

Internal audit in the statutory bodies and government-linked companies of Malaysia (2005 – 2008): Dream of Dreams?

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ABSTRACT

This is the third and final part of a series of studies conducted on the state of internal audit in Malaysia's public sector. The present study covers 47 organizations at the federal government level: 27 statutory bodies and 20 government-linked companies. From the face-to-face interviews conducted with internal auditors over the three year period of 2005 to 2008, the findings echo those of the previous two internal audit studies: Azham *et al* (2007a) on internal audit in the state and local governments of Malaysia, and Azham *et al* (2007b) on internal audit in the nation's federal government ministries, departments and agencies. That is, there is still much left to be desired of the internal audit function in a majority of the organizations. Despite this very fact, there exists much hope and high aspirations among the internal auditors that the internal audit function in their organizations is only going to get better. In relation to this, they have come out with numerous ideas for internal audit strengthening in the public sector as a whole. Unfortunately, their attitude suggesting that "hope springs eternal" is incongruous with the depressing realities of Malaysian governance in several levels of government documented by these researchers and others over the years. Hence, just like the case of external audit for Malaysian companies in the decades following the implementation of the New Economic Policy in the early 1970s (Azham 1999), the effectiveness of internal audit in the public sector of Malaysia appears to be following suit, a case of hope being strangled by experience – assuming the current pace of change taking place in the Malaysian polity does not improve.

Key words

Internal audit; federal government organizations; in-depth interviews; Malaysia

1 INTRODUCTION

In Malaysia, a catalogue of ongoing organizational failures and mismanagement highlight both the need for, and current general lack of effectiveness of internal audit in both the public and private sectors. To date, there have been several research reports on the status of internal audit in general. However, until the recent studies by Azham *et al* (2007a) and Azham *et al* (2007b), there were none that specifically probed the nation's public sector.

This parade of organizational failures is despite it being the well documented responsibility of the management of public sector organizations to

maintain an effective system of internal control, including the use of the internal audit function (e.g. Dowsett & Morris 1981; Buttery 1985; Coombs & Jenkins 1994; Jones & Pendlebury 2000). And this has also arisen in spite of the publication, as early as 1979, of Treasury Circular No. 2: *Implementation of Internal Auditing in Federal Government Agencies* which detailed the requirement that the public sector entities in Malaysia have to have an internal audit function. This circular was replaced in October 2004 with Circular No.9: *Implementation of Internal Auditing in Federal Ministries and Departments and State Governments* (Editor 2004) with a similar lack of positive impact.

This paper is part outcome of a study and review of the situation in statutory bodies and government-linked companies in Malaysia. Like the previous two studies mentioned earlier, the current study could lead to the clearer identification of problems and obstacles that have confronted, and continue to confront internal audit, and thereby focus efforts on achieving more substantial reform than the issuance of an official document such as the new (2004) internal audit circular. Further justification for such a study arises from the nation's need to find ways to be more competitive in all sectors of the economy following the implementation of the Asian Free Trade Area (AFTA) in early 2010. Internal audit that achieves its potential may actually be one of the tools for all sectors to employ in their pursuit of such competitiveness.

2 LITERATURE REVIEW

In public sector organizations in general, the internal audit function holds high potential for promoting accountability and improving government performance. Thus, not surprisingly, several countries have developed policies aimed at strengthening public sector internal audit functions to enhance their capacity for contributing to these goals (Auditor-General of Australia 1990; Office of the Auditor General of Canada 1996; Light 1993; Newcomer 1994 & 1998).

Policy measures include the following: requiring the establishment of internal audit units; establishment of standards for the professional conduct of internal audit work; training; resource allocation; expanding reporting arrangements and broadening mandates to make auditors responsible for performance assessment. Also, the understanding that internal auditing is an important tool for accountability has led, in the case of the United States, to the traditional internal audit functions being transferred to Inspectors-General who report findings to both the Executive and to Congress. Thus, in the United States, internal audit is currently also a tool for external accountability – no more a mere tool of internal accountability intended to aid senior management of the government organizations.

Nonetheless, available evidence on the reality of internal audit operations in recent times provides the picture that there is much room for improvement. In the United States, Canada and Australia, the common findings include: inadequate audit coverage, particularly of areas of major significance and high risk; a tendency to focus audits on compliance and regularity to the detriment of the performance of audits of economy, efficiency and effectiveness; and little attention being given to audit findings within agencies by senior managers. Furthermore, in Canada and Australia there exist deficiencies in the professional qualifications of audit staff and in the involvement of senior management in audit planning. As for the United States, based upon his study of the work of the nation's Inspectors-General, Light (1993:224) concludes that "government appears no more accountable today than before the IG Act."

As is perhaps to be expected, the lack of congruence between internal audit ideals and their realities does

not just exist in public sector organizations in these three developed western countries. This is easily deduced from similar research conducted in recent years in the developing world: Sudan (Brierley *et al* 2001); Israel (Schwartz & Sulitzeanu-Kenan 2002); and South Africa (Nair 2008).

As noted by Brierley *et al* (2001:73-4), in the developing country of Sudan, in North Africa, the typical internal audit department is largely engaged in the routine authorisation of transactions, is staffed by inexperienced and untrained personnel, and has insufficient credibility, independence and authority to act in the manner expected of internal audit personnel. Employing interview and observation research methods, Brierley *et al* concludes that in the few places where internal audit may be in operation, it has failed to meet even one of the five core standards of the Institute of Internal Auditors (IIA 1979) in terms of independence, professional proficiency, scope of work, performance and management.

In Malaysia, until Azham *et al* (2007a) and Azham *et al* (2007b), very little was known of the state of internal audit in the public sector. As for internal audit in the private sector, the few studies conducted fail to provide an in-depth look at the processes and policies being applied. What was possibly the first internal audit study was conducted by the Malaysian Institute of Accountants (MIA) in June 1988 (MIA 1989). Following the publication of this report, the MIA in August 1989, conducted another questionnaire study (MIA 1991) which it says was more in-depth than the earlier one.

Besides these two studies conducted by the MIA in the late 1980s, there appears to be just another two studies conducted in the next decade (Mathews *et al* 1995; Ernst & Young *et al* 2000). While the MIA studies were concerned with an "overview" of internal audit, the next two focused on the nation's internal audit "profile". But just like the MIA studies, the latter two studies do not really provide much detailed information of the actual operation of internal audit in Malaysia.

In recent years, a team of researchers headed by the lead author of the present study has embarked upon a similar study on internal audit in the state and local governments of Malaysia (Azham *et al* 2007a). The findings from in-depth interviews conducted with internal auditors from 35 state and local governmental bodies (SLoGBs) located in Peninsular Malaysia in the third quarter of 2003 show that the internal audit function faces numerous challenges. This is in addition to the fact that only 35 out of the then 202 SLoGBs has an internal audit capacity. The problems range from inadequate staff numbers, and skills and training shortages to premeditated obstruction by auditees, amongst others, of the auditors in their attempts to perform their duties.

Following the completion of the internal audit study in the state and local governments, another one was embarked upon (Azham *et al* 2007b). This time it concerned internal audit in the federal government ministries, departments and statutory bodies. The findings from in-depth interviews conducted with

internal auditors from a total of forty organisations revealed a number of serious shortcomings that far outweigh the few virtues identified. These shortcomings are that many internal audit units face staff shortages, and staff lacking in internal audit competence. In addition, a majority of the internal audit units, most of which operate in outdated audit modes, have failed to get the right level of support and assistance from the Treasury and other parties. Worse, their effectiveness and efficiency are further threatened by the actions of the National Audit Department (NAD) which transfers its so-called cadre staff seemingly randomly in and out of the internal audit units.

Since Azham *et al* (2007b) focused on a mere five statutory bodies located at the federal government level, a third study which investigated the rest of the statutory bodies had to follow. Also, in order to provide a more complete picture of internal audit in the federal government, this latest study focuses on internal audit found not only in the statutory bodies but also in a selection of companies linked to the federal government.

Specifically, as described in Azham *et al* (2009b), Azham *et al* (2007a) and Azham *et al* (2007b), the primary concern of this third study is to provide a catalogue of the forms of internal audit being practiced in the federal government statutory bodies and government-linked companies. The study's secondary focus is to provide policy recommendations intended to strengthen the internal audit function.

Results for the primary concern of this research project show that the internal audit weaknesses found include staff shortages, lack of competency and operating in less than advanced audit mode in a significant number of the audit units. In short, these are mere repetitions of those situations found earlier for the internal audit function in the nation's state and local governmental bodies (Azham *et al* 2007a) and federal government ministries, departments and agencies (Azham *et al* 2007b). As for the few audit strengths, like in the case of audit independence and that of audit/top management interaction taking place in a majority of the audit units, they signify that good things are still achievable in these organizations. All in all, though, there is still much to be desired for internal audit in a majority of the organizations.

While Azham *et al* (2009b) is mainly concerned with data coming from the close ended section of the interview, the current paper, which constitutes the second and final outcome of the third and final study on internal audit in the public sector of Malaysia, has the aim of presenting and understanding much of the data coming from the open ended section of the interviews. These interview data are concerned with the high hopes and big aspirations among the internal auditors with regard to the internal audit function in their organizations, and their ideas for internal audit strengthening in the public sector as a whole. Aside from presenting the details of internal auditors' dreams and ideas, the paper has the aim of showing that many of the hopes and aspirations, together with the various ideas for internal audit strengthening, are essentially unrealistic considering the fact that in

Malaysia today the internal auditors operate inside an environment not conducive to achieving the above: in the public sector in particular there is a lack of good governance; at the national level as a whole there is the lack of transparency and public accountability.

The paper continues next with a section on research design. It is followed by a section on findings that is divided into three parts: audit weaknesses; auditors' hopes and aspirations; and new audit directions and strategies. Following the section on findings is the section on discussion. While the section on findings brings in data from the open ended section of the interviews, the section on discussion utilizing published documents available publicly is concerned with the lacking organizational and national contexts surrounding the internal audit operations.

Having discussed the bigger environments surrounding internal audit in the discussion section, the paper comes to an end with the concluding section. In the concluding final section, the important findings of all three separate studies of internal audit in the public sector (Azham *et al* 2007a; Azham *et al* 2007b; Azham *et al* 2009b) are brought together along with those from Azham (1999) which examined the situation surrounding the external or financial statements audit for private sector companies in the country during the first four decades after independence in 1957. Such effort is needed in order to look for some sort of pattern of audit (mal)functioning and related matters in the Malaysian context. This in turn will help the authors to identify and anticipate trends and challenges in the internal audit environment. It is hoped that such predictions could help policy makers and other interested parties in their efforts to help improve matters.

3 RESEARCH DESIGN

3.1 Population and survey sample

The government hierarchy has three levels: federal, state and local. Local governments include the city, town and local councils, depending on the territory's population. As mentioned earlier, two previous studies on internal audit headed by the main author of the present study covered the state and local governments located in Peninsular Malaysia (see Azham *et al* 2007a) and the federal government ministries, departments and agencies (see Azham *et al* 2007b). The present study covers 47 organizations at the federal government level: 27 statutory bodies and 20 government-linked companies. (See Appendix A for the list of the organizations.)

3.2 Methods of data collection

The main form of data collection was through face-to-face interviews with the internal auditors in the federal statutory bodies and government-linked companies. Appendix B provides the list of positions held by these auditors. As may be seen in Appendix B, out of almost fifty (48) auditors interviewed, close to forty hold the post of head of the internal audit unit or department. (Note: For the rest of the paper the term *audit unit* will be used to refer to both *audit unit* and *audit department*.)

There are four parts to the questionnaire used during interview: (A) Background information; (B) Organizational Audit Practice; (C) Efforts in Support of Organizational Audit Practice; and (D) Internal Audit in the Organization and Government Sector as a whole. There are a total of 60 questions: 51 close-ended structured type (Parts B and C) and 9 open-ended semi-structured type (Part D). A total of twelve of the close-ended questions have more than one sub-part – (a), (b), etc. – to them. A majority of the close-ended questions also have spaces for participants to express their (unstructured) comments.

With regard to the categories of questions asked, the close-ended, structured type questions (Sections B and C) are concerned with the following: *facts*, such as the number of internal audit staff; *perceptions*, such as knowledge elements needed by internal auditors to ensure the fulfillment of their present roles; and, the *extent of interviewee's agreement with various statements*. As for the open-ended, semi-structured type of questions (Section D), they may be divided into three categories: the history and future of the internal audit operation in the organization; weaknesses and strengths of the internal audit unit in the organization; obstacles to and potential for change in the operation of internal audit in the public sector as a whole.

The current paper is mainly concerned with answers delivered by participants related to Section D of the questionnaire. This is in contrast to Azham et al (2009b) which focuses on answers provided to questions found in Section B and Section C.

It is acknowledged that numerous resources were referred to in developing this questionnaire. For details, see Appendix A in Azham et al (2007a).

4 FINDINGS

This section is divided into three parts: the first is on the weaknesses in the internal audit function of numerous federal statutory bodies and government linked companies described in detail previously in Azham et al (2009b); the second covers the hopes and aspirations of the internal auditors for internal audit in their organizations in the coming years; and, the third lays out a variety of internal auditors' own ideas for strengthening internal audit in general.

4.1 Internal audit weaknesses

The internal audit weaknesses identified in Azham et al (2009b) provides the picture that the internal audit function in numerous federal organizations is in dire straits. Briefly, in regard to staff shortages, a majority of the auditors disclosed that they are not happy with the small number of audit personnel found in their audit units. Another primary problem or weakness raised by the internal auditors is concerned with high numbers of staff lacking in internal audit competency. On reviewing the current knowledge elements professed by those interviewed, the responsibilities or tasks specified in the organizations' audit charters, and finally the specific activities undertaken while conducting the audit, it has also been found that internal auditors from a significant proportion of the

organizations operate in either a *traditional* or a *modern* mode of internal auditing, as opposed to that of the more appropriate *advanced* type. In short, internal auditors from a significant proportion of the organizations do not have much awareness of the importance of risk identification and assessment as part of the new approach to conducting an internal audit. Finally, for between one fifth and two fifths of the organizations, a less than satisfactory relationship exists between auditors and the rest of the non audit personnel. Such a situation would surely make the internal audit job experience to be a painful one for those concerned.

During their interviews, several internal auditors elaborated on some of the problems or weaknesses found in the internal audit operation in federal organizations. Among them are the following two auditors whose revelations point towards the presence of deep seated problems that lead to those weaknesses mentioned earlier.

The first auditor:

He or she comes from an internal audit unit which is facing a rather dreadful job environment. He or she says that on the basis of the courses organized by the IIA Malaysia which he or she has enrolled in, it appears as if *no one* in the public sector is able to understand clearly the function played by an internal auditor. It also seems that people cannot be bothered with audit – both internal and external. He or she points out that even with an external auditor from the NAD coming in to do his or her job in a government organization, the situation remains the same. It is as if an audit report has no effect whatsoever on the auditee. Would it be a surprise then to find that an audit query is not answered or has failed to induce any sort of actions?

All in all, he or she concludes that the internal auditor is not on the same wave length as other parties, including auditees. Worse, these parties consider internal audit to be an insignificant component of the organization. He or she surmises that all this is to be expected when the internal audit function is merely set up in the government organizations for the sake of complying with government circulars. Hence, the truth is that the function has failed to become effective in the organisation, leading to a situation where it fails to make the desired improvement.

The second auditor:

Early on, he or she mentions that internal audit is becoming more important in the public sector. Later, however, he or she stresses that top management in the government organizations have failed to get good understanding of the role of the auditors. That is, they consider internal audit to be an insignificant part of their organizations. And, it is due to their lack of understanding that there is less support for the auditors. This has also meant that an internal audit function is only around for cosmetic purposes. It is hardly for the reason of improving the organization, adding value, etc. In short, the function may be found in a government organization merely for the purpose of providing the impression that there is an internal

audit function, when in fact the organization's chief concern all along is in the maintenance of the *status quo!* ("Sekadar mengabui mata, untuk memastikan status quo kekal.") As a consequence, internal audit is not free to do what internal audit is supposed to do.

Also, in his or her view, the internal auditors in the public sector are different to their counterparts in the private sector since the former fail to follow internal audit best practices while conducting the audit. He or she claims that the internal auditors in the public sector are not even members of the IIA Malaysia. Worse, when determining who the internal auditor should be reporting to, he or she asserts that in the public sector there is little interest to see that the internal auditor is made to be independent by reporting *directly* to the audit committee. So, in one organization after another, in spite of having an audit committee, an auditor is still made to issue the audit report to the head of the organization – prior to the report being submitted to the audit committee. Next, he or she suggests that this has to change so that the internal auditors can play a greater role in the public sector. To facilitate the change he or she proposes the issuance of a relevant document by the authorities to specify that reporting by internal auditors is to be to the highest body in an organization such as the board of directors instead of to the executive head of the organization.

All in all, the nation's internal audit function in the public sector is in need of *major transformation* and to be given a *bigger role*. This is the opinion of an internal auditor who previously worked as an internal auditor in the private sector and whose current job as the internal auditor in a government linked company has brought his or her audit unit overseas accolades. Hence, as he or she puts it, the internal auditors have to be given all that is needed so that the function can reach its potential in giving added value to the organizations and the nation. In particular, as he or she emphasizes, there is a need for recognition by all of the internal audit function. That is, it is there to promote and help achieve good governance in the organization. He or she argues that once such transformation has been achieved the current sad and incapacitating scenario, where the internal auditors fail to play their role successfully, will turn to something more desirable and appropriate – perhaps closer to the kind found in successful entities in the nation's private sector.

Could all this simply be wishful thinking on the part of the internal auditor? As will be seen next, he or she is not alone in aspiring for better things for the function, for there are others who do the same – at least as far as their organizations' internal audit operations are concerned!

4.2 The hopes and aspirations of internal auditors

Related to the question of whether their organizations are satisfied with the internal audit performance and as to whether the internal audit units have provided added value to their organizations, the majority of the internal auditors answer "Yes" for both questions. However, when it concerns the question of what the

organization is hoping for from its internal audit unit in the future, one may find a variety of fascinating answers. The following are a sample of these answers chosen by the authors to present typical views:

The first auditor:

He or she comes from a thriving internal audit unit. Perhaps that is one of the reasons for his or her optimism that the future will see a more significant internal audit function in the organization. As he or she puts it, the internal audit function is needed for the following tasks: to streamline work process; to improve work process; to create new business; to create new opportunity; to maximise profit; to reduce costs; and to manage all business risks faced by the organization effectively!

The second auditor:

He or she says the organization has the wish that its internal auditors are in the position to provide consultative service. The same internal auditor also argues that the internal audit function will become more important in the future, since with time there would be greater complication in the operation of the organization. Next, he or she stresses that management needs an independent body in the form of the internal audit function in order to give them the "assurance" that management has taken the best option in the face of various alternative actions at their disposal.

The third auditor:

He or she has similar views to the previous internal auditor in the sense that the word "assurance" is utilized in his or her answer. Specifically, he or she concurs with the idea that the internal audit function in the organization will be more important in the future. The reason: management needs an independent party such as internal audit to convince them that the business operation is conducted in the very best manner in order to meet the organizational goals.

The fourth auditor:

He or she mentions simply the following, regarding the hope of the organization for its internal auditors: "They want continuity." He or she also says that the internal audit function will play a more significant role in the future since it is part and parcel of corporate governance and risk management of the organization. As it is, the internal audit reports are being used as the measurement tools for evaluation. This shows the high level of seriousness that the organization views the internal audit function.

The fifth auditor:

He or she is one of the few internal auditors who claim that their internal audit units, in the eyes of the organizations where they belong, have failed to provide added value. That said, he or she points out that the organization where he or she works is hoping that for the purpose of helping the organization in the future, the internal audit unit would be involved in

areas other than audit. Related to this, he or she says the future will see a more significant role being played by the internal auditors. In short, the internal auditors are likely to conduct themselves as consultants to the organization. They are also around to supervise projects, look after cost minimization, limit wastage and finally avoid budget overrun!

It is perhaps worth noting that each and every single one of these five internal auditors is attached to companies linked to the federal government. In other words, none is from a federal statutory body. This is simply because almost all of the internal auditors from the federal statutory bodies were unable to make a striking or positive remark regarding their organizations' audit function! The few exceptions include the sixth internal auditor (whose comments follow below) who is attached to a statutory body whose boss has in recent years been providing quite strong support for and much understanding towards the audit unit.

The sixth auditor:

He or she mentions that the organization is hoping for two things for the internal audit unit: that it will be able to move the organisation to a low risk business existence and that the audit approach will become more user friendly. Related to this, it is interesting to note that the same internal auditor has mentioned that the future will see a more significant role being played by the audit unit in the organization. As he or she puts it, with the increase in the organizational functions over time, the amount of funds allocated should increase too. This increase in the organisation's functions will lead to more risks. Thus, having the internal auditors around would help the organization in managing these risks. However, in his or her view, it is crucial that the internal audit head is at the JUSA salary level!

Finally, it should be worth noting that there are bewildering cases where the high hope and aspirations of the organizations for their internal audit function sits uncomfortably with the extremely sad and confusing situation faced by the internal auditors every day. The seventh auditor quoted next has been gracious enough to describe the painful goings on.

The seventh auditor:

He or she is attached to an internal audit unit which presents a good example of the big gap existing between the expectations of the organization and the reality faced by the function. The internal audit unit has been around for some years, but for about a year, ending just one and a half years ago, it stopped operating due to the absence of an audit head. Currently, the internal audit unit possesses one single internal auditor. The fact that the internal audit unit is seriously short of staff is just one of several debilitating issues that it is facing. Other issues include the following: the unit is not clear on its direction; the one single internal auditor is still new to the organization, and there is rather less than satisfactory interaction between this one single internal auditor and the rest of the personnel in the organization. Nonetheless, as claimed by the internal

auditor, the organization is hoping that the internal audit unit is able to add value and to monitor the effectiveness level of the organization!

On the whole, the presence of high hopes and aspirations among some internal auditors regarding the internal audit function's status in their organizations may appear unrealistic in the face of some serious problems and weaknesses that they have to face on a daily basis over the years. In other words, the question may rightfully be raised as to whether these hopes and aspirations have any realistic chance of coming true. Perhaps the only logical and pain-free thing to do in such a incapacitating internal audit landscape is for the internal auditors concerned to aspire to nothing and to do no more and no less than what they are currently doing. From several interviews, however, this approach appears to be far from their minds! In the next section, the views held by a number of internal auditors on the direction and strategies for internal audit in the public sector as a whole are presented.

4.3 Direction and strategies of internal audit function

More than a few internal auditors have provided their views on the direction and strategies that should be undertaken in the coming years by the internal audit function in the public sector as a whole. Several have in fact argued that the revised direction and related strategies have already begun. One says that the internal audit function in the public sector has continued to evolve steadily from policeman function to the adoption of the latest best practices. Another claims that there is movement in the public sector towards having the internal auditor to be a facilitator ("pemudah cara"), a positive move away from being the watchdog of old. In his or her view too, the public is now more aware about internal audit. The same person says the changing situation was acknowledged by the then prime minister himself! So, he or she surmises that internal audit these days has actually become quite important.

How much truth is there in all this? Apparently, for a majority of the internal auditors interviewed, they consider these views to be quite a contradiction to the reality on the ground! As far as they are concerned, the internal audit function in a majority of the government organizations is around merely to complete the organizational chart ("pelengkap carta organisasi") – no more, no less. In short, over the years the internal audit function has largely been treated with apathy by all and sundry in the public sector. As a result, there is still much to be done to have the function's status and operating conditions improved. On this issue the following provide the interesting views of five internal auditors.

The first auditor:

He or she states point blank that thus far there is no clear internal audit direction in the public sector coming from the authorities. And the reason is simply this: there is a lack of understanding of the role of the internal audit function as being able to enhance organizational development as a whole.

Notwithstanding this problem, he or she has described a number of audit strategies that need to be implemented: first, the establishment of an independent internal audit function; second, the internal auditors in the public sector must be associated with the IIA Malaysia and the IIA Malaysia should be required to form a chapter solely for the internal auditors in the nation's public sector; and third, there should be a move towards changing the concerned parties' perception of internal audit. Related to the final suggestion, he or she mentions that currently internal auditors appear to have the tendency to issue biased audit reports because they are fond of isolating themselves from the others who work in the organizations. Their self imposed isolation has also led to a reduction in input from other parties which would be needed for the internal auditors to provide an effective service.

The second auditor:

He or she is from an internal audit unit where quite a lot is expected from it by its host organization. It seems the high expectations are concerned with the future rather than the present. Currently, the internal auditor claims that the internal audit unit's performance is merely average. He or she also pointed out that as far as the organization is concerned, the internal audit unit has failed to add value. Apparently, the organization would only be happy if its internal auditors go around behaving as consultants, projects supervisor, costs minimizers, etc.

As far as the subject of direction and related strategies for the internal audit function in the public sector as a whole is concerned, this internal auditor has made it clear that it is all about down-to-earth issues! To be more exact, he or she argues that the government of the day needs to have the same goals as those of internal audit. The reason is simple: the government machinery is using public funds. Thus, what is more important than conducting itself with integrity and accountability? But the stark reality of government departments these days is that so many of them have failed to comply with the contents of circulars issued by none other than the government itself!

It is notable that the internal auditor has also pointed out that it is quite depressing to come across government leaders who talk about integrity while their actions demonstrate something else! As far as he or she is concerned, these leaders' hypocritical ways have badly affected the internal audit function: there is a lack of importance placed on internal audit in the public sector; the management of the government organizations fail to see the added value coming from the activities conducted by their internal auditors; and, finally, the general perception of auditees is that the internal auditors are nothing more than fault finders!

The third auditor:

He or she is one of the few internal auditors who rate their internal audit performance as excellent. This anomaly is not actually surprising since the internal

audit unit appears to have been bestowed with almost everything that is needed to attain such a level of performance. Coming from such a background, the views of this internal auditor on the direction and strategies for the internal audit function in the public sector as a whole should be of much interest.

Specifically, in his or her views, there is a need for two strategies in order to strengthen the internal audit function: first, every single party involved, including the internal auditors, non audit personnel and top management, has got to produce a high level of commitment towards a well functioning internal audit; second, the auditors have got to be provided with complete freedom to perform their duties. With the implementation of these strategies, he or she believes that the internal audit function would be able to achieve excellence. Apparently, there is a need for such strategies due to the fact that as far as he or she is concerned the current state of internal audit operation in the public sector is badly affected by the following two factors: the lack of independence for the internal auditors, and the presence of internal auditors who are lacking in professionalism. The latter in his or her view is brought about by the fact that the internal auditors are not quite qualified for the tasks which they are supposed to undertake.

The fourth auditor:

He or she is attached to an internal audit unit which has been around for a quarter of a century. Over the years, this internal audit unit has seen a number of positive developments. One of these concerns the positive interaction taking place between the internal auditors and the rest of the personnel in the organization. In addition, the internal auditors have received good treatment from the top management.

It is perhaps worth noting that just like the previous auditor this internal auditor is among the few internal auditors interviewed who rate their internal audit units' performance as excellent. From various answers provided in the interview, it appears that the organization has felt the same way too regarding the audit unit's performance. With such background, it is perhaps worth noting the following which is mentioned by the internal auditor regarding the direction and related strategies for the internal audit function in the public sector as a whole:

In the future, the internal audit function has a big role to play in enhancing transparency and good corporate governance. With the enhancement of the role that internal audit should be playing, there is a need to provide the department with the authority and the influence to ensure that it can do its job in a more effective manner. This is the strategy which I believe top management of public organizations need to provide to internal audit to ensure the parallel movement of the direction of their organizations and that of the internal audit.

It appears however that these are easier said than done. As the internal auditor him/herself has noted in the interview, there are certain elements which are not happy to see the internal audit function to come to its true potential. In answering the question regarding the

present state of the internal audit function in the public sector as a whole, this is how he or she put it:

As for me, all organizations require internal audit. It is not for the purpose of looking for mistakes, but instead it is more towards the prevention of untoward situations. It is quite a loss for an organization which has internal audit but which obstructs it from conducting its job in a fine and transparent manner. Therefore, whichever element that is around which obstructs the work done by internal audit needs to be avoided.

The fifth auditor:

He or she comes from a newly established internal audit unit. The personnel in the internal audit unit appear to be struggling to do what is expected of them. Fortunately, the head of the internal audit unit, who came in from the private sector, has a professional qualification in the field of internal audit. His or her views regarding the internal audit function in the public sector is quite interesting to say the least. This is especially true when asked about the direction and the related strategies for the internal audit function, whereupon he or she provides quite a lengthy answer. Early on he or she has this to say about the audit operation in the public sector in general:

It may be said that it is still at the initial stage where it is trying to fit in, and is far from the best practices in the profession.

Next, on the fundamental factors responsible for this failure to achieve professional best practices, he or she says:

It is because most of the internal audit departments have just been established. It is also probably because the need for accountability and transparency for government organizations is not recognised as urgent, and which requires the internal audit function to be reformed and optimized to ensure its producing the best as a mechanism for organization to give proof of its practicing the best corporate governance.

Finally, in regard to the future direction and related strategies for the internal audit function, first of all, he or she believes in the function becoming more important in the future and that the internal audit best practices shall be the everyday reality! But for these to happen, the prerequisite is in having individuals and organizations who possess integrity in the public sector and who continue to work tirelessly to improve upon their integrity. In short, the needed strategy is for the National Integrity Plan (PIN) to be fully implemented. All in all, as he or she puts it, the demand by all and sundry for the internal audit function to give its best in enhancing public accountability would only emerge when in the first place there is around the necessary fertile surrounding for such.

It is also perhaps interesting to note that as part of the internal audit future, he or she believes that the internal audit departments in the public sector should

be manned by internal auditors who have the required expertise and knowledge and who behave as professionals in all situations. In particular, in regard to internal auditors behaving as professionals, in his or her view, this signifies their upholding the highest expectations of the profession and which should in turn enhance the internal audit function itself.

DISCUSSION

In normal circumstances it is beneficial to have high hopes and to aspire for better things. Likewise, the appropriate direction and strategies are better mapped out in such positive environments to ensure a greater probability of success in one's endeavors. But can one consider the internal audit function in the public sector in Malaysia today as taking place in *normal* settings, justifying high hopes and aspirations and facilitating the preparation of clear cut directions and well thought out strategies? From available evidence to date it can safely be said that the right organizational and national surrounding for an improved internal audit function is currently conspicuously absent!

The impossible organizational context?

In recent time, Malaysians have been bombarded with one disclosure after another on the terrible state of the nation's public sector. For example, on 1 December 2009, it was none other than the second finance minister Datuk Seri Ahmad Husni Hanadzlah, on the occasion of the "National Economic Outlook Conference 2010-2011", who noted in his speech the appalling state of the Malaysian economy in the last decade – with the eye towards urgent and wide-ranging reforms in several areas including the governance of government organizations (Treasury Malaysia 2009). As he put it:

Malaysia is trapped in a low-value-added, low-wage and low-productivity structure. While Singapore and Korea's nominal per capita GDP grew within the last three decades by 9 and 12 times, respectively, ours only by a factor of 4. Amongst our peers, China, India, Vietnam, Indonesia, Philippines and Thailand, our real GDP growth in the last three years was the second lowest at 5.5 per cent. Our manufacturing sector is not investing up the value chain while our services sector remains low in growth and under-developed... *Our economy has been stagnating in the last decade.* We have lost our competitive edge to remain as the leader of the pack in many sectors of the economy. Our private investment has been steadily in decline. Our private investment is now half of what it was since the Asian crisis while both manufacturing and service sectors have become less capital intensive. (Emphasis added.)

Next, he pointed out that there has been a continuous outflow of capital from the country. The reason as he put it is that capital will always flow to jurisdictions that are perceived to be more secure, not necessarily the ones that give a higher return. He emphasised the need to rebuild an environment that restores the confidence of private investors. To be more exact, there are five "critical pillars" needing strengthening. In regard to the pillar labelled "leadership and

governance”, he mentioned:

If we are to ensure there is fairness in the marketplace, there must also be a corresponding strengthening of our public institutions. Transparency and adherence to the highest standards of governance is something that we must strive towards.

As for the “strong and effective institutions” pillar, he pointed out:

Entrepreneurs need to know that the public institutions are transparent and are run by the highest standards of governance.

Finally, note what he said on the so called pillar of “macroeconomic stability”:

While the broad objective of increasing private investment in the economy will be continuously pursued, from the Treasury’s point of view, we also need to ensure that we receive optimal return from our hard-earned tax revenue. *There have been too many leakages in the past and less than productive spending.* (Emphasis added.)

That governance in the public sector is in need for a big overhaul has never been in doubt. Two other prominent personalities closely associated with the government – the former prime minister Tun Mahathir Mohamad, and the current Auditor-General – have recounted the horrors taking place in government organizations including the so called government linked companies.

As reported by Pathmawathy of the political news website *Malaysiakini*, Tun Mahathir in his keynote address at the Corporate Governance Summit 2009 in Kuala Lumpur, mentioned that corporate governance is often ignored in government-linked companies. He was also quoted as saying the following on what is happening in these companies (Pathmawathy 2009):

Various people, including governmental heads and family members as well as cronies, are often allowed roles not provided for... On top of that, this (form of) governance does not provide for transparency, or if provided for is often ignored. Government power is often used to steam-roll decisions and brush aside the interests of others.

As for Tan Sri Ambrin, in his keynote address at the Asian Confederation of Institutes of Internal Auditors (ACIIA) conference, the newspaper *The Edge* (Nie 2009) reported that he had claimed that good governance in government-linked companies and their subsidiaries, particularly those not under the government’s investment arm Khazanah Nasional Bhd, is lacking. He was also reported to have pointed out that through audit work carried by the NAD, several of these companies were found wanting in terms of good corporate governance where internal control is seemingly lacking and internal audit and audit committees not effective, if not non-existent. He was quoted as saying (Nie 2009):

What is perhaps distressing is their lackluster performance in profitability, inability to pay dividends

to the government and continuous reliance on loans and advances from the government.

It is notable that earlier in the very same speech he mentioned that good governance in the public sector is lacking. He said that the numerous performance audits conducted by the NAD has discovered cases of serious delays in project implementation, serious cost overruns and poor quality work for which the value-for-money principle is neglected. Other problems discovered included poor procurement management, potential white elephants because of poor location of projects, poor maintenance of equipment and facilities and underutilized facilities.

Further proof that there is a lack of good governance in the public sector comes in October every year when the media, without fail, file reports on exasperating cases of fraud, waste and abuse (FWA) appearing in the latest audit reports of various government organizations issued by the Auditor-General. As R. Nadeswaran, the columnist for the newspaper *The Sun*, puts it (Nadeswaran 2009a):

It is that time of the year again for Malaysians to read in disbelief the mismanagement of funds. It’s time for them to note the extravagance of people who are empowered to spend public money and to take note of the humongous prices paid by the government for goods or services. It’s time for taxpayers to identify the civil servants who had not complied with the financial procedures set by the government. It’s the Auditor-General’s report, and on Monday it was tabled in Parliament.

Next, he pointed out:

It reflects the incompetence if not the criminality of certain personalities. It lays bare the weaknesses in the system. It exposes the wheeling and dealing of some. It shows that some government departments are reluctant to impose penalties for breach of contract. It hints of a nexus between civil servants and contractors. In short, it is a catalogue of shame which no government servant wants to be associated with. It damns some people but will we ever learn from past mistakes?

Hariati *et al* writing in *The Star Online* had this to say (Hariati *et al* 2009):

The Auditor-General’s (AG) Report for 2008 was tabled in Parliament last Monday, and as in recent years, it highlighted the mismanagement of public funds by those entrusted to balance the country’s books... The improprieties revealed by Auditor-General Tan Sri Ambrin Buang and the National Audit Department (NAD) this year again lay bare the weaknesses in the public system, which allow for incompetence and transgression to occur, if not flourish.

The following day *The Star Online* (Editor 2009b) had this to say:

The Auditor-General’s Report for 2008, which was tabled in Parliament on Oct 19, revealed weaknesses that had been highlighted in the previous

year's report were a continuing thorn in the side of proper financial management at every level of government. Delays in project completion seem to be a perennial problem and the lack of oversight by various ministries and departments in the procurement of goods and services continue to cost the Government hundreds of millions of ringgit. These range from multi-billion ringgit infrastructure projects to the procurement of laptops and maintenance of government assets.

All in all, these remarks from past and present political executives, a top civil servant, newspaper columnist and journalists point to one and only one thing: internal audit operation of top notch quality can hardly be expected to exist in such an environment in government organizations. Hence, the debilitating weaknesses of internal audit operations are to be expected in such organizational surroundings. This in turn signifies that high hope and big aspirations among some auditors for their internal audit units are not realistic. And, it would be a waste of their time to dwell on a new internal audit direction and the related strategies.

It is further postulated that the harrowing atmosphere in government organizations, leading to weakened internal audit, will be difficult to reverse as long as a decadent national context, marked by the lack of transparency and public accountability, exists. In other words, the bigger context described next vividly explains the presence of a lack of good governance in much of the public sector.

The poisonous national context?

Azham (1999) has made it clear that the primary requirement for audit to achieve its potential is for it to function where operational transparency and public accountability are the normal occurrence / standard. However, given the evidence presented by Azham and others (see below) it seems that Malaysia is still far away from achieving this. Instead, the environment encourages a worsening of corruption in national life over the years. It was no less than Tan Sri Ramon Navaratnam, a prominent Malaysian economist and the then president of Transparency International – Malaysia, who spelt all that out in the *The Star Online* on 7 May 2008 (Navaratnam 2008):

Transparency International – Malaysia commends the intention of the Penang State Government to be the first to introduce Freedom of Information legislation in Malaysia. The absence of this legislation and the presence of the Printing Presses and Publication Act has severely curtailed press freedom and cramped the growth of its development and progress in our country. *This has led to unhealthy 'closed' as opposed to 'open' debate and discussions on vital national and public policy issues and has therefore inhibited the evolution of a more transparent democracy and greater national integrity and accountability. All these negative trends have contributed to increasing corruption and the considerable wastage of public funds. As a result, corruption is debilitating our economy and eroding our national competitiveness.* (Emphasis added.)

That there is a lack of accountability in the public sector in particular was raised during a workshop presentation at the Universiti Utara Malaysia delivered by Mr. Zakaria Haji Mohammad Nor, the then NAD's Audit Director in the state of Kedah (Zakaria 2004). After saying that the auditors have had to face various problems and challenges in trying to improve accountability in the public sector, he pointed out that a key challenge is the lack of accountability on the part of the heads of these public organizations. As he put it, such lack of accountability is manifested in their regular failure to attend the audit exit conference, to respond to audit observations and directives, and to take appropriate actions upon cases reported. With leadership of this (doubtful) quality other challenges and problems abound. He revealed that these include the lack of cooperation given to the auditors by the rest of their organizations' personnel, particularly by those being audited, and their failure to rectify their mistakes.

As far as Mr. Zakaria is concerned, the lack of accountability on the part of organizational heads and the resultant problems coming from their subordinates are due to the fact that among others the Public Accounts Committee (PAC) of the state assembly is particularly weak and the penalties for failure to complete departmental accounts and for deliberately concealing its books have never been imposed. In short, organisational heads have never been held accountable by the appropriate parties. Hence, one may be forgiven for asking why have the perpetrators *not* been held accountable? Are the losses incurred due to fraud, waste and abuse cases in the public sector not already bad enough for the taxpayers and the nation's coffers? Should not those responsible be made fully accountable? What is going on?

Needless to say, the failure on the part of the authorities to take the necessary actions against those lacking in accountability over the years, has increasingly in recent time led Malaysians to react cynically towards the Auditor-General's Reports. The evidence is not hard to come by. During the few weeks following the release of the Auditor-General's Reports, one may easily get to read such reaction on the pages of newspapers. For example, several years ago with the release of 2004 Auditor-General's Report, the columnist R. Nadeswaran wrote the following (Nadeswaran 2005):

His report is a compilation of several thousand man-hours of painstaking investigations, checking and cross-checking, recording statements and verifying them in the process. But if all this hard work produces no results, is the taxpayers' money being wasted in having an Auditor-General's report in the first place?

And in the very last paragraph of the column, he said:

The AG never minces his words on serious shortcomings and failure to adhere to procedures. But what happens after that? For a few days, it will be the talk of the town, after a few weeks, the voluminous reports will be gathering dust in some steel cabinets in government departments. And the same old routine will continue next year ...

The same columnist had this to say on the release of the 2008 Auditor-General's Report (Nadeswaran 2009b):

In most instances, damning reports are just *syiok sendiri* exercises or at the most, attempts to show that some form of checks and balances exist. While the annual reports of the auditor-general make good reading for "juicy details", what happens after that is never up for consideration. Take the last five years. It means the AG has made known his views on government expenditure on five occasions. If you take an average of 20 cases a year which involves fraud or maladministration, it would mean 100 cases. Except for the "screwdriver" case by the Youth and Sports Ministry, where two people were charged, there's nothing else to show.

Also, in the very last paragraph, he brings to an end his lament on audit reports issued by the Auditor-General being ignored by just about everyone concerned by saying the following:

Hundreds of such audit reports are never read thoroughly with a view to taking action. They appear as "documents of record" to be filed and to gather dust. If this is the case, why carry out audits in the first place? Is there a need for an audit department whose findings don't mean anything to anyone?

Besides the columnist R. Nadeswaran, Fan Xiao Qi writing in the *My SinChew* had this to say (as translated by Dominic Loh) (Qi 2009):

These things are not new each year the AG's report is released. But the really gruesome thing is not that the officials have not done their homework, or mismanaged or gobbled up public funds, but that the authorities have allowed the same old problems to repeat year after year. Misappropriation of public funds, severe losses on government investments, and repeated delays or irregularities involving major government projects have become "regular issues" in the AG's reports. The annual reports have always received widespread media coverage, powerful backlash from the opposition, as well as heated discussions among the public. And then things will get back to normal. *No one has been dealt with, and no one has been made to assume responsibility and resign.* (Emphasis added.)

Finally, check out the interesting piece by S. Jayasankaran in the newspaper *Business Times Singapore* (Jayasankaran 2009). Early on he mentioned that Prime Minister Datuk Seri Najib Razak had announced that a task force would be set up to study the findings of the 2008 Auditor-General's report and come up with recommendations for action. The task force is to be steered by the Chief Secretary to the Government, and will also include the secretary-general of the Finance Ministry, the director-general of the Public Services Department and the Auditor-General himself. Next, he claimed that the remark by Najib that the Cabinet viewed seriously the "irregularities, abuse of power and mismanagement" revealed in the report does not hold much water with the Malaysian public. As he put it:

Unfortunately, the public might have some trouble believing him. We have been hearing this litany of abuse for a long time. Way back in 1982, when Tun Dr Mahathir Mohamad first came to power, the then Auditor-General's report revealed that packets of Maggi instant noodles had been sold to the Armed Forces at ridiculously high prices when its market price then was around 30 sen each. It caused a big splash then but nothing came of it.

Later in the newspaper report, S. Jayasankaran had this to say:

The whole idea of such reports is to ensure that government agencies tighten management and install safeguards to prevent such abuses from recurring. But in Malaysia, that does not seem to occur, and Parliament is subjected every year to the same litany of hapless financial profligacy. No action seems to have ever been taken although every year, grim warnings are issued.

Let it be concluded that it is merely columnists or journalists who raise the specter of voluminous Auditor-General's Reports amounting to nothing, note the following quotation coming from Tunku Abdul Aziz Tunku Ibrahim in response to the release of the 2008 Auditor-General's Report (Hariati *et al* 2009):

Based on past records, I doubt that anything is going to happen. And next year there will be a repeat of the same thing. Those involved have never been hauled up or investigated. This happens because there is no political will ... Over the years, nothing has been done and why should it be any different now. The auditor-general has highlighted some serious examples of poor governance, which should not be tolerated.

In brief, in 1995 Tunku Abdul Aziz Tunku Ibrahim founded, with the support of like-minded individuals, the Malaysian Chapter of Transparency International, of which he was the President until December 2004. Later in February 2006 he was appointed as the special adviser to the United Nations (UN) Secretary General on the establishment of the ethics office. Currently, he is a member of the World Bank High Level Advisory Group on Anti-Corruption in the East Asia and Pacific Region. He who previously held senior management positions in large private and public sector organisations had joined Malaysia's largest secular and socialist political party the Democratic Action Party (DAP) in 2008 and is currently the DAP National Vice Chairman.

All in all, with the lack of overall good governance in the Malaysian public sector coupled with a low level of transparency and accountability in Malaysian life as a whole, it may be expected that there is a less than healthy functioning of internal audit in numerous government organizations. Hence, it may be said that for as long as the standard organizational and socio-political environment stays intact, the case of (mal)functioning internal audit units in these organizations shall continue to be the case. It seems that this organizational and national landscape will not easily improve and could actually worsen, therefore it

seems unreasonable for the internal auditors to dream and to plan for improvements in the internal audit function, and for that matter for any other type of monitoring mechanism. It is simply because the dream and plans have little chance to come true – not when their implementation could land some prominent parties with vested interests into difficulty (see Azham *et al* 2009b)!

CONCLUSIONS

In Malaysia, as discussed in Azham *et al* (2009b) and briefly touched on above, the internal audit function in numerous statutory bodies and government-linked companies studied has a number of deficiencies. These findings echo those found earlier in the two internal audit studies for state and local governments (Azham *et al* 2007a) and federal government ministries, departments and agencies (Azham *et al* 2007b). All in all, in Malaysia the vast number of entities which constitute the federal, state and local levels of government are marked by a severe shortage of internal auditors, and those who do work in these organisations often lack skills in internal auditing. In addition, these internal auditors operate in outdated modes of internal auditing and their interaction with the non-audit personnel in the organizations has left much to be desired.

However, when it concerns the internal auditors from the statutory bodies and companies linked to the federal government, the presence of these weaknesses has somehow failed to stop them from having high hopes and big aspirations for a better tomorrow for the internal audit function in their organizations. In fact, for so many of them, they appear to have been spurred on by these debilitating weaknesses to spell out the needed new direction and related strategies for internal audit for the public sector as a whole. Alas, it may be concluded that to a large extent all these hopes and expectations are unlikely to come true. That is, as long as the right organizational and national contexts are not around, much of the hope, the aspirations, the new direction and the related strategies for internal audit in government organizations will merely be the demise of hope at the hands of “business-as-usual” experience”!

This would inevitably mean that to a significant extent the internal audit operation in the public sector will continue to be just like the case of external or financial statements audit for a good number of Malaysian companies in the decades following the implementation of the New Economic Policy (NEP) in the early 1970s (Azham 1999). That is, on official documents such as Treasury Circulars (internal audit) or Companies Act (external audit), these audit functions appear to be well laid out. But, the reality on the ground says otherwise. In regard to the external audit in particular, Azham (1999:vi) has noted among others the following:

External audit in Malaysia has been carried out by an inadequate number of auditors who perhaps colluded with the unregistered accountants and whose representative body, the MIA, lay dormant for two decades and since activation in 1987 has been

troubled by repeated rivalry episodes with the MACPA.

In trying to explain why all this has taken place in external audit, Azham (1999) points to the direction of the corresponding goings on in the bigger area encircling the practice. In other words, as in the case of internal audit in the public sector, the influence coming from factors originating from the area surrounding the external audit arena looms large. Noted Azham (1999:339-340):

In the context of Malaysia, specifically it is found that distinct environmental factors surrounding audit practice have impacted the audit process and its neighbouring systems. Racial concern and strong government in contrast to the industrialisation drive appear to pull back any hope for much progress in the manner that audit has been developing in the country. Although at one level it appears that changes have actually taken place in both the audit and its neighbouring systems of government, companies and capital funds, deeper analysis have shown that much of this change is not real.

In the final analysis, the debilitating goings on in both internal and external audit operation in Malaysia point to a pattern of (mal)function in audits performed in both public and private sectors: the former in the form of internal audit; the latter in the form of external or company audit. And in both cases too it is hardly realistic to look forward to and plan for an improved audit future. Why? First, note the following as stated out in Azham (1999:340) in relation to the *external* audit practice:

The future for audit practice in the country is expected to be the same as long as these environmental factors stay the same. The sign that these factors would be around for a long time is concerned with the fact that their presence is supported by the power elite in the society. In other words, as long as this elite is in power or that the members believe that their positions are secure, it is not expected that they will exhibit much concern for the establishment of a strong and respectable audit practice in the country.

But, note the following related to the *internal* audit in the Malaysian federal government ministries, departments and agencies (and for that matter other entities which form the whole of Malaysian public sector) which appear a decade later in Azham *et al* (2009a:35):

But to place the blame for the dire state of internal audit operations solely on the powerful would be to miss an important Malaysian dimension. Hofstede (1991) discusses five important cultural dimensions that explain the general similarities and differences in cultures around the world. One of these is “power distance”, a concept that helps explain the behavioral interrelationship between the less powerful and the more powerful members of a society. Specifically, the concept of power distance refers to the degree to which people are willing to live with unequally distributed power within and across their institutions and organizations. A high

score on the power distance index indicates a national culture that has a high tolerance for inequality. In short, the people accept a strongly hierarchical order in which everybody has a place, and which needs no further justification. Hofstede (1983) conducted two surveys between 1968 and 1973, involving employees from subsidiaries of IBM in sixty-four countries, and 116,000 questionnaires in twenty languages. In the final analysis Malaysia received the highest score, ranking it first for power distance, or tolerance of unequal distribution of power.

With such being the case, it may be inferred that a majority of Malaysians are barely aware of, or silently accept situations where the powerful disdainfully disregard any call to explain their conduct. This is in stark contrast to the accepted norm in societies where the power distance is small. More to the point, when it concerns internal audit in the federal organizations, which may be considered a tool of internal accountability, and even after half a century of independence from Britain, the norms in society in general appear to explain the “neither here nor there” attitude to accountability. The powerful continue to flaunt their lack of internal accountability, made possible by, among others, the (often forced) inadequacies of the internal audit function. On the other hand, the powerless members of the organizations, and the society as a whole, appear to be resigned to their state of impotence.

So, with the elite and the masses working together (albeit not fully consciously?) to bring Malaysia to where it is today with among others a (mal)functioning audit process, is there a way out? In the very first paper arising from the first of the three studies on internal audit in the public sector of Malaysia and which was published after much revision, Azham *et al* (2010:211) suggest that:

... internal audit will only begin to be effective when members of society start to demand excellence from its government organisations. To rephrase this idea, until Malaysian society desires, expects and demands what the internal audit function can effectively assist SLoGBs to deliver, no amount of debate and discussion about the appointment of suitable organisational heads and the setting up of audit committees, audit monitoring bodies and auditor associations, among others, will actually lead to anything concrete. In other words, the right social context has got to be around before such ideas of internal audit improvement may actually materialize ... All in all, while there appears to be no easy way to deal with the challenges faced by the functioning internal audit in SLoGBs, it is also not impossible to improve the function either. It is perhaps just a matter of time that the Malaysian polity wakes up to find that it has no choice but to demand what it rightly deserves to get from their auditors in these organizations – if the nation aims to progress like other nations of the world.

So, it is not all bleak. Nevertheless, in the meantime, while waiting (or working?) for the much needed change to take place in the Malaysian polity, all

should be well assured that with the currently troubled internal audit operations unlikely to change soon, it is easy to predict that the level of corruption in the country in the coming years is also unlikely to decline soon. And until society begins to change, this is effectively *the final word* on internal audit in the public sector in Malaysia, and the final conclusion of the research comprising of three studies.

As the final word for this, the second and final paper of the third and final study of a series of three separate studies on internal audit in the public sector of Malaysia, which began in earnest in 2002, it is safe to say that the presence of a (mal)functioning internal audit function in the public sector, combined with that of the essentially ineffective company audit in the private sector, will ensure that Malaysia's score on the Corruption Perception Index (CPI) stays at current levels at best, if it does not get worse over the coming years.

The CPI issued by the Berlin-based global civil society organization Transparency International (TI) ranks countries in terms of the degree to which corruption is perceived to exist among public officials and politicians (Bhattacharjee 2009). To be more exact, the CPI is a composite index drawing on corruption-related data from expert and business surveys carried out by a variety of independent and reputable institutions.

For CPI 2009, where the data came from a total of 13 surveys (Editor 2009a), Malaysia scored 4.5 points out of 10, where 0 means highly corrupt, and 10 is the best possible score. Malaysia is now ranked 56th (down *nine places* from the 47th position it occupied in 2008) among 180 countries. It is notable that Malaysia was ranked 23rd in 1995 and that its CPI 2009 ranking is the lowest ranking over the past 15 years! It is also notable that for the last decade, until the release of CPI 2008, Malaysia's score had hovered around five, the borderline figure below which a serious corruption problem is deemed to exist. All in all, whether the score is above or below five, in comparison with other countries which are ranked higher, Malaysia is arguably a significantly corrupt country.

But surely Malaysians, and for that matter the rest of the world, do not need the CPI to remind them of the high level of corruption in the country? After all, for so many years now, corruption has permeated the very air that they have no choice but to breathe, and infuses their daily experiences that so frequently demand their participation in corrupt practices. These then flow into the conversations that they are forced to have with each other. And, as succinctly put by Tunku Abdul Aziz Tunku Ibrahim in his column in the *My Sin Chew*, it is all due to the fact that (Tunku Abdul Aziz 2009a):

Malaysia has become, under successive administrations, notably the Mahathir administration, a cosy and comfortable incubator of all that is corrupt and unethical in our society. It is not at all surprising that what began as petty corruption limited to “duit kopi” has today developed into a growth industry. It has become systemic ... We in Malaysia operate in a

corruption friendly environment where corrupt practices are becoming a way of life. Our public officials, rightly or wrongly, are perceived to be on the take. Every level of the civil service, including the police, has been touched by corruption.

More recently following the release of the Transparency International Corruption Perception Index 2009 which, as mentioned earlier, places Malaysia at its worst ranking and score in 15 years, Tunku Abdul Aziz, without mincing his words, has this to say in the very same column in the *My Sin Chew* (Tunku Abdul Aziz 2009b):

Malaysia's dismal failure to curb corruption as effectively as Singapore, Hong Kong, Taiwan and Japan, the cleanest in this region, has everything to do with the leadership in government, the Attorney-

General's chambers, the police and the MACC. It all comes down to people in the end. Mere institutions without people of honour and integrity to lead them do not amount to anything.

Finally, Tunku Aziz had gone on to say the following:

With one scam after another swirling around their ankles on a daily basis, our leaders, no matter what tricks they try to come up with, have all but lost their high moral ground from which to sermonise on the evils of corruption. *The country is mired in corruption and every level of the service has been touched by corruption ... Corruption is not part of our culture and yet we have allowed it to become our way of life.* (Emphasis added.)

Que sera sera, what will be, will be!

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APPENDIX A
List of federal government organizations

Statutory bodies	
University of Malaya (Universiti Malaya - UM)	Kedah Regional Development Authority (Lembaga Kemajuan Wilayah Kedah - KEDA)
Sultan Idris Education University (Universiti Pendidikan Sultan Idris - UPSI)	Muda Agriculture Development Authority (Lembaga Kemajuan Pertanian - MADA)
Putra University, Malaysia (Universiti Putra Malaysia - UPM)	Malaysian Rubber Board (Lembaga Getah Malaysia)
Islamic Science University of Malaysia (Universiti Sains Islam Malaysia - USIM)	Malaysian Fisheries Development Authority (Lembaga Kemajuan Ikan Malaysia - LKIM)
University of Science, Malaysia (Universiti Sains Malaysia - USM)	Malaysian Highway Authority (Lembaga Lebuhraya Malaysia - LLM)
Northern University of Malaysia (Universiti Utara Malaysia - UUM)	Malaysian Palm Oil Board (Lembaga Minyak Sawit Malaysia - MPOB)
National Higher Education Fund Corporation (Perbadanan Tabung Pendidikan Tinggi Nasional - PTPTN)	National Population and Family Development Board (Lembaga Penduduk dan Pembangunan Keluarga Negara - LPPKN)
Intellectual Property Corporation of Malaysia (Perbadanan Harta Intelek Malaysia)	Construction Industry Development Board (Lembaga Pembangunan Industri Pembinaan Malaysia - CIDB)
Malaysian Handicraft Development Corporation (Perbadanan Kemajuan Kraftangan Malaysia)	Federal Agriculture Marketing Authority (Lembaga Pemasaran Pertanian Persekutuan - FAMA)
Council of Trust for the Bumiputera (Majlis Amanah Rakyat - MARA)	Inland Revenue Board (Lembaga Hasil Dalam Negeri - LHDN)
Malaysian Examinations Council (Majlis Peperiksaan Malaysia - MPM)	Penang Regional Development Authority (Lembaga Kemajuan Wilayah Pulau Pinang - PERDA)
Companies Commission of Malaysia (Suruhanjaya Syarikat Malaysia - SSM)	Forest Research Institute of Malaysia (Institut Penyelidikan Perhutanan Malaysia - FRIM)
Social Security Organisation (Pertubuhan Keselamatan Sosial - PERKESO)	Malaysia Agricultural Research & Development Institute (Institut Penyelidikan dan Kemajuan Pertanian Malaysia - MARDI)
Agriculture Bank of Malaysia (Bank Pertanian Malaysia) (from April 8 2008 onward: Agrobank)	
Government-linked companies	
International Islamic University (Universiti Islam Antarabangsa - UIA)	Padiberas Nasional Berhad (BERNAS)
Amanah Raya Berhad (ARB)	Penang Port Sdn Bhd (PPSB)
Bursa Malaysia Berhad	Pengurusan Danaharta Nasional Bhd
Federal Land Development Authority (Lembaga Kemajuan Tanah Persekutuan - FELDA)	Permodalan Nasional Berhad (PNB)
Federal Land Consolidation and Rehabilitation Authority (Lembaga Penyatuan dan Pemulihan Tanah Persekutuan - FELCRA)	Malaysian Rubber Development Corporation Bhd (MARDEC)
Indah Water Konsortium Sdn Bhd	Percetakan Nasional Malaysia Berhad (PNMB)
Malayan Railways Limited (Keretapi Tanah Melayu Berhad - KTMB)	Syarikat Perumahan Negara Bhd (SPNB)
Kolej Poly-Tech Mara (KPTM)	Telekom Malaysia Berhad (TM)
Malaysia Airports Holdings Bhd (MAHB)	UDA Holdings Berhad
Malaysian Timber Industry Board (Lembaga Perindustrian Kayu Malaysia - MTIB)	SME Bank

APPENDIX B
List of positions held by interview participants

Position	Total
Accountant	1
Audit Executive	2
Auditor	3
Internal Auditor	2
Senior Auditor	1
Head of Internal Audit	7
Group Head of Internal Audit	3
Group Head of Internal Audit and Risk Management	1
Head of Audit	1
Head of Internal Auditor	1
Head of Internal Audit Unit	6
Director of Internal Audit	1
Director of Internal Audit Section	2
Director of Internal Audit Department	1
Manager	1
Manager of Internal Auditing	1
General Manager	1
General Manager of Audit	1
General Manager of Internal Auditing and Compliance	1
Manager of Internal Auditing Department	1
Senior Manager	3
Senior Manager of Audit	1
Senior Manager of Internal Auditing	1
Senior Manager of Internal Audit Department	1
Manager of Internal Audit Unit	1
Audit Assistant	1
Assistant Manager	1
Deputy Manager	1
TOTAL	48

