for future managers, "facilitator of risk management and control", comfort provider, and safeguard of corporate culture) and the internal auditors' assessment of their contribution to consulting activities in Malaysia is moderated by the expertise, skills and competencies of internal audit (accounting qualification)		PS
H3b [CIACPAQ]	The association between the expectations of management/audit committee ('partnership' with management, training ground for future managers, "facilitator of risk management and control", comfort provider, and safeguard of corporate culture) and the internal auditors' assessment of their contribution to consulting activities in Malaysia is moderated by the expertise, skills and competencies of internal audit (CIA/CPA qualification)		PS
H3b [TERQ]	The association between the expectations of management/audit committee ('partnership' with management, training ground for future managers, "facilitator of risk management and control", comfort provider, and safeguard of corporate culture) and the internal auditors' assessment of their contribution to consulting activities in Malaysia is moderated by the expertise, skills and competencies of internal audit (tertiary qualification)		PS
H3b [OTHERSPE]	The association between the expectations of management/audit committee ('partnership' with management, training ground for future managers, "facilitator of risk management and control", comfort provider, and safeguard of corporate culture) and the internal auditors' assessment of their contribution to consulting activities in Malaysia is moderated by the expertise, skills and competencies of internal audit (other specialization)		X
Consulting Role of Internal Auditors and Firm's Growth Opportunities			
H4	There is a positive relationship between internal auditors' assessment of their contribution to consulting activities and firm's growth opportunities.	Non-financial √	MBVE X
Consulting Role of Internal Auditors and Firm's Performance			
H5	There is a positive relationship between internal auditors' assessment of their contribution to consulting activities and firm's performance.	Non-financial √	ROE X

Table 5.14: Summary of Equations from the Results

Intentions/Ambitions of IAD and Expectations of Board and Audit Committee and Consulting Role of Internal Auditors	
H1a-f H2a-e	Consulting role of internal auditors = 1.379 + 0.277(catalyst for change) + 0.272(extensive staff expertise) + 0.210(challenging work environment) + 0.220(organizational alignment) + 0.073(participative, qualitative, real-time assessment) + 0.243(array of services) + 0.049(facilitator of risk management and internal control) + 0.048(comfort provider) + 0.030(safeguard of corporate culture) - 2.208(industrial) + ε
Intentions/Ambitions of IAD and Consulting Role of Internal Auditors Moderated by Expertise, Skills and Competencies of Internal Audit	
H3a(1) [AUDSE]	Consulting role of internal auditors = 1.804 + 0.032(moderating effect for catalyst for change) + 0.027(moderating effect for challenging work environment) + 0.021(moderating effect for organizational alignment) + 0.168(moderating effect for array of services) - 0.023(industrial) + ε
H3a(2) [ACCQ]	Consulting role of internal auditors = 1.812 + 0.040(moderating effect for organizational alignment) + 0.050(moderating effect for participative, qualitative, real-time assessment) + 0.030(moderating effect for array of services) - 0.023(industrial) - 0.140(trading/services) + ε
H3a(3) [CIACPAQ]	Consulting role of internal auditors = 1.807 + 0.026(moderating effect for catalyst for change) - 0.017(industrial) + ε
H3a(4) [TERQ]	Consulting role of internal auditors = 1.805 + 0.017(moderating effect for catalyst for change) - 0.018(industrial) + ε
H3a(5) [OTHERSPE]	Consulting role of internal auditors = 1.811 + 0.037(moderating effect for catalyst for change) + 0.028(moderating effect for organizational alignment) - 0.017(industrial) - 0.016(finance/insurance) + ε
Expectations of Board and Audit Committee and Consulting Role of Internal Auditors Moderated by Expertise, Skills and Competencies of Internal Audit	
H3b(1) [AUDSE]	Consulting role of internal auditors = 1.804 - 0.023(industrial) + ε
H3b(2) [ACCQ]	Consulting role of internal auditors = 1.812 + 0.027(moderating effect for facilitator of risk management and internal control) - 0.024(industrial) - 0.140(trading/services) + ε
H3b(3) [CIACPAQ]	Consulting role of internal auditors = 1.807 - 0.025(moderating effect for "partnership" with management) + 0.029(moderating effect for safeguard for corporate culture) - 0.017(industrial) + ε
H3b(4) [TERQ]	Consulting role of internal auditors = 1.805 + 0.025(moderating effect for "partnership" with management) - 0.025(moderating effect for training ground for managers) + 0.020(moderating effect for facilitator of risk management and internal control) - 0.018(industrial) + ε
H3b(5) [OTHERSPE]	Consulting role of internal auditors = 1.811 - 0.017(industrial) - 0.016(finance/insurance) + ε
Consulting Role of Internal Auditors and Firm's Growth Opportunities	
H4 (1 st proxy)	FG_OPPOR = -17.205 + 0.479(consulting role of internal auditors) + 0.236(industrial) - 0.214(size of company) + ε
Consulting Role of Internal Auditors and Firm's Performance	
H5 (1 st proxy)	FPERFORM = -13.801 + 0.449(consulting role of internal auditors) + 0.179(finance/insurance) + 0.174(technology) + ε
H5 (2 nd proxy)	FPERFORM = -99.384 + 0.326(size of company) - 0.331(leverage) + ε

CHAPTER 6: RESULTS AND DISCUSSION ON QUALITATIVE DATA

6.1 Introduction

The main objective of this chapter is to illustrate the results of final phase of this study which involved the series of in-depth interviews with chief internal auditors from a variety of industries. The overall aim of the interviews is to obtain in depth explanation on the inter relationships between internal auditors' skills and expertise, internal audit consulting activity and the firm's growth opportunities and performance. The interviews were structured around the research constructs or variables (based on research framework) and it was chosen to provide a range of perspectives in relation to the role of chief internal auditors, in their internal audit consulting capacity within the organization. First, the interviews focused on the internal auditors' perceptions on the nature and effectiveness of internal audit with regards to consulting role of internal auditors. Specifically, they were asked to provide their opinion on the nature and the extent of their internal audit consulting, impact of sufficient knowledge, experience and technical expertise as well as soft skills towards effectiveness in performing internal audit consulting activities. Further, the interviews also explored on issues of objectivity and independence level when performing consulting as to enhance the emphasis on the independent variables (factors contributing to consulting role of internal auditors. Second, the interviews duly focused on investigating internal auditors' perceptions of the relevant factors (or other related factors) that may influence the implementation of their role in consultancy. Third, the interviews arranged on explicating the extent of their contribution towards consulting role and its impact on firms' growth opportunities and performance of the firm, as well as their views of the plan and

strategy on internal audit staffing and competency. Finally, in this chapter the results of survey and in-depth interviews are discussed and triangulated.

6.2 Interview Sample and Administration

Ten (10) interviews were undertaken with the Heads of internal audit units (also refer to chief internal auditors). Discourse on sample selection procedures for the interviews was undertaken in Chapter 4 under 4.8.2. From Table 6.1, all respondents worked in large organizations listed on the main board of the Bursa Malaysia. The size of the companies, in terms of total assets, ranged from RM354 million to RM35 billion (with the exception of one organisation with total assets worth RM324 billion), and in terms of number of employees, the range is from 50 to 27,000 employees. Of the chief internal auditors who participated in the interviews, the majority were male and three (3) female. All ten (10) chief internal auditors held an accounting qualification with some of them with a Certified Public Accountant (CPA) designation, and they were also members of the Malaysian Institute of Accountants (MIA)¹⁶ and more than half of the participants were members of the Institute of Internal Auditors Malaysia (IIAM). As a matter of fact, three of the participants were Certified Internal Auditors.¹⁷

¹⁶ Two of the participants possessed CIMA, two possessed Australia Chartered Accountant and New Zealand Chartered Accountant respectively and one possessed ACCA. Those professional qualifications qualified them to be a member of the Malaysian Institute of Accountants (MIA). Besides, the MIA was established under the Accountancy Act 1967, acts as the authoritative body regulating the accounting profession.

¹⁷ The IIA in Malaysia was formed as a Chapter in 1977 and subsequently became a National Institute in 1988. IIA Malaysia is also affiliated to the Institute of Internal Auditors Inc., USA a worldwide body that has more than 180,000 members with representatives from over 190 countries.

One of them was associate member of Chartered Management Accountant (ACMA) with a Certified Chartered Global Management Accountant (CGMA). Moreover, two of them had Masters of Business of Administration (MBA) as part of their qualifications. The participants were reported having at least ten (10) years' experience as internal auditors, and each participant had held his or her position as chief internal auditor for a minimum of one year (please refer to Table 6.1 for the details of the information). The interviews were tape-recorded and each interview lasted approximately 1 hour: the shortest being about 40 minutes, and the longest about one and the half (1 ½) hours. Interviews were conducted at the participants' organization and a semi-structured questionnaire was employed to guide the interview as outlined in Chapter 4, Section 4.8.3. All participants appeared confident and seemed to have good understanding of the organizations' background, structure and business processes.

Guided by Patton (2002), the transcribed data from the interviews were first coded using the key themes related to the main research questions and subsequently rechecked for errors and in the classification of themes they were reviewed and consensus attained before pre-coding. In addition, a matrix framework was used (similarly it was done in the exploratory study as elaborated in Chapter 4, Section 4.4) to compare the responses across the ten (10) heads of internal audit departments. The matrix format draws attention to the presence or absence of consistency and consensus across different respondents (Miles & Huberman, 1984). As such, it is a useful tool for identifying commonalities and differences in the research themes (Martin & Meyerson, 1988a,b).

The matrix framework as provided in Table 6.1 compares and contrasts chief internal auditors' perceptions pertaining to: a) the nature and effectiveness of internal audit in respect of consulting role of internal auditors; b) the relevant factors (or other related factors) influencing the implementation of their role in consultancy; c) their extended contribution towards consulting activities and the implications on firms' growth opportunities and performance of the firm, as well as their views on the plan and strategy on internal audit staffing and competency.

University of Malaya

6.3 Interview Findings

In the next section, the findings from the semi-structured interviews are discussed under three (3) main themes: (i) internal auditors perceptions on the nature and effectiveness of IA in respect of consulting role of internal auditors; (ii) perception of internal auditors concerning the relevant factors (or other related factors) influencing the implementation of their role in consultancy; and (iii) their extended contribution towards consulting activities and the implications on firms' growth opportunities and performance of the firm, as well as their views on the plan and strategy on internal audit staffing and competency.

6.3.1 Perceptions on the Nature and Effectiveness of Internal Audit in respect of Consulting Role of Internal Auditors

(a) Performing consulting, seeking expertise from outside provider and demand of consulting:

From Table 6.2, all ten (10) chief internal auditors stated that they have performed consulting activities as and when requested by management and/or board/audit committee where both have had direct access to IAD. For instance, one of the chief internal auditors (R9) felt that performing consulting work is part of the definition of internal audit (in accordance with the IPPF (2013)) and they understand risk management well. However, it must be done independently in terms of giving advice to improve the process of risk management, control and governance. Nevertheless, two respondents (R1 and R10) stated that the consulting activities were usually coming from operational level of management, seeking their advice in terms of control matters. In fact, most of the time, they (except for

two participants, those are R7 and R9) would seek outsourced experts to perform consulting tasks if they had no expertise in the consulting area of improving the internal control system (in accordance with the IPPF *Standards* revised 2013).

There are few reasons respondents are not seeking for outside provider expertise. As noted by one of the interviewees (R9):

“We are not seeking for outside experts...because we understand risk management well...we look at the root cause, not symptom...adding value by improving operations and this is consulting, so it’s already given here...”

And, as mentioned by interviewee (R7), they had been called upon to give advice as internal consultants in that particular year because in the prior year there was an incident when the company had engaged with the external consultants, the advice given was similar as internal audit recommendation. Owing to the circumstances, they were called upon since then.

Table 6.1: Demographics Details and Background of Organizations

Interviewees (Chief Internal Auditors)	R1	R2	R3	R4	R5	R6	R7	R8	R9	R10
Demographic Details										
Age group	45-50	40-45	40-45	45-50	40-45	40-45	35-40	45-50	50-55	40-45
Gender	Male	Male	Female	Male	Female	Female	Male	Male	Male	Male
Professional Qualification/Membership	ACMA, CGMA	MIA, CIMA	CA (Australia), MIA, CIA, CRMA	MBA, MIA	MIA, CMIIA	CIMA, MIA	MIA, ACCA, CMIIA	CPA	CA (NZ), MBA, CIA, ACIB	CIA
Number of years with firm	22	4	12	13	15	15	2	17	1	7
Number of years as an internal auditor	23	16	17	> 20	15	15	10	17	10	17
Number of internal auditors in the organization (including Head of IA)	10	58	10	200	18	23	2	16	31	5
Background of Organizations										
Public Listed	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Multinational	No	No	No	Yes	No	No	No	Yes	No	No
Number of employees in organization (approximation)	2,000	15,000	1,000	27,000	8,000	2,000	50	12,000	4,000	1,500
Estimated Total Asset	1.41b	1.5b	4.68b	324b	7b	3.5b	354m	2.69b	35b	563m

(b) Interest of other parties in consulting:

Most respondents stated that there are no other parties involved in requesting for their consulting advice. Yet interestingly, two of the respondents expressed that there were other parties like Central Bank (R4) and general public via Government (R7) that would request for their consulting advice on certain issues (please refer to Table 6.2). For instance, the advice relates to development of new product before the launching taken up and the other one concerning the reduction in time taken to approve loan.

(c) Sufficient knowledge and experience, technical expertise and soft skills:

From Table 6.2 also, all respondents perceived that internal auditors must have sufficient knowledge, experience and technical expertise (well supported by Arena et al.'s (2006) study) to perform consulting activities. Similarly, Al-Twajjry et al. (2003) noted that internal auditors are powerless if they don't have necessary knowledge and experience. Apart from those technical (hard) skills, it is vital to possess soft skills such as communication (stated by most interviewees i.e. R1, R3, R4, R5, R6, R8, R9 and R10) and investigative skill (noted by the interviewees i.e. R4 and R10). Moreover, some other soft skills as reported by some respondents that are duly important are like interpersonal skill (R1), negotiation skill (R1 and R2), leadership skill (R2) and public speaking skill (R3 and R5). Public speaking in this manner means not only talking in front of 10,000 audiences but also on one to one basis (as noted by the interviewee i.e. R3).

As a matter of fact, the interview results are well consistent with Arena et al. (2006). Arena et al. (2006) provided evidence of the influence of additional elements such as leadership and other soft factors (i.e. effective communication with client, establishment of

credibility, and resistance minimization) as far as the soft skills are concerned. Similarly, Chia (2004) claimed that “It requires a very strong influencing behaviour or set of soft skills”. Internal auditors must have very good communication skills to market their function as value-added partners...” (p. 6). Consistent with this notion, one of the interviewee i.e. R1 explained that ability to persuade and negotiate, good team spirit, good business behavioural traits (e.g. good attitude and motivation, conflict resolution and stress management) are equally important in performing an effective consulting job. Moreover, Mihret et al. (2010) and Soh and Martinov-Bennie (2011) emphasized the critical skill of internal auditors is that when they are able to speak up particularly in controversial situation. In fact, one of the interviewee (R4) shared similar views as noted below:

“...when they (auditee management) need help and you give your input...you have so much library of information...like red book and blue book so don't go there and be quiet.”

Table 6.2: Perception of Internal Auditors on the Nature and Effectiveness of Internal Audit in respect of Consulting Role of Internal Auditors

Interviewees (Chief Internal Auditors)	R1	R2	R3	R4	R5	R6	R7	R8	R9	R10
Content Theme										
Perceptions of internal auditors on the nature and effectiveness of internal audit in respect of consulting role of internal auditors										
Performing consulting?	Yes but little	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Seeking expertise from outside provider	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	No	Yes
Demand of consulting	Operational level of management	Audit committee and Senior management	Senior management	Audit committee and Senior management	Audit committee and Senior management	Senior management	Senior management	Senior management	Mainly audit committee and Senior management	Operational level of management
Interest of other parties in consulting	No	No	No	Central Bank	No	No	General public via Government	No	No	No
Sufficient knowledge and experience (H3a,b)	Yes	Yes	Yes	Yes, important	Yes	Yes, definitely	Yes	Yes, important	Yes	Yes
Technical expertise (H3a,b)	Yes	Yes	Yes	Yes	Yes	Yes like using audit tools software	Yes	Yes, important	Yes	Yes
Soft skills (H3a,b)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Independence and objectivity impairment when performing consulting activities	Not impaired	Not impaired	Not impaired	Not impaired	Not impaired	Not impaired	Not impaired	Not impaired	Not impaired	Not impaired

Table 6.2: Continued

Interviewees (Chief Internal Auditors)	R1	R2	R3	R4	R5	R6	R7	R8	R9	R10
To whom internal audit report functionally	Audit committee	Audit committee	Audit committee	Audit committee	Board audit committee	Board audit committee	Audit committee	Audit committee	Audit committee	Board audit committee
To whom internal audit report administratively	Managing Director	CEO	Group Managing Director	CEO	Managing Director	CEO	Managing Director	CEO	Managing Director	Managing Director
Content Theme										
Perceptions of internal auditors on the nature and effectiveness of internal audit in respect of consulting role of internal auditors										
Basis to use to avoid impairing independence and objectivity	Not taking audit assignment for at least a year on the area the team giving consultation on.	Follow IPPF guidelines . Delineate clearly in the Audit Charter about consulting engagement.	Get approval from audit committee. Be transparent. Keep all the information locked in the IAD. No access to unautho- rized.	Selection of auditors to do consulting matter experts.	Not the same person who does both auditing and consulting . Clearly stated in the IPPF and in our Standard Operating Procedure (SOP).	Not taking audit assignment for at least a year on the area the team giving consultation on.	Play by the rules. Avoid management responsibility when carrying out consulting assignment.	Every- thing is being transpa- rent and reported every single work we do in consulting	Inform audit committee and get their approval before getting into engagement.	Follow certain guidance (IPPF). Have standard objective to be followed and achieve that.

Similarly, IIARF (2010b) identified three of the top five competencies as communication skills (inclusive of “oral, report writing and presentation”), problem identification and solution skills (i.e. “core, conceptual and analytical thinking”) and awareness of industry and regulatory changes and professional standards. Thus, the emphasis of having sufficient knowledge and experience, technical expertise and soft skills are literally significant as found in this study.

(d) Independence and objectivity impairment when performing consulting and to whom internal auditors report functionally and administratively:

From Table 6.2, all respondents perceived no issues of impairment arise when performing consulting activity. This is because as internal auditors they were aware of their objectives and scope of work as stated in internal audit charter, a timely disclosure of time spent on consulting work, work boundaries, IPPF *Standards*, and finally their committed role as consultants. Further, all respondents were found to not only report directly to the audit committee/board audit committee (group level and/or company level) on a functional basis, but also to senior/top management (for instance, their direct boss) on an administrative level. The practice of Malaysian companies is in line with the Bursa Malaysia Listing Requirement (2013) and the IPPF *Standards* (IPPF 2013) which is consistent with the most recent CBOK 2010 study (IIARF, 2010a). For instance, one of the interviewee i.e. R9 claimed that they could neither afford to be non-independent nor non-objective because they by far were careful in accepting assignments. Besides, prior taking the assignment few things need to be considered such as human resources, staff expertise and seeking approval from audit committee before commencing any consulting assignment. Constantly as noted by one interviewee (R1):

“...not impaired as we will report to audit committee and seek their approval on taking up the engagement.”

Prior researchers such as Ahmad and Taylor (2009), likewise, found that Malaysian internal auditors do not perceive a conflict between their consulting and assurance roles as they examined the effects of role ambiguity and role of conflict on internal auditors' commitment to independence. In fact, they do not find any significant relationship between the commitment to independence and role conflict arising from performing both an advisory role (consulting) and an oversight role (assurance). Implicitly, the results of the interviews for this study show that internal auditors are aware of certain guidelines or rules before getting involved in consulting engagement. This is to avoid the impairment of independence and objectivity. Having said all that, the issue is further discussed in the next sub-topic.

(e) Basis to use to avoid impairing independence and objectivity:

As aforementioned, there are certain basic rules or guidelines need to be followed before carrying out consulting activities. This is agreed by all participants in the study (refer to Table 6.2). Apparently, all respondents emphasized on seeking approval from audit committee prior to the engagement. Furthermore, most respondents explained on not taking audit assignment for at least a year on the area they give consultation on. One of the interviewees i.e. R4 stated that selection of auditors and subject matter experts are the keys to avoid the impairment of independence and objectivity. He further mentioned that the auditors' availability as well as their knowledge on subject matter must be considered first before agreeing and obtaining audit committee's approval to take up an engagement.

Besides, being senior enough is one of the criteria due to the work experience as well as confidence level to participate in the project team. This has been further described by the chief internal auditor (i.e. R4). In addition, three (3) chief internal auditors (R2, R5 and R10) noted that the basis of safeguarding their independence and objectivity are such as following IPPF *Standards*, delineating clearly in the internal audit charter about consulting engagement (that is, scope of work and responsibilities), and following basic objectives (i.e. effectiveness, efficiency and economic useful of resources). Interestingly, two chief internal auditors i.e. R3 and R8 perceived that every engagement need to be transparent such as informing audit committee, gaining their approval and reporting the findings after the work is done. As noted by the interviewee i.e. R3:

“Consultation is part and parcel of what we do...or is just an extension of what we do...”

Furthermore, one of the interviewees i.e. R7 mentioned about everything is played by rules as far as the matters of independence and objectivity are concerned. He further emphasized on avoiding performance of management responsibility (those are, implementation of work, drafting the working paper or workflows etc.) when taking up an advisory role. This has been clearly illustrated in the definition of consulting activities in the IPPF (2013, p.42) itself.

6.3.2 Perceptions of Internal Auditors Concerning the Relevant Factors Influencing the Implementation of their Role in Consultancy

(a) Main factors:

When asked about factors that influence the consulting activities, the chief internal auditors provided the responses summarized as follows (also shown in Table 6.3):

- 1) Request from management regardless from top or operational levels to help improve the business operations in respect of internal control systems;
- 2) Full support given by top management and audit committee (in terms of appreciation of advice and recommendation) motivates them to take up the consulting engagement within their expertise;
- 3) Being perceived as business consultant besides their audit function;
- 4) Valued as business partner to improve the process;
- 5) Sharing of knowledge and ideas on what internal auditors are expert in, especially through professional advices and recommendations towards the improvement of internal control systems in certain areas of business;
- 6) To be a catalyst (pro-active IAF) to help improve the business operations;
- 7) Client pressure for internal auditors to do more i.e. getting things better due to their work efficacy, as well as pressure from their inner self to do more for the company;
- 8) A training ground for future managers when internal auditors are exposed to handle certain tasks in consulting manner due to their subject matter experts;

Currently, businesses become more complex and a full assistance from IAF is indeed needed. The first five factors directly reflect the professional advice and recommendations of internal auditors in respect of their consulting role. Full supports from top management

and audit committee were perceived by the internal auditors that lead them to get involved in consulting. From Table 6.3, for instance, two of interviewees (R8 and R10) specifically highlighted that they got full support from senior management and audit committee to duly conduct consulting activities within their area of expertise. Moreover, two of the chief internal auditors (R5 and R10) stated on the support given by the management and audit committee in terms of the appreciation of advice on the improvement of business operation. The results illustrate that bosses (top management) have always encouraged internal auditors to be involved in more business improvement activities. They are as well valued as business partners to improve the process as highlighted by two of the interviewees (R2 and R5). This is consistent with the study of Rittenberg and Covalesski's (1997) in which the acceptance and appreciation of advice and recommendations in terms of human and material resources were part of the management's support and collaboration. In similar notion, delivery of IAF work plan and the acceptance and adoption of internal audit recommendations are the most employed measures of internal audit effectiveness (Soh and Martinov-Bennie (2011). For instance, one interviewee strongly emphasized on the full support given by top management and audit committee, stating that (R8);

“they know our functions and they really give us support...what I am saying is that they take our views seriously...we have put up some recommendation to implement the part then after that we have said that we are going to review as part of the follow-ups...”

Another interviewee's (R10) response was:

“...they always depend and seek advice...they always show appreciation on our recommendation by taking some of our advice to implement...not only from top management but the appreciation also from operation level of staffs whereby they are willing to learn and improve system by taking our advice...make them

understand what is the flow in the system...their perceptions towards us has changed no longer only as an auditor but also as consultant...”

Interestingly, one interviewee (R9) mentioned about cost and objective besides it is a management request on consulting. He further elaborated that it's a management request particularly on the identification of potential risk that can impede organization to achieve the objectives. Moreover, as noted by interviewee (R9):

“Reducing costs is one of the factors because we don't want any wastage incurred.”

Additionally, several of the chief internal auditors emphasized the full cooperation from operational level (auditee management) besides it comes from top management and audit committee. For example, in one case, the operational management has to be open and transparent and fully cooperate with the internal auditors in respect of consulting role and they should not treat the auditors as performing an assurance review. Sharing knowledge and ideas is vital between the internal auditors and auditee management as well as top management in helping improve the business system and indirectly imparting the goal congruence amongst the members of organization. For instance, one of the chief internal auditors (R5) commented as follows:

“...auditors cannot keep their knowledge to themselves...once a while, when management need help and you give your input...you have so much library of information...like red book and blue book, so don't go there and be quiet.”

Likewise, another interviewee (R6) mentioned about internal auditors sharing knowledge on risk and control with operation side people when they are called upon to give professional advice in consulting manner.

The sixth factor emphasises the internal auditors being a catalyst (pro-active IAF) to help improve the business operations. In one case, the chief internal auditor highlighted the significance of being pro-active IAF or a catalyst to get things better because internal auditors are the one who hold the interest of company, not the interest of management or even personal. Another case, as noted by interviewee (R8):

“The Management wants somebody to look at the parts in the system...what they have missed out...that’s why they call us for internal audit consulting input.”

The seventh factor highlights the client pressure for internal auditors to do more that is, getting things better due to their work efficacy, as well as pressure from their inner self to do more for the company. For example, the interviewee (R7) claimed that the client pressure was one of the factors for them to do more as they possess such expertise and efficiency to get things done better. They serve the client (management) through their professional advice and ideas. Apart from that, he further emphasized that pressure from inner self plays a role to getting involved in consulting when necessary to do more for the company. Indirectly, it creates value-adding characteristic amongst internal auditors. Apparently, the interview results were well supported by prior researches. For instance, according to Thevenin (1997), internal auditors attempt to work proactively in terms of providing possible solutions and ideas for improvement. Yee et al. (2007) in their survey of a group of Singaporean managers, reveal that internal auditors are perceived as consultants who work with senior management to suggest improvements to business processes under the concept of business partner model of ‘modern’ internal auditing. Based on the structured interviews with 83 Singaporean various levels of manager in the following year,

Yee et al. (2008) suggest that internal auditors are being appreciated to play a business partner role and those various levels of managers are important internal audit customers.

Finally the eighth factor stressed a training ground for future managers when internal auditors are exposed to handle certain tasks in consulting manner due to their subject matter experts. The opportunity to get involved in consulting benefits the individuals for career advancement. Of ten (10) interviewees, four specifically highlighted internal audit becoming a strategic function for future managers in the organization. In fact, it was consistent with one of the respondents (R2) who had mentioned about the quality assurance review program (QAR) that mandated in the IPPF (revised 2013). The QAR introduced the policy of 'IN-OUT-IN' in which he claimed that a certain number of internal audit staffs (approximately 70% of internal audit staffs) would join other departments during their career after being exposed to risk-based audit (about 30% would remain as career internal auditors). However, after a certain period of time, some of them would return to IAD to assume a senior leadership role. In other words, it is known as swap program by the interviewee (R2). Usually, a newly hired or transferred staff would be exposed to risk-based audit (to get a broad spectrum of the business, better understanding of risk management, better comprehension of the flow of an organization's culture) for a certain period of time. Then, some of them would be transferred back to the previous or other departments due to a promotion while a certain number of internal audit staffs would continue to remain in the IAD. This reflects Selim et al. (2003) discovery of an establishment of rotation programs in some organizations in the study of US and European mergers and acquisitions where new staffs are offered to join internal audit as part of the training program. Similarly, Burton et al. (2012), in a US experimental condition, found

that experienced auditors have a higher interest to apply for an internal audit position when the position advertises a short stint in internal audit and subsequently promoting to management positions and work mostly related to consulting services rather than assurance services.

(b) Other factors:

No other factors noted by any of ten (10) interviewees.

University of Malaya

Table 6.3: Perceptions of Internal Auditors on Relevant Factors Influencing Consulting Role of Internal Auditors as Added Value to Business

Interviewees (Chief Internal Auditors)	R1	R2	R3	R4	R5	R6	R7	R8	R9	R10
Content Theme Perceptions of internal auditors on relevant factors that may influence consulting role of internal auditors when providing professional advice to clients as their added value to business										
Main factors (H1, H2)	1) Full cooperation with auditee/ Operational management	1) Value added mandatory recommendation in such matured and fast moving company. Appreciated by management; 2) Valued as business partner; 3) Training ground for future managers. "IN-OUT-IN" policy.	1) Catalyst to help improve business operation. Want things get better because we are the one who hold the interest of company, not the interest of management nor personal.	1) Management request on consulting 2) training ground for future managers.	1) Request of assistance from operation side; 2) Sharing our knowledge in terms of advice and recommendation. Appreciation granted from management for value adding role; 3) Valued as business partner.	1) Initiative to develop training ground; 2) Sharing knowledge between operation side and auditors. Like sending some audit staff to business area when they are called for giving advice.	1) Client pressure for us to do more with respect to getting things better and because of our work efficiency; 2) Pressure from our inner self to do more for the company.	1) Full support from management and AC. They take our view seriously; 2) Being proactive IAF – management request for IA input; 3) training ground for future managers	1) Cost and objectives. Management request especially on the identification of potential risk that can impede the organization to achieve the objectives. Reducing cost to avoid any wastage incurred.	1) Full support from management and AC. They always seek advice. 2) Appreciation of recommendation by top management and operational level. They perceive us as consultant besides our audit function. 3) Catalyst for change
Other factors	None	None	None	None	None	None	None	None	None	None

6.3.3 Perceptions of Internal Auditors on their Extended Contribution towards Consulting Activities and the Implications on Firm's Growth Opportunities and Performance of the Firm, as well as their Views on the Plan and Strategy on Internal Audit Staffing and Competency

In this section, the focus of the interviews is on explicating the extent of their contribution towards consulting role and its impact on firms' growth opportunities and performance of the firm, as well as their views on the plan and strategy on internal audit staffing and competency. Table 6.4 finally depicts the summary of the interviews across the ten (10) respondents on the related issues.

(a) Consulting role of internal auditors help increases firm's growth opportunities:

In regards of the consulting role of internal auditors that help increases firm's growth opportunities, the result appears to be mixed. From Table 6.4, more than half of the interviewees i.e. six (6) of the ten (10) interviewees stated they have provided considerable assistance to the company in respect of firm's growth opportunities including one interviewee (R4) who stated it was nonetheless an indirect influence. For instance, the interviewee (R8) claimed that:

“When we talk about growth, one side we are talking about new product will make money or not. So how the consulting internal audit will help is that in the pre-launch product, pre-system checking is where it helps to save the costs. If you want to hire external consultant, that's expensive. Then when you want to do post-system, you see the area that can strengthen the business, then the system and control...you enhance the serving speed to customer and see what actually happens. More business made equals to the revenue generated. In that sense, to me yes you are doing consultancy...so in a way it is part of your consulting role to indirectly influencing the growth opportunities.”

Likewise, another interviewee (R10) who positively agreed with the aforementioned, stating that:

“Normally, we are called for the meeting for the new product and not only on new product but whenever they have problems with the system or the process...we do suggest some recommendation and these recommendations show some improvement in the company’s growth like company’s objectives to increase the product line and to cut costs...for example, there have six processes in the new product line but after having discussion with audit or brainstorming session with the experts from our side, it reduces to five and this may save some costs and improve the productivity at the operational level.”

Another interesting comment from one of the chief internal auditors (R1) was that when it is done rightly, consulting does help to open minds of operational management to opportunities which they may not have seen before. This will bring in improvements hence increases firm’s growth opportunities. Meanwhile, another interviewee (R6) explicated about helping company in terms of certain investment thing, in which he stated that:

“...you have certain ways to help the company save their money, make the company doing better...when you talk about control actually you are recommending certain processes’ controls in respect of investment thing. So when they are done, you talk about what the return is, like ROI...”

This is consistent with Sarens and De Beelde (2006a), stated that they need to expand their role with changing business environment. Their results show where the CEO expects the IAD to play a value-adding role in due diligence work, given the importance of acquisitions for the growth of the organization. Their results show that internal audit always has a member on any ad-hoc composed acquisition teams and it is confirmed that internal auditors had spent an average of 15 percent of their annual work time on due diligence

work (Sarens & De Beelde, 2006a). In another scenario, Baker (2011) highlighted that the internal audit's partnership with the business is necessary in which internal auditors are called upon to help management to develop new corporate governance framework for one insurance company and the role is to assist and facilitate using their expertise in policies, processes and controls. Furthermore, for this study, as discussed in Chapter 5, the results of the questionnaire survey drawn from Model 2 support that internal audit consulting contribution to the firm's growth opportunities do lead to some increase in the company's growth.

Nevertheless as aforementioned, four interviewees (R2, R3, R5 and R8) perceived differently. For example, one of the interviewee (R3) claimed that:

“I don't think I would take any credit for increase in the growth because it's already the direction of GMD...he is the one who consult the source for the business and actually expand the growth of the company. I think what we do is we see his direction and we like giving him a little advice like...he is looking at the big picture but sometimes in implementations there are little thing, things he doesn't have time to see...he depends on the management to sort it out...so we are the third eye for the management and would say,...hey, look at this area, but still I don't think I would take any credit for growth and expansion...we don't go out and source business but we make things better and we make sure that things are properly implemented and gave advice where management might overlook at certain areas or risks...”

Similarly, the interviewee (R8) shared the same view where in Malaysian scenario he believed that major shareholders or top management play a big role in a manner of company's growth, not so much of audit input that may grow the company business. On the other hand, the interviewee (R2) expressed his opinion that:

“Nevertheless, in terms of growth we haven’t reached to that level yet like new ventures and so forth. No not yet.”

As more than half interviewees claimed that their role in some form of manner influence the increase the firm’s growth opportunities, the interviews sought their views on whether their role does give any impact on firm’s performance. The details are discussed in the following sub-section.

(b) Consulting role of internal auditors help increases firm’s performance:

In respect of the consulting role of internal auditors that help increases firm’s performance, all interviewees agreed upon that in certain degree internal auditors do help increase the performance of company. Almost all interviewees literally stated that their contribution to company’s performance was in terms of cost reduction and/or cost effectiveness. For instance, one of the chief internal auditors (R9) claimed that internal auditors do help in cost reduction, hence help organization to achieve their objectives in terms of profitability. Likewise, the interviewee (R1) stated about the areas that internal auditors would help in respect of firm’s performance. He claimed that when weaknesses have been properly evaluated and management accepts the findings and agree upon the solutions jointly worked out with internal auditors, the firm’s performance could be enhanced i.e. costs management, information system efficiency etc. In fact, it is strongly supported by prior research such as IIARF (2011a), stated that IAF plays a role of a “trusted business adviser” that can help the organization attain not only regulatory compliance, but also the goals of efficiency, growth and profitability.

Interestingly, one of the interviewees (R10) emphasized on the cost saving and the improvement of productivity plus the effectiveness, efficiency and economic useful of resources in respect of internal audit consulting contribution to firm's performance. Other various perceptions were reducing risk of fraudulent act (R4), leakages and legal risk (R3) and leakages in the control systems (R2). Similarly, one of the chief internal auditors (R8) claimed that management always want to know about the financial impact, hence auditors would look at what are the bottom lines in terms deficiency. In other words, internal auditors would focus on wastages and costs/possible losses incurred in certain processes.

(c) Plan and strategy on internal audit staffing:

In terms of the plan and strategy on internal audit staffing, all interviewees stated they have developed plan and strategy for internal audit staffing in terms of annual staff budget and tabled to audit committee for approval. For instance, two of the interviewees (R1 and R10) claimed that they retrieved information about the necessity of internal audit staffs via the surveys from operational and corporate management, discretely, the interviewee (R3) claimed that the increased number of internal audit staffs was due to business expansion. Further stating by the interviewee (R1), the surveys from operational and corporate management might be required for what was necessary for the organization to have to improve its performance and to enhance its growth, having said that, there should be plans for career growth in the organization for those (i.e. internal auditors) who are involved in consulting services. In specific, the interviewee (R8) mentioned about their three-year plan tabled to audit committee via the identification of risk factors and putting priorities in all auditable areas, hence, working backwards to get required man hours as the basis to work out their internal audit staffing.

Furthermore, one of the chief internal auditors (R6) explained that the staff budget was based on the head count approved by the management, whereas, the interviewee (R9) mentioned about the support they received from the top management and audit committee in terms of staffing. Interestingly, the interviewee (R5) stated that the strategy they have come out with was to exercise the staff rotation program or the secondment from the operation side to contribute their experience and expertise in IAD. Having said all that, the interviewees (R4 and R7) stressed on the challenges to get experience staffs to fit in the IAD whereby, discretely are noted as below.

According to the interviewee (R4):

“Bigger challenge is to get the right people. So the first thing when we want to recruit auditors we don’t ask audit knowledge but why they are interested to be an auditor. We will see them whether they have the criteria to become auditors during the job interview...”

(R7) noting a similar viewpoint, it is stated that:

“Getting experience staff is not cheap. Next alternative is to employ creative personnel, as creative personnel is good for consulting activities as they know how to manoeuvre themselves towards achieving the goals. Creativity is not reflected on grades they obtained in school. It could reflect in their resume or answers during interviews on challenges that they had overcome during their working life. Another way is via pre-interview test as they have to address the issue and the situation given e.g. question on concealing bribe, zero money marketing and etc...”

Table 6.4: Perceptions of Internal Auditors on Consulting Role of Internal Auditors Help Increases Firm's Growth Opportunities and Firm's Performance, Plan and Strategy on Internal Audit Staffing and Competency

Interviewees (Chief Internal Auditors)	R1	R2	R3	R4	R5	R6	R7	R8	R9	R10
Content Theme										
C) Perceptions of internal auditors on whether consulting role of internal auditors help increases firm's growth opportunities and firm's performance as well as plan and strategy on Internal Audit staffing and competency										
Does consulting role of internal auditors help increases firm's growth opportunities? (H4)	Yes	No	No	Yes. In terms of indirect influence	No	Yes	Yes	No	Yes	Yes
Does consulting role of internal auditors help increases firm's performance? (H5)	Yes. Area of cost management, IS efficiency	Yes. Reducing leakage in the control system	Yes. Reducing leakage, legal risk	Yes. Reduce risk of fraudulent act	Yes. Cost reduction	Yes. Cost reduction	Yes. Cost effectiveness	Yes. Focus on wastages and costs	Yes. In terms of profitability	Yes. Cost saving and productivity improvement

Table 6.4: Continued

Interviewees (Chief Internal Auditors)	R1	R2	R3	R4	R5	R6	R7	R8	R9	R10
Plan and strategy on internal audit staffing	Survey from operational and corporate management - necessity of improving performance and enhancing growth. Should be plans for career growth in the organization for those involved in consulting services	Tabled to audit committee and got approval from them about staff annual budget	Increase number of internal audit staffs to suit with the business expansion	Bigger challenge is to get the right people. So non-audit knowledge e was asked during job interview	Slight increase in audit staffs in IAD. Staff rotations or secondment from operation side	Have staff budget depending on head count approved by management	Getting experience staffs yet not cheap. Creativity is crucial. Set up pre-interview test for new candidates to fulfil this criteria	Have three-year plan tabled to audit committee about staffing. Identification of risk factors and putting priorities in all auditable areas and work backwards to get required man hours as the basis to work out our staffing.	Receiving support from audit committee and top management on internal audit staffing based on annual staff budget.	Working very detail to get experience staffs to be recruited. It depends on the necessity.
Plan and strategy on internal audit competency	Increase competent and experience staff in IAD by sending training accordingly	Follow Quality Assurance Review (QAR) recommend actions - min 30% of auditors should have CIA qualification	Pro knowledge, increase certifications amongst staffs like ACCA or CIA certifications	Mentor/mentor training between seniors and juniors	Big group of staffs will be sent for CIA certification, some sent for technical (e.g. risk management, stock take management) as well as soft skills	In-house training for technical skill. External training for soft skills e.g. 10% - IAD annual budget costs	Sending existing staff for thinking outside-the-box training, on-job discussion and one-to-one coaching.	Have training budget... sending them to institutional internal auditors program like information technology (IT)	Staffs are sent for training accordingly to upgrade their knowledge and skills	Staffs are sent for training especially in plantation business - new venture as well as soft skills training.

Consistently, respondents of the global survey of CBOK 2010 (IIARF, 2011d) has indicated that adopting a more intensive role in risk management and governance necessitates the allocation of additional resources to the internal audit activity, those are, increase in staff size, audit tools, and techniques.

(d) Plan and strategy on internal audit competency:

In respect of plan and strategy on internal audit competency, training is crucial for internal audit staffs to enhance skills and improve knowledge. All interviewees agreed upon sending staffs for training periodically in a year. Most of interviewees illustrated their views on sending staffs for both technical and soft skills training. The reasons most interviewees provided were such as upgrading the knowledge and expertise; in fact, it is for gaining new knowledge for certain new business ventures. For example, one of the interviewees (R10) stated that their staffs were sent for training especially in plantation business (i.e. new business venture) as well as soft skills training. Furthermore, three interviewees (R2, R3 and R5) mentioned about the necessity of internal audit staffs to go for CIA or ACCA certifications; in specific, the interviewee (R2) illustrated that by following the recommendations of Quality Assurance Review (QAR), minimum of 30 percent auditors should have CIA qualifications. Further, he claimed that the proposal on allocation of staffs for CIA courses has been tabled to audit committee and approved. Therefore, they had a further discussion with the Human Resource department for budget matters, yet, in overall, consulting work is on ad hoc basis which is done during audit period. Consistently, Sarens et al. (2011) stated that those internal audit functions that were set up in the early days of the IIA (established in 1941) are more likely to use the IIA Standards and have more internal auditors with internal audit qualifications; a quality assurance and improvement program is more accustomed among older IAFs

with a more diversified internal audit agenda and they more frequently perform advanced internal audit activities.

Besides that, one of the chief internal auditors (R6) emphasized on the in-house training for technical skill and external training for soft skills and it incurred 10 percent of the department budget. Soft skills training explained by the interviewee (R5) are such as personal skill, public relation and communication skills, whereas, another interviewee (R10) stressed on the risk management and forensic auditing training courses or according to the interviewee (R8), auditors should be sent to the institutional internal auditors program like IT.

Interestingly, some interviewees (R4 and R7) explained about one to one coaching whereby in other words, it is called mentor/mentee training between senior staffs and juniors. For example, according to R4:

“In order to enhance auditor’s knowledge you must put them into proper training, proper exposure, proper mentor/mentee program or whatever, because this will make the auditor sharpen their knowledge, able to see clearly, and the most important thing is to help the business...”

6.3.4 Summary of Interview Findings

In summary, these interviews provide a more in-depth understanding of the nature and effectiveness of internal audit in respect of consulting role of internal auditors. Specifically, they were asked to provide their opinion on the nature and the extent of their internal audit consulting, the internal audit effectiveness in terms of having sufficient knowledge, experience and technical expertise as well as soft skills to perform internal audit consulting and the objectivity and independence level when performing consulting. Secondly, the interviews duly focused on investigating internal auditors' perceptions of what the relevant factors (i.e. other related factors) that may influence the implementation of their role in consultancy. Thirdly, the interviews arranged on explaining the extent of their contribution towards consulting role and its impact on firms' growth opportunities and performance of the firm, as well as their views of the plan and strategy on internal audit staffing and competency.

In terms of the nature and the extent of internal auditors' consulting role, all chief internal auditors agreed upon performing consulting at request and on ad-hoc basis. Those requests were basically from management at senior and operational levels and were further approved by audit committee. Most chief internal auditors were found to seek outside experts to perform consulting tasks if they had no expertise in the consulting area of improving the internal control system (in accordance with the IPPF *Standards* revised 2013). Moreover, most of them stated that there are no other parties involved in requesting for their consulting advice. Yet interestingly, two of the chief internal auditors expressed that there were other parties like Central Bank and general public via Government that would request for their consulting advice for certain issues.

The findings of the interviews also suggest that internal auditors must have sufficient knowledge, experience and technical expertise (well supported by Arena et al.'s (2006) study) to perform consulting activities. Similarly, Al-Twaijry et al. (2003) noted that internal auditors are powerless if they do not have necessary knowledge and experience. Apart from those technical (hard) skills, it is vital to possess soft skills such as communication and investigative skill. Moreover, the results show that other soft skills such as interpersonal skill, negotiation skill, leadership and public speaking skill are fairly important. As a matter of fact, the interview results are well consistent with Arena et al. (2006). Arena et al. (2006) provided evidence of the influence of additional elements such as leadership and other soft factors (i.e. effective communication with client, establishment of credibility, and resistance minimization) as far as the soft skills are concerned. Similarly, Chia (2004) claimed that "It requires a very strong influencing behaviour or set of soft skills". Internal auditors must have very good communication skills to market their function as value-added partners..." (p. 6). Consistent with this notion, one of the chief internal auditors explained that the ability to persuade and negotiate, good team spirit, good business behavioural traits (such as good attitude and motivation, conflict resolution and stress management) are equally important to perform an effective consulting job. Thus, the emphasis of having sufficient knowledge and experience, technical expertise and soft skills are literally significant as found in this study.

Another finding of these interviews is that chief internal auditors clearly explicate that there is no issues of impairment arise when performing consulting activity. This is due to as internal auditors, they were aware of their objectives and scope of work as stated in internal audit charter, a timely disclosure of time spent on consulting work, work boundaries, IPPF *Standards*, and finally their committed role as consultants.

Moreover, all chief internal auditors were found to not only report directly to the audit committee/board audit committee (group level and/or company level) on a functional basis, but also to senior/top management (i.e. their direct boss) on an administrative level. The practice of Malaysian companies is in line with the Bursa Malaysia Listing Requirements (2013) and the IPPF *Standards* (IPPF 2013) which is consistent with the most recent CBOK 2010 study (IIARF, 2010a). All chief internal auditors emphasized on seeking approval from audit committee prior the engagement. Furthermore, there is a clear call for not taking audit assignment for at least a year on the area they give consultation on. Apparently, selection of auditors and subject matter experts are also the keys to avoid the impairment of independence and objectivity.

The interviews also highlight relevant factors for internal auditors to perform consulting activities. Those are the following responses gained from the interviews:

- 1) Request from management regardless from top or operational levels to help improve the business operations in respect of internal control systems;
- 2) Full support given by top management and audit committee (in terms of appreciation of advice and recommendation) motivates them to take up the consulting engagement within their expertise;
- 3) Being perceived as business consultant besides their audit function;
- 4) Valued as business partner to improve the process;
- 5) Sharing of knowledge and ideas on what internal auditors are expert in, especially through professional advices and recommendations towards the improvement of internal control systems in certain areas of business;
- 6) To be a catalyst (pro-active IAF) to help improve the business operations;

- 7) Client pressure for internal auditors to do more i.e. getting things better due to their work efficacy, as well as pressure from their inner self to do more for the company;
- 8) A training ground for future managers when internal auditors are exposed to handle certain tasks in consulting manner due to their subject matter experts.

Similar findings were made by Rittenberg and Covaleski's (1997) study where the acceptance and appreciation of advice and recommendations with human and material resources were part of the management's support and collaboration. In another environment, Thevenin (1997) states that internal auditors attempt to work proactively in terms of providing possible solutions and ideas for improvement. It is argued that, Yee et al. (2007) in their survey of a group of Singaporean managers, internal auditors are perceived as consultants who work with senior management to suggest improvements to business processes under the concept of business partner model of 'modern' internal auditing. Based on the structured interviews with 83 Singaporean various levels of manager in the following year, Yee et al. (2008) suggest that internal auditors are being appreciated to play a business partner role and those various levels of managers are important internal audit customers. Consistently, KPMG (2009), in their survey of Malaysian internal audit practice, reports that the majority of internal auditors perceived themselves as consultant/business partner. In the same environment, Kassim (2011) shows similar pattern in which about 91 percent respondents perceived themselves as consultant/business partner within the organization. In terms of being the training ground for future managers, it reflects Selim et al. (2003) discovery of an establishment of rotation programs in some organizations in the study of US and European mergers and acquisitions where new staffs are offered to join internal audit as part of the training program.

In relation to internal auditors' perceptions on the extent of internal audit contribution to consulting activities and the implications on firms' growth opportunities and performance, there is a mixed result. Most of the chief internal auditors agree upon consulting role of internal auditors giving some impact on the growth, yet, four of them disagree due to few reasons. It is believed that major shareholders or top management play a big role in a manner of company's growth, not very much of audit input that may grow the company business. Nevertheless, it is argued that, consulting role does influence the firm's performance particularly the financial matters of the company. It does help in cost reduction, cost saving, cost effectiveness and improve profitability and productivity of the company. As aforementioned, IAF plays a role of "trusted business adviser" that can help the organization attaining regulatory compliance as well as efficiency, growth and profitability (IIARF, 2011a).

Finally, the result of the interviews also highlight on the plan and strategy on internal audit staffing and competency. It is apparent that annual staff budget is developed by the Head of IAD, tabled it to audit committee and finally approved in the audit committee meeting. Furthermore, the necessity of increment of internal audit staffs is obtained from the surveys from operational and corporate management, critically due to business expansion. Also, the staff budget depends on the head count approved by the management. Other than that, there should be plans for career growth in the organization for those (internal auditors) who are involved in consulting services. Interestingly, it appears that the strategy taken by the IAD is to exercise the staff rotation program or the secondment from the operation side to impart their knowledge and experience in carrying out audit and consulting engagements.

In terms of staff competency, training is crucial for internal audit staffs to enhance skills and improve knowledge. It is clearly mentioned about sending staffs for training periodically in a year for both technical and soft skills trainings. The reasons include upgrading the knowledge and expertise; in fact, it is for gaining new knowledge for certain new business ventures. Furthermore, it is argued that the necessity of internal audit staffs to go for CIA or ACCA certifications; in specific, by following the recommendations of Quality Assurance Review (QAR), minimum of 30 percent auditors should have CIA qualifications. In addition, the proposal on allocation of staffs for CIA courses is tabled to audit committee and approved (R2, R5 and R8). For instance, soft skills training are such as personal skill, public relation and communication skills, whereby, technical skills are such as risk management and stock take management (R5) and IT audit training courses(R5 and R8).

Ultimately, the results of interviews are found to be consistent with the importance of internal audit competencies as stated in the Statements on Auditing Standards (SAS) 65 (AICPA, 1991). That includes internal auditor's educational, certification (for example, CIA/CPA) and prior experience and these elements were used as a proxy of internal audit quality by Hutchinson and Mat Zain (2009) and Prawitt et al. (2010). Moreover the higher the involvement of internal audit team in risk management in which they have higher technical skill in risk management (that is, control risk assessment techniques), the higher the internal audit effectiveness in the engagement (Arena & Azzone, 2009).

As a matter of fact, the Attribute Standards 1210 on internal auditor's proficiency describes about the acquired knowledge, skills and other relevant competencies that the internal auditors should have, so as to ensure audit effectiveness in their work performance (IPPF, 2013)¹⁸. Yet, above all, consulting work is on ad hoc basis done during audit period and based upon special request from management or board/audit committee.

¹⁸ The Standards interprets that internal auditors are encouraged to show their proficiency through gaining appropriate professional certifications and qualifications, for instance, the certified internal auditor designation as well as other designations offered by the IIA and other appropriate professional organizations (PA1210-1, IPPF 2013). It was supported by the empirical evidence of Mihret and Yismaw's (2007) study, highlighting the internal audit effectiveness is significantly influenced by internal audit quality which one of the criteria is internal audit expertise.

6.4 Discussion of Overall Results

6.4.1 Overview of Results

This thesis tested a total of fifteen (15) hypotheses (inclusive of sub hypotheses of H1, H2 and H3) of which thirteen (13) were supported; inclusive of two (2) hypotheses that were partially supported. First, hypotheses 1(a,b,c,d,e and f) and 2 (a,b,c,d, and e), pertaining to the six dimensions of intentions/ambitions of IAD and five dimensions of expectations of board and audit committee respectively. As presented in Chapter 5, subsection 5.4.1, page 180 through 183, all six sub hypotheses of hypotheses 1 were supported indicating a significant and positive relationship between the two aforementioned intentions/ambitions of IAD and internal audit contribution to the consulting activities (IAC_CONTRB). Furthermore, of the five hypotheses 2 (a,b,c,d, and e), three (3) hypotheses (2c, 2d, and 2e) were found to be positively associated with internal audit contribution to the consulting activities (IAC_CONTRB), thus supporting those three aforementioned hypotheses (2c, 2d, and 2e).

Further, the results of the hierarchical multiple regressions are related to the two independent variables, those are intentions/ambitions of IAD with its six dimensions (IAIAD1 until IAIAD6) and expectations of board and audit committee with its five dimensions (EXMAC1 until EXMAC5). The objective is to investigate the moderating effect of the expertise, skills and competencies of internal audit in the relationship between the intentions/ambitions of IAD and expectations of board and audit committee and the consulting role of internal auditors in Malaysia. There are five (5) dimensions of moderating variable of expertise, skills and competencies of internal audit (AUDSE, ACCQ, CIACPAQ, TREQ and OTHERSPEC) which were thoroughly discussed in Chapter 3, 4 and 5 of this study. As a result, those two dimensions of moderating

variable which are audit experience (AUDSE) and accounting qualification (ACCQ) indicated a significant moderating capability to influence the relationship between intentions/ambitions of IAD and the internal auditors' assessment of their contribution to their consulting activities (IAC_CONTRB). This has been presented in Chapter 5, subsection 5.4.2.1, page 184 through 188.

Specifically, there are positive significant moderating effects of audit experience on the relationships between four dimensions (catalyst for change, challenging work environment, organizational alignment and array of services) of intentions/ambitions of IAD and internal auditors' assessment of their contribution to consulting activities (IAC_CONTRB). In addition, there are significant moderating effects of accounting qualification on the associations between three dimensions (organizational alignment, "participative, qualitative, real-time assessment" and array of services) of intentions/ambitions of IAD and internal auditors' assessment of their contribution to consulting activities (IAC_CONTRB). The directions for each of associations are also positive in nature. However, the moderating effects of CIA/CPA qualification (CIACPAQ) and tertiary qualification (TERQ) are only found significant in the relationship between one dimension of intentions/ambitions of IAD (catalyst for change (IAIAD1)) and consulting activities (IAC_CONTRB). Furthermore, other specialization (OTHERSPE) indicates significant moderating effects on the associations between two dimensions of intentions/ambitions of IAD (catalyst for change (IAIAD1) and organizational alignment (IAIAD4)) and internal auditors' assessment of their contribution to consulting activities (IAC_CONTRB). Hypothesis 3a is thus partially supported as there are some evidence of moderating effects on the relationships between intentions/ambitions of IAD and the internal auditors' assessment of their contribution to consulting activities.

The survey results also partially support Hypothesis 3b in which three out of five dimensions of moderating variable of expertise, skills and competencies of internal audit demonstrated their moderating capabilities to influence the predictive ability of the equations between the expectations of board and audit committee and internal auditors' assessment of their contribution to consulting activities. This has been presented in Chapter 5, subsection 5.4.2.2, page 188 through 195. In other words, the moderating effects of accounting qualification (ACCQ), CIA/CPA qualification (CIACPAQ) and tertiary qualification (TERQ) (three dimensions of expertise, skills and competencies of internal audit) are found in the relationships between the expectations of board and audit committee and internal auditors' assessment of their contribution to consulting activities. The directions are yet mixed, inclusive of positive and negative patterns. Furthermore, no significant relationships on the moderating effects of audit experience (AUDSE) and other specialization (OTHERSPE) are found in the relationships towards internal auditors' assessment of their contribution to consulting activities (IAC_CONTRB).

Specifically, 'partnership' with management (EXMAC1) and facilitator of risk management and internal control (EXMAC3) apparently show positive patterns when they are moderated by tertiary qualification (TERQ), that means it is more likely to contribute to perform consulting activities. Training ground for managers (EXMAC2) has yet shown an inverse pattern when it is moderated by tertiary qualification (TERQ). This has inferred that the expectation of board and audit committee on internal auditors as training ground for managers is unlikely to contribute in performing consulting activities when they have tertiary qualification.

Similarly, inverse relationship is found on the moderating effect of CIA/CPA qualification (CIA/CPAQ) in the relationship between ‘partnership’ with management and internal auditors’ assessment of their contribution to consulting activities. In contrast, positive pattern is found between safeguard of corporate culture and the internal auditors’ assessment of their contribution to consulting activities when moderated by CIA/CPA qualification (CIA/CPAQ). This has implied that the expectations of board and audit committee in terms of internal auditors being a safeguard of corporate culture has likely to influence the contribution towards consulting activities when they have CIA/CPA qualification. In addition, a significant relationship on the moderating effect of accounting qualification (CIA/CPAQ) was found between the facilitator of risk management and internal control and the internal auditors’ assessment of their contribution to consulting activities. That has apparently showed a positive pattern that suggests the more accounting qualification and board and audit committee expectation towards internal auditors as facilitator risk management and internal control, the more contribution of internal auditors towards consulting activities. Conclusively, hypothesis 3b is also partially supported.

Hypothesis 4 and 5 predicted that internal audit contribution to consulting activities were positively associated with firm’s growth opportunities and firm’s performance respectively. Both hypotheses 4 and 5 are supported in the predicted directions. In addition, the results reveal that there are significant relationships between the degree of the internal auditors’ assessment of their contribution to consulting activities and the firm’s growth opportunities as well as the firm’s performance individually when the dependent variables are proxy by primary data that is, survey data (non-financial data). No significant relationships however, are found in the relationships towards firm’s

growth opportunities and firm's performance (individually) as the secondary values were used to represent the dependent variables.

The survey results are further informed by in-depth, post-survey interviews of 10 chief internal auditors. Semi-structured interviews focusing on the inter relationships between internal auditors combined with their skills and expertise, internal audit consulting activity and the firm's growth opportunities and performance. Some of the key findings of the interviews include the revelation that performing consulting is at request and on ad-hoc basis. Those requests are basically from management at senior and operational levels and were further approved by audit committee. Most chief internal auditors are found to seek outside experts to perform consulting tasks if they have no expertise in the consulting area of improving the internal control system (in accordance with the IPPF *Standards* revised 2013). It also suggests that internal auditors must have sufficient knowledge, experience and technical expertise to perform consulting activities. No issues of impairment arise when performing consulting activity. This is due to several reasons which are 1) internal auditors' awareness of their objectives and scope of work as stated in internal audit charter, 2) a timely disclosure of time spent on consulting work, 3) work boundaries, 4) IPPF *Standards*, and 5) their committed role as consultants. Moreover all chief internal auditors are found to be independent when they report functionally to audit committee while administratively to senior/top management. In addition, in-depth understanding on the relevant factors are gained in order to influence the consulting role of internal auditors and its impact on the firm's growth opportunities as well as firm's performance. Finally, the interviews also highlight on the plan and strategy on internal audit staffing and competency. In the following subsections, more in-depth discussions of research findings related to each of the hypotheses are undertaken.

6.4.2 Intentions/Ambitions of IAD and Expectations of Board and Audit Committee (Hypotheses 1(a,b,c,d,e,f) and 2(a,b,c,d,e))

The results of this study indicate, the higher the intentions/ambitions of IAD (IAIAD1 until IAIAD6), the greater the extent of internal audit contribution to the consulting activities (IAC_CONTRB). As predicted, hypotheses 1 (a,b,c,d,e and f) are well supported indicating strong positive relationships between intentions/ambitions of IAD in which they are represented by six dimensions (IAIAD1 until IAIAD6) and internal auditors' assessment of their contribution to consulting activities (IAC_CONTRB).

It is noted that internal auditors who perform consulting role are inspired by their great intentions or ambitions for being a world class IAD. Therefore, some attributes of a value-adding audit department's profile have contributed to the dimensions (i.e. IAIAD1 until IAIAD6) of the subject of intentions or ambitions of IAD towards their role of consulting. The profile is such as: 1) becoming catalyst for change or change agent (Stern, 1994; MacDonald & Colombo, 2001; Anderson, 2003); 2) extensive staff expertise i.e. top-notch audit staffs are multi-disciplinary, with expert such as engineers and accountants or individuals versed in other disciplines who need a thorough understanding of business rotating through the department, secondment from other department, in-house resources complementing with selective outsourcing – knowledge transfer (Roth, 2002, 2003; Selim et al., 2009); 3) challenging work environment (Roth, 2003); 4) organizational alignment (Stern, 1994; Roth, 2003); 5) participative, qualitative, real-time risk assessment that is, flexible annual audit plans with higher percentage of time remaining unallocated (Roth, 2003; Head et al., 2010); and 6) array of audit services i.e. consistent with the revised definition of internal audit, not seeing

themselves as 'appraisal function but as broader assurance and consulting activity (Roth, 2003; Anderson & Dahle, 2009).

These results are in line with the predictions based on stewardship theory in which it explains the role of internal audit of consultancy and the motivations (in this case, intentions/ambitions) created within IAF to utilize their expertise in assisting organization improve their operations and business performance (for example, Selim et al., 2009; Kassim, 2011). For instance, Kassim's (2011) study has stated that both agency and stewardship theories reflect assurance and consulting roles of internal auditors respectively in ERM. The results of current study thus support a number of internal audit studies such as Stern, (1994), Thevenin (1997), MacDonald & Colombo (2001), Roth (2002, 2003), Selim et al.(2009), Head et al. (2010). According to Stern (1994), becoming a catalyst for change and action within the organization was well embedded in the internal auditors' profession recently. Thevenin (1997) stated that internal auditors attempt to work proactively in terms of providing possible solutions and ideas for improvement. Top-notch audit staffs are multi-disciplinary, becoming a team of experienced business experts (such as engineers and accountants or individuals experienced in other disciplines), qualified to perform world-class internal consulting work rotating through the department (Roth, 2002, 2003). More recently, Rezaee (2009) argued that internal auditors can provide a variety of consulting services to the board of directors, the audit committee, management and other personnel at all levels whereby audit committee can seek advice (for achieving audit committee oversight effectiveness) from internal auditors on overseeing financial reports, internal controls, risk assessment, whistle-blower program and codes of business ethics. The results are further supported by the interview data whereby internal auditors perceive that they are catalysts (pro-active IAF) to help improve the business operations besides receiving client's pressure

to do more i.e. getting things better due to their work efficacy, as well as pressure from their inner self to do more for the company. Broadly, it creates value-adding characteristic amongst internal auditors.

Hypotheses 2 is partially supported indicating three out of five dimensions of expectations of board and audit committee, those are, facilitator of risk management and internal control (EXMAC3), comfort provider (EXMAC4) and safeguard of corporate culture (EXMAC5) are significantly related to the extent of internal audit contribution to the consulting activities. That means the results support Hypotheses 2c, 2d and 2e and the directions are positive in manner as predicted. The results of the three supported hypotheses are further supported by the interview data whereby internal auditor perceive that they are sharing knowledge on risk and control with operation side people when they are called upon to give professional advice in consulting manner. Besides that, full support given by top management and audit committee (in terms of appreciation of advice and recommendation) motivates them to take up the consulting engagement within their expertise.

These results also support the argument in Chapter 3, suggesting that there is a clear demand from the senior management for the internal auditors to serve a supportive function to compensate for the loss of control due to increased organizational complexity (Sarens & De Beelde, 2006a). As being experienced by audit committee in the study of relief of discomfort conducted by Sarens et al. (2009), it was obviously appeared that internal audit's role of advisory, support and facilitation are significant when the weak internal control, reinforced by a weak control environment exist in certain cases. The demand is that of ranging from assurance to consulting such as providing independent assurance on internal control and business processes'

effectiveness and efficiency, actively contributing to improve business processes and internal control, and finally, assisting management with the formalization of the risk management system (Sarens & De Beelde, 2006a). In addition internal auditors apparently act as facilitators for whistle-blowing program in respect of maintaining a good corporate culture.

The other dimensions of expectations of board and audit committee relate to 'partnership' with management and training ground for managers which are not statistically significant as predicted. However, in-depth interviews has given some input that internal auditors are being perceived as business consultant besides their traditional audit function and valued as business partner to improve the process. Having said all that, the challenges of internal auditors are that they need to be good and interactive; it means no silent-in-talking attitude or else, they may not gain value from the client. Another input is that of a training ground for future managers when internal auditors gain exposure to handle certain tasks in consulting manner due to subject matter experts. For instance, as discussed in Chapter 3, findings from Arena et al.'s (2006) study indicate that internal audit was considered as a management training ground in two of the six cases in their Italian study. Also supported by Australian study in which more than half of respondents (56 percent) perceived internal audit staff were relocated to other management positions in the company; their results confirmed that IAF is perceived as a stepping stone for future potential managers to enhance their working careers (Christopher et al., 2009). Similarly, Selim et al. (2003) discovered an establishment of rotation programs in some organizations in their study of US and European mergers and acquisitions where new staffs were offered to join internal audit as part of the training program. Burton, et al. (2012) also found in a US experiment that experienced auditors have a higher interest to apply for internal audit job when the

position advertises a short stint in internal audit and next, promotion into management positions and work mainly related to consulting services rather than assurance services.

In summation, the findings of this study suggest that internal auditors who perform consulting role are duly inspired by their great intentions or ambitions for being a world class IAD. In addition, expectations of board and audit committee in terms of facilitator of risk management and internal control, comfort provider and safeguard of corporate culture have significantly influenced the consulting role of internal auditors.

University of Malaya

6.4.3 Moderating Effect of Expertise, Skills and Competencies of Internal audit on the Relationship between Intentions/Ambitions of IAD and Expectations of Board and Audit Committee and Internal Auditors' Role in Consulting Activities (Hypotheses 3a and 3b)

Hypotheses 3a and 3b predicted that moderating variable of expertise, skills and competencies of internal audit into account can deepen the understanding of the relationship between intentions/ambitions of IAD (IAIAD1 until IAIAD6) and expectations of board and audit committee (EXMAC1 until EXMAC5) and internal auditors' role in consulting activities (IAC_CONTRB). There are five (5) dimensions of moderating variable of expertise, skills and competencies of internal audit (AUDSE, ACCQ, CIACPAQ, TREQ and OTHERSPEC) which are thoroughly discussed in Chapter 4 and 5 of this study.

The results however confirm hypothesis 3a partially as not all dimensions of expertise, skills and competencies of internal audit have significantly moderated the relationship between intentions/ambitions of IAD (IAIAD1 until IAIAD6) and internal auditors' role in consulting activities (IAC_CONTRB). In addition, the movement of the moderating effects as a whole is positive in nature. It means that the expertise, skills and competencies of internal audit (some of the aforementioned dimensions) could improve the level of intentions/ambitions of IAD to perform consulting activities. Specifically, two dimensions of moderating variable i.e. audit experience (AUDSE) and accounting qualification (ACCQ) indicated a significant moderating capability to influence the relationship between intentions/ambitions of IAD and the internal auditors' assessment of their contribution to their consulting activities (IAC_CONTRB). Specifically, there are moderating effects of audit experience on the relationship between the four dimensions of intentions/ambitions of IAD (catalyst for change, challenging work environment, organizational alignment and array of services) and

internal auditors' assessment of their contribution to consulting activities (IAC_CONTRB). In addition, accounting qualification significantly moderates the associations between the three dimensions of intentions/ambitions of IAD (organizational alignment, "participative, qualitative, real-time assessment" and array of services) and internal auditors' assessment of their contribution to consulting activities (IAC_CONTRB). All significant relationships are depicted positive in pattern. The results thus inferred that internal auditors with audit experience and accounting qualification could provide business process improvement suggestions and are encouraged to improve the company's competitive edge hence helping company to increase profitability.

Nevertheless, the moderating effects of two dimensions (CIA/CPA qualification (CIACPAQ) and tertiary qualification (TERQ)) are only found significant in the relationship between intentions/ambitions of IAD (that is, catalyst for change (IAIAD1)) and consulting activities (IAC_CONTRB). The rest of the dimensions of intentions/ambitions of IAD were not significant. In other words, catalyst for change (IAIAD1) is found to be significant variable in explaining the variation in the consulting activities when moderated by CIA/CPA qualification (CIACPAQ) and tertiary qualification (TERQ). This is well supported by Gramling and Meyers's (1997) study; the result stated that internal audit certification is viewed as one of the internal audit competence element. Furthermore, other specialization (OTHERSPE) indicates significant moderating effects on the associations between two dimensions of intentions/ambitions of IAD (catalyst for change (IAIAD1) and organizational alignment (IAIAD4)) and internal auditors' assessment of their contribution to consulting activities (IAC_CONTRB).

This finding supports the arguments in Chapter 3, Section 3.3, indicating that the higher the intentions/ambitions of IAD (certain aforementioned dimensions) coupled with skills and work experience of internal auditors, the greater their contributions in consulting activities. Similarly, Al-Twaijry et al. (2003) noted that internal auditors are powerless if they do not have necessary knowledge and experience. As contemporary internal audit covers a wide range of activities, it is a necessity for internal audit departments to hire internal auditors with various skills to perform audits beyond financial activities (Flesher & Zanzig, 2000; Mihret & Woldeyohannis, 2008). In addition, the interviews support the empirical evidence when it is believed that without technical expertise and sufficient knowledge and work experience, internal auditors will not be effective. In the interviews it is further mentioned about the critical aspect of having soft skills such as communication and interviewing and investigative skills. Consistent with this notion, White (2007) noted that internal auditors are required to be good at “the-off-record” conversation which claimed to be more vital than the written internal audit report. He further claimed that internal auditors “can use related methods and techniques to dig deeper and deliver truth” if they “master the principles of effective internal consulting” (White, 2007, p. 60). By applying Meislin’s techniques¹⁹ in their work, it is reported that internal auditors may ensure the “moment of truth” when working with auditee or client.

¹⁹ The Meslin’s techniques was introduced by Marcia Meislin, president of MCM Management Consultants in which delineate five important elements such as: 1) be authentic with no fakeness or hidden agendas; 2) do homework and know business problems at hand including audit issues; 3) conduct good interview by commencing open-ended questions and listening earnestly to the feedbacks; 4) articulate with confidence the value of internal audit to the organization and benefit to the contact; 5) be honest about the confidentiality of the information that the auditee or client is about to share.

According to Chia (2004), “It requires a very strong influencing behaviour, or set of soft skills. Internal auditors must have very good communication skills to market their function as value-added partners...” (p. 6). Some recent studies, for example, Mihret et al. (2010) and Soh and Martinov-Bennie (2011) highlighted the critical skill of internal auditors is that of they are able to speak up particularly in controversial situation.

Furthermore, hypothesis 3b predicts moderating variable of expertise, skills and competencies of internal audit can deepen the understanding of the relationship between expectations of board and audit committee (EXMAC1 until EXMAC5) and internal auditors’ role in consulting activities (IAC_CONTRB). In this case, the results also confirm hypothesis 3(b) partially as not all dimensions of expertise, skills and competencies of internal audit have significantly moderated the relationship between expectations of board and audit committee (EXMAC1 until EXMAC5) and internal auditors’ role in consulting activities (IAC_CONTRB). Specifically, the result of significance relationships however, is limited to three moderating effects i.e. accounting qualification (ACCQ), CIA/CPA qualification (CIACPAQ) and tertiary qualification (TERQ). In addition, the directions are mixed, inclusive of positive and negative patterns. Yet, no significant relationships on the moderating effects from the expertise, skills and competencies of internal audit (the audit expertise (AUDSE) and other specialisation (OTHERSPE)) are found in the relationships towards internal auditors’ assessment of their contribution to consulting activities (IAC_CONTRB). In fact, tertiary qualification is proved to moderate more on the relationships between the expectations of board and audit committee and the internal auditors’ assessment of their contribution to consulting activities. This is shown when three out of five dimensions of the expectations of board and audit committee were significantly moderated by tertiary

qualification (TERQ) on the relationships towards internal auditors' assessment of their contribution to consulting activities (IAC_CONTRB).

'Partnership' with management (EXMAC1) and facilitator of risk management and internal control (EXMAC3) except for training ground for managers (EXMAC2) apparently show positive patterns when they are moderated by tertiary qualification (TERQ) (fourth dimension of expertise, skills and competencies of internal audit) and that means 'partnership' with management and facilitator of risk management internal control are more likely to contribute in performing consulting activities. Training ground for managers (EXMAC2) has shown an inverse pattern instead when it is moderated by tertiary qualification (TERQ). Apparently, this infers that the expectation of board and audit committee on internal auditors as training ground for managers was unlikely to contribute in performing consulting activities when they have tertiary qualification. This is possible whereby it is supported by some interview insights that consulting engagement requires experience level of staff or manager level (per say), though tertiary qualification such as MBA or DBA qualification is acquired amongst junior staffs but they are more likely to be assigned to audit related work. Moreover, experienced senior staffs are more confidence in appearance to communicate with senior level of management in consulting aspects.

Similarly, inverse relationship is found on the moderating effect from CIA/CPA qualification (CIA/CPAQ) in the relationship between 'partnership' with management and internal auditors' assessment of their contribution to consulting activities. In contrast, positive pattern is found between safeguard of corporate culture and the internal auditors' assessment of their contribution to consulting activities when moderated by CIA/CPA qualification (CIA/CPAQ). This has implied that the

expectations of board and audit committee in terms of internal auditors being a safeguard of corporate culture has likely to influence the contribution towards consulting activities when they have CIA/CPA qualification. In addition, a significant relationship on the moderating effect of accounting qualification (CIA/CPAQ) was found between the facilitator of risk management and internal control and the internal auditors' assessment of their contribution to consulting activities. That has apparently shown a positive pattern that implies the more accounting qualification coupled with the expectations of board and audit committee in terms of internal auditors being facilitator of risk management and internal control, the more contribution of internal auditors towards consulting activities. The findings are supported by the interview data where it is believed internal auditors must have sufficient knowledge, experience and technical expertise to perform consulting activities for instance, using COSO framework to identify risk and using audit software tools in their work assistance.

In summary, findings relating to hypotheses 3(a) and 3(b) provide empirical support for the guidelines recommended in the IPPF (2013) as well as Auditing Standards (SAS) 65²⁰. The findings also show that the practice of Malaysian companies is in line with the Bursa Malaysia Listing Requirement (2013) and consistent with the most recent CBOK 2010 study (IIARF, 2010b). Furthermore, it is well supported by the insights obtained from the in-depth interviews.

²⁰ Internal audit competencies as stated in accordance with the Statements on Auditing Standards (SAS) 65 (AICPA, 1991).

6.5 The Relationship between Internal Auditors' Role in Consulting Activities and Firm's Growth Opportunities and Firm's Performance (Hypotheses 4 and 5)

Hypotheses 4 and 5 predicted positive associations between internal auditors' role in consulting activities and firm's growth opportunities and firm's performance respectively. The results reveal that there are significant relationships between the degree of the internal auditors' assessment of their contribution to consulting activities and the firm's growth opportunities as well as the firm's performance individually when the dependent variables are proxy by primary data (survey data). The result hence validates that the internal audit professionals who have a bigger picture of their companies can play an important role in advocating company growth strategies by getting involved in the areas such as emerging markets, mergers and acquisitions, social media, the cloud and navigating the regulatory labyrinth (supported by the PricewaterhouseCoopers's (2011) study).

In other words, the result substantiates that they need to expand their role with changing business environment. This finding also support the arguments in Chapter 3 in which Sarens and De Beelde (2006a) state that the CEO expects the IAD to play a value-adding role in due diligence work, given the importance of acquisitions for the growth of the organization. Therefore, there is a sufficient evidence to infer that the degree of the internal auditors' assessment of their contribution to consulting activities was significantly related to the firm's growth opportunities. In addition, the results also substantiates that internal auditors indirectly do help increase the firm's financial performance such as improving the existing business operations via their valuable recommendations on the crucial areas which involve high risk. In addition, the performance measures suggested by Ittner and Larcker (2000) earlier like improving the

productivity levels (e.g. employees' job descriptions and required output/production), increasing the sales revenues and decreasing the transaction costs could be part of the internal audit contributions in respect of consulting activities within an organization. They mentioned that employee relations (in this case, it is part of productivity levels) is a significant proportion of company's value which leads to firm's success in performance. According to them also, improving the customer satisfaction programs and increasing the loyalty of existing customers and attracting new customers are the drivers of success in many industries. Thus, it is believed that internal auditors enable to perform their consulting role in those areas provided they have the expertise as to influence the firm's performance to a greater success. Nonetheless, from Table 5.12 Chapter Five, the results reveal that there are no significant relationships between the degree of the internal auditors' assessment of their contribution to consulting activities and the firm's growth opportunities as well as the firm's performance individually when the dependent variables are proxy by secondary data from annual report or DATASTREAM (financial data database). Therefore, the results indicate that Hypotheses 4 and 5 are partially supported.

The interview data provides further insights for understanding the results between internal auditors' role in consulting activities and firm's growth opportunities and firm's performance respectively. Most of the chief internal auditors believe consulting role of internal auditors giving some impact on the growth such as new product development, pre-launching of new system or product. In contrast, four of them disagree due to few reasons. It is perceived that major shareholders or top management play a big role in a manner of company's growth, not so much of suit input that may grow the company business. Nevertheless, it is argued that, consulting role does influence the firm's

performance particularly the financial matters of the company. It does help in cost reduction, cost saving, cost effectiveness and improve profitability and productivity of the company. Consistent with the notion, IIARF (2011a) strongly argued that IAF can assist the organization accomplish not only regulatory compliance, but also the efficiency, growth and profitability since the function is perceived as “trusted business adviser”.

No significant relationships however, are found in the relationships towards firm’s growth opportunities and firm’s performance (individually) when the secondary data is used to represent the dependent variables. Further, it is consistent with Kassim’s (2011) study where no significant relationship was found between the degrees of the ERM implementation and the financial performance when it was proxy by secondary data (financial data such as EBITDA and ROE).

6.5.1 Control Variables

As discussed in the results section in Chapter 5, results of some of the control variables from this study are consistent with the results of other prior internal audit studies. With no moderating effect, only a group of companies that fall under industrial product sector (INDUSTRIAL) is found to be negatively associated with the internal auditors’ assessment of their contribution to consulting activities (IAC_CONTRB). This indicates that internal auditors working in “industrial product” companies contribute less to the consulting activities, which tend to contribute more in the non-industrial product companies. This is in contrast with prior studies of Mat Zain (2005) and Mat Zain et al. (2006) whereby their result shows insignificant. Yet, the other three (3) types of sectors, those are, trading/services (TRADING), finance/insurance (FINANCE) and

technology (TECHNOL), are found not to be significantly related to the internal auditors' assessment of their contribution to consulting activities. The scenario is thus consistent with Mat Zain's (2005) study. In contrast with the current study, Mihret and Woldeyohannis (2008) found that consulting paradigm of internal audit would probably be sought and encouraged in a high-risk environment (technology sector) due to high technology in business operation.

Interestingly, when taking into account on the moderating effects, the other two types of sectors i.e. trading/services (TRADING), finance/insurance (FINANCE) show inverse relationships with the internal auditors' assessment of their contribution to consulting activities. However, it is a weak evidence to prove as such (i.e. at ten (10) percent level of significance). That means it is not a strong evidence to indicate that internal auditors working in "trading/services" and "finance" companies contribute less to the consulting activities, which tend to contribute more in the non-trading/services and non-finance companies discretely.

Moreover, the industry (sector) classification is reported to have significantly influenced the firm's growth opportunities and firm's performance individually when the dependent variables proxy by primary data (survey data). It is apparent that only companies that fall under industrial product sector (INDUSTRIAL) are found to be positively associated with the firm's growth opportunities (FG_OPPOR) and it is deemed to be significant. This indicates that internal auditors working in "industrial product" companies implicate more of the firm's growth opportunities, which tend to contribute less in the non-industrial product companies. Furthermore, the p-values of finance/insurance sector (FINANCE) and technology sector (TECHNOL) were significant ($p=0.079$, $p=0.062$) respectively at ten (10) percent level of significance.

However, there is weak evidence to indicate that both sectors are statistically significant related to firm's performance. In other words, it shows a weak evidence to illustrate that internal auditors working in "finance/insurance" and "technology" companies implicate more on the firm's performance, which tend to be lower than the non-finance/insurance and non-technology companies. The other three (3) types of sectors, i.e. trading/services (TRADING), finance/insurance (FINANCE) and technology (TECHNOL) however, were found not to be significantly related to the firm's growth opportunities at ($p=0.303$, $p=0.508$, $p=0.654$ and $p=0.189$). Further, companies that fall under industrial product sector (INDUSTRIAL) are also found not to be significantly related to the firm's performance at ($p=0.273$). The results of regression analyses are presented in Chapter 5, Table 5.12. Evidently, the other control variable such as company size (SIZE) is found to be inversely related to firm's growth opportunities but not statistically related to firm's performance (both the dependent variables proxy by primary data, that is, survey data). It indicates that the internal auditors working in small organizations implicate more of the firm's growth opportunities, which tend to contribute less in large organizations. However, leverage (LEVERAGE) is found insignificantly associated with the firm's growth opportunities and firm's performance respectively.

Apart from that, no significant relationships are found between control variables and firm's growth opportunities as the secondary data is used to represent the said dependent variable. In similar environment, Kassim (2011) noted that there was no significant relationship between the degrees of the ERM implementation and the financial performance when it was proxy by secondary data (financial data). However, a significant relationship is found in the relationship towards firm's performance as the secondary data is used to represent the mentioned dependent variable. Yet, the control variables of company size (SIZE) and leverage (LEVERAGE) are significantly related

to the firm's performance at ($p=0.003$ and $p=0.001$) respectively (illustrated in Table 5.12, Chapter 5). Furthermore, the industry classification is neither a significant variable in explaining the variation in the firm's growth opportunities nor firm's performance respectively, it is unlikely found in the case of the dependent variables when proxy by primary (survey) data.

As shown in Chapter 5, size is found to be significantly associated (positive in manner as predicted) in both equations. That means the bigger the size of the company, the higher the firm's growth opportunities and firm's performance. Furthermore, leverage is appropriately found to have a significant inverse relationship with the firm's performance hence the result demonstrated that the lower the debt equity of the company, the higher the performance of the firm and it is deemed supported by Ho et al. (2004). According to Ho et al. (2004), firms' growth in an emerging Asian market have lower debt-to-equity ratios and dividend yields, pay higher cash compensation and bonus amounts to their top executives, and finance a higher percentage of their asset acquisitions via operating leases. Thus, it shows a bigger picture that firms' growth tend to associate with the expenditures done by managers including expanding the projects and new product lines, maintaining and replacing the existing assets to be utilized excessively and effectively for the business expansion.

6.6 Overview of the Chapter

This chapter provides a summary of in-depth interviews with ten (10) internal auditors. The interviews explored issues regarding the nature and effectiveness of internal audit in respect of consulting role of internal auditors. Particularly, they were asked to provide their opinion on the nature and the extent of their internal audit consulting, the internal audit effectiveness in terms of having sufficient knowledge, experience and technical expertise as well as soft skills to perform internal audit consulting and the objectivity and independence level when performing consulting. The interviews duly focused on investigating internal auditors' perceptions of what the relevant factors (or other related factors) that may influence the implementation of their role in consultancy. Then, the interviews arranged on explicating the extent of their contribution towards consulting role and its impact on firms' growth opportunities and performance of the firm, as well as their views of the plan and strategy on internal audit staffing and competency. This chapter then provides thorough discussion of results from both phases. The next chapter, which is the final chapter of the thesis, discusses the conclusions, limitations of the current study, contributions and also suggestions for future research.

CHAPTER 7: CONCLUSION, LIMITATIONS, AND RECOMMENDATIONS FOR FUTURE RESEARCH

7.1 Introduction

This chapter forms the final part of the thesis that encompasses the conclusion of the study. Moreover a summary of key findings of the study are presented; theoretical contributions and managerial and policy implications and recommendations for future research form part of this chapter. Further, a delineation of the limitations of the study is provided. The possible future research forms the final part of this chapter.

7.2 Summary of Key Findings

The following are the summary of the key findings of the study (in constant with Table 5.14 - Chapter 5):

- The intentions/ambitions of IAD in respects of all six dimensions i.e. catalysts for change, extensive staff expertise, challenging work environment, organizational alignment, “participative, qualitative and real-time assessment”, and array of services are found to be significantly positive influence the internal auditors’ assessment of their contribution to consulting activities.
- Three of the five dimensions of the expectations of board and audit committee have positive significant influence towards internal auditors’ assessment of their contribution to consulting activities in which the related dimensions are “facilitator of risk management and internal control”, comfort provider, and safeguard of corporate culture.
- “Auditing skill and experience” is found to significantly positive influence the relationship between four (i.e. most) of the dimensions of intentions/ambitions of

IAD (i.e. catalysts for change, challenging work environment, organisational alignment, and array of services) and the internal auditors' assessment of their contribution to consulting activities.

- Four moderating effects of expertise, skills and competencies of internal audit (i.e. “auditing skill and experience”, professional qualification (e.g., CIA/CPA), tertiary qualification and other specialization are found to significantly positive influence towards the correlation between one of the dimensions of intentions/ambitions of IAD (i.e. catalyst for change) and the internal auditors' assessment of their contribution to consulting activities.
- Internal auditors as “facilitator of risk management and internal control” within the dimensions of expectations of board and audit committee coupled with accounting qualification and tertiary qualification (e.g., HR, IT or Engineering) are likely to perform more consulting activity.
- In contrast, when internal auditors is proxy by ‘partnership’ with management as one of the dimensions of expectations of board and audit committee coupled with professional qualification (e.g., CIA/CPA), are likely to perform less consulting activity, albeit, likely to perform more consulting when they have tertiary qualification (e.g., HR, IT or Engineering).
- Interestingly, internal auditors' assessment of their contribution to consulting activities is found to be the significant variable in explaining the variation in the firm's growth opportunities when it is proxy by non-financial measures like innovation strategies and product innovation.
- Similarly, internal auditors' assessment of their contribution to consulting activities is found to be the significant variable in explaining the variation in the firm's performance when it is proxy by non-financial measures like productivity and customer satisfaction program.

- However, there are no evidence that consulting role of internal auditors are significantly correlated with either firm's growth opportunities or firm's performance when they are proxy by financial measures from secondary data such as "market-to-book value equity" and "return on equity" respectively.
- With no moderating effect, only a group of companies that fall under industrial product sector (i.e., control variable) is found to be negatively associated with the internal auditors' assessment of their contribution to consulting activities; indicating that internal auditors working in "industrial product" companies contribute less to the consulting activities, which tend to contribute more when working in the non-industrial product companies.
- Control variable like the industry (sector) classification is found to have significantly influenced the firm's growth opportunities. Only companies that fall under industrial product sector were found to be positively associated with the firm's growth opportunities and it was deemed to be significant. This indicates that internal auditors working in "industrial product" companies implicate more the firm's growth opportunities, which tend to implicate less when working in the non-industrial product companies.
- Other control variable like company size is found to be inversely related to firm's growth opportunities (proxy by non-financial measures) which indicates that the internal auditors working in small organizations implicate more the firm's growth opportunities, which tend to implicate less the firm's growth opportunities when working in the large organizations.
- Moreover, significant relationships between the control variables like company size and leverage (positive and negative respectively) are found in the relationship towards firm's performance (proxy by financial measures). That means the bigger the size of the company, the higher the firm's performance. Leverage is

appropriately found to have a significant inverse relationship with the firm's performance hence the result demonstrates that the lower the debt equity of the company, the higher the performance of the firm.

7.3 Theoretical Contributions and Managerial and Policy Implications

7.3.1 Contribution to Theory and Knowledge

The findings of the present study make several contributions to theory. Pursuits of research questions (as discussed in Chapter 1) have resulted in several implications for theory development. As discussed under study gap and motivation in Chapter 1 (Section 1.3), this study extends prior studies on factors that influence the extent of internal audit contribution to the consulting activity. In particular, the study attempts to address the gaps in the literature with respect to the new changes of definition of internal auditing which has widen the scope of internal audit by explicitly incorporating consulting activities (mandated in IPPF revised 2013). However, not many subsequent researches are done in consistent with its recent recognition and clarification (Selim et al., 2009). In Malaysian environment, most recently Kassim (2011) revealed that internal auditors of government link companies (GLCs) do play their consulting role in Enterprise Risk Management (ERM) but did not mention why the percentage is as such and what factors have influenced the performance of such roles (especially consulting) in which this has turned out to be the aim of the present study. The current study also addresses the implications of implementation of such role on the firm's growth opportunities (such as future investments) as well as the business performance, like profitability and efficiency in which they have not been tested in the prior studies. Besides, by adopting the stewardship theory into the study (the theory is explicated in details in Chapter 2) to explain the role of internal audit in consultancy (e.g. Selim et al., 2009; Kassim, 2011)

whereby it would explain that the motivations are created within IAF to utilize their expertise in assisting organization to improve their operations (for example, future development and business performance). Furthermore, the perspective of stewardship delineates the subject of the presence of goal congruence hence internal auditors in Malaysia would support the board and management team through consulting role (well supported by Kassim (2011)).

Specifically, the study offers the following extensions on factors influencing the extent of internal audit contribution (derived from the application of stewardship theory) to consulting activities:

1. The higher the proportion of intentions/ambitions of IAD (aforementioned in Section 7.2), the greater will be the contribution of internal auditors to consulting activities.
2. The higher the extent of expectations of board and audit committee (those are, significant to “facilitator of risk management and internal control”, comfort provider, and safeguard of corporate culture), the greater will be the contribution of internal auditors to consulting activities.
3. Four moderating effects of expertise, skills and competencies of internal audit (those are, “auditing skill and experience”, professional qualification (for example, CIA/CPA), tertiary qualification (for example, MBA, Masters or DBA), and other specialization (for example, HR, IT or Engineering)) are found to significantly positive influence the relationship between one of the dimensions of intentions/ambitions of IAD (that is, catalyst for change) and the internal auditors’ assessment of their contribution to consulting activities.
4. “Auditing skill and experience” among other dimensions of moderating variable of expertise, skills and competencies of internal audit, is the most found to

significantly positive influence towards the relationship between the intentions/ambitions of IAD and the internal auditors' assessment of their contribution to consulting activities. The significant dimensions of intentions/ambitions of IAD are such as catalysts for change, challenging work environment, organizational alignment, and array of services.

5. Given that “facilitator of risk management and internal control” as one of the dimensions of intentions/ambitions of IAD coupled with accounting qualification and tertiary qualification (for example, HR, IT or Engineering), internal auditors are likely to perform more consulting activity.
6. While internal auditors is proxy by ‘partnership’ with management as one of the dimensions of expectations of board and audit committee coupled with professional qualification (for example, CIA/CPA), they are likely to perform less consulting activity; in contrast, they are likely to perform more consulting when they have tertiary qualification (for example, HR, IT or Engineering).
7. The higher the extent of internal audit contribution to consulting activities, the greater will be the firm’s growth opportunities (proxy by non-financial measures, those are, innovation strategies and product innovation).
8. The higher the proportion of internal audit contribution to consulting activities, the greater will be the firm’s performance (proxy by non-financial measures, those are, productivity and customer satisfaction program).

This study also contributes to the extant literature by providing primary and archival data from Malaysia on the influence of intentions/ambitions of IAD and expectations of board and audit committee on the consulting roles of internal auditors and its implications towards firm’s growth opportunities as well as firm’s performance, which is in line with the findings by Kassim (2011), Mat Zain (2005), Mat Zain et al. (2006)

and Hutchinson and Mat Zain (2009) studies. In doing so, the findings of this study add to research evidence from countries with developing capital market as to enhance the role of internal auditors in good corporate governance in the aspect of consulting which is still in infancy stage as compared to those in developed economies such as the US, UK, and Australia. This study also seeks more evidence from countries with rapidly developing economy in Asia, like Malaysia. In terms of theoretical justification, stewardship theory is reflected to explain the value-adding role of internal audit by expanding to the consulting activities so that they can help their companies to grow and perform.

University of Malaysia

7.3.2 Contribution of Findings to Practice

From a practical perspective, this study provides feedback to the regulators (for example, Bursa Malaysia, MCCG, IIA) where at macro level, they can play a constructive role in promoting these kinds of services (i.e. types of consulting services) which in turn can make organizations and management around the globe responsive to the benefits of having IAD that perform consulting services. Besides, the IIA may further provide specific in-depth guidance on consulting assignments, and on the subject of independence and objectivity that is associated with consulting engagement. This is also based upon the importance of consulting assignments coupled with the positive effects on auditors and on organizations as highlighted by respondents. Therefore, via strengthening the guidelines on the independence and objectivity in respect of consulting engagement, internal auditors will not jeopardize their traditional role (assurance services) while involving in consulting activities. Furthermore, the issue of facing the balancing act of dual roles is countered when the study shows that the expectations of board and audit committee (such as “facilitator of risk management and internal control”, comfort provider and safeguard of corporate culture positively influencing the contribution of internal auditors to consulting activities. On the other hand, stress of “to do more with less” issue is responded when the study proves that the higher the proportion of intention/ambitions of IAD (catalysts for change, extensive staff expertise, challenging work environment, organizational alignment, “participative, qualitative and real-time assessment”, and array of services), the greater the contribution of internal auditors to consulting activities. The in-depth interviews findings of this study further highlights that internal auditors need to prioritize between consulting and assurance while they are committed to meeting management requests for consulting services to add value and help improve the business operations. In addition, since the

survey and in-depth interviews indicates internal auditors have already delivered consulting assignments in a number of topics (for example, exploratory study findings delineated in Chapter 4), it is believed that the IIA might involve in playing constructive role towards promoting the value-added services and enhancing the awareness among the CAEs.

However, it is surprising to note that while internal auditors is proxy by 'partnership' with management as one of the dimensions of expectations of board and audit committee coupled with professional qualification (for example, CIA/CPA), they are likely to perform less consulting activity. This shows that board and audit committee still have some clichéd thought that internal auditors should focus more on the assurance roles though they would have CIA or CPA qualifications. This is in contrast with some prior studies in much more developed countries (Yee et al. (2007, 2008); Selim et al. (2009); Arena et al. (2006); Dounis (2006, 2008)). This huge gap offers a new opportunity to the IIA especially the IIA Malaysia to create an awareness program on the possible consulting function of the internal auditors among the CAEs. The IIA Malaysia should also increase its focus on the consulting nature of the internal auditors in the training sessions they conduct locally. The recent launch of IPPF (2013) and the global summary of CBOK 2010 study (IIARF, 2010a, b; IIARF, 2011a,b,c,d) are hoped to provide a clear guidance to the CAEs to practise or maintain an effective IAF (audit assurance or consulting) within organization.

CAEs at micro level could promote through the consulting activities internal marketing, where the audit department possesses expertise, so as to increase the demand for consulting assignments by internal audit customers. Having said all that, internal auditors may have a persuasive power to provide professional advice in the manner of

consulting to the management without assuming any management responsibility. Once they recognize the importance of consulting assignments, organizations could increase the resources devoted to the IAD and provide the necessary financial support on behalf of top management for such initiatives. For instance, the empirical evidence of this study shows that accounting qualification and tertiary qualification (for example, MBA, Masters or DBA) inflated the expectation of board and audit committee on the internal auditors to perform consulting assignments if and when they are needed. Therefore, the related parties such as management, board and audit committee would have to broaden the scope of recruiting of internal audit staff or equip the existing staff with such qualifications so as to establish and maintain the effective IAF. Individual auditors must be aware of both benefits of and the emerging issues in consulting via acquiring knowledge and expertise in respect of consulting role as well as complying with the Standards (that is, IPPF) and the Code of Ethics when performing the audit assurance or consulting engagement.

Finally, higher learning centre such as university could modify their internal audit course syllabus (for example, hands-on practice using audit software tools such as ACL), expand or introduce a specific course on consulting activities that increase the students' awareness of the substance of consulting activities in internal audit field. This is to fully equip the university students with the knowledge of the entire consulting process, the basic technical and behavioural skills to manage it effectively. Henceforth, they would be marketable in the industry once they embark into the practice.

7.4 Limitations of the Current Study

As always, despite the contributions of the study, a number of limitations are to be noted. Many of these limitations represent opportunities for future research. The main limitations in this study concern the followings:

1. *The sample*: This study is wholly based on responses from internal auditors (that is, unit of analysis is the head of internal audit or equivalent to that within each organization). No responses collated from the management or board audit committee members to answer the internal audit consulting survey instruments as to get both sides of views towards internal audit consulting. Similar to the notion in Mat Zain (2005) and Mat Zain et al.'s (2006) studies, the problem of response bias is considerably significant given that both independent and dependent variable measures were derived from the same respondent, in this case, is internal auditor that raises concerns about the internal validity. Likewise, the in-depth interviews were conducted only with internal auditors to participate in the exploratory study (at preliminary stage) and post-survey interviews (at final stage). This will also, form the same predicament of response bias as aforementioned.
2. *Small sample size*: Although, $n = 112$ (26.8 percent usable response rate) is adequate for many statistical analyses conducted in this study using SPSS version 19, still it is insufficient to use more sophisticated statistical methodology such as Structural Equation Modelling (SEM) that enables a researcher to test a set of regression equation simultaneously. SEM is multivariate technique involving the combining aspect of followings: latent/unobserved variables, exploratory and confirmatory factor analysis, multiple regression, linear path analysis and it is the

extension of the general linear model that enabling the researcher to run a set of regression equations at the same time. To conduct SEM, large sample size is needed, minimum of 200 observations are preferred (Ledakis, 1999; Sheridan & Lyndall, 2007)²¹.

3. *Survey Respondent*: The sample was only limited to the chief internal auditors from companies that fully in-housed their IAF. Specifically, the current study has not addressed that companies that co-sourced or fully outsourced their IAF to internal audit services provider or public accounting firm to determine the implication that such IAF may have on internal audit contribution to consulting activities.
4. *Qualitative Evidence*: Only ten (10) interviews with chief internal auditors were conducted. Additional interviews with top management (CEOs, CFOs, or CROs) or audit committee chairman could have yet improved the representativeness of the sample. Moreover, even richer insight could have been derived by conducting case study (Yin, 1994) or focus group (Oppenheim, 1992) whereby multiple constituents within the organization, inclusive of top management and audit committee members may have been interviewed. Time and cost saving are two benefitted elements when conducting focus group as compared to individual interviews.

²¹ For the first approach, Ledakis (1999) reported a minimum number of 200 are acceptable to pursue any factor analysis. By using the second approach, Sheridan and Lyndall (2007) suggested an absolute minimum ratio of five participants to one variable but not less than 100 participants as per analysis, although, a sample size of 200 or more is preferred. Another study by Comfrey and Lee (1992) reported that sample size may be determined based on the following scale of 50- very poor, 100- poor, 200- fair, 300- good, 500- very good and 1,000 or more- excellent.

5. *Instrument*: In the internal audit consulting survey instrument, the dependent variable, that is, internal auditors' assessment of their contribution to consulting activities is measured using continuous scale (ratio scale) instead of Likert scale with seven (7) range of scale. It would provide better understanding if the dependent variable of internal auditors' assessment of their contribution to consulting activities is proxy by few dimensions instead of one dimension measured by continuous scale. Furthermore, this would enable another alternative SEM statistical methodology namely Partial Least Squares (PLS) to accommodate the research that have few dimensions of dependent variable using Likert scale. PLS is known as 'user-friendly' statistical tool in the research industry. However, PLS could not run for dependent variable(s) that has only one dimension in the research model. As the dependent variable, that is, internal auditors' assessment of their contribution to consulting activities is proxy by merely one dimension, it is limited to execute PLS to assist in running the regression analyses in the current study. Instead, SPSS is opted to analyze the quantitative (survey) data in the study. In a nutshell, PLS could have further been used to deal with the study that have small sample size and non-normal data distribution²² provided that the independent and dependent variable(s) are proxy by latent variable with few dimensions (Chin & Newsted, 1999; Hair, Sarstedt, Ringle & Mena, 2012).

²² Structural equation modeling (SEM) has become a quasi-standard in marketing research as it allows researchers to test complete theories and concepts (Rigdon, 1998). Researchers particularly appreciate SEM's ability to measure latent variables at the observation level (outer or measurement model) and test relationships between latent variables on the theoretical level (inner or structural model). When applying SEM, researchers must consider two types of methods: covariance-based techniques (CB-SEM) (Jöreskog, 1978, 1993) and variance-based partial least squares (PLS-SEM) (Lohmöller, 1989; Wold, 1982, 1985). Although both methods share the same derivations (Jöreskog & Wold 1982), prior marketing research has focused mainly on CB-SEM, for example, Bagozzi (1994), Baumgartner and Homburg (1996), and Steenkamp and Baumgartner (2000). In recent years, PLS-SEM application has expanded in marketing research and practice with the recognition that PLS-SEM's distinctive methodological features become a possible alternative to the famed CB-SEM approaches (Henseler et al., 2009).

7.5 Recommendations for Future Research

Given the evidence presented in this thesis, there are several avenues for future research:

1. As this study is wholly based on responses from internal auditors, future research should also focus on obtaining responses from other corporate governance constituents like management and audit committee members. This is to get and gauge their views regarding internal auditors providing consulting services within their organizations. Data collected through this exercise will allow comparisons to be made between the views expressed by internal auditors on the value-added through carrying out consulting services and the views of internal audit customers.
2. In order to increase the size of the sample, future studies should explore the feasibility of conducting similar research in countries located in the same region such as Thailand, Singapore or Indonesia. Having said that, replicating the study in other countries in which the data collected could help establish a map of internal auditors' progress in the provision of consulting services across the profession around the globe.
3. Future research may take forward the study of internal auditing and consulting in this country by organizing focus groups encompasses CAEs, audit committee members or senior management to help update an understanding of the internal auditors' progress since the first survey was carried out. This is the alternative way rather than conducting in-depth interviews at discrete level to avoid time consuming and cost problems. Data collected would allow comparisons (rather than one-sided views of internal auditors) to be made across time and more concrete

conclusions be drawn on the progress or otherwise of the profession in the provision of consulting services within organizations.

4. In recent years, outsourcing of IAF in organizations has becoming a common practice (Carey, Subramaniam & Ching, 2006; Stewart & Subramaniam, 2010). Nonetheless, the current study only examines the impact of fully in-housed IAF on internal audit contribution to consulting activities. There could be differences in internal audit effectiveness between the in-house internal audit unit and outsourced internal audit units. However, no study to date has been conducted to investigate the extent of practice of internal audit outsourcing in the provision of consulting services.

No doubt, findings of the present study provide additional opportunities or open several interesting avenues for further research. For example, comparative research that can provide insights into internal audit consulting practice in nations with capital markets that still developing would provide a better understanding of internal audit consulting practice differences from a multinational perspective.

7.6 Conclusions

This chapter has summarized the study's key findings, thoroughly delineated the theoretical contributions and managerial and policy implications, overviewed its main limitations, and noted ways that subsequent research may usefully build on this work. It is revealed that corporate governance variables such as 1) intentions/ambitions of IAD namely catalysts for change, extensive staff expertise, challenging work environment, organisational alignment, "participative, qualitative and real-time assessment", and array of services and 2) expectations of board and audit committee namely "facilitator of risk management and internal control", comfort provider, and safeguard of corporate culture are factors that influence internal audit contribution to consulting activities. Furthermore, based on the empirical evidence, consulting role of internal auditors help increased the firm's growth opportunities only in the aspect of non-financial parameters such as innovation strategies and product innovation; help increased the firm's performance like productivity and customer satisfaction program (that is, non-financial parameters). However, there is no strong evidence said that consulting role of internal auditors help increased the firm's growth opportunities and firm's performance when they are proxy by financial measures. The quantitative and qualitative phases of empirical enquiry undertaken have delivered distinct contributions to the study. The interviews provided useful insights, assisted in supporting the results of the survey questionnaires' design as well as interpretation of results. In particular, the interviewees helped in explicating reasons for the non-significant relationship between the two dimensions of expectations of board and audit committee (those are, 'partnership' with management and training ground for managers) and internal audit contribution to consulting activities; Besides that, they helped to explain about the inverse relationship of the moderating effects of expertise, skills and competencies of internal audit such as

professional qualification (for example, CIA/CPA) towards the relationship between ‘partnership’ with management (that is, one of the dimensions of expectations of board and audit committee) and internal audit contribution to consulting activities.

Finally, the present study highlights the adoption of theory of stewardship in the aspect of goal congruence and motivation derived within the IAF to support the board and audit committee to navigate the organization. The theory is reflected to explain the value-added role of internal audit focusing on the consulting engagement and the effectiveness of internal auditors in delivering their job in consulting manner. Thus, the present study adds to the literature by revealing the significance of the internal auditors’ role in consultancy to help achieve the organizational goals; it requires their expert advice in terms of potential risk and control factors in business development and expansion. Given all that, several additional avenues for future research have been proposed. These have the potential to extend the present study, and lead to the development of more effective and efficient corporate governance policies and internal audit practices with regards to consulting engagement.

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APPENDICES

APPENDIX A1: Factors Influencing Consulting Role of Internal Auditors

APPENDIX A2: An Examination of the Factors Influencing Consulting Role of Internal Auditors

APPENDIX B1: The Exploratory Interviews Data Matrix

APPENDIX B2: The Consulting Assignments Data Matrix

APPENDIX C1: Cover Letter of Preliminary Internal Audit Consulting Survey Instrument

APPENDIX C2: A Preliminary Internal Audit Consulting Survey Instrument

APPENDIX D1: Cover Letter of Final Internal Audit Consulting Survey Instrument

APPENDIX D2: Final Internal Audit Consulting Survey Instrument

APPENDIX E1: The Consulting Role of Internal Auditors in Malaysia: Its Relevant Factors, Issues on Internal Audit objectivity and Independence, Internal Audit Competency and Staffing Strategy and the Impact on Firm's Growth Opportunities and Firm's Performance

APPENDIX E2: An Examination of the Consulting Role of Internal Auditors in Malaysia and Its Relevant Factors, Issues on Internal Audit objectivity and Independence, Internal Audit Competency and Staffing Strategy and the Impact on Firm's Growth Opportunities and Firm's Performance

APPENDIX F: Bursa Malaysia Listing Requirement (MAIN MARKET) Chapter 15 Corporate Governance

APPENDIX G: Meta-Analysis – Analysis of Assurance versus Consulting

APPENDIX H: Results of Statistical Analysis

APPENDIX A1: Factors Influencing Consulting Role of Internal Auditors

Thank you for taking the time to participate in this interview. I would appreciate your assistance in my PhD research project pertaining to the factors influencing consulting role of internal auditors. I am presently conducting this research to gain some realistic view about the internal audit contribution to its consulting oriented services and the factors influencing consulting role of internal auditors in their current practice, in addition to the development of a research instrument (i.e. survey questionnaire) for the next phase of the study.

Specifically, the objective of this study is to conduct a preliminary investigation into the nature, type and extent to which internal auditors perform in the consulting role and their understanding of factors influencing the implementation of such a role as their added value to business.

In order to contribute to this study, it would be appreciated if I could interview you and gather your perception and opinion regarding the subject above.

ALL INFORMATION provided by yourself will be **STRICTLY CONFIDENTIAL**. Interview participants will not be personally or directly identified in any of the reports.

Investigator:
Suhaily Binti Shahimi

Consent form

I _____ have read the objectives of this study and understand that participation in this study is voluntary. I understand that it is my right as a participant to withdraw from the study at any time without explanation.

I have read the information sheet and consent form. I agree to participate in the "The Factors Influencing Consulting Role of Internal Auditors" and I give my consent freely.

Signatures:

Participant:

Date: _____

Investigator:

Date: _____

APPENDIX A2: An Examination of the Factors Influencing Consulting Role of Internal Auditors

Exploratory (Semi-Structured) Interviews

Subject: Head of Internal Audit Department of large organization

Questionnaire Format:

Section A: Demographic and General Information

Section B: Specific Issues on Consulting Activity

Organisation: _____

Interview Date: _____

Interviewed by: _____

I would like to start by asking you just a few simple questions about your background and the company's background. Is that okay?

Section A: Demographic and General Information

Name of organization: _____

Type of organization: Finance/Banking or Retail or Manufacturing or Service or Others (Please bold, the answer)

Your present position: _____

Number of years you have been:

a) With this organization _____

b) An internal auditor _____

Your professional designations (e.g. MICPA, CIA, CPA, MIA, ACCA etc.) _____

Internal audit size (total number of auditors in your organization) _____

When is the IA established in your organization? Age of IAF: _____

Number of employees in your organization (optional): _____

Who does CAE report to? Functionally? _____; Administratively? _____

Section B: Specific Issues on Consulting Activity

1) Does your IAD perform any consulting activity? If yes, why?

2) If no expertise in consulting area, is there any hiring from outside expert to perform consulting tasks?

3) Does your organization maintain such an organizational policy authorizing internal audit (i.e. IA charter) to indicate organizational commitment of internal auditors to perform internal audit activities? Any statement(s) referring to the aspect of consulting engagement? Provide examples.

4) To perform any consulting activity, will it be the demand from AC or senior management or middle (operational)/auditee management level?

5) Besides the list of consulting assignments provided below (see question 13), are there any other consulting assignments performed in your organization?

6) Based on your experience or opinion, besides AC, SM & MM, are there any other parties interested in requesting consulting engagement?

7) Do you perceive performing consulting activities may impair internal auditors' independence and objectivity? Why or why not?

8) If consulting activity to be performed in your organization, any applicable techniques used? Provide examples.

- 9) By right, the expectations from AC and SM are significantly different but in certain circumstances, there are similar expectations from AC and SM which they are more concerned on consulting activities rather than assurance services, therefore what factor(s) cause this phenomenon?

- 10) Do you think that internal auditors must have sufficient knowledge, experience and technical expertise to perform consulting activities? Are Soft skills needed? Provide examples.

- 11) Do you think that management support and collaboration influence consulting role of internal auditors? In terms of acceptance and appreciation of advice and recommendations? In terms of allocation of human and material resources?

- 12) Do you think that internal audit is an important strategic function in terms of providing a training ground for future managers? Any establishment of rotation program?

Should you have any provision for emerging issues, please include in the box below.

13) From the list of consulting assignments below, **please tick whichever applicable** (based on your experience or opinion) Indicators: AC = Audit Committee; SM = Senior Management (CEO/CFO/CRO); MM = middle (operational)/auditee management level).

Consulting assignments	Requested by		
	AC	SM	MM
<p>Due Diligence (in support of management's evaluation of acquisition candidate)</p> <ul style="list-style-type: none"> Design evaluation checklist that can be used by other functions involved in evaluating acquisition candidate. Facilitate management discussions regarding potential acquisition candidate evaluation criteria. 			
<p>System Development (during and after significant system conversion project)</p> <ul style="list-style-type: none"> Facilitate process of defining system user requirements. Advise on system development best practices – documentation standards, tools, & test strategies. Train users on their system development roles and responsibilities. 			
<p>Process Reengineering (during and after process reengineering project)</p> <ul style="list-style-type: none"> Advise on how to conduct an effective and efficient process reengineering project. Train key individuals involved in the project – steps to perform, analysis techniques, & documentation requirements. Advise on specific procedures that will enhance design of the process. 			
<p>Risk Management (support of organization's risk management program)</p> <ul style="list-style-type: none"> Facilitate the annual risk assessment process. Facilitate management's control self- assessment (e.g. guided risk and control self- assessment exercises by organizing workshops) Advise on different strategies that may be used to manage key risk. Advise on control design. Train risk owners on their risk management responsibilities. Benchmarking internal areas (educational/training in nature) with comparable areas of other, similar organizations to identify best practices. Advise management – steps necessary to initiate and enterprise-wide risk management program (ERM). Relevant training given to SM, the board as well as AC on COSO ERM and related guidance (must be clear on IA roles on ERM related activities). Act as a <i>liason</i> (facilitative in nature) between management and independent outside auditors, government agencies, vendors, and contractors on control issues. 			
<p>Implementation of ERP system, new software, new accounting standards (IAS/IFRS)</p> <ul style="list-style-type: none"> Advise management through participation in working groups. 			
<p>Integration process after merger or acquisition (M&As)</p> <ul style="list-style-type: none"> Advise on the adoption of group procedures or best practices. 			
<p>Strategy development of M&As</p> <ul style="list-style-type: none"> Advise on systems and processes that could reduce acquisition risk. 			
<p>High-risk projects such as Information systems development</p> <ul style="list-style-type: none"> Advise on the model design and implementation of MIS. 			

<p>Project Management</p> <ul style="list-style-type: none"> • Post mortem analysis (educational/training in nature) to determine lessons from project after it has been completed. • Advise on contingency planning and disaster recovery. • Participate in project team planning (provide advice & recommendations). 			
Evaluation of external auditor's audit work			
Evaluation of work by outside professionals other than external auditors			
Review outsourced services			
Cash Management			
Business valuation			
Change management			
Inventory management			
Capital investment analysis			
Human Resource management			
Strategic management			
Employee performance and remuneration			
Feasibility studies			
<p>Corporate governance</p> <ul style="list-style-type: none"> • Advise management and AC as well as board on newly released authoritative guidance (e.g. IPPF etc) • Participate in internal corporate governance processes such as internal control and ERM. • Participate in external corporate governance process which includes (1) assist the board & AC in their oversight function, (2) cooperate with external auditors in their integrated reports on audits of ICFR & financial statements, and (3) participate in environmental audits and preparation of corporate governance & sustainability reports. 			

APPENDIX B1: The Exploratory Interviews Data Matrix

Interviewees (Chief Internal Auditors/CAEs/Heads of IA)	P1 ^t	P2	P3	P4 ^v	P5
Demographic Details					
Gender	Female	Female	Male	Male	Male
Professional Qualification/Membership	MBA (UK), CIA, CISA, CFE, CMIIA, CSI	MBA (IUM), CMIIA	CIA	FCCA, CFIIA, CA(M)	CA(M), AIIA
Number of years with firm	5 years	2 years	6 years	Not obtained (vast experience in assurance and internal consulting services)	1 1/2 years
Number of years as an internal auditor	16 years (plus 5 years in external auditing)	9 years (plus banking operation experience)	More than 10 years (plus various experience in Finance, Accounting, Marketing, line resources)	More than 20 years (extensive experience – performing audit for PLCs across a range of industries; broad experience in implementation of CG and Risk Management programmes)	14 years
Number of internal auditors in the organization (including CAE)	11	9	51	Mostly members of Board of Governors and staffs are internal auditors by training	6 plus co-sourcing provider “...we also have co-source..on year to year basis engagement..where they'll be coming for 4 to 5 audits in a year.”
			“1A staffs from various disciplines e.g. accounting & finance, engineering (22%), marketing (14%), some transferred from procurement department...first degrees and professionals to masters		

Background of Organizations							
Public Listed	Yes	Yes		levels.”	No	Yes	
Type of organization (i.e. industry)	Manufacturing/Services	Services		Services	Non-profit professional	Services	
Content Theme							
A) Performing consulting activity							
Performing consulting?	Yes	Yes		Yes	Yes	Yes	
Seeking expertise from outside provider	Yes	Yes		Yes	Yes	Yes	
Demand of consulting	Mostly SM/MM	AC and SM		AC and SM	AC and SM	AC and SM	
Other consulting assignments (not stated in Figure 2)	Advising management on fraud prevention and whistle-blowing programs	Financial analysis “...For example, strategic business unit – purchasing physical assets for business continuity.”		Control Self-Assessment, Procurement and advising on Network Engineering project	None	None	
Maintain an organizational policy authorizing IA (i.e. IA charter) to indicate organizational commitment of internal auditors to perform internal audit activities	Yes	Yes		Yes	Yes	Yes	
Statement(s) referring to the aspect of consulting engagement in IA Charter such as:	Overall statement such as “...consulting engagement... upon request of management and the audit committee.”	Agreed upon the first three items.		Agreed upon the first three items.	Agreed upon the first three items.	Agreed upon the first three items.	
i) Mission && planning aligned with management objectives							
ii) Open for ad hoc management requests							
iii) Audit plan focus on high business risk areas							
iv) Others, if any							
Interest of other parties (besides AC/SM/MM) in consulting	None	None		None	None	None	
					“Normal procedure the	None	

				CEO will ask CAE with the approval of AC.”	No “...as auditors...we know our rights...our boundary...and still we can maintain our independence... Very neutral view... no prejudice to support management...”
Independence and objectivity impairment when performing consulting activities	No “it depends on terms and reference, there is a limit to get involve in consulting, give advice on certain aspect only e.g. internal control system improvement.”	Not really “They need other side of eyes or need some advice to improve the control system...”	No “... because those auditors who had involved in consulting assignments were not allowed to perform audit in that area for the next twelve months.”	No “... the safety net is to make sure that there is a timely disclosure of your time spent on consulting work as opposed to independent assurance.”	
To whom IA report functionally	AC	AC	Chairman AC	AC (Based on CBOK 2010 survey)	AC
To whom IA report administratively	Assistant Managing Director/Financial Controller	Rector	Group CEO	Normally to CEO	Group Chief Financial Officer (CFO)
Any applicable techniques used when performing consulting activities in terms of:-					
(i) Charter language defining consulting service parameters	Terms and reference – part of IA Charter	Terms and reference – part of IA Charter	Already maintained in IA Charter	Properly defined in IA Charter “... and to further add onto the IA Charter that says audit plan should be reviewed by the AC on the quarterly basis to ensure that there is a proper disclosure of the amount of work carried upon independent assurance and consulting and that process has been	Already maintained in IA Charter “So far no... I think the Charter... it’s already covered...”

					endorsed by the AC and the Board..."	
(ii) Policies and procedures limiting type, nature, and/or level of participation in consulting projects	Follow terms and reference, if no expertise, they decline to take up project	Yes such as check on audit team availability, seek approval from AC, upon engagement they maintain project file; upon completion they would prepare report table it to top management	Known as internal policy. "...e.g. consulting work on procurement. First, CIA will check expertise in that area and one of the staff was from the procurement department before joining the IAD, thus the consulting engagement can be proceed."	Follow the IA Charter as per mentioned above	Yes. Terms and reference in the IA Charter. "...I would always fall back to the IA Charter...because it defines clearly what is our scope and our responsibilities...so I think that's covered."	
(iii) Use of screening process for consulting projects, with limits on accepting engagements that might threaten objectivity	Yes	Yes	Yes "...e.g. taking up network engineering audit... that assignment was requested as consulting engagement and CIA would determine his IA staffs with engineering background to take up the consulting work...due to subject matter expert. To avoid any impairment of independence or objectivity... auditors...involved in consulting...not allowed to perform audit	Yes "...I mean CAE has to evaluate whether she or his department has the right expertise to take on the engagement of consulting. Under strong control of IAD...if no specific skills or expertise...should reject the engagement immediately...or ask the CEO of organization to find the right resources of the organization to support the IA in discharging that particular special assignment. I think that	Yes "...I would always fall back to the IA Charter..because it defines clearly what is our scope and our responsibilities...so I think that's covered...but in fact even we go into any consulting...we do...you know...especially in the report, we define...what is our scope, our objectives...I think that's about it."	

		No. Depends on staff's availability, within CAE's control	No. "Normally, the Head of IA involves in consulting role... if it involves IT matters, IT auditors will take up the engagement."	in that area for the next twelve months."	No	should be the way?"	No	No
(iv) Segregation of consulting units from units conducting audits (assurance) within same audit function								
(v) Rotation of auditors on engagements	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
(vi) Employing outside providers for carrying out consulting engagement, or for conducting assurance engagements in activities where audit function's prior involvement in consulting work has been determined to impair objectivity/independence	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
B) Perception of internal auditors on whether the expectations from AC and SM are significantly different ranging from assurance to consulting but in certain circumstances, there are similar expectations between AC and SM in which certain factors contributing to that phenomenon								
AC expects more on assurance whilst SM expect more on consulting	Yes		Yes	Yes	Yes	Yes	Yes	Yes
Similar expectations due to weak control environment (CE)	"... IAD normally conduct seminar to give training to new	Yes due to CE i.e. tone-at-top, formalization of risk	Yes due to CE i.e. tone-at-top, formalization of risk management and	Yes due to CE i.e. tone-at-top, formalization of risk	Yes due to CE i.e. tone-at-top, formalization of risk	Yes due to CE i.e. tone-at-top, formalization of risk	Yes due to CE i.e. tone-at-top, formalization of risk	Yes due to CE i.e. tone-at-top, formalization of risk

	directors and advised them on the operational issues.”	management and risk culture	risk culture	management and risk culture “...it depends on... ...environment of organization. “When no risk management (RM) in place... IA become RM coordinator/facilitator ... IA asked to design RM framework...”	management and risk culture “I do agree that weak control system and the environment definitely...because in fact here in my organization, there is a request from the SM or exec directors want me to just go and review the current system... the way I do work is that..once there is a request from SM or exec directors, I refer back to my AC...I'll get a mandate from AC first...”
Other factors	None	None	None	Maturity of governance and control	None
C) Perception of internal auditors on whether internal auditors must have sufficient knowledge, experience and technical expertise to perform consulting activities					
Sufficient knowledge and experience	Yes	Yes	Yes	Yes	Yes
Technical expertise	Yes	Yes	Yes	Yes	Yes
Soft skills	Yes such as communication skills	Yes such as leadership skills	Yes such as communication skills	Yes such as communication skills	Yes such as communication skills
D) Perception of internal auditors on whether management support and collaboration influence consulting role of internal auditors					

Management support and collaboration influence consulting role of internal auditors	Yes	Yes	Yes	Yes	Yes
In terms of acceptance and appreciation of advice and recommendations	Yes	Yes	Yes	Yes	Yes
In terms of allocation of human and material resources	Yes. Allocation of human resource only	Yes. Allocation of human resource only	Yes. Allocation of human resource only	Yes. Allocation of human resource only	Yes for both resources
E) Perception of internal auditors on whether internal audit is an important strategic function in terms of providing a training ground for future managers					
IA as important strategic function to provide training ground for future managers	Yes	Yes	Yes	Yes	Yes
Establishment of rotation program	No	Yes	Yes	“IN-OUT-IN concept”	Yes

Indicator for P1 column: ^f The interviewee is also the Vice President of the IIA Malaysia for the session 2010/2011.

Indicator for P4 column: ^w The interviewee is currently the Organizing Chairman 2011 IIA International Conference. He was the Past President of IIA Malaysia, former President of the ACIIA (2006-007), Board Member of IIA Inc US (005-2007) & formerly member of ACCA Malaysia’s Advisory Committee (2002-2006). Fellow Member of ACCA and Chartered Fellow of IIA Malaysia. Member of IIA Global Nomination Committee and Global Governance Task Force. Also a trained and fully qualified Quality Assurance Review (QAR) Assessor of the IIA, USA and has led a number of QAR assignments for IIA Malaysia. Within a span of 20 years of his employment with Astrazeneca Plc (AZ) he was the Regional Audit Director for Asia Pacific, Middle East and Africa and was part of the AZ Group Internal Audit global senior management team, responsible for developing and charting the Group’s governance strategy and assumed the “project lead” role in subsidiary compliance for AZ’s global SOX 404 initiative.

APPENDIX B2: The Consulting Assignments Data Matrix

Consulting Assignments based on experience or opinion of Internal auditors	P1	P2	P3	P4	P5
<p>Due Diligence (in support of management's evaluation of acquisition candidate)</p> <ul style="list-style-type: none"> • Design evaluation checklist that can be used by other functions involved in evaluating acquisition candidate. • Facilitate management discussions regarding potential acquisition candidate evaluation criteria. 	No	No	No	<p>Yes: "Can be done by IA or EA or I2. Requested by CEO. Normal procedure the CEO will ask CAE with the approval of AC."</p>	<p>No but for item #2, he said, "Management meeting I do attend but we don't have very regular but when there is anything critical, I'll be there"</p>
<p>System Development (during and after significant system conversion project)</p> <ul style="list-style-type: none"> • Facilitate process of defining system user requirements. • Advise on system development best practices – documentation standards, tools, & test strategies. • Train users on their system development roles and responsibilities. 	No	<p>Yes to Item #1 & 2 only, requested by both AC & SM.</p>	<p>Yes to Item #1 only, requested by both AC and SM</p>	<p>Yes to all items and requested by SM. "It's always CEO who ask... IA role in system development is to provide advisory consulting work... most organization especially in mature organization, the head of IA or representative of IA– sits in steering committee or project committee."</p>	<p>Yes to all items. Item #1 requested by SM; Item #2 requested by AC and item #3 requested by both AC and SM.</p>
<p>Process Reengineering (during and after process reengineering project)</p> <ul style="list-style-type: none"> • Advise on how to conduct an effective and efficient process reengineering project. • Train key individuals involved in the project – steps to perform, analysis techniques, & documentation requirements. • Advise on specific procedures that will enhance design of the process. 	No	No	No	No	No

<p>Risk Management (support of organization's risk management program)</p> <ul style="list-style-type: none"> Facilitate the annual risk assessment process. Facilitate management's control self-assessment (e.g. guided risk and control self-assessment exercises by organizing workshops) Advise on different strategies that may be used to manage key risk. Advise on control design. Train risk owners on their risk management responsibilities. Benchmarking internal areas (educational/training in nature) with comparable areas of other, similar organizations to identify best practices. Advise management – steps necessary to initiate and enterprise-wide risk management program (ERM). Relevant training given to SM, the board as well as AC on COSO ERM and related guidance (must be clear on IA roles on ERM related activities). Act as a <i>liason</i> (facilitative in nature) between management and independent outside auditors, government agencies, vendors, and contractors on control issues. <p>Implementation of ERP system, new software, new accounting standards (IAS/IFRS)</p> <ul style="list-style-type: none"> Advise management through participation in working groups. 	<p>No. Not done yet on consulting mode at IA level. "... risk assessment is embedded in audit program."</p>	<p>Yes to all items, requested by SM except for item #8. "So far, SM and AC were aware of the new control framework."</p>	<p>No. Not done on consulting mode at IA level. "Overall, the assignments related to risk management were taken up in audit manner to improve the control system."</p>	<p>Yes, can be done at IA level. "It's very common in smaller organization, SM will ask IA to set up RM system. There are two school of thoughts about RM...they set up, give education and roll up the system...again it depends on the maturity of organization...mean smaller organization using that...you design then later you review...but must be different audit team. Bigger organization, separate RM could be done by separate unit...it could be L2...RM committee in L2."</p>	<p>Yes to all items and applicable at IA level. "We have our group of RM steering committee and meeting two months once to discuss all the pertinent issues in relation to the operational...even strategic", he said. Requested by AC & SM. "...in fact the minutes of the meeting sent to the AC...and whatever you discuss in the RM...the group of RM steering committee...so-so tabled in the AC...so they are well aware what's happening..."</p>
<p>Integration process after merger or acquisition (M&As)</p>	<p>No.</p>	<p>No</p>	<p>No.</p>	<p>Yes can be done at IA</p>	<p>Yes.</p>
<p>Implementation of ERP system, new software, new accounting standards (IAS/IFRS)</p> <ul style="list-style-type: none"> Advise management through participation in working groups. 	<p>No</p>	<p>Yes and requested by SM and AC</p>	<p>Yes but only at pre-implementation review. "So far pre-implementation review done by collaboration of IA and outside expert."</p>	<p>Yes. "IA can be part of project management team."</p>	<p>"Yes...we do...in fact I was in the loop...and I was that to inform of the status of the progress of ERP implementation...so I'm in the loop as well." he said.</p>

<ul style="list-style-type: none"> Advise on the adoption of group procedures or best practices. 	<p>“... taken up by Corporate Finance dept – due diligence task on acquisition aspect.”</p>		<p>“Not done as consulting but similarly, pre implementation review of system network e.g. MVNO was carried out... audit manner.”</p>	<p>level. “Similar in terms of Due Diligence work where they can be part like that of Due D team” he explained.</p>	<p>“... recently, SM requested.”</p>
<p>Strategy development of M&As</p> <ul style="list-style-type: none"> Advise on systems and processes that could reduce acquisition risk. 	No	No	<p>No. “Not done as consulting but similarly, pre implementation review of system network e.g. MVNO was carried out... audit manner.”</p>	Yes *	<p>Yes. Requested by SM and AC.</p>
<p>High-risk projects such as Information systems development</p> <ul style="list-style-type: none"> Advise on the model design and implementation of MIS. 	No	No	Yes	Yes *	Yes
<p>Project Management</p> <ul style="list-style-type: none"> Post mortem analysis (educational/training in nature) to determine lessons from project after it has been completed. Advise on contingency planning and disaster recovery. Participate in project team planning (provide advice & recommendations). 	No	<p>Yes to item #2 & 3 only, requested by SM/MM</p>	<p>Partially yes. “Normally...at post implementation of project management – carried out e.g. business continuity and recovery.”</p>	Yes *	<p>No. “More on audit manner. Analyze and report back to the AC. Participate in project team... not really.”</p>

Evaluation of external auditor's audit work	No	No	"Not evaluation but complimentary role and this was requested by AC."	Yes	Yes *	No. "Normally AC does that."
Evaluation of work by outside professionals other than external auditors	No	Yes. Requested by AC.	Yes	Yes *	Yes. Requested by SM and AC.	
Review outsourced services	Yes "... more on control aspect only."	No	Yes	Yes *	Yes. Requested by SM.	
Cash Management	Yes	Yes. Requested by SM and AC.	Yes. "Normally, advise on treasury operation various policy/hedging policy (pledge risk)."	Yes *	No	
Business valuation	No	No "More on business review rather valuation."	Yes	Yes *	No	
Change management	No	No	No	Yes *	No	
Inventory management	Yes	Yes. Requested by SM.	Yes	Yes *	Yes. Requested by SM.	

Capital investment analysis	No. “...in-charged by Corporate Finance dept. If IAD is to involve in the task, normally they will come in the third-quarter of the job.”	Yes. Requested by AC.	No. “Risky area.”	Yes *	No
Human Resource management	Yes	Yes. Requested by AC.	Yes	Yes *	Yes. Requested by SM and AC.
Strategic management	Yes	Yes. Requested by AC.	Yes	Yes *	No
Employee performance and remuneration	Yes	Yes. Requested by AC.	No. “Get third party to perform.”	Yes *	No
Feasibility studies	No	No	No	Yes *	No
Corporate governance	Yes to item #1 & 2 and item #3(1) so far. “IAD will conduct seminar regarding operational issues and board/AC awareness of those issues. At the	Yes to item #1 & 2 only. “Item # 3... normally AC Chairman frequently gave talk on integrity to all Deans showing that the Chairman was aware of the CG	Yes to item #1 & 2 and item #3(1) so far.	Yes *	Yes to item #1 & 2 and item #3(1) so far. “Yes I am...” Item #3(2) = “...excluded...not under my responsibility”. Item #3 (3)...I’ve never done this so far...but if the Chairman has been looking forward in the future...”
<ul style="list-style-type: none"> Advise management and AC as well as board on newly released authoritative guidance (e.g. IPPF etc.) Participate in internal corporate governance processes such as internal control and ERM. Participate in external corporate governance process which includes (1) assist the board & AC in their oversight function, (2) cooperate with external auditors in their integrated reports on audits of ICFR & financial statements, and (3) participate in environmental audits and preparation of corporate governance & sustainability reports. 					

	moment, CSR matters are management responsibility.”	process and its importance.”			
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Indicator for P4 column: * “Overall, all these can be done...it comes to the states where it depends whether you have skills required by the IAF as long some basic principles are followed such as independent in consulting, proper disclosure to AC, right expertise to do it, right needs to do it. If in the environment where it requires IA to provide high level of assurance or independent assurance because the AC wants IAF to do it, let the rest of other parties and they find other resources to do it...there's no hard and fast route...”

APPENDIX C1: Cover Letter of Preliminary Internal Audit Consulting Survey Instrument

Dear Respondent,

As you are aware the new definition of Internal Auditing has increased the scope of internal audit by explicitly embracing consulting activities. In accordance with the Current Body of Knowledge (CBOK) 2011, maximizing the internal audit function is imperative to meet the challenges of today's business environment. Internal auditing's value will be measured by its ability to drive positive change and improvement. In its stead is the role of a "trusted business advisor" who can help the company attain not only regulatory compliance, but its goal around efficiency, growth, and profitability. Thus, this study is timely in providing the much needed empirical support on the consulting role of internal auditors and its influencing factors. This survey seeks to investigate the consulting role of internal auditors in Malaysian context as it identifies factors that can influence its success.

These questionnaires are to be sent to companies listed on Bursa Malaysia, thus, we need your assistance for piloting process of this questionnaire. Kindly answer **ALL** questions as if you are the respondents and it should take you about 15 to 25 minutes to complete. We appreciate if you provide comments on the readability and clarity of the questions (by completing the **Pilot Survey Evaluation Form** in the last page). Once completed, please e-mail back to us at suhaily@um.edu.my or nurmazilah@um.edu.my.

Please be assured that **ALL INFORMATION** collected will be held in the **STRICTEST CONFIDENCE** and only aggregated results will be reported.

Your kind participation in this survey are highly valued and appreciated. If you have any questions or concerns about completing the questionnaire or about being in this study, please do not hesitate to contact Ms. Suhaily Shahimi at suhaily@um.edu.my or 019-3984724.

Thanking you in advance for your cooperation.

Yours sincerely,

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APPENDIX C2: Preliminary Internal Audit Consulting Survey Instrument



A Survey on the Consulting Role of Internal Auditors in Malaysia

This questionnaire comprises of four separate sections. Please note that the views expressed in the completed questionnaire will be treated in the strictest confidence. Any information identifying the respondents will not be disclosed.

The definition of consulting services given by the Institute of Internal Auditors is:

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training (International Professional Practices Framework (IPPF), 2011, p. 42).

Has your organization performed any internal audit consulting services (either outsourced, co-sourced or in-house) in the last financial year?

Yes * (If Yes, please proceed to Section A)
No * (If No, please return the questionnaire)

Section A: Internal Auditors' Assessment of their Contribution to Consulting Activities and Expertise, Skills and Competencies of Internal Audit

This section relates to the internal auditors' assessment of their contribution to consulting activities and the expertise, skills and competencies internal auditors have in your organization.

1. Internal auditors who play their role in consulting are expected to give advice on the business improvement provided they acquire firm-specific knowledge and technical skills.

For the most recently completed consulting assignments, please use the scale provided below to indicate the percentage of the internal auditors' contribution related to the consulting activity.

Example:

If the percentage of consulting work in your organization is 55%, please write 55 as indicated below:

55 %

Approximate percentage of Consulting Work Performed



With regard to consulting work, your Internal Audit Department perform: _____ %

- ❖ 0% indicates that internal audit department did not perform any consulting work, in accordance with the internal audit annual plan/agenda.
 - ❖ 100% indicates that internal audit department performed 100% of the annual work time on consulting assignment.
2. The skills and competencies possessed by the internal auditor can be the catalyst to the ambitions and of Internal Audit Department as a world-class audit department and the expectations of management and/or audit committee in their reliance on internal auditors to assist management to improve risk management systems and internal controls as well as to provide advice on future business opportunities.
 - i. Approximately, how **long** has it been since the establishment of the internal audit department in your organization? _____ years.
 - ii. How **many** staff are in your Internal Audit Department? Temporary or co-sourced staff should be included to the nearest full-time equivalent.

	Full-time	Part-time
CAE/Top Audit Position/Vice President – Audit	_____	_____
Internal Audit Managers	_____	_____
Internal Audit Supervisors	_____	_____
Internal Audit Staff	_____	_____
Contract Audit Staff (co-sourced)	_____	_____
 - iii. How **many** of the staff in your Internal Audit Department have prior work experience in auditing?

 - iv. How **many** of the staff in your Internal Audit Department have accounting qualification?

 - v. Does your company have IA staff with CIA or CPA certifications? Please **tick** () in the appropriate box.

Yes

No

vi. If yes, how **many** of the staffs in your Internal Audit Department have CIA or CPA certifications?

Please provide any additional comments relating to Section A here:

Section B: Intentions/Ambitions of Internal Audit Department

Instructions: Below is a series of statements designed to ask your perception on the intentions/ambitions of the Internal Audit Department in your organization. Please state the extent of your agreement by **circling** on the following scale:

1 – Strongly Disagree	2 – Moderately Disagree	3 – Slightly Disagree	4 - Neutral
5 – Slightly Agree	6 – Moderately Agree	7 – Strongly Agree	

NO	STATEMENT	SCALE						
		1	2	3	4	5	6	7
	In your organization, the Internal Audit Department:							
IA1	Become a catalyst for change and action within the organization.							
IA2	Is encouraged to improve the company's competitive edge.							
IA3	Provide business process improvement suggestions.							
IA4	Observe how the company operates across a business-wide operation.							
IA5	Provide operating managers with tools to accomplish the organizational goals.							
IA6	Help the company decide what changes to be made to increase profitability and return on assets.							
IA7	Internal audit staffs are multi-disciplinary, with specialized business knowledge rotating via the department.							
IA8	Has a mix of internal transfer, new hires, and a core of experienced audit practitioners that provides continuity and in-depth knowledge of audit skills.							
IA9	Internal auditors are highly trained, professionally certified and actively participate in their local professional organizations.							
IA10	Internal auditors are skilled in data analysis, thus, becoming integrated auditors with the combination of IT and business-audit skills.							
IA11	Complement in-house resources with selective outsourcing.							
IA12	Use outside contract auditors to co-source a substantial portion of their work, thus, gives benefit to internal auditors in terms of knowledge transfer.							
IA13	Talented and motivated internal auditors look for challenging task.							

1 – Strongly Disagree	2 – Moderately Disagree	3 – Slightly Disagree	4 - Neutral
5 – Slightly Agree	6 – Moderately Agree	7 – Strongly Agree	

NO	STATEMENT	SCALE						
		1	2	3	4	5	6	7
	In your organization, the Internal Audit Department:							
IA14	Internal auditors' creativity need to be encouraged and rewarded.							
IA15	Internal auditors' professional challenges must surpass regular audit assignments.							
IA16	Involve extensively in decision-making processes without compromising their independence and objectivity to determine							

	the direction of the department.								
IA17	Involve extensively in decision-making processes without compromising their independence and objectivity to project a “tone at the top”.								
IA18	Internal audit managers are assigned to specific lines of business to develop in-depth knowledge of business-unit activities.								
IA19	Internal audit managers are assigned to specific lines of business to develop long-term relationships with those in charge.								
IA20	During audit planning, internal audit managers meet with key business managers at an assigned frequency or impromptu discussions regarding problem areas.								
IA21	Keep in touch with the organization’s changing risk profile via meeting those managers.								
IA22	Participate in major oversight committees, process design and/or redesign teams to contribute their knowledge of controls.								
IA23	Reduce or eliminate the cyclical audits.								
IA24	Involve proactively in discussions with executive managers.								
IA25	Align its objectives with organizational objectives without costly or time-consuming surprises.								
IA26	Review management’s documented plan and meet with each executive managers, usually once a quarter.								
IA27	Include significant consultative time in the annual audit plan.								
IA28	Perform a detailed and timely risk assessment for each potential project before committing to it.								
IA29	Is a broader “assurance and consulting activity” instead of “appraisal function”.								
IA30	Offer an extensive menu of services.								
IA31	Conduct risk-based audits in which working with local management team to identify the business risks.								
IA32	Conduct pre-implementation reviews on new product or system development and/or project at certain defined milestones.								
IA33	Conduct self-assessment i.e. hosting workshops, administering questionnaires, and conducting structured interviews to address soft controls.								
IA34	Provide internal control education formally or on ad-hoc basis.								
IA35	Additional comment:								

Section C: Expectations of Board and Audit Committee

Instructions: Below is a series of statements designed to ask your perception on the expectations of board and audit committee in your organization. Please state the extent of your agreement by **circling** on the following scale:

1 – Strongly Disagree	2 – Moderately Disagree	3 – Slightly Disagree	4 - Neutral
5 – Slightly Agree	6 – Moderately Agree	7 – Strongly Agree	

NO	STATEMENT	SCALE						
		1	2	3	4	5	6	7
	With regard to the expectation of Board and Audit Committee, the Internal Audit Department should:							
E1	Become a consulting resource.							
E2	Serve as an advisor to management.							
E3	Work closely with management to improve the organization's operations.							
E4	Work closely with management to develop a strong control mechanism.							
E5	Help to address risks or problems in a timely manner.							
E6	Suggest solutions to problems in a timely manner.							
E7	Play a value-adding role in due diligence work as they know the business well and provide invaluable judgment and advice for the growth of the company.							
E8	Assist in maximizing the rate of return on capital.							
E9	Serve as an advisor to the audit committee.							
E10	Serve as an expert at providing comfort to the audit committee.							
E11	Provide comfort to the audit committee with respect to risk management and internal control.							
E12	Provide comfort to the audit committee with respect to control environment continuous improvement.							
E13	Play role of advisory, support and facilitation when the weak internal controls reinforced by a weak control environment exist.							
E14	Develop top talent for leadership positions throughout the organization.							
E15	Establish rotation programs where new staffs are offered to join internal audit as part of the training program.							
E16	Train inexperienced talented individuals who are exposed to broad experience for 2 to 3 years, then migrate to line management positions.							
E17	Consist of experienced internal auditors who will stay with the internal audit function.							
E18	Employ experienced internal auditors who then will migrate to line management positions.							
E19	Consist of both experienced and inexperienced internal auditors who will deploy their talent and migrate to other management positions.							
E20	Become a facilitator to design internal control framework, if no proper internal control framework established.							
E21	Serve as a supportive function by assisting with the formalization of the risk management system.							
E22	Serve as a supportive function to compensate for the loss of control due to increased organizational complexity.							
E23	Become a safeguard of corporate culture since internal auditors' nature of work is interacting with people in the field.							
E24	Have appropriate communication skills during the interaction with people in the field.							
E25	Become a facilitator for whistle-blowing program in respect of maintaining a good corporate culture.							
E26	Additional comment:							

Note: Please proceed to Section D (over the leaf).

Section D: General Information

This section relates to demographic information about you and your company. Please tick () the appropriate box. All answers will remain strictly confidential and anonymous.

The Chief Audit Executive (CAE), reporting functionally to the board and administratively to the organization's chief executive officer, facilitates organizational independence.

(IPPF, 2011, p. 49)

1. Gender: Male Female
2. Age: 21-25 years 36-40 years
 26-30 years 41- years or above
 31-35 years
3. Highest level of Education: Doctorate Diploma
 Master's Degree Professional Degree
 Bachelor's Degree Others (specify _____)
4. Certification: CIA CGAP/CCSA/CFSA
 CISA ACCA/CIMA/ICSA
 CPA/CA Other: _____
5. Position in Your Organization: CAE Audit Senior/Supervisor
 Senior Manager Audit Executive
 Audit Manager Other: _____
 Assistant Audit Manager
6. Work experience: Less than 1 year 11 – 15 years
 1 – 5 years 16 – 20 years
 6 – 10 years More than 20 years
- 7a. Do you have a tertiary qualification in an area other than accounting/auditing?
 Yes No
- 7b. If your answer in 7a is yes, then please select the one related to you.
 None Computer or IT Other (specify _____)
 Law Engineering or Science
8. Are you a member of Institute of Internal Auditors Malaysia?
 Yes No
9. **Number of years** you have been:
i. With this organization _____ years
ii. In your present position _____ years
10. Type of industry employed in:
 Consumer Products Properties
 Construction Trading/Services
 Finance/Insurance Technology
 Industrial Products Hotels
 Mining Government
 Plantations Others (please specify _____)
11. Sector of Organization: Multinational Organization Government/Government Agency
 Private organization
12. How many employees does your Organization have?
 Less than 100 employees 3,000 to 4,999 employees
 100 to 999 employees 5,000 to 6,999 employees
 1,000 to 2,999 employees More than 7,000 employees

13. Do you have an Audit Charter for your Internal Audit Department?
 Yes No Not Applicable
14. Do you report **functionally** to the audit committee or board?
 Yes No Not Applicable
15. Do you report **administratively** to the senior/top management?
 Yes No Not Applicable
16. If no expertise in consulting area, is there any hiring from outside expert to perform consulting task?
 Yes No No Applicable
17. **Company Name:** _____ (optional)
 (Kindly be assured that your company name will not be disclosed in the research report)

Pilot Survey Evaluation Form

Consulting Role of Internal Auditors in Malaysia

Thank you for assisting us in completing the questionnaire. We also want to be sure that the cover letter and questionnaire survey are clear and easy to respond to before initiating our research study. Please assist us by answering the following questions. Revisions will be made based on your suggestions.

Cover letter	YES	No	Recommendations for Improvement
Did the cover letter clearly indicate the purpose of the research? If not, suggest improvement.			
Section A to Section D	YES	No	Recommendations for Improvement
Were the instructions for completing the sections clear? If not, suggest improvement.			
Were the statements written clearly? If not, suggest improvements on each statement.			
Were there any statements you would exclude from the survey? If yes, indicate the statement(s) that you would exclude in the respective section.			
Were there any other statements that would include in these sections? If yes, indicate the statement(s) that you would add in the respective section.			
Were the response categories understandable? If not, suggest improvement.			
Layout of Survey	YES	No	Recommendations for Improvement
Did the layout of survey satisfactory? If not, suggest improvement.			
Did the number of pages in the survey is too many?			

How long did it take you to complete the survey? _____ Minutes

THANK YOU FOR YOUR TIME AND PARTICIPATION. INFORMATION PROVIDED WILL BE HELD IN STRICTEST CONFIDENCE.

APPENDIX D1: Cover Letter of Final Internal Audit Consulting Survey Instrument

<<Firm_name>>
<<Address_1>>
<<Address_2>><<state>><<code>>

Dear CAE's,

You are invited to participate in a research project to study the consulting role of internal auditors in Malaysia: The influencing factors and the impact on firm's growth opportunities. This study is being conducted as a requirement toward the degree of Doctor of Philosophy (Accounting) at University of Malaya, Kuala Lumpur, Malaysia.

As you are aware the new definition of Internal Auditing has increased the scope of internal audit by explicitly embracing consulting activities. In accordance with the Current Body of Knowledge (CBOOK) 2011, maximizing the internal audit function is imperative to meet the challenges of today's business environment. Internal auditing's value will be measured by its ability to drive positive change and improvement. In its stead is the role of a "trusted business advisor" who can help the company attain not only regulatory compliance, but its goal around efficiency, growth, and profitability. Thus, this study is timely in providing the much needed empirical support on the consulting role of internal auditors and its influencing factors.

This survey seeks to investigate the consulting role of internal auditors in Malaysian context as it identifies factors that can influence its success. Kindly answer **ALL** questions and it should take you about 15 to 25 minutes to complete. **If the time does not permit you to answer the survey, you can delegate someone who can answer on your behalf.** Once completed, please return to us using the attached pre-stamped self-addressed envelope.

Please be assured that **ALL INFORMATION** collected will be held in the **STRICTEST CONFIDENCE** and only aggregated results will be reported.

Your kind participation in this survey are highly valued and appreciated. Thank you for your kind assistance, and please do not hesitate to contact me on suhaily@um.edu.my or at 019-398 4724 if you have further queries.

I would also like to take this opportunity to thank University of Malaya for their financial assistance.

Yours sincerely,

Suhaily Binti Shahimi, AIIA
Fellow PhD SLAI
CMIIA
Faculty of Business and Accountancy
University of Malaya
Kuala Lumpur
019-398 4724
suhaily@um.edu.my

Supervised by:
Dr. Nurmazilah Binti Mahzan, CPA, CIA,
Deputy Dean
Faculty of Business and Accountancy
University of Malaya
Kuala Lumpur
03-7967 3802
nurmazilah@um.edu.my

APPENDIX D2: Final Internal Audit Consulting Survey Instrument



A Survey on the Consulting Role of Internal Auditors in Malaysia: The Influencing Factors and the Impact on Firm's Growth Opportunities

This questionnaire comprises of five separate sections. Please note that the views expressed in the completed questionnaire will be treated in the strictest confidence. Any information identifying the respondents will not be disclosed.

The definition of consulting services given by the Institute of Internal Auditors is:

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training (International Professional Practices Framework (IPPF), 2011, p. 42).

Has your organization performed any internal audit consulting services (either outsourced, co-sourced or in-house) in the last financial year?

Yes * (If Yes, please proceed to **Section A, B, C, D, E**)
No * (If No, please return the **questionnaire**)

Section A: Internal Auditors' Assessment of their Contribution to Consulting Activities and Expertise, Skills and Competencies of Internal Audit

Note: This section relates to the internal auditors' assessment of their contribution to consulting activities and the expertise, skills and competencies internal auditors have in your organization.

A1. For the most recently completed consulting assignments in your organization, please use the scale provided below to indicate the approximate percentage of consulting task performed by internal auditor (out of the annual work time on consulting assignment). If your internal audit department **does not perform the consulting engagement at all, indicate 0%**; if the internal auditor performed such engagement, indicate the number that **BEST** describes the percentage of the consulting engagement performed.

Example:

If the percentage of consulting work in your organization is 55%, please write 55 as indicated below:

55 %

Approximate percentage of Consulting Work Performed

0% ←—————→ 100%

In your organization, the Internal Audit Department:

i)	Had performed formal consulting engagements i.e. planned (internal audit annual plan/agenda) and subject to written agreement.	% performed
ii)	Had performed informal consulting engagements i.e. routine activities such as participation on standing committees, limited-life projects, ad-hoc meetings, and routine information exchange.	% performed
iii)	Had performed special consulting engagements i.e. participation on a merger and acquisition team / system conversion team.	% performed
iv)	Had performed emergency consulting engagements i.e. participation on a team established for recovery / maintenance of operations after a disaster / other extraordinary business event / a team assembled to supply temporary help to meet special request or unusual deadline.	% performed
v)	Expected to increase in consulting work on the next 12 months.	% to be increased
vi)	Expected to decrease in consulting work on the next 12 months.	% to be decreased

A2. For the expertise, skills and competencies of internal auditors in your organization, please provide your answer in **absolute number** to the question i) to vi) below.

i) How **many** staff are in your Internal Audit Department? Temporary or co-sourced staff should be included to the nearest full-time equivalent.

	Full-time	Part-time
CAE/Top Audit Position/Vice President – Audit		
Internal Audit Managers/Assistant Managers		
Internal Audit Seniors/Supervisors		
Internal Audit Staff		
Contract Audit Staff (co-sourced)		

ii)	Number of staff (including CAE) in your Internal Audit Department that have prior	
-----	---	--

	work experience in auditing.	
iii)	Number of staff (including CAE) in your Internal Audit Department that have accounting qualification.	
iv)	Number of staff (including CAE) in your Internal Audit Department that have CIA or CPA certifications.	
v)	Number of staff (including CAE) in your Internal Audit Department that have other tertiary qualifications (e.g. MBA, Masters or DBA).	
vi)	Number of staff (including CAE) in your Internal Audit Department that have other specializations (e.g. HR, IT or Engineering).	

Please provide additional comments on your plan and strategy on Internal Audit staffing and competency here:

Section B: Intentions/Ambitions of Internal Audit Department on Consulting Role

Instruction: Below is a series of statements designed to ask your perception on the intentions/ambitions of the Internal Audit Department in your organization. Please tick () the following scale:

1 – Strongly Disagree	2 – Moderately Disagree	3 – Slightly Disagree	4 - Neutral
5 – Slightly Agree	6 – Moderately Agree	7 – Strongly Agree	

NO	STATEMENT	SCALE						
		1	2	3	4	5	6	7
	In your organization, the Internal Audit Department:							
B1	Become a catalyst for change and action within the organization.							
B2	Is encouraged to improve the company's competitive edge.							
B3	Provide business process improvement suggestions.							
B4	Observe how the company operates across a business-wide operation.							
B5	Help the company decide what changes to be made to increase profitability and return on assets.							
B6	Internal audit staffs are multi-disciplinary, with specialized business knowledge rotating via the department.							
B7	Has a mix of internal transfer, new hires, and a core of experienced audit practitioners that provides continuity and in-depth knowledge of audit skills.							
B8	Internal auditors are highly trained, professionally certified and actively participate in their local professional organizations.							
B9	Internal auditors are skilled in data analysis, thus, becoming integrated auditors with the combination of IT and business-audit skills.							
B10	Complement in-house resources with selective outsourcing.							
B11	Use outside contract auditors to co-source a substantial portion of their work, thus, gives benefit to internal auditors in terms of knowledge transfer.							
B12	Have sufficient talent among internal audit staffs to do consulting.							
B13	Have talented and motivated internal auditors who look for challenging task.							
B14	Internal auditors' creativity need to be encouraged and rewarded.							

1 – Strongly Disagree	2 – Moderately Disagree	3 – Slightly Disagree	4 - Neutral
5 – Slightly Agree	6 – Moderately Agree	7 – Strongly Agree	

NO	STATEMENT	SCALE						
		1	2	3	4	5	6	7
	In your organization, the Internal Audit Department:							
B15	Internal auditors' professional challenges must extend beyond regular audit assignments.							
B16	Also involve staff auditors extensively in decision-making processes besides the audit managers to determine the direction of the department.							
B17	Encourage internal auditors to be trainers, coaches and counsellors of internal control, and not just evaluators.							
B18	Internal auditors are taught to always look for new ways to improve the business instead of simply identifying control weaknesses.							
B19	Internal audit managers are assigned to specific lines of business (operation side) to develop in-depth knowledge of business-unit activities.							
B20	Internal audit managers are assigned to specific lines of business (operation side) to develop long-term relationships with those in charge.							
B21	During audit planning, internal audit managers meet with key business managers at an assigned frequency or impromptu discussions regarding problem areas.							
B22	Participate in major oversight committees, process design and/or redesign teams to contribute their knowledge of controls.							
B23	Involve proactively in discussions with executive managers.							
B24	Align its audit plan with the organizational strategic plan as to help management accomplish its objectives without time-consuming surprises (costly).							
B25	Review management's documented plan and meet with each executive managers, usually once a quarter.							
B26	Include significant consultative time in the annual audit plan.							
B27	Perform a detailed and timely risk assessment for each potential project before committing to it.							
B28	Involve in a broader "assurance and consulting activity" instead of "appraisal function".							
B29	Offer an extensive menu of services.							
B30	Conduct risk-based audits in consultation with management team to identify the business risks.							
B31	Conduct pre-implementation reviews on new product or system development and/or project at certain defined milestones.							
B32	Conduct self-assessment i.e. hosting workshops, administering questionnaires, and conducting structured interviews to address soft controls.							
B33	Provide internal control education formally or on ad-hoc basis.							

Note: Please proceed to Section C (over the leaf).

Section C: Expectations of Management and Audit Committee on Consulting Role

Instruction: Below is a series of statements designed to ask your perception on the expectations of management and audit committee towards consulting role of internal auditors in your organization. Please tick (☑) the following scale:

1 – Strongly Disagree	2 – Moderately Disagree	3 – Slightly Disagree	4 - Neutral
5 – Slightly Agree	6 – Moderately Agree	7 – Strongly Agree	

NO	STATEMENT	SCALE						
		1	2	3	4	5	6	7
	With regard to the expectation of Board and Audit Committee, the Internal Audit Department should:							
C1	Become a consulting resource.							
C2	Serve as an advisor to management.							
C3	Work closely with management to improve the organization's operations.							
C4	Work closely with management to develop a strong control mechanism.							
C5	Help to address risks or problems in a timely manner.							
C6	Suggest solutions to problems in a timely manner.							
C7	Play a value-adding role in due diligence work as they know the business well and provide invaluable judgment and advice for the growth of the company.							
C8	Assist in maximizing the efficiency and profitability of a company's capital investment.							
C9	Develop top talent for leadership positions throughout the organization.							
C10	Establish rotation programs where new staffs are offered to join internal audit as part of the training program.							
C11	Train inexperienced talented individuals who are exposed to broad experience for 2 to 3 years, then migrate to line management positions.							
C12	Consist of experienced internal auditors who will stay with the internal audit function.							
C13	Employ experienced internal auditors who then will migrate to line management positions.							
C14	Consist of both experienced and inexperienced internal auditors who will deploy their talent and migrate to other management positions.							
C15	Become a facilitator to design internal control framework, if no proper internal control framework established.							
C16	Serve as a supportive function by assisting with the formalization of the risk management system.							
C17	Serve as a supportive function to compensate for the loss of control due to increased organizational complexity.							
C18	Serve as an advisor to the audit committee.							
C19	Serve as an expert at providing comfort to the audit committee.							
C20	Provide comfort to the audit committee with respect to risk management and internal control.							
C21	Provide comfort to the audit committee with respect to control environment continuous improvement.							
C22	Play role of advisory, support and facilitation when the weak internal controls reinforced by a weak control environment exist.							
C23	Become a safeguard of corporate culture since internal auditors' nature of work is interacting with people in the field.							
C24	Have appropriate communication skills during the interaction with people in the field.							

C25	Become a facilitator for whistle-blowing program in respect of maintaining a good corporate culture.								
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Section D: Impact of Consulting Role of Internal Auditors on Firm’s Growth Opportunities

Instruction: Below is a series of statements designed to ask your perception on the impact of consulting role of internal auditors on firm’s growth opportunities and firm’s performance. Please tick (☑) the following scale:

1 – Strongly Disagree	2 – Moderately Disagree	3 – Slightly Disagree	4 - Neutral
5 – Slightly Agree	6 – Moderately Agree	7 – Strongly Agree	

NO	STATEMENT	SCALE						
		1	2	3	4	5	6	7
	Firm’s Growth Opportunities:							
D1	To what extent do you agree that consulting role of internal auditors help increases the firm’s growth opportunities (future investment opportunities/future financial performance)?							
	In your opinion, the consulting work done by the Internal Audit Department assist your organization in:							
D2	Planning to invest substantially in the emerging market.							
D3	Continuing to innovate in order to capture new market opportunity.							
D4	Continuing to innovate in order to meet the needs of the constantly changing market.							
D5	Developing new product lines.							
D6	Introducing new technology that substantially changes the way the main product is produced.							
	Firm’s performance:							
D7	To what extent do you agree that consulting role of internal auditors help increases the firm’s financial performance?							
	In your opinion, the consulting work done by the Internal Audit Department assist your organization in:							
D8	Improving the productivity levels (e.g. employees’ job descriptions and required output/production).							
D9	Increasing the sales revenues.							
D10	Reducing the transaction costs.							
D11	Improving the customer satisfaction programs.							
D12	Increasing the loyalty of existing customers and attracting new customers.							

Section E: General Information

Instruction: This section relates to demographic information about you and your company. Please tick (☑) the appropriate box. All answers will remain strictly confidential and anonymous.

- Position in Your Organization:

<input type="checkbox"/>	CAE
<input type="checkbox"/>	Senior Audit Manager
<input type="checkbox"/>	Audit Manager
<input type="checkbox"/>	Assistant Audit Manager

<input type="checkbox"/>	Audit Senior/Supervisor
<input type="checkbox"/>	Audit Executive
<input type="checkbox"/>	Other: _____
- Years the IA Department has been established:

<input type="checkbox"/>	Less than 1 year
<input type="checkbox"/>	1 – 5 years
<input type="checkbox"/>	6 – 10 years

<input type="checkbox"/>	11 – 15 years
<input type="checkbox"/>	16 – 20 years
<input type="checkbox"/>	More than 20 years
- Is your organization a corporate member of Institute of Internal Auditors Malaysia?

<input type="checkbox"/>	Yes	<input type="checkbox"/>	No
--------------------------	-----	--------------------------	----

4. Is your organization a corporate member of any other professional body?
 Yes (if yes, please state: _____) No
5. Type of industry employed in:
- | | |
|--|--|
| <input type="checkbox"/> Consumer Products | <input type="checkbox"/> Properties |
| <input type="checkbox"/> Construction | <input type="checkbox"/> Trading/Services |
| <input type="checkbox"/> Finance/Insurance | <input type="checkbox"/> Technology |
| <input type="checkbox"/> Industrial Products | <input type="checkbox"/> Hotels |
| <input type="checkbox"/> Mining | <input type="checkbox"/> Government |
| <input type="checkbox"/> Plantations | <input type="checkbox"/> Others (please specify _____) |
6. How many employees does your Organization have?
- | | |
|---|--|
| <input type="checkbox"/> Less than 100 employees | <input type="checkbox"/> 3,000 to 4,999 employees |
| <input type="checkbox"/> 100 to 999 employees | <input type="checkbox"/> 5,000 to 6,999 employees |
| <input type="checkbox"/> 1,000 to 2,999 employees | <input type="checkbox"/> More than 7,000 employees |
7. Do you have an Audit Charter for your Internal Audit Department?
 Yes No Not Applicable
8. Do you report **functionally** to the audit committee or board?
 Yes No Not Applicable
9. Do you report **administratively** to the chief executive officer (CEO)?
 Yes No Not Applicable
10. If no expertise in consulting area, is there any hiring from outside expert to perform consulting task?
 Yes No No Applicable
11. **Company Name:** _____ (optional)
 (Kindly be assured that your company name will not be disclosed in the research report)

Kindly return the completed questionnaire at the following address to us in the postage paid return envelope or scan and email to Ms. Suhaily Shahimi at suhaily@um.edu.my

Correspondence Address:

Suhaily Shahimi
 Fellow PhD SLAI
 Faculty of Business and Accountancy
 University of Malaya
 50603 Kuala Lumpur

THANK YOU FOR YOUR TIME AND PARTICIPATION. INFORMATION PROVIDED WILL BE HELD IN STRICTEST CONFIDENCE.

APPENDIX E1: The Consulting Role of Internal Auditors in Malaysia: Its Relevant Factors, Issues on Internal Audit objectivity and Independence, Internal Audit Competency and Staffing Strategy and the Impact on Firm's Growth Opportunities and Firm's Performance

Thank you for taking the time to participate in this interview. I would appreciate your assistance in my PhD research project pertaining to the consulting role of internal auditors in Malaysia and its relevant factors, issues on IA objectivity and independence, internal audit competency and staffing strategy and the impact on firm's growth opportunities and firm's performance.

I am presently conducting this research to develop a better understanding of current and related issues in consulting including their related factors, level of independence and objectivity when performing consulting and its impact on firms' growth opportunities and performance. Finally, I would like to gather their views of the plan and strategy on IA staffing and competency. It is anticipated that the results from the current survey may likely to assist internal auditors and regulators in developing guidelines towards improving internal audit practices and overall corporate governance in general.

In order to contribute to this study, it would be appreciated if I could interview you and gather your perception and opinion regarding the subject above.

ALL INFORMATION provided by yourself will be **STRICTLY CONFIDENTIAL**. Interview participants will not be personally or directly identified in any of the reports.

Investigator:
Suhaily Binti Shahimi

Consent form

I _____ have read the objectives of this study and understand that participation in this study is voluntary. I understand that it is my right as a participant to withdraw from the study at any time without explanation.

I have read the information sheet and consent form. I agree to participate in the "The Factors Influencing Consulting Role of Internal Auditors" and I give my consent freely.

Signatures:

Participant:

Date: _____

Investigator:

Date: _____

APPENDIX E2: An Examination of the Consulting Role of Internal Auditors in Malaysia and Its Relevant Factors, Issues on Internal Audit objectivity and Independence, Internal Audit Competency and Staffing Strategy and the Impact on Firm's Growth Opportunities and Firm's Performance

Semi-Structured Interview Form

Subject: Head of Internal Audit Department

Questionnaire Format:

- SECTION A: Background**
- SECTION B: Organization-Size and Structure**
- SECTION C: Nature and extent of consulting, Issues on Objectivity and Independence and Related Factors Associated with Consulting**
- SECTION D: Impact on Firm's Growth Opportunities and Firm's Performance**
- SECTION E: Other Issues and Recommendations for plan and strategy on Internal Audit Staffing and Competency**

Organization: _____

Interview Date: _____

Interviewed by: _____

I would like to start by asking you just a few simple questions about your background and the company's background. Is that okay?

SECTION A: Background

Name: _____

Position Title: _____

Number of years you have been:

- With this organization _____
- An internal auditor _____

Your professional designations (e.g. MICPA, CIA, CPA, MIA, ACCA etc.) _____

Gender : _____

Age : _____

SECTION B: Organization-Size and Structure

- 1) Internal audit size (total number of employees in IA department) _____
- 2) Number of employees in your organization (approximation): _____
- 3) Estimated total asset for the last year end _____
- 4) Who does CAE functionally report to? _____
- 5) Who does CAE administratively report to? _____

SECTION C: Nature and extent of consulting, Issues on Objectivity and Independence and Related Factors Associated with Consulting

- 1) Does your IAD perform any consulting activity? If yes, why?

- 2) If no expertise in consulting area, is there any hiring from outside expert to perform consulting tasks?

- 3) To perform any consulting activity, will it be the demand from AC or senior management or middle (operational)/*auditee* management level?

- 4) Based on your experience or opinion, besides audit committee and senior management, are there any other parties interested in requesting consulting engagement? Provide example(s).

- 5) Do you think that internal auditors must have sufficient knowledge, experience and technical expertise to perform consulting activities? Why? What about soft skills? Provide example(s).

- 6) Do you perceive performing consulting activities may impair internal auditors' independence and objectivity? Why or why not?

- 7) If consulting activity to be performed in your organization, what basis will you use in order not to jeopardize their independence and objectivity?

- 8) What are the relevant factors that may influence the implementation of their role when providing professional advice to clients as their added value to business?

SECTION D: Impact on Firm's Growth Opportunities and Firm's Performance

- 1) What is your opinion on that consulting role of internal auditors help increases firm's growth opportunities?

- 2) What is your opinion on that consulting role of internal auditors help increases firm's performance?

SECTION E: Other Issues and Recommendations for plan and strategy on Internal Audit Staffing and Competency

- 1) What is your comment on overall plan and strategy on Internal Audit staffing?

- 2) What is your comment on overall plan and strategy on Internal Audit competency?

APPENDIX F: Bursa Malaysia Listing Requirement (MAIN MARKET)
Chapter 15 Corporate Governance

PART E – CORPORATE GOVERNANCE DISCLOSURE

15.25 Disclosure pursuant to the Code

(1) A listed issuer must ensure that its board of directors provides a narrative statement of its

corporate governance practices (“**Corporate Governance Statement**”) with reference to the

Malaysian Code on Corporate Governance 2012 (“**Code**”), in its annual report.

(2) In making the Corporate Governance Statement, the listed issuer must include the following information:

(a) how the listed issuer has applied the Principles set out in the Code (“**Principles**”) to its particular circumstances, having regard to the Recommendations stated under each Principle (“**Recommendations**”); and

(b) any Recommendation which the listed issuer has not followed, together with the reasons for not following it and the alternatives adopted by the listed issuer, if any.

[Cross reference: Practice Note 9]

15.26 Additional statements by the board of directors

A listed issuer must ensure that its board of directors makes the following additional statements in its annual report:

(a) a statement explaining the board of directors’ responsibility for preparing the annual audited financial statements; and

(b) a statement about the state of internal control of the listed issuer as a group.

[Cross reference: Practice Note 9]

PART F – INTERNAL AUDIT

15.27 Internal audit

(1) A listed issuer must establish an internal audit function which is independent of the activities it audits.

(2) A listed issuer must ensure its internal audit function reports directly to the audit committee.

APPENDIX G: Meta-Analysis – Analysis of Assurance versus Consulting

Author(s)	Method	Sample	Description of study	Results / Findings
Stem (1994)	Observation and analysis	A few large companies in US	To identify ways IAD that are adding value to companies to achieve business goals	The results identify 15 ways of adding value by IAD by taking examples from large companies in US.
Cooper, Leung and Mathews (1996)	Survey	213/152 [CEOs/IAMs] - Australia; 61/83 [CEOs/IAMs] - Malaysia; 125/66 [CEOs/IAMs] - Hong Kong	Aims to provide a profile of internal audit in Australia, Malaysia and Hong Kong and to conduct a survey by addressing a number of issues pertaining to IA including attitudes and recognition, professionalism, role and scope, career opportunities, education and training and the future role of IA within the three countries. This also to establish benchmarks for international comparisons of IA practice and the sample chosen for the survey overwhelmingly involves both CEOs and IA managers (IAMs) in those particular countries.	The results of the survey in Australia, Malaysia and Hong Kong indicate that a majority of organizations (71.4 percent, 70 percent and 61.6 percent respectively) have an IAF. The majority of the CEOs in the study thought that internal audit had a consultative/participative approach. A large proportion of CEOs from all three countries believed in the traditional IA role of providing independent appraisals of ICSS despite their growing support for the participative processes of independent reviews of operational efficiency and management effectiveness.
Waltz (1997)	Observation and analysis	Not Applicable	To identify how internal auditors add value to their organizations in achieving business goals	Internal auditing can add value in only two ways: by reducing the cost of the IAF itself, and by making audit recommendations that add value. These two approaches are neither dependent nor mutually exclusive. To achieve world class status, IAFs must pursue both cost reductions and high value audit recommendations.
Bou-Raad (2000)	Review of past research and industry examples	Four articles and three examples of Australian companies (Southcorp, Qantas and KPMG)	Explores whether a proactive approach conducted by internal auditors can be achieved without compromising organizational independence and to determine whether there should be a limit to how active a role internal auditors enable to play.	The rationale is that internal auditors' experiences, knowledge and education can most add value to management. Noting that a lot of benefits derived from this new role and the internal auditor has the ability to determine what will decrease independence and finally will move away from undermining competency and integrity. Concluded that internal audit profession

				have reached their maturity level where it can lead to the expansion of audit and audit related services without impacting its professional status.
Brody and Lowe (2000)	Experimental questionnaire	55 US Internal Auditors	Explores whether internal auditors view their consulting role as one in which they are able to provide objective feedback to management or one in which they are to provide solutions that they believe are in the best interests of their company. Examines whether internal auditors' judgments are dependent on their company's role (buyer or seller) in an acquisition.	Internal auditors are likely to assume the position that is in the best interest of their employer. Provides evidence of the consulting role of internal auditors impairing their objectivity.
DeZoort, Houston and Reisch (2000)	Survey	179 IIA members in USA	Examines the existence, nature, frequency, and consequences of incentive-based compensation plans for internal auditors	Incentive-based compensation plans were found to be available to almost half of respondents. The most common types of plans involved bonuses based on overall company performance, internal audit performance, and individual performance. Respondents perceived a number of advantages of incentive-based remuneration but the key disadvantage was impairment of objectivity/independence.
Chapman (2001)	Observations and opinions	Review of Revised standards	Prescribes a more strategic role of internal auditors impacting from the revised IIA Standards whereby it has mandated internal auditors' involvement in risk management and governance processes. The revised Standards name consulting services along with assurance as their primary role, shows that assisting management should be a vital part of IA's focus.	Found that involvement in consulting activities has increased internal audit to a more strategic role in the organization and suggests that consulting activities are basically of a problem-solving in nature with the close working relationship with management (partnership, in other words) for organizational goal achievement purposes.
Nagy and Cenker (2002)	Interviews	11 IA directors of large US publicly traded companies	Interviews gained an assessment of IA in the following four areas of audit scope, organizational structure, risk management	Found a definite shift in the role of internal audit towards more operational activities; the new internal audit definition reflected current practice,

			and AC. The assessment was in terms of changes in the IAD over a ten-year time frame.	with internal auditors having performed consulting services and other value-added activities for many years.
McCall (2002)	Observation and analysis	City government in Tallahassee	To identify to what extent consulting services should be provided by city auditor while maintain their traditional role of assurance services	The article underline a few elements need to be taken into consideration for pursuing consulting activity in order to prevent themselves (auditors) from enduring a role conflict between traditional and consulting role.
McCall (2003)	Review of General Accounting Office (GAO) new <i>Independence Standard</i> and IIA Standards	Review the GAOs' new <i>Independence Standard</i> in 2002 and IIA Standards in respect of its new definition of internal auditing inclusive of assurance and consulting activities in 1999.	To reconcile "consulting" under GAO and IIA Audit Standards	The analysis shows concern about internal audit's dual role of consulting and assurance in the light of its need for independence. Consulting work has been described by GAO's new <i>Independence Standard</i> as non-audit services hence due to practical considerations, IA organizations usually take a firm position as compared to the GAO to perform non-audit services. Besides, the article contends that government internal audit organizations are small in size. Therefore they would prioritize their job on providing assurance services as described by GAO rather than performing non-audit services as this will hinder them from performing subsequent audit work of the program, activity or function and maintaining their independence.
Melville (2003)	Survey	154 internal auditors from the USA (94), Canada (34), and the rest of the world (28)	Examines the role of internal auditors in strategic management, in particular their use of the balanced scorecard.	Internal auditors make a positive contribution towards strategic management and are actively involved in the development of strategic objectives.
Paape, Schette and Snoep (2003)	Survey	105 Chief Audit Executives from European companies	Examines the relationship between the IAF and CG among the top listed companies in the European Union.	Not all top listed EU companies have an IAF or an audit committee. Less than half of the respondents report to the audit committee. Audit committees generally meet four times a year; are not always involved in the appointment and dismissal of the CAE. A significant percentage of

				respondents (28%) believe they aren't required to adhere to the Standards for the Professional Practice of Internal Auditing. Not all CAE's were aware of corporate governance recommendations/regulations.
Schneider (2003)	Experimental Questionnaire	172 US Internal Auditors	Exploratory study that attempts to determine whether incentive compensation and stock ownership affect internal auditor's objectivity. This is assessed through the internal auditors' decision on whether to report a GAAP violation.	Stock ownership did not affect the internal auditors' reporting decision. When incentive compensation was tied to stock prices a significantly higher percentage of internal auditors would not report the GAAP violation than when the compensation was tied to earnings or when it was fixed salary.
Selim, Sudarsanam and Lavine (2003)	Survey / Interviews	22 companies from Europe and the USA	Determines the role of internal audit in mergers, acquisitions and divestitures. Use gap analysis to compare the normative, observed and preferred models of internal audit involvement in Mergers, Acquisitions & Divestitures (MAD).	IA's involvement in MAD is only moderate. Yet, internal auditors see themselves capable of playing a larger role, a view supported by the senior executives in other functions. Found some companies established rotation programs whereby new employees were offered rotation through internal audit as part of their training program.
Al-Twaijry, Brierley and Gwilliam (2003)	Survey and interviews (conducted in exploratory and wide ranging manner – no prior research done.	78 usable questionnaire responses from companies and 33 questionnaires from external auditor; total of 120 interviews were carried out in Saudi Arabia	This objective is to evaluate the development of IA in Saudi Arabia: to examine the 'whys' of which internal audit has not been established in certain companies and who those companies that establish their internal audit will lead to assess their level of compliance of internal audit standards by IAD not including the standard pertaining to the actual performance of internal audit work.	This research has finally shown that internal audit in the Saudi Arabian corporate sector is not effective in all four sections i.e. appropriate corporate environment, top management support. Quality internal audit staff and quality internal audit work and is not a value-adding function to the organizations.
Ahluwat and Lowe (2004)	Experimental Questionnaire	66 US Internal Auditors	Examines whether the consulting role of internal auditors impacts on their ability to remain objective.	Significant advocacy existed in the judgment of both in-house and outsourced internal auditors. Further found the extent of client advocacy was less severe in the case of outsourced internal auditors, as opposed to in-house auditors.

Gramling, Maletta, Schneider and Church (2004)	Synthesis of the extant IA literature	Summary of past researches ranging from 1979 until 2002 observations	To synthesize literature on internal audit to guide future thinking and research on the new and expanding roles that the IAF can play in helping ensure quality corporate governance. In specific, they adopted a perspective that IAF serves as a resource to each of the other three parties (namely audit committee, management and external auditor) responsible for corporate governance.	From the summary observations, the IAF has a unique opportunity to serve an important role in act as a resource to the other parties charged with monitoring, maintaining and enhancing the quality of an entity's corporate governance.
Van Peursem (2004)	Survey	161 New Zealand Internal Auditors	Determines if internal auditors perceive the functions they perform as essential and to what extent. Also explores whether internal audit exhibits the characteristics of a true profession with authority over, and independence from management.	Characteristics of 'true' profession exist but do not dominate. Public practice and experienced auditors may enjoy greater influence over management and accountability trained auditors may enjoy greater status.
Sarens and De Beedle (2004)	Case studies	Six extended case studies of Belgian companies	To contribute to the extant literature based on the study of IAP of Belgian companies (assurance and/or consulting oriented), to refine the influence of three predefined variables (reporting relationship, organizational support and internal control system) and to determine other fundamental affecting factors (variables).	The results show majority of internal audit activity (IAA) could be categorized as a combination of assurance and consulting services. In fact, they have identified a small proportion of pure assurance activities and somewhat significant percentage of pure consulting activities. In a nutshell, a strong administrative reporting relationship with management, a strong organizational support, a weak internal control system and a less mature IAD are the most cases that involved highly in consulting services whereby a strong functional reporting relationship with the audit committee, a weak organizational support, a strong internal control system and a more mature IAD associated with high propensity of assurance oriented activities.
Van Peursem (2005)	Multiple case Study	Six New Zealand organizations	Examines the New Zealand internal auditor role and conceptualizes on the auditor's	Found three concepts of those that best balanced their role: the internal auditor's external

			influence over that role. Also addresses how an effective internal auditor can overcome the tension of working with management to improve performance while also remaining sufficiently distant from management in order to report on their performance.	professional status, the presence of a formal and informal communication network, and the internal auditor's place in determining their own role. Further found internal auditors' close relationship with management can place their independence from management at risk.
Sarens and De Beedle (2006b)	Case studies	Six theory specification cases of Belgian companies	This study identifies three organizational variables that have an influence on internal audit practise (IAP) and specifies how each of them can exert its influence; combined with insights from theory specification cases and contributes to the literature by developing a specific and more structured research model. three organizational variables: - (1) the stakeholders of internal audit; (2) the organizational support for internal audit; (3) the status of the internal control system.	Found literature as well as their empirical insights reveals the influence of internal audit's stakeholders on IAP. Active interactions with senior management, strong focus on the formulation of recommendations for the improvement of internal control process has led in separate consulting activities. Next, appealing to existing theory in applied psychology, a huge proportion of consulting activities are given more attention where IA receives stronger management support and active collaboration with management exists. Two components of internal control system have an influence on IAP. Weak internal controls, reinforced by a weak control environment, are connected with a more focus of IAP on improving internal controls (i.e. involvement in specific consulting activities).
Arena, Arnaboldi and Azzone (2006)	Multiple case study	Six Italian companies	Comparison of internal audit practices in participating companies through multiple sources of information including semi-structured interviews with chief internal auditors, accounting and finance staff	The range of situations considered highlighted the diversity of IAD characteristics, confirming the relevance of institutional pressures, but also providing evidence of the influence of additional elements in their development.
Goodwin-Stewart and Kent (2006)	Survey	450 listed firms of Australian Stock Exchange	Aims to explore the factors associated with the existence of an IAF in Australia and also to provide some descriptive information on the use of an internal audit in a voluntary setting.	The results show a relationship between the use of IA and a commitment to strong risk management and strong correlation between internal audit and the size of the firm besides suggesting that smaller firms do not perceive internal audit as cost effective. However, they do not find a

				significant relationship between internal audit and the complexity of the firm's business structures whilst obtaining mixed results for the use of internal audit as a CG mechanism. Further findings such as large proportion of Australian listed firms are in absence of internal audit only one or two audit staff employed for those that maintain IAD.
Sarans and De Beedle (2006a)	Multiple Case Study/qualitative assessment	Five Belgian companies	Aims to understand the expectations and perceptions of internal audit and Senior management with respect to each other through semi-structured interviews and supporting documentation.	Senior management's expectations have a significant influence on internal audit. Internal audit is able to meet those expectations, which makes senior management support them. In most cases internal audit is able to meet the expectations of the audit committee. Also found that, when internal audit operates primarily in a management support role, there is a lack of perceived objectivity and the relationship with the audit committee is weak. Found in one case that the CFO expected IA to be a training ground for future potential managers, describing the function as a "fishing pond" of talented staff.
Mihret and Yismaw (2007)	Case study	A university in Ethiopia with over 25,000 students	To investigate the internal audit service of a large public sector higher education institution whereby to explore the factors contributing to internal audit effectiveness, using a model developed for the analysis. The proposed model comprises of four interrelated factors: internal audit quality; management support; the organizational setting; and attributes of the auditees.	The findings highlight that two of factors significantly contribute to internal audit effectiveness i.e. internal audit quality and management support whereby the other two do not.
Yee, Sujan and James (2007)	Survey	83 usable questionnaires comprise of responses of	Aims to examine the perceptions of Singaporean managers towards the role and effectiveness of internal audit in their country. Specifically, it is to further	In short, the results support the assertion that the Singaporean managerial class strongly appreciates the new role of "modern" internal audit, as "business partner". Unlike in Saudi Arabia (AI-

		directors, Financial Controller, mid-level managers and executives of Singaporean companies	investigation on their level of understanding of the function of internal auditor to be that of “business partner”, with a target to improve the business or internal auditors are viewed as “watchdogs” of the organization that scrutinize every detail of business practices.	Twaijry <i>et al.</i> , 2003), the traditional attest function of “classical” internal audit seems to have been largely replaced as the dominant paradigm for internal audit in Singapore. Also found that “auditor independence” is not the most essential aspect for effective internal audit, albeit, in contrast with the prior literature which suggests a thriving expectations gap in internal audit. Singaporean managers are perceived to appreciate the presence of an internal audit department in their organization.
Mihret and Woldeyohannis (2008)	Case study	A large Ethiopian public enterprise operating as a sole telecommunication service provider	To examine the role of internal audit in a large public enterprise operating as a sole telecommunication service provider in Ethiopia and aims to draw conclusion in respect of how the factors of value-adding IAD would differ reflecting to changes in contexts and/or situations.	This paper concludes that a study of value-added internal audit needs to be conducted in a defined context because institution-specific variables determine the appropriate value-adding profile of internal audit. Also, the study emphasizes on the major contextual factors that may shape the factors of value-adding IAD inclusive of organizational goals (e.g. profit seeking vs. non-profit), the organizations’ strategies and the degree of risks faced by organizations. A profit motive might be one of the factor of value-added internal audit as this put pressures on management to seek for consulting services from internal auditors. Also it suggests that key activities internal audit i.e. strategic planning for, and marketing internal audit can be part of value-adding creation of profile internal audit
Yee, Sujan and James (2008)	Survey	83 usable questionnaires comprise of responses of directors, FC, mid-level managers and	Aims to examine the perceptions of Singaporean managers towards the role and effectiveness of internal audit in their country. Specifically, it is to further investigation on their level of understanding of the function of internal auditor to be that	The results suggest that both Singaporean senior and junior managers appreciate internal auditors that serve in the business partner role. Contradictorily, mid-level managers often assume internal auditing activities negatively and in terms of “watchdog” activities.

		executives of Singaporean companies	of “business partner”, with a target to improve the business or internal auditors are viewed as “watchdogs” of the organization that scrutinize every detail of business practices.	
Arena and Azzone (2009)	Survey	153 Italian companies	To examine the organizational drivers of internal audit effectiveness in the light of recent changes in the ‘mission’ of internal audit and its central role in corporate governance.	The results reveal the importance of staffing, professionalization, and advanced internal audit techniques (such as control and risk self-assessment) and internal auditors’ relationship with the audit committee
Selim, Woodward & Allegrini (2009)	Survey	94 UK/Ireland internal auditors and 298 Italian internal auditors	Aims to provide a comparison of the nature, extent and consequences of the definitional change on internal audit consulting activities undertaken by a sample of IIA members in the UK/Ireland and Italy.	Found that internal auditors in both jurisdictions are involved in risk management and governance; UK/Ireland internal auditors are more involved in project management and disaster recovery while Italians are more involved with legislative compliance. There was mixed support for concern about whether involvement in consulting compromises objectivity.
Christopher, Sarens and Leung (2009)	Survey	34 CAEs from Australian corporate sector	Aims to critically analyze the independence of the IAF through its relationship with management and the audit committee.	Findings on threats to independence included considering the internal auditor as a “partner” with management. Identified a number of threats to independence including having the CEO or CFO approve the internal audit budget and being involved in the audit plan, not reporting functionally to the audit committee, the audit committee not, having sole responsibility for appointing and dismissing the CAE and a lack of audit committee accounting expertise.
Dickins and O’Reilly (2009)	Survey	99 CAEs from middle-market US companies	Explores the extent to which publicly traded, middle-market companies employ high quality independent internal auditors in the post-SOX era.	Found that 89 percent of CAEs have compensation structures that include stock-based rewards or bonuses based on operating results. Also found that 77 percent of respondents outsource some internal audit work and 15 percent outsource more than half of the work. The

				frequency of material weaknesses in internal control is positively related to the amount of outsourced internal audit. The likelihood of reporting to the audit committee is negatively related to the extent of outsourcing.
Ahmad and Taylor (2009)	Survey	101 Malaysian internal auditors	Examines the effects of role ambiguity and role of conflict on internal auditors' commitment to independence.	Role conflict associated with consultancy and assurance services is not significantly associated with commitment to independence.
Hutchinson and Zain (2009)	Survey	60 Malaysian companies	To investigate whether the relation between internal audit quality and firm performance is associated with firm characteristics of information asymmetry and uncertainty (growth opportunities) and certain governance controls (audit committee effectiveness).	The results show that the association between internal audit quality and firm performance is stronger for firms with high growth opportunities and that this positive association is weakened by increasing audit committee independence. These findings demonstrate the internal auditors conflicting roles and question the governance recommendations that require all members of the audit committee to be non-executive directors.
Munro and Steward (2010)	Experimental design	17 partners, 29 managers and 20 seniors from the Big Four and two mid-tier audit firms in five major Australian cities.	This study examines the impact of internal audit outsourcing and involvement in consulting on external auditors' reliance on the work of internal audit. They have tested whether these factors influence reliance on internal audit work already undertaken and the use of internal auditors as assistants, distinguishing between control evaluation and substantive testing.	Internal auditors' involvement in consulting impacts external auditors' reliance on work undertaken and the use of internal auditors as assistants for control evaluation. External auditors make greater use of internal auditors in assisting them for substantive testing when internal audit is provided in-house. Conclusively, external auditors use internal audit more for control evaluation tasks.
Steward and Subramaniam (2010)	Synthesis of the recent IA independence and objectivity literature	Summary of past researches ranging from 2000 until 2009 observations	To provide review of the recent literature on internal audit independence and objectivity and discuss opportunities for future research. The topics examined are the organizational status of internal audit, the internal auditor's dual role as provider of assurance and consulting activities, internal audit's involvement in risk management,	It summarises the existing body of knowledge relating to internal audit independence and objectivity and stimulates them to engage in further research in the area.

			outsourcing and co-sourcing of internal audit activities, and the use of internal audit as a training ground for managers.	
Sarens, Allegrimi, D'Onza and Melville (2011)	Cluster analysis based on the age of the IAF – survey questionnaires	Database of the Common Body of Knowledge study conducted by the Institute of Internal Auditors Research Foundation in 2006. In total 9,366 surveys representing 92 countries	This study seeks to analyse and explore whether the organizational profile, the size of the IAF and internal audit practices are related to the age of the IAF.	The results present that: the organizational profile is significantly different between these three clusters; the current size of the IAF is related to the age of the IAF; those IAFs that were set up in the early days of the IIA (established in 1941) are more likely to use the IIA Standards and have more internal auditors with internal audit qualifications; a quality assurance and improvement program is more common amongst older IAFs; older IAFs have a more diversified internal audit agenda and more frequently perform advanced internal audit activities.
Sarens and Abdolmohammadi (2011)	Used Morgan Stanley Capital International (MSCI) Equity Index	Database of the CBOK study conducted by the Institute of Internal Auditors Research Foundation in 2006. Focusing on 11 emerging countries and 15 developed countries excluding USA.	To investigate a number of factors that is theoretically associated with convergence toward best practices in internal auditing.	It is evidenced that there is a high degree of de facto convergence of IAP toward US best practices. It also shows that IAFs in emerging countries converge more rapidly to best practices than IAFs in developed countries. Finally, the use of the IIA Standards and an external quality assessment in the past three years are found to be positively and significantly associated with convergence toward US best practices.
Lenz and Sarens (2012)	Objective review of relevant literature, both practitioner and academic	Summary of past researches ranging from 1990 until 2011 observations	The paper seeks to investigate and discuss potential reasons why the internal audit profession has been marginalized in the governance debate on solutions after the financial crisis that started in 2007, also noting recent studies questioning the value of internal audit's work and aim to make readers aware of ambiguities regarding the	Positioning internal audit as agent to the board/audit committee and, at the same time, as partner to management is challenging in practice. The IAF should clarify the customer dimension in its organizational context. Furthermore, it is argued for a consolidation of internal audit around its core function of providing assurance when seeking to establish internal audit as a profession.

			ultimate customer and its core business.	
Sarens, Abdolmohammadi and Lenz (2012)	Using binary (yes/no) questioning mode in CBOK (2006)	Using responses of 782 US CAEs (i.e. IAFs) in CBOK (2006) database	The paper seeks to investigate several variables which are theoretically correlated with the IAF having an active role in corporate governance.	The results show the implications for CAEs who willing to increase the opportunity to play an active role in corporate governance particularly for their IAFs. Also, the IIA may benefit from these results in its supporting role in internal audit profession.
Lenz, Sarens and D'Silva (2013)	Survey	46 CAEs in private organizations in Germany	The paper seeks to identify, examine and evaluate characteristics of IAF which help to differentiate between two clusters of IAFs with vastly contradicting levels of perceived effectiveness.	By adapting extant theory, the results suggest four important dimensions: organization, internal audit resources, internal audit processes and internal audit relationships.
Lenz and Hahn (2013, 2015)	Synthesis of empirical internal audit effectiveness literature pointing to new research opportunities	Summary of past researches of ten years after Bailey, Gramling and Rammamoorti (2003)'s paper in research opportunities	To provide review of the empirical studies based on internal auditors' self-assessments ("inside-out") and other stakeholders' perspectives ("outside-in") via an "effectiveness lens".	They identified three things: common themes in empirical literature, synthesizing main threads into model comprising macro and micro factors influencing internal audit effectiveness, promising future research avenues in enhancing internal audit's value proposition.

APPENDIX H: Results of Statistical Analysis

Factor Analysis: Intentions/Ambitions of IAD

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.777
Bartlett's Test of Sphericity	2483.256
df	528
Sig.	.000

Communalities

	Initial	Extraction
B1	.792	.587
B2	.675	.541
B3	.706	.598
B4	.771	.716
B5	.683	.653
B6	.732	.618
B7	.792	.651
B8	.861	.640
B9	.762	.666
B10	.578	.509
B11	.806	.630
B12	.542	.492
B13	.705	.683
B14	.640	.563
B15	.768	.610
B16	.546	.458
B17	.745	.545
B18	.517	.532
B19	.785	.947
B20	.715	.604
B21	.774	.724
B22	.747	.600
B23	.778	.761
B24	.612	.481
B25	.784	.635
B26	.838	.749
B27	.783	.626
B28	.783	.686
B29	.683	.665
B30	.705	.571
B31	.797	.829
B32	.684	.672
B33	.630	.490

Extraction Method: Principal Axis Factoring.

Total Variance Explained

Factor	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	10.663	32.312	32.312	10.293	31.190	31.190
2	3.069	9.301	41.614	2.717	8.232	39.422
3	2.573	7.797	49.410	2.222	6.734	46.156
4	1.701	5.155	54.565	1.367	4.143	50.299
5	1.554	4.709	59.274	1.155	3.501	53.800
6	1.358	4.116	63.390	.958	2.903	56.702
7	.985	3.684	67.074			
8	.941	3.129	70.203			
9	.837	2.985	73.188			
10	.719	2.853	76.041			
11	.686	2.538	78.579			
12	.623	2.178	80.757			
13	.599	2.079	82.836			
14	.544	1.887	84.723			
15	.526	1.815	86.538			
16	.463	1.648	88.185			
17	.387	1.593	89.779			
18	.369	1.403	91.182			
19	.306	1.173	92.355			
20	.287	1.117	93.471			
21	.243	.926	94.398			
22	.227	.869	95.267			
23	.223	.737	96.004			
24	.169	.689	96.693			
25	.146	.676	97.369			
26	.132	.513	97.882			
27	.108	.441	98.323			
28	.097	.401	98.724			
29	.090	.328	99.052			
30	.070	.294	99.346			
31	.056	.272	99.618			
32	.038	.213	99.831			
33	.010	.169	100.000			

Extraction Method: Principal Axis Factoring.

Rotated Factor Matrix^a

	Factor					
	1	2	3	4	5	6
B1	.764					
B2	.677					
B4	.613		.338			
B3	.590			.305	.378	
B5	.590					
B8		.791			.394	
B9		.714				
B7		.555				
B11		.499			.307	
B6		.480		.305	.378	
B10		.472		.394		
B13			.737			
B17			.633	.454		
B16		.304	.630		.448	
B15			.584	.325		
B14			.581			
B12		.359	.482			
B18			.477	.309		
B21				.714		
B22			.450	.644		
B20		.458		.626		
B19				.523		
B23	.349				.728	
B27					.690	
B24				.630	.686	
B25	.473				.654	
B26				.468	.472	
B29						.727
B28	.473					.690
B30						.661
B32						.613
B33	.372					.470
B31					.327	.420

Extraction Method: Principal Axis Factoring.

Rotation Method: Varimax with Kaiser Normalization.^a

a. Rotation converged in 11 iterations.

Variables Name: Intentions/Ambitions of IAD

Factor 1: Catalyst for Change

Factor 2: Extensive Staff Expertise

Factor 3: Challenging Work Environment

Factor 4: Organizational Alignment

Factor 5: Participative, Qualitative and Real-time

Factor 6: Array of Audit Services

Factor Analysis: Expectations of Board and Audit Committee

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.796
Bartlett's Test of Sphericity	Approx. Chi-Square
	1979.115
	df
	300
	Sig.
	.000

Communalities

	Initial	Extraction
C1	.667	.630
C2	.793	.817
C3	.734	.719
C4	.613	.517
C5	.728	.664
C6	.682	.610
C7	.620	.515
C8	.691	.656
C9	.706	.655
C10	.824	.788
C11	.868	.924
C12	.546	.442
C13	.830	.747
C14	.784	.711
C15	.662	.549
C16	.687	.520
C17	.720	.989
C18	.651	.685
C19	.663	.608
C20	.830	.679
C21	.848	.836
C22	.626	.447
C23	.624	.447
C24	.667	.649
C25	.594	.510

Extraction Method: Principal Axis Factoring.

Total Variance Explained

Factor	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	8.382	33.528	33.528	8.041	32.164	32.164
2	3.352	13.408	46.936	3.069	12.277	44.441
3	2.221	8.885	55.821	1.849	7.395	51.836
4	1.828	7.313	63.134	1.503	6.013	57.849
5	1.282	5.128	68.262	1.073	4.293	62.142
6	.918	4.278	72.540			
7	.848	3.674	76.214			
8	.732	3.390	79.605			
9	.664	2.927	82.531			
10	.515	2.655	85.186			
11	.470	2.062	87.248			
12	.405	1.878	89.126			
13	.336	1.620	90.746			
14	.318	1.343	92.089			
15	.295	1.274	93.363			
16	.242	1.182	94.545			
17	.215	.969	95.514			
18	.198	.859	96.373			
19	.182	.793	97.166			
20	.156	.727	97.893			
21	.121	.624	98.517			
22	.100	.482	99.000			
23	.079	.401	99.400			
24	.061	.316	99.716			
25	.059	.284	100.000			

Extraction Method: Principal Axis Factoring.

Rotated Factor Matrix^a

	Factor				
	1	2	3	4	5
C1	.881				
C4	.820				
C3	.788				
C2	.779				
C6	.777				
C5	.719		.569		
C7	.638		.326		
C8	.513				
C11		.905			
C10		.836			
C13		.830			
C14		.777			
C9		.734			
C12		.504			.425
C17			.826	.454	
C16			.631	.309	
C15			.483	.340	.359
C19				.785	
C21				.768	
C20			.322	.760	
C18				.745	
C22			.595	.658	
C25					.774
C23					.625
C24		.333			.448

Extraction Method: Principal Axis Factoring.

Rotation Method: Varimax with Kaiser Normalization.^a

a. Rotation converged in 10 iterations.

Variables Name: Expectations of Board and Audit Committee

Factor 1: 'Partnership' with Management

Factor 2: Training Ground for Future Managers

Factor 3: Facilitator of Risk Management and Internal Control

Factor 4: Comfort Provider

Factor 5: Safeguard of Corporate Culture

Regression Analysis: With Moderating Effects (Equation 2, Model 1)

AUDSE EFFECT

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.998 ^a	.997	.996	.00347

a. Predictors: (Constant), techno, mean_catalyst, Zaudse_facilitator, Ind_productnew, Zaudse_participative, Zaudse_challenging, Trading_serv, mean_comfortprovider, mean_trainingground, Zaudse_training, Fin_insurancenew, Zaudse_organisational, mean_organizational, mean_array, Zaudse_partnership, mean_extensive, zaudse_extensive, Zaudse_monitor, mean_challenging, zaudse_catalyst, mean_monitor, mean_partnership, mean_facilitator, mean_participativenew, Zaudse_comfort, Zaudse_array

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.323	26	.012	705.183	.000 ^b
	Residual	.001	85	.000		
	Total	.324	111			

a. Dependent Variable: log_totA1itoA1iv

b. Predictors: (Constant), techno, mean_catalyst, Zaudse_facilitator, Ind_productnew, Zaudse_participative, Zaudse_challenging, Trading_serv, mean_comfortprovider, mean_trainingground, Zaudse_training, Fin_insurancenew, Zaudse_organisational, mean_organizational, mean_array, Zaudse_partnership, mean_extensive, zaudse_extensive, Zaudse_monitor, mean_challenging, zaudse_catalyst, mean_monitor, mean_partnership, mean_facilitator, mean_participativenew, Zaudse_comfort, Zaudse_array

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.804	.004		57.551	.000
	zaudse_catalyst	-.002	.001	.032	2.563	.012
	zaudse_extensive	.000	.001	.007	.613	.542
	Zaudse_challenging	-.002	.001	.027	2.683	.009
	Zaudse_organisational	.001	.001	.021	2.067	.042
	Zaudse_participative	.001	.001	.084	1.008	.316
	Zaudse_array	-.002	.001	.168	2.065	.042
	Zaudse_comfort	.001	.001	.100	1.398	.166
	Zaudse_partnership	.001	.001	.014	1.336	.185
	Zaudse_training	.000	.001	-.004	-.355	.723
	Zaudse_facilitator	-.001	.001	-.011	-.914	.363
	Zaudse_monitor	.000	.001	.007	.610	.543
	mean_catalyst	.013	.001	.207	16.391	.000
	mean_extensive	.013	.001	.251	23.566	.000
	mean_challenging	.019	.001	.244	21.799	.000
	mean_organizational	.010	.001	.179	18.370	.000
	mean_array	.015	.001	.188	18.255	.000
	mean_comfortprovider	-.001	.001	-.013	-1.208	.231
	mean_partnership	-.001	.001	-.018	-1.424	.158
	mean_trainingground	.000	.000	-.004	-.451	.653
	mean_facilitator	.001	.001	.027	2.038	.045
	mean_monitor	.000	.001	.005	.423	.674
	mean_participativenew	.012	.001	.208	15.293	.000
	Ind_productnew	-.004	.001	-.023	-3.177	.002
	Fin_insurancenew	-.001	.002	-.007	-.766	.446
	Trading_serv	-.001	.001	-.006	-.839	.404
	techno	.001	.002	.003	.463	.645

a. Dependent Variable: log_totA1itoA1iv

ACCQ EFFECT

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.999 ^a	.997	.996	.00327

a. Predictors: (Constant), techno, Zaccq_monitor, mean_catalyst, Ind_productnew, Zaccq_training, Trading_serv, mean_comfortprovider, mean_trainingground, Zaccq_comfort, mean_organizational, Fin_insurancenew, Zaccq_organisational, mean_challenging, mean_array, Zaccq_catalyst, mean_facilitator, mean_extensive, mean_partnership, Zaccq_facilitator, Zaccq_extensive, mean_participativenew, Zaccq_array, Zaccq_partnership, mean_monitor, Zaccq_participative, Zaccq_challenging

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.323	26	.012	712.726	.000 ^b
	Residual	.001	85	.000		
	Total	.324	111			

a. Dependent Variable: log_totA1itoA1iv

b. Predictors: (Constant), techno, Zaccq_monitor, mean_catalyst, Ind_productnew, Zaccq_training, Trading_serv, mean_comfortprovider, mean_trainingground, Zaccq_comfort, mean_organizational, Fin_insurancenew, Zaccq_organisational, mean_challenging, mean_array, Zaccq_catalyst, mean_facilitator, mean_extensive, mean_partnership, Zaccq_facilitator, Zaccq_extensive, mean_participativenew, Zaccq_array, Zaccq_partnership, mean_monitor, Zaccq_participative, Zaccq_challenging

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.812	.005		57.180	.000
	mean_catalyst	.013	.001	.212	19.422	.000
	mean_extensive	.015	.001	.272	25.940	.000
	mean_challenging	.018	.001	.227	18.904	.000
	mean_organizational	.009	.001	.169	17.339	.000
	mean_array	.014	.001	.178	17.767	.000
	mean_comfortprovider	-.001	.001	-.014	-1.298	.198
	mean_partnership	2.576E-5	.001	.000	.032	.975
	mean_trainingground	.000	.000	-.008	-.913	.364
	mean_facilitator	1.746E-6	.001	.000	.003	.998
	mean_monitor	-.001	.001	-.016	-1.102	.273
	mean_participativenew	.014	.001	.235	17.472	.000
	Zaccq_catalyst	1.946E-6	.001	.000	.003	.997
	Zaccq_extensive	-.001	.001	-.019	-1.482	.142
	Zaccq_challenging	.001	.001	.012	.706	.482
	Zaccq_organisational	.002	.001	.040	3.411	.001
	Zaccq_participative	-.003	.001	.050	3.294	.001
	Zaccq_array	-.001	.001	.030	2.235	.028
	Zaccq_comfort	-9.214E-5	.001	-.002	-.143	.887
	Zaccq_partnership	.000	.001	.003	.257	.798
	Zaccq_training	.001	.001	.013	1.468	.146
	Zaccq_facilitator	.002	.001	.027	2.111	.038
	Zaccq_monitor	.001	.000	.019	1.114	.269
	Ind_productnew	-.004	.001	-.024	-3.555	.001
	Fin_insurancenew	.001	.002	.004	.421	.674
	Trading_serv	-.002	.001	-.014	-1.870	.065
	techno	.000	.002	.001	.113	.911

a. Dependent Variable: log_totA1itoA1iv

CIACPAQ EFFECT

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.998 ^a	.997	.996	.00351

a. Predictors: (Constant), Zciacpaq_monitor, Trading_serv, mean_catalyst, techno, Zciacpaq_organisational, Ind_productnew, Zciacpaq_facilitator, mean_comfortprovider, Fin_insurancenew, mean_trainingground, Zciacpaq_training, Zciacpaq_participative, mean_organizational, mean_array, mean_facilitator, mean_extensive, Zciacpaq_partnership, mean_challenging, mean_monitor, Zciacpaq_extensive, mean_partnership, Zciacpaq_array, Zciacpaq_challenging, Zciacpaq_catalyst, mean_participativenew, Zciacpaq_comfort

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.323	26	.012	687.124	.000 ^b
	Residual	.001	85	.000		
	Total	.324	111			

a. Dependent Variable: log_totA1itoA1iv

b. Predictors: (Constant), Zciacpaq_monitor, Trading_serv, mean_catalyst, techno, Zciacpaq_organisational, Ind_productnew, Zciacpaq_facilitator, mean_comfortprovider, Fin_insurancenew, mean_trainingground, Zciacpaq_training, Zciacpaq_participative, mean_organizational, mean_array, mean_facilitator, mean_extensive, Zciacpaq_partnership, mean_challenging, mean_monitor, Zciacpaq_extensive, mean_partnership, Zciacpaq_array, Zciacpaq_challenging, Zciacpaq_catalyst, mean_participativenew, Zciacpaq_comfort

Coefficients^a

Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Coefficients Beta		
1	(Constant)	1.807	.005		56.640	.000
	Ind_productnew	-.003	.001	-.017	-2.306	.024
	Fin_insurancenew	-.002	.001	-.014	-1.635	.106
	Trading_serv	.000	.001	.002	.234	.815
	techno	.002	.002	.007	1.042	.300
	mean_catalyst	.013	.001	.205	14.853	.000
	mean_extensive	.014	.001	.264	26.008	.000
	mean_challenging	.019	.001	.235	20.858	.000
	mean_organizational	.011	.001	.196	18.269	.000
	mean_array	.015	.001	.197	17.762	.000
	mean_comfortprovider	.000	.001	-.006	-.526	.600
	mean_partnership	-.002	.001	-.028	-2.362	.020
	mean_trainingground	.000	.000	-.006	-.600	.550
	mean_facilitator	.001	.001	.012	.991	.324
	mean_monitor	.001	.001	.011	.855	.395
	mean_participativenew	.011	.001	.188	13.083	.000
	Zciacpaq_catalyst	-.002	.001	.026	1.805	.075
	Zciacpaq_extensive	.001	.001	.016	1.149	.254
	Zciacpaq_challenging	.001	.001	.010	.666	.507
	Zciacpaq_organisational	-.001	.001	-.010	-.942	.349
	Zciacpaq_participative	-.001	.001	-.009	-.784	.435
	Zciacpaq_array	.001	.001	.020	1.449	.151
	Zciacpaq_comfort	.001	.001	.014	.948	.346
	Zciacpaq_partnership	-.002	.001	-.025	-2.291	.024
	Zciacpaq_training	.000	.001	.004	.349	.728
	Zciacpaq_facilitator	.000	.001	-.005	-.350	.727
	Zciacpaq_monitor	.002	.001	.029	2.429	.017

a. Dependent Variable: log_totA1itoA1iv

TERQ EFFECT

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.998 ^a	.997	.996	.00354

a. Predictors: (Constant), Zterq_monitor, mean_trainingground, mean_comfortprovider, Trading_serv, techno, Zterq_organisational, Fin_insurancenew, Ind_productnew, mean_organizational, Zterq_facilitator, Zterq_challenging, mean_challenging, Zterq_catalyst, mean_facilitator, Zterq_training, mean_array, Zterq_extensive, mean_catalyst, mean_extensive, mean_monitor, Zterq_comfort, Zterq_array, mean_partnership, mean_participativenew, Zterq_partnership, Zterq_participative

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.323	26	.012	685.774	.000 ^b
	Residual	.001	85	.000		
	Total	.324	111			

a. Dependent Variable: log_totA1itoA1iv

b. Predictors: (Constant), Zterq_monitor, mean_trainingground, mean_comfortprovider, Trading_serv, techno, Zterq_organisational, Fin_insurancenew, Ind_productnew, mean_organizational, Zterq_facilitator, Zterq_challenging, mean_challenging, Zterq_catalyst, mean_facilitator, Zterq_training, mean_array, Zterq_extensive, mean_catalyst, mean_extensive, mean_monitor, Zterq_comfort, Zterq_array, mean_partnership, mean_participativenew, Zterq_partnership, Zterq_participative

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.805	.004		56.846	.000
	Ind_productnew	-.003	.001	-.018	-2.272	.026
	Fin_insurancenew	-.002	.001	-.013	-1.641	.105
	Trading_serv	-.001	.001	-.008	-1.091	.278
	techno	.002	.002	.005	.792	.431
	mean_catalyst	.014	.001	.219	18.674	.000
	mean_extensive	.014	.001	.260	24.586	.000
	mean_challenging	.017	.001	.221	21.112	.000
	mean_organizational	.010	.001	.182	17.616	.000
	mean_array	.015	.001	.188	16.613	.000
	mean_comfortprovider	.000	.001	-.003	-.272	.786
	mean_partnership	.000	.001	-.006	-.472	.638
	mean_trainingground	.000	.000	-.005	-.491	.625
	mean_facilitator	.000	.001	.004	.367	.715
	mean_monitor	.000	.001	.004	.398	.692
	mean_participativenew	.012	.001	.206	15.694	.000
	Zterq_catalyst	-.001	.001	.017	1.717	.090
	Zterq_extensive	-.001	.001	-.016	-1.501	.137
	Zterq_challenging	.000	.001	-.004	-.371	.711
	Zterq_organisational	.001	.001	.013	1.278	.205
	Zterq_participative	.000	.001	-.006	-.395	.694
	Zterq_array	5.378E-5	.001	.001	.074	.941
	Zterq_comfort	-.001	.001	-.014	-1.077	.284
	Zterq_partnership	.001	.001	.025	1.820	.072
	Zterq_training	-.001	.001	-.025	-2.122	.037
	Zterq_facilitator	.001	.001	.020	1.862	.066
	Zterq_monitor	-1.756E-5	.001	.000	-.029	.977

a. Dependent Variable: log_totA1itoA1iv

OTHERSPE EFFECT

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.998 ^a	.997	.996	.00349

a. Predictors: (Constant), Zotherspe_monitor, mean_participativenew, techno, Trading_serv, Zotherspe_facilitator, Fin_insurancenew, mean_facilitator, Ind_productnew, Zotherspe_comfort, mean_trainingground, Zotherspe_extensive, mean_comfortprovider, mean_challenging, Zotherspe_array, mean_organizational, mean_array, Zotherspe_partnership, Zotherspe_catalyst, mean_extensive, mean_monitor, mean_catalyst, Zotherspe_training, mean_partnership, Zotherspe_organisational, Zotherspe_challenging, Zotherspe_participative

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.323	26	.012	689.537	.000 ^b
	Residual	.001	85	.000		
	Total	.324	111			

a. Dependent Variable: log_totA1itoA1iv

b. Predictors: (Constant), Zotherspe_monitor, mean_participativenew, techno, Trading_serv, Zotherspe_facilitator, Fin_insurancenew, mean_facilitator, Ind_productnew, Zotherspe_comfort, mean_trainingground, Zotherspe_extensive, mean_comfortprovider, mean_challenging, Zotherspe_array, mean_organizational, mean_array, Zotherspe_partnership, Zotherspe_catalyst, mean_extensive, mean_monitor, mean_catalyst, Zotherspe_training, mean_partnership, Zotherspe_organisational, Zotherspe_challenging, Zotherspe_participative

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.811	.005		55.575	.000
	Ind_productnew	-.003	.001	-.020	-2.729	.008
	Fin_insurancenew	-.003	.002	-.016	-1.942	.055
	Trading_serv	.000	.001	-.004	-.468	.641
	techno	.001	.002	.004	.529	.598
	mean_catalyst	.013	.001	.200	15.547	.000
	mean_extensive	.015	.001	.278	22.569	.000
	mean_challenging	.018	.001	.226	18.657	.000
	mean_organizational	.010	.001	.187	16.661	.000
	mean_array	.015	.001	.189	18.222	.000
	mean_comfortprovider	.001	.001	.010	.842	.402
	mean_partnership	-.002	.001	-.023	-1.705	.092
	mean_trainingground	.000	.000	.007	.659	.512
	mean_facilitator	.000	.001	.005	.488	.627
	mean_monitor	-.001	.001	-.011	-.801	.425
	mean_participativenew	.012	.001	.196	14.062	.000
	Zotherspe_catalyst	-.002	.001	.037	2.599	.011
	Zotherspe_extensive	.000	.001	.007	.427	.670
	Zotherspe_challenging	.000	.001	-.008	-.590	.557
	Zotherspe_organisational	.001	.001	.028	1.759	.082
	Zotherspe_participative	-.001	.001	-.020	-1.230	.222
	Zotherspe_array	.001	.001	.014	1.405	.164
	Zotherspe_comfort	.001	.001	.018	1.566	.121
	Zotherspe_partnership	.000	.001	.003	.263	.793
	Zotherspe_training	3.734E-5	.001	.001	.057	.954
	Zotherspe_facilitator	.000	.001	-.007	-.624	.534
	Zotherspe_monitor	-.001	.001	-.017	-1.278	.205

a. Dependent Variable: log_totA1itoA1iv

Regression Analysis: Equation 1 and 2 (Model 2)

FIRST PROXY (PRIMARY DATA) OF DEPENDENT VARIABLE (FIRM'S GROWTH OPPORTUNITIES)

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.523 ^a	.274	.225	1.02961

a. Predictors: (Constant), Netdebratio, Trading_serv, log_totA1itoA1iv, Fin_insurancenew, Ind_productnew, techno, log_totalassets

b. Dependent Variable: mean_FGO

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	41.526	7	5.932	5.596	.000 ^b
	Residual	110.250	104	1.060		
	Total	151.777	111			

a. Dependent Variable: mean_FGO

b. Predictors: (Constant), Netdebratio, Trading_serv, log_totA1itoA1iv, Fin_insurancenew, Ind_productnew, techno, log_totalassets

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-17.205	4.200		-4.096	.000
	log_totA1itoA1iv	10.375	1.889	.479	5.491	.000
	Trading_serv	.245	.237	.096	1.035	.303
	Ind_productnew	.807	.314	.236	2.569	.012
	Fin_insurancenew	.259	.389	.066	.665	.508
	techno	.750	.567	.120	1.322	.189
	log_totalassets	-.134	.063	-.214	-2.117	.037
	Netdebratio	.022	.363	.006	.061	.951

a. Dependent Variable: mean_FGO

1ST PROXY (PRIMARY DATA) OF DEPENDENT VARIABLE (FIRM'S PERFORMANCE)

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.500 ^a	.250	.200	.92250

a. Predictors: (Constant), Netdebratio, Trading_serv, log_totA1itoA1iv, Fin_insurancenew, Ind_productnew, techno, log_totalassets

b. Dependent Variable: mean_FP

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	29.550	7	4.221	4.961	.000 ^b
	Residual	88.504	104	.851		
	Total	118.055	111			

a. Dependent Variable: mean_FP

b. Predictors: (Constant), Netdebratio, Trading_serv, log_totA1itoA1iv, Fin_insurancenew, Ind_productnew, techno, log_totalassets

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-13.801	3.763		-3.667	.000
	log_totA1itoA1iv	8.568	1.693	.449	5.061	.000
	Trading_serv	.080	.212	.036	.377	.707
	Ind_productnew	.310	.282	.103	1.101	.273
	Fin_insurancenew	.618	.349	.179	1.772	.079
	techno	.961	.508	.174	1.890	.062
	log_totalassets	-.036	.057	-.065	-.631	.530
	Netdebratio	-.261	.325	-.074	-.802	.424

a. Dependent Variable: mean_FP

2ND PROXY (SECONDARY DATA) OF DEPENDENT VARIABLE (FIRM'S GROWTH OPPORTUNITIES)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.233 ^a	.054	-.009	1.84798

a. Predictors: (Constant), Netdebratio, Trading_serv, log_totA1itoA1iv, Fin_insurancenew, Ind_productnew, techno, log_totalassets

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	20.435	7	2.919	.855	.545 ^b
	Residual	355.163	104	3.415		
	Total	375.599	111			

a. Dependent Variable: MKTBKEQ

b. Predictors: (Constant), Netdebratio, Trading_serv, log_totA1itoA1iv, Fin_insurancenew, Ind_productnew, techno, log_totalassets

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.495	7.538		.066	.948
	log_totA1itoA1iv	-1.181	3.391	-.035	-.348	.728
	Trading_serv	-.191	.426	-.048	-.450	.654
	Ind_productnew	-.575	.564	-.107	-1.019	.311
	Fin_insurancenew	-.920	.699	-.150	-1.317	.191
	techno	.300	1.019	.030	.294	.769
	log_totalassets	.272	.114	.276	2.394	.018
	Netdebratio	-.166	.651	-.026	-.254	.800

a. Dependent Variable: MKTBKEQ

2ND PROXY (SECONDARY DATA) OF DEPENDENT VARIABLE (FIRM'S PERFORMANCE)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.433 ^a	.187	.133	15.42855

a. Predictors: (Constant), Netdebratio, Trading_serv, log_totA1itoA1iv, Fin_insurancenew, Ind_productnew, techno, log_totalassets

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5708.591	7	815.513	3.426	.002 ^b
	Residual	24756.178	104	238.040		
	Total	30464.769	111			

a. Dependent Variable: ROE

b. Predictors: (Constant), Netdebratio, Trading_serv, log_totA1itoA1iv, Fin_insurancenew, Ind_productnew, techno, log_totalassets

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-99.384	62.937		-1.579	.117
	log_totA1itoA1iv	31.138	28.314	.102	1.100	.274
	Trading_serv	.231	3.553	.006	.065	.948
	Ind_productnew	-2.692	4.709	-.056	-.572	.569
	Fin_insurancenew	-3.058	5.836	-.055	-.524	.601
	techno	-7.168	8.504	-.081	-.843	.401
	log_totalassets	2.901	.948	.326	3.058	.003
	Netdebratio	-18.854	5.436	-.331	-3.468	.001

a. Dependent Variable: ROE