A QUALITATIVE INQUIRY INTO THE RELATIONAL PROCESS AND POWER ON AUDIT COMMITTEE EFFECTIVENESS

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A QUALITATIVE INQUIRY INTO THE RELATIONAL PROCESS AND POWER ON AUDIT COMMITTEE EFFECTIVENESS

ABSTRACT

This research transcends Audit Committee (AC) effectiveness studies beyond the traditional agency theory and 'black box' approach. It explores the effect that an AC-Internal Audit Function (IAF) relational process and AC power has on AC effectiveness. The study extends literature on AC processes and provides insight details into AC power and the quality of the relational process between the AC and IAF by incorporating the relational coordination theory and power theory. A qualitative interpretative phenomenology research methodology captured the relational process and power that occurs between the AC and IAF through the process of interviews. The interviews revealed the stories and experiences of ACs and Chief Audit Executives (CAE) of public listed companies (plcs) in Malaysia.

This study has positioned the AC-IAF relational process and AC power as a primary construct in understanding how AC can strengthen and monitor the IAF and in turn the IAF can serve as an important resource to the AC. The multivocality of both relational coordination and power theories provide a new framework in understanding the interaction between the AC and IAF and its influence on AC effectiveness. The new framework shows the conceptual links between relationship factors such as shared goals, shared knowledge and mutual respect and its influence on ACs independence and expertise. The framework depicts how a more independent and knowledgeable AC is able to reinforce the support that AC can provide to the IAF subsequently allowing the IAF to generate quality information to the AC. Information generated from the dynamic equation of high-quality communication dimensions and an independent and objective IAF ensures that the AC is better equipped to monitor and make more informed

decisions. The exploration of the mutual adjustment of communication and relationship qualities between the two roles facilitates a clearer understanding on how to achieve a quality reciprocal relationship between the two roles and its impact on AC effectiveness. In addition, the framework also depicts how AC power vis-à-vis relational coordination reveals that ACs must understand, develop and exercise their powers in order to develop a positive mutual reinforcement of relational coordination dimensions which subsequently enhances AC effectiveness.

By encouraging relationships of shared goals, shared knowledge, mutual respect and high quality communication between the AC and IAF, Malaysian organizations can expect to reduce the cultural norm which emphasizes class distinctions based on the level of authority. This new framework provides organizations the criterion in selecting AC members with the right knowledge, skills and abilities to maintain independence and carry out their power in accordance to their objectives. Regulators and policy makers can make use of the results to enhance or initiate policies that support and reinforce the link between the AC and the IAF. Finally, professional bodies such as the Institute of Internal Audit Malaysia (IIAM) could use the findings in their deliberations of standards and guidance with regards to the AC and IAF as well as the relationship between both parties.

PENYELIDIKAN QUALITATIF UNTUK MENELITI KEBERKESANAN JAWATANKUASA AUDIT DARI SEGI PROSES RELASIONAL DAN KUASA

ABSTRAK

Kajian tentang keberkesanan Jawatankuasa Audit (JKA) ini menjangkaui kajian-kajain keberkesanan JKA yang dahulu yang mana menggunakan pendekatan tradisional seperti Teori Agensi dan pendekatan 'kotak hitam'. Ia menyediakan butiran terperinci berkenaan hubungan kuasa JKA dan kualiti proses relasional JKA dengan Fungsi Audit Dalam (FAD) ke atas keberkesanan JKA dalam menjalankan tugasnya. Ini dilakukan dengan menggabungkan Teori Koordinasi Relasional dan Teori Kuasa. Kaedah kajian tafsiran fenomenologi kualitatif telah digunakan. Kisah-kisah dan pengalaman pelbagai pihak daripada struktur mekanisme tadbir urus syarikat awam tersenarai di Malaysia dikumpulkan sebagai data utama melalui proses temuramah.

Proses relasional JKA-FAD dan kuasa JKA telah diketengahkan sebagai konstruk utama bagi memahami bagaimana JKA boleh menguatkan dan memantau FAD dan seterusnya FAD boleh menjadi sumber yang penting kepada JKA dalam menjalankan tugasnya. Gabungan Teori Koordinasi Relasional serta Teori Kuasa menyediakan satu rangka kajian yang baharu dalam memahami interaksi antara JKA dan FAD dan pengaruhnya ke atas keberkesanan JKA. Hasil kajian ini telah mempamerkan bahawa faktor relasional seperti matlamat bersama, perkongsian pengetahuan dan saling hormat-menghormati mempunyai pengaruh ke atas kebebasan dan kepakaran JKA. Data dari kajian ini juga telah membuktikan bahawa JKA yang lebih bebas dan berpengetahuan mampu mengukuhkan sokongan JKA terhadap FAD. Adalah didapati juga bahawa komunikasi yang berkualiti antara JKA-FAD juga dapat mengukuhkan sokongan JKA terhadap FAD dan ini membolehkan FAD lebih bebas dan berobjektif. Dengan itu, FAD dapat menjana maklumat yang berkualiti kepada JKA. Dengan menggunakan maklumat

yang berkualiti, JKA dapat meningkatkan keberkesanannya untuk memantau dan membuat keputusan ke atas kawalan dalaman organisasi dan laporan kewangan. Kajian hubungkait antara faktor relasional dan komunikasi antara JKA dan FAD memberi pemahaman yang lebih jelas mengenai cara untuk mencapai interaksi timbal balik yang berkualiti antara kedua-dua pihak serta kesannya ke atas keberkesanan JKA. Di samping itu, rangka kajian ini juga telah mengetengahkan bahawa JKA perlu memahami, membangun dan menjalankan kuasa sosial mereka dalam usaha untuk mencapai koordinasi relasional yang positif di antara JKA dan FAD bagi meningkatkan keberkesanan JKA.

Hasil kajian ini mendapati bahawa masih terdapat norma budaya yang menekankan perbezaan berdasarkan tahap kuasa di dalam organisai di Malaysia. Jesteru itu, organisasi di Malaysia digalakkan untuk mempertingkatkan hubungan di antara JKA dan FAD supaya mempunyai matlamat bersama, perkongsian pengetahuan, saling menghormati dan komunikasi yang berkualiti tinggi, bagi mengurangkan norma budaya ini. Organisasi di Malaysia juga dapat menggunakan maklumat yang di jana daripada kajaian ini bagi membuat keputusan tentang kriteria-kriteria yang sesuai bagi meningkatkan keberkesanan sesebuah JKA. Antranya ialah tahap pengetahuan ahli JKA, kemahiran dan kebolehan untuk mengekalkan kebebasan dan menggunakan kuasa mereka selaras dengan objektif mereka. Pengawal selia dan pembuat dasar boleh menggunakan keputusan kajian ini untuk meningkatkan atau memulakan dasar-dasar yang menyokong dan mengukuhkan hubungan antara JKA dan FAD. Akhir sekali, badan-badan profesional seperti Institut Audit Dalaman Malaysia (Institute of Internal Auditors Malaysia [IIAM]) boleh menggunakan hasil kajian ini dalam pertimbangan mereka tentang panduan berkaitan dengan JKA dan FAD serta hubungan antara kedua-dua pihak.

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In the name of Allah (SWT), Most Gracious Most Merciful, and blessing upon his Noble Prophet Muhammad (SAW).

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LIST OF ABBREVIATIONS

AC   : Audit Committee

ACE   : Audit Committee Effectiveness

CAE   : Chief Audit Executive

CG   : Corporate Governance

IAF   : Interal Audit Function

IIA   : Institute of Internal Auditors

IIAM   : Institute of Internal Auditors Malaysia

MCCG   : Malaysian Code of Corporate Governance

CHAPTER 1: INTRODUCTION

1.1 Background of the study

Corporate Governance (CG) is a system by which companies are directed and controlled (High Level Finance Committee (HLFC) Report, 1999; The Cadbury Code, 1992). CG is imperative as it seeks ways to monitor and prevent abuse of power by management (Pinto, Pereira, Imoniana, Reinaldo and Peters, 2014). However, a series of publicized fraud and financial scandals such as the collapse of Enron and WorldCom in America, Satyam in India, and Transmile and Megan Media Holding in Malaysia have ignited the public to question the integrity and effectiveness of the CG monitoring system (Raphaelson and Wahlen, 2004). Some authors argue that these scandals were brought to the foreground by weak CG (Ghafran and O'Sullivan, 2012) including poor oversight of the internal control system (Kinyua, Gakure, Gekara and Orwa, 2015; San, Moorthy and Lung, 2012).

One monitor of an entity's internal control is its Audit Committee (AC) (Blue Ribbon Committee (BRC), 1999; Carcello, Hermanson, Neal and Riley, 2002). The AC has been widely promoted both by regulatory and professional bodies (Beattie, Fernley and Hines, 2015; Sulaiman, 2017; Gendon and Bédard, 2006) in many countries as a mechanism of CG because the AC monitors management on behalf of shareholders and ensures fair presentation of financial statements and sound internal controls thus making it an integral part of most CG systems.

Prior studies have found that the quality of internal controls is associated with the quality or efficiency of the AC (Carcello and Neal, 2003; Krishnan, 2005). However,

effectiveness of an AC is in itself an elusive and multidimensional notion that is difficult to measure (DeZoort, 1998). Many factors can play a role in influencing AC effectiveness in its oversight responsibilities, such as group dynamics and cultural beliefs and practices (Bédard and Gendron, 2010).

Spira (2003) argues that detailed accounts of the AC role, membership characteristics, and duties are unlikely to achieve an efficient AC oversight role without understanding how ACs work in practice. For instance, it is highly unlikely that an AC comprised of independent and knowledgeable members will perform effectively if they are under management control (Carcello, Hermanson and Ye, 2011) or remain passive in meetings (Beasley, Carcello, Hermanson and Neal, 2009; Gendron, Bédard and Gosselin 2004). This is similar to Beasley et al. (2009) argument with regards to the Hollinger case. Despite Hollinger's' impressive AC membership and meeting schedule, fraud still took place as there was a deficient AC process in place. Therefore, in ascertaining AC effectiveness in its oversight responsibilities, one must also consider the processes by which AC members assess information and oversee activities.

By and large, AC members rely on the work of the Internal Audit Function (IAF) in order to assess a company's risk management and internal control effectiveness (Arena and Azzone, 2009; Krishnan, 2005). An effective IAF can be an important resource to the AC in discharging its responsibilities (Raghunandan, Read and Rama, 2001; Scarbrough, Rama, and Raghunandan, 1998). The AC and IAF share a mutual interdependency between their tasks. The IAF is able to provide the AC information concerning areas of weaknesses or deficiencies in the risk management, governance and control processes (BMCGG, 2009). The AC on the other hand is able to set a 'tone' that allows the IAF to have a certain degree of influence in the organization (Turley and

Zaman, 2007). ACs ability to set the 'tone' will allow the IAF to become an efficient information resource. A relationship whereby the AC strengthens the IAF whilst the internal auditors become an important resource to the AC can be defined as a quality reciprocal relationship between the AC and IAF (Bishop, Hermanson, Lapides, and Rittenberg, 2000; Braiotta, 1999; Sarens, De Beelde and Everaert, 2009; Turley and Zaman, 2004; and Verschoor, 1992). A quality reciprocal relationship between the AC and IAF is likely to enhance not only AC effectiveness (Raghunandan et al., 2001, and Scarbrough et al., 1998) but also the governance capabilities of both parties (Cohen, Krishnamoorthy and Wright, 2004). Therefore, it is assumed that a quality reciprocal relationship with the IAF will enhance AC effectiveness in its oversight duties.

Another important factor in determining AC effectiveness is AC power. The proposal that AC effectiveness is perceived as a function of the types and extent of AC power (as in accordance to Kalbers and Fogarty 1993, 1998) is deemed relevant. Cohen et al. (2004) asserts that "the AC must be vested . . . with real power and sufficient expertise to serve as an effective monitor over management's actions" (p. 102). In order to enhance the AC effectiveness in oversight duties, it is essential for the members to understand, develop and exercise the power bases surrounding the AC (San et al., 2012).

This introductory section of the chapter has provided a brief background to the study. The overall chapter presents an overview of the thesis. The next section discusses the problem statement and research objectives. This is then followed by the theoretical foundation and conceptual framework of the study in Section 1.3. A brief account of the research purpose and design is presented in Section 1.4. Section 1.5 explains the

research goals and contributions the study is expected to achieve. Finally, Section 1.6 provides the description on the organization of chapters for the overall thesis.

1.2 Problem Statement and Research Objectives

Prior quantitative AC-IAF research examined ideal-typical AC characteristics and its interaction with the IAF. Goodwin (2003) for example found that ACs with mandated characteristics (i.e. member independence and/or with financial or accounting expertise) are more likely to be effective in their internal control oversight responsibilities when they have private meetings with the Chief Audit Executive (CAE); be involved in the decision to hire and/or fire the CAE; and review the work of the IAF. However this type of study fails to give a fair representation of the actual dynamics and interactive nature of governance actors (Brennan and Kirwan, 2015) such as the AC and IAF.

There is a need to further understand the processes the AC members collectively go through in order to accomplish their monitoring tasks (Bédard and Gendron, 2010). Goodwin and Yeo (2001) suggested research to focus on process dynamics surrounding ACs, such as the communication and coordination between the AC and IAF. Prior qualitative studies on AC- IAF interaction have illustrated that the reciprocal relationship quality between the two roles are dependent on the communication and behavioural aspect that takes place between the two roles. For example, some researchers have suggested that mutual understanding of ones work (Davies, 2009 and Zain and Subramaniam, 2007) and open communications (Sarens et al., 2009, Zaman and Sarens, 2013; Turley and Zaman, 2007) are other factors that can greatly improve the quality of this reciprocal relationship.

However there is still a gap of knowledge with regards to how AC and the IAF coordinate both technically and relationally in order to achieve a quality reciprocal relationship and subsequently influence the AC effectiveness. Knowing how the AC and IAF coordinate not only from a technical aspect but also from a relational aspect could further enhance our understanding of how to achieve a quality reciprocal relationship.

In addition to the AC-IAF relational aspect, there is still lacking knowledge on how AC power is able to influence the quality of this reciprocal relationship. For instance there is still the impression that some Malaysian public listed company (plc) directors (ACs included) do not fully understand their role and responsibilities (Selvarany, 2010). Curiously, if ACs are unable to fully understand their role and responsibilities (i.e. power mandated to the AC), how would this then affect the quality of their interaction with the IAF? Kalbers and Fogarty (1993) emphasize that although ACs have power by virtue of their formal organization mandate, power goes beyond the formal empowerment given by the organization. Thus, this creates the motivation to seek how AC power is related to the quality of AC- IAFs relational process in Malaysian plcs.

Ultimately, it is to the researchers knowledge that currently there is no single study that has provided evidence on how the AC-IAF relational process (i.e. coordination of both communication and behavioural aspects of the AC and IAF whilst coordinating their oversight efforts) influences the quality of the AC-IAF reciprocal relationship and the effectiveness of the AC and how AC power is able to influence the quality of the AC-IAF relational process and overall AC effectiveness.

The primary research objective was to evaluate the effectiveness of the AC through the quality of the AC- IAF reciprocal relationship of Malaysian PLCs and how AC power influences the quality of this interaction and AC effectiveness. Due to the lack of a conclusive theory and/or theories that can provide an in depth understanding of how the AC and IAF foster a quality reciprocal relationship, two theories have been proposed as a framework to enrich the understanding of the interaction between the AC and IAF in this thesis. The use of both power theory and relational coordination theory will provide a framework into meeting the intended objective laid out for this research. It is proposed that using the study's framework, AC effectiveness can be assessed by the extent ACs foster a high quality relational process with the IAF. The study also argues that effectiveness of an AC ultimately lies in the will and effort of its committee. In carrying out the main objective of this exploratory research, two sub-objectives have been identified which are:

- to explore AC effectiveness through the influence of AC-IAF relational process on the quality of the AC-IAF reciprocal relationship; and

- to explore AC effectiveness through the nature and extent of AC power and its influences on AC-IAF relational process and AC-IAF reciprocal relationship quality.

1.3 Theoretical Foundation and Conceptual Framework

Studies such as Davies (2009); Sarens et.al. (2009); and Zain and Subramaniam (2007) have shown that shared mental models are important in determining how well the coordination between the two roles take place. In addition, prior studies exploring the interaction process between the AC and IAF (e.g. Beasley et al., 2009; Davies, 2009; Gendron and Bédard, 2006; Gendron et al., 2004; Sarens, et al., 2009; Turley and

Zaman, 2007; and Zain and Subramaniam, 2007) have also revealed that AC communication (either formal or informal) play an important aspect in understanding how the interaction between the two roles aid the AC in performing its oversight responsibilities.

These studies show that the interaction quality between the two roles is also dependent on social behaviour and psychological virtues, in addition to the technical expertise that both roles bring to the table. With this in mind, this research uses the relational coordination theory as a foundation to understanding the AC-IAF relational process because relational coordination offers a concise theoretical lens into understanding the relational process between the AC and IAF and how the quality of this relational process can influence the effectiveness of the AC. Relational coordination is defined as "communicating and relating for the purpose of task integration" (Gittell, 2002). Organizations can improve their desired outcomes through coordination of frequent, high quality communication supported by relationships of shared goals, shared knowledge, and mutual respect (Gittell, 2006). The relational coordination theory holds the assumption that work is successfully accomplished when high-quality relationships and communication exists among participants in a work process.

Equally important for this research is French and Raven's (1959) power theory as adapted by Kalbers and Fogarty (1993). French and Raven (1959) provided an early formalization of the concept of social influence in their discussion of the bases of power. They viewed social influence as the outcome of the exertion of power from one of five bases: reward power, coercive power, legitimate power, expert power, or referent power. The five bases of power theory starts from the assumption that power and influence involve relations between at least two agents.

This research explores the relationship between the two theories (relational coordination theory and power theory) and AC effectiveness. For the purpose of this research, AC effectiveness is assessed as the extent ACs engage in a quality reciprocal relationship with the IAF. In order to meet the objectives, the research began by investigating the research participants' perceptions with regards to the AC-IAF communication and relationship whilst coordination of their oversight work process. The research explored whether the AC-IAF relational process (through relational coordination) influenced the quality of the AC-IAF reciprocal relationship. The extent to which ACs and IAFs have a quality reciprocal relationship is expected to inform the effectiveness of the AC in particularly its oversight over the IAF. Finally, through the examination of the nature and extent of AC power, the research explored how power influences the quality of the AC-IAF relational process and the AC effectiveness. The conceptual framework of this research based on the two sub-objectives and theoretical foundation is portrayed below in Figure 1.1.
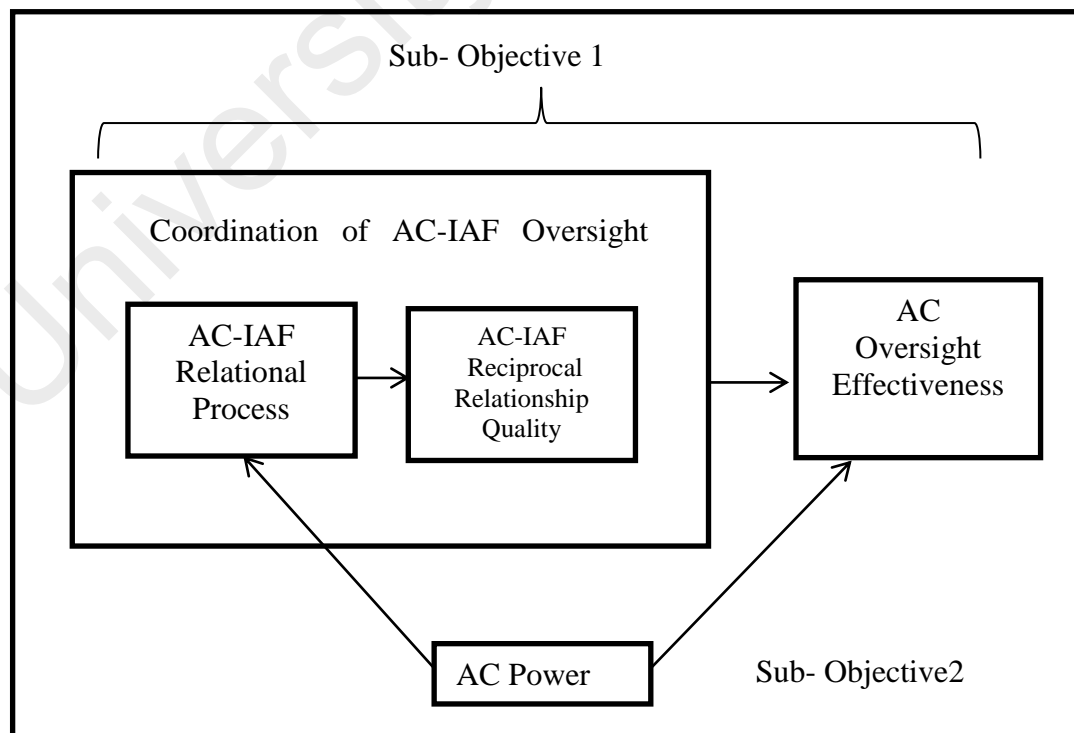
Figure 1.1: Conceptual Framework

A theory-elaboration approach (Strauss and Corbin, 1994; Vaughan, 1992) was adopted in order to meet the research objectives identified above. In theory elaboration, existing or guiding theory (in this case, relational coordination theory and power theory) is "an analytic framework that opens possibilities at the same time as it focuses research (Vaughan, 1996; p. 457). Theory elaboration is an appropriate framework when pre-existing research can provide the foundation for new studies but retains conceptual holes that other studies may fill (Lee, 1999; Lee, Mitchell and Sablynski, 1999).

1.4   Purpose of the Study and Research Design

Bédard and Gendron (2010) highlighted that prior AC effectiveness research adopted a more quantitative approach, with archival studies and survey methods being the predominate method of choice. Such studies typically rely on a "black box" approach whereby the analysis is restricted to the association between measureable features of ACs or inputs and indicators of effectiveness or outputs (Gendron et al., 2004; Gendron and Bédard, 2006; Beasley et al., 2009). These studies do not provide meaningful information of the activities performed by the AC members (Gendron et al., 2004). Quantitative methodology using surveys are not able to capture the reality of AC activities as respondents answer structured questions (Gendron et al., 2004).

However, prior qualitative studies on AC processes are able to provide insight about AC activities and the extent to which they are deemed effective. For example, adopting a qualitative approach incorporating semi-structured interviews, Sulaiman (2017) found that continuous discussion in informal settings improves communication between the AC and its external auditors. In order to collect primary data about AC processes, power

and influences, researchers need to get closer to the actors of governance and this can be done using qualitative methods (Bédard and Gendron, 2010).

Since the goal of this research is to have detailed insights of the relational process between the AC and the IAF and how AC power is related to this relational process and AC effectiveness, hence a qualitative methodology is best suited for this research. A qualitative interpretative phenomenology research methodology was adopted, drawing on in-depth interviews from several actors from the governance mechanism structure of public listed companies in Malaysia comprising of 10 Chief Audit Executives (CAEs) and 10 AC members. The interview method is used to gather such insights, because this method allows the researcher to explore issues that are difficult to examine using archival methods (Beasley et al., 2009).

1.5 Goals and Contribution of Study

Research is carried out for various reasons. The goal set for this study is obviously to add, in general, to the body of knowledge concerning corporate governance, and specifically to the understanding of the relationship dynamics that exists between the AC and the IAF in carrying out their oversight role. It is also the goal of this study to have some social and organizational contribution where the findings will prove fruitful for several parties including practitioners, policy makers, and professional bodies. Beneficial to policy makers, the findings of this study could become an input to the process of developing future corporate governance recommendations, regulations or legislations. The study may also provide feedback to regulators (e.g. Bursa Malaysia) on the need for policies that support and enhance the link between the AC and the IAF. Similar to this, practitioners could also use the findings as a basis to formulate internal

policies regarding the AC and IAF relationship. Professional bodies, for example the Institute of Internal Auditors (IIA), could use the findings in their deliberations of regulations, standards, and guidance with regards to the AC and the IAF as well as the relationship between both parties.

The theoretical implication of this paper is that ACs in action can be understood beyond the economic perspective research norms. Adopting a behavioural and psychological theoretical lens (in the form of relational coordination and power theory) opens up a new perspective in understanding AC effectiveness. Malaysia is chosen as a location of the study because most studies on AC effectiveness have focused mainly on economies from the western world, for example US and Europe (Zain and Subramaniam, 2007). There have been a limited number of studies that have been conducted in newly industrialized economies and less developed capital markets such as in Malaysia (Zain, Subramaniam and Stewart, 2006). As corporate governance mechanisms are still evolving in Malaysia, this adds to the appeal of conducting research on the Malaysian companies.

1.6 Organization of Thesis

The organization of this thesis is done through three different sections: literature review, data collection process, and discussion of findings. The different sections are organized into six chapters as follows:

Chapter One: Introduction

The chapter introduces the foundation to the study. It begins by describing the background of the study followed by the research problem. The research objectives

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along with the theoretical foundation and conceptual framework to achieve the research objectives are also discussed. In addition, this chapter also provides the research purpose and design, goals and contributions that this study is expected to achieve as well as the organization of the overall thesis.

Chapter Two: Audit Committee Concept in Malaysia and in Academic Literature

Chapter 2 is divided into two parts. The first part discusses the progression of the AC concept in Malaysia's corporate governance landscape through a chronology of events that happened in Malaysia through the mid-1980s to the current day. The second part of this chapter provides the definition of the AC and the roles it performs through a review of extant AC literature. Readers are familiarized to the reciprocal relationship between the AC and the IAF and the importance of this relationship for both roles. The end of the chapter discusses the lack of substantial understanding on ACs process based on review from prior quantitative studies on AC effectiveness. Moreover, review of prior studies evaluating AC effectiveness based on its interaction with the IAF (predominately being quantitative in nature) also present little understanding to its actual interaction process. Finally, a review of prior qualitative studies researching the AC process is also included. These studies include some of which that look at the interaction between the two roles.

Chapter Three: Audit Committee Effectiveness from a Holistic Lens

This chapter analyses the theories used in prior AC effectiveness research and the two theories used to form the framework for this research. A thorough discussion regarding the power theory and relational coordination theory provides the bases of how these theories are used in understanding the interaction between the AC and IAF.

Chapter Four: Research Methodology

Chapter 4 discusses the methodology used in the study. It explains the research design of the study, which includes the data collection methods, the interview questionnaire design, protocol of the interviews and the participants involved in the study. The purpose of this chapter is to present the philosophical assumptions underpinning this research, the research design and methodology applied. The philosophical assumptions underlying this research come from the interpretive tradition. The research strategy entailed social constructivist ontology and an interpretive epistemology. Findings will be elicited from respondent data primarily using qualitative research and a theory elaboration methodology. The design of this research study was to provide the most logical methodology to investigate the problem of evaluating the effectiveness of the AC through its relational process with the IAF and AC power in Malaysia. This is done by analysing the perceptions of the AC chairs and CAEs on the influences of the AC-IAF relational process and AC power on the quality of their reciprocal relationship and AC effectiveness.

Chapter Five: Results and Discussions

Chapter 5 presents and discusses the results from the study. Data analysed through the amalgamation of both the relational coordination theory and power theory provides a depiction on AC effectiveness through the extent of a quality AC-IAF relational process and AC power on the quality of the AC-IAF reciprocal relationship. The conceptual links between AC-IAF's relational process, AC-IAF reciprocal relationship, AC power and AC effectiveness is presented in this chapter.

Chapter Six: Summary and Conclusions

Chapter 6 presents a summary of the main findings and the conclusions drawn from the research. The chapter also acknowledges inherent limitations in the scope of study and research design and provide suggestions for additional potential issues for future research. Figure 1.2 below summarizes the organization and flow of the discussion in the chapters of this thesis.

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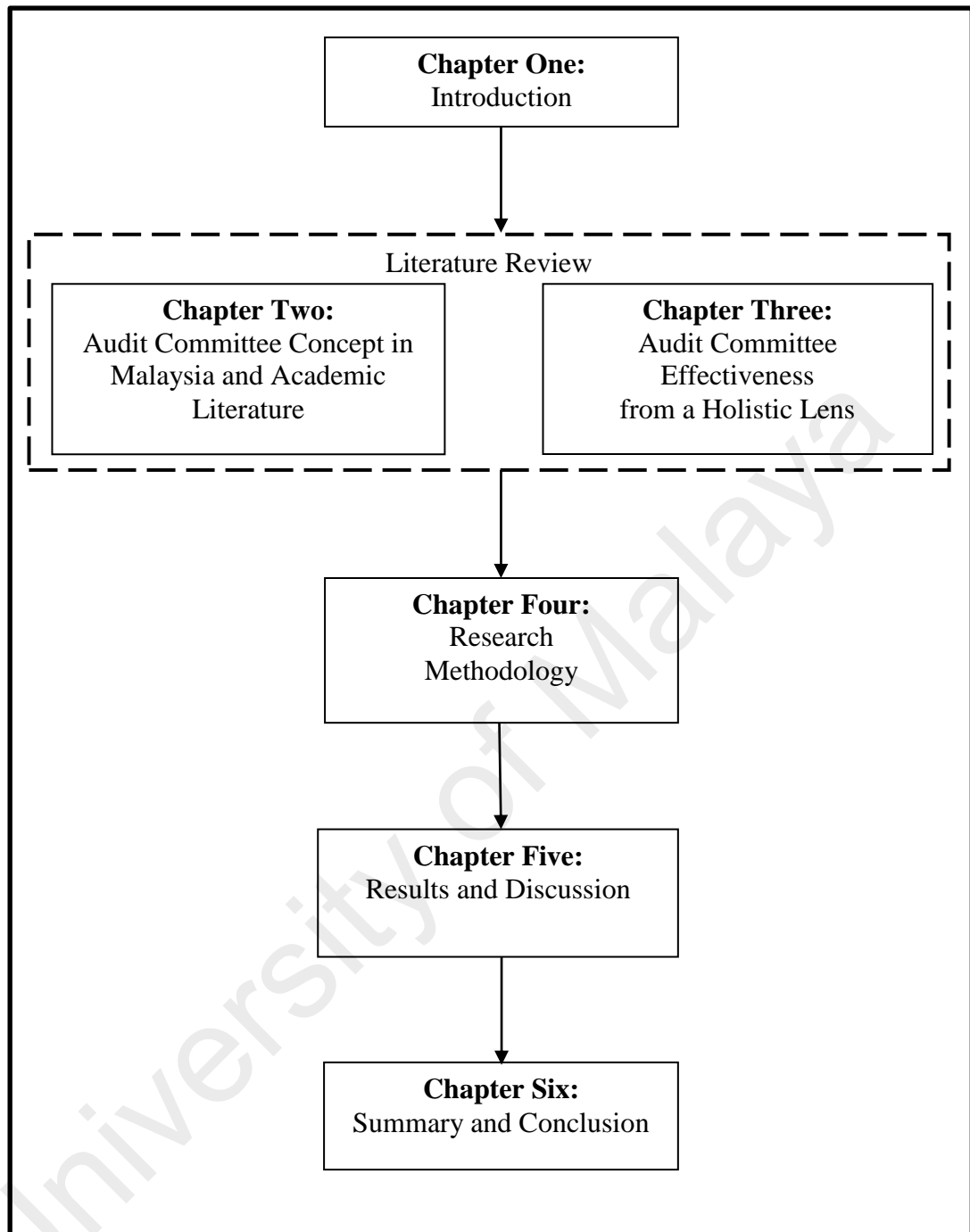
Figure 1.2: Overview of the Thesis

CHAPTER 2: AUDIT COMMITTEE CONCEPT IN MALAYSIA AND IN ACADEMIC LITERATURE

2.1   Introduction

This chapter is divided into two parts with the first part discussing the progression of the Audit Committee (AC) concept in Malaysia's corporate governance (CG) landscape and the second part discussing the progression of AC concept in academic literature. The first part of the chapter touches on the regulatory framework of CG, AC and IAF in Malaysia. It begins with a brief introduction of the CG definition in general and how the need for ACs came about. A chronology of events then guides readers into comprehending how the AC concept was shaped and formed in the Malaysian capital market system. Along this line, the AC roles, responsibilities and training are discussed which advances to discourse the AC and IAF reciprocal relationship. Description of the roles and responsibilities of the IAF and how the two roles work together will facilitate the comprehension of this reciprocal relationship and why there is a need to foster a high quality relationship.

In the final part of the chapter, prior literature on topics of AC effectiveness, AC and IAF relationship (both quantitative and qualitative) are revisited where an analysis of the different variables studied and methodological techniques utilized are provided in order to ascertain the research gap evident in research on AC effectiveness and AC and IAF reciprocal relationship.

2.2   Corporate Governance Developments and Reforms in Malaysia

2.2.1   Corporate Governance Definition

> *"Corporate governance is the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long term shareholder value, whilst taking into account the interest of other stakeholders."*

High Level Finance Committee (HLFC) Report (1999)

Corporate Governance (CG) is an integral part of an economic systems landscape and has been promoted through various governance codes, reports and regulations for the past two decades. These various codes and regulations have provided similar definitions of CG. For instance, the definition used in the Malaysian context (as cited above) laid out in the HLFC Report in 1999 is similar to The Cadbury Code (1992) of the United Kingdom (UK) which defined CG as the system by which companies are directed and controlled. The Organization for Economic Co-operation and Development (OECD) Principles states that CG is also commonly referred to as "one key element in improving economic efficiency and growth as well as enhancing investor confidence" (OECD, 2004, p.11).

The amalgamations of the definitions above reflect CG through a predominantly agency theory perspective (Fama and Jensen, 1983) which engenders a shareholder-centric definition of CG. This shareholder-oriented perspective is widely reflected in CG policy documents and codes of practice (Brennan and Solomon, 2008) whereby the approach for CG reform is usually from the perspective of protecting and enhancing shareholder wealth. Examples of such policies and codes of practice are UKs The Cadbury Report

(1992), The Sarbanes-Oxley Act (SOX) (2002) in United States of America (USA) and also The Malaysian Code of Corporate Governance (MCCG) (2001, 2007, and 2012).

There is an imperative need for CG as it is concerned with corporate performance enhancement through monitoring or evaluation, of management performance and ensuring the accountability of management to shareholders and other stakeholders (Keasey and Wright, 1997 as cited in Spira, 1999). The implementation and maintenance of CG facilitates robust decision making and improves strategy, performance, compliance and accountability. Weak CG can cause the collapse of a corporate structure. Such a collapse would cause issues like incapability of controlling the board members, failing to have adequate internal controls, imbalance of power or rights of the owners, shareholders as well as stakeholders, poor management decisions, and failure of disclosing the correct or ample information to the investors, shareholders and other stakeholders. As quoted from YB Dato' Seri Ahmad Husni Handzlah, "An effective CG structure can help an organization to achieve its objectives and desired outcomes and fulfil its obligations. Hence good CG is expected to positively impact an organization's reputation and its bottom line companies to ensure the growth, sustainability and relevance of their business to investors.

2.2.2 Corporate Governance Mechanisms

The CG structure is expected to ensure that the aims and objectives of the organizations are set, and the means of attaining those objectives and monitoring performance are determined (OECD, 2004). In essence, CG involves a set of relationships between a firm's management, its Board of Directors (BoD), internal and external auditors as well as its shareholders and other stakeholders as depicted in Figure 2.1.
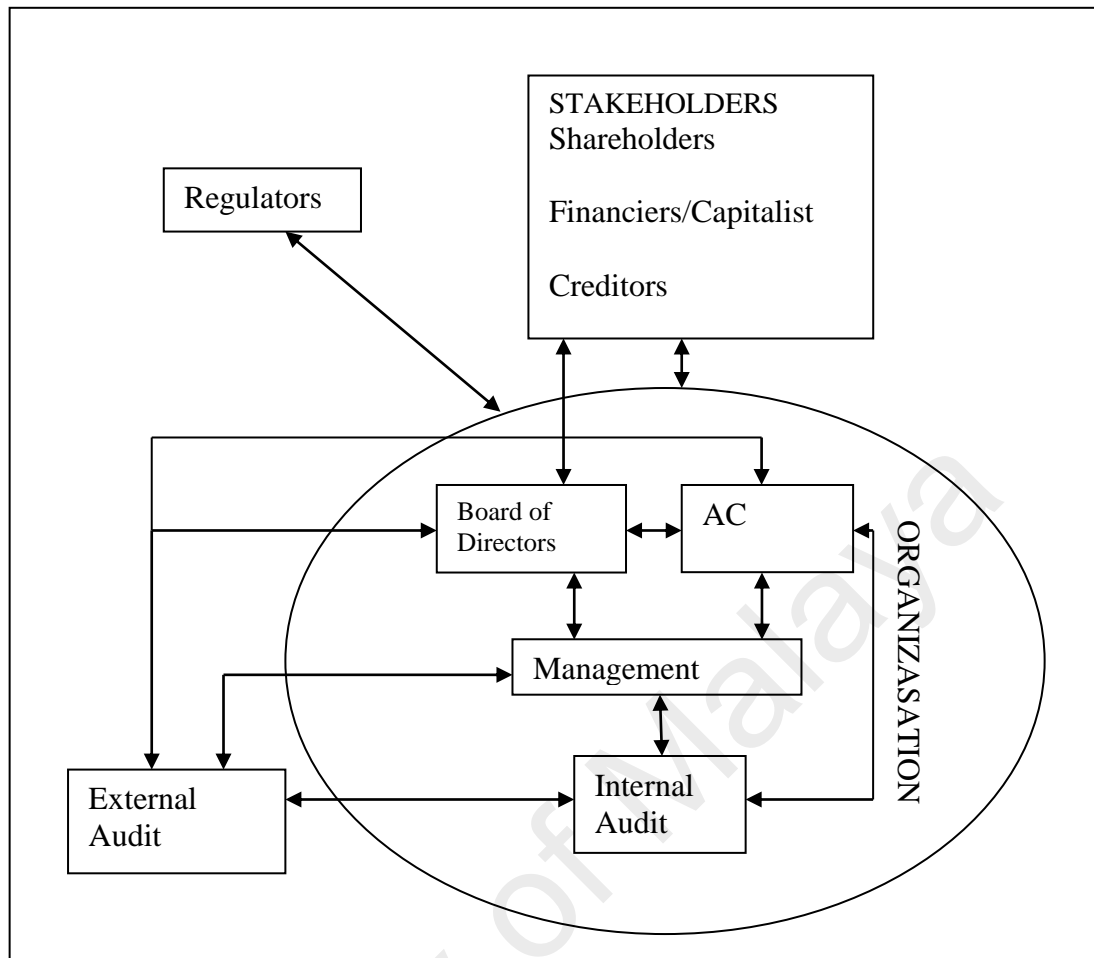
Figure 2.1: Participants Involved in Corporate Governance

BoDs by definition are the internal governing mechanism that shapes firm governance, given their direct access to the two other axes in the CG triangle: managers and shareholders (owners). The BoDs exists to protect the interest of the shareholders. They assume an oversight role that typically involves monitoring the top management to prevent opportunistic behaviour by management and ensure a company's financial reports are accurate and of integrity (Bursa Malaysia Corporate Governance Guide (BMCGG), 2009) which may improve firm performance (Fama, 1980; Zahra and Pearce, 1989). In addition, the BoD also approves the organizations' strategy and monitors the operational and internal control system. Given the diverse responsibility of the BoD, it delegates some of its oversight responsibilities to the AC and other

committees of the board[1]. According to the US Blue Ribbon Committee Report (BRC Report, 1999), the AC is "the ultimate monitor" of the financial accounting reporting systems and is generally seen as an important component of a firm's overall CG structure. Although a sub-board committee, the AC appears to have emerged as the main committee with the remit on ensuring accountability and integrity in the reporting functions of the organizations. It is to be composed mainly of independent non-executives so that it would be able to bring an unbiased and independent judgment to bear on the activities of the organization towards protecting the interest of the shareholders.

Similarly, providing assurance regarding organization governance, risk assessment and control processes are the main responsibilities of an organizations' IAF. The external auditor on the other hand plays a significant role in monitoring financial reporting quality and is viewed as an important participant in the governance process (Cohen et al., 2004). Regulators or professional associations are also a contributor to the governance process. Overall, the interactions among the BoD, the AC, the external auditor, the IAF, and the management are crucial to effective governance (SOX, 2002, Cohen et al., 2004). However this study does not take into consideration all of the interrelationships as suggested in Cohen et al. (2004) framework.

For the purpose of this study, the AC and IAF are the main focus within the CG framework. The interaction between the AC and the IAF is important for the AC in fulfilling its oversight role. DeZoort, Hermanson, Archambeault and Reed (2002)

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[1] Other committees of the BoD may include: compensation committee, executive committee, nominating/corporate governance committee, finance committee, social/corporate responsibility committee, and investment/pension committee.

contend that AC effectiveness is dependent upon the AC having the adequate resources to do its job. The authors posit that AC effectiveness is more likely to happen in environments where the ACs have access to accurate, timely and complete updates from management and auditors (both internal and external audit). Hence, reiterating from chapter one,

In the next section, a chronology of events revolving Malaysia's CG landscape is provided. This timeline helps to paint a comprehensible picture on the development of the AC, IAF and CG concept in Malaysia.

2.2.3   Corporate Governance and Audit Committee Evolution in   Malaysia

The concept of the AC has been around in Malaysia since the mid-1980s. It is perceived as an integral element in improving the financial aspects of CG (Zulkarnain, Shamsher and Yusuf, 2006). The development of AC in Malaysia began in 1985 when Malaysia's central bank (Bank Negara Malaysia[2] (BNM)) advised financial institutions in the country to set up ACs through the issuance of BNM/GP1- Guideline on Duties and Responsibilities of Directors and Appointment of Chief Executives, requesting that the majority of the committee comprise of non-executive directors. Subsequently in 1991, the Malaysian Institute of Certified Public Accountants (MICPA), the Malaysian Institute of Accountants (MIA) and the Institute of Internal Auditors (IIA) of Malaysia jointly submitted a memorandum to the Registrar of Companies (ROC), the Capital Issue Commission (CIC) and the Kuala Lumpur Stock Exchange (KLSE[3]) to

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[2] Bank Negara Malaysia (the Malaysian Central Bank) – responsible for governing the banking and finance industries.
[3] KLSE was changed to Bursa Malaysia in 2004 following a demutualization exercise (Gan and Zakiah, 2008). Bursa Malaysia is the main Malaysian stock exchange organization. It was established in 1973 to provide a central market place for Malaysian PLCs to transact business in shares, bonds and various other

recommend that ACs be made mandatory for all Public Listed Companies (PLCs) in Malaysia (Haron, Jantan and Pheng 2005). Duly, KLSE issued Section 15A (and Section 344A) (Bursa Malaysia Listing Requirement) which made it mandatory for all Malaysian PLCs to form an AC.

In mid-1997, East Asian countries began to experience the grim financial crisis with the sharp depreciation of the Thai Baht (Basurto and Ghosh, 2001). This was the beginning of the calamitous financial storm that swept across Asia in the 1997-1998 periods. After the East Asian crisis of 1997-1998, Malaysia saw the need to improve organizational CG in order to regain investor's confidence (Lai, 2004 as cited in Norwani, Zam and Chek, 2011). Zhuang, Edwards, Webb and Capulong (2000) acquaint 'poor' CG practices in East Asian markets as one of the causes of the Asian financial crisis. In addition, the World Bank (1998, p. 67-68) argued that: "CG (in East Asian countries) has been characterised by ineffective BoDs, weak internal control, unreliable financial reporting, lack of adequate disclosure, lax enforcement to ensure compliance, and poor audits.

Particularly to Malaysia, the causes of the financial crisis were attributed to poor legal framework for protection of shareholders and creditors; ineffective audit and risk management; and lack of transparency and insufficient information disclosure (Liew, 2007). These factors led the Malaysian government to enhance the regulatory framework on CG in order to further strengthen the financial and capital market (Zainal Abidin and Ahmad, 2007) by commissioning the High Level Finance Committee on Corporate Governance in 1998 to conduct a detailed study on the state of CG of listed firms (Ramly, 2013). The study revealed that listed firms had poor CG practices that

securities. This self-regulated organization governs the conduct of its members. Bursa Malaysia has its own listing and disclosure standards that must be followed by listed companies.

enabled errant directors and controlling shareholders to expropriate wealth during the financial crisis.

With the release of the Finance Committee Report on Corporate Governance[4] (Committee) in 1999, the Malaysian Code on Corporate Governance (MCCG) (the Code) was issued in March 2000 and implemented in the subsequent year. The Code provided the guidelines of principles and best governance practices that emphasize on the importance of transparency, accountability, internal control, and board composition. Companies were recommended to include in the annual report a narrative statement of how they applied the relevant principles.

The Code also emphasized the important role of the AC in improving good CG practices. Among other things, the Code specifies that all PLCs should establish an AC with written terms of reference which states the ACs authorities and duties. In terms of its composition, the AC should comprise of at least three directors, the majority of whom are independent, while its chairman should be an independent non-executive director. In relation to the IAF, the Code states that "the board should establish an IAF. Where an IAF does not exist, the BoD should assess whether there are other means of obtaining sufficient assurance of regular review or appraisal of the effectiveness of the system of internal controls within the company" (MCCG, 2000).

A comprehensive revamp of the Listing Requirements was then released in January 2001, known as the KLSE Revamped Listing Requirements (2001). In reference to the

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[4] The Finance Committee Report was released to the public in March 1999. The report, which provides more than 70 recommendations, covers three broad areas namely the development of the Malaysian Code on Corporate Governance; the reform of laws, regulations and rules to strengthen the regulatory framework for public listed companies; and training and education to expand the pool of persons suitable for appointment as company directors (SC Press Release, 2001).

AC composition, specific amendments in the Revamped Listing Requirements outlined three aspects, which were independence (having the majority of the committee be independent directors), financial knowledge (all members of the committee should be financially literate and at least one should be a member of the Malaysian Institute of Accountants or a similarly qualified person) and increase monitoring activities (the role of the AC has been extended to include a review of conflict of interest issues) and diligence. In accordance to the "comply or explain" obligation, PLCs were now required to disclose in its annual report the activities of its AC and the state of its internal control (including the existence of an IAF). In addition all directors (including the AC members) must attend training programs on their responsibilities and the implementation of the MCCG (2000) prescribed by the KLSE (Ramly, 2013). During the same time, KLSE issued the Statement on Internal Control (Guidance for Directors of PLCs) to aid directors in their disclosure efforts.

In 2002, MCCG (2000) and the Revamped Listing Requirements (2001) encouraged the establishment of an IAF for all PLCs, The Institute of Internal Auditors Malaysia (IIAM) officially launched Guidelines on Internal Audit Function in 2002 to assist the BoDs of PLCs to effectively discharge their responsibilities in relation to the establishment of the IAF. The guide also provides guidance on how the AC can assess the effectiveness of their IAFs.

To further strengthen CG practices the MCCG (2000) was later revised and published on October 1st, 2007 (hereafter, MCCG, 2007). In the Budget 2008 speech, former Prime Minister, Dato' Seri Abdullah Ahmad Badawi announced "…the Code is being reviewed to improve the quality of the board of PLCs by putting in place the criteria for qualification of directors and strengthening the AC…"

The SC was adamant on ensuring that high standards of CG, market conduct and professionalism prevail in the market. The specific changes that were made to AC requirements were that all AC members should be comprised of non-executive directors and all AC members should be financially literate and at least one should be made a member of an accounting association or body. In addition, the revised MCCG (2007) mandated that all PLCs establish an IAF. It can be assumed that these changes were made in relation to the corporate scandals which involved AC members and in order to promote effective AC oversight, the IAF would indeed play an important role as an information resource to the AC.

In line with the revised MCCG (2007), amendments were made to Bursa Malaysia Listing Requirements (BMLR, 2008) in relation to CG. The amendments required a listed company to appoint an AC which meets the following requirements; (1) must be composed of not fewer than three members; (2) all of the AC members must be non-executive directors, with a majority of them being independent directors; and (3) at least one member of the AC must be a member of the Malaysian Institute of Accountants (MIA) and if he/she is not a member of the MIA, he/she must have at least three years working experience. Those with three years' work experience must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967, or must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967. The amendments were aimed at strengthening the AC and ensuring that the AC discharge their roles and responsibilities effectively. Bursa Malaysia also mandated the establishment of an IAF and clearly stated that the IAF should report directly to the AC. Again here, Bursa Malaysia mirrored the requirements made by the MCCG (2007) in relations to the mandatory establishment of

the IAF and is perceived to be an important call for the improvement of an organization's CG structure.

As a means to enhance directors understanding of their roles and responsibilities, Bursa Malaysia developed the Corporate Governance Guide: Toward Boardroom Excellence in 2009 to focus on key areas which are crucial for a company to achieve good CG practices. In essence, the Guide complements Bursa Malaysia's efforts to encourage good CG practices starting from the boardroom. In 2011, SC released the "Corporate Governance Blueprint" to maintain the relevancy and its effectiveness in CG practices. The five-year Corporate Governance Blueprint provides the action plan to raise the standards of CG in Malaysia by strengthening self and market discipline and promoting greater internalization of the culture of good governance. Following the issuance of the Blueprint, The Malaysian Code on Corporate Governance 2012 (MCCG 2012) was launched in March 2012 which focuses on strengthening board structure and composition recognizing the role of directors as active and responsible fiduciaries. In fact, the MCCG 2012 focuses on elucidating the roles of the board of directors to deliver their commitment in protecting the shareholders' rights and monitoring the activities and tendency of management to act at its opportunistically behaviour.

By revisiting the major milestones that have taken place in Malaysia's effort to enhance its CG practices especially in relations to the AC and IAF, there is a deeper appreciation for what the government, regulatory bodies and market participants as a whole have invested in ensuring that Malaysia's economy continues to grow. The next sections will delve deeper into the concept of the AC and IAF, particularly in the Malaysian context. In order to understand how ACs are able to discharge their roles and responsibilities effectively, it is essential to comprehend what roles and responsibilities have been

entrusted to the AC in accordance to regulations and best practices. This is discussed in the following section.

2.3   Audit Committee Concept

2.3.1   Definition

In understanding the definition of the AC, a variety of reports and research studies tend to frame the definition in terms of the membership and responsibilities of such a committee (Spira, 1998). In Malaysia, according to the BMCGG (2009), "An audit committee provides the board with assurance of the quality and reliability of financial information used by the board and of the financial information issued publicly by the company" (p.42). Whereas the Sarbanes-Oxley Act (SOX 2002, section 2) defines an AC as "A committee (or equivalent body) established by and amongst the board of directors of an issuer for the purpose of overseeing the accounting and financial reporting processes of the issuer and audits of the financial statements of the issuer". The Canadian Institute of Chartered Accountants (CICA, 1992:20) on the other hand defines an AC as:

> "A committee of directors of an organization whose specific responsibility
> is to review the annual financial statements before submission to the board
> of directors. The committee generally acts as liaison between the auditor and
> the board of directors and its activities may include the review of
> nomination of the auditor, overall scope of the audit, results of the audit,
> internal financial controls, and financial information for publication."

Although the definitions may vary in terms of detail, the definitions broadly agree that the AC is a board sub-committee of (predominately) non-executive directors concerned with the oversight of CG in terms of financial reporting, internal control structure, IAFs and external audit services (Spira, 1998; Rezaee, Olibe, and Minmier, 2003).

2.3.2   Roles and Responsibilities

The National Association of Corporate Directors (NACD) claims that ACs play a vital role in CG and can be a critical component in ensuring quality reporting and controls, as well as proper identification and management or risk (NACD, 2000). According to the NACD (2000), ACs are typically charged with overseeing the financial reporting process, overseeing the internal control system and overseeing the work of the internal and external auditors as portrayed in Figure 2.2. This is similar with the three broad areas of AC oversight as identified by DeZoort et al., (2002) which are financial reporting, internal controls to address key risks and auditor activity.
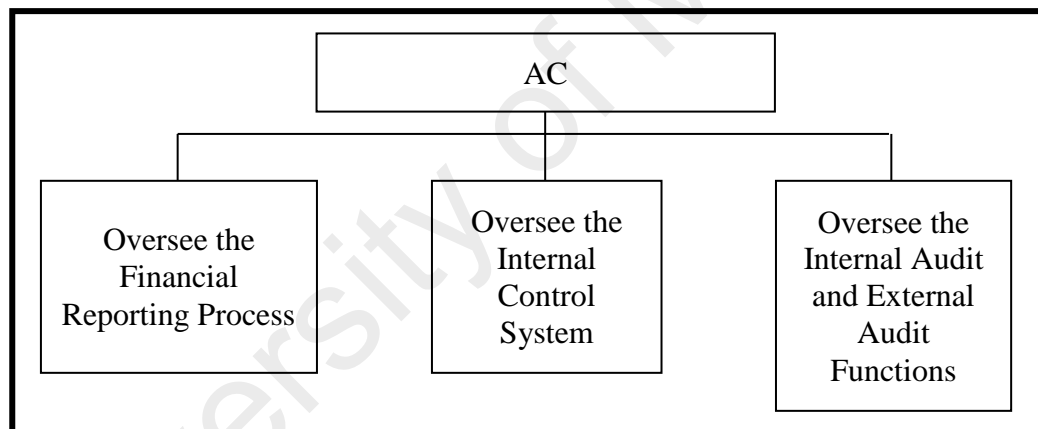
Figure 2.2: AC Responsibilities (Hermanson and Rittenberg, 2003)

In the Malaysian context, the functions of the AC are spelt out in Para 15.12 (BLR, 2009) and can also be grouped into the 3 major oversight functions as described by NACD (2000). Figure 2.3 shows the 3 major oversight functions of ACs in Malaysian PLCs made with reference to BMLR (2009) and BMCGG (2009).

In undertaking the responsibilities entrusted to the AC, only those with the right qualifications are appointed to sit on the committee. As the former US Securities and

Exchange Commission (SEC) chairman, Arthur Levitt (1998) highlighted: "Qualified, independent and tough minded ACs represent the most reliable guardians of the public interest".
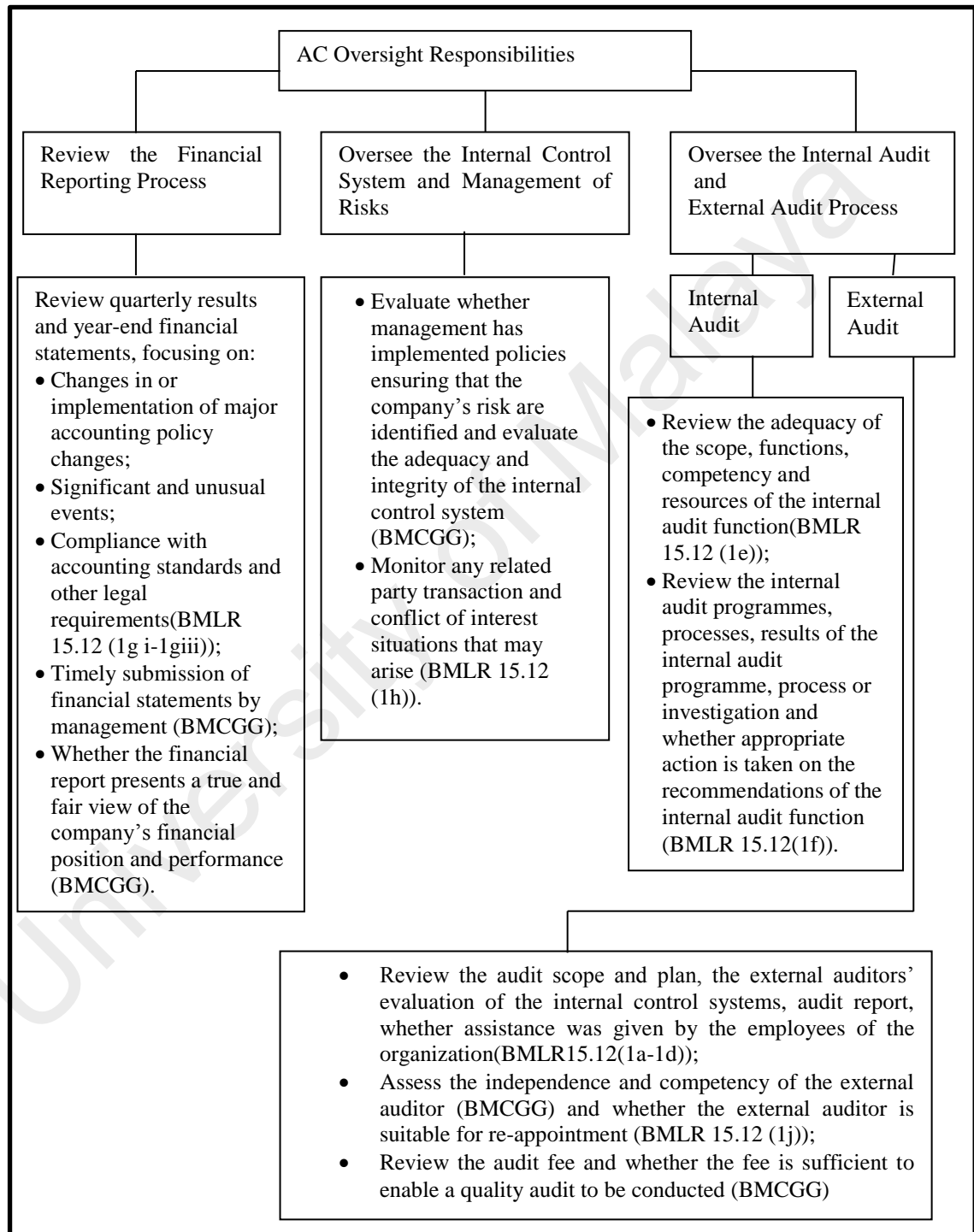
Figure 2.3: AC Oversight Responsibilities in Malaysian PLCs (Adapted from Bursa Malaysia Listing Requirements, 2009; and Bursa Malaysia Corporate Governance Guide, 2009)

The importance of having the right people with the right qualifications as members of the AC have been emphasized by the reforms and amendments made to regulation and best practices. These reforms and amendments were made to ensure that that AC plays their role in strengthening corporate accountability by acting as an invaluable control mechanism within an organization.

2.3.3   Training

Enhancing directorial skill through education and training has been emphasized in Malaysia. In order to enhance the standard of CG in Malaysia, there is a need to create directors who are knowledgeable in their duties towards the companies affairs, to be more proactive in the decision making process of the company, and to supervise management with the objective to ensure the success of their company within the purview of legal frameworks (Singam, 2003).

Reforms to Bursa Malaysia's Listing Requirements in 2001 established a mandatory accreditation programme (MAP) for company directors. The MAP is a 1½-day programme which all newly appointed directors of listed issuers and directors of newly listed issuers are required to attend within four months of being appointed as a director of a listed issuer or listing of the issuer. All directors, regardless of their prior experience as director, must attend the MAP and be accredited (Mak, 2009). The MAP cover matters such as the Companies Act 1965, the listing requirements and corporate governance codes, directors' legal rights and responsibilities, operation of the BoD, and risk management and internal control (Liew, 2007; Yatim,, Kent and Clarkson, 2006; Singam, 2003). The programs are aimed at equipping the company directors with the knowledge of their duties and responsibilities as well as providing them with a basic

understanding of the statutory laws and regulations and to highlight common areas of non-compliance and their respective punishment. Mak (2009) claims that Malaysia remains the only country in the world which requires all directors of listed companies to attend a mandatory training programme. In addition to the MAP, Bursa Malaysia has also mandated directors to attend training programs on a continuous basis.

Several bodies such as Malaysian Alliance of Corporate Directors (MACD), MSWG and Bursa Malaysia have been providing continuous training and education for directors of Malaysian PLCs. The BoD should take the initiatives to continue upgrading their skills and knowledge and directors' training should be supported and actively encouraged. Besides training programmes, Bursa Malaysia also launched the Corporate Governance Guide-Toward Boardroom Excellence in 2009 to raise the level of effective CG in Malaysia. The guide was designed to help directors understand their role and fiduciary duties to the company and its stakeholders. The guide is largely based on the Principles and Best Practices of the MCCG (2007) with reference to the BMLR (2009) and other authoritative guidance related to CG.

2.4   Literature Review on Audit Committee Effectiveness

The emphasis of recent research has been particularly influenced by the nature and detail of regulatory changes, specifically aspects of recommended best practice, with a greater focus on the independence and expertise of AC members, the frequency of meetings, the relationship with the internal and external audit process, as well as other measures of AC effectiveness. Effectiveness of an AC is in itself an elusive and multidimensional notion that is difficult to measure (DeZoort, 1998), which raises the question of how does one define an effective AC? Several definitions have been offered

in different contexts. For instance, Kalbers and Fogarty (1993, p. 27) defined it as "the competency with which the AC carries out its specified oversight responsibilities" while Rittenberg and Nair (1993, p. 3) stated that "an effective AC is the one that fulfils its responsibilities". Owolabi and Dada (2011) opined that an effective AC should be seen from the extent of its member's independence in their duties, and experience on technical/financial matters.

AC independence and expertise are claimed to be significant attributes of an effective AC (Dhaliwal, Naiker and Navissi, 2010; Klein, 2002; Owolabi and Dada, 2011). Prior studies on the AC independence and expertise and the extent of its relation to financial reporting quality and internal and external audit quality were reviewed. The attributes of AC independence and expertise were singled out due to the subjective matter of the two attributes, which may lead to inconsistent findings.

Financial Reporting Quality

Several studies find no association between AC independence and financial reporting quality (Davidson, Goodwin-Stewart and Kent, 2005; Ghosh, Marra and Moon, 2010; Klein, 2002; Kusnadi, Leong, Suwardy and Wang, 2016; Velte and Stiglbauer, 2012; Kibiya, Che-Ahmad and Amran, 2016) but other studies (Kent, Routledge and Stewart, 2010; Bédard, Chtourou and Chtourou, 2004) report that independent AC members are significant to financial reporting quality. The findings confirm the arguments that the independence of an AC does not necessarily translate into better financial reporting quality (Brennan and Kirwan, 2015; Velte, 2017).

Some studies show that AC financial expertise is associated with financial reporting quality (Carcello et al., 2011; Dhaliwal et al., 2010; Hoitash et al., 2009; Krishnan and

Visvanathan, 2008). AC financial expertise tends to enhance the diligence of the committee and the quality of reporting and auditing (Abbott, Parker, Peters and Raghunandan, 2003; Bédard et al., 2004; Dhaliwal et al., 2010). Kirshnan and Visvanathan (2008) show that firms with financial experts are prone to high levels of accounting conservatism while Dhaliwal et al. (2010) find that accounting experts on the AC are likely to improve accruals quality. Carcello et al. (2011) find that AC financial experts are negatively associated with accounting restatements and that they are more likely to keep managers from exercising earnings management. On the contrary, expertise of AC members did not have significant positive relationship with the mitigation of earnings management (Bédard et al., 2004; Alkdai and Hanefah, 2012).

There are also studies that look beyond financial expertise in examining the effectiveness of ACs. Cohen, Hoitash, Krishnamoorthy and Wright (2014) reveal AC members with both industry and supervisory expertise are associated with higher financial reporting quality and more effective monitoring of the external auditor. However Krishnan and Visvanathan (2008) and Dhaliwal et al, (2010) do not report a significant association between supervisory expertise and financial reporting quality.

External Audit Quality

With regards to audit quality, AC independence and expertise is seen to have a positive effect on the relationship between AC and external auditor (Salleh and Stewart, 2012; Sultana, Singh and van der Zahn, 2015; Wu. Hsu and Haslam, 2015). Cassell, Giroux, Myers, and Omer (2012) and Sultana et al. (2015) found positive correlations between AC financial expertise and external auditor support in the event of accounting conflicts with the management. Furthermore, AC independence is seen

to have a positive effect on audit fees (Abbott, et. al. 2003; Rustam, Rashid and Zaman, 2013; Loukil, 2014). In addition, an independent AC is assumed to effectively oversee managers, and to strengthen the independence and objectivity of internal and external auditors (Brennan and Kirwan, 2015). These findings imply that independent ACs have strong incentives to reduce the likelihood of a misstatement and demand a higher level of assurance thus leading to an increase in audit fees. The same is to be said for the association between AC financial expertise and audit fees (Abbott et.al. 2003; Goodwin-Stewart and Kent, 2006).

On another note, Carcello and Neal (2003) found that ACs with greater independence and governance expertise are more likely to shield external auditors from dismissal after the issuance of new going-concern reports. Because ACs with greater accounting expertise are more likely to understand and question management's financial reporting decisions (Pemeroy, 2010), greater AC accounting expertise can support auditor independence. Similarly, Bronson, Carcello, Hollingsworth and Neal, (2009) document that independent AC may help ensure that an audit firm issues a going-concern opinion to financially distressed firms. They go further and provide evidence that independent ACs impede auditor dismissal following the issuance of a going-concern opinion for financially distressed firms.

Studies (Buallay, 2018; Krishnan, 2005; Zhang, Zhou and Zhou, 2007; Hoitash et al., 2009) have also shown that AC financial expertise can reduce the probability of material internal control weaknesses. These studies demonstrate that firms with financial or accounting experts on the ACs are less likely to have internal control problems suggesting that accounting experts effectively improve internal control mechanisms. On the contrary, Ittonen , Miettinen and Vähämaa (2010) and Abbott et

al., (2003) found a negative link for AC financial expertise and audit fees while Hoitash and Hoitash (2009) showed increasing (non-)audit fees due to AC financial expertise.

<u>Internal Audit Quality</u>

Scarbrough et al., (1998), Raghunandan et al., (2001), Goodwin and Yeo (2001), and Goodwin (2003) all find a positive association between AC independence and the frequency of meetings with internal auditors. AC's review of internal audit activities and results was also positively associated with AC's independence as reported in Scarbrough et al. (1998), Raghunandan, Read and Scarbrough (1998), Raghunandan et al. (2001) and Goodwin (2003).

Although AC independence was found to be non-significant to the hiring/firing of CAEs nevertheless, the role of AC is important in strengthening the independence of the IAF. It has been argued that the involvement of ACs in the replacement of the CAEs reduces the influence of management and consequently adds a greater degree of empowerment to the IAF (Goodwin 2003). The reason given for the positive correlations between AC independence (Abbott, Parker and Peters, 2010), on the one hand, and IA resources on the other hand, is that the expansion of IA activities is important to an active AC, and consequently, more IA resources are requested.

Li and Taylor (2017) reveal that AC financial expertise is significantly positively related to IAF labour hours. Alzeban and Sawan (2015) show that AC members with industry and audit expertise have a greater influence on IAF size and budgets. ACs with financial experience were also reported to be associated with frequency of meetings with internal auditors (Raghunandan et al., 1998; Raghunandan et al., 2001) and review

of internal audit activities and results (Goodwin, 2003, Raghunandan et al., 1998 and Raghunandan et al., 2001). Periodic reviews of internal auditors work by AC with accounting expertise validates the importance of accounting and finance knowledge by AC members in their assessment of work carried out by an organizations' internal auditors. Gebrayel, Jarrar and Salloum (2018) examines the impact of the AC and the presence of IAF on a company's financial reporting quality and suggest that AC meetings frequency and the presence of IAF positively affect a company's financial reporting quality

Abdullah, Ismail, and Smith (2018) investigate ACs involvement in the four stages of IA performance-planning, execution, reporting and monitoring- and its corresponding impact on internal audit performance quality. The results indicate that high performance in IA is associated with more recommendations to improve CG dimensions. Specific reviews by the AC on internal audit activities affect audit quality and overall internal audit performance in the quality of various stages of internal audit, particularly audit planning.

Summary

The results of prior studies on the extent of AC independence and expertise on indicators of effectiveness have been inconclusive. Prior researchers essentially relied on a "black box" approach in which analysis was restricted to the quantitative examination of relationships between the measurable features of the AC independence and expertise and the indicators of effectiveness. Studies implicitly assume that ACs meet the standard definition of independent and have expertise however these proxies are imperfect and may not capture the underlying "substance" of independence and

expert knowledge. Due to the inconclusive results, these studies fails to fully capture what really goes on during an AC oversight process (Brennan and Kirwan, 2015).

2.5 Audit Committee Process

Using imperfect proxies to gauge the independence and expertise of ACs in prior research make it difficult to truly assess activities performed by AC members within and outside AC meetings. There is still a need to further understand the processes the AC members collectively go through in order to accomplish their monitoring tasks (Bédard and Gendron, 2010). What are the mechanisms by which AC partake in assessing information and overseeing activities? Some of the research that have been produced are by Beasley et.al. (2009), Beattie et al., (2015), Cohen, Krishnamoorthy and Wright (2002), Cohen, Krishnamoorthy, Wright (2010); DeZoort, Hermanson and Houston (2003), Gendron et al., (2004), Gendron and Bédard (2006), Sulaiman (2017), Turley and Zaman (2007), Salleh and Stewart (2012), Spira (1999), Wu, Ahsan and Weil (2014) as tabled out in Table 2. 1: AC Process Studies.

Table 2.1: Audit Committee Process Literature Review

Paper	Focus of Study	Research Methods	Audit Committee Process Studied	Findings
Spira (1999)	AC activity	Interviews 21 AC participants: AC chairs, finance directors, internal auditors, external auditors.	Ceremonial nature of AC activities.	Management has an influence over the governance agenda. AC unlikely to question/ challenge management because of this.
Cohen et al. (2002)	Impact of ACs on the audit process	36 Semi-structured interviews with external auditors	• Expertise of AC members • Items discussed at AC meetings • Discussion of significant audit disagreements AC engagement • Questioning • AC power • Pro-active, two-way dialogue between AC and auditors	AC is typically ineffective and lack sufficient power to be a strong governance mechanism. AC is passive in meetings and asked little questions.
DeZoort et al. (2003)	Source credibility and AC member support for proposed audit adjustment.	Between-subject experiment of 131 AC members	Impact of source credibility on the AC likelihood to support the external auditor argument for proposed audit adjustment.	AC members who could relate more with the auditor's perspective gave more support for the audit adjustment.

Gendron et al. (2004)	Practices of AC members at meetings	Case study, three Canadian listed corporations, 22 semi-structured interviews	AC practices during meetings	AC follow best practices and emphasize key matters during meetings which include accuracy of financial statements, appropriateness of wording used, effectiveness of internal controls and the quality of work performed by auditors.
Gendron and Bédard (2006)	Process by which meaning on AC effectiveness are developed and sustained.	Field study, three Canadian listed corporations, 22 semi-structured interviews	Explore the meaning of AC effectiveness and by which AC members develop a definition of AC effectiveness.	Attendees' reflections influence AC processes and activities and play a key role in configuring meanings of effectiveness.
Turley and Zaman (2007)	Conditions, processes and interaction of effective ACs	Case study, archival analysis of AC processes and interviews with 9 participants in the AC processes.	• Interactions among key CG actors. • Formal and informal AC processes. • Power relationships surrounding ACs.	• The AC does not ask challenging questions during meetings. • AC able to influence governance outcomes through informal meetings.
Zain and Subramaniam (2007)	Internal auditor perceptions of their interactions with audit committees.	Semi-structured interviews with 11 Malaysian internal auditors.	Explore experience and interaction between internal audit and AC.	Heads of Internal Audit Function (HIAFs) place significant trust in ACs to take up the key questioning role in more formal settings. Also shows that infrequent informal communications and limited private meetings between the HIAFs and ACs, and a need for clear reporting lines.

Beasley et al. (2009)	Process used by AC and their members in fulfilling oversight roles.	Interviews with 42 US listed company AC members.	Explore experience and interaction between management and AC	Management may influence governance agenda. Hence AC practices attitudes reveal a mix of ceremonial and substantive practices.
Cohen et al. (2010)	Interaction with management and ACs	Interviews 30 audit managers and partners from three of the Big Four audit firms in the USA	Explore respondents experiences in interacting with management and ACs	Perceived that ACs have become significantly more active and diligent and possess greater expertise and power
Salleh and Stewart (2012)	Role of AC in resolving auditor-client disagreement	Exploratory case studies involving 21 semi-structured interviews in seven publicly listed Malaysian companies (comprising of CFOs, AC chairs/members and auditors)	Explores the role the AC play when resolving client-auditor disagreement over accounting issues.	• AC plays a mediating role as a problem solver when issues are material and cannot be solved. • Power, expertise, diligence and understanding of the issue influence the AC mediating role in resolving material disputes.
Zaman and Sarens (2013)	Existence and drivers of informal interactions between AC and internal audit.	Questionnaire survey of 187 CAEs in the UK.	Explores the extent AC members conduct informal interactions outside of regular meetings.	AC and internal audit engage in informal interactions which complement formal meetings

Wu et al. (2014)	Examines AC effectiveness from the perspectives of AC members of New Zealand companies.	21 interviews in New Zealand	Investigates the ACs intentional sense-making processes behind their AC activities	The research reveals the AC acts as an instrument for the BOD. The findings challenge the ACs notion of independence.
Beattie et al. (2015)	Auditor client negotiations	Grounded theory- nine companies with 45 interviewees in the UK	Explores how ACs are involved in auditor and client negotiations.	AC chair merely played a ceremonial role in the interaction with the external auditors.
Sulaiman (2017)	Conduct of AC in terms of its oversight role of audit quality in its oversight role of audit quality in the UK.	Semi-structured interviews with 11 AC members and 11 audit partners.	• Examines how ACs conduct their oversight role and responsibility in relation to audit quality. • Examines how the AC is involved in the auditor's appointment and remuneration, auditor's independence and monitoring of the audit process.	• ACs thoroughly assesses reports presented by auditors. • ACs play a more ceremonial role than being an effective tool in the oversight of audit quality (independence, appointment, remuneration and effectiveness of audit process).

These studies cover Anglo-Saxon countries (e.g., USA, Canada, and the UK) and Malaysia and cover time periods before the implementation of SOX-like regulation and post-SOX-like regulation. Two studies that were done prior to the passage of SOX (2002) were that by Cohen et al. (2002) and DeZoort et al. (2003). In Cohen et al. (2002), the authors interviewed 36 auditors, regarding the influence of CG on the audit process, including the role played by the AC. The study captured auditor experiences concerning their interactions with ACs and boards of directors and the resulting effect on the audit process. The authors found that the auditors' generally indicated ACs to be lacking the expertise, power, and scepticism, making the AC ineffective in monitoring the financial reporting process. The auditors described ACs as passive in meetings and the number of questions asked by members as being relatively small. Thus, the auditors frequently felt that the AC was playing more of a ritualistic role. Overall, the authors concluded that auditors' experiences suggested a CG environment that lacked meaningful substance.

DeZoort et al. (2003), on the other hand, examined source credibility and AC member support for proposed audit adjustments. DeZoort et al. (2003) employed the source credibility theory through an experiment to investigate among others the impact of source credibility on the AC likelihood to support the external auditor argument for a proposed audit adjustment. Data was collected from one hundred and thirty one AC members who participated in the between-subjects experiment during was in mid-2000 before the Enron and World Com failures. The authors found that AC members were more likely to support audit adjustments when the auditors had consistently advocated that the adjustments be made. Assessing source credibility is important because the recognition of bias will help AC members make more accurate adjustment to their own perspectives when trying to adopt those of the auditor and the manager. In addition, the

study also found that AC members who were CPAs were less likely to recommend adjustment. Therefore, AC members who could relate more with the auditor's perspective were seen to empathize more with the auditor, thus providing more auditor support. The study adds to the growing literature on the conditions under which AC will support external auditors in resolving contentious financial reporting issues with the management.

Both Cohen et al. (2010) and Beasley et al. (2009) explore AC process in the USA in the post-SOX era. In Cohen et al. (2010), 30 audit managers and partners from three of the Big Four audit firms in the USA were interviewed to explore their experiences in interacting with management and ACs. Beasley et al. (2009) on the other hand explore the AC oversight process in the post-SOX era by interviewing 42 AC members. Both of these studies indicate that the interviewees perceived that ACs have become significantly more active and diligent and possess greater expertise and power. In Cohen et al. (2010), auditors indicated that ACs are generally seen to be more active and diligent in the post-SOX era. The finding is similar as in Beasley et al. (2009) whereby the AC members perceive that in the post-SOX era, AC members have the requisite financial expertise, meet more frequently and for longer time periods, and ask probing questions of management.

However, the results also suggest that at least some changes in governance may have been more form than substance. In Cohen et al. (2010), auditors indicated that ACs play a passive role in helping to resolve disputes with the auditor and management, usually seeking to resolve issues before they come to the AC's attention. In addition, auditor's report that management continues to be the key driver in auditor appointment and dismissal decisions and only about half of the auditors felt that ACs play an important

role in resolving auditor disputes with management. This is similar to the evidence of Beasley et al. (2009) where many of the interviewees indicated that the ceremonial role for the ACs derives from management's attitude about governance and monitoring. If management does not take governance seriously, than the AC's role is primarily ceremonial and built around over-reliance on management.

Overall, the primary finding of both these studies is that the interviewees indicate significant changes in the CG environment since the passage of SOX. Cohen et al. (2010) encourages future researchers to probe further in depth with regards to the experiences of AC chairs and members while Beasley et al. (2009) calls for research on the relation between AC formal and informal processes and financial reporting and governance outcomes.

UK participants were involved in four studies carried out by Beattie et al. (2015), Turley and Zaman (2007), Sulaiman (2017) and Spira (1999). Beattie et al. (2015) report on a field study of 45 interactions in nice case companies. Interviewees included the CFO-audit partner dyad to include the AC chair. Their study displayed the AC chair merely played a ceremonial role in the interaction with the external auditors. Sulaiman (2017) examined the conduct of AC in terms of its oversight role of audit quality in the UK by using semi-structured interviews with 11 AC members and 11 audit partners. The findings reveal that ACs are effective in overseeing the audit quality as they conduct thorough assessments of the contents prepared by the external auditors for the AC during their interaction. However ACs are also seen as a ceremonial role in areas of auditor independence, appointment and remuneration and effectiveness of audit process. The author postulates that the effectiveness of the oversight role is influenced by the AC chair and the quality of the relationship between the AC and external auditors.

Turley and Zaman (2007) used a case study approach, interviewing nine individual key corporate governance actors, including the AC chair, internal and external auditors, and management. Their case study was based on a UK FTSE 100 financial services company whereby the authors examined the interactions among the key CG actors. Both formal and informal AC processes were explored, in addition to the power relationships surrounding the AC. Spira (1999) on the other hand interviewed 21 individuals, including AC chairs, finance directors, and auditors, during 1994-1996. She focused particular attention on the ceremonial nature of AC activities and on the AC as a seeker and provider of comfort regarding financial reporting.

Both these studies (Turley and Zaman, 2007 and Spira, 1999) pointed to the skill in questioning as a prime quality of AC members, but their results cast doubt on member's ability to be skilful questioners. For example, the AC in Turley and Zaman's (2007) case study tends not to ask difficult, probing questions during committee meetings. Spira (1999) revealed that managers are able to influence control on various aspects of AC meetings such as the selection of information to send to members before meetings. Due to that several of the managers and auditors that Spira (1999) interviewed underlined that questions asked by AC members are unlikely to be sufficiently penetrating to challenge managers, and that members usually are satisfied with vague answers such as "we're going to sort it". As a result of the ability of management to withhold information from the AC in formal AC meetings (as in the case of Spira's, 1999 study), it is not surprising that Turley and Zaman (2007) found that AC's greatest impact came through informal processes whereby the ACs are able to influence governance outcomes through informal meetings with auditors and through serving as an ally to the auditors.

The key role of the AC in asking challenging questions of management and auditors was also a central issue in Gendron et al. (2004) paper. The authors provide insights into practices that AC members carry out in meetings including part of the meetings where members met privately with auditors. 9 AC members and 13 other individuals from three Canadian public companies were interviewed in 2000 and 2001 (e.g., CEO, CFO, internal auditor, external auditor). The papers' results highlight key matters that AC members emphasize during meetings, such as: accuracy of financial statements; appropriateness of the wording used in financial reports; effectiveness of internal controls; and the quality of the work performed by auditors. As an extension to this paper, Gendron and Bédard (2006) supplement the data from Gendron et al., (2004) with interviews of three AC chairs. The authors explore via interviews in three large Canadian companies, the meaning of ACE and explore the process by which AC members develop a definition of ACE. They find that each AC attendee's sense of meaning comprises a different and diverse mix of emotions (such as confidence, hopefulness, anxiety) about the committee's formal duties. Interestingly, these meanings are constructed around a range of minor events and actions surrounding AC activity, rather than through major conflict resolution situations. In New Zealand, Wu et al. (2014) examines AC activities, process and effectiveness from the perspective of AC members of New Zealand listed companies. The AC members of the study perceive their motivation and justification for serving on the AC as a significant role in being effective.

A Malaysian based study conducted by Salleh and Stewart (2012) focused their study on the role of the AC in resolving auditor-client disagreements over accounting issues. A case study approach is used, involving structured interviews with CFOs, EAs and AC chairs in three listed companies in Malaysia. The results of the study suggest that

auditor-client negotiations concerning contentious accounting issues are commonplace and generally occur when issues are subjective and lacking in authoritative guidance from accounting standards. When these issues are material and cannot be resolved, they are raised with the AC and the committee then plays a mediating role as problem solver. The ACs role as a mediator is strengthened by (i) the power and authority given to the committee by the board and by regulation; (ii) the committee's understanding of possible issues due to its oversight and monitoring role; (iii) the committee members' accounting and auditing expertise and knowledge of the business; and (iv) the committee's commitment to ensuring that the financial statements present a true and fair view.

In summary, results from these AC processes studies report that the need of AC members to make affirm judgments, communicate effectively, be diligent, possess greater expertise and power and to ask challenging questions are major factors in determining the ACs effectiveness in its oversight responsibilities.

2.6   Audit Committee and Internal Audit Function Reciprocal Relationship

2.6.1   Internal Audit Function Role and Responsibilities

According to the Institute of Internal Auditors (IIA) (2009) 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" (p.2).

The IIA (1999) promotes internal auditing in the evaluation of internal controls and contends "where scoped and resourced adequately, internal audit is well placed to provide the board with an objective opinion on risk management and internal control across all the activities of the company". Because of internal auditors' position and role within an organization, internal auditors possess a good and objective understanding of the culture, system of internal control, operations and industry. According to Hermanson and Rittenberg (2003), perhaps the best summary of the IAF's role is that developed by the IIA whereby:

> "[Internal auditors'] roles include monitoring, assessing and analysing organizational risks and controls; and reviewing and confirming information and compliance with policies, procedures, and laws. Working in partnership with management, internal auditors provide the board, the AC, and executive management assurance that risks are held at bay and that the organization's corporate governance is strong and effective. And, when there is room for improvement anywhere within the organization, the internal auditors make recommendations for enhancing processes, policies and procedures."

The revised IIA International Standards for the Professional Practice of Internal Auditing (SPPIA), (2009) and the BMCGG (2009) were referred to in ascertaining the roles and responsibilities taken on by an IAF. Figure 2.4 summarizes the key roles of the IAF. In short, providing assurance regarding an organization's governance, risk assessment and control processes comprise the bulk of internal audit activity (Hermanson and Rittenberg, 2003).

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┌─────────────────────────────────────────────────────────────────────────────┐
│                    Internal Audit Function Assurance                           │
│                           Responsibilities                                     │
└─────────────────────────────────────────────────────────────────────────────┘
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Governance	Risk Management	Control Processes
• Evaluate the design, implementation and effectiveness of the organization's ethics related objective, programs and activities (IPPF 2110.A1; • Review "tone at the top" i.e. control environment of company (BMCGG,2009); • Review and provide feedback on adherence to the company's code of conduct and/or code of ethics (BMCGG, 2009). • Assess information technology governance of the organization sustains and supports the organization's strategies and objectives (IPPF 2110. A2)	• Evaluate the effectiveness of the risk management process: • Assess organizational objectives support and align with organization's mission; • Identify and assess significant risks; and • Identify and communicate appropriate risks responses that align risks with the organization's risk appetite in a timely manner across the organization (IPPF 2120) • Evaluate risk exposures relating to organization's governance, operations, and information systems regarding the: • Reliability and integrity of financial and operational information; • Effectiveness and efficiency of operations; • Safeguarding of assets; and • Compliance with laws and regulations and contracts (IPPF 2120.A1) • Evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.	• Evaluate adequacy and effectiveness of controls in responding to risks within the organization's governance, operations and information systems regarding the: • Reliability and integrity of financial and operational information; • Effectiveness and efficiency of operations; • Safeguarding of assets; and • Compliance with laws and regulations and contracts (IPPF 2130.A1). • Ascertain the extent to which operating and program goals and objectives have been established and conform to those of the organization (IPPF 2130.A2);and • Review operations and programs to ascertain the extent to which results are consistent with established goals and objectives to determine whether operations and programs are being implemented or performed as intended (IPPF 2130.A3).

Figure 2.4: Internal Audit Function Assurance Responsibilities.
Adapted from International Professional Practices Framework
(IPPF)(2009).

As the IAF roles are mainly pertaining to providing assurance regarding an organizations governance, risk assessment and control processes, the function essentially becomes the "eyes and ears" of the AC and is largely instrumental in acting as an independent sounding board to the AC concerning areas of weaknesses or

deficiencies in the risk management, governance and control processes (BMCGG, 2009). A reciprocal relationship between the AC and IAF is evident with not only the AC benefiting from having a close working relationship with the IAF, but as Gramling, Maletta, Schneider and Church (2004) states "a quality relationship between the IAF and the AC also works towards providing the IAF with an appropriate environment and support system for carrying out its own governance related activities (e.g. risk assessment, control assurance and compliance work)". Thus the following section will discuss further on this reciprocal relationship between the AC and the IAF.

2.6.2   Reciprocating Roles of Audit Committee and Internal Audit Function

The relationship between the AC and the internal auditor is an important one, with a reciprocal strengthening of each other's function (Goodwin and Yeo, 2001) and with the goals of both being "closely intertwined" (Scarbrough et al., 1998). The AC can strengthen the IAF, and internal auditors can, in turn, be an important resource to the AC as it strives to fulfil its responsibilities (Bishop et al., 2000, Braiotta, 1999, Verschoor, 1992 and Turley and Zaman, 2004).

According to Bishop et al., (2000) the following conclusion (adapted from the IIA's definition of internal auditing) regarding AC was noted in the report of the NACD BRC on AC:

> "The AC can look to today's internal auditing function to provide independent, objective assurance and consulting services designed to add value and improve an organizations operations. Internal auditing can help the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process."

To ensure that internal auditors carry out their responsibilities, the AC is entrusted with an oversight role over the IAF. According to BMLR (2009), in relation to the IAF, the AC must review the adequacy of the scope, functions, competency and resources of the IAF and that it has the necessary authority to carry out its work (Para 15.12(1)(e)). One of the ACs functions is to review and approve the IAF's staffing schedules and financial budgets.

In addition to the above, BMLR's (2009) para 15.12(1)(f) states that ACs must review the internal audit programme, processes, the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the IAF. Internal auditors are in a unique position in terms of their status as employees of an organization with responsibility to act as internal assurance providers. This requires internal auditors to assess and monitor various governance decisions made by management and also to advise management on the adequacy and effectiveness of internal controls (Sarens and De Beelde, 2006). It is thus no surprise that internal auditors can face considerable familiarity and social pressure threats stemming from their relationship with management. As such, ACs can be viewed as a key safeguard mechanism for internal auditors in managing their professional objectivity.

On the other hand, the IAF acts as an important resource provider to the AC in helping the AC fulfil its oversight duties. According to Hermanson and Rittenberg (2003), the ACs requests on the IAF include:

- assurances regarding controls,
- including an independent assessment of the tone at the top,
- independent evaluation of accounting practices and processes including

- financial reporting,

- risk analysis primarily focused on internal accounting control and financial

- reporting, and

- fraud analysis and special investigations.

There are several ways in which the IAF can fulfil the ACs request. Bishop et al. (2000) contends that the IAF might support the AC by providing general assistance which would include facilitating the information flow to the AC or performing special projects or investigations, as requested by the AC. In terms of financial reporting assistance, the IAF could support the AC in its evaluation of whether or not the company has satisfied its internal and external reporting objectives, supporting the AC in its assessment of the quality of financial reporting, providing information and insight regarding the strength of controls over the quarterly reports or assuring AC members that they are receiving reports with relevant and timely business performance measures. The IAF could also provide risk and control assistance which would include supporting the AC in its evaluation of whether the company has satisfied its control objectives, providing information that will help the AC monitor the company's control environment, and providing information that will help the AC monitor key financial and business risks facing the organization.

Figure 2.5 summarizes the reciprocating roles that both the AC and the IAF play in helping and strengthening each other. A strong and well-resourced IAF can help reduce the information asymmetry between the AC and management and in turn enhance ACE in its oversight responsibilities. Reciprocating this, the AC can also support and strengthen the position of the IAF.
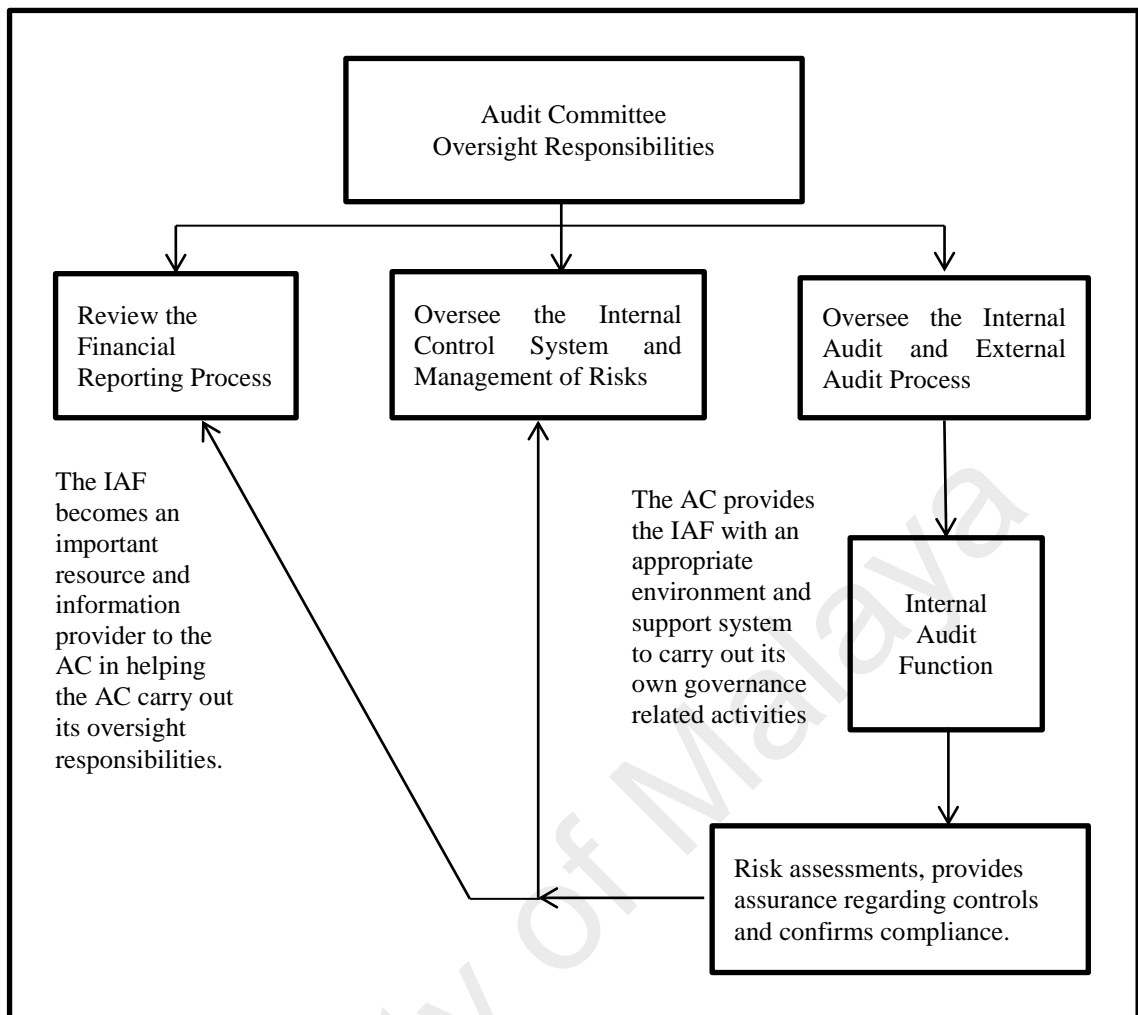
Figure 2.5: Reciprocal Relationship between the AC and IAF

2.6.3 AC-IAF Interaction Qualitative Research

The limited number of qualitative research exploring the interaction process between the AC and the IAF (Beasley et.al, 2009; Davies, 2009; Gendron and Bédard, 2006; Gendron et al., 2004; Sarens et al., 2009; Soh and Martinov-Bennie, 2011; Turley and Zaman 2007; Zain and Subramaniam, 2007 and Zaman and Sarens, 2013) have revealed that AC members confirmed that internal auditing mattered to them. This is because the work of the IAF makes visible the extent to which top managers are competent at dealing with risk and internal control. The most discussed procedural issue in the internal audit literature is of meetings between AC and internal auditors. On answering

'What goes into these meetings?', Gendron et al., (2004) suggest that both parties tend to discuss the effectiveness of internal controls, the use of wording in and the accuracy of financial statements, and the quality of the external audit.

AC communications (either formal or informal) play an important aspect in understanding how the interactions between the two roles are aiding the AC in performing its oversight responsibilities. Zaman and Sarens (2013) argue that communication including communication outside of the formal pre-scheduled meetings plays a significant role in CG. Findings from Gendron and Bédard (2006), Turley and Zaman (2007), Beasley et al., (2009) and Zaman and Sarens (2013) report that substantive communications takes place outside of formal meetings and this informal channel of communication is an important means for the AC to gain more information. They argue that the AC is significantly more effective in its oversight responsibilities when informal voluntary interaction is made with the IAF.

Zain and Subramaniam (2007) also encouraged these forms of private meetings and informal communications as this allowed relevant and reliable information to be exchanged between the two roles even though in their study this was proven not to be the case. In their Malaysian study of the perceptions of CAEs from eleven organizations, it revealed that internal auditors place significant trust in ACs to take up the key questioning role in more formal settings. On the subject of questioning, research participants in Turley and Zaman's (2007) study pointed to the lack of confidence shown by AC in seeking to challenge and question the findings of the IAF.

In addition to communication and meetings between the two roles, studies examining the AC and IAF interactions (Davies, 2009; Sarens et al., 2009; Soh and Martinov-

Bennie, 2011; and Zain and Subramaniam, 2007) have also revealed that behavioural aspects are important in determining how well the coordination between the two roles takes place. For instance, having a climate of *trust* is vital for a healthy relationship between the AC and the IAF (Gul and Subramaniam, 1994) as cited in Zain and Subramaniam (2007). *Personal support* from the AC for the IAF was perceived as a key factor contributing to IAF effectiveness (Soh and Martinov-Bennie, 2011). One respondent in their study contend that he had great sense of responsibility if the AC gave motivation and guidance.

However, as Zain and Subramaniam (2007) discovered, CAEs in their study perceived that the existing audit practices and attitudes such as AC's *submissive* approach when dealing with management and limited private meetings hinders the opportunities for more open and frank discussions which leads to a *lack of trust* in AC that may act as a barrier to an effective AC and IAF relationship. The CAEs in the study also revealed that when independent AC members lack *empathy* towards internal problems faced by employees or by the organization itself, this would also diminish their trust towards the AC members. In addition, the study also found that in order to promote values such as *professionalism*, *honesty* and *integrity,* there needs to be mutual *respect* between the CAE and AC members. Apart from this, it is shown that ACs *understanding* of the adequacy of the internal audit programmes and the work of the IAF is still lacking (Zain and Subramaniam, 2007 and Davies, 2009).

Despite the fact that some AC members may lack understanding of internal auditors work, Sarens et.al (2009) revealed that ACs seek *comfort* from the IAF with respect to the control environment and internal controls, two areas in which the ACs confront considerable discomfort. Their case study revealed that due to the IAFs traditional

assurance role, knowledge about risk management, its involvement in improving internal controls, and combined with appropriate interpersonal and behavioural skills, this enables them to provide a significant level of comfort to the AC. All things considered, AC process studies and AC- IAF qualitative studies have been able to illustrate that the interaction quality between the two roles are dependent on the communication and behavioural aspect that takes place between the two roles as depicted in Figure 2.6.

Nevertheless, no single study has provided evidence on how the AC-IAF relational process (i.e. both communication and behavioural aspects of the AC and IAF whilst coordinating their oversight efforts) influences the quality of the AC-IAF reciprocal relationship and the effectiveness of the AC in its oversight responsibilities and how AC power is able to influence the quality of the AC-IAF relational process and overall AC effectiveness. This research is expected to fulfil this gap by examining the nature, extent and quality of the reciprocal relationship through the AC-IAF relational process and AC power.
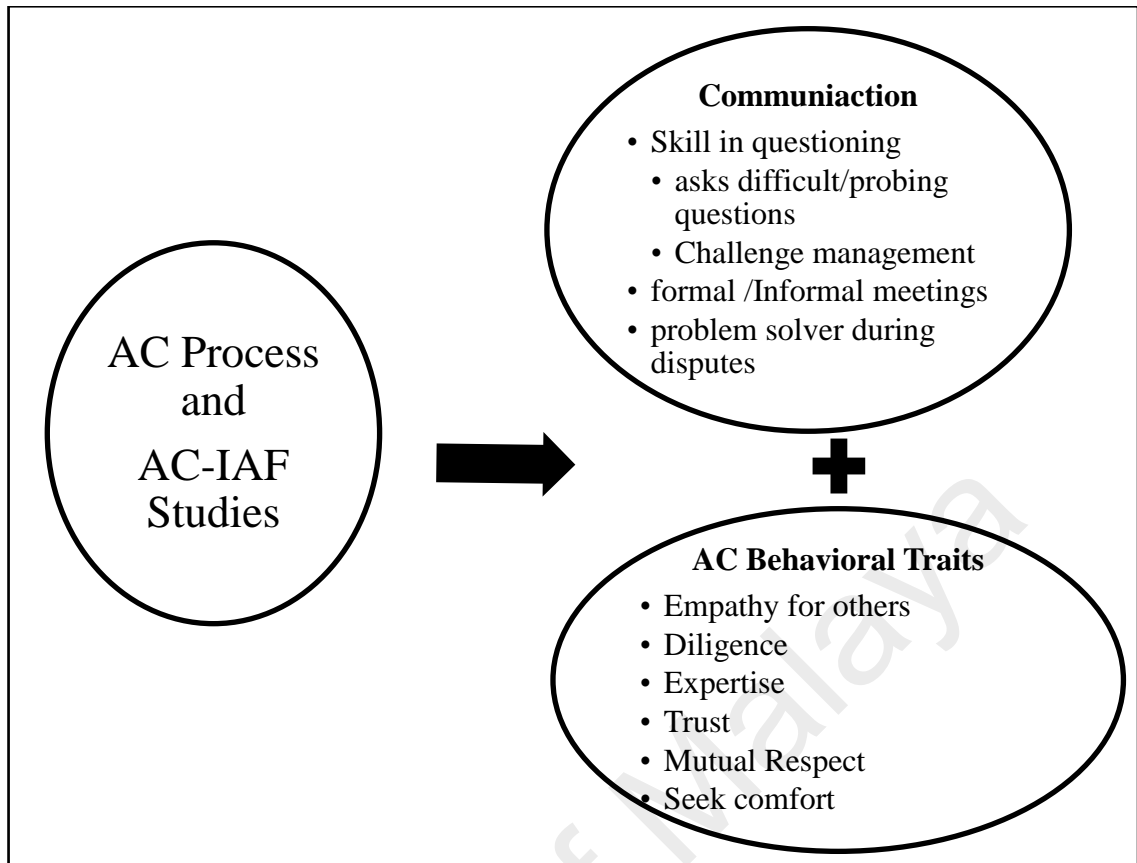
Figure 2.6: AC-IAF Interaction Quality Drivers Derived From Prior Literature

2.7 Conclusion

Prior studies have looked at several variables and its association to AC effectiveness as a governance monitoring mechanism. However the results for these studies have been inconclusive pointing to the imperfect proxies being used to measure these variables (e.g. AC independence and expertise) to represent AC effectiveness. For this reason many researchers began to assess the AC process of gathering and assessing information in order to effectively perform its oversight role. Prior qualitative AC-IAF studies show that the interaction quality between the two roles is also dependent on interpersonal and behavioural skills, in addition to the technical expertise that both roles bring to the table. The review of literature reveals a gap of knowledge still exists with regards to how the coordination of relational dimensions (i.e. both relationship and communication) can enhance the quality of the AC-IAF reciprocal relationship and subsequently influence

AC effectiveness. In order to understand the mutual interdependency that is shared between the AC and the IAF, this mutual interdependency has to be viewed not only as interdependence between tasks (i.e. technical work process); but it is also the interdependence of relationship and communication dimensions between the people who perform these tasks. In addition, there is still lacking knowledge on how AC power is able to influence the quality of the AC-IAF reciprocal relationship.

With this in mind, this research uses the relational coordination theory as a foundation to understanding the AC-IAF relational process because relational coordination offers a concise theoretical lens into understanding the relational process between the AC and IAF and how the quality of this relational process can influence the quality of the AC-IAF reciprocal relationship and the effectiveness of the AC. This research also uses the power theory as a guide into understanding how AC power can influence the quality of the AC-IAF relational process and AC effectiveness. This research seeks to explore the extent to which AC-IAF's relational process together with AC power influences the quality of AC-IAF reciprocal relationship. It is proposed that this framework will be able to inform that an effective AC is one that is able to foster a quality reciprocal relationship with the IAF through a quality relational process and by exercising their power. Hence the next chapter will discuss power theory and relational coordination theory and how these theories are used to explore the influence of power and relational coordination on the AC-IAF reciprocal relationship and ACs' oversight quality.

CHAPTER 3: AUDIT COMMITTEE EFFECTIVENESS FROM A HOLISTIC LENS

3.1   Introduction

In the previous chapter, a review of relevant literature was provided. This allowed for the identification of gaps in current knowledge relating to the topic of the thesis. The aim of this chapter is to introduce the underlying theoretical foundations for this research which forms the basis for the rest of the thesis. This section provides a summary overview of theories used in prior AC effectiveness studies to establish a number of important points about the character and findings of existing research as a basis for considering the contribution of using the relational coordination and power theory as an approach to enhance understanding of the AC-IAF reciprocal relationship and AC effectiveness. The first part of the chapter discusses one major theory that is assumed to be used in most AC process literature which is the agency theory. This is followed by theories which are known to have been used in AC process literature, which includes source credibility, comfort, and actor- network- theory. Finally this chapter discusses the power theory and relational coordination theory, two theories that have been used in the thesis to achieve the research objectives.

3.2   Audit Committee Process Theoretical Underpinning

3.2.1   Agency Theory

As discussed in the previous chapter, most AC effectiveness studies primarily focuses on the economic perspective, which espoused the agency theory framework. Most of AC process studies, however do not explicitly state their theoretical perspectives

espoused in the studies, therefore it is assumed that the studies are either guided by an economic (i.e. agency) perspective or legal perspective. A fundamental assumption of agency theory is that individuals are self-interested and will act on that self-interest. Here, managers (agent) may fail to exert the necessary efforts to satisfactorily perform at his/her job i.e. 'shirk' or take actions that benefit him/herself i.e. opportunism (e.g. empire building may bring prestige or higher salaries), while shareholders (principals) are concerned about maximizing returns at reasonable risk.

Whenever there is a conflict between the interests of the agent and the principal, the agent thus can be expected to act in his or her own self-interest. As a result of this opportunistic behaviour, principals and agents have economic incentives to invest in various information systems and control mechanisms to reduce agency costs[5] associated with existing or potential agency problems (Jensen and Meckling, 1976; Fama and Jensen, 1983). Hence the primary focus of CG from an agency perspective is to provide shareholders protection in the form of monitoring the actions and decisions of management because managers may have agendas different from their owners (shareholders) and thus may not always act in the owners' best interest (Fama and Jensen, 1983; Fama; 1980; Jensen and Meckling, 1976).

Studies based on economic perspectives draw mainly on agency theory which suggests that ACs strengthen information quality through the monitoring of top management and auditors. From this angle, agency problems engendered by the separation of ownership and control constitute the primary motivation for the existence of CG mechanisms and ACs. According to Turley and Zaman (2004), the formation of ACs is usually an

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[5] Agency costs arise because shareholders face problems monitoring management: they have imperfect information to make qualified decisions; contractual limits to management discretion may be difficult to enforce.

attempt to reduce agency costs. The variables hypothesized to support such a proposition are therefore mainly agency cost proxies, such as firm size, leverage and ownership structure (Dey, 2008; Rainsbury, Bradbury and Cahan, 2008). To perform their role in CG effectively, AC members need to interpret their delegated duties according to their specific organizational setting. Such interpretation involves the exercise of both subjective and professional judgment. Little has been documented in agency research about how AC members reflectively interpret their roles, their attributes and their efforts in relation to their particular organizations (Wu, Habib and Weil, 2012)

Due to information asymmetries that exist between principals and agents and their differing motives, principals may lack trust in their agents and may therefore need to put in place mechanisms, such as the AC, to reinforce this trust. By overseeing financial reporting, internal controls to address key risks, and auditor activity (DeZoort et al., 2002), an effective AC is expected to reduce information asymmetries that exist whilst reducing the agency costs (Chen, Chen and Wei, 2009; Dey, 2008) and thus improve shareholder trust[6]. It is argued that these information asymmetries are reduced when effective ACs are able to enhance the reliability of the firm's financial reports, improve its internal controls and increase auditor activity (Dalton and Dalton, 2005; Pincus, Rusbarsky and Wong, 1989).

The agency approach to the effectiveness of ACs are influenced by formal AC characteristics believed to alter agency costs such as the independence of AC members, and the level of financial literacy and diligence, all of which are characteristics that have been mandated through regulatory and professional avenues (e.g. SOX, 2002; BMLR,

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[6] Good financial reporting practices ensure more managerial disclosure and since managers usually do not interact frequently with shareholders, a distance in terms of trust might exist due to this communication gap. Hence the AC acts as a bridge in such a gap (Chen et al., 2009).

2009). The review of literature suggests some empirical support for the effectiveness of ACs as defined by an agency perspective. An effective AC from an agency perspective would have the technical resources to enable them to monitor and control and would be sceptical of management and those they influence due to the agency assumption that management is self-serving or opportunistic.

In retrospect, these studies also show that empirical findings are not strongly conclusive, concluding that in some circumstances, the attributes thought to be linked from an agency viewpoint are not associated with quality monitoring outcomes. This could be because research using an agency theory framework fails to systematically evaluate the activities or effectiveness of the AC. Carcello et al. (2011) argue that the agency theory and formal AC characteristics is not the sole factor or theory to capture AC effectiveness. Anecdotal evidence shows that ACs with mandated characteristics of effectiveness still fails. Therefore, it is possible that although ACs may appear, structurally, to follow an agency perspective, the actions of its members may follow an institutional perspective.

As cited in Gendron (2010), Abbott (2001) and Flyvbjerg (2001), the value of social sciences lies in their capacity to provide multivocality in the study of social objects through diverse perspective and lenses. Multivocality relates to the belief that no single theory, perspective of analysis, or way of producing knowledge can account for the complexity of human behaviour. The study of AC and its effectiveness in its oversight responsibilities is no exception to this need for theoretical pluralism. Attested by Shapiro (2006) "We need multiple perspectives to understand the interconnected economic, political, and social dimensions of CG and accountability" (p. 53). Under these circumstances several substantive theories have been used to study the AC

process. Source credibility, comfort, and actor- network- theory are three theories that have been applied in prior studies on AC process as reviewed in Chapter 2 and will be discussed below.

3.2.2   Source Credibility Theory

Source credibility theory suggests that the credibility of providers of information depends on their perceived competence and trustworthiness bias (Birnbaum and Stegner, 1979). The theory identifies source expertise and source bias as elements that affect the credibility of an information source (Birnbaum and Stegner, 1979). Source expertise refers to the perceived competence of the source providing the information. Source bias refers to the possible bias/incentives that may be reflected in the source's information. A source should be perceived as more credible when it either possesses greater expertise or is less prone to bias.

Source credibility has been widely studied in the psychology and accounting literature. For example, Bamber (1983) used source credibility theory in an audit context to address the effect of audit seniors' reliability on judgments made by audit managers. DeZoort et al. (2003) highlighted the use of the theory in research, whereby the theory has been used to predict that less credible information will be discounted in commercial loan officers' loan decisions (Beaulieu, 1994), investors' use of management forecasts (Hirst, Koonce and Miller 1999), auditors client and audit evidence evaluations (Beaulieu, 2001; Goodwin and Trotman, 1996) and tax professionals' consulting judgments (Alexander, 2002).

In DeZoort et al. (2003), the source credibility theory was used to develop the research hypotheses as it directly addresses the persuasiveness of different information sources. The authors conducted an experiment to examine the effects of source credibility factors on AC member's support for recording an adjusting entry. It was argued that in situations in which AC members evaluate arguments from two sources (e.g. management and the auditor) regarding the potential audit adjustment, the credibility of each information source is likely to be an important consideration, particularly in the presence of contextual factors that could affect the credibility of either or both sources. The information from a more credible auditor, manager or director will have a greater influence on AC decisions (DeZoort et al. 2003). The theory was used to predict greater support for the audit adjustment when the financial report is at year end rather than interim, when unadjusted EPS is above rather than below forecast, and when the auditor consistently argues for adjustment rather than agrees with management's preference to avoid adjustment.

Consistent with the theory, the results from the experiment performed revealed that the participants were more likely to recommend adjustment for annual statements rather than quarterly statements and for adjustments that the auditor consistently supported. AC members who were CPA's were less likely to recommend adjustment. In essence, the study revealed that information from a more credible auditor, manager or director will have a greater influence on AC decisions. Greater understanding of AC decision making is provided through the multivocality of source credibility theory alongside agency theory as well as resource dependence theory. The use of multiple theories has helped shape the meaning of effectiveness of ACs decision making process. Another theory that has been used in understanding the AC process is actor-network-theory which is discussed next.

3.2.3   Actor-Network-Theory (ANT)

The ideas underlying actor-network theory (ANT) were initially developed by French sociologists Bruno Latour and Michel Callon. ANT has been increasingly used in the accounting and management literature (Justesan and Mouritsen, 2011) and is argued to be useful as it bypasses a nature/society dualism. ANT is a form of sociological analysis concerned with the mechanics of power generation (Law, 1992) and it describes networking influence within and between human and non-human actors[7].The actors are tied together into networks built and maintained in order to achieve a particular goal, for instance, achieving AC effectiveness. Such a process of networking is regarded as 'translation' (Spira, 1998, p. 58). In the process of translation, non-human actors, for example, in the AC context, the Cadbury Committee Report (1992), or the AC charter of individual companies, play an important role, as well as human actors. Spira (1999) argued that ANT offers a richer picture than other theoretical frameworks used in AC literature because ANT recognises the instability and disintegration of networks and enables researchers to examine the complex relationships among AC participants.

Spira (1999) used ANT to offer a possible explanation for the rapid increase in the popularity of ACs by examining the roles of the AC through the stories of AC participants. Based on a scrutiny of the cause and effect relationships of several events of different CG regimes, such as the setting up of the Cadbury Committee (1992) and the increasing popularity of ACs in public companies, she argued that the establishment and activities of ACs were the outcome of power relationships of actor networking. She examined the ceremonial performance of the AC meetings and assumed that such performance serves as a network resource and in the end establishes company

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[7] The actors are defined as "discrete individual, corporate, or collective social units" (Wasserman and Faust, 1994, p. 17).

legitimacy through reassuring resource provided by the demonstration of concern for high standards of CG. Spira (1999) challenged the assumption that ACs are established to improve the auditor's independence and thus improve the financial reporting quality.

Her research concluded that AC meetings and the questioning process usually demonstrated in AC daily activities were 'ceremonial' and 'play an important part in offering comfort and reassurance to investors and lenders' (Spira, 1999, p. 1). Spira's (1999) paper complemented the institutional theory approach in order to explore the role of ceremonial performance within companies. By using ANT, her paper highlighted the benefits that AC may provide for their participants and offers evidence that the ceremonial performance of AC meeting provides an important external symbol of legitimacy which allows the company access to the resources which guarantee its survival.

ANT offers a focus on governance that is more sociological in nature in order to investigate organizational phenomena. Although not a study investigating an AC process, Eija and Peter (2014) provides another example of ANT used in a governance perspective. Their paper analysed the implementation of risk, as a tool for IA activities. Their focus was on the unexpected effects or uncertainties of risk management devices in Finnish municipality generated during its application. They found through ANT, risk management created unexpected uncertainties (e.g., uncertainties relating to legal aspects of risk management solutions, definition and operationalization of risk management; and resources available for expanding risk) that would had otherwise not emerge.

3.2.4 Comfort Theory

As pointed out in Chapter 2, prior research on the interaction between the AC and IAF revealed that AC members, who are often non-executive, are confronted with an information asymmetry problem. Sarens and DeBeedle (2006) argued that the level of information asymmetry between management and the AC is related to comfort and discomfort. They however contended that internal auditors are a major source of comfort for the AC due to internal auditors' internal position, familiarity with the company, and their position close to people across the company.

Using the comfort theory (Pentland, 1993), their 2006 study of four Belgian case studies sought to investigate (1) what drives the AC to look for the support of the IAF; and (2) what makes the IAF an expert at providing comfort to the AC. The results of their study provided evidence that the IAF is a source of comfort to ACs, especially in the domain of risk management and control. It was demonstrated that the IAF can provide comfort by involving the AC in the audit plan, providing reports and presentations, together with interpersonal and behavioural skills of internal audit as part of the informal contacts with AC members. The authors contend that comfort was provided to be the final effect of the different kinds of internal audit services (including basic assurance services) provided to comfort seekers (i.e., those who are confronted with discomfort, in this case the AC). The use of a theory from a sociological perspective helps to build a richer understanding of *why* ACs work together with the IAF. Nevertheless, the comfort theory does not provide a deeper explanation on *how* the AC and IAF can better foster a more quality working relationship and communication between the two functions.

3.2.5   Summary

The specific theories of Agency Theory, Source Credibility Theory, Actor Network Theory and Comfort Theory were mentioned to provide a brief overview of other theories that have been espoused in prior AC process studies. These theories provide a framework into understanding the underpinning processes ACs undergo whilst performing their oversight responsibilities. The review of theories reveal there is a gap with regards to a conclusive theory and/or theories that can provide a framework into understanding AC effectiveness from an AC-IAF relational process and AC power perspective.   Eisenhardt (1989) asserted the need to look beyond the economics literature as a recommendation to organizational researchers. She cautioned those who relied too heavily on economics due to its restrictive assumptions such as efficient markets and its single-perspective style is to risk doing second-rate economics without contributing first-rate organizational research. By the same token, Gendron and Bedard (2006) posits that social life is too complex, ambiguous, contradictory, and ever-changing to study it only from a univocal approach (which in accounting research tends to be neoclassical economics).

In view of this, researchers on effectiveness of the AC process have moved beyond the neoclassical economics theoretical framework and have begun to encapsulate a more sociological and psychological perspective together with the classical agency or institutional theory perspective. This review has shown that there is a variety of other theories that can be used as the framework for evaluating what constitutes effectiveness. The two theories discussed below are proposed as a framework to enrich the understanding of AC effectiveness through its association with AC power and AC-IAF relational process.

3.3   Audit Committee Power and the AC-IAF Relational Process Theoretical Framework

The two sub-objectives of the thesis are guided by two theories which are Power Theory (French and Raven, 1959) which was adapted by Kalbers and Forgarty (1993, 1998) in an AC setting and Relational Coordination Theory (Gittell, 2002). Both power theory and relational coordination theory are not meant to be used as competing theories of the more traditional theories that have been used to study AC effectiveness. Rather the new theories introduced are to act as a complementary framework to more traditional endeavours to understanding AC effectiveness.

3.3.1   Relational Coordination Theory

Coordination is the management of interdependencies among tasks, and it improves outcomes; especially for complex and uncertain tasks (Malone and Crowston, 1994). If work processes are well coordinated, they can produce higher-quality results and is achieved more efficiently. Theorists have argued relationships among employees are important for coordinating work and play a role in achieving high levels of organizational performance (Adler, Kwon and Heckscher, 2008; Faraj and Sproull, 2000; Gittell 2000). In agreement to this, Gittell (2003) argues that because interdependencies between tasks create interdependencies between people who perform those tasks, thus relationships play an integral role in coordination. Relational coordination theory makes visible the relational process underlying the technical process of work, arguing that coordination encompasses not only the management of interdependence between tasks but also the management of interdependence between the people who perform those tasks (Gittell, 2011).

Relational coordination is an emerging theory that offers a unique way of understanding the relational dynamics of coordinating work. Relational coordination is defined as a mutually reinforcing process of interaction between communication and relationships carried out for the purpose of task integration (Gittell, 2002, p. 301). Relational coordination has been researched in the context of air travel (Gittell, 2001), surgical care (Gittell, Fairfield, Bierbaum, Jackson, Kelly, Laskin, Lipson, Siliski, Thornhill, and Zuckerman, 2000) organizational networks (Otte-Trojel, Rundall, de Bont and van de Kludert, 2017; Caldwell, Roehrich and George, 2017), learning institutions (Daniel, Ross, Stalmeijer and de Grave, 2017) and long term care (Havens, Gittell, Vasey, 2018; Gittell, Weinberg, Pfefferle and Bishop, 2008). Relational coordination theory is defined as a communication and relationship-intensive form of coordination carried out by workers, which can span multiple functions and potentially multiple organizations. In the contexts where it has been explored, relational coordination appears to have a significant positive impact on key measures of performance, including both quality and efficiency (Gittell et al., 2000; Gittell, 2006).

The dimensions of relational coordination were discovered through inductive field research, and have been validated through several subsequent studies. The theory of relational coordination specifies the nature of relationship through which coordination occurs, proposing that these relationships include the dimensions of shared goals, shared knowledge, and mutual respect. Shared goals that surpass a participants' specific functional goals, motivates the participant to work optimally. As for shared knowledge, it enables participants to see how their specific tasks interrelate or fit in with other tasks within the whole process. Finally, mutual respect encourages participants of a work process to value what others have contributed as well as enables the participants to overcome the status barriers that prevent them from seeing and taking account of the

work of others. Together, these three relational dimensions reinforce and are reinforced by communication that is frequent, timely, accurate, and problem-solving (rather than blaming).

To illustrate this 'reinforce' and 'are reinforced' action, *shared goals* increase participants' motivation to engage in high quality communication, as well as increasing the likelihood that they will resort to *problem-solving communication* rather than blaming when things go wrong. *Shared knowledge* also enables participants to communicate with each other with greater *accuracy* due to knowing not only their own specific tasks but also knowing how their tasks relate to the tasks of participants in other functions. In addition, *knowledge* of what each participant contributes to the overall work process enables him or her to communicate in a *timely* way with participants in other functions, grounded in an understanding of who needs to know what, why, and with what degree of urgency. Furthermore, *mutual respect* increases the likelihood that participants will be *receptive to communication* from their colleagues in other functions. Given these conditions, this is why relational coordination is defined as "a mutually reinforcing process of interaction between communication and relationships carried out for the purpose of task integration" (Gittell, 2002, p. 301), as illustrated in Figure 3.1 Together, these mutually reinforcing relationship and communication ties form the basis for coordinated collective action (Gittell, 2006).
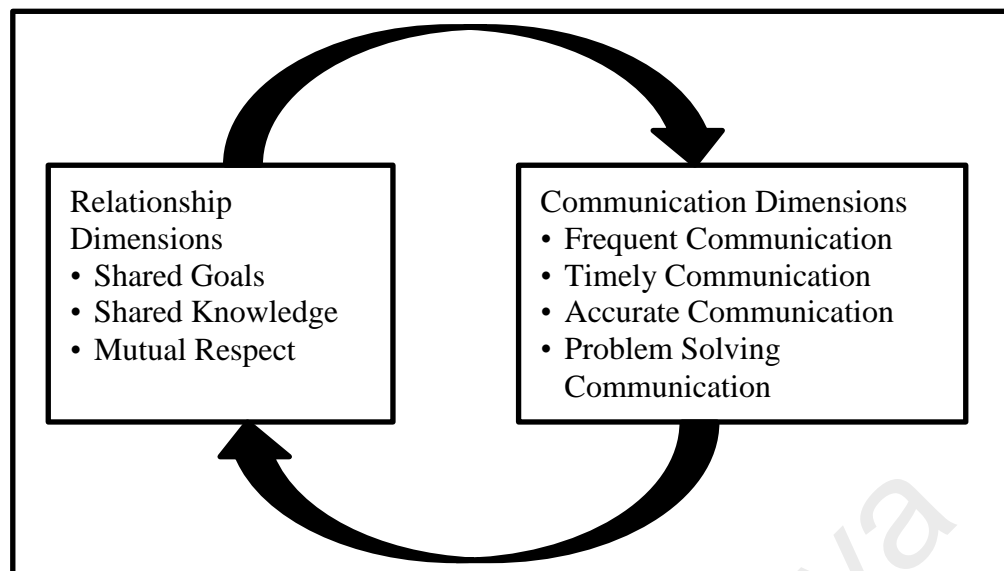
Figure 3.1: Mutual Reinforcement between Relational

Relational coordination is composed on a reciprocal relationship that is based on roles rather than personal favour (Caldwell et al., 2017). Therefore, the relational dimensions of relational coordination are not personal relationships of "liking" or "not liking" but rather are task-based relationship ties (Carmeli and Gittell, 2009; Gittell, 2003; Gittell, Seidner, and Wimbush, 2010). They are conceptualized as ties between work roles rather than personal ties between discrete individuals who inhabit those work roles. Personal ties are limited in their scalability, replicability and sustainability. An individual's ability to normalise relational coordination in their work roles allows sustainability and replicability of roles. This enables individuals to come and go without disrupting the web of relationships through which work is coordinated, controlled and coproduced (Gittell, 2011).

Prior research (Davies, 2009; Sarens et.al. 2009; Soh and Martinov-Bennie, 2011; and Zain and Subramaniam, 2007) do not specify their theoretical framework in understanding the AC-IAF interaction. The relational coordination theory is expected to provide a framework in better understanding the relational aspects that take place during

the AC-IAF interaction. Relational coordination is expected to be particularly important for achieving desired outcomes in settings that are characterised by high levels of task interdependence, uncertainty and time constraints (Gittell, 2002).

When task interdependence is high, as is the case for the AC and IAF as they share a reciprocating role (Goodwin, 2003) both the AC and IAF must be aware of and responsive to the actions that are taken by other participants. In cases of high uncertainty during special ad hoc audits, AC and IAF must be highly attentive and responsive to each other's needs. Meeting only occasionally, AC and IAF also share time constraints that aggravate the effects of both interdependence and uncertainty. There is no time to slack off and both roles must place a premium on responsiveness.

Relational coordination is shown to influence a range of performance outcomes including quality, efficiency and financial outcomes (Otte-Trojel et al., 2017). Coordination in the form of interpersonal relationships will drive the task performance outcome achieved when interdependent actors come together. Understanding the AC-IAF relational coordination is beneficial to the AC-IAF reciprocal relationship as it can improve the AC-IAF performance. Relational coordination enables participants to interpret signals in a consistent or coordinated manner, make compatible decisions, and take appropriate actions (Caldwell et al., 2017).

Relational coordination dimensions have the potential to be a valuable indicator in making predictions about what separates a high-quality from a low-quality AC-IAF reciprocal relationship. These predictions would enable the identification of a problem whether from the AC or IAF and provide insight into how to address them. One of the preconditions to influencing the quality of the reciprocal relationship might be the

degree of awareness with regards to the relational coordination dimensions and its effects on the AC-IAF coordination. Both AC and IAF must be willing and have the ability to shape positive communications and relationships with each other.

3.3.2 Power Theory

Kalbers and Fogarty (1993) claim that ACs must possess power in order to discharge their responsibilities. As cited from Kalbers and Fogarty (1993),"Power often is characterized as an intrinsic part of societal relationships and as an implicit element in the control of organizational action (Pfeffer, 1982)." Kalbers and Fogarty's (1993) study on the contribution of the power of ACs in 90 US firms examined the relationship between various dimensions of power and AC effectiveness. They identified six types and extent of AC power which were classified into two categories, namely, institutional powers (legitimate, sanctionary and information) and personal power (expert, referent and will) represented in Figure 3.2 below.
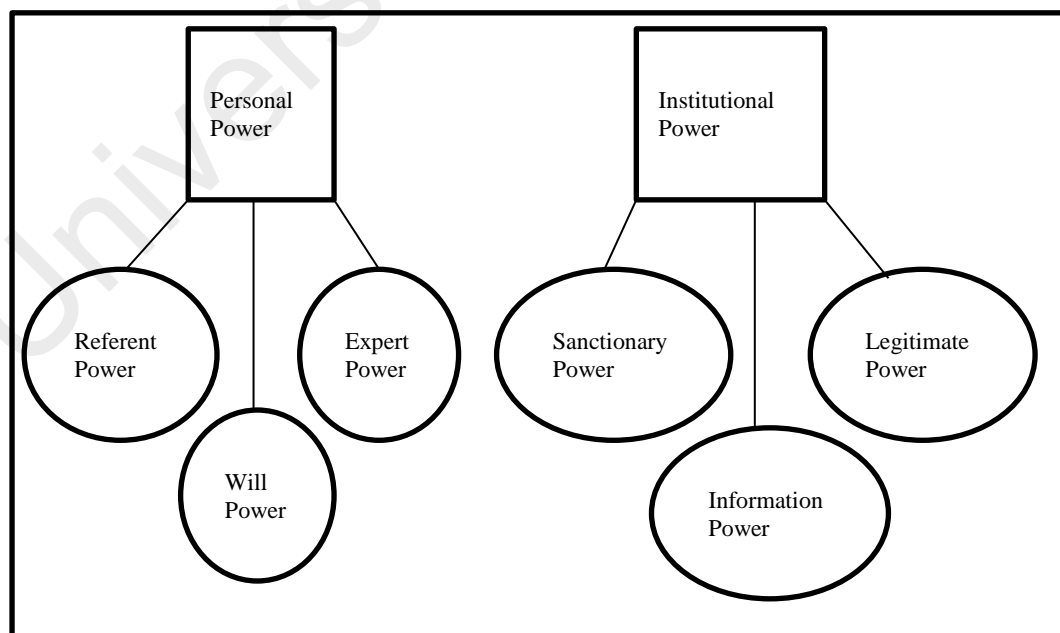
Figure 3.2: Audit Committee Power (Kalbers and Fogarty, 1993, 1998)

The institutional power dimensions in Kalbers and Fogarty (1993) are similar to French and Raven's (1959) definitions, only that Kalbers and Fogarty (1993) adapted the power bases to an AC setting. Sanctionary power results from the ability of the AC in making decisions that can have impacts on rewards and punishments to other parties such as corporate officers, the internal auditors and external auditors. As for legitimate power, it exists through an adequate written authority for the AC in the form of an AC charter. The AC obtains it authority through delegations of responsibility from the corporate board of directors. Although the board holds ultimate accountability for corporate management, the AC still holds important decision-making authority. Finally, ACs information power comes from the ability to obtain information and to use the information in a way most likely to accomplish the AC's objectives. Since AC members are most often outside directors, they are quite dependent on management, internal auditors and external auditors for information.

By the same token, personal power dimensions as in Kalbers and Fogarty (1993) mirrors that of French and Raven's (1959) power base definitions but is also adapted to an AC setting. Expert power is seen as AC members' knowledge in areas such as accounting, finance and corporate relations that is expected to contribute to AC effectiveness. With regards to referent power, it relates to AC members' personalities that are capable of influencing others and likely to make a difference and will contribute to AC effectiveness. The final personal power, will power or also known as diligence power was a new power dimension introduced by Kalbers and Fogarty (1993). The authors believed without willingness of the AC to act, the AC would act only for appearance purposes.

A power typology based on power definitions provided in French and Raven (1959), Kalbers and Fogarty (1993), Ibrahim (2006), and Podsakoff and Schriesheim (1985) was prepared in order to provide the readers of this research a clear understanding of how power can be used in the AC context. This power typology depicts the definition of the power dimensions, a general example of the power dimension in play and how the power dimension is used in the AC context as provided in Table 3.1

Table 3.1: Power Typology (General Example and AC Settings)

Power Base	Definition	General Example	Audit Committee Setting
Sanctionary Power: Reward Power	The perceived ability to give positive consequences or remove negative ones.	"He can give special help and benefits to those who cooperate with him."	Sanctionary power results from the ability of the audit committee in making decisions that can have impacts on rewards and punishments to other parties such as corporate officers, the internal auditors and external auditors.
Sanctionary Power: Coercive Power	The perceived ability to punish those who do not conform with your ideas or demands	"I comply with my supervisor's directives because he can penalize or make things difficult for those who do not cooperate with him."	
Referent Power	Identifies or admires those who possess power and wants to gain the person's approval.	"I really admire my supervisor, and wish to be like her. Doing things the way my supervisor believes they should be done gives me some special satisfaction."	Referent power indicates that audit committee members with personalities capable of influencing others are likely to make a difference and will contribute to audit committee effectiveness.
Legitimate Power	Organizational authority, based on the perception that someone has the right to prescribe behaviour due to election or appointment to a position of responsibility.	"I comply with my supervisor's directives because he has a right, considering his position, to expect subordinates to do what he wants."	Results from the fact that an audit committee is established through delegations of responsibility from the corporate board of directors.
Expert Power	Based on having distinctive knowledge, expertness, ability or skills.	"My supervisor has had a lot of experience with this sort of thing and so is probably right, even though I don't really understand the reason."	Because audit committees are composed of individuals, the personal attributes of members cannot be ignored. Members skilled in areas such as accounting, finance and corporate relations could be expected to contribute to the effectiveness of such committees and ultimately contribute to audit committee effectiveness
Information Power	Based on controlling the information needed by others in order to reach an important goal.	"My supervisor who has access to valuable or important information."	Decisions made by the audit committee are rationally influenced by the members' ability to obtain information and to use it in a way most likely to accomplish audit committee objectives
Will Power	Desire and diligence to do the work with high level of involvement and concern.	"My supervisor is willing to act in the interest of the company."	The desire to do the work of the audit committee with a high level of involvement and concern

The findings of Kalbers and Fogarty (1993) indicate that an effective AC requires a broad mandate, good institutional support, and a willingness of the AC to undertake its responsibilities. The will for the AC to exercise their power in undertaking their responsibilities is an indicator of effectiveness as many authors have highlighted. Upholding AC independence, providing expertise skills, and acting as a mediator are some ways ACs exercise their will in asserting their power.

IAF needs the ACs to exert their different forms of power in order to support and strengthen the organizational status of the IAF. This will allow the IAF to be a better resource provider to the AC. Previous literature has failed to provide a detailed description as to whether ACs understand and exercise their different forms of power within the AC-IAF reciprocal relationship. This knowledge could help inform as to how AC power would allow for a high quality relational process to manifest between the AC and IAF whilst undertaking the oversight responsibilities. Thus, it is believed that with better understanding of power and effective use of power by the AC, it will lead to a higher quality AC-IAF reciprocal relationship and more effective AC.

3.4   Conclusion

The aim of this chapter was to examine the theoretical perspectives adopted in prior AC effectiveness research and introduce the underlying theoretical foundations espoused in this thesis. Based on the above reviews of theories, a growing number of scholars are moving beyond dominant logic and devoting more attention to the process, behaviours and contexts that affect board (including AC) activities (Gabrielsson and Huse, 2004; Leblanc and Schwartz, 2007). This review has shown that there is a variety of other theories that can be used as the framework for evaluating what constitutes effectiveness.

Although the existence of the AC is formed from the basis of the agency theory (Kalbers and Fogarty, 1993, 1998); the effectiveness of the AC in its process is socially constructed (Gendron and Bédard, 2006; Beasley et al., 2009). One cannot look at the efficiency of a CG mechanism as a static object which is not 'compatible with the fluidity and diversity of practical reality' (Ardalan, 2007). Therefore, the aim for this research is to seek how ACs fulfils is tasks and the processes that are likely to shape the dynamics between the AC and IAF (Forbes and Milken, 1999).

The relational coordination theory expands our understanding of the relational ties that underpin effective coordination (Gittell, 2011). Relational coordination argues that shared knowledge is necessary, but not sufficient (Gittell, 2002). If effective coordination is to occur, participants need to be connected by relationships of shared goals and mutual respect. Relationships are important to the AC-IAF coordination because IAF influences the development of AC identities just as the AC influences the development of IAF identities. ACs and IAFs need to adjust to each other due to the interdependencies between their tasks, due to the uncertainties in the task or environment that create a need for adjustment. It is argued that relationship of shared goals, shared knowledge and mutual respect will enable the AC and IAF to embrace their connections with one another, strengthening their collective identity and in turn enabling them to engage in coordinated collective action in the face of task or environmental uncertainty (Gittell, 2006).

Different personalities are also capable of influencing this relationship. There are member skills such as accounting, finance, and corporate relations that are expected to contribute to the quality of the AC-IAF reciprocal relationship. The personal attributes of the AC cannot be ignored. It is crucial to study AC process in action and behavioural

studies allow for the study of ACs and the group dynamics decision making in order to ascertain which role AC members are undertaking in reality. Since Turley and Zaman (2007) highlight that "ACs are likely to have an impact on, and be affected by, the exercise of power by a variety of participants drawing their power from a variety of sources "(p. 769), hence the proposal that AC effectiveness is a function of the types and extent of AC power as in accordance to Kalbers and Fogarty (1993, 1998) is deemed relevant.

The research seeks to contribute to emerging literature on AC process by adopting a social constructionist approach in examining what it means to be effective. Both power theory and relational coordination theory are based on the assumptions that reality of interaction is based on what forms their communications (Rogoff, 1990). Communications and interactions entail socially agreed-upon ideas of the world and the social patterns and rules of language use. Constructions of social meanings, therefore, involve intersubjectivity among individuals. Hence the intersubjectivity that exists between the AC and IAF is expected to be explained by the adoption of power theory and relational coordination theory.

CHAPTER 4: RESEARCH METHODOLOGY

4.1 Introduction

The purpose of this chapter is to present the philosophical assumptions underpinning this research, the research design and methodology applied. The overall purpose of this research is to demonstrate that AC effectiveness can be understood beyond neoclassical economics foundations. Therefore, the philosophical assumptions underlying this research come from the interpretive tradition. The research strategy entailed a social constructivist ontology and an interpretive epistemology. Findings were elicited from respondent data using qualitative research and a theory elaboration methodology.

The design of this research was to provide the most logical methodology to investigate the problem of evaluating effectiveness of the AC through its relational process with the IAF and AC power in Malaysia. This was done by analysing the perceptions of governance actors (i.e. the AC chairs and CAEs) on the influences of the AC-IAF relational process and AC power on the quality of their reciprocal relationship and overall AC effectiveness. This data was derived from a purposive sample of AC chairs/members and CAEs in Malaysia. A correct methodology and research design can direct the researcher in planning and implementing the study in a way that is most likely to achieve its intended goal.

4.2 Research Design: Philosophical Assumptions

4.2.1 Introduction

All research is based on some underlying philosophical assumptions about what constitutes 'valid' research and which research method(s) is/are appropriate for the development of knowledge in a given study. A clear and firm declaration of the philosophical assumptions allows the reader to understand the researcher's perspective and aids the readers' understanding of the thesis. .

There are many different paradigms in sociology about what societies are and the best ways of obtaining knowledge of them. A paradigm consists of the following components (Scotland, 2012):

- ontology (i.e. assumptions about the nature of the social and technical world);

- epistemology (i.e. assumptions about human knowledge and the way knowledge is acquired, created and communicated);

- methodology (i.e. assumptions about preferred research strategies and modes of evidence); and

- methods (i.e. specific techniques and procedures used to collect and analyse data (Crotty, 1998).

Every paradigm is based upon its own ontological and epistemological assumptions. An understanding of the philosophical assumptions behind qualitative research begins with assessing where it fits within the overall process of research, noting its importance as an element of research, and considering how to actively write it into a study. Differing assumptions of reality and knowledge will underpin the particular

research approach. This is reflected in methodology and methods chosen. Positivism, realism and interpretivism (Hibberd, 2010), three of the most influential theories of knowledge in sociology, are discussed below.

4.2.2   Overview of the Philosophical Assumption

4.2.2.1 Positivism

Positivism is based on the ontological assumption that reality is external and objective and the epistemological assumption that knowledge is acquired through observation of external reality. The positivist epistemology is one of objectivism where empirical knowledge based on principles of objectivity, verificationism, and reproducibility is the foundation of all authentic knowledge. Positivists go forth into the world impartially, discovering absolute knowledge about an objective reality. The researcher and the researched are independent entities.

Positivism favours scientific methods; such as deductive and quantitative empirical approaches. The positivist paradigm is associated with quantitative research strategies (Henn, Weinstein and Foard, 2006). Correlation and experimentation are used to reduce complex interactions their constituent parts. Verifiable evidence sought via direct experience and observation; this often involves empirical testing, random samples, controlled variables (independent, dependent and moderator) and control groups. Their aim is to formulate laws, thus yielding a basis for prediction and generalization. True-experiments are preferred over quasi-experiments. Positivist methodology is directed at explaining relationships. Positivists attempt to identify causes which influence outcomes (Creswell, 2009, p. 7).

Positivists view their methodology as value neutral, thus the knowledge generated is value neutral. The positivist approach works upon the premise that social reality is independent of the researcher, that the researcher is a passive observer and should remain distant when conducting the research. Positivist argue that this allows for a better understanding of the phenomena in question as it does not allow values and bias to alter their objective views (Collis and Hussey, 2003). The researcher maintains a neutral position and taking any stand may be perceived as being in breach of their implicit objectivity.

4.2.2.2 Realism

Realism considers reality has its own inherent order, exists independently of the mind and independently of the adoption of theories, conceptual frameworks or paradigms (Fay, 1996; Boyd, 1992). Realist believe that there is a "real" world "out there" to "discover" and social science is capable of discovering and knowing reality. Realists recognize the differences between their particular view of the world and the real world and so assume a differentiated and stratified world which includes real, actual and empirical domains, Realists acknowledge that this stratification cannot be fully observed, comprehended or predicted in any absolute sense (Danermark, 2002). This suggests that social reality is too complex for any credence to be placed on research designs and outputs that rely on empirical data exclusively, in the pursuit of a single universal 'truth'. Although the realist approach retains the ambitions of positivism it recognises, and comes to terms with, the subjective nature of the research and the inevitable role of values in it. Realism still aims to be scientific, but makes fewer claims to knowledge that perfectly mirrors the objects of study (Fisher, 2007).

4.2.2.3 Interpretative

The philosophical assumptions underlying this research come from an interpretive tradition. This implies that the research strategy to be used entails an ontological belief that reality is socially constructed (Scotland, 2012). Social constructivist ontology provides a framework for how people construct their own understanding of reality. The essence of social constructivism is that an individual's perception about the world/reality is actively produced by the individual's cognition. As a result of prior ideas and situated context that shape their experience of reality, people will construct their own understanding of reality and thus knowledge does not exist separate from the knower (Othman and Rahman, 2010). This study seeks to appreciate the different constructions of the meaning the people place upon their experience, rather than on facts, patterns and fundamental law (Easterby-Smith, 2002 as cited in Othman and Rahman, 2010). Constructivist interpretation as adopted in this thesis denotes that individual perception about the world is actively produced by the individual's cognition.

Similar to Gendron and Bédard's (2006) study, this study does not try to 'objectively' assess whether the ACs are indeed effective, rather the objective is to better understand the process by which perceptions of AC effectiveness and AC-IAF reciprocal relationship quality are developed. Focusing on the lived experiences within the AC-IAF relationships, this method emphasizes the ontology − i.e., what it means to be human − in these relational contexts. The aim of this research is to *explore* not *explain* AC effectiveness, similar to Gendron and Bédard's (2006) social constructivism study, through the perceptions of AC-IAFs relational process and ACs power influences on this interaction.

The interpretive epistemology is one of subjectivism which is based on real world phenomena. The world does not exist independently of our knowledge of it (Grix, 2004). A flower is not a flower without someone to call it a flower. Interpretive methodology is directed at understanding phenomenon from an individual's perspective, investigating interaction among individuals as well as the historical and cultural contexts which people inhabit (Creswell, 2009, p. 8). Meaning is not discovered; it is constructed though the interaction between consciousness and the world. Knowledge and meaningful reality are constructed in and out of interaction between humans and their world and are developed and transmitted in a social context (Crotty, 1998, p. 42). Therefore, the social world can only be understood from the standpoint of individuals who are participating in it (Cohen, Gaynor, Krishnamoorthy and Wright, 2007, p. 19).

This research recognizes that knowledge claims are influenced by the social, cultural and cognitive factors impinging on this research (Peter and Olson, 1983). This is because the primary research objective is to have detailed insights on the relational process between the AC and the IAF and how AC power influences the reciprocal relationship and overall AC effectiveness. In order to gain insight, data is gained through the experiences of the individuals of interest on how they interact with others and with their environment. This would infer that experiences to which individuals attests concerns are only accessible through the interpretative process. This philosophical assumption acknowledges that an individual's perspective is crucial to understanding human thought and action in social and organizational context from an external or observable position (Johnson and Duberley, 2000). Information garnered from those directly involved in the oversight process is fundamental to understand what is meaningful or relevant to the individuals being studied. This research explores how

governance actors, mainly individual AC chairs and CAEs made sense of their oversight/assurance inter-professional experiences. The interpretive phenomenological paradigm is most suited for this study of lived experience as it is viewed that all individuals have a story to tell and that their stories are unique.

Interpretive methods yield insight and understandings of behaviour, explain actions from the participant's perspective, and do not dominate the participants. Examples include: open-ended interviews, focus groups, open-ended questionnaires, open-ended observations, think aloud protocol and role-playing. These methods usually generate qualitative data. Analyses are the researchers' interpretations; consequently, researchers need to make their agenda and value- system explicit from the outset. A qualitative methodology incorporating interviews is best suited for this research. A qualitative and interpretive research requires a balance between research thoroughness and receptiveness (Ahrens and Chapman, 2006). One way of achieving receptiveness is through methodological flexibility (Dobija, 2015). This means to embrace different data collection and analysis methodology in accordance to the emergence of important trends and patterns from the data. With this in mind, a qualitative methodology together with theory elaboration framework has been chosen for this research. The next section will discuss further the qualitative and theory elaboration methodology that was used in this research.

4.2.3   Methodology: Qualitative and Theory Elaboration

4.2.3.1   Qualitative Methodology

One may choose between namely the qualitative approach and quantitative approach when conducting research depending on the purpose of the study. A quantitative approach seeks to find and describe general characteristics of a population of interest, measures the behaviour and the characteristics of the sample and then constructs a generalization of the sample as a whole through statistical analysis (Hyde, 2000). The role of a quantitative research is to find a general pattern and characteristics.

Most prior frameworks on AC-IAF interactions were researched using quantitative methods, which mostly involved surveys of internal auditors. Since most prior quantitative AC-IAF studies, for example Scarbrough et al., (1998); Raghunandan et al., (2001); Goodwin and Yeo (2001); and Goodwin (2003), adopted a "black box" approach, the outcome of these studies merely revealed that ACs with greater independence and members with financial expertise (i.e. technical expertise) interact more extensively with internal auditors. These studies reveal little concerning how ACs actually strengthens the IAF and how this influences the quality of IAF as an important resource to the AC. The limitation of quantitative studies is that they provide limited in-depth insight into the interactions between the two functions. Interactions among people are difficult to capture with the existing measures. For instance, the measures of the AC composition can deflect from the truth when the independence of the AC members is only measurable in appearance and not in fact.

On the other hand, a qualitative approach does not seek to generalize. Instead a qualitative approach aims to describe, decode, translate, and understand the meaning of the question at hand. Coyle (2007, p. 11) described qualitative research as "the collection and analysis of non-numerical data through a psychological lens…in order to provide rich descriptions and possible explanations of people's meaning-making—how they make sense of the world and how they experience particular events". "Qualitative" research means social research in which the researcher relies on text data rather than numerical data, analysing data in their textual form rather than converting them to numbers for analysis, aims to understand the meaning of human action and asks open questions about phenomena as they occur in context rather than setting out to test predetermined hypotheses (Schwandt, 2001).

Denzin and Lincoln (2003, p. 13) suggested that qualitative researchers "seek answers to questions that stress how social experience is created and given meaning". Zaman and Sarens (2013) encouraged the use of qualitative methods as they argue qualitative methods have greater potential to provide a more substantive contextual understanding of the AC-IAF informal interactions. Raghunandan et al., (2001) suggest that the nature of this relationship should be examined by delving into the issues brought into the relationship by the AC, such as personality, attitude and character, which is achievable by espousing a qualitative approach. In fact, Spira (1999) argues that: "...there is a dearth of studies which explore the perceptions of those involved in the AC activity through the use of qualitative research methodologies." Likewise, Turley and Zaman (2004) are convinced that qualitative research methods incorporating case studies and interviews provide significant potential for research into the interaction of ACs with other parties, such as auditors. Beasley et al. (2009) also used the qualitative approach by incorporating qualitative inquiries to comprehend CG processes in action.

Understanding why and how a quality reciprocal relationship is achievable may contribute to the increased understanding of the AC oversight process and activities. Qualitative research allows researchers to capture the perspective of key governance actors and capture a richer depth of information. Through field studies of actual governance phenomena, researchers will be able to verify actual perceptions and behaviours, rather than treating the governance actors (e.g. AC and IAF) and mechanisms (e.g. oversight work process) as a "black box" (Zattoni, Douglas and Judge, 2013).

Generally, researchers seeking to use a qualitative approach can start with an a priori specification of constructs, perhaps in the form of a model. By drawing upon existing research and theory(s), this can help researchers to identify where they should look in order to find the phenomenon of interest to them. However when pre-existing research can provide the foundation for new studies but retains conceptual holes that other studies may fill (Lee, 1999; Lee et al., 1999), the theory elaboration method is an appropriate framework to apply to achieve the research objectives.

4.2.3.2 Theory Elaboration Methodology

Theory elaboration occurs when the study design derives from a pre-existing model or conceptual ideas in which formal hypotheses are not included (Lee et al., 1999). Although prior studies have provided a conceptual framework on capturing AC effectiveness (ACE), authors like Carcello et al., (2011) and Brennan and Kirwan (2015) argue that to capture the AC effectiveness the agency theory is not the only theory to be used and neither are formal AC characteristics the only factors to be considered. Brennan and Kirwan (2015) draw upon Jarzabkowski, Balogun and Seidl

(2007) argument whereby a research field may not necessarily require "new" theories but rather it can draw on a range of existing theories to explain interactions between and consequences of what goes on in AC meetings or processes.

Thus, the theory elaboration method uses existing or guiding theory (as in the case of this research, relational coordination theory and power theory) "as an analytical framework that opens possibilities at the same time as it focuses research" (Vaughan, 1996; p. 457). Theory elaboration entails the application of new concepts borrowed from other theoretical perspectives to explain the focal phenomena (Casey Jr., 2015) as which can be seen in Figure 4.1. In this case, behavioural theories (i.e. relational coordination theory and power theory) not normally used in the corporate governance context have been brought in to better understand the roles of the AC. This research explicitly explores the relationship between relational coordination theory and power theory and AC effectiveness. Following Vaughan (1992), this research "…uses theories, models and concepts as sanitising devices, rather than translating them into formalized propositions that are tested" (p. 196).
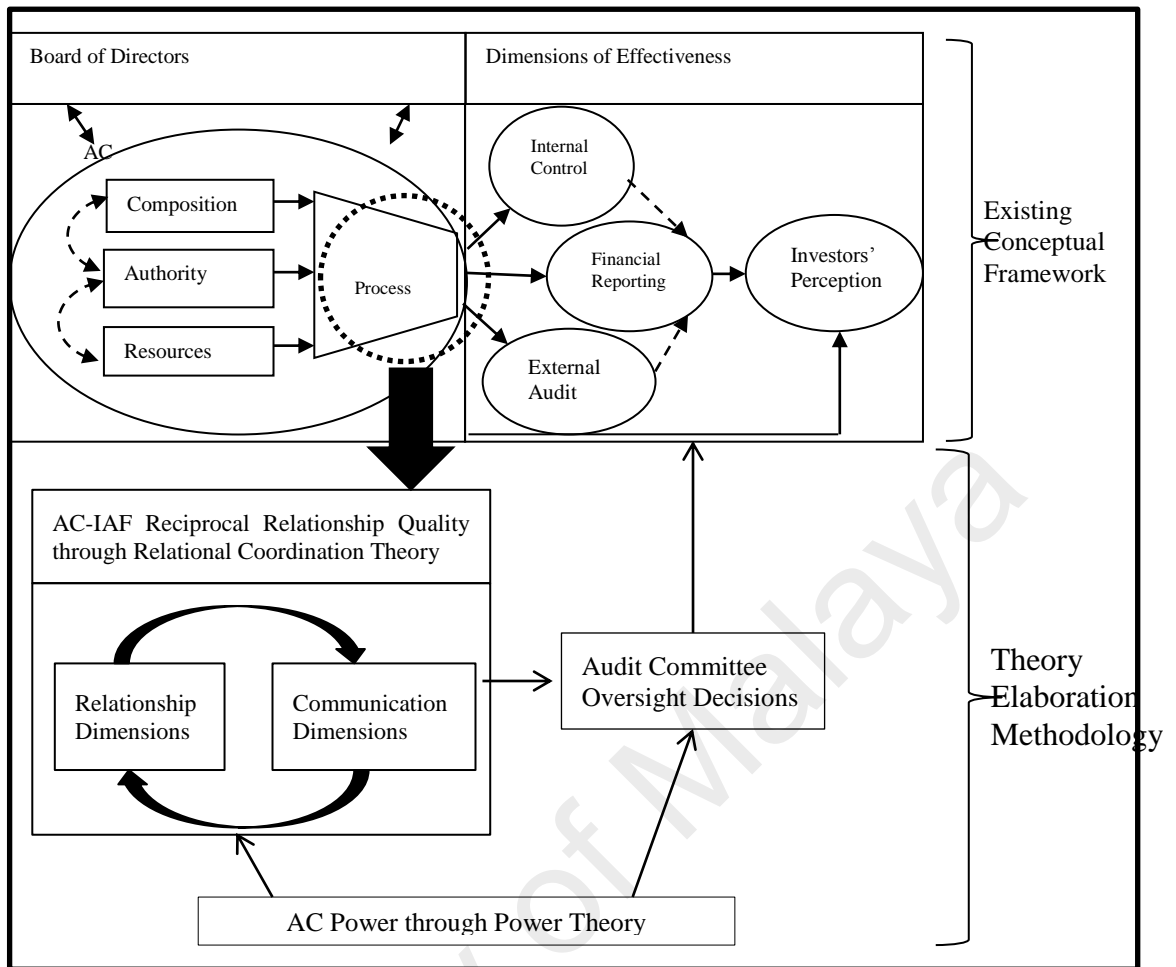
Figure 4.1: Audit Committee Effectiveness Framework Extension
(adapted from Bedard and Gendron, 2010; Gittell, 2002; and Kalbers and Fogarty, 1993)

Rather than use existing categorizations, this research used in-depth interviews to build and elaborate on the existing relational coordination and power theory. This design also provided insights into the richness of subjects' conceptions of communication, relationship and power, thus allowing the identification of similarities and differences between the research participants. Acting as a stepping stone, theory elaboration opens a much wider venue and provides greater potential for research to interweave different theoretical perspectives. This methodology gives clear rules to follow and at the same time gives enough space to fit in. It opens up behavioural and psychological theories to embrace broader fields of CG rather than closing it in a confined area.

4.3　Qualitative Data Collection

4.3.1　Introduction

Although a clear distinction between data gathering and data analysis is commonly made in quantitative research, such a distinction is problematic for many qualitative researchers. The process of data analysis and collection is necessarily interactive. Qualitative data refer to all non-numeric data or data that have not been quantified and can be a product of all research strategies (Saunders Lewis and Thornhill, 2009). A qualitative research method would include the use of in-depth interviews, ethnography, observations, action research and focus groups among others.

Mills (2003) indicates that "Qualitative research uses narrative and descriptive approaches for data collection to understand the way things are and what they mean from the perspective of the research respondents" (p.4). This interpretive research favours the use of in-depth interview since it allows in-depth enquiry into human behaviour. In-depth enquiry is capable of generating significant insights into the social dimensions of the research question. Hence several steps were taken during data collection procedure which are choosing of respondents, designing the interview guide, pilot testing of the interview guide and the interview process itself. These steps are explained in the following sections below.

4.3.2　Sampling: Choosing of Respondents

This qualitative research seeks to understand the meaning of a phenomenon from the perspectives of the research participants. Due to this, a purposive sampling method was

used to recruit participants. Purposive sampling is based on the assumption that the researcher wants to discover, understand, and gain insight. Two types of purposive sampling were used in this research; maximum variation sampling, as well as snowball sampling.

In maximum variation sampling, research participants who represent diverse variations of specified characters and important common patterns were identified (Marshall and Rossman, 1999; Merriam, 1998). Moustakas (1994) indicated that when considering participants for a research study it is important that participants have first-hand experience with the phenomenon and are agreeable to being interviewed. This justifies the reason for specifically selecting CAEs and ACs. The AC and CAE have first-hand experience with the phenomenon of AC-IAF interaction during an oversight work process. The ACs and CAEs are also able to provide different outlooks on the phenomenon. Phenomenology requires highly knowledgeable participants who view the phenomenon from diverse perspectives. Diversity is included so that the impact of the characteristics can be explored (Ritchie and Lewis, 2003, p.79). Snowball sampling on the other hand was used in order to trace additional participants. Snowball sampling refers to the process of accumulation by asking one participant to recommend others whom they know are information rich for interviewing (Babbie, 1995; Crabtree and Miller, 1999; Merriam, 1998).

Research participants were non-randomly selected to generate meaningful and relevant data. Internet searches and telephonic inquiry were made to identify the individuals with the relevant experiences, and interviews were then arranged with the selected individuals. The sampling was terminated when it reached a point of saturation or redundancy (Mason, 2002, p. 134; Merriam, 1998, p.64). Guest, Bunce, and Johnson

(2006) defines the point of saturation is when the ability to obtain no new information has been attained which is by six to twelve interviews. Francis et al. (2010) suggest a 10 + 3 criterion for theory-based analyses where the researcher seeks to use the data to populate pre-specified theoretical constructs with relevant content alike this research.

A total of 20 participants were interviewed and they comprised of 10 Chief Audit Executives (CAEs), 10 Audit Committee (AC) members – 6 of whom were chairs of the AC. Francis et.al. (2010) states that the sample size in qualitative study should be determined by data saturation, generally achieved after ten interviews. Major themes were present after 5 interviews and became apparent in the subsequent interviews. It was determined that the all research participants had solid educational qualifications and experience (as presented in Table 4.1) in order to form a defined group for whom the research objectives were significant. Pre-notification through emails were undertaken to solicit participation of the subjects.

Table 4.1 Research Participant Details

Participant	Recorded Interview	Gender	Age Group	Professional Membership	Type of industry	Tenure in Company
CAE 1	No	Male	46-50	IIAM	Communication	6 to 10 yrs
CAE 2	Yes	Female	41-45	IIAM	Automotive	2 to 5 yrs
CAE3	Yes	Male	36-40	IIAM and IACSA	Oil and Gas	2 to 5 yrs
CAE4	Yes	Female	36-40	IIAM	Transportation	2 to 5 yrs
CAE 5	Yes	Female	31 – 35	IIAM	Business Process Outsourcing	2 to 5 yrs
CAE 6	Yes	Male	36-40	MIA and IIAM	Multiple	2 to 5 yrs
CAE 7	No	Male	36-40	MIA and IIAM	Port	2 to 5 yrs
CAE 8	Yes	Female	46-50	MIA and IIAM	Aviation	6 to 10 yrs
CAE 9	Yes	Male	41- 45	IIAM	Takaful	2 to 5 yrs
CAE 10	No	Male	41-45	IIAM	Plantation	6 to 10 yrs
AC 1	Yes	Male	56-60	Other	Strategic Planning	> 11 yrs
AC 2	Yes	Male	56-60	MIA and MICPA	Services	2 to 5 yrs
AC 3	No	Male	>60	None	Engineering	2 to 5 yrs
AC 4	No	Male	>60	Other	Engineering	6 to 10 yrs
AC 5	Yes	Male	>60	None	Banking	2 to 5 yrs
AC 6	Yes	Male	>60	ICAEW	Construction	2 to 5 yrs
AC 7	Yes	Male	56 -60	MIA	Transportation	2 to 5 yrs
AC 8	Yes	Female	51-55	MIA	Construction	2 to 5 yrs
AC 9	No	Male	>60	Other	Confectionary	6 to 10 yrs
AC 10	Yes	Male	>60	MIA	Banking	6 to 10 yrs

4.3.3   Instrumentation: Collecting the Data

The qualitative research methods used to generate data to understand the meanings of the relational process that ACs share with the IAFs were in-depth interviews and field notes. This type of data collection method generates data that add richness, depth and roundedness to a study. Interviews are one of the most common forms of qualitative research methods (Marshall and Rossman, 1999; Mason, 2002; Merriam; 1998; Ritchie and Lewis, 2003), and involve the construction or reconstruction of knowledge (Mason, 2002). Qualitative interviewing refers to in-depth, semi-structured or loosely structured forms of interviewing (Mason, 2002) and requires asking veritably open-ended question in a natural setting (Ritchie and Lewis, 2003) in order to make analytical comparisons (Mason, 2002). The open ended nature of this research method allows the respondents to answer the questions according to their own frame of reference (Bogdan and Biklen, 1992). There is room for flexibility but there is a great deal of intentional framing. The right question posed in the right way can bring out great treasures and elicit insights and stories that give events and objects value. Thus this form of qualitative enquiry, which focuses on meaning in context, requires a data collection instrument that is sensitive to underlying meaning when gathering and interpreting data (Merriam, 1998).

The major advantage of using in-depth interviews is the ability to explore and undertake an in depth investigation of a social actor or phenomenon. It provides the opportunity to make meanings of both spoken and unspoken responses and enables first-hand experience and interaction with the subject of the investigation. In addition, interviews provide the opportunity to address complex experiences and investigate each participant's personal perspective to achieve in-depth understanding of the personal

context within the research phenomenon. Prior to starting the interview process, a pilot study was carried out in order to pre-test or 'try out' the research instrument.

4.3.4 Pilot Study

A pilot study was conducted with five participants using face-to-face, audio taped, semi-structured interviewing techniques asking open-ended questions. The pilot study was carried out prior to the main fieldwork so as to test the feasibility of the proposed data collection instrument. The pilot test assisted the research in determining if there were flaws, limitations, or other weaknesses within the interview design which allowed any necessary revisions and refinement of the interview questions (Kvale, 2007). Conducting pilot interviews and observations also allowed the researcher to practice interview techniques, observational skills and analysing the type and quality of the data produced.

Data was gathered through in-depth, face-to-face interviews. Interviews varied in length from 30 minutes to an hour. A semi-structured questionnaire was utilised to guide the interview. An interview guide was used to ensure the same general ideas and topics are collected consistently for each interview (Sulaiman, 2017). The semi-structured interview guide used revolved around two major themes which were the AC and IAF interaction and the relational coordination theory.

Interview participants were asked to depict the process that both the AC and IAF took during the coordination of their oversight efforts. This was to elicit information with regards to the interview participants' perception on the role of the AC and IAF. As relational coordination theory has not been used before in any AC-IAF research,

questions based on the relational coordination theory was asked in order to gauge an understanding of the AC-IAF relational process that takes place.

This approach was adopted on the grounds that quality reciprocal relationship between the AC and IAF can be explored through the AC-IAF relational process which is the presence of communication and relationship quality dimensions in their coordination efforts. However the interview participants were not asked direct questions with regards to AC power. The pilot study aimed to identify a theoretical link between power attributes to the attributes of the relational coordination theory through the interview participants perceptions on the AC-IAF coordination. The questions used in the pilot study can be found in Appendix 1 at the end of this thesis.

The pilot study was of value in helping to recognize and identify relevant and irrelevant factors, and in the construction of a future set of questionnaires which in practice, were more applicable and insightful in the research context data, where ambiguous or unclear questions were either rephrased or removed. It was realised from the data collected in the pilot study that more questions were needed to elicit information on the technical tasks (e.g. meeting procedures, preparation and review of audit reports) that both the AC and IAF performed. This is because the interview participants' perceptions with regards to the relational process that takes place between the two roles would emit through their stories with regards to the coordination of technical tasks between the AC and IAF.

In addition, the analysis of the pilot study data provided preliminary theoretical evidence that there is a link between the AC power with the AC-IAF relational process. In almost every interview that took place, the interviewees emphasized that no matter how much information was being disseminated to the AC or no matter how much

knowledge the AC had, the power to decide on whether or not to effectively discharge their responsibility was entirely up to the AC. A notion that kept recurring itself was with regards to the AC and their willingness to undertake their responsibilities effectively.

 In the context of the AC and IAF relational process, the interviewees emphasized that the AC must have the power to communicate, must have the power to provide the IAF with the support that it needs, and must be able to want to understand the goals and knowledge of the overall process and so on. ACs must possess power in order to discharge their responsibilities in line with the argument made by Kalbers and Fogarty (1993). The pilot study provided preliminary evidence that AC power influences the quality of the relational process and overall AC effectiveness in its oversight responsibilities. However, for the next phase of the interview, the researcher recognized the need to develop questions that would allow further investigation into the connection between AC power and the AC-IAF relational process.

Hence, lessons learned from the pilot interviews were used to adjust the interview guide. The research experience from the pilot study process allowed the determination of a more suitable and sufficient instrument in order to meet the research objectives. The suggestions made by the participants during the pilot study were valued and used to drive the next stage of data collection.

4.3.5   Interview Guide

The interview guide consisted of three sections. The first section, the Informed Consent section began with several important features: a personal introduction; a statement of

purpose, including what will be done with the results of the study; a statement indicating the confidentiality of the interview; a statement regarding note-taking that may take place during the interview; a request for permission to audiotape record the interview, should taping be possible; and a statement informing the interviewee why he or she is being interviewed. (Maykut and Morehouse, 2002). They were informed that they had the right to withdraw at any time. At the onset of the interview, the interviewees were given a copy of a document that described the interview procedures and were requested to sign a participant certification form at the end of informed consent sheet. The objective of this form is to ensure that the interviewee is "given the opportunity to give free and informed consent about participation" (Bédard and Gendron, 2004). A copy of the interview guide with informed consent is available at the end of this thesis (Appendix 2: Interview Guide). This research ensured that the privacy of information and anonymity of research participants were reserved.

The second section sought information on the interviewees' background. The demographic information included gender, age group, education, professional membership, type of industry employed in, and tenure in current organization. Demographic information helps the researcher characterize each interviewee as well as the sample during the analysis and report writing stage. The final section consisted of the 9 semi-structured open-ended questions for the AC and IAF

Semi-Structured Questionnaire Design

A semi-structured questionnaire was utilized to guide the interview to ensure the same general ideas and topics are collected consistently for each interview (Sulaiman, 2017).The choice of semi-structured questions permits a degree of structure to an interview where pre-identified issues can be explored and discussed (Kvale, 2007).

Nevertheless, the guide was used flexibly, in order to allow probing of unanticipated areas that emerged. Moustakas (1994) suggested that "broad questions…may…facilitate the obtaining of rich, vital, substantive descriptions of the co-researcher's experience of the phenomenon" (p. 116). Furthermore, if the researcher is not able to elicit "sufficient meaning and depth," Moustakas (1994, p.116) recommended that a "general interview guide, or topical guide," may be used.

The questionnaires used in this research were designed with semi-structured open-ended questions in order to prompt in-depth participant responses and allow the interview to proceed in a more naturalistic manner, producing "richer, more genuine and realistic information on the interviewees own terms" (Coolican, 2014, p.155). Merriam (1998) states that, "interviewing in qualitative investigations is more open-ended and less structured. Less structured formats assume that individual respondents define the world in unique ways" (p. 75).

The interview questions were informed by relevant literature, pilot study results and discussions with the research supervisor. In order to maintain objectivity, it was important not to disclose the theoretical link of the attributes of both theories during the coordination of a work process to the interviewees. Hence, the questions posed did not seek direct answers on the theoretical link of the attributes being studied; rather the interviewees were posed with questions that asked about their perceptions and experiences with regards to the coordination that an AC and IAF have in an oversight process.

The semi-structured interview guide used revolved around three major themes which were the individual roles played by the AC and IAF in an oversight work process, the

reciprocal technical process that they share in an oversight work process and the reciprocal relational process that they share in an oversight work process.

Questions that were posed to AC members sought to determine if the ACs understood the IAFs role and how the IAF is involved in achieving the overall goal of the oversight process. Similarly, questions that were posed to CAEs sought to understand the IAFs perception on the importance of the ACs oversight role, its role over the IAF and how this oversight benefits the IAF. It was interesting to explore whether the IAF perceives AC uses its authority in assuring that IAF is capable of performing its duties without any hindrance from management. The questions also sought to understand to what extent the IAF will perform its duties to ensure that the AC is working effectively.

Equally important, the purpose of the questions regarding the IAFs interaction with the AC were to determine the participants perceptions as to how well the two roles work together, how they iron out issues and try to work out solutions. The questions sought to determine what value is put upon each role and what factors contribute to a comfortable interaction between the two roles. The objective of the interview questions was to make it possible for the interviewees to completely reveal their experience about the phenomenon. The research design worked well in that most participants were very forthcoming.

4.3.6 Interview Process

Data were gathered through in-depth, face-to-face interviews. Interviews varied in length from 30 minutes to an hour. The interview began with several important features: a personal introduction; a statement of purpose, including what will be done with the

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results of the study; a statement indicating the confidentiality of the interview; a statement regarding note-taking that may take place during the interview; a request for permission to audiotape record the interview, should taping be possible; and a statement informing the interviewee why he or she is being interviewed. (Maykut and Morehouse, 2002). They were informed that they had the right to withdraw at any time. At the onset of the interview, the interviewees were given a copy of a document that described the interview procedures and were requested to sign an informed consent form.

At the beginning of the interview sessions, the researcher spent a few moments helping interviewees feel comfortable and relaxed by thanking them for agreeing to participate and by reiterating that their personal interview was important to the research study. Moustakas (1994) recommended that an interview session should commence "with a social conversation or a brief meditative activity aimed at creating a relaxed and trusting atmosphere" (p. 114).The interviews were conducted in the English language although the national language in Malaysia is Bahasa Malaysia. It was important to conduct the interview in the English language in order to avoid any misinterpretation that could arise as a result of translating. However the researcher allowed the interview participant to feel free to converse in Bahasa Malaysia, especially when the interviewees felt it was much easier to convey their thoughts in the national language. The researcher would seek clarification on their thoughts whilst using the English language.

Participants were first asked to provide key demographic information about themselves. Then, the interview progressed with questions based on the interview guide. Topic questions were broad, allowing the researcher to ask unplanned questions for clarification and additional depth as the interview progressed. To obtain in-depth responses, the researcher referred to the interview guide when necessary and asked

open-ended conversational questions to elicit elaboration such as, "Can you tell me more?" and "What makes you feel that way?" Each main open-ended question had sub open-ended questions included in the researchers' interview guide but not the guide provided to the interview participants (Appendix 3). This was to allow the researcher to stay on track with the interview especially during moments of silence with the interview participant. Each of the participants was given time to develop their answers within the interviews and the researcher was highly engaged in the process, as a curious and active listener (Smith and Osborn, 2008). According to Hatch (2002, p. 114), remembering to "…bring closure to interviews, thanking informants for their participation and contribution" adds to the success of the interview. Following the interview, the researcher thanked participants again for their involvement in the study and presented them with a token of appreciation for participation in the study.

The identities of all participants are anonymous and identified through the use of code numbers. 16 of the 20 interviews were recorded with a digital recorder with the consent of each participant, and subsequently transcribed and coded for analysis. Each interview transcription was read to check for errors or omissions. For unrecorded interviews, field notes were taken and consisted of key phrases, list of major points made by the interviewee and key terms that capture the interviewee's own language (Patton, 1986).

Field notes provide an opportunity for the researcher to record and comment any thoughts about the setting, the participants and activities. Such data can contribute to further steps in subsequent fieldwork and issues relevant during the analysis phase (Merriam, 1998, p. 106; Ritchie and Lewis, 2003, p. 133). Wolcott (1990) suggested that researchers "make notes *during* observations or interviews— including written notes to supplement mechanically recorded ones" (p. 128). He maintained that by so

doing, researchers may "minimize the potential influence of some line of interpretation or analysis that might [result from] remembering…too selectively" (p. 128).

The notes were then typed as soon as possible after the interview so as to preserve as much verbatim material as possible (Sample available in Appendix 3). However, it must be noted that the quotes from unrecorded interviews presented in this paper contain paraphrases of what the interviewees actually said. They are direct quotes from the researchers' notes rather than necessarily reflecting the exact words and grammar of the participants. In addition to the interview transcription and field notes, archival research was also carried out in which annual reports available online were reviewed in order to gather a richer description of the ACs that the internal auditors were working with and also the IAFs that the ACs were working with.

4.4   Data Analysis

4.4.1   Combined Thematic Analysis

The interviews were transcribed, and data analysis began by following the examples of steps and procedures for phenomenological data analysis suggested by Braun and Clarke (2006), Crabtree and Miller (1999), Fereday and Muir-Cochrane (2006), Moustakas (1994), and Van Manen (1990). The method of analysis chosen for this study was a combined approach thematic analysis. Thematic analysis is used to search for themes that materialize as being important to the explanation of the phenomenon (Fereday and Muir-Corchane, 2006). Thematic analysis is the most common form of analysis in qualitative research. It emphasizes pinpointing, examining, and recording patterns (or "themes") within data. A combined approach thematic analysis enables

themes to be developed both inductively (data-driven) and deductively (a priori or existing theory as prescribed by Crabtree and Miller, 1999) (Fereday and Muir-Corchane, 2006).

A coding scheme is applied as a means of organizing text for subsequent interpretation. When using a coding scheme a researcher defines the scheme before commencing an in-depth analysis of the data. The code scheme is sometimes based on a preliminary scanning of the text, but for this study the initial coding categories were derived a priori, based on the research questions and theoretical concepts of the study (i.e. relational coordination theory and power theory). This initial list of codes was then modified within the course of the analysis as new categories emerged through the process of induction (Miles and Huberman, 1994). This approach validated and extended the conceptual framework/ theory used in this research (Hsieh and Shannon, 2005). Following data collection from 20 interview participants the interview transcripts and interview notes were entered into the Qualyzer data management program and a comprehensive process of data coding and identification of themes was undertaken. This process is described as a systematic, step-by-step process in the sections below. Although presented as a linear, step-by-step procedure, the research analysis was an iterative and reflexive process. This interactivity, applied throughout the process of qualitative inquiry, is described by Tobin and Begley (2004) as the overarching principle of "goodness." The data collection and analysis stages in this study were undertaken concurrently.

Formal data analysis began with detailed readings of the research data (cf. Braun and Clarke, 2006). Each interview was read several times to make sure no significant details were missed. Each interview was then read through and quotes or discussions

that were perceived of as important for the research questions and, thus, analysis were marked. An important outcome of reading and re-reading through interview transcripts is the researcher's ability to organise data into topics, locate patterns, themes and categories (Patton, 2002).

4.4.1.1   Stages of Data Coding

Stage 1: Developing the code scheme

Before commencing an in-depth analysis of the data, a code scheme was developed as a means of organizing text for subsequent interpretation. Table 4.2 shows five broad code categories that formed the code scheme (Relationship quality, Communication quality, Personal power, Institutional power and Audit Committee Effectiveness). Each of the five broad code categories were then made up of codes in accordance to the theoretical framework.

Table 4.2 Broad Code Category

Broad Code Category	Relationship Quality	Communication Quality	Personal Power	Institutional Power	Audit Committee Effectiveness
Code	Shared goals Shared knowledge Mutual respect	Frequent Timely Accurate Problem Solving	Expert Referent Will	Information Sanctionary Legitimate	Question Review Mediate

The code scheme is sometimes based on a preliminary scanning of the text, but for this study, the scheme was developed a priori, based on the research question, prior research and the theoretical framework (refer to Table 4.3 and Figure 4.2).

Table 4.3 Audit Committee Effectiveness Coding Scheme

Audit Committee Effectiveness Coding Scheme	Code Description
Review	• Review audit (IA) plans and programmes, results and investigations • Evaluate whether accounting methods reflect the economic substance • Accuracy of reports • Appropriateness of report wordings Assure IAF has adequate scope, function, competency and resources • Assess responses by management and auditors
Question	• Ask challenging questions • Deliberates • Discuss
Mediate	Act as third party intermediary

The AC effectiveness codes were identified by findings of qualitative studies by Beasley et.al. (2009), Beattie et.al. (2015), Cohen, et.al. (2010), DeZoort et al. (2003), Gendron et.al. (2004), Gendron and Bédard (2006), Sulaiman (2017), Turley and Zaman (2007), Salleh and Stewart (2012) and Spira (1999).

The relational coordination codes were identified by the dimensions characterizations. Characterization of dimensions was done through aggregating the findings of qualitative relational coordination studies (e.g. Gittell, 2003 and Weinberg, Miner and Rivlin, 2009), PhD thesis (e.g. Lin, 2010) and referring to the Relational Coordination Research Collaborative website at http://rcrc.brandeis.edu/). The power codes were identified by definitions provided in French and Raven (1959), Ibrahim (2006), Kalbers and Fogarty (1993), and Podsakoff and Schriesheim (1985).
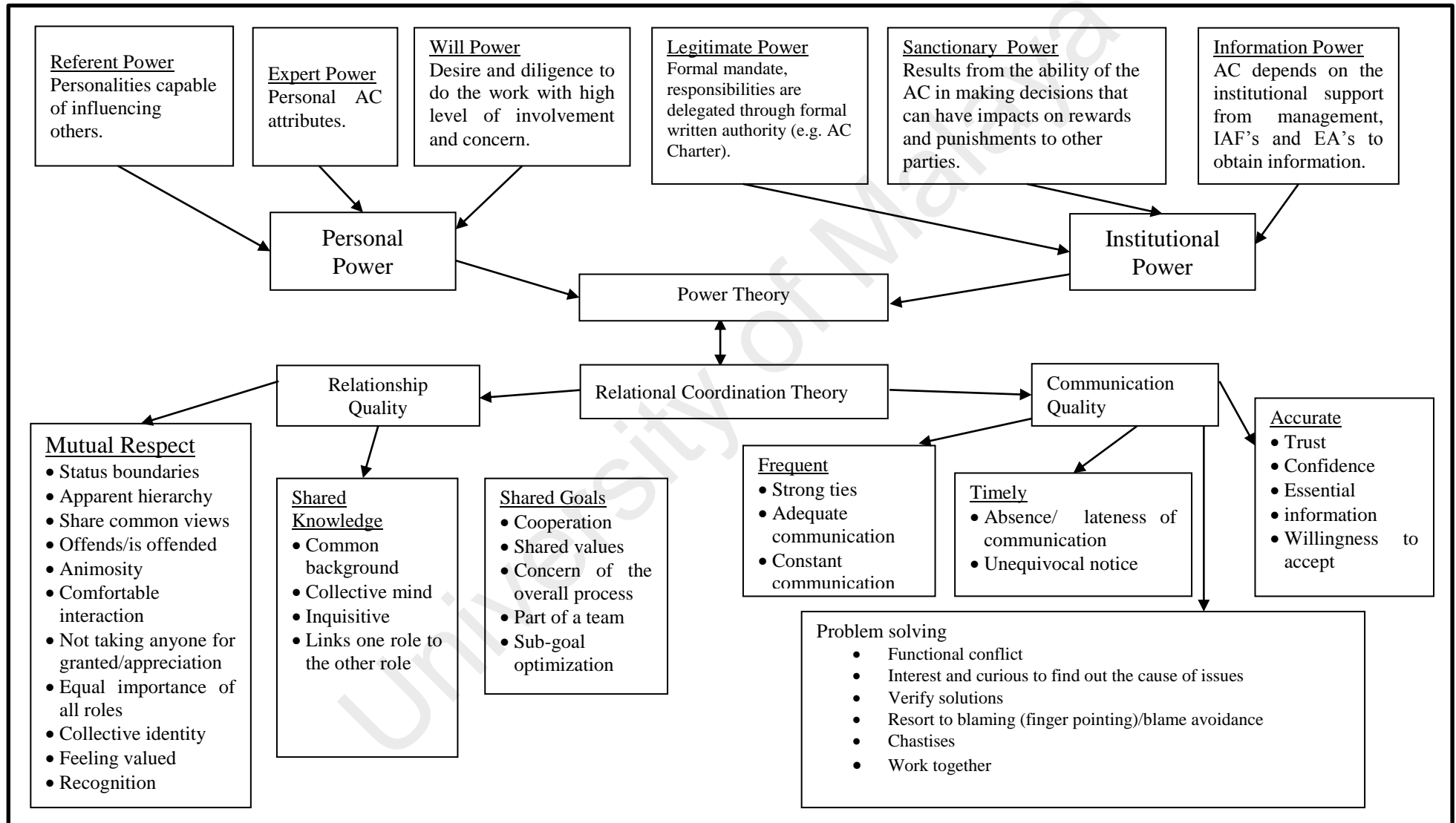
Figure 4.2: Initial A Piori Coding Scheme

<u>Stage 2: Testing the reliability of the code</u>

In order to develop a useful framework for the analysis stage, data from the pilot study were selected to test the applicability of the codes (Boyatzis, 1998). The researcher was aware that the data may not be able to support a deductive code, and the process of revisiting the data was valuable to identify any disconfirming cases (Patton 2002). Since relational coordination has never been used with regards to the AC-IAF setting, it was important to determine whether the a piori codes were deemed applicable to be used. Interviewee explanations on the coordination efforts between the AC and IAF in their oversight work process reveal that the codes were applicable to be used.

This was performed through the comparison of the dimensions' characterization with the interviewee explanations and perceptions on the coordination of the oversight process. Results from the comparison and data interpretation revealed that the relational process of shared goals, shared knowledge, and mutual respect (i.e. relationship attributes) as well as communications in the form of frequent formal and informal, timely, accurate and problem solving (i.e. communication attributes) are necessary components in the coordination of the oversight work process as shown in Table 4.4. In many of the transcripts, several codes were applied to the same segment of text from both the code scheme and the newly determined 'free nodes'. The iteration and reflexivity of the analysis process was evident at this stage.

Table 4.4Characterization of Relational Coordination Dimensions

Dimension		Characterization of Dimension	Interviewee Perception
Communication Quality	Frequent Formal	Constant and repeated interaction.	AC-IAF conducts formal meetings periodically throughout the year.
	Frequent Informal	Not an attribute as proposed by Gittell (2002) but was mentioned several times by interviewees and hence included as an attribute.	Informal communications: private meetings, telephone calls, text messaging, emails in addition to the periodic formal meetings.
	Timeliness	Communication which is not delayed. Unequivocal notice of information.	Important or urgent information is disseminated to the AC immediately.
	Accurate	Confident, trust and willing to accept information conveyed. Essential information is conveyed.	IAFs statutory role to provide accurate information to the AC. ACs requests IAF to be forthcoming and not conceal any information.
	Problem Solving	Works together to find out the cause of issues and verifies solutions.	IAF works with AC to resolve issues. AC is interested and curious to find out the cause of issues by creating functional conflict.
Relationship Quality	Shared Goals	Participants share the same objectives, values and concerns for the overall work process and act as part of a team.	AC and IAF both work to reach their own objectives while knowing how they contribute to the overall process. Cooperation between the two roles.
	Shared Knowledge	Participants have clear mental models of the overall process; understand the links between their own roles and the roles of other and how their specific tasks interrelate with the whole process.	Both AC and IAF have a high degree of knowledge regarding each other's tasks and know how their tasks fit together with the tasks of others in the oversight work process.
	Mutual Respect	Participants have comfortable interaction; grant one another feeling of value, have a collective identity, and equal importance of all roles.	AC and IAF have open communications as well as cordial and comfortable relationship. IAF feels valued by the AC. AC encourages the IAF to have a good rapport with the AC and BOD. AC values the IAF as an important information provider.

The codes developed for the scheme were entered as 'nodes', and the text was coded by matching the codes with segments of data selected as representative of the code. The segments of text were then sorted, and a process of data retrieval organised the codes across all interview transcripts. Analysis of the text at this stage was guided, but not confined, by the preliminary codes. Different from a priori codes, creating codes inductively typically requires several iterations of trial and error to decide which codes will be used. The researcher begins with 'open coding', which is the process of creating many codes as one takes an initial look at the data (Strauss and Corbin, 1990). This step identifies initial (provisional) concepts in the data.

Open coding is then followed by 'axial coding,' or the process of selecting the key codes and concepts of interest. Axial coding involves a regrouping of the open codes via its relationships into higher-order themes. In axial coding, categories are related to their sub-categories along the lines of their properties and dimensions to form more precise and complete explanations about a phenomenon. The categories that emerged during axial coding are shared knowledge, shared goals, mutual respect, and frequent communication, problem solving communication, accurate communication, timely communication, information power, legitimate power, sanctionary power, referent power, expert power and will power. Once a coding scheme is finalized, to the extent that any coding scheme is 'final', the researcher will try to assign instances to the existing coding scheme (i.e., one has to stop building a coding scheme at some time to complete the task of coding).

During the coding of transcripts, inductive codes were assigned to segments of data that described a new theme observed in the text (Boyatzis 1998). These additional codes

expanded a code from the scheme. For example, the pilot study data revealed that the AC-IAF frequent communications was made up of not only formal communications but also informal communications too. Hence as data collection progressed, each interview was coded and the coding scheme was reviewed and refined in an iterative fashion. As transcripts were coded separately following each interview, and as new codes were identified, the researcher would return to the transcript to expand the coding to encompass these discoveries.

Stage 4: Identifying Themes

A variety of methods can be used to organise codes in order to describe themes that illustrate the phenomenon (Boyatzis 1998). The quantitative techniques of scoring, scaling and clustering themes can be incorporated. For this study the statistical significance of responses was not important to the research question, a content analysis was not the aim of the data analysis, and, consequently, a single comment was considered as important as those that were repeated or agreed on by others within the group hence the descriptive method was followed. The codes and themes were organised into groups (or clusters) only to enrich the description of illustrative cases, without scoring the data and applying numeric representation. The approach utilised to cluster the data involved organizing or clustering themes based on the theoretical framework (using the template of codes) and organizing themes in relation to the research questions.

Once all the text has been coded, themes are abstracted from the coded text segments. Finding key themes or categories in the data is described as the second level of analysis (Merriam, 2001). This second level of analysis is simply a way of finding focus and structure for the analysis of qualitative data (Dey, 1993). Finally, similar themes are

assembled into overarching dimensions to create broader dimensions and a more coherent story for the complete data set.

Thematic Network

Boyatzis (1998) defined a theme as "a pattern in the information that at minimum describes and organises the possible observations and at maximum interprets aspects of the phenomenon" (p. 161). Themes are patterns across data sets that are important to the description of a phenomenon and are associated to a specific research question. Codes were grouped according to thematic similarities. Clear definitions and names for themes were determined. The 'story' that each theme told was identified and the way in which each theme fitted into the broader 'story' and in relation to the research question was considered. Themes were not selected according to prevalence, rather according to whether they captured something important in relation to the research question.

This research arranges the themes in accordance to Attride-Stirling's (2001) thematic networks. Thematic networks are web-like maps depicting the salient themes at three levels which are:

(i)   lowest-order premises evident in the text (Basic Themes);

(ii) categories of basic themes grouped together to summarize more abstract   principles (Organizing Themes); and

(iii) super-ordinate themes encapsulating the principal metaphors in the text as a whole (Global Themes).

A final thematic map was constructed based on the combined thematic analysis approach (Fereday and Muir-Cochrane, 2006) utilising both the deductive and inductive process as depicted in Figure 4.3. This is a widely used procedure in qualitative analysis

and parallels are easily found, for example, in grounded theory (see Corbin and Strauss, 1990). One must keep in mind though that thematic networks does not aim or pretend to discover the beginning of arguments or the end of rationalizations; it simply provides a technique for breaking up text, and finding within it explicit rationalizations and their implicit significations (Attride-Stirling, 2001).
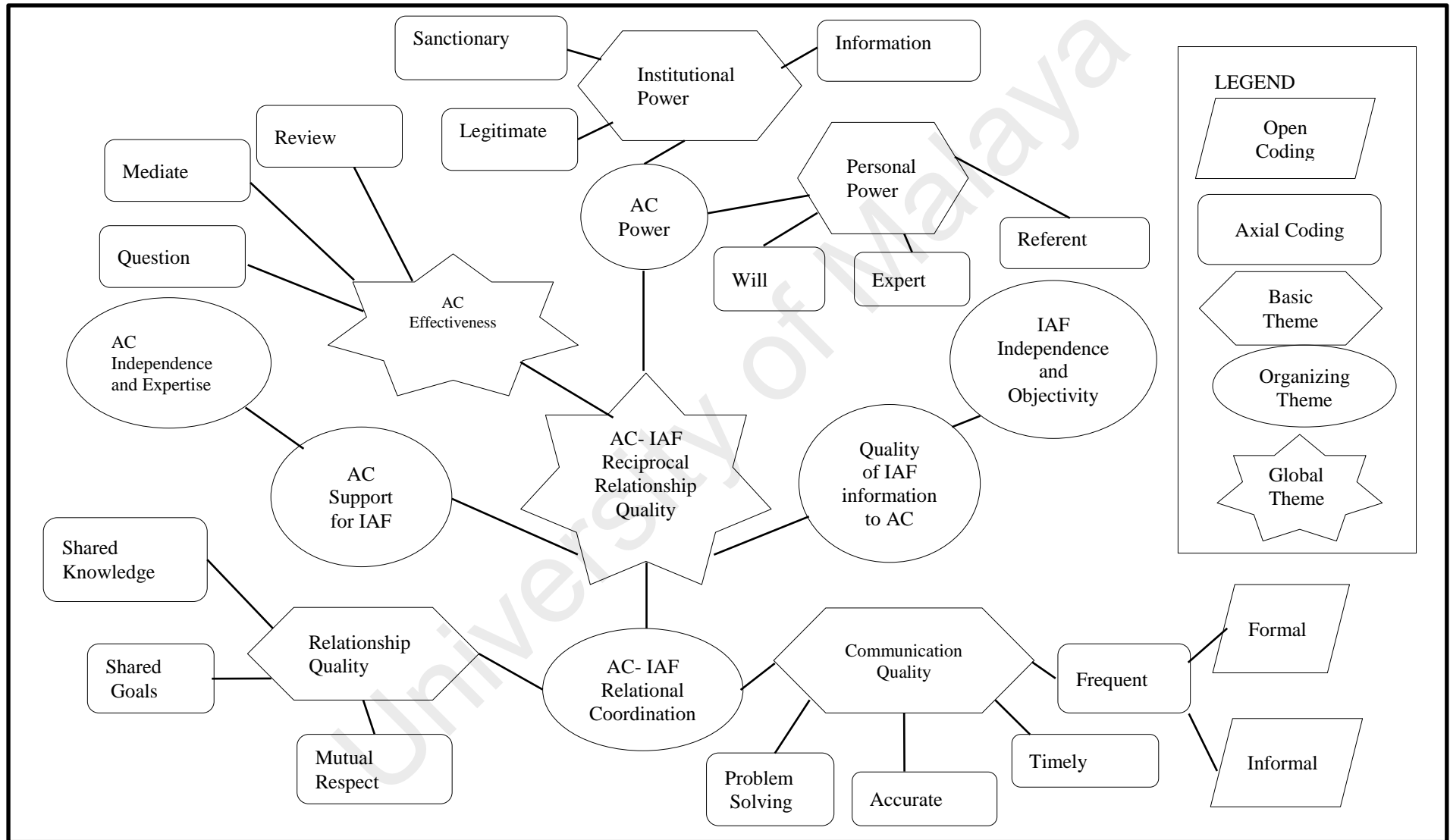
Figure 4.3: AC Effectiveness and AC-IAF Reciprocal Relationship Quality Thematic Network

4.4.1.2   Data Analysis Tool

All interview transcripts and notes were coded and categorized into themes using Qualyzer Qualitative Data Analysis Software a content-analysis program that categorized the data with regard to frequency and importance. Qualyzer, a free and open-source desktop application, from McGill University School of Computer Science in Canada support researchers in conducting qualitative inquiries. Qualyzer helps users transcribe interviews, annotate (or code) the transcripts, and generally view and manage information collected and generated as part of a qualitative study (McGill, 2011).

4.5.1   Reliability: Trustworthiness

To ensure reliability in qualitative research, examination of trustworthiness is crucial. Being reliable in research, in short, comes down to the question of whether the results of a study are trustworthy in what it suggests about a certain phenomenon. A related question is whether it is possible to find the truth. Both Seale (1999) and Lincoln and Guba (1985) argue that trustworthiness of a research report depends on validity and reliability.

However, some social scientists argue that the concepts of validity and reliability are inherently connected with a positivist, realist notion of the world and which might not be the best option for describing trustworthiness of a qualitative study (e.g. Lincoln and Guba, 1985; Seale, 1999). Nevertheless, Merriam (2002, p. 24) argues that reliability in qualitative research should not be excluded but rather considered in a way that suits the chosen approach:

> "Qualitative research also has strategies for establishing validity and reliability, strategies based on the different worldview and different questions congruent with the philosophical assumptions underlying this perspective."

Therefore, steps to ensuring trustworthiness of qualitative findings must fit with the ontological and epistemological approach. As with this research, it is important to remember that the philosophical assumptions are based on the idea that there are multiple truths that are constructed and fluid in nature.

Under these circumstances, the view of reliability in this qualitative research comes down to proving to the reader why the results are reasonable and trustworthy. The aim of generalizability of this study is not a prerequisite of its reliability. As an explanation for the logic of reliability, Merriam quotes Dey (1993): "If we cannot expect others to replicate our account, the best we can do is explain how we arrived at our results" p.251). The saying: "The general lies in the particular" (Merriam, 2002, p. 28), indicates that characteristics that are identified in one particular situation can be considered for similar future situations. In terms of allowing for this type of 'reader' or 'user' generalizability a thorough description of what is being studied is a prerequisite (Merriam, 2002).

> "If one thinks of what can be learned from an in-depth analysis of a particular situation or incident and how that knowledge can be transferred to another situation, generalizability in qualitative research becomes possible."(Merriam, 2002, p. 28)

A study is trustworthy if and only if the reader of the research report judges it to be so. In research what we can do is to explain what we see and why we interpret it the way we do. Others are then obviously free to make a different interpretation. However, to make the interpretation a trustworthy one, one that can tell us something about the phenomenon at hand and hopefully deliver some knowledge that is transferable to other

similar situations or actors, it is the researcher's task to present a rich picture of the scene of interest. A study's credibility depends on the coherence of the argument. This involves detailed documentation of the research process, recording and transcribing interviews verbatim and including direct quotes in the research report (Seale, 1999, Silverman, 2006).

With this in mind, the researcher embraced the term trustworthiness and established trustworthiness through persuasiveness, correspondence and coherence. The researcher directed her efforts in providing an accurate explanation of the phenomenon occurring within a particular set of conditions through the generation of verbal information by means of qualitative methods. Explanations about the research process provided in this chapter as well as the verbatim interview transcripts and the extensive use of quotations provided in the following chapter are examples of the researchers' attempt of ensuring research trustworthiness.

4.5.2 Validity

The goal of interpretive research is not to lead to an objective and permanent knowledge yet interpretation using hermeneutic methods can provide normative understanding (Angen, 2000; Polkinghorne, 2007). Within the interpretive process, validity does not equate to certainty (Angen, 2000). However, the issue of validity within an interpretive study should be viewed more as confidence in the findings rather than certainty (Angen, 2000). Angen (2000) further suggested that within interpretative research, validation is "a judgment of the trustworthiness or goodness of a piece of research" (p. 387).

Similarly, Polkinghorne (2007) attest that the purpose of validating the knowledge is to convince readers that the claims are strong enough to serve as a basis for understanding and action. Therefore it is the responsibility of the researcher to ensure that readers have enough information in order to make judgments about the plausibility, credibility and trustworthiness of the results. Angen (2000) is critical of using the notion of validity for qualitative research. She argues that ethical and substantive validation is more appropriate which emphasises that achieving trustworthiness involves a process. With these considerations in mind, the ethical and substantive notions of validation have been most appropriate constructs for this research.

4.5.2.1 Ethical Validation

Ethical validation is a term Angen (2000) used to describe how a researcher should conduct research in an ethical manner with an aim of fully understanding the meanings involved in our everyday existence. Ethical validation refers to the researcher questioning their moral assumptions and treatment of participants voices throughout the research. It was important that the research participant's views were treated with fairness and respect. Aspects of ethical validation that were addressed in the study included ensuring that no one participant's voice was excluded or demeaned. From the inception of ideas to the collection and interpretation and dissemination of the data, consideration for ethics in this research was deemed essential. As mentioned in the interview process, the nature and focus of the study was described in clear and general terms to each interview participant.

Each participant was provided an informed consent which provided a full explanation of the study including its purpose, methods of data collection, expectations of the

participants, voluntary nature, benefits, risks and assurances of privacy and confidentiality. Participants were given the opportunity to seek clarification and ask questions. They were also assured that they had the right to decline participation, or withdraw. This research reveals how participants view AC-IAF relationship quality and AC power and whether it influences the AC in its oversight responsibilities. The benefit of research where the process of ethical validation is carried out is that it ensures that the research is helpful to humanity in providing new understandings and transforming actions. With ethical validation being carried out, it is hoped that these findings can help to improve the practice of corporate governance.

4.5.2.2 Substantive Validation: Reflexivity / Role of the Researcher

Accounts of interpretivist research should provide compelling, powerful, and convincing evidence for its intended audience (Smith, 1990; Van Manen, 1990). Validation of such research fundamentally depends on researcher quality (Angen, 2000), and it is the responsibility of the researcher to develop a valid interpretation of their research topic because ''we have a human moral obligation to take up topics of principal value; and we must do everything in our power to do them justice'' (Angen, 2000, p. 391). Substantive validation includes the researcher assessing their biases at an earlier stage of the process, reflecting on how these are changed through engagement with the research topic and context, and documenting all this in the final output (Angen, 2000; Bergum, 1991). This substantive approach should allow the researcher to face criticisms of subjectivity - of this being just their opinion or even just the opinion of their participants - with evidence of what has been brought to bear on the interpretation (Angen, 2000). Self-reflection contributes to the validation of the work. This requires the researcher to engage in a self-critical reflection and keep a written account of their

own transformations which are intelligible and coherent. Ultimately the audience needs to be satisfied of the trustworthiness and feel the work is a worthwhile interpretation.

As Denzin and Lincoln assert (2005), all qualitative researchers are philosophers in that we are guided by beliefs about ontology, epistemology and methodology that ultimately shape how we do research. In qualitative research, the researcher should provide a clear understanding of how the research was or could have been affected the researchers' world-views. The advantage of mapping out the researcher effects and influences on the process of the research, and ultimately the research findings, is that it adds to the credibility of the research findings (Murphy, Dingwall, Greatbatch, Parker, and Watson, 1998).

Reflexivity is an important tool in this process. Reflexivity is at the centre of any discussion of qualitative method and remains one of the most critical issues with respect to validity of findings (Etherington, 2004; Finlay, 2002). Finlay (2002) considers reflexive activities to be integral to the interpretive process, suggesting that reflexivity is a continuous process of reflection by the researcher where they consider their own values and prejudices. Reflexivity is a fruitful examination of motivations, assumptions and interests (Finlay, 2002). There are many levels of reflexivity for a researcher to consider depending on the type of research they are doing (Guba and Lincoln, 2005).

Research is not a neutral process, as it is conducted by human beings who, ideally, are bias-free, but realistically cannot be. Thus researcher biases can occur and this can be resolved through reflexivity. King, 2004 and Moustakas, 1994 (as cited in Groenewald,2004) contend that when conducting an interpretive phenomenological research, biases and preconceived ideas about a topic should be set aside by the

researcher, in order for the phenomena to be examined without prejudice. If researcher bias is hidden, it then cannot be eliminated, thus the need to acknowledge researcher bias (Malterud, 2001). Reflexivity includes a demand that the researcher's prior assumptions and biases be made clear. Being reflexive reminds researchers to observe themselves and to acknowledge biases and limitations they bring to the study.

With regards to this interpretive phenomenological study, the researcher acknowledges that there were some biases and preconceived ideas on the research topic at hand. Having used to work as an internal auditor, the researcher had developed personal biases and opinions about the interaction that the AC and IAF should have. The researcher had to be aware that there was a possibility that her own realities and perception of 'knowledge' could have impacted upon her interpretation of interaction and dialogues. However, the researcher set aside her biases and opinions so that she could perceive the life experiences of the participants without determining the conclusions in advance. Reflexivity was also encouraged during supervision sessions with the research supervisor. The researcher's supervisor would query how or why certain conclusions were reached, thus ensuring that the researcher's data was presented on its own merits and not overly influenced by any existing world-views. These dialogue sessions with the research supervisor also enabled the researcher to consider different perspectives on issues that arose. In addition, reflexivity is also accomplished through the use of field notes during the research. By keeping a research journal, all of the researcher's thoughts, experiences and any ideas about the research were recorded for later scrutiny and analysis. As a result of this reflexive exercise, this research has been able to capture the voices of the research participants and that the research data tell their stories and accounts for their own personal experience.

4.6   Conclusion

It is essential to know and have confidence in how the researcher arrived at her conclusions and what assumptions were adopted in order to support these methods. In any kind of study, it is important that the researcher bring a certain set of philosophical assumptions. However, the epistemological and ontological assumptions of the researcher are not always apparent and this may lead to the chosen methodology to be unrelated to the research questions asked. Hence this can make the interpretation of the data confusing for the reader. As shown in Figure 4.4 below, the philosophical assumptions underlying this research come from an interpretive tradition espousing a social constructivist ontology and interpretive phenomenology epistemology whilst using a qualitative and theory elaboration methodology.
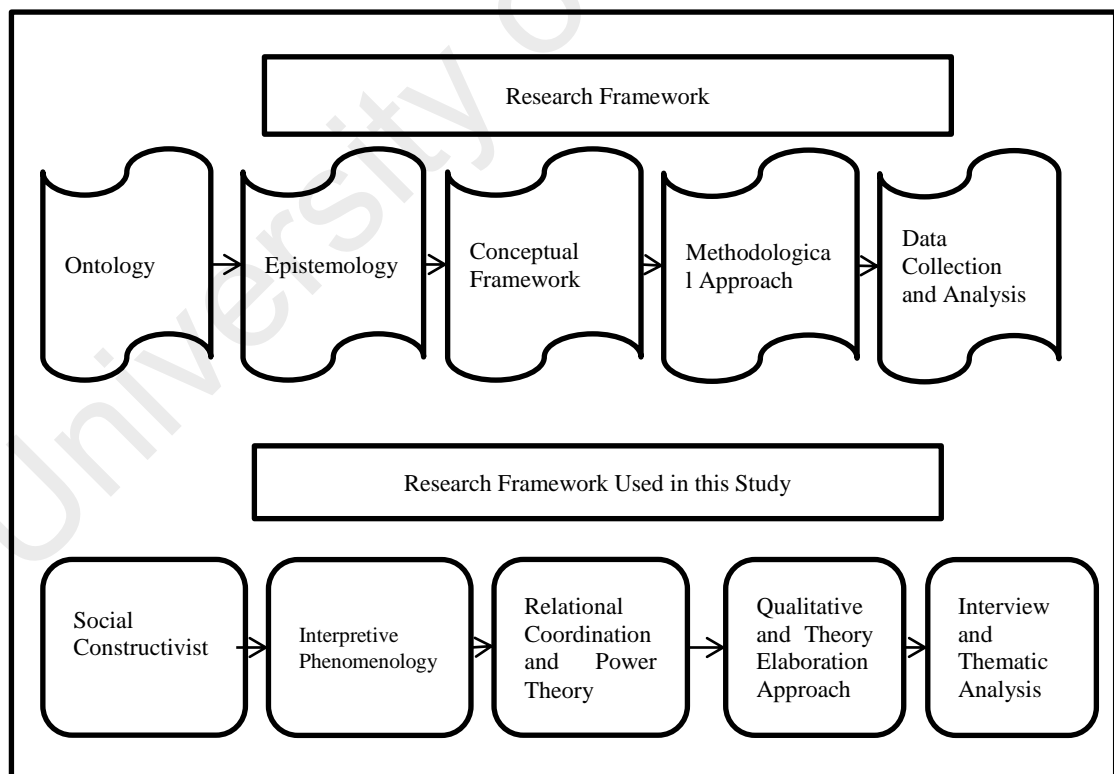
Figure 4.4: Research Framework

The qualitative research methods used to generate data to understand the meanings of the relational process that ACs share with the IAFs were in-depth interviews and field notes. This type of data collection method generates data that add richness, depth and roundedness to a study. This interpretive research favours the use of in-depth interview since it allows in-depth enquiry into human behaviour. In this chapter, subjectivity and qualitative strategy including participant selection, data collection, data analysis, validity, and ethics have been addressed. One of the important aspects of qualitative and interpretive research is a well-kept balance between rigor and openness (Ahrens and Chapman 2006 as cited in Dobija, 2015). Hence, strategies to ensure trustworthiness were incorporated into the study's design such as detailed documentation of the research process, recording and transcribing interviews verbatim and including direct quotes in the research report (Seale, 1999). In-depth methodological description was given in order to allow integrity of the research results to be scrutinized.

Equally important, ethical validity issues were addressed by ensuring that each research participant's views were treated with fairness and respect. In addition, due to the nature of qualitative research, the researcher plays an important part in the conclusions made hence the need for substantive validity through researcher reflexivity. This chapter aimed to convey adequate preparation for defending the research design, subjectivity, and ethics of this interpretive phenomenology research. Any research result must be considered relative to how the research has been conducted, data has been presented, and the analysis managed. It is hoped that with a clear and firm declaration of the perspective from which this specific research was made, the reader is able to situate both the researcher and themselves more transparently.

CHAPTER 5: RESEARCH FINDINGS

5.1 **Introduction**

The prime research objective is to explore AC effectiveness through the AC-IAF relational process and AC power. This research is interested in understanding AC effectiveness through the AC-IAF relational process and AC power effects on the quality of the AC-IAF reciprocal relationship. The use of both power theory and relational coordination theory will provide a framework into meeting the intended objective laid out for this research. In carrying out the main objective of this exploratory research, two sub-objectives were identified as presented in the table below:

Table 5.1 Research Objectives

		Research Objective
1	.	Explore AC effectiveness through AC-IAF relational process effects on the quality of the AC-IAF reciprocal relationship
2	.	Explore AC effectiveness through the nature and extent of AC power on the quality of the AC-IAF relational process and quality of the AC-IAF reciprocal relationship.

The results of the analysis of data are presented in terms of background description of the attributes and also the interpretation and theoretical understanding of the phenomenon of the study (Denzin, 1989).

5.2   Audit Committee and Internal Audit Function Relational Process

5.2.1   AC-IAF Reciprocal Relationship

In order to understand the relational process that takes place between the AC and IAF, one must first understand the coordination that takes place between the AC and IAF in an oversight work process. When asked to describe an oversight process the interviewees depicted that an oversight process entails the IAF to be engaged in assurance engagements which mostly compose of operational audits, testing of internal controls, and at times special ad hoc audits investigating fraudulent activities. For example, CAE 6 describes

> "…they decide the audit plan, they decide what the area, key area they should be look at. When they feel that there are high control issue, it comes from both side. I'm going to propose, they're going to propose. And will decide again. Based on manpower can do this. So, it is audit plan. Then you go to your audit report. Ok audit report means when you have done your audit or tabled what are the findings…let's say you want to venture a new company, a new, new business diversification. Internal audit will be asked let's say please review, yes. This ad hoc job. When they ad hoc, they review, you tell them, ok, there's a risk, and there's control issue as well."

Likewise AC 8 states:

> "They will prepare the plans which we will look over, usually its quite standard, unless we need any additional areas to be looked at…we will approve and once we get the reports from our auditors we will go over them and deliberate before bringing it up to the board."

In terms of the technicality of the AC-IAF coordination, it begins with the preparation of the IAF annual audit plan being reviewed and approved by the AC. From there the IAF performs their planned audit and tables the audit findings to the AC through the AC meetings. If the AC requests for follow up audits or special audits to be conducted due to specific reasons, the IAF will then conduct the audit and present it to the AC at the

next AC meeting or whenever is deemed necessary. Finally, the AC will table the minutes of meetings to the BoD for further action. The oversight process flow chart is presented in Figure 5.1.
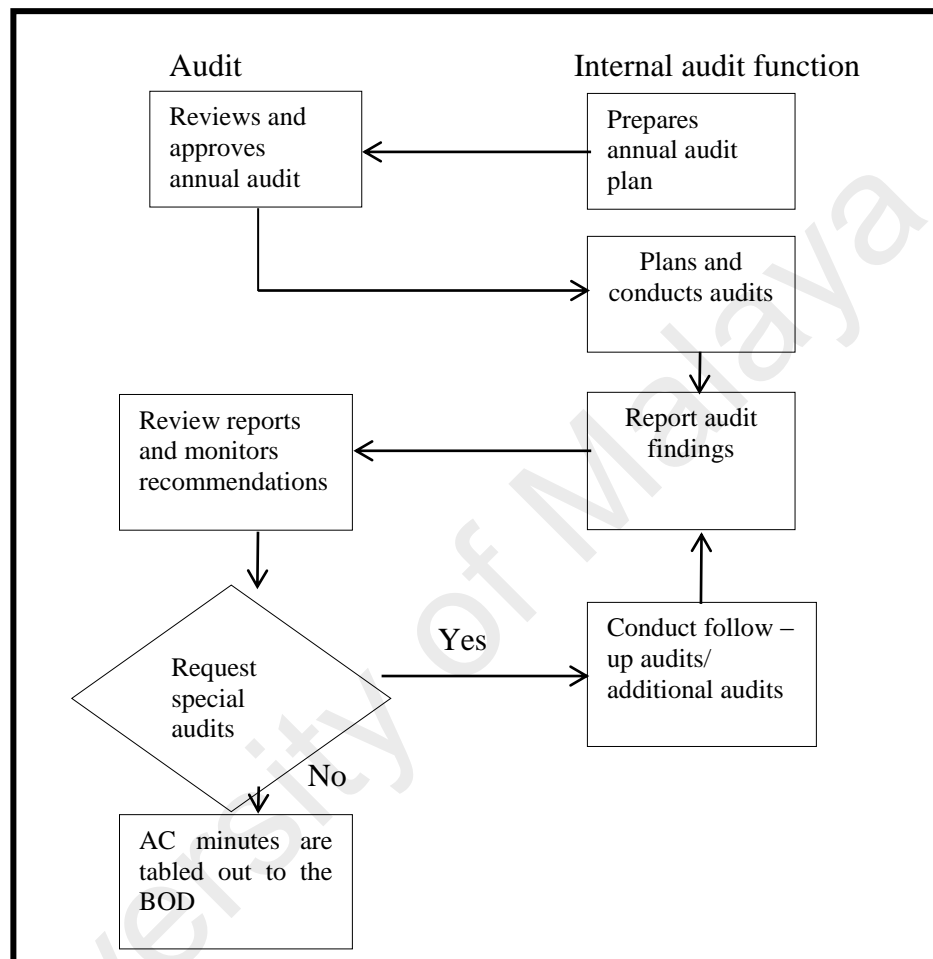
Figure 5.1: AC-IAF Oversight Process Flow Chart

The coordination that takes place between the AC and IAF during an oversight work process as illustrated in Figure 5.1 reflects the reciprocal relationship that is shared between the AC and IAF. Whilst describing their coordination efforts, the interviewees indicated that both roles are closely interdependent not only from a technical standpoint but also in a relational form. This provided evidence that the relational coordination theory is a valid theory to be used in understanding the relational process that take place during an AC-IAF oversight work process. This study was able to capture the relational

process through the lived experiences of the participants as presented in the sections below.

5.2.2   Communication Quality

The analyses of the interviews reveal that communication is an important aspect of the coordination that occurs between the AC and IAF in the oversight process.

Frequent Communication

According to Gittell (2011), frequent communication helps to build relationships through the familiarity that grows from repeated interaction. When the CAEs were asked how often they communicate with their ACs, they state:

> "…quarterly meeting or monthly meeting or bi-monthly meeting. Official meeting for you to table the report." [CAE 2]

> "… we have our meetings regularly." [CAE 3]

Frequency of communication is apparent in the nature of the interaction between the AC and IAF as the CAE is required to report periodically to the AC on the IAFs activity, purpose, authority and responsibility and performance of its audit plan (Guidelines on IAF, 2002). In the case of the oversight process, the IAF will usually communicate their audit reports in a formal setting such as scheduled AC meetings which are normally held a number of times per year. However, the CAEs do not only need to rely on the formal meetings to communicate with their ACs. Here they describe:

> "Most issues are deliberated and discussed whether in a formal or informal setting." [CAE 1]

"…besides the official meetings, normally the relationship with the AC is unofficial as well. I do not have to wait for formal meetings to communicate with my AC." [CAE 2]

Technology proves to play a role in the amount of communication that the CAE shares with his/her AC.

"… the AC Chair can be easily contacted via phone call or email." [CAE 1]

"They talked to me once a month or twice a month, or once sms (text message), this is my update, attend this and attend that." [CAE 2]

"Call, email…whenever there are AC meetings. We have private discussions prior." [CAE 8]

Being able to stay connected through the use of smart phones either via internet or other telecommunication services (e.g. phone calls, text messaging) has allowed the CAE to contact the AC (usually the AC chairman) with ease. The CAEs claim that informal communications were usually used either when the AC was looking for additional information pertaining to a particular issue/ matter or when the CAE needed to talk with the AC with regards to urgent matters.

"…when important issues arise and needs immediate attention, the CAE can just pick up the phone and communicate with the chairman of the AC." [CAE 1]

"… (when) the committee (has a) concern and they told me; "I want to be updated every time you have major find, major changes, update me." [CAE 2]

AC 2 also expressed that when it came to urgent matters, the CAE should not wait for formal meetings to bring up the issue and that ACs should be informed through informal channels of communication.

"I think it will be good. I think you must step out of the frequency of meeting. That's very important…. if a good Internal Auditor will quickly alert the board especially about …something …wrong somewhere., Please act. Ok? Regardless of the three months period kita jumpa lah (we meet)".

Undeniably, both the AC and IAF have adequate communication because it is the duty of the IAF to convey information of their engagement results to the AC on a periodic basis in a formal setting. Although frequent informal communication is not an attribute as proposed by Gittell (2002), it is treated as a communication attribute in this study due to the importance participants' placed on this form of communication. The CAEs and ACs in this study contend that informal communications are deemed important where there is a need to report a substantive finding or matters pertaining to an urgent issue. This is akin to arguments made from Zaman and Sarens (2013), Turley and Zaman (2007), Gendron and Bédard (2006) and Beasley et.al. (2009) that informal channels of communication are an important means for the AC to gain more information. Zain and Subramaniam (2007) also encouraged these forms of private meetings and informal communications as this allowed relevant and reliable information to be exchanged between the two roles. Similarly, Zaman and Sarens (2013) also argue that communication, including communication outside of the formal pre-scheduled meetings, plays a significant role in CG.

Timeliness of Communication

All of the CAEs interviewed revealed that they were timely in reporting to the AC. According to the Merriam-Webster Dictionary, timeliness is defined as occurring at a suitable or opportune time. Although Gittell (2011) does not provide an estimated measure of time to indicate timeliness, she defines it as communication that is not delayed unnecessarily. To AC 5, timeliness of communication is perceived as when he had time to read the audit report before the scheduled audit meetings.

"So we are, basically, they submitted, they submit the paper at least one week before the meeting and we have enough time to read it."

However to other ACs, they perceived timeliness as not only dealing with when audit reports were submitted to them, but timeliness also meant how soon ACs were informed of pertinent issues.

This perception was similarly held by CAEs who conveyed that timelines of communication related to how soon pertinent information needed to be disseminated to the AC:

"For important issues that come up which needs immediate attention, I can just pick up the phone and communicate with the AC chairman. Technology plays a big role as smart phones and the internet now makes people connected at all times." [CAE 1]

"My AC chairman has told me that every time I find any major change, to update him." [CAE 4]

"Something very urgent or very critical… can just direct to them. No problem."[CAE 3]

Important information needs to be conveyed as soon as possible. The interview participants stated that informal communication is crucial when timely information needs to be brought to the AC especially in a situation of high level of importance. Therefore, informal channels of communication play a role in quickly disseminating information between the AC and IAF.

Accurate Communication

Accurate communication is another important aspect in ascertaining effective coordination between two roles (Gittell, 2011). It is useless if updates are received frequently and timely but the information is inaccurate, here Gittell (2011) contends that

either an error will occur, or a delay will occur as participants halt the process to seek more accurate information. ACs were adamant that the information that was brought to them were checked thoroughly and contained information of significant value.

> "Please make sure your reports have all the pertinent issues, don't bring petty issues to the table. If possible also check spelling and grammar." [AC 4]

As for the CAEs, they had very strong opinions when asked whether they ever held back information to the AC, for example:

> "There shouldn't be gaps and there shouldn't be duplicates. Give them well informed report, coverage of….activities or audits performed." [CAE 4]

The IAF is not apprehensive about reporting information. Thus, disseminating accurate information is also deemed as an important element in the oversight process. This is in accordance to Practice Advisory 2060-1 (1), whereby the CAE must report significant engagement observations and recommendations. Significant engagement observations are those conditions that, in the judgment of the CAE, could adversely affect the organizations. Significant engagement observations may include conditions dealing with fraud, irregularities, illegal acts, errors, inefficiency, waste, ineffectiveness, conflicts of interest, and control weaknesses. (Practice Advisory 2060-1 (2), International Professional Practices Framework (IPPF), 2009). The audit report should contain information which are sufficient, resourceful and of quality in order for it to act as an important resource to the AC in discharging their responsibilities.

Problem Solving Communication

In an environment where a work process consists of task interdependencies, such as the task interdependencies between the AC and IAF, problems that occur may require joint problem solving communication (Gittell, 2011). It is perceived that joint problem

solving exists when the AC and IAF deliberates together with management to resolve pertaining issues that were raised. For instance CAE 5 explained:

"I will highlight to the AC what is my limitation. Recently I had a meeting with them, I highlighted the resources matter because some of staff are resigning. So they actually take note of that and have asked me to do some benchmarking so that we do not lag behind when we are trying to source for candidates. They promised me they will inform management. After my meeting with them, they highlighted it to management."

CAE 6 also described a similar situation:

"They discuss with us what are the options available…they will debate with us, if there is a problem, it's a we will do it together type of behaviour."

AC opinions were also in tandem to that of the CAEs. For example:

"the operations of the organization I am at now has curtailed, it has not been getting enough contracts. So due to this issue, many of the contract staff have not been renewed and have left. So my CAE has come to me to tell me that he has problem getting information due to the lack of staff. My company is no longer taking in contract staff. So now we have brought this up with management…we need to get staff from within the company." [AC 10]

Overall, it can be summarized that frequent (both formal and informal communications), timely, accurate and problem solving communication are attributes present in the communication shared between the AC and IAF.

5.2.3   Relationship Quality

Gittell (2011) asserts that communication does not occur in a vacuum. Apart from communications, studies examining AC and IAF interactions (e.g. Davies, 2009; Sarens and De Beelde, 2006; Zain and Subramaniam, 2007; and Zaman and Sarens, 2013) have revealed that the shared mental models are also important in determining how well the coordination between the two roles takes place. Shared mental models are shared

knowledge structures that enable members of a team to accurately assess tasks and coordinate their actions with other team members (Cannon-Bowers, Salas and Converse, 1993). Therefore, a quality relationship which exhibits high levels of shared mental models in the form of shared goals, shared knowledge and mutual respect (Gittell, 2011) can expect to have a high level of coordination between the two roles.

Shared Goals

Most of the interviewees state that both the AC and IAF need to have a set of shared goals which are to monitor and evaluate the internal control system as well as the identification and management of risks. This is akin to the promulgation by BRC (1999), COSO (1992), and NACD (2000). As stated by CAE 4 with regards to her roles:

"In the organization, when we do audit, we need to, be more objective. So, we need to know our roles. Where [what] is the Internal Audit role?... So, it should be more towards the maximising the shareholders wealth."

She was also quite aware of the pertinent role AC plays in governance:

"ACs role is oversight. Ensuring controls systems in the company is in place."

Similarly AC 1 quoted with regards to his functional goals:

"Ok. Audit committee has a fiduciary duty. Because err, we are the custodian of public money."

The AC 1 too revealed his awareness to the functional goals of the IAF:

"You audit, make sure everything is in place and give us the reports. You must be fair in your audit; you must be accountable and transparent."

When participants of a work process are aware of their own functional goals as well as the functional goals of other roles within the same work process this motivates

participants to move beyond sub-goal optimization and to act with regard for the overall work process (Otte-Trojel et al., 2016). Effective coordination therefore depends upon a high level of shared goals for the specific work processes.

According to Gittell (2011), when participants have a set of shared goals for the work process, they will tend to have a powerful bond and can more easily come to compatible conclusions about how to respond as new information becomes available. The participants of the work process must work to reach their own objectives while knowing how they contribute to the overall process. Both the AC and IAF must share the same values of maintaining high governance standards.

"Much of the corporate culture is being cultivated through tone at the top where board members instils the culture of being transparent and uphold quality governance standards". [CAE 1]

"We all have a statutory role to play…to protect public money." [CAE 8]

"ACs and IAFs must make sure what has happened in the company, has the company followed procedures, we are there to make sure the SOPs are properly followed… need to make sure whether we need to take people to task." [AC 7]

It is contingent for both roles to know their own objectives, to know how they contribute to the overall process and also knowing the objectives of other roles and how those objectives contribute to the overall process as well. Overall, shared goals are perceived to occur when both roles strive to uphold good governance. In other words, AC provides guidance and carry the culture of 'tone at the top' while the IAF conduct their audits based on international standards of audit and governance.

<u>Shared knowledge</u>

Gittell (2006) claims that effective coordination of a work process is attainable when participants have a collective mind, or shared knowledge of the overall work process. Participants who have a high degree of shared knowledge regarding each other's tasks and know how their tasks fits together with the tasks of others in the same work process will have a context for knowing who will be impacted by any given change. It is important for both the AC and IAF to understand how the shared goals, as discussed above, are to be achieved and this is done through the knowledge of the specific tasks that each role takes in achieving the said goals. For most plcs, both the AC and IAF have written charters which explain the roles and responsibilities for both functions. However, it is not enough to have these charters, but there must be a high level of understanding as to what is written in the charter and how these roles are to be played out.

> "The company has a well written charter, and it explains very clearly the roles and responsibilities of the AC. Due to their vast experience in finance, legal and the industry background, the AC members have a high level of understanding of their roles." [CAE 1]

> "We provide the guidance and protection to our audit team. We need them to be able to go out and perform their audits without any obstacles or hurdles. Then they can come back to us with the necessary information for us to carry out our jobs." [AC 8]

> "…[when] they've audited this subsidiary dot, dot, dot and then they say what are the risks involved, high risk, low risk, medium risk. And then they will highlight the risk spot areas for us." [AC 1]

Both the ACs and CAEs interviewed displayed well versed knowledge of how their roles are linked to the roles of the other and vice- versa. This depicts that shared knowledge of the task interdependencies between the two roles is essential in maintaining coordination at its optimum between the AC and IAF in an oversight process. As explained:

"My relationship is that I'm supporting the function of the AC. So, I report to you (the AC). We (the IAF) are the assurance provider … we are the eyes and ears of the AC. My duty is that I will report to the AC. Then, (the AC) will give a direction to the IAF to do the right thing, what the management supposed to do, and if it's not done, I think it's their (the AC) duty to bring it up to the board …. if they (the AC) have (any) question they would ask. If there is a concern that needs to be discussed needs to be addressed, then we will minute in the meeting and then we will do the action plan. As long as whoever sits in the board and they understand their duties and responsibilities, I think that should be suffice." [CAE 3]

"In the company the reporting err, mechanism between the board, board audit and err, internal audit. What I need to do is make sure this is effective. Even if it's not dealt by board, as much as I want it to be dealt [with], its fine with me. Because the system is in place. I would follow through until it gets close[d]." [CAE 8]

Participants in the work process must have a clear mental model of the overall process. They must understand the links between their own jobs and the jobs of others. Hence, it can be interpreted that shared knowledge it is imperative as participants will not only understand 'what' and 'why', but also to what degree of urgency and this then allows for them to enhance their communication with greater accuracy and timeliness.

Mutual respect

Gittell (2006) states that effective coordination depends upon participants having respect for other participants in the same work process. Disrespect serves as a potential reason of divide among participants who play different roles of a work process which could undermine the coordination process between the roles (Gittell, 2006). On the other hand, Gittell (2006) contends that respect for the competence of others creates a powerful bond which is important to the effective coordination of highly interdependent work. The participants illustrated mutual respect through the positive feelings that they had for each other. For example:

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"I have a very good relationship, cordial relationship with the AC members, very high level of respect, and high level of trust." [CAE 1]

"… most of them are ok. I feel very comfortable with my audit chair, (the AC chair) is always willing to have me call, if the AC chair is not willing to have anybody bother him/her at any time then, it will be detrimental to the relationship."[CAE 2]

"Yes. We have to work closely with the Internal Auditors. Very close…I think there is a co-relationship. [AC 2]

"Oh yes. Because… because in our organization we are… actually now we are… in terms, in terms of numbers of people, we are quite small here. So the Board and the employees (i.e. the IAF) we are in a very warm relationship. The Internal Auditors … (we) view them as partners."[AC 6]

5.2.4 Summary

Interviewee explanations on the coordination efforts between the AC and IAF in their oversight work process reveal the presence of the relational coordination dimensions and depicts the relational process that takes place between the AC and IAF. This was performed through the comparison of the dimensions' characterization with the interviewee explanations and perceptions on the coordination of the oversight process. The relational process of shared goals, shared knowledge, and mutual respect (i.e. relationship attributes) as well as communications in the form of frequent formal and informal, timely, accurate and problem solving (i.e. communication attributes) are necessary components in the coordination of the oversight work process.

5.3 Research Objective One

The first research objective seeks to explore AC effectiveness through the AC-IAF relational process and its influence on the quality of the AC-IAF reciprocal relationship.

This research seeks to understand ACs conducts based on the relational coordination dimensions in order to foster a quality reciprocal relationship. In essence, a quality reciprocal relationship between the AC and IAF is evident when the AC can support and strengthen the IAF whilst the IAF becomes an important resource to the AC (Gramling et al., 2004). A positive AC support system for the IAF is evident when the AC can provide the IAF an appropriate environment for carrying out its governance related activities (e.g. risk assessment, control assurance, and compliance work). As a result of this support system, the IAF becomes an effective information provider and is able to provide the AC assurances that risks are held at bay and make recommendations for enhancing processes, policies and procedures.

Relational coordination is defined as "a mutually reinforcing process of interaction between communication and relationships carried out for the purpose of task integration" (Gittell, 2002, p. 301). The mutual reinforcement between the communication and relationship dimensions can occur in either a positive or negative direction depending on the presence of high or low quality communication and relationship dimensions (Gittell, 2011). Examination of the linkage between relational coordination dimensions in the AC-IAF relational process and the quality of the AC-IAF reciprocal relationship proposes that:

a) a positive mutual reinforcement of communication and relationship dimensions encourages the manifestation of a high-quality reciprocal relationship (Figure 5.2), and

b) a negative mutual reinforcement of communication and relationship dimensions encourages the manifestation of a low-quality reciprocal relationship (Figure 5.3).
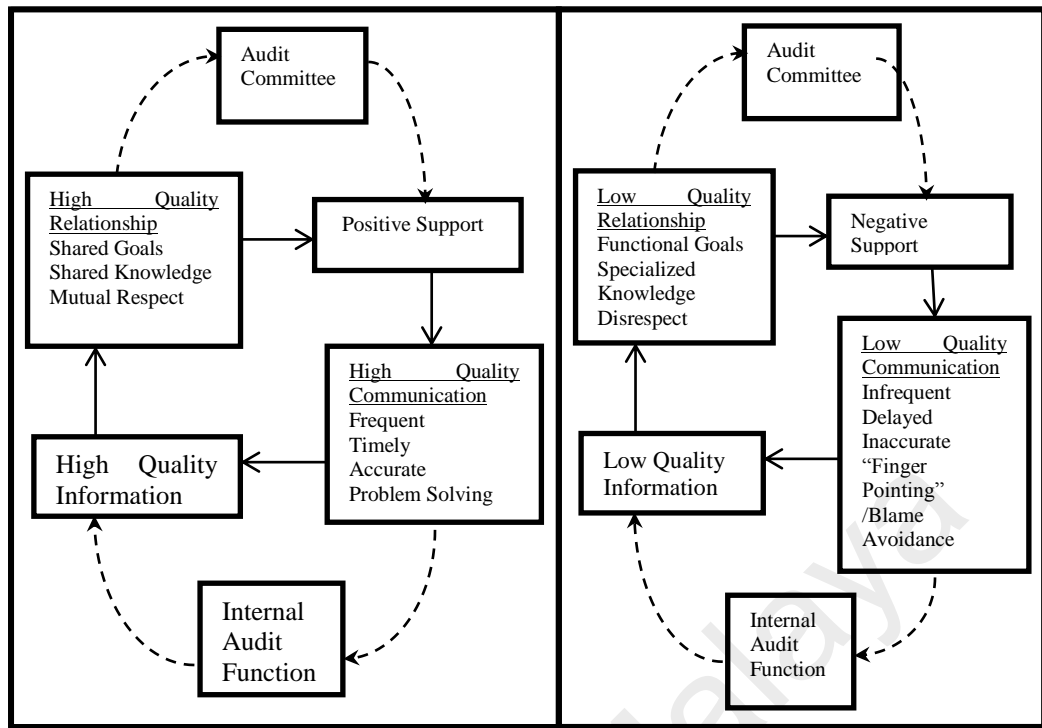
Figure 5.2: High-Quality AC-IAF Reciprocal Relationship and Positive Mutual Reinforcement of Relational Coordination Dimensions

Figure 5.3: Low-Quality AC-IAF Reciprocal Relationship and Negative Mutual Reinforcement of Relational Coordination Dimensions

Excerpts from the interview and the evaluation of data discussed in the section below provide interesting insights on AC effectiveness through the linkage between relational coordination and the AC-IAF reciprocal relationship quality. The relational process provides a basis for understanding how ACs engage relationally with the IAF in order to foster a quality reciprocal relationship.

ACs and IAFs need to know their roles within the governance structure and how their roles are connected to one another. As pointed out:

> "We provide the guidance and protection to our audit team. We need them to be able to go out and perform their audits without any obstacles or hurdles. Then they can come back to us with the necessary information for us to carry out our jobs." [AC 8]

> "I need to be independent, if I'm not independent, I compromise my internal auditor. If you have a truly independent AC, naturally your IAF will work. However if you have a compromised AC, sorry to say, even if you have the best guys in you IAF, all of them will resign." [AC 6]

However functional goals may exists if the AC is merely fulfilling a regulatory requirement and not providing the support that IAF needs. This may indicate that the AC is merely independent in form and not in substance. Independence in form over substance can occur when the AC is under control of management and existing merely to fulfil regulatory requirements. This will lead to little independent monitoring from the AC (akin to the arguments by Westphal and Zajac, 1994 as cited in Cohen, Krishnamoorthy and Wright, 2008).

The interviewees in this study concurred that ACs independence is threatened if the AC is under managements' control, weak and not well versed in the company's operations. Cohen et al. (2014) argue that AC members may not engage in active questioning at meetings if they have close ties with management. ACs must be free from management's influence in order to be deemed independent not only in form but also in substance as highlighted by CAE 9:

> "yes they can be friends (with management) but they have to be professional, if they are not going to take it (issues) up to the board, what can I do? …they have a statutory role to play…it's a matter of the ACs independence."

The CAEs argue that ACs who are independent not only in form but in substance as well were more likely to 'protect' the IAF from management's backlash to any negative information.

> "If they are independent they will protect the IAF. You imagine if my committee does not back me up. If they are not going to support me, very difficult, I cannot do my job objectively." [CAE 9]

This is similar to Carcello and Neal's (2003) study that looked at AC and external auditor relationship that revealed more independent ACs are more likely to shield auditors from dismissal following the issuance of going-concern opinions. Therefore

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ACs who observe functional goals may impair their independence hence weakening their support for the IAF. This will cause a negative mutual reinforcement of relationship and communication dimensions as the IAF is unable to provide quality information due to the ACs weakening support for the IAF.

Another example of negative mutual reinforcement of relationship and communication dimensions is portrayed when ACs do not share the same knowledge and lack respect towards the IAFs objectivity and status in the organization. Most CAEs stated that they needed to know that they had a more appropriate platform to present findings at AC meetings and would be "protected" from management's backlash to any negative information. This form of 'protection' would then elevate and protect the IAFs independence and objectivity (c.f. Goodwin and Yeo, 2001; Goodwin, 2003; Stewart and Subramaniam, 2010).

> "Yes…when we feel that we are independent… Internal Audit is independent, then err, it affects our thinking and our way of doing things … when we want to highlight certain things to the Audit Committee, we feel we are more err, safe." [CAE 4]

> "if the power does not rest with them (AC)…my job could be in jeopardy…how to bring up issues if management got the power to sack me…so they (AC) have to have that authority…" [CAE9]

The decision to be involved in the tasks of hiring/firing the CAE can protect the CAE especially since the IAF is auditing the work of someone who has the power to impact the internal auditor's employment or salary (Stewart and Subramaniam, 2010). The AC should approve the appointment or termination of appointment of the CAE. The importance of this is that it helps to strengthen the independence of the IAF. ACs must have the knowledge and be aware of IAFs reporting relationship with the AC its implications on IAF organizational status. The Institute of Internal Auditors (IIA, 2004) argues that the ultimate source of IAF independence is having the IAF report directly to

the AC. However this concept is misunderstood by most ACs interviewed. A unique perspective into this misconception was illustrated by a conversation (in bold) that one CAE 9 shared with his AC chairman concerning his yearly appraisal:

"That's the problem, you know? I encountered once. I nak buat [In English: I needed to do] my appraisal okay.

CAE:	**Chairman, I finished my ni [appraisal] so, I want to discuss with you.**
AC Chairman:	**Eh, no, no. You report to GMD. Not me.**
CAE:	**Functionally I report to you**

Tengok nampak, dia tak faham tau. [In English: You see, the chairman does not understand] The concept.

CAE:	**I report to you, you're supposed to actually appraise me.**
AC Chairman:	**Eh, come on lah, I only see you (once a while). So, macam mana I nak tahu you macam mana [In English: So how do I know how you are]. So, get the GMD to appraise you.**

So, that is actually one of the misunderstanding, you nampak tak [In English: you see]? The misconception."

Having a CAE report directly to the AC helps ensure that the CAE feels safe about raising concerns that may run counter to management's thinking (Grant Thornton CAE Survey, 2011). Internal auditors may overcome management's pressure by upholding their professional objectivity. This can be attained if the IAF can trust the AC will provide them support; as the AC is viewed as a key safeguard mechanism for internal auditors in managing their professional objectivity (Stewart and Subramaniam, 2009). Hence the trust that ACs will provide support to the IAF is expected to reduce reporting error results (Christopher, Sarens and Leung, 2009). This notion was emphasized where CAE 5 explains:

"Well, if the AC functions actively… they should be protecting the IAF. That's the whole idea of why IAF reports to the AC so that they bypass the management."

Some ACs interviewed were also unaware that their involvement in the decision to hire or fire the CAE had implications on IAF independence. The ACs revealed that the decision to hire/fire the CAE should remain with management, for example AC 5 declared:

> "With regards to the appointment or the termination, it was already done by the Human Resources. We do not interfere…we don't have the executive power. Your (IAF) working relationship with us is different. It's in terms of reporting."

This indicates that ACs see themselves as not responsible per se, a finding not unique to Malaysia as other studies have produced similar results. For example, Paape, Scheffe and Snoep (2003) study and KPMG ACI's (2006) survey also report only one third of AC members have the responsibility for hire/fire decisions relating to the CAE.

Another form of knowledge that ACs must be aware of is ACs knowledge on IAF constraints such as budgetary limitations and competition with management. This is also important because the ability of an IAF to satisfy the ACs concerns may be inhibited by budgetary limitations and competition with management for the direction of scarce resources (Abbott et al., 2010; Hermanson and Rittenberg 2003; Pei and Davis 1989). Carcello, Hermanson and Raghunandan. (2005) document a positive association between ACs that reviewed internal audit's budget and the size of that budget. The authors contend that ACs who do not review IAs budget are reluctant to challenge management on the resources allocated to the internal audit. This may suggest that management and ACs may have conflicts concerning not only IAF's budget but also the focus of the IAF's activities. ACs who have respect towards the IAF will help to ensure that their IAF has its necessary resources. Thus they will engage in active questioning, review the available budgets and act as mediators between management to ensure that IAF has the appropriate resources.

"We will ask our internal auditors. What are your constraints? What are your areas that you cannot cope? You let us know. Then, we'll help you out". [AC 2]

"We need competent auditors to do the job, I spoke to the management team, look, we need to get the right people for the job, the IAF is not a place where you dump the useless employees."[AC 6]

With regards to IAF staffing, BMLR (2009) states that one of the ACs objective is to review the adequacy of the scope, functions, competency and resources of the IAF and that it has the necessary authority to carry out its work (Para 15.12(1)(e)). It is argued that ACs who are more diligent in reviewing the IAF's staffing schedules and financial budgets have more knowledge of the IAFs' constraints. Hence, ACs must share the knowledge (as discussed above) and have respect towards how this knowledge can affect the work of the IAF in order to have a positive mutual reinforcement between relationship and communication dimensions which will improve the quality of the AC-IAF reciprocal relationship.

ACs who engage in quality communication dimensions will allow for the positive mutual reinforcement of relationship and communication dimensions. ACs who engage in frequent communication allow their CAEs to be more forthcoming at any time. Although frequent informal communications is not an attribute as prescribed in Gittells' Relational Coordination theory, the participants in this research highly encouraged this form of communication to take place between the two roles. Informal communication is interpreted to be equally important as formal communication to both the ACs and IAFs interviewed in this research. Although we are uncertain as to how frequent private meetings take place between the AC and IAF for the participants of this study, majority of the ACs and CAEs were quite open on the need for private meetings as illustrated below:

"Heads of internal audits need to have a lot of private sessions with the AC chairman so that you can express whatever issues that is of concern." [CAE 9]

"We have separate sessions with the internal auditors. That's where, no holds barred, where we can speak our mind and the internal auditor will also tell us what are the problems." [AC 1]

"So in this respect, you have to go deeper into how you approach that person. Maybe you need to get him get to know him more through informal channels like having drinks, then , you know, be more open to you. Saying things that is should be the correct things to be said." [AC 2]

When ACs engage in informal communications on a frequent basis, they send a signal to the IAF that they are always open for communications at any time thus increasing the potential to foster a more quality reciprocal relationship between the two roles, which is a sign of mutual respect. However, ACs also need to make it known to the IAF of their own constraints which in most cases was time. As the ACs and IAFs have limited sessions together, ACs also hold the expectation that IAFs try to resolve most issues on their own (except those concerning upper management or board members).

"We meet periodically, so we don't have the time to discuss everything in detail. I expect my auditors to know what they need to do, they already have their guidebook to follow, so I can't be holding their hand."[AC 5]
.
" I need to be able to get things done on my own…if its small issues, no need to disturb the AC, they don't have the time to entertain. But usually I don't bother them unless a really urgent and significant issue comes up and I need guidance or help, then I will go to them."[CAE 9]

This is similar to the findings of Salleh and Stewart (2012) whereby their research participants revealed that less material issues were normally resolved without the involvement of the AC and that only very material issues were brought before the AC. The ACs need information that is of significant value:

"Sometimes we do get IA reports looking at whether tickets have been given out for people who are going swimming, so trivial, so we do tell the

IAF at the AC we don't want to know all this, its too small, it has to be material, if its material then report it, if not material, just report it and say management is looking about it, but no need to talk about it, it has to be material and recur often."[AC 8]

With this knowledge and out of respect to the AC, IAFs can be able to produce accurate and timely information, and of significant value. Timely and accurate communication is also borne out from the presence of high quality relationship dimensions.

"Due to the trust that is built between the AC and IAF, accurate information is always brought to the attention of the AC in a timely fashion." [CAE 8]

CAE 8 goes on to say:

"Of course they will read through the reports to check for any errors or mistakes. If there are any inconsistencies they will query, usually my chair will be discussing this more with me before the meeting, so I have to make sure my report gets to her in time for her to go through."

Nevertheless, frequent and timely information is useless if the information disseminated is inaccurate. Due to the disadvantage of time that most ACs face, the CAEs revealed that they were mindful that ACs were provided concise, accurate reports during each meeting/communication with their respective ACs.

"What is in the audit report? Is the audit report just one page or two pages … and whether it really focus(es) on the risk or it's just some compliance only, you know? So that will actually play a role." [CAE 3]

"So our challenge is for us to come up with the problem statement that is as short as (possible)…so that they (the AC) can straight away see." [CAE 6]

"We assess the internal processes….its our objectives to ensure that whatever control in place is effective and efficient. Whatever reporting that is churned out…we have to make sure is correct…it will... can protect shareholders interest because they (AC) get an accurate report." [CAE 5]

The AC will be able to make well informed decisions when they are provided with frequent communication whether formal (in the form of formal reports) and informal

(through phone calls, emails, or face to face conversations), in addition to timely and accurate information as aptly quoted from AC5: "We can only make a very good decision provided the internal auditors ok, give us all the relevant information." ACs who engage in quality communication dimensions allow for shared goals, shared knowledge and mutual respect to take place between the AC and IAF. This is a clear example of a positive mutual reinforcement of relationship and communication dimensions taking place thus enabling for a more quality reciprocal relationship between the AC and IAF.

By ensuring the IAF has a proper platform to perform its roles, the IAF is able to provide reliable information to the AC. Hence, an effective AC is the result when both the AC and IAF work together in times of disputes or negative outcomes arise. According to CAE3:

> "… AC and the IAF should work hand-in-hand. They cannot blame each other. If the AC are not, are not in the true spirit, it won't work. Similarly, if the AC (has) very true spirit but the auditors say I don't care, it isn't my job, (then it won't work either)."

The interpretation of stories utilising the conceptual framework provide a map into understanding AC effectiveness through the mutual reinforcement of high quality relationship and communication dimensions which allows for the manifestation of a quality AC-IAF reciprocal relationship as the AC increases its support for the IAF and the improved quality of IAF information. In order for the ACs to be effective, the AC must engage in activities that render their understanding of shared goals and shared knowledge with the IAF concerning issues that may dampen or harness the coordination efforts and overall reciprocal relationship quality of the two roles. When there is mutual reinforcement of relationship and communication dimensions throughout AC-IAF coordination, this encourages the ACs to engage in active review of their IAF budgets,

engage in termination or hiring activities, act as mediator between the IAF and management hence enabling the AC and IAF to foster a more quality reciprocal relationship. The conceptual links between the AC-IAF relational process, the AC-IAF reciprocal relationship and AC effectiveness is presented in Figure 5.4.
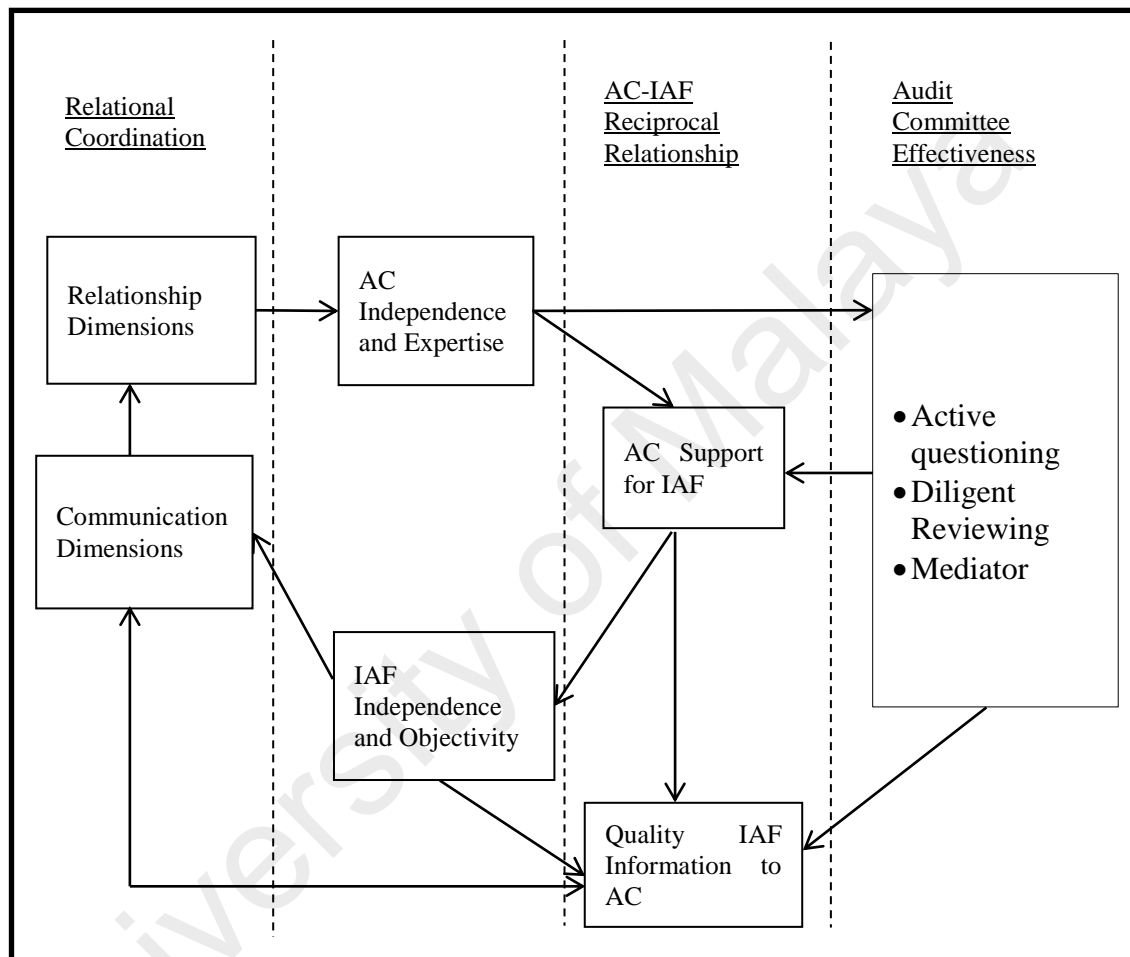
Figure 5.4: Conceptual links between relational coordination theory, AC-IAF reciprocal relationship and AC effectiveness.

5.4   Research Objective Two

The second objective of this research aims to examine ACs effectiveness through AC power and is influence on the quality of AC-IAF relational process and reciprocal relationship. By and large, the emergence of patterns and linkages of the research

themes revealed that all the power dimensions had a logical relationship with the different relational coordination dimensions. However certain power dimensions were seen to be more closely related to specific relational or communication dimensions.

5.4.1 AC Effectiveness through the extent of Legitimate, Expert and Referent Power on AC-IAF Relationship Dimensions

ACs legitimate power exists through a written authority in the form of the AC charter. Most charters spell out that the AC is concerned with the oversight of CG in terms of financial reporting, internal control structure, IAFs and external audit services. Through the use of ACs legitimate powers, ACs have the right to influence others to oblige and obey AC instruction thus creating a sense of teamwork in order to enhance governance outcome for the AC (San et al., 2012; Rajan and Krishnan, 2002). When assuming the ACs legitimate power as written in an AC charter, the AC can expand the IAFs audit scope to not only include routine audits but also instruct the IAF to carry out audits on areas that are of concern to the AC. AC 1 provides an example of such an event:

> "You (the IAF) give us the peripherals, alright? That you have audit, you have audited this, this, this, this, this. And then you (the IAF) tell us (AC) the risks involved. And after that, we discuss among ourselves… and this area is quite critical and is quite material,… Then you the Internal Auditor, you come back with a progress report, or do an investigative report, what happened to this particular subsidiary?"

Thus when legitimate power is emanated through ACs actions, IAFs oblige by making sure that they perform their audits well and produce relevant information.

Nevertheless, some ACs who do not exercise their legitimate power are not interested in the information that IAF brings to them because it does meet the needs of the ACs. Some of the interviewees indicated that there are ACs who view themselves to be of a

strategic decision making role more than that of a monitoring role. This may cause a clash of expectations for when ACs meet with the IAF. The AC may feel that the IAF brings to the table meagre issues when ACs wants to be involved in the bigger picture. ACs must be well aware what is provisioned under their legitimate power i.e. what is asked of the AC charter. What are the goals of the AC, is it oversight vs. strategic decision making? Showing that he is well aware of his goals, AC 2 states:

> "You know, assessing the risk of the company. Risk includes assessing and taking steps, you know, to mitigate risk. Most of the time helping the management. We are not participating, we are just overseeing."

The way an AC exercises its legitimate power may influence the quality of shared goals that is shared between the two roles. Hence it can be interpreted that an effective AC is one who exudes and understands its legitimate power which can bear weight on the quality of shared goals that both the AC and IAF share.

Both the AC and IAF have to have a mutual understanding on what is expected of them. This however is not always the case. Gittell (2006) states that those with difference in functional backgrounds will reside in different 'thought worlds' due to differences in individuals' training, socialisation and expertise. That may ring true for the ACs and IAFs. AC consists of members who come from many different industries and can have a wide range of expertise. ACs expert power (i.e. having distinctive knowledge, expertness, ability or skills) may differ from the IAF residing in different 'thought worlds' hence influencing the amount of shared knowledge that both the AC and IAF have. CAE 6 shared a story whereby he had made his recommendations to the AC to mitigate certain risks in by investing in new technology:

> "Sometimes, if you want to err, mitigate certain risks, you have to invest in terms of technology… or skills. People skills that kind of thing. So, these are the things that the Audit Committee doesn't really (understand). I don't know whether (they) put enough enforcement."

The CAE believes that the AC do not possess the technological expertise to see how certain risks can be mitigated though the use of innovation and up to date technology. He stated that it may be due to the different AC backgrounds (retired army personnel, lawyer and accountant). This then influenced how the AC responded to the recommendations made by the CAE 6. This insular form of decision making can be overcome if AC members have appropriate expertise and background within the related industry which can lead to openness to change. Thus ACs who do not have the necessary expert power can be deemed as ineffective or detrimental to the relational process and overall quality of the AC-IAF reciprocal relationship.

Cohen et al. (2014) also found that ACs with industry expertise along with accounting expertise were more effective in their monitoring roles. This was prevalent through one highly experienced AC. AC 10 has a background with years of experience in the banking industry. He is well versed in the banking industry and its governance requirements which can be quite stringent. He now sits as an AC chairman in a public listed company which used to be family-owned and claims the managements approach to governance is not as structured or rigorous as banks. Nevertheless, due to his background and experience, he instils the same amount of effort and ethics in this current organization.

> "I must be frank, this organization, the governance not so strict; it used to be family owned before it got listed. So they brought me in to sit as chair of the AC. But here I am the same, I make sure they understand the importance of governance, AC and IAF, all have a role in maintaining sound governance."

As earlier portrayed with regards to getting more resources for his IAF department. He explained:

> "The management can be unaware of how important IAF is to the AC. You cannot get any Tom, Dick or Harry to be in the audit team, we must get competent people, they must be able to produce substantial audit findings

for the AC to assess and bring to the board, in the banking industry, the IAF is respected department, so we must get good people to join."

Expert power is also seen as a form of referent power resulting from recognized expertise. Referent power can be defined as feeling oneness with the power holder. For example, CAEs are seen to value and admire AC members who are experienced and have the appropriate knowledge will be able to understand the audit reports and ultimately take actions to ensure IAF provides the AC with high quality reports through AC guidance.

"My chair sits on a number of other ACs and the other members also have accounting background, they have well versed knowledge, I look forward to hearing their thoughts." [CAE 5]

In addition, experienced and knowledgeable ACs are seen as more approachable and able to establish a good relationship with the IAF. According to CAE 8:

"And if I need some guidance, if I want to clarify issues which is on the report, or something I can do it at any point of time. I mean it's a very good relationship."

This leads to mutual respect between the two roles. Therefore the positive relationships between referent and expert power (Fedor, Davis, Maslyn, and Mathieson, 2001) are also a positive precursor to building mutual respect between the two roles.

These are some examples that illustrate an effective AC through the perceived AC power and its influence on the quality of AC-IAFs relational process during an oversight coordination effort. However a more comprehensive picture is depicted when the relationships of several power dimensions are shown to influence several relational coordination dimensions at any one time. The conceptual links between these power

dimensions together with the relational coordination dimensions, AC-IAF reciprocal relationship and AC effectiveness are depicted in Figure 5.5.
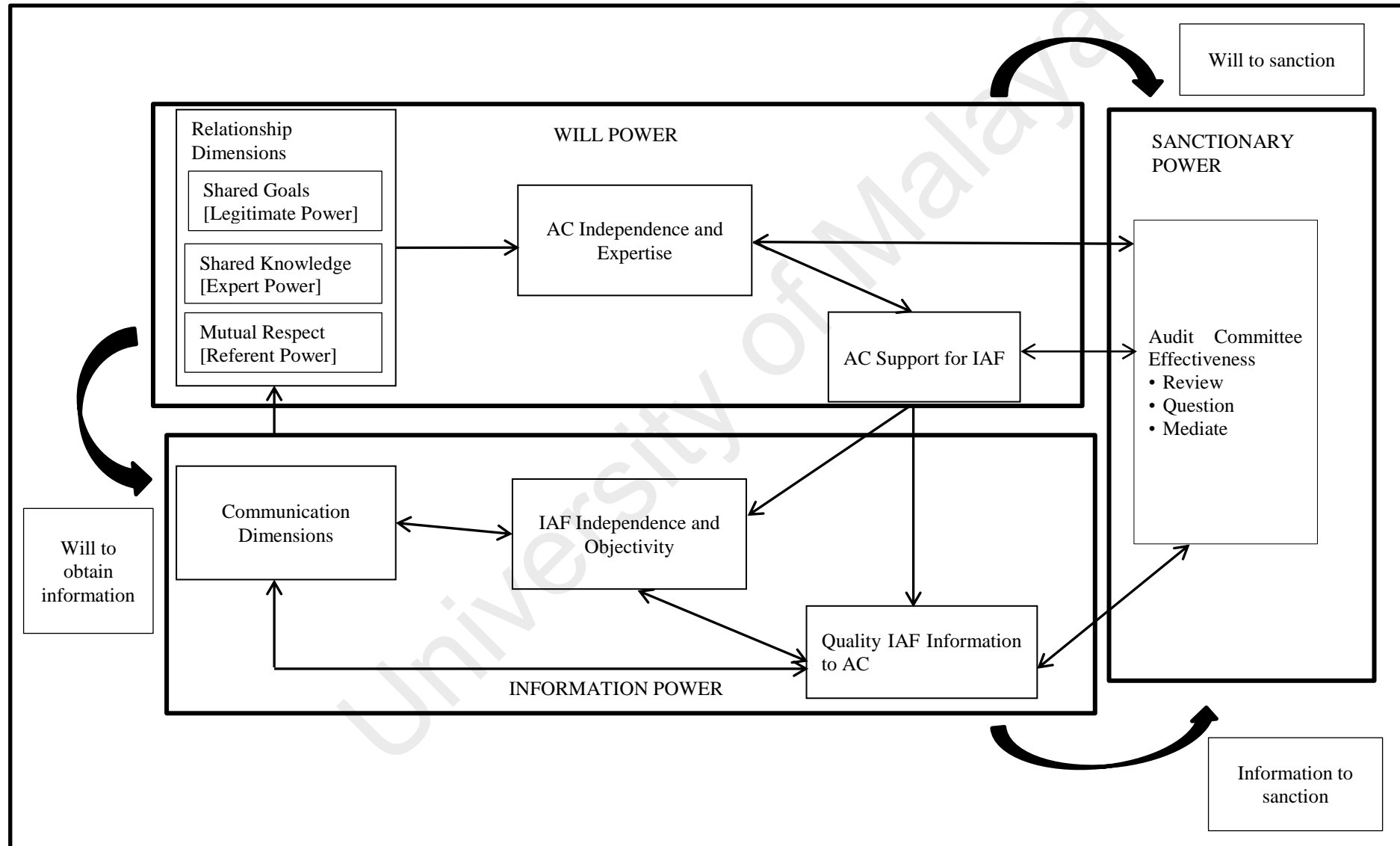
Figure 5.5: AC Power Influences on Relational Coordination Dimensions, AC-IAF Interaction and AC Effectiveness

5.4.2 AC Effectiveness through the extent and nature of AC Power on AC-IAF Relational Process

A notion that kept recurring from the interview data was in regards to the AC and their willingness to exercise their responsibilities effectively. The extent to which the ACs engage in questioning, reviewing and mediate will inform as to whether they are truly monitors or mere 'rubber stampers'. The perception of interviewees present that the level of AC oversight can range from meticulous monitoring to ceremonial 'rubber stamping', similar to the findings of past studies (Sulaiman, 2017, Gendron et al., 2004) Hence the interviewees agreed that the power to decide on whether or not to effectively discharge their responsibility was entirely up to the AC as emphasized by CAE3 "…how does the AC…look at the issues and manage it? It's actually up to them."

This section of the chapter explores AC effectiveness through the extent to which ACs will power to obtain information and will power to sanction influences AC-IAF's relational process and subsequently AC-IAF reciprocal relationship quality. ACs who emanates strong legitimate, expert and referent power is perceived to have a positive effect on the relationship dimensions of shared goals, shared knowledge and mutual respect. In theory, the presence of quality relationship dimensions will create a mutual reinforcement between communication and relationship dimensions in a positive direction. This means that the IAF is able to provide the AC with quality information through the presence of quality communication dimensions.

The presence of quality communication dimensions would point to the ability to provide information to the AC. How effectively ACs are in assessing information will depend on the quality of information they receive (Bédard and Gendron, 2010). Having

informal communications is a dimension of communication quality; however ACs must

have the will to want to have informal communications with their IAF. An obvious act

of will with regards to informal communications was seemingly depicted by CAE 8

whereby her AC chairman asked for private informal meetings with the CAE in order to

better understand the audit reports:

> "Because she wants to understand. she takes time to understand those
> reports and gives her comments. So, before the actual Audit Committee
> meeting is held, we actually update her on the other info. If she has
> requested for further info than what we have done, then we try to get her the
> info and update her before the meeting. So, she takes that effort to
> understand."

Willingness to obtain information was also illustrated by CAE 9 with regards to his AC

members:

> "So, I have one member before, he come to talk to me. Can we run through
> first, at least I understand. This all my issue. He (the AC member) tell I
> know, this all stupid questions but I want to understand. Good. I've no
> problem. So, if they have that attitude, no issue."

This shows that ACs have the will to have the same assurance goals to the extent of

having informal communications with the IAF, thus increasing their information power.

Exercising both their will and information power through informal communications

allows AC to sanction active questioning and review reports which indicates an

effective AC.

Not only are ACs able to obtain their information needs through meetings with the IAF,

ACs can also obtain information through director trainings. BoDs including ACs should

take the initiative to continue upgrading their skills and knowledge and director's

training should be supported and actively encouraged. AC members are also invited to

attend conferences with their CAEs. CAEs believe that this helps to create better ties

between the two roles as the ACs are aware of up-to-date changes within the CG

framework. CAE 6's AC was willing to go for training to get abreast with the latest information significant to the governance framework.

> "Sometimes they need, they go for refresher training, in governance. They update on what is their role in governance, framework, you know? ...they can also better understand what IAF can provide for them"

However, there are instances though where some ACs are reluctant to attend these trainings sessions as they find that it is a waste of time. To illustrate this, AC3 felt that most of these trainings did not do much for him. He gave an example of a training that talked about director independence. He felt that this training was redundant to him because being independent is up to the individual no matter how many types of characteristics one may preach about forming independence. This is a clear indication of functional goals and specialized knowledge. It is also a sign of disrespect as the AC makes known to the fact that this training would be beneficial but refuses to participate. CAE 9 echoed that some of his AC members too did not take AC trainings seriously:

> "They just go for registration and go back. I would like to want to think that he (AC member) went and attended the audit committee training workshop to learn. But he (still) doesn't understand. <u>Because (they), just go for the sake of going</u>."

This would affect the quality of mutual respect that is shared between the AC and IAF. Hence the unwillingness to obtain information is associated with a negative mutual reinforcement of relational coordination dimensions which will affect the quality of AC-IAF reciprocal relationship. This is an indicator of an ineffective AC.

ACs exercising their will and information power in an environment of high quality reciprocal relationship will exercise their sanctionary power to diligently review and approve IAF plans and budgetary needs. CAE 8 elaborates by saying:

> "My AC knows what we need, they are aware of where we are and where we need to go, so my AC usually will review and approve of my plans, needs and if not they will bring it up to board and management to ensure.., I think this is due to their experience and wanting to do the right thing."

ACs who lack shared goals with the IAF and take sides with management can be seen as unwilling participants in the governance structure. Although presented with information, some interviewees argue that ACs tend to remain passive in AC meetings which is seen as a negative influence on the shared goals of the two roles. These AC members tend to take managements explanations at face value without real deliberation which some CAEs feel may underscore the IAFs efforts in bringing up issues that are thought to be relevant or issues that are of high risk.

> "If you have experts, but if they don't talk in the committee, it will (be a) waste of the committee… and they've all the experts. But, they don't talk much. They just (say) yes." [CAE 2]

> "…if they don't talk (the AC), it's a waste, everything is just yes and ok, than what's the point?" [CAE 3]

> "Yes. You (the AC) can keep silent that you don't want to give further direction. That's fine; I mean … this is a statutory role….If you, if the AC (is) going to criticize your Internal Auditor, then the Internal Auditor shouldn't be there." [CAE 5]

This passive role played by the AC is adverse to the problem solving communication because this may cause the IAF to harbour feelings of animosity, being offended or not being appreciated by the AC. When the IAF harbour's feelings of animosity, being offended or not being appreciated by the AC (which are indicators of disrespect as portrayed in Gittell, 2006) this leads to a negative relationship quality attribute of mutual respect. These feelings may imply reduce mutual respect between the two roles (Gittell, 2006) which in effect may create a negative element in problem solving communication. Thus ACs who have the will to be free from management's grasp are able to be more independent in form and substance and will participate in more active

questioning and review with the IAF thus creating a more quality reciprocal relationship.

Thus research objective two shows that although an AC may have shared goals, shared knowledge and mutual respect reinforced with quality communication dimensions to foster a quality reciprocal relationship with the IAF, it may still be deemed ineffective if it does not will a quality relational process to occur between the AC and IAF.

5.4.3   Other Significant finding: AC-IAF-Management relationship

The objective of the research was to explore the relational process between the AC and IAF. Nevertheless, the governance framework not only comprises oh the AC and IAF but also of other actors (Cohen et al, 2002). During the analysis of the data from the interviews collected, it was apparent that management played an integral role as to how well the AC and IAF coordinate during their oversight work process similar to the findings of Claybrook (2004).

Drent (2002) argues that, in the minds of many executives and managers, internal auditors work for them, and that reporting to the AC merely is a formality to satisfy corporate governance requirements. A presence of high quality relationship dimensions throughout the coordination of AC and IAF efforts would point otherwise as can been seen here:

> "My plans for the year are approved by the AC, they determine whether I can go ahead with the plans or not, yes management will give their feedback but ultimately, the AC will approve my plan." [CAE 10]

"The auditors come up with the plans. We give them input on the plans and directions, they must however get us to approve of it, not management, because the auditors report to us functionally and only administratively to management" [AC4]

While senior management's input is essential for setting internal audit priorities, ACs should have the final approval when it comes to IAF plans and resources.

Interpretation of the data shows that both AC and IAF independence and objectivity can be threatened when a negative mutual reinforcement of relational coordination dimensions exists as well as the presence of uncooperative management. Consequently, if management restricts ACs accessibility and independence, thus weakening its support for the IAF, this may also indicate that management may have influence on the IAF with regards to the selection of information that is communicated to the AC. The quality of IAF information could also be jeopardized by the ACs lack of will to safeguard the IAF from management's grasp

"sometimes the management will try to say no need to include some things in the report, can settle, cincai (take it easy)…if your AC is weak and management influence is overbearing, it can lead to some information being excluded from the report…at the end of the day, who pays my pay check?"[CAE10]

A rift between the management and the IAF could taint the quality of the audit report and this directly influences ACs information power as depicted by CAE 6:

"When we discuss with the management, we always get that kinds of influence. They (management) always want to influence us to block this finding."

In problems and issues regarding management, the majority of the CAEs assert that the AC members must be willing to act and challenge management (c.f. Beasley et al., 2009) Spira (1999) argues that ACs should not remain passive and must not be satisfied

with vague answers such as "we're going to sort it" from management, but instead must be able to challenge management with penetrating questions. Therefore, if the AC willingly carries out its legitimate power to be the mediator between the IAF and management, it sends a signal to the management that they are there to support the IAF (Salleh and Stewart, 2012).

> "Sometimes there can be issues that arise during an audit between the management and our IAF… so we have to take cognizance of that…that's why I say the AC has to be the referee, get the IAF and ask them is this practical, it doesn't sound practical to me, in the AC meeting, the IAF will talk then the management will respond, so the AC has to be the referee, be the judge, in terms if this is the best way to do things" [AC7]

When management is cooperative and supportive of IAFs assurance efforts, the IAF is free to bring accurate and timely information to the AC thus increasing ACs power to obtain information. This will then increase AC's sanctionary power to effectively review all the necessary information provided by the IAF.

If the AC is under management control, it therefore may provide weak monitoring in the governance (Beasley et al., 2009; Cohen et al., 2007). Bruynseels and Cardinaels (2014) support the view that CEO may have a decisive impact on the monitoring function of the AC. He, Pittman, Rui and We (2017) asserted that social ties between AC members and auditors could also affect audit quality. They state that social ties between the two roles or could impede the AC members and engagement auditors from exercising due diligence in their monitoring of the external auditor process due to trust and unintentional bias issues.

Thus it would be interesting to further research the managements' role in the relational process between all three roles by utilising the relational process framework. It would provide a bigger picture on the effectiveness of the AC in having to balance between its

interaction between management and the IAF and how it would impact the other said roles.

5.5 Conclusion

This study validates Ardalan (2007) argument that corporate governance is an amalgamation of both the technical matters as well as social process. Effectively discharging their CG mechanism roles requires not only effective coordination or interdependencies of technical tasks but also effective coordination or interdependencies of people who perform those tasks. It is clear that effective coordination between the AC and IAF is not only dependent upon the coordination or interdependencies of technical tasks but it is also the management of interdependencies of people who perform those tasks, thus highlighting the importance of relational coordination. The uniqueness of the relational coordination theory is that it focuses on the development of relationship between roles rather than between individuals. When participants of a work process are able to understand their roles, thus sustainability and replicability is achievable as it enables individuals to come and go without disrupting the web of relationships through which work is coordinated, controlled and coproduced (Gittell, 2011).

This research has been able to provide a succinct description on the importance of the relational process on the quality of AC-IAF reciprocal relationship. The relational coordination theory provides a concise framework in order to understand what is needed from both the AC and IAF in order for the two roles to maximize their reciprocal role potentials. Apart from other studies which only study the extent of one or two attributes on AC or IAF's work outcome (e.g. Salleh and Stewart, 2012; Wu et al., 2014; Sarens

et al, 2009), this framework is able to explore many attributes' effects on the coordinating efforts of both the AC and IAF at once. Not only can it inform how AC and IAF should be coordinating technically (report writing, undertaking audits, meeting agendas etc.), this framework helps to inform how the AC and IAF can coordinate relationally in the form of relationship dimensions and communication dimensions. The ability of the AC and IAF to coordinate on a cognitive level (shared knowledge) will allow them to coordinate on an emotional level (i.e. shared goals and mutual respect) as well (Gittell, 2006). A clear example of this is the simple act the AC providing the IAF organizational status (borne out of the shared goals and shared knowledge between the two roles) emanates empathy and respect from each role for the other as they will make sure the other role is able to work in the most efficient manner. This then will result in the two roles engaging in high quality communications which is frequent, timely, and accurate and engage in problem solving.

The conceptual framework of this study is also able to provide a description on how important the relationship dimensions are to the communication dimensions shared between the two roles. Prior studies only looked at the effect of AC-IAF communication on the outcome of AC or IAFs work (e.g. Zaman and Sarens, 2013; Soh and Martinov-Bennie, 2010). This study however, not only looks at what communications forms exist, but also the influence these communications forms have with the relationship dimensions of shared knowledge, shared goals and mutual respect and vice versa. For example, the shared knowledge and mutual respect from the IAF with respect to ACs time constraints leads the IAF to produce reports that are concise yet meaningful, inform the AC on significant issues as soon as possible using means outside of formal meetings such as phone calls or emails, and not troubling the AC with immaterial and trivial matters. The AC on the other hand reciprocates this by engaging in problem

solving communication by acting as a mediator between the IAF and other parties should any issues that hinder the abilities of the IAF to objectively conduct their audits arise.

The exploration on the effect of AC power on the relational coordination dimensions helps to inform how the different power dimensions influence the quality of the mutual reinforcement of relationship and communication dimensions during the coordinating efforts of the AC and IAF. As ACs exercise more power throughout their coordination efforts, it influences the level of mutual reinforcement between the relationship and communication dimensions. For example, as ACs exercise more expert power by providing more guidance and advise, this will allow the IAF to garner more knowledge about the AC and create a feeling of respect towards the AC. This then reinforces both roles to engage in high quality communications. Hence, AC power is seen as an important precursor to AC-IAF relational process in ensuring that they have a quality reciprocal relationship.

The relationship between AC power and AC-IAF relational process has shaped our understanding on the extent AC effectiveness is influenced by the interpersonal behaviour of the AC. For the purpose of this study, AC effectiveness is not described by a tangible outcome of an oversight (e.g. accounting restatements, going concern reports, audit fees.). However, AC effectiveness can be perceived as the quality of the relational process itself and also the behaviour AC engages in order to produce a quality reciprocal relationship. This means, effective ACs who exercise their powers to create a positive mutual reinforcement of relationship dimensions and communication dimensions will tend to engage in active questioning, diligent reviewing of reports and

other information and also act as a mediator in order to ensure that the AC-IAF reciprocal relationship is of quality.

As it can be seen through the experiences and stories of the research participants, active questioning, diligent review of reports and other information, being a mediator for the IAF allows for the manifestation of a quality relational process that creates a quality reciprocal relationship between the two roles. This would indicate that ACs are effective as they are able to protect the IAF with which enables the IAF to become an efficient information provider to the AC. However, there was one important factor that stood up above the rest in ensuring ACs effectiveness. This factor was the power of will, ACs will to undertake all of what has been described above. A description of the relationship between will power and all the other dimensions described in the study is provided in Figure 5.6. It was a clear consensus amongst all the research participants that at the end of it all, nothing can happen if the ACs did not will it. ACs must be willing to engage in a quality relational process with the IAF, ACs must be willing to exercise the powers in order to engage in a high relational process with the IAF, and the ACs must be willing to be effective. Without will power, ACs will be deemed ineffective.

Therefore, an AC can be made up of the best people in terms of experience, have the best IAF department to provide the AC with the most reliable reports, yet will still be deemed ineffective if the AC does not will itself to perform their tasks objectively and effectively. Without the will to perform, ACs will be seen as mere 'rubber stampers' and ceremonial at best. In summary, this study allows for the understanding of AC effectiveness through the exploration of relational process and AC power as advocated by the relational coordination theory and power theory.
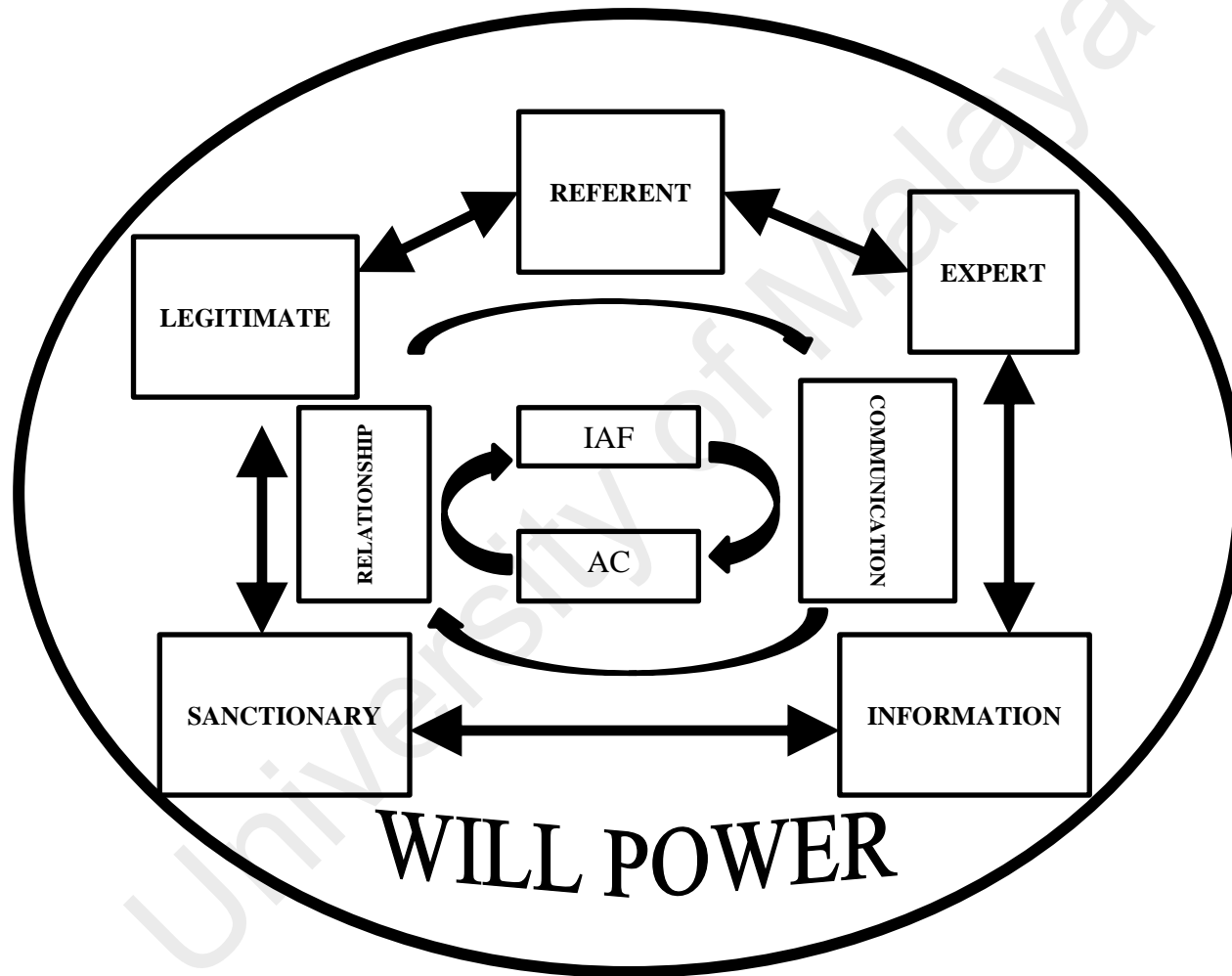
Figure 5.6: Influence of AC will power on other powers and AC-IAF relational process and AC-IAF reciprocal relationship

CHAPTER 6: SUMMARY, LIMITATIONS, IMPLICATIONS, AND RECOMMENDATIONS

6.1   Introduction

This research focuses on two important CG actors namely AC and IAF whose purpose among many is to monitor and evaluate the internal control system. This research suggests that AC effectiveness can be explained through the behavioural and psychological process of AC power and AC-IAF relational process. The purpose of this chapter is to summarize the research objective, conceptual framework, methodology and results. This chapter also discusses the research implications, limitations and possibilities for future research.

Actual board behaviour has lacked significant research efforts because researchers are faced with confidentiality, significant access difficulties and other practical limitations (Leighton and Thain, 1997). A 'black box' of BoD exists when internal workings of the BoD can only be inferred based on public information available and examining boardroom dynamics from a distance (Daily, Dalton and Cannella., 2003; Gabrielsson and Huse, 2004; Hambrick, Weder and Zajac, 2008,). According to Zahra and Pearce (1989), 'black boxing' of the BoD provides little documentation on what boards are actually doing although regulators and professional bodies provide countless lists of what boards should do.

Research on ACs has followed the same trajectory as research on BoDs which essentially relies on 'black boxing' whereby there is an overreliance on an input-output approach and particular theoretical domination (i.e. agency theory) (Brennan and Kirwan, 2015). While these studies show an association between some of the variables

examined, they nonetheless provide little information as to how ACs operates in practice. The lack of understanding with regards to how ACs operates in practice is clearly explained by Van der Berghe and Levrau (2004,) whereby "Structures are no guarantee for an effective board working: they are only a facilitator. Structures are 'brought alive' by people" (p. 467). This quote aptly stresses the relevance of considering the human side of governance.

Forbes and Milliken (1999) argue that the effectiveness of boards (AC included) is likely to depend heavily on social psychological processes, particulaly those pertaining to group participation and interactions, the exchange of information, and critical discussion. By the same token, the AC may rely on participation and interactions, and exchange of information and discussions with internal auditors, external auditors and the management in discharging their oversight role. (Zaman and Sarens, 2013)

Due to this, there is a need to acknowledge the human and social side to the AC in order to reduce the gap between the ACs role and their actual practice. Since the AC needs to interact with others in order to perform their duties, it is important to research the dynamics occurring in and around ACs. The interaction with the IAF as one of ACs resource provider on organization specific matters is an important factor in determining the ACs effectiveness in its oversight duties. This research provides a link to understanding ACs relationship with the IAF through their coordinated efforts, how this relationship can improve the effectiveness of the AC in its oversight duties, and how AC power influences the quality of this reciprocal relationship and AC effectiveness.

6.2 Summary of Conceptual Framework, Research Objectives and Research Questions

The conceptual framework for this research was examined in chapter one (Figure 1.1). Relational Coordination theory (Gittell, 2002) and Power Theory (French and Raven, 1959 and Kalbers and Fogarty, 1993) were used to form the conceptual framework for this research endeavour. Based on this conceptual framework, this research sought to provide the most logical methodology to investigate the problem of evaluating the effectiveness of the AC through its relationship process and power.

The purpose of this research was to provide a behavioural and psychological theoretical lens in understanding AC effectiveness through the quality of the AC and IAF reciprocal relationship through the lived experiences of the research participants. The primary research objective was to evaluate the effectiveness of the AC through the quality of the AC- IAF reciprocal relationship of Malaysian PLCs. This was to be done through the understanding of how AC power and AC-IAF relational process influences the quality of this reciprocal relationship. In carrying out the primary objective of this exploratory research, two sub-objectives were identified (Table 5.1). The first objective sought to explore AC effectiveness through the influence AC-IAF relational process had on the quality of the AC-IAF reciprocal relationship. The second objective was to explore AC effectiveness through the nature and extent of AC power and its influences on AC-IAF relational process and overall AC-IAF reciprocal relationship quality.

6.3 Summary of Methodology

This research examined the perception of 10 AC members and 10 CAEs who had first-hand experience and could provide different outlooks on the phenomenon. An in-depth,

semi-structured interview format was employed to gather the perceptions of selected AC members and CAEs in Malaysia with regards to the necessary attributes needed to form a quality reciprocal relationship between the AC and IAF and how AC power influences the quality of this relationship. These questions were answered within a qualitative paradigm, using Interpretative Phenomenological Analysis as a methodology.

The methodology chapter evaluated the methodological basis for the research, and the methods used to answer the research questions. It has been demonstrated that the methods were effective in achieving the research objectives, and the quality of the research has been judged according to criteria suitable for assessing the quality of qualitative research. It is important to note at this point that underlying the contribution of this thesis is the phenomenological approach. This methodological approach has led to the discovery of phenomena which other methodologies would not have captured. Power and relational coordination in particular are actions which are manifested in the lived experience and which the phenomenological approach is best suited to capture. The methodology facilitated the conclusion about the relevance of power and relational coordination for the practise of CG. It was crucial to be able to explore the experience to access the disposition and intention of the research participants. At the root of in-depth interviewing is an interest in understanding the lived experience of other people and the meaning they make of that experience (Seidman, 2006). The researchers' task was to present the experience of the people interviewed in compelling enough detail and in sufficient depth in order for those who read the research to connect to that experience, learn how it is constituted, and deepen their understanding of the issues it reflects.

6.4   Summary of Results:

6.4.1   AC-IAF Relational Process and AC Effectiveness

In order to meet the first research objective, this research sought the perceptions of its research participants with regards to how is AC effectiveness understood through the relational process that it engages in with the IAF in order for the AC and IAF to foster a more quality reciprocal relationship. To recap, this research defines a quality reciprocal relationship as AC strengthening the IAF whilst the internal auditors become an important resource to the AC. On the other hand a relational process involves a network of communication and relationship ties among people whose tasks are interdependent (Faraj and Xiao, 2006; Gittell, 2002; Weick and Roberts, 1993).

The main emphasis of this research is that relationships play a key role in governance granted that governance is a pattern of social relations for integrating organizational activities. Therefore this research argues that relational coordination theory is able to provide the foundation in understanding the vital role relationships play in successful coordination. Relational coordination is defined as communicating and relating for the purpose of task integration or more simply coordinating work through relationships of shared goals, shared knowledge and mutual respect when engaged in a common task similar to that of an assurance oversight.

In the onset of the research, the researcher sought to affirm that the relational coordination was a valid theory to be used as a foundation in understanding the quality of the relational process between the AC and IAF during the oversight work process. Since it was apparent that all relational coordination dimensions were present in the nature of the AC-IAF reciprocal relationship, the researcher was then able to use the

framework to ascertain an understanding to what extent an AC-IAF reciprocal relationship was that of quality or not. The quality of the relationship was explained through the process of mutual reinforcement of communication and relationship dimensions in either a positive or negative direction.

The research shows that ACs who share knowledge on how their tasks fit relative to the tasks of the IAF are able to form the basis for coordination to occur. However, shared knowledge is not enough (Gittell, 2006). For effective coordination to occur, ACs must also be connected to the IAF by relationships of shared goals and mutual respect. Shared goals motivate the ACs and IAFs to act with regards to the overall process whereas mutual respect encourages the two roles to value the contribution of the other and consider the impact of their actions on the ability of others to do their work. Shared knowledge forms the cognitive basis for coordination, shared goals and mutual respect can be seen as providing the energy and emotion, essential to effective coordination of work (Quinn and Dutton, 2002). The research findings have exposed that AC-IAF high-quality relationship dimensions together encourage AC-IAF frequent, high-quality communication. Positive mutual reinforcement of communication and relationship dimensions reinforces high-quality AC-IAF reciprocal relationships.

Data analysis of the research participants perceptions highlighted that a positive mutual reinforcement of the relational coordination dimensions is attainable when ACs and IAFs understand their roles and objective and engage in frequent, quality communications. More importantly, the AC must realize that their objective is to not only assess information that is presented to them by the IAF but to also provide an environment of support to the IAF. Effective ACs are those individuals who are on the same wavelength in terms of knowledge, goals and respect with the IAF. They will

ensure to review and question issues revolving IAF independence and objectivity, IAF audit reports and act as a mediator between IAF and management when issues arise. Given the right platforms, the IAF is able to conduct their responsibilities with independence and objectivity in order to disseminate quality information to the AC.

By taking into account the lived experiences of the research participants, this research has been able to provide evidence that the relational process and power framework can be used in order to understand how the relational process influences the quality of the AC-IAF reciprocal relationship. The stories and experiences shared have facilitated a clearer understanding on how effective ACs foster a quality reciprocal relationship between the two roles. An effective AC must be engaged in shared goals, shared knowledge and mutual respect with the IAF. When AC is able to strengthen the position of the IAF, this allows the IAF to generate quality information to the AC. Hence the AC is better equipped to monitor and make more informed decisions with regards to an organization's internal controls and financial reporting. Thus by mapping the relational process and interactions between the AC and IAF, the result of this research has enhanced the understanding of how AC-IAF reciprocal relationships shape the effectiveness of the AC oversight responsibilities.

6.4.2   Importance of AC Power towards AC-IAF Relational Process and AC Effectiveness

In addition to understanding how to cultivate a high-quality reciprocal relationship between the two roles, this research also highlighted the need for ACs to understand the dynamics of power that they hold. The research participants held the perception that ACs need to have an understanding of the power that the AC possess and how to use

this power to effectively discharge their oversight responsibilities, a belief akin to that of Turley and Zaman (2007). Through the research participants' lived experiences of AC power, this research makes known of several examples that illustrate how the perceived AC power is able to enhance or have positive influence on the quality of AC-IAFs interaction during an oversight coordination effort.

In contrast to San et al., (2012) who state that there is no evidence that referent power has any significant relationship with AC effectiveness, this research shows that by incorporating power together with the relational coordination framework, it would point otherwise. Referent power is seen to be a big influence on the extent of mutual respect amongst the two roles and subsequently will have an influence on AC-IAF reciprocal relationship quality and overall AC effectiveness. On another note, the proponents of this framework also agree with Kalbers and Fogarty (1993) whereby sanctionary power is highly related towards AC effectiveness in terms of IAF effectiveness. That is to say when AC exudes its sanctionary power it reflects onto others that the AC is serious in its monitoring responsibilities and it will affect other parties (e.g. the IAF) to actively and seriously participate in the governance practice. However, ACs need to have the will power to sanction more support for the IAF. Ultimately, it is the AC that has the power to set the tone at the top to indicate to management that they are serious about their job. This will lead the management to be more supportive of the IAF since they know that the IAF will have the support from the AC, thus having some influence on IAF effectiveness.

In the final analysis, this research finds that will, information and sanctionary power may have the most profound linkage with AC effectiveness. ACs need the will to carry out their legitimate, expertise and referent power. They also need to have the will to

obtain information. With sufficient information, they will be able to sanction in accordance to their mandate, however in the end it boils down to whether the AC has the will to sanction or not. ACs thorough knowledge on the power that they hold will guide and alert the AC members to apply their powers effectively and appropriately in order to foster a better relationship with the IAF as well as allow the AC to better perform in their oversight responsibilities.

To sum it up, this research has been able to provide a framework that informs on AC effectiveness through AC power and AC–IAF relational process in encouraging a quality reciprocal relationship between the two roles to exist.

6.5 Limitations

As with most research studies, certain limitations were inherent in the research process. The first limitation relates to the purposive sampling method utilized in this research. The main limitation of purposive sampling is the impossibility to extrapolate the results to the whole population, in other words the findings are limited in terms of their generalizability. The data collected represents the perceptions of the individual participants and are not necessarily representative to the wider population of ACs and IAFs. This sampling method may have introduced biases to the research's results because the participants were not randomly selected. Thus, any conclusions reported in this research are limited to the governance actors who participated in this research. Nevertheless, as previously argued in the methodology chapter, it is not the aim of the results in this research to be generalizable because samples selected purposively serve to investigate the research purpose rather than to be statistically representative of a population (Ritchie, Lewis and Elam, 2003). As has been noted, this research tries to gain rich descriptions of individual experiences in order to advance the theoretically

inspired notions of relational coordination and power to the CG realm of ACs and IAFs. According to Creswell (2009), "the value of qualitative research lies in the particular description and themes developed *in context* of a specific site.'

The second limitation involves the limited number of participants. Ensuring there is enough data points to whether a research is able to produce credible analysis and reporting (Marshall, Cardon, Poddar and Fontenot, 2013). Limited number of participants may also produce results that might not be generalizable beyond the participants.

This research adopts Francis et al. (2010) suggestion for a 10 + 3 criterion for theory-based analyses. This research uses theory-based analyses since it uses existing theories. Theory-based analyses seeks to use the data to populate pre-specified theoretical constructs with relevant content. Francis et al. (2010) also states that the sample size in qualitative study should be determined by data saturation. Guest et al. (2006) defines the point of saturation when the ability to obtain no new information has been attained which is between six to twelve interviews. In this research, major themes were present after 5 interviews and became apparent in the subsequent interviews. Hence, based on the arguments above, the purposive sampling of 20 information-rich participants comprising of 10 CAEs and 10 AC members is justified.

The final limitation involves the process of coding and interpretation of data which could be influenced by the researcher judgements. The theory elaboration and IPA methodology is a highly descriptive process and represents widespread meanings, which may be interpreted differently by other researchers. A significant portion of qualitative research is highly dependent upon the integrity and accuracy of the researcher when

performing the interviews, creating field notes and executing the detailed coding process throughout the research analysis. Consequently, the researcher may unknowingly read something significant into minor data, or fail to observe that which is really significant. This may lead to instances of subjectivity (bias) in the interpretation of the data.

With this in mind, considerations for validity in this research were deemed essential. One of the important aspects of qualitative and interpretive research is a well-kept balance between rigor and openness (Ahrens and Chapman 2006). The readers of this research must have enough information in order to make judgments about the plausibility, credibility and trustworthiness of the results. The readers must feel that the work is a worthwhile interpretation. Hence, strategies to ensure trustworthiness were incorporated into the research's design such as detailed documentation of the research process, recording and transcribing interviews verbatim and including direct quotes in the research report (Seale, 1999) which have been elaborated in Chapter Four: Methodology.

In addition, due to the nature of qualitative research, the researcher plays an important part in the conclusions made hence the need for substantive validity through researcher reflexivity. Substantive validation includes the researcher assessing their biases at an earlier stage of the process, reflecting on how these are changed through engagement with the research topic and context, and documenting all this in the final output (Angen, 2000; Bergum, 1991). Equally important, ethical validity issues were addressed by ensuring that each research participant's views were treated with fairness and respect. Data were also validated by consensus and in accordance with the general practice of grounded qualitative theory (Denzin, 1998). In this case, coding and data interpretation

were validated through presentations at conferences and colloquiums which allowed opportunities for further comment by an audience member involved directly or indirectly in the CG mechanism.

6.6 Implications of the Results

This research sought to provide a behavioural and psychological theoretical lens in understanding AC effectiveness through the quality of the AC and IAF reciprocal relationship and how AC power influences the quality of this interaction and overall ACE. This form of research has not been addressed by prior research focusing on ACs and IAFs. It was the aim of this research to reduce the gap between the ACs role and their actual practice by providing information with regards to how ACs operates with the IAF in practice. The findings of this research provide several implications on organizations, policy makers, regulators and also professional bodies. In addition this research also contributes to the body of knowledge by expanding several prior corporate governance and AC effectiveness frameworks through the evaluation of the research participants' experiences with this phenomenon. A summary of the implications is depicted in Figure 6.1.

Organizations may find it useful to establish both formal and informal training procedures that encourage AC members in developing power bases that positively affect IAFs perceptions. Skills-based power reflecting qualities associated with referent and expert power bases may be crucial in sustaining influence.

One benefit of using relational controls, such as personal interactions (e.g. meetings, task forces) intermediaries, and interactive structures (e.g. matrix organizations) is that

such measures are better suited to complex tasks in uncertain environments and may be more effective in today's organizations. Another benefit is that these techniques foster individual commitment to the desired course of action, rather than simply secure employee compliance, as is often the case with more coercive forms of controls. When individuals internalize the desired norms and goals they adjust their behaviours to support new organizational directions and outcomes and desired organizational changes will be repeated and become institutionalized.
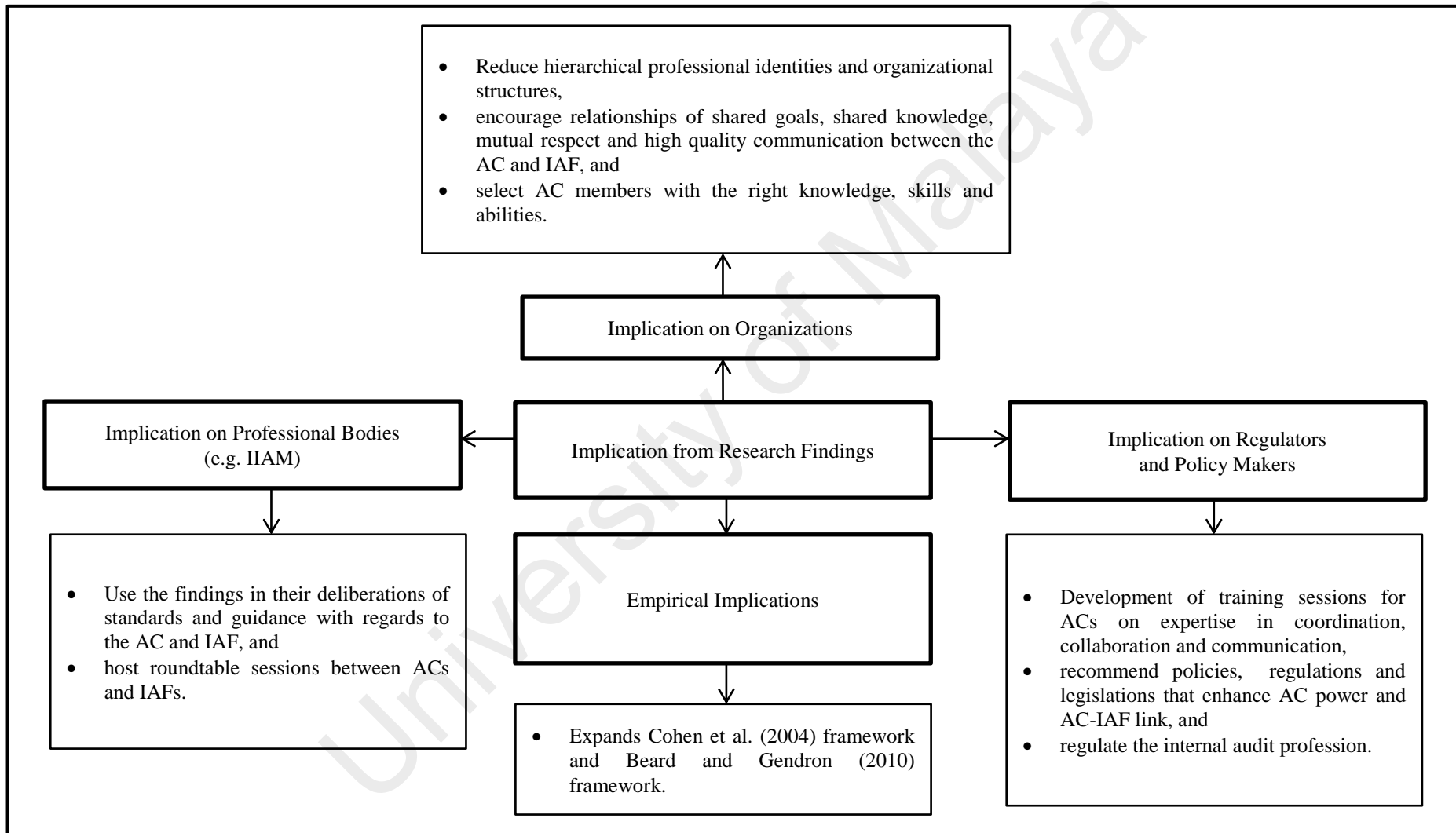
Figure 6.1: Implication of Research Findings

6.6.1 Implication on Organizations

Because Malaysia has been categorized as a high power distance nation (Zain and Subramaniam, 2007), it is strongly suggested that the power distance between ACs and IAFs in Malaysian plcs can be reduced when organizations implement the relational coordination framework. In other words, higher quality relationships are expected to reduce the cultural norm which emphasizes class distinctions based on the level of authority. Organizations must find a way to reduce the hierarchical and deeply embedded professional identities and organizational structures in order to ease communication and relationship patterns between the AC and IAF. Organizations can do so by encouraging relationships of shared goals, shared knowledge, mutual respect and high quality communication between the AC and IAF as this will enable the organization to gain the rewards associated with the social capital that develops.

When faced with task interdependence, uncertainty and time constraints, shared mental models between the AC and IAF will enable them to better understand the link between their own job and the job of others in the oversight work process. High-quality relationships reinforce high-quality communication, encouraging participants to listen to each other and to take account of the impact of their own actions or inactions on those who are engaged in a different part of the process, therefore helping them to react to new information in a coordinated way, further contributing to performance of the work process (Gittell et al., 2008), Relational coordination enables individuals to better manage their interdependencies with fewer dropped balls and less wasted efforts which consequently improves quality and efficiency performance. Therefore, higher quality relationships among the two roles are assumed to enable them to raise their level of performance even more. It is also important to realize when participants of any given

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work process understand their roles, this enables sustainability and replicability, allowing individuals to come and go without disrupting the web of relationships through which work is coordinated, controlled and co-produced (Gittell, 2011).

Another key point raised in this research are AC will power, AC independence and management support are expected to impact the relational coordination efforts between the AC and IAF. Therefore ACs cannot be simply practicing the culture of 'box ticking' or 'mere compliance' whereby ACs are established as a result of rules imposed on them by regulators (Haniffa and Cooke, 2002; Shamsher, Zulkarnain, M-Ali, 2001; Zulkarnain and Shamsher, 2007; Zulkarnain et al., 2006). In order for the AC to be actively involved in the oversight function rather than just 'box ticking' or 'rubber stamping' it needs to be diligent and have a will to act.

This research provides evidence that it is important for organizations to select AC members with the right knowledge, skills and abilities to maintain independent and carry out the power in accordance to their objectives. By identifying the knowledge, skills and abilities for a specific job, organizations may be more likely to select individuals that have the capability to exhibit the in-role behaviours necessary to perform well on the job. These individuals are also more likely to engage in behaviours that go over and beyond their prescribed role behaviours. For this reason, AC members with sufficient will power will have a sense of readiness, well-preparation, perseverance to provide a reliable guardianship over the shareholder's interest (DeZoort et al., 2002). With such power, other parties might regard AC as the arbiter who provides significant conditions governance outcome and lead to enhance AC effectiveness (Turley and Zaman, 2007).

6.6.2   Implications on Regulators, Policy Makers and Professional Bodies

Interestingly, the results of this research is in agreement with Selvarany (2010) whereby there is still the impression that some Malaysian PLC directors (ACs included) do not fully understand their role and responsibilities. ACs may have little understanding of the IAFs roles and may lack appreciation for the uniqueness and importance of each other's contributions to overall oversight effectiveness. The AC needs to have knowledge on what their roles and responsibilities are and how their roles are connected to other roles in the corporate governance realm. Although much emphasis is given on knowledge and skill acquisition through AC training little attention is given to the development of expertise in coordination, collaboration and communication. Hence the results of this research should be able to provide feedback to regulators (e.g. Bursa Malaysia) and policy makers on the need for policies that support and enhance the link between the AC and the IAF. In addition, the findings of this research is also beneficial to policy makers and regulators because they will be able to identify which AC powers contribute towards enhancing the AC-IAF reciprocal relationship and AC effectiveness thus develop future corporate governance recommendations, regulations and legislations based on these findings.

On another note, a number of the CAEs interviewed agreed that the IAF needs to be regulated as they believe that this will enhance their role in their respective organizations. In Malaysia, there are currently two bodies that have issued internal auditing standards or guidelines, i.e. the Institute of Internal Auditors Malaysia (IIAM) and the Malaysian Institute of Accountants. However, there are currently no specific bodies tasked to regulate the internal audit profession, i.e. their qualifications as well as the way internal audit should be conducted. As such, internal auditors are not required

to adopt specified internal auditing standards unlike external auditors who are regulated by the Companies Act, 1965 Therefore, it is encouraged that Bursa Malaysia consider regulating the IAF profession to streamline standards. It is hoped that in doing so this will infuse a higher level of proficiency in the internal audit profession to meet the needs of Malaysian plcs.

Finally, professional bodies such as IIAM could use the findings in their deliberations of standards and guidance with regards to the AC and IAF as well as the relationship between both parties. It is highly encouraged that they host roundtable sessions between ACs and IAFs in order to openly discuss underlying issues that may hamper the development of a high quality reciprocal relationship between the two roles.

6.6.3   Empirical Implications

The developed research framework can be related to prior frameworks focusing on corporate governance, AC process and AC effectiveness. This research contributes both theoretically as well as empirically to the framework by Cohen et al., (2004) by focusing on the interrelationship between two crucial corporate governance actors, namely AC and the IAF. Cohen et al.'s (2004) corporate governance mosaic highlights interrelationships between various corporate governance actors. This research also contributes to the framework by Bédard and Gendron (2010) by focusing on the processes ACs undergo in assessing information and overseeing activities. This research adds to this framework by proposing that AC process of relationship with the IAF and power can provide a better understanding of AC effectiveness in assessing information and overseeing activities.

The expanded framework has been able to empirically provide a richer description of the actual activities and dynamics that surround the AC. For instance, there is a more thorough understanding of what knowledge ACs in Malaysia lack when it comes to upholding the IAFs independence and objectivity. Several issues addressed by the interview participants (e.g. IAF staffing and budgetary limitation and ACs involvement in the decision to hire or dismiss the CAE) have been described as being related to the ACs ability to strengthen the IAF and how this affects the quality of the IAF as an important resource to the AC. Therefore, the expansion of prior frameworks through the adoption of new theoretical perspectives has been able to broaden our understanding of ACs in practice.

6.7   Recommendations for Future Research

This study opens up several alternative avenues for future research. Future research could examine the research framework developed using different governance actors for instance ACs, IAFs and external auditors. Since ACs have an oversight over both the external audit and IAF, it would be interesting to evaluate AC effectiveness based on the relational process it has with both the external auditor and IAF simultaneously. In addition, it would be interesting to further research the managements' role in the relational process between AC-IAF-Management relationships by utilising the relational process framework. It would provide a bigger picture on the effectiveness of the AC in having to balance between its interaction between management and the IAF and how it would impact the other said roles.

It is also possible that the relationship between ACs and IAFs is affected by cultural differences. It is interesting to note that attributes such as age, gender, religious

background were also brought up by the some of the research participants. Some claimed that these attributes could have some influence on one's job quality. Women AC members were portrayed as more diligent in their reviews and ask more questions. Hence it would be interesting to consider exploring how these attributes could influence the quality of AC and IAF relational process and overall reciprocal relationship quality. Another avenue to consider is using a case study methodology whereby comparison on AC-IAF relationship quality and AC power is made between strong and effective AC with comparatively poor and ineffective AC. The main advantage of this approach is that it would enable a more thorough analysis of the antecedents and reasoning underlying the relationship dynamics.

Future research can also look into how different theories are connected to the relationship quality of the AC-IAF and AC power. For instance, how can we use institutional theory together with relational coordination and power theory to further understand AC independence and its influence on relationship quality? Only by incorporating these theories together can we answer the question of does the AC lack real power or exists as a mere symbolic mechanism in place to comply with regulation? The use of behavioural and psychological theories is important in order to further understand if the AC members use an agency or institutional perspective in performing their duties (Beasley et al., 2009; Cohen et al., 2008, 2010).

As for incorporating the findings of this research to quantitative research, a new variable (i.e. relational coordination) can be introduced as an expansion to prior research frameworks that are employed in quantitative research on AC-IAF interaction and its influence on AC effectiveness. Rather than merely focusing on measurable features of the AC (such as the number of independent members and number of financial/audit

expertise) the relational coordination variable (measured using a survey instrument created by Gittell, 2002) can be used as either a mediating variable between the AC characteristics and AC effectiveness or as an independent variable. Not only that, it is also suggested that AC-IAF relational coordination become a proxy to AC independence in future quantitative endeavours.

6.8   Conclusion

The purpose of this chapter was to summarize the research objectives, provide an overview of the conceptual framework and research questions, summarize the methodology and research results, explain the limitations of the research and the implications of the research results as well as provide recommendations for future research. In essence, this chapter comes to the conclusion that the interaction with the IAF as one of ACs resource provider on organization specific matters is an important factor in determining the ACs effectiveness in its oversight duties. The social process of relational coordination is crucial to the success of the technical process that takes place between the AC and IAF during an oversight work process and the AC effectiveness as a whole. The interaction between the AC and IAF can be improved on the basis of a mutual adjustment of communication and relationship qualities between the two roles. Furthermore, this research suggests that ACs must understand, develop and exercise their powers in order to develop a positive mutual reinforcement of relational coordination dimensions which subsequently enhances AC effectiveness.

On a final note, it is hoped that this research has stimulated the need to transcend AC effectiveness studies beyond the traditional agency theory and 'black box' approach. Abbott (2001) and Flyvberg (2001) argue that the value of social sciences lies in their

capacity to provide multivocality in the study of social objects through diverse perspectives and lenses. Multivocality relates to the belief that no single theory, perspective of analysis, or way of producing knowledge can account for the complexity of human behaviour. The study of the AC and its effectiveness in its oversight responsibilities is no exception to this need for theoretical pluralism. Shapiro (2006) attests that, "We need multiple perspectives to understand the interconnected economic, political, and social dimensions of CG and accountability" (p. 53). Eisenhardt (1989) asserts the need to look beyond the economics literature as a recommendation to organizational researchers. She cautioned that those who rely too heavily on economics due to its restrictive assumptions, such as efficient markets and its single-perspective style, risk doing second-rate economics without contributing first-rate organizational research. Similarly, Gendron (2009) posits that social life is too complex, ambiguous, contradictory, and ever-changing to study it only from a univocal approach (which in accounting research tends to be neoclassical economics). In conclusion, this research has provided evidence that an AC process study which encapsulates a behavioural and psychological perspective can produce intriguing results to better understand the relationships and power dynamics relating to AC process and AC effectiveness.

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