

RESEARCH CONTRIBUTION FROM UNIVERSITIES IN MALAYSIA

- I. The relationship between Internal Audit Characteristic, Audit Committee Characteristic and Interaction between Internal Audit and Audit Committee on Internal Audit Contribution

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ABSTRACT

The Malaysian Code of Corporate Governance (MCCG) was first introduced in 2000 and it was then revised in 2007 and 2012. This was then followed by the Bursa Malaysia Revamped Listing Requirement in 2001 and Guidelines on Internal Audit Function for Public Listed Companies in 2002. These enacted reforms aim to promote and improve corporate governance in public listed companies in Malaysia. Bursa Malaysia has recognised the importance of internal audit as a key governance function in public listed companies, and highlighted that its roles are closely linked with audit committees. The revised MCCG Code 2007 recognises the importance of internal audit by requiring all companies to have an internal audit function. Both of these reforms have put internal audit in the lime-light as one of the means of improving risk management and governance, and also is seen as critical to preserving and enhancing stakeholder value. Given the perceived importance of internal audit as part of good corporate governance, these changes are likely to enhance the role and value of internal audit (Coram, Ferguson & Moroney, 2006). When it comes to adding value to the company, there should be no better resource of a company than internal auditing.

Internal auditing becomes an important tool in helping an organisation achieve its objectives when effectively implemented. Organisations with internal audit activities are better able to identify business risks and system inefficiencies and ineffectiveness, take appropriate corrective actions, and ultimately support continuous improvement. Therefore its contribution must be monitored in order to maintain and enhance internal audit's credibility. The objectives of this study are, therefore, to investigate contribution of internal audit and its determinants such as internal audit characteristics, audit committee characteristics and interaction between internal audit and audit committee. Questionnaires were distributed to 413 public listed companies in Bursa Malaysia and 172 responses were received.

The study found that there is a significant relationship between the internal audit competency and internal audit contribution in control. Similarly, Felix et al. (2001) and Mazlina et al. (2006), found that the more competent the internal audit, the greater the internal auditors' perception of their contribution to the external audits. Companies should consider the education level and types of experiences when appointing internal auditor. This finding emphasises the importance of having a certified internal auditor to be heading the internal audit unit. A suggestion to the regulatory body to consider making this a mandatory requirement.

Most of the audit committee characteristic factors and interaction between audit committee and internal audit shows an insignificant result with the internal audit contribution. The insignificant findings could be due to the fact that the MCCG 2007 Code has been mandated over some time and the public listed companies may well have already embedded it in their audit committees and thus the insignificant results.

These findings have implication to the revised MCCG which requires independence and financial literacy of audit committee and the Institute of Internal Auditors (IIA) to be safeguarded. This is because audit committees and internal auditors have interlocking goals, and a strong working relationship between them is essential for each to fulfill its responsibilities to senior management, board of directors, shareholders, and other outside parties. Given that internal audit is relatively new in Malaysia, companies should establish guidelines in the audit charter or ensure compliance to International Professional Practices Framework to increase the quality of internal audit which in turn could lead to a higher internal audit contribution.

Key words: Internal Audit, Audit Committee, Internal Audit Contribution