

INTERNAL AUDIT CAPABILITY LEVELS IN MALAYSIAN PUBLIC SECTOR ORGANIZATIONS: THE PERCEIVED ROLE OF MANAGEMENT SUPPORT AND COOPERATION WITH EXTERNAL AUDITORS

**Nur Ain Zakiah Mohd Yusof^{1*}, Hasnah Haron¹, Ishak Ismail¹,
Andrew Chambers²**

¹Faculty of Industrial Management, Universiti Malaysia Pahang

²Professor Emeritus, Cass Business School, London

**Corresponding email:nazmyzaki@gmail.com*

ABSTRACT

This paper is a preliminary study as part of doctoral research. The primary objective of this paper is to measure the capability level of internal audit units of different organizations i.e. state department, state statutory bodies and federal statutory bodies. This paper also attempts to figuratively explain the perceived role of management support and cooperation with external auditors in becoming a capable internal audit function. A questionnaire, distributed to the head of internal audit in each organization, is used as a primary data collection method. From the analysis of internal audit capability matrix, it was found that internal audit unit in state department and federal statutory body both obtained capability level 2 (infrastructure) while internal audit unit in state statutory body only achieved capability level 1 (initial). At 82%, internal audit unit in state department scored highest for the Key Process Areas followed by internal audit unit in federal statutory body (76%) and state statutory body (71%). Management support and cooperation with external auditors were shown to be important factors to enhance capability levels. Factors that may influence capability level results and further recommendations on enhancing capability levels are discussed.

Keywords: Internal Audit, Internal Audit Capability, IACM, Quality Assurance, Public Sector

INTRODUCTION

Despite recent growing interest in internal audit (IA) (Pizzini et al., 2014; Trotman & Trotman, 2015; Coetzee & Lubbe, 2014; Regoliosi & D'eri, 2014; Fazli Aghghaleh & Muhammaddun Mohamed, 2014) and IA in the public sector (Everett & Tremblay, 2014; Neu et al., 2013; Roussy, 2013; Vinnari & Skaebaek, 2014), existing literature is still limited (Roussy, 2013 as cited in Roussy & Brivot, 2016). According to Roussy and Brivot (2016), there is little published data that contributes to understanding the nature and application of IA quality in different groups of governmental bodies. As cited in Badara and Saidin (2013b), there is a need to seriously consider the issue of IA effectiveness since few research projects have been conducted worldwide (Karagiorgos, Drogalas & Giovanis, 2011), whilst some researchers have stressed the need for future research to empirically examine the factors that influence IA effectiveness and the possible interactions between these factors (Endaya & Hanefah, 2013; Chaveerug, 2011; Salehi, Arianpoor & Salehi, 2013).

Following events such as the financial crisis and accounting scandals, the roles of internal auditing and internal control, including their contribution to effective corporate governance and firm performance, have expanded (Shenkir & Walker, 2006). Issues relating to globalization, transparency, integrity, and improvement of government service delivery all increase the need for better governance and accountability of organizations, which leads to the importance of quality IA in organization (Goodwin, 2004). So, all government ministries and agencies need to continuously improve the effectiveness of their internal control systems, and IA function to enhance the quality of their good governance (Badara & Saidin, 2013b).

The role of IA has grown in importance within the wider environment of governance and control. Thus, issues relating to how effectively it performs its role have emerged with greater prominence than before. The recent global financial crisis has led to questioning the effectiveness of IA is, both in its more conventional roles of monitoring internal control compliance and financial probity and in its more recent (and to an extent, self-proclaimed) role as an integral part of the risk management culture within large economic entities, whether in the private or public sector (Alzeban & Gwilliam, 2012).

In public sector organizations in general, the IA holds a high potential for promoting accountability and improving government performance. Thus, not surprisingly, several countries such as Australia, Canada, and the United States of America have developed policies aimed at strengthening public sector IA to enhance their capacity to contribute to these goals (Ali, Saidin, Sahdan, Saad, Rasit, Rahim & Gloeck, 2012;

Newcomer, 1998). Some of the policy measures include: requiring the establishment of IA units; establishing standards for the professional conduct of IA work; training; resource allocation; expanding reporting arrangements and broadening mandates to make auditors responsible for performance assessment (Ali, et al., 2012).

According to the Auditor General of Malaysia, the IA unit plays a proactive role as a monitoring mechanism and in examining ongoing projects. It may assist public sector entities to achieve their objectives effectively, efficiently, economically and ethically by providing unbiased and objective assessments (Ahmad, Othman, Othman, & Jusoff, 2009). Public organizations in Malaysia have faced widespread criticism regarding their perceived lack of financial discipline, good governance, and accountability (Khalid, 2010). Since 2007, Auditor General Reports have continuously emphasized a need for internal auditors to expand and improve their auditing competencies. They are required to assess and monitor the public sector's execution and management of programs, activities, and projects to ensure they are being implemented efficiently and economically and that objectives are met (effectively). However, issues of inefficiency, ineffectiveness as well as other weaknesses seem to be repeating every year, resulting in losses of billions of Ringgit Malaysia of public money. This leads to the question as to what has led to these weaknesses highlighted in Malaysian public sector organization (Ahmad et al., 2009). Of course, other countries too experience similar problems.

So far, however, there have been little research on IA effectiveness. Some researchers have proposed empirical studies on the factors that influence IA effectiveness and the possible interactions among them (Endaya & Hanefah, 2013; Chaveerug, 2011; Salehi, Arianpoor & Salehi, 2013). The conceptual study conducted by Badara and Saidin (2013) recommends the empirical validation of these antecedents of IA effectiveness. At this juncture, it is recommended that different constructs and variables can be employed to examine IA effectiveness (Karagiorgos et al., 2011; Mihret, James & Joseph, 2010).

As many of the ambiguities regarding public sector IA effectiveness have been pointed out, there arises the question among the practitioners and academics alike as to what are the factors that influence IA effectiveness and even more so, do IA unit have the required capabilities to perform their work well? Thus, this paper attempts to evaluate the capability levels of the IA unit in Malaysian public sector organizations. Besides that, the perceived supportive role of management and the nature and quality of cooperation with external auditors are also explored.

LITERATURE REVIEW

As with some other states, the Malaysian governmental system has certain unique attributes compared with other federal systems around the world. Malaysia employs a federal form of government with a democratic and monarchical system of government allied to the concept of separation of powers. The federal form of Malaysian government has three different levels of government i.e. the federal governments, the state governments and the local governments. The first two levels of the government enjoy the power to make laws and policies, while the third level only enjoys the autonomy power in terms of financial and management decision making. The Malaysian government at its highest level refers to the federal or national government authority which has its base in Kuala Lumpur. Malaysia is a federation of 13 states operating under a constitutional monarchy. As with the UK the parliamentary system and is a representative parliamentary democracy generally along the lines of Westminster.

The complexity of Malaysia's governmental structure requires Malaysia to adopt comprehensive procedures and guidelines especially relating to planning and control on financial matters. Financial management activities in the Malaysian public sector comprise several activities such as budgeting, accounting and reporting, auditing, and performance management apart from core activities that are revenue generating and expenditure incurring. Matters regarding financial management are stated in the constitution under Part VII: Financial Provisions. This part comprises 17 articles including budgeting activities, financial accounting activities, reporting, and auditing. The main purpose is to provide an efficient and effective mechanism to ensure the proper usage and management of public resources while achieving the intended objectives. Auditors need to audit all the financial report and record of the government agency and undertake a performance audit on the discharge of the financial accountability entrusted to each level of the government organization and its officers. Continuous developments in financial management, budgeting, and accounting systems put pressure on the Auditor General to continuously review its own audit techniques and audit methodologies to play a dynamic audit role in the overall accountability process (Ali, 2015). Figure 1 shows the general structure of Malaysian public sector (Ali, 2015).

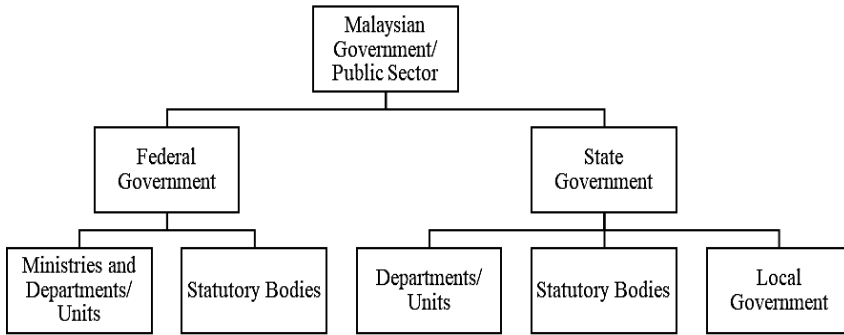


Figure 1 General Composition of Public Sector in Malaysia

Historically, the development of internal auditing in the Malaysian public sector started in 1970 when the Ministry of Defence set up its IA department. However, the scope was limited to a financial audit. Progressively, the extension of the scope has been recognized in later years with the scope expanding to cover both financial and management audits, as documented in the Treasury Circular No. 2 (1979). It stated that all ministries and departments in the federal government to establish their IA unit or department. In 2004, the government issued Treasury Circular No. 9 to replace 1979 circular. This circular extended the formation of IA to ministries, departments and agencies at federal and state government levels. Except that this requirement excluded the state agencies, local authorities, and state economic development corporations. This implied that IA is not a necessity in these organizations (Ahmad et al., 2009). Despite the long history of IA, and the requirement for it in governmental organizations, the quality and effectiveness of the IA in the Malaysian public sector have always been questioned. We should however recognize that while failures of risk management and internal control will always indicate that IA failed to prevent these failures, that is not to say that IA was necessarily to blame. Furthermore, IA successes which prevent management failures, are likely to go largely unnoticed and unreported.

In 2011, the review and consolidation of all circulars into one Treasury Circular (as known as 1PP) were mandated. There are two main sections outlined in 1PP to describe the duties and establishment of IA function which are the PS 3.1/2013 and PS 3.2/2013. Treasury Circular PS 3.1/2013 outlines the roles and responsibilities of the IA unit, Ministry Secretary or Head of Federal Department of State Secretary and the Treasury of Malaysia. This circular also details the IA duties. Treasury Circular PS 3.2/2013 explains the requirements and responsibilities of the Audit Committee (AC) at both federal ministry and state government level (Ministry of Finance, 2016).

There has been little research conducted from a Malaysian perspective about IA in the public sector even though it has an important role to play in the enhancement of efficiency and effectiveness of governmental operations. It is believed that the Malaysian Institute of Accountants conducted the first research in June 1988 (Malaysian Institute of Accountants, 1989). Another comprehensive study was published in 2007 entailing in-depth interviews with internal auditors from 35 states and local government bodies located in Peninsular Malaysia and conducted in the year 2003 (Ali, Gloeck, Ali, Ahmi, & Sahdan, 2007). This study revealed interesting findings that IA in Malaysian states and local governments faced numerous challenges, ranging from staff (resources), skills and training shortages, and that these challenges limited auditors' attempts to perform their duties. However, major questions have remained unanswered concerning the practice of IA in the nation's federal government.

Hence, Ali et al. (2012) carried studied both the good and bad aspects of IA in the Malaysian federal government. The study disclosed that the discouraging aspects of the IA in the federal organizations were to do with an inadequate number and relatively low competency level of audit personnel. Both factors were associated with other issues, for example, limited audit scope and coverage. The same study remarked that the National Audit Department (NAD) and Public Sector Internal Audit Advisory Unit in the Treasury need to improve their roles and functions as they relate to the public sector's IA. The same study found that another challenge faced by the public sector was the lack of uniformity in audit practice across the public sector. Several interviewed auditors emphasized the importance of uniformity of audit practice. To further elaborate, the study mentioned that there is a need for uniformity among all IA units in ministries and governmental departments, whether in respect of financial audit, performance audit, or information and communication audit. This has been associated with a need to standardize IA approaches and the IA manual across government entities (Ali et al., 2012).

The issues described above are relevant to the twin concerns of this research - management support for IA and cooperation between IA and external audit – which we hypothesise to be among crucial factors contributing to the good performing of IA. Adams (1994) used agency theory to show that it is in the best interests of management to maintain a strong IA. With the support of top management, internal auditors can obtain sufficient resources to execute their duties and responsibilities, and the IA unit can both hire qualified staff and provide continuous training and development (Alzeban & Sawan, 2013; Cohen & Sayag, 2010). According to International Standards for the Professional Practice of

Internal Auditing (The Institute of Internal Auditors, 2016), the way senior management demonstrate their support is likely to provide an important signal of the role and value of internal auditing throughout the organization. This support, in turn, empowers the IA department to execute its duties and fulfill its responsibilities. The Standards also highlight the importance of the relationship between internal auditing and senior management and indicate ways for management to support internal auditing. Senior management should be involved in the IA plan while the chief audit executive should acknowledge management's input. As for the IA department, they are responsible to provide senior management with sufficient, reliable, and relevant reports about the work performed, conclusions reached, and recommendations made. The Standards state that "the Chief Audit Executive must report periodically to senior management and the board on the IA activity's purpose, authority, responsibility, and performance relative to its plan".

In addition, cooperation between the internal and external auditors appears to be among the factors contributing to a well-performing IA: effective and efficient cooperation between the two auditors would lead to a higher quality of auditing (Munroa & Stewart, 2011). Simultaneously, cooperation with the external auditors would provide additional opportunities for internal auditors to add value to their organization (Wood, 2004). Appropriate cooperation is believed to increase the economy, efficiency, and effectiveness of audits and to help management provide a high-quality public service. The absence of cooperation between internal and external auditors is frequently identified as a factor impairing the quality of both forms of audit in the public sector in developing countries (Brierley et al., 2001; Alzeban & Gwilliam, 2014). General Audit Bureau Summary Reports (2008, 2010) in Saudi Arabia indicated that one reason for repeated financial errors and irregularities was the absence of cooperation between audited organizations and the bureau (Alzeban & Gwilliam, 2014). Therefore, this research intends to explain the possible influences of both factors - i.e. management support, and cooperation with external audit – on the capability level of IA units in Malaysian public sector organizations.

The question arises as to whether the deployment of the global Internal Audit Capability Model (IACM) would facilitate the adoption of standard IA practices and IA assessment processes across government entities and result in making IA more effective. After comprehensive research, the Institute of Internal Auditors Research Foundation, (IIARF, 2009) developed the IACM for public sector internal auditing. It describes a path of progressive levels for a public sector organization to follow to

improve the effectiveness of IA to meet the organization's governance needs and professional expectations.

According to Lester (2014), capability has variously been described as about having the potential to become competent; as being like competence but less normative or prescriptive; as being virtually synonymous with a broad version of (internal) competency; and as encompassing competence but going beyond it in several ways. In Lester's paper, several definitions of capability were quoted:

Stephenson (1998) describes capability as being about intelligent judgment, ethical practice and self-efficacy as well as competence; and that a high level of capability does not necessarily mean being comprehensively competent, but it does imply being able to know what level of competence is needed and to exercise it wisely. In their discussion of the "capable practitioner" O'Reilly et al. (1999) included the ability to go beyond what would normally be considered competent into excellence, creativity or wisdom and to be able to constructively exercise skeptical judgment about the "right" or "best" ways of doing things. Lester and Chapman (2000) comment that while competence "is typically concerned with fitness for purpose (or getting the job right), capability infers concern also with fitness of purpose (or making judgements about the right job to do)", again suggesting a conceptually higher level of operation than that typically captured in most notions of competence. Nevertheless, in all these accounts the capable practitioner is also expected to be functionally competent, while also being aware of the limits of his or her competence – and potentially how to overcome them – in any given situation (Lester, 2014).

It can be said that every routine activity (Eisenhardt & Martin, 2000) will involve resources, skills, competences and capability (Teece et al., 1997). Capability is evidenced in the results achieved from a long-term interaction of various resources (Grant, 1996). Researchers have noted that a firm's competitive advantage may be best explained by the organizational capabilities or competencies and their application, rather than by differences in industry characteristics (Barney, 1991; Teece et al., 1997). Scholars indicate that a capability is an asset that cannot be observed (i.e. is intangible) and is traded only as part of the entire enterprise. But it can be valuable, organization-specific and imperfectly imitable (Barney, 1991; Hall, 1994). The concept of capability models has been developed over the

past decade and is well accepted by organizations (Hillson, 1997; Persse & Persse, 2001; Chapman, 2009, as cited in Rensburg & Coetzee, 2011).

The capability maturity concept to determine organizational abilities has roots in quality management (Crosby, 1975, as cited in Babatunde, Perera, & Zhou, 2016). Since then, maturity models have been proposed for a wide range of activities, including software development (Bamberger, 1997; Bollinger and McGowan, 1991; Paulk et al., 1993), supplier relationships (Macbeth and Fergusson, 1994), research and development effectiveness (Szakonyi, 1994), product development (McGrath, 1996), innovation (Chiesa et al., 1996), collaboration (Fraser et al., 2002; Fraser, Moultrie & Gregory, 2002), product design (Strutt, 2001; Williams et al., 2003), and reliability information flows (Boersma et al., 2004; Sander & Brombacher, 2000, 1999, as cited in Tiku, Azarian, & Pecht, 2007). Tiku et al. (2007) proposed another model called 'reliability capability maturity metric', which electronics manufacturers can use to evaluate the maturity of the reliability practices of themselves and their suppliers. In this present paper, the approach of a capability model for IA in the public sector is used. This model was approved by the IIARF (2009). It is a development from the Software Capability Maturity Model by Software Engineering Institute (SEI).

Cited by Rensburg and Coetzee (2011), during the late 1980s to early 1990s, a capability maturity model (CMM) was developed by the SEI of Carnegie Mellon University in USA (SEI 2010). The focus of CMM was on capability, maturity and business excellence (SEI 2010) and was based on a framework of process capabilities that developed by Humphrey (1988). Originally, the CMM was developed to advance software engineering methodologies and processes using data from organizations contracted with the USA Department of Defense (Hillson 1997:36). Since then, the model has been adapted for various other fields including within the Risk and Insurance Management Society's risk maturity model (RIMS 2006). The SEI model suggests that a well-structured CMM should be in the form of a matrix that comprises the following elements (Persse 2001; Chapman 2009): (a) a few levels of capability describing the stage of development; (b) the assessment criteria or attributes describing the quality of the practices within each capability level; and (c) the competencies describing the incremental improvements or desired capabilities linking the levels to the criteria (Rensburg & Coetzee, 2011).

The IACM developed by IIARF (2009) fits the SEI model in that it features all the three areas set out by SEI i.e. (a) Level of capability: the IACM contains five progressive capability levels with a description of the characteristics and capabilities of the IAF within each level; (b) Essential elements: the IACM identifies the six essential elements that are present in

any IAF; and (c) Key process areas (KPA): the main indicators that must be present within each element for a specific capability level (Rensburg & Coetzee, 2011). In summary, IACM is a framework that identifies the fundamentals needed for effective IA in the public sector and consists of five levels tied to leading practices which can be used to help evolve public sector IA by strengthening its capacity and improving its effectiveness (IIARF, 2009).

To date, there is limited research regarding the application of the IACM model. Rensburg and Coetzee (2011) mapped the South African public sector legislation and guidance that regulate their IA practices, against the IACM mode overview of the key process areas (KPAs). Their research aimed to plot potential weaknesses in their government legislation and guidance. Their evaluation of the capability level of respective elements of the IACM was conducted by summing up the capability level achieved by each element of legislation and official guidance. Next, the total average of each element was summed and averaged out again to obtain the overall capability level. From the mapping, the results showed that the South African legislation and guidance achieved a total capability average of 2.93 which translated into coverage above 50% of the overall KPAs (Rensburg & Coetzee, 2011).

MacRae and Gils (2014), used an IIARF-released compilation report of a global IA survey conducted in the year 2010. They evaluated the survey data based on the IACM and covered the majority of the KPAs based on a building-block approach aligning with the IACM concept. The study included 2,824 respondents from the public sector. The survey had encompassed over 100 countries grouped into seven regions. Malaysia and thirty-nine other countries fell within the Asia-Pacific region. This research showed that there is an improvement needed for Element 4 “Performance management and accountability” which only achieved a total of 54% KPAs – the lowest score among all the elements. In addition, it was highlighted that approximately 20% of respondents indicated there was no formal performance measurement of the IA activity. This is probably a barrier to evaluating the performance of the IA activities. Referring to the Regional Averages by Capability Level, most of the IA from the Asia-Pacific region achieved a capability level of either 2 (56%) and level 1 (35%). There is minimal achievement of Levels 3 and 4.

In 2015, Fern (2015) conducted a preliminary study of the IA capability model of two public sector organizations in the Penang State of Malaysia. The results showed that both cases - i.e. Public Sector A (local authority) and Public Sector B (State Statutory Body) - achieved an overall capability rating of 2 (Infrastructure) while the average percentage scores of KPA achievement were 67% and 69% respectively. In her research, it

was found that despite various performance assessments established in the Malaysian public sector, they are primarily focused on the overall organization performance measurement and lack a performance tracking system established within the IA unit. It was also found that even though there was an available performance measurement methodology to assess the performance of IA units under the Ministry of Finance Malaysia purview, but it did not include other IA units in government agencies. Thus, IACM was found to be one of the frameworks available to evaluate the capability of an IA unit within public sector organizations to display the effectiveness of the IA unit (Fern, 2015).

This research used a questionnaire approach developed by Fern (2015) and based on IACM (IIARF, 2009). Further explanation of the research methodology is explained in the following section.

METHODOLOGY

This paper presents the findings of research conducted by a case study method, which looks at capability levels of IA units in three different public sector entities that are a state-level organization (case study A), a state statutory body (case study B) and a federal statutory body (case study C). All cases were in the East Coast Region of Peninsular Malaysia. Data were gathered from June until September 2016 through both primary and secondary sources i.e. (i) Interviews with the head of IA unit: interviews were conducted and tape-recorded and later transcribed for analysis; (ii) Internally generated documents made available by the head of each IA unit– information such as on the function of IA, on the internal audit charter, etc. The documents were reviewed and (iii) a questionnaire to measure IA capability levels was distributed to the head of IA in these organizations. Moreover, to gain a deeper insight of the practices of IA in Malaysian public sector organizations, interviews with National Audit Department officers (NAD), Institute of Internal Auditors of Malaysia (IIAM) and researchers from public universities were conducted prior to meeting these selected entities between December 2015 and March 2016.

Self-Developed Checklist

Internal Audit Capability is measured by the self-developed checklist suggested by Fern (2015) as a recommendation for future studies. This checklist contains six dimensions of IACM elements i.e. Service and Role of Internal Audit, People Management, Professional Practices, Performance Management and Accountability, Organizational Relationships and Culture and Governance Structure. These were proposed by IIARF (2009). Each of these six elements was evaluated for

its capability level: i.e. Level 2 (Infrastructure), Level 3 (Integrated), Level 4 (Managed), and Level 5 (Optimizing), as shown in Figure 2.

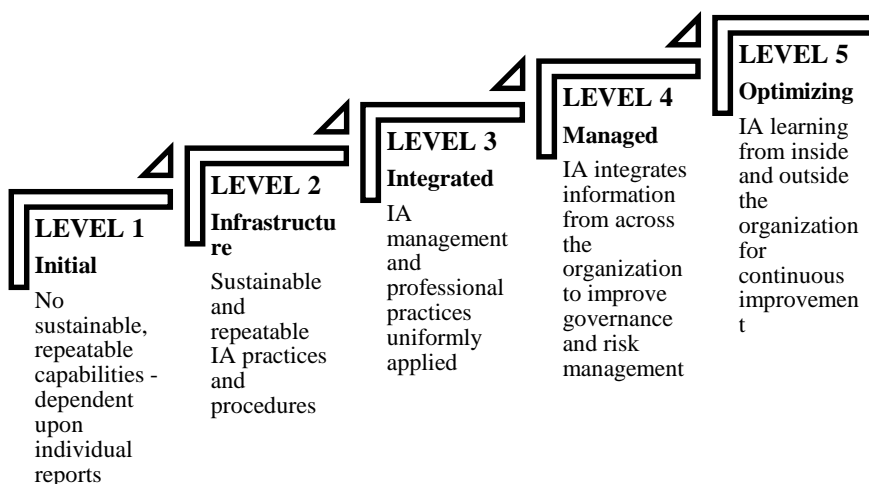


Figure 2 Internal Audit Capability Levels

Source: Institute of Internal Auditor Research Foundation (IIARF, 2009)

Each capability level identifies key process areas and essential practices that must be implemented within the six elements of an IA activity identified in the model. The determination of the capability of the IA activity is based on the KPAs, which are also known as the main building blocks. This serves two purposes: to identify what must be in place to maintain the capability level; and to signpost IA activity needed to progress to the next level. It is considered the next level has been achieved when an IA activity has institutionalized all the KPAs associated with a given level of IA capability. To put it briefly, IIARF (2009) noted that all the KPAs in each element up to and including that level must be mastered and institutionalized into the culture of the IA activity for internal auditing to be deemed to have achieved that level. The capability maturity levels are in ascending order, which indicates that an organization that intends to advance to higher levels must meet the criteria associated with the higher capability levels (Babatunde et al., 2016).

Questionnaire

In this study, responses to the questionnaires were evaluated using two different methodologies. The first was based on the building block approach guideline outlined by the IACM to emphasize the establishment of an effective internal auditing function which could not be improved if it were not sustained (IIARF, 2009). In accordance with Fern (2015), the

second evaluation methodology calculated the percentage of KPAs (Key Process Areas) achieved in each dimension.

The first dimension is Services and Role of Internal Audit. The ‘services’ of IA refers to the type and extent of services that IA provides to a government organization. Internal auditors typically provide assurance services, consulting services and a combination of the two. The types of audit engagement could include, *inter alia*, compliance reviews, performance audits, financial audits and information technology audits. The ‘role’ of internal auditing refers to the responsibility of the internal auditor to assist the organization in achieving its objectives and improving its operations by providing audit assessments that are independent and impartial. The model describes the role and services of IA as falling between the following two extreme capability focus points: (a) internal auditing is recognized as a key contributor to change on the highest capability level, specifically regarding the governance processes of the government organization; and (b) IA auditing merely reviews compliance with policies, contracts and legislation at the lowest capability level (level 2). However, level 1 is not included for this dimension (or for the other dimensions discussed below), as the IACM Matrix refers to this level as “ad-hoc” and/or “unstructured” (IIARF, 2009).

‘People management’ constitutes the establishment of a working atmosphere that endeavours to promote the most effective use of IA human resources. The model illustrates that people management of IA falls between the following two extreme capability focus points: (a) on the highest capability level, IA practices workforce projection, in which it develops a strategic workforce plan in accordance with the strategic objectives of the government organization; (b) on the lowest capability level (level 2), IA employs skilled internal auditors and practices the professional development of its IA staff.

Meanwhile, ‘professional practice’ refers to all the policies and procedures that allow IA to perform its duties effectively and professionally. These include the ability of IA to align its own strategies with the ability of the applicable government organization. The model describes the professional practices of IA as falling between the following practices at the two extreme capability focus points: (a) at the highest capability level, the IA practices strategic IA planning, which includes the adaptation of IA’s scope of services to the governmental organization’s future needs; moreover, the highest capability level also requires that IA continuously attempts to improve its professional practices in such a way as to develop its capacity; and (b) at the lowest capability level (level 2) IA’s plan is based on stakeholder and management priorities as well as having some sort of professional practices framework in place.

‘Performance Management and Accountability of internal auditing’ refer to the information required to successfully manage and control IA as well as the extent to which the performance of IA is reviewed and reported upon. The model represents the performance management and accountability functions of IA as falling between the following two extreme capability focus points. At the highest capability level, IA should have public reporting structures in place to account for the effectiveness of its operations. At the lowest capability level (level 2), IA should have an operating budget and business plan in place.

‘Organizational relationships and culture’ refers to the relational, organizational and cultural structures within the IAF, as well as the position of IA within the government organization it serves. The IACM presents the organizational relationships and culture of IA as falling between the following two extreme capability focus points: (a) at the highest capability level IA should not only have an effective relationship structure in place within the function itself, but should also maintain strong and effective relationships with all its main stakeholders outside of IA, including management and the audit committee; and (b) at the lowest capability level (level 2) IA only focuses on its internal relationship structures and operations.

‘Governance structures’ means the reporting structures of IA within the government organization. This includes the extent to which IA’s administrative and functional reporting structures have been established in the organization. The model describes the governance structures of IA as falling between the following two extreme capability focus points: (a) at the highest capability level IA should be totally independent, without any political interference or from the organization’s management; also, the power and authority of IA should be clearly in place to enable the internal auditors to perform their duties effectively; and (b) at the lowest capability level (level 2) IA should at least have full access to the governmental organization’s data, assets and people and should have some sort of established reporting structure. Table 1 shows the matrix of IACM which lists the main key process areas for six dimensions of the internal audit capability at five level.

Table 1 The Matrix of Internal Audit Capability Model (IIARF, 2009)

	Services and Role of IA	People Management	Professional Practices	Performance Management and Accountability	Organizational Relationship and Culture	Governance Structures
Level 5 Optimizing	- IA Recognized as Key Agent of Change	- Leadership Involvement with Professional Bodies - Workforce Projection	- Continuous Improvement in Professional Practices - Strategic IA Planning	- Public Reporting of IA Effectiveness	- Effective and Ongoing Relationships	- Independence, Power, and Authority of the IA Activity
Level 4 Managed	- Overall Assurance of Governance, Risk Management, and Control	- IA Contributes to Management Development - IA Activity Supports Professional Bodies - Workforce Planning	- Audit Strategy Leverages Organization's Management of Risk	- Integration of Qualitative and Quantitative Performance Measures	- CAE Advises and Influences Top-level Management	- Independent Oversight of the IA Activity - CAE Reports to Top-level Authority

Table 1 The Matrix of Internal Audit Capability Model (IIARF, 2009) (continued)

	- Services and Role of IA	- People Management	- Professional Practices	- Performance Management and Accountability	- Organizational Relationship and Culture	- Governance Structures
Level 3 Integrated	- Advisory services - Performance / Value-for-Money Audits	- Team Building and Competency - Professionally Qualified Staff - Workforce Coordination	- Quality Management Framework - Risk-based Audit Plans	- Performance Measures - Cost Information - IA Management Reports	- Coordination with other Review Groups - Integral Component of Management Team	- Management Oversight of the IA Activity - Funding Mechanisms
Level 2 Infrastructure	- Compliance Auditing	- Individual Professional Development - Skilled People Identified and Recruited	- Professional Practices and Processes Framework - Audit Plan based on Management / Stakeholder Priorities	- IA Operating Budget - IA Business Plan	- Managing within the IA Activity	- Full Access to the Organization's Information, Assets, and People - Reporting Relationships Established
Level 1 Initial	No specific Key Process Areas; Ad hoc or unstructured; Isolated single audits or reviews of documents and transactions for accuracy and compliance; Outputs dependent upon the skills of the specific person holding the position; No professional practices established other than those provided by professional associations; Funding approval by management, as needed; Absence of infrastructure; Auditors are likely part of a larger organizational unit; Institutional capability is not developed.					

Source: Institute of Internal Auditor Research Foundation (2009)

The measurement of the management support for IA is adapted from Alzeban and Gwilliam (2014). The measurement comprises of several indicators: supporting IA to perform its duties and responsibilities, involvement in the IA plan, reports on the work of the IA team being delivered to the management, management's response to IA reports, and the resources of the IA department. Respondents are required to indicate the degree of agreement that they have with respect to the management support for IA using a 5-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

Cooperation between IA and external audit refers to the act of coming together between them to facilitate the achievement of certain objectives. This variable is measured using the six items as adapted from Badara and Saidin (2014) which had been developed based on Fowzia (2010) and another three items adapted from Alzeban and Gwilliam (2014). Respondents are required to indicate the degree of agreement that they have with respect to the cooperation with the external auditor using a 5-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The items measured include reliance on IA as part of the external audit plan; external auditor evaluation of IA work before relying on IA; IA complying with relevant professional standards and thus displaying assurance to external auditors; IA communicating with external auditors on IA findings; IA discussing their audit plan with the external auditors; IA meeting external auditors on a regular basis to discuss progress with the resolving problems; external auditors being supportive; external auditors having a good attitude towards IA; external auditors being willing to give IA opportunities to express their concerns.

FINDINGS AND DISCUSSION

Case study A (CSA) is an IA unit at state level. CSA has been established since 2001. The establishment of the IA unit is according to the mandate of Treasury Circular PS 3.1/2013 and PS 3.2/2013. CSA is responsible to other state governments departments and agencies that do not have their own internal auditors as stated in PS3/1/2013. At the time the research was conducted there were 38 departments under the purview of CSA. The vision of the unit is to provide an efficient audit services to enhance the financial management accountability of agencies under the administration of the state government, while its missions are to conduct audits in a fair and professional manner to enhance the financial management accountability of agencies under the administration of the state government. The objective of the unit is to assist agencies under the State Government Administration to achieve stipulated goals and to improve the

level of accountability in financial management. According to the Designation Approval Letter N153/2007 dated 31 October 2007, it was stipulated that five staffing positions in CSA had been approved. In 2015, 10 additional posts through Designation Approval Letter N105/2015 dated 29 December 2015 were approved. Of these 15-audit staff, 2 have the highest education level (degree level) and the others are educated to secondary school level. Except for the head of IA, none of the audit staff has a professional accounting qualification. On average, the years of experience of the IA staff are between three and six years. The head of IA reports functionally and operationally to the State Secretary Officer.

Case study B (CSB) is an IA division of one of the state statutory body organizations. This organization serves as the foundation to further the advancement of education, sports and culture and to expand educational opportunities for citizens in the State. It aims to be the organization that is a catalyst for the development of world-class human capital which is important for the success of Vision 2020. There are four subsidiaries which are related to plantations, mining, and education with total 82 staffs altogether. CSB started in 2008 when the warrant for the post of head of IA and assistant auditor were issued. Until 2010, there were no personnel officially appointed to fill these positions. By 2010 the head of IA was in post and the IA division started to build up their roles and responsibilities with the help of the head of the IA from State Secretary Office mentioned in the previous case. At the point this research was conducted, the Audit Committee was not yet endorsed by the Board of Committee due to the replacement of the Chief Executive Officer (CEO). The new elected CEO gives full authority to the head of IA to carry out auditing tasks. Operationally, the head of IA of CSB reports directly to the CEO. Administratively, the head of IA at the level of assistant manager. Thus, she is required to report administratively to the head of the department. In 2014, the State Secretary Officer gave an instruction to establish an integrity unit in conjunction with the mandate given by the Prime Minister's Directive No. 1 (2014), which is to do with the establishment of an Integrity and Governance Committee in all ministries, state secretaries, departments, and agencies of ministries. Under a clause stipulated by the State Secretary Officer, state departments and statutory bodies without the human resources to appoint a head of their integrity unit, the head of IA unit must discharge that role. Since then, the head of IA also serves as the chief integrity officer. Besides that, she has also been given another portfolio to look after the investment division of the organization.

Case study C (CSC) is an IA unit of one of the federal statutory bodies. It is a public university offering a wide range of skills-based

tertiary education programmes and practical-based tertiary education in engineering, science, and technology. Its research focuses on applied research and industrial projects to enrich the teaching and learning processes as well as to promote the commercialization of research products, thus exposing students to the latest industrial research and development activities. The university is committed to the development of human capital and technology to fulfill the needs of industries, as well as to contribute to the country's overall development. IA in CSC was established in 2003 and as from then research has been conducted. The head of IA holds three major portfolios i.e. IA, the integrity unit, and risk management. CSC assists and acts as a consultant to the university to ensure resources are managed and administered in accordance with all regulations. IA carries out the accountability index rating, financial management audits, performance audits and ICT audits. The board of the university defined IA as being part of their supervision. In the university board meeting No 1/99 a resolution to establish an audit committee (AC) was approved. Three non-executive board members are appointed. The AC should meet at least four times a year, or more based on circumstances/necessity. CSC's IA reports functionally to the AC and administratively to vice-chancellor (VC). IA communicates and interacts directly with the AC and is included in executive sessions and meetings whenever required. Under secrecy and accountability to protect records and information strictly, IA is fully authorized to have unrestricted access to all records, physical property, and any related materials while carrying out their roles and responsibilities. At least once a year, IA must submit the audit plan to the AC and VC for review and approval. A written report will be prepared and issued by IA after the completion of each audit engagement. It shall contain management's response and details of corrective action that has been taken. It is based on the specific audit findings and recommendations. This report then will be sent to AC with a copy to the VC, registrar, treasurer, legal officer and the auditee. Matters that are high risks and internal control/governance issues that have not been resolved will be presented/reported to the AC at its meeting. IA is responsible to follow up on audit findings and actions taken by auditees to address audit findings and recommendations. All significant findings will remain as 'key issues' until resolved. A summary report of the main audit findings made across several audit engagements that has been approved by the university Board of Directors will be sent to the General Secretary of the Ministry of Higher Education Malaysia (MOHE) to comply with the General Circular No. 3/1998 Paragraph 7.2.2 and Financial Circular No. 2/2006 Paragraph 5. Table 2 shows the summary of all case studies background.

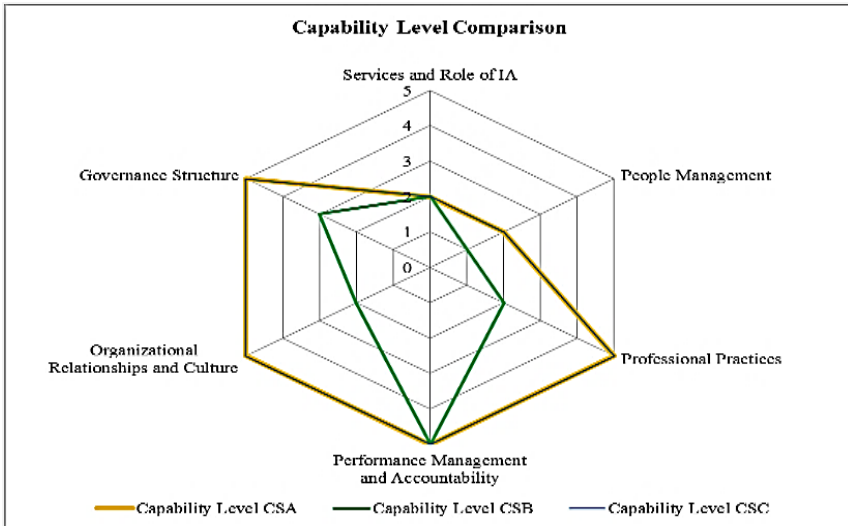
Table 2 Summary of Findings for All Case Studies

Elements	Case Study A	Case Study B	Case Study C
Type of Organization	State Government	State Statutory Body	Federal Statutory Body
Head of Internal Audit	Male	Female	Male
Education Level	Bachelor Degree	Master Degree	Bachelor Degree
Professional Certificate	None	Association of Chartered Certified Accountants (ACCA)	Accounting – Technician Level (CAT/AAT)
Membership of Institute of Internal Auditor (IIA)	Yes	No	Yes
Operational Reporting Level	State Secretary Officer	Chief Executive Officer	Audit Committee
Administrative Reporting Level	State Secretary Officer	Head of Department	Chief Executive Officer
Internal Audit Establishment	Department 2001	Division 2010	Unit 2003
Portfolio	Solely internal audit	Internal audit, integrity unit, and investment unit	Internal audit, integrity and risk management
Internal Audit Staff	5	2	8
Average Years of Experience	3 to less than 6 years	6 to less than 9 years	9 to less than 12 years
Existence of Audit Committee	Yes	No	Yes

Using the IA capability matrix as the basis for analyzing the questionnaires responded to by the heads of the IA in CSA, CSB, and CSC, it is found that IA unit in CSA and CSC both obtained capability level 2 (infrastructure) while CSB only achieved capability level 1. CSA scored the highest KPA percentage at 82% followed by CSC (76%) and CSB (71%). Table 3 shows the summary of IACM analysis for all case studies while Figure 3 shows the cobweb mapping of scored elements.

Table 3 Summary of IACM Analysis

Dimensions	Capability Level			KPA Percentage (%)		
	CSA	CSB	CSC	CSA	CSB	CSC
Services and Role of IA	2	2	2	55%	83%	53%
People Management	2	1	2	52%	53%	49%
Professional Practices	5	2	5	100%	87%	100%
Performance Management and Accountability	5	5	5	87%	68%	55%
Organizational Relationships and Culture	5	2	5	100%	83%	100%
Governance Structure	5	3	5	100%	54%	100%
Overall Capability Level & KPA Percentage	2	1	2	82%	71%	76%



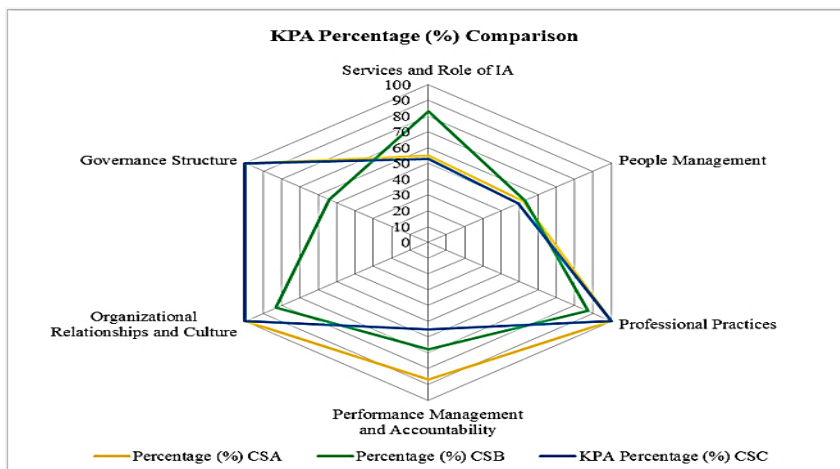


Figure 3 Cobweb Comparison of IACM Dimensions

CSA achieves level 5 (optimized) for all four dimensions of professional practices, performance management, and accountability, organizational relationships and culture as well as governance structure. However, it only achieves level 2 (infrastructure) for both dimensions of services and role of IA and people management. CSB only achieves level 5 (optimized) for the dimension of performance management and accountability. For the dimension of governance structure, CSB achieves level 3 (integrated); and for other three dimensions of services and role of IA, professional practices and organizational relationships and culture achieves level 2 (infrastructure). CSB scores poorly for the people management dimension which is only level 1 (initial) which results in overall capability of only level 1 (initial). CSC shows that it also achieves level 5 (optimized) for four elements of IACM i.e. professional practices, performance management and accountability, organizational relationships and culture and governance structure while two other dimensions (i.e. services and role of IA and people management) only scored capability level 2.

Despite CSA and CSC scoring the same capability level of each dimension, the KPA percentages they obtained by each dimension are different. CSA and CSC both scored 100% for the three dimensions that are professional practices, organizational relationships and culture and governance structure while CSB did not score 100% for any dimensions. But CSB obtained the highest KPA percentage score of 83% for services and role of IA dimensions compared to CSA and CSB which only score 55% and 53% respectively. As for the people management dimension, CSA and CSB scored almost similar i.e. 52% and 53% respectively while

CSC scored the lowest which is less than 50%. For performance management and accountability dimension, CSA scored the highest KPA percentage with 87% followed by CSB (68%) and CSC only 55%. CSB only scored 83% for organizational relationships and culture compared to CSA and CSC which both scored 100%. CSB also scored the lowest KPA percentage for governance structure i.e. 54% compared to the maximum score obtained by the two other organization.

Achieving capability level 2 (infrastructure) of services and role of IA dimension by all organizations studied in this research indicates that all cases merely review compliance with policies, contracts, and legislation. This shows that all three cases have the proper documentation of an IA charter, and that they perform audit engagements and communicate the results of the audit engagements. They also provide these audit reports to the appropriate parties (including the external auditor, where relevant) and carry out management action plans if necessary (IIARF, 2009). To advance from level 2 to level 3 (integrated), the units would need to provide advisory services and conduct performance/value-for-money audit engagements. Achieving capability level 3 would mean that the audit function generally conforms to the internal auditing International Professional Practices Framework (IPPF, 2016).

For the people management dimension, achieving level 2 shows that IA employs skilled internal auditors and practices individual professional development. It shows that CSA and CSC are continuously making sure to maintain and enhance their internal auditors' professional capabilities. Furthermore, these IA functions also manage to identify and recruit staff with necessary competencies and relevant skills to carry out IA duties which is likely to provide credibility to IA results. At the initial level 1, as obtained by CSB shows that IA is characterized by unstructured processes i.e. it relies on the skills and abilities of specific individuals where few processes are defined, and practices are performed inconsistently. Auditing is likely limited to transaction auditing i.e. examining the regularity and accuracy of individual economic transactions, or some basic compliance auditing. The infrastructure for the IA activity has not been fully established and auditors are likely part of a larger organizational unit where funding is approved by management as needed. At this level, the state statutory body studied faces the risk of not being able to rely on or routinely benefit from the value-added contribution of internal auditing. To move from level 1 to level 2, CSB should establish and maintain repeatability of processes. It is advisable for the head of IA to register as a member of IIA (IIARF, 2009).

On the highest capability level of professional practices as scored by CSA and CSC, the result indicates that they are practicing strategic IA

planning, which entails the adaptation of the scope of services of IA to the organization's future needs. The IA activity has achieved organization-wide respect for demonstrating value in anticipating the organization's needs and contributing to the achievement of strategic and organizational objectives. As a result, IA needs to continuously improve its professional practices to develop its capacity. At capability level 2 as scored by CSB, the IA's plan is based on stakeholder and management priorities as well as having some sort of professional practices framework in place. At this level, IA has also managed to facilitate the performance of audit engagements with independence and objectivity and without much challenge. Audit engagements are performed with proficiency and due care. Visible commitment and action by senior management through supporting the professional nature of internal auditing and providing appropriate resources to create professional practices and processes framework are institutionalized in the organization (IIARF, 2009).

All cases studied scored the highest capability level 5 for Performance Management and Accountability dimension. It shows that the IAF have public reporting structures in place to account for the effectiveness of its operational performance management and accountability of IA. In other words, these units report publicly on the effectiveness of the IA activity to demonstrate transparency and accountability to the organization's stakeholders and the public. It also suggests that the units identify the contribution and impact made by IA with the resources provided. External stakeholders have timely and relevant performance information to make appropriate decisions and the citizens are engaged; thus, the public obtains a clearer understanding of the distinct and different roles that internal auditing and management have in meeting the objectives of their respective organizations (IIARF, 2009).

On the other hand, the highest capability level scored by CSA and CSC for the organizational relationships and culture dimension indicates that the IA has an effective relationship structure in place within the function itself. It is likely that IA also maintains strong and effective relationships with all the main stakeholders outside of the function, including management and the audit committee. IA proactively communicates key strategic and operational issues to management and other stakeholders and make recommendations. IA maintains and fosters the mutually respectful relationship with the organization's external auditor and thus, IA is a credible business partner throughout the organization. For CSB, which scores capability level 2 for this dimension, it indicates that CSB participates in the organization's management activities in some form as a valued member of the management team. Even though they do not carry out management's responsibilities, IA is included

in the communications and forums of the management team, and as an observer is able to maintain a channel of communication with senior management. In other words, IA is integral (fundamental) to the organization's management team and contributes to achieving organizational results (IIARF, 2009).

CSA and CSC score the highest capability level for the governance structures dimension. This indicates that IA is fully independent, without any interference politically or from the organization's management. Power and authority are clearly in place to allow the internal auditors to perform their responsibilities effectively. Even though CSB only scores level 3 for this dimension, this does imply that CSB at least meets the relevant International Auditing Standards and has full access to the organization's data, assets and people within an established reporting structure. It also indicates that CSB has established formal reporting relationships both administratively and functionally (IIARF, 2009).

The varied results obtained might be due to the varied nature of the organizations surveyed. IA in CSA, a state level organization, has been established since 2001 while IA in CSC, a federal state statutory body, has been established since 2003. However, IA in CSB, a state statutory body, has only been established in 2010. The requirement to establish IA in federal and state level institutions is stricter according to Treasury Circular PS 3.1 and PS 3.2 2013. CSB has not yet officially established an Audit Committee which would result achieving a higher capability level and overall KPA percentage.

Standard 1130 (IPPF) also states that IA should refrain from accepting responsibility for non-audit, operational functions or duties; as happened in both CSB and CSC IA has also carried out other functions such as responsibility for their integrity units, and moreover CSB also acts as part of the management of the organization's investment unit. Note that the Institute of Internal Auditors (IIA) regards their Standards as mandatory for those who conduct IA in accordance with the IIA definition of internal auditing. Acceptance of such responsibilities can impair independence and objectivity (IIAM, 2008). Even though IPPF Standard 1210 states that the internal auditors should have sufficient knowledge to identify the indicators of fraud and they are responsible for assisting organizations to prevent fraud, they are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud. Internal auditors should examine and evaluate the adequacy and effectiveness of their organization's internal control systems. In part this is because internal control is the principal mechanism for preventing fraud (IIAM, 2008). Management rather than IA is responsible for resolving

fraud incidents: IA may investigate the facts and advise management relating to the remediation of control weaknesses that have or could lead to the fraud. IA can also advise management on the design of a communication strategy and tactical plan (IIAM, 2008), for instance with respect to the management accounts. Another important consideration is the professional qualifications and professional membership of internal auditors. Since the IACM is developed by IIA, the requirement of IIA membership is one of the elements in the KPA of the people management dimension. Neither head of IA nor any other IA staff in CSB have such membership which impacts the capability level of this dimension compared to CSA and CSC where both IA heads are IIA members. However, the head of IA in CSB was able to carry out her task well with the Association of Chartered Certified Accounts (ACCA) qualification of ACCA and with assistance from the head of CSA's IA at the early stage of setting up the IA department.

According to IPPF Standard 2030 on resource management – the head of IA should ensure that IA resources are appropriate, sufficient, and effectively deployed to achieve the audit plan. Staffing plans and financial budgets, including the number of auditors and the knowledge, skills, and other competencies required to perform the audit work, should be determined from engagement work schedules, administrative activities, education and training requirements, and audit research and development efforts (IIAM, 2008). Nevertheless, the constraints on IA human resources in three organizations studied in this research may impede IA performance: scores were lowest for the people management division. This is frequently one of the reasons for ineffective IA in Malaysian public sector organizations as reported in previous research conducted in Malaysian public sector organizations (Ahmad, Othman, & Othman, 2010; Ahmad et al., 2009; Ali et al., 2009, 2012, 2007; Ali, Saad, Khalid, Sulaiman, & Gloeck, 2011).

According to the interviews conducted, the issue of inadequate staffing might be related to the policy that requires all IA warrants or appointments in all government entities especially federal and state level to be authorized by National Audit Department (NAD). Thus, the utilization of manpower is restricted based on the availability of staff from NAD. This also may indicate the importance of management support to provide all needed IA resources, especially experienced and skilled auditors. The following Table 4 shows the extent of agreement with the statements to measure the nature and degree of management support for IA, as set out by the heads of IA, with the degree of agreement ranging from 1 (strongly disagree) to 5 (strongly agree).

Table 4 Extent of Agreement for Management Support Items

Management Supports Item	CSA	CSB	CSC
The organization’s management supports internal audit to perform its duties.	5	5	5
Internal auditors rarely face interference by management while they conduct their work.	5	5	4
The organization’s management involves in the internal audit plan.	4	4	4
Internal audit provides the organization’s management with reliable reports about the audit work performed.	4	4	5
Internal audit provides the organization’s management with relevant recommendations based on the audit work performed.	4	4	5
The response given by the organization’s management to internal audit reports is reasonable.	4	4	5
Internal audit function is large enough to successfully carry out its duties and responsibilities.	4	2	5
Internal audit function has sufficient budget to successfully carry out its duties.	4	4	4
Management helps to promote effective co-operation between internal and external audits.	4	4	5

The scores show that all three respondents strongly agree that their organization’s management supports IA to perform its duties. Other statements also scored either ‘Agree’ or ‘Strongly Agree’ except for CSB where the head of IA disagreed with the statement that IA function is large enough to successfully carry out its duties and responsibilities. This may be the most crucial factor that contributes to achieving the overall capability level 1 of CSB. On the other hand, both CSA and CSC scored either ‘Agree’ or ‘Strongly agree with the statements on the quality of cooperation with external auditors. However, CSB answers mostly score 3 (neither ‘Agree’ nor ‘Disagree’ as shown in Table 5.

Table 5 Extent of Agreement for Cooperation with External Auditors

Cooperation with External Auditors Item	CSA	CSB	CSC
Reliance on the internal audit is part of the external audit plan.	4	5	5
External auditor evaluates internal audit work before relying on them.	4	4	4
Internal auditors comply with the relevant professional standards and thus displaying assurance to external auditors.	5	4	4
Internal audit communicates with external auditors on the audit findings.	4	3	4
Internal audit discusses their audit plan with external auditors.	4	3	4
Internal auditors meet external auditors on a regular basis to discuss progress with the resolving problems.	4	2	4
External auditors are supportive.	4	3	4
External auditors have a good attitude towards internal auditors.	4	3	4
External auditors are willing to give internal auditors an opportunity to explain their concerns.	4	3	4

The head of IA in CSB disagrees with the statement that internal auditors meet external auditors on a regular basis to discuss progress on resolving problems. At the initial development stage of establishing IA in CSB, help was sought from the head of the IA in public sector A. Upon establishment, CSB stands by itself according to the requirement by the Chief Executive Officer and its management. As a state statutory body, CSB can perform by itself unless there are any misconduct cases reported to the State Office. If required, CSA may conduct an audit on the state statutory body.

CONCLUSION

The critical role of IA in the public sector has been stressed by various parties (Fern, 2015). Recognizing this, IIARF (2009) developed a set of criteria, known as the IACM to assist the appropriate and systematic development of IA in the public sector. It is believed that a mature and competent IA function will be able to assist the organization in achieving its objectives economically, efficiently and effectively. IA is expected to work collaboratively with the organization’s management and with the oversight body to provide optimum assurance that its governance processes are efficient and effective, and that internal controls are sufficient to mitigate identified risks, and that organizational objectives

and goals are met (IIARF, 2009). As the IACM uses the building-block methodology, an IA unit can be easily and systematically analyzed to identify weak KPAs to be focussed upon before proceeding to the next capability level. In summary, IACM is a framework to identify the fundamental requirements for an effective IA in public sector organizations. The model is able to help assist Malaysian public sector IA units to identify the KPAs that are needed to establish a strong foundation of the capability level prior moving to the next level. The outcomes of the IACM can then be utilized as a communication tool within the organization and to its stakeholders, at all government levels, and internationally to advocate the essential IA roles (IIARF, 2009).

In this study, both CSA and CSC scored overall capability level 2 and thus, to advance to a higher capability level, they should emphasize the KPAs required for level 3 especially the two dimensions of IACM that are 'services' and 'the role of internal auditing'. Such KPAs include providing advisory practices and performance/value-for-money auditing. This recommendation also applies to CSB which scored at the same level. Another lacking dimension is 'people management'. It is recommended that all IA units in these three cases should enhance this dimension by aligning periodic audit and services plans to the human resources levels authorized for IA. IA activity needs to use appropriate methods to set audit projects and services priorities to limit IA commitments to a doable quantity and type audit work since IA resources are often constrained. IA should also be staffed with professionally qualified staff and IA staff who have demonstrated sufficient competence need to be retained to a greater extent. Besides that, there needs to be a focus on an individual project team cohesion so as to develop staff members' capacity to function effectively in a team environment. Commonly, the scope of many public sector audit engagements covers require a concerted team effort to conduct competently (IIARF, 2009). Specifically, for CSB, it is highly recommended that the head of IA should obtain IIA membership as complementary to the professional certificates already achieved. On top of that, the most crucial step that CSB should take is to develop a meaningful relationship with an appropriate Audit Committee.

This study signposts appropriate action, which can be undertaken promptly by the heads of IA and other stakeholders, to improve CSA, CSB and CSC IA capability to at least level 3. By extension, this signposting has wider applicability for many other Malaysian organisations, especially those in the public sector. The study has shown that management support and cooperation with external auditors are influential factors in contributing to IA capability.

However, since this research is only the preliminary study of more in-depth doctoral studies, caution needs to be exercised in generalizing the results of this study. The study was limited to a small number of governmental agencies samples (one state level, one state statutory body, and one federal statutory body). IACM evaluation research needs to include different ministries, departments, statutory bodies, local authorities, and government-linked companies. For that reason, a quantitative approach can be adapted to expand the samples of research.

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