

Consulting Role of Internal Auditors: Exploratory Evidence from Malaysia

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Abstract

This paper discusses the added value that business can gain from the internal auditors via their consulting role. It is an explanatory study that provides an overview of the consulting activities within the business context. In the current complexity and constantly changing business issues, leveraging on the wealth of collective information about the business obtained by internal auditors in order to add value and improve organizational competitiveness would be a good strategy. In the stewardship perspective, internal audit would support the board and management team through consulting role and are expected to provide advice on the business improvement or future investment opportunities if the company is aggressive for new ventures etc. Fifteen (15) in-depth interviews with the Heads of Internal Audit departments from large Malaysian organizations were carried out. This is to investigate the nature, and extent of consulting activity in the companies analyzed. The results show that internal auditors provided consultation upon the request of management, board of directors or audit committee, on ad-hoc basis to help improve business operations and to achieve organizational objectives. This paper contributes to the literature by providing a deeper insight into nature and extent of consulting activity which internal auditors perform. It investigates an unexplored area of the role of internal auditors as consultants and opens several interesting avenues for future research.

JEL Classifications: M4

Keywords: Internal auditors, consulting activities, corporate governance, management, audit committee, independence/objectivity

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1. Introduction

For the past few decades, the business environment has experienced a rapid and revolutionary change with extensive impact to organizations all over the world. In this radically changed phenomenon, Internal Auditing (IA) has gained its important role in the governance of organizations. Economic changes, increasing dependence on technology, new market and product opportunities, increasing regulation, changing workplace behavior and the pace of organizational change are contributing to the increased velocity of emerging risk that can threaten business stability. In this scenario, IA is argued to be an enabler of business performance and provider of knowhow that can support business objectives. This is based on the argument that internal auditors possess knowledge of the company, thus, they can position themselves as consultants when there is a necessity to impart the collective information gained during the audit to enhance the organization. Therefore, in this respect, internal auditors may participate proactively such as supporting the board and the management team through a consulting role and providing prudent advice toward business improvement should the company be interested to venture into new business transactions or enhancing the existing business process. In fact, internal auditors tend to comprehend the subtleties of the business more due to their knowledge of the business and its operations. In other words, the business can gain the added value of consulting role of internal auditors. Moreover, effective Internal Audit Functions (IAFs) help organizations accomplish their business objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (IPPF, 2013, p. 2). In accordance with the 2010 Global IA Survey of the Institute of Internal Auditors (IIA), maximizing the IAF is imperative to meet new challenges of today's business environment and the value of IA will be measured by its ability to drive positive change and improvement (IIARF, 2010a & b; IIARF, 2011a, b, c & d).

The recent regulation in Malaysia i.e. Bursa Malaysia Listing Requirement (LR) (revised 2013) has made IAF mandatory with effect from January 2008 for all listed issuers on Bursa Malaysia, and internal auditors must report directly to the AC (i.e. to increase organizational independence). Similarly, firms that are listed on the New York Stock Exchange (NYSE) must have IAF, either in-house or outsourced (Balkaran, 2008). The latest version of the Malaysian Code of Corporate Governance [MCCG] (2012) emphasizes the importance of IA by mandating this function and thus all listed companies are required to include information pertaining to this in their annual reports. In Singapore, all listed companies should establish an IAF either in-house or outsourced to a reputable audit firm, or performed by a major shareholder, holding company, parent company, or controlling company with an IA staff (Singapore's Code of Corporate Governance, 2005). Moreover, IA is appreciated if it serves as a business partner as perceived by IA customers such as senior and junior managers in the Singaporean environment (Yee, Sujan & James, 2007; Yee, Sujan, James & Leung, 2008). Inversely, in other countries such as UK and Hong Kong, the IAFs are not mandatory for companies listed at respective stock exchange, yet, establishment is encouraged to assist all board members and management when auditors discharge their responsibilities by furnishing clients with analyses, appraisals, recommendations, and pertinent advice on activities reviewed (The UK Corporate Governance Code, 2010, Hong Kong's Code on Corporate Governance Practices, 2005, Hong Kong Institute of Certified Public Accountants, 2005). The new role of IA thus clearly increases the scope of IA by including the role of consultation (IPPF, 2013; Reding *et al.*, 2013; Selim, Woodward & Allegrini, 2009). However, not many researches were conducted to justify, clarify and recognize IA's new role in consultancy (Ramamoorti, 2003; Selim *et al.*, 2009). Therefore, we aim to analyse how far internal auditors play their role as consultants and how internal auditors can add value to business with their consulting role. In addition, we seek to identify factors that encourage them to perform such role.

Malaysia is a developing country with a rapidly growing economy in Asia¹ (i.e. emerging multi-sector economy) where many large companies are earnestly expanding their business operations domestically and globally, which will automatically boost the economy of the country. As suggested in prior literature (e.g., Kassim, 2011; Selim *et al.*, 2009; Rezaee, 2009; Dounis, 2006 & 2008; Arena, Arnaboldi, & Azzone, 2006), internal auditors do play their role as consultants in the areas of risk management, change management, project management, strategic management, mergers, and acquisitions (M&A) and governance. Richards (2001) clearly states that consulting assignments are considered a win-win relationship for internal auditors and their clients as it includes several steps from marketing to post-implementation review. The MCCG (2012) emphasizes the roles and responsibilities of the Board to ensure that companies do not only operate successfully, but also sustain company's growth over a long term. Internal auditors, thereby, would add value to business by providing advice to the Board and the management and advocating improvements to enhance the organizational governance structure and practices through their consulting role (MCCG, 2012). In fact, the Malaysian Government has on various occasions encouraged Malaysian entrepreneurs to take a big step into venturing both regionally and internationally since there are some incentives provided for those who involve themselves in international trade.² Therefore, being a partner to management, IA has an advisory role to play by adding value to overseas related ventures.

This paper is structured according to sections. Section 2 provides the review of relevant literature on issues related to internal auditors as consultants. Section 3 presents a description of the study's research methodology. The results are reported in Section 4. Section 5 presents the discussion and conclusion of the paper.

2. Literature Review and Research Questions

The current business world is facing phenomenal transformation whereby many people have conducted their businesses in many regions or countries with no restrictions found in dealing with such businesses all over the world (Williams, 2002). Therefore, the advent of globalization, increase in business complexity and major advancement of information technology have led to a paradigm shift in activities performed by internal auditors (value-added function). Besides, in the IA's stead is the role of a "trusted business advisor" who can help the organization attain not only regulatory compliance, but its goal around efficiency, growth and profitability (Bolger, 2011). This is consistent with the definition of the consulting services provided by the Institute of Internal Auditors (IIA) i.e. "advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training" (IPPF, 2013, p. 42). This includes activities such as conducting internal control training, providing advice to management on control issues in new systems, drafting policies, and participating in projects or quality teams (Anderson, 2003). Therefore, it has raised the importance of IA as a key component towards good corporate governance practice (Spira & Page, 2003; Gramling, Maletta, Schneider, & Church, 2004).

¹<http://www.tradingeconomics.com/malaysia/market-capitalization-of-listed-companies-us-dollar-wb-data-html>

² The extract of the talk given by Walter Sandosam, a member of the Academic Relations Committee (ARC) of Global IIA and the immediate Past President of IIA Malaysia on the topic of Audit of International Operations on 18 October 2011, IIA Malaysia Training Hall.

2.1. Internal Auditing with Business Consulting Dimension

As suggested by the professionals, IA Departments (IADs) can deliver value by shifting to a customer-centric model in which auditors could adopt some of the means similar to that of externally oriented departments while maintaining dialogues with business units within the organization, developing appropriate skills besides gaining knowledge of business, and implementing a pervasive customer-centric approach during audit engagement (McCall, 2002; Campbell, Adams, Campbell & Rose, 2006; Selim *et al.*, 2009; B. J. Cooper, Leung & Mathews, 1996). Most consulting assignments focus directly on specific, customer-oriented issues (Richards, 2001). White (2007) states that auditors' willingness to participate in negotiation to satisfy business manager's needs show an adoption of customer-oriented consulting approach in their consulting engagement. That means, to be successful internal consultants, internal auditors and clients need to understand each other's needs. As long as internal auditors are aware of the nature and scope of work of their consulting engagement, the overall IA independence may not be compromised (consistent with the definition of consulting services given by the IIA (IPPF, 2013 p.42)). Chapman (2001) stresses that involvement in consulting activities has promoted internal auditors to play a more strategic role within an organization and further suggests that consulting activities are generally problem-solving in nature with internal auditors working closely with management to assist in achieving organizational objectives. Moreover, consulting entails a more proactive approach where IA becomes a partner with management (Thevenin, 1997; Bou-Raad, 2000; Christopher, Sarens & Leung, 2009; B. J. Cooper, Leung & Wong, 2006; Burnaby *et al.*, 2007; Reding *et al.*, 2013).

According to Pelrson (2011),³ organizations are generally better served when internal auditors takes on a predominant counseling role while performing other roles as and when needed. In a more specific situation such as managing an IT project, Buckley (2011) comments that internal auditors should engage with project team members to help deliver projects. PricewaterhouseCoopers US (2011) reports the results of its survey⁴ and notices that as companies emerge from recession, internal auditors have the opportunity to enhance their roles by aligning their business objectives with new company priorities. Besides this, it is found that IA professionals, with a broad understanding of their companies, can play an important role to advocate company growth strategies, particularly in the areas of emerging markets, M&A, social media, and cloud computing and also to navigate the regulatory labyrinth. Internal auditors (as part of their value creation opportunities) can aggressively play their role in consulting to assist the board and management especially in expanding the business, participating in M&A activities, and developing new products (PricewaterhouseCoopers US, 2011). This is well supported by Sarens and De Beelde (2006) in which the chief executive officer (CEO) expects the IAD to play a value-added role in due diligence work, given the importance of acquisitions for the growth of organizations. Their results show that IA always has a member on any ad-hoc composed acquisition teams and confirmed that internal auditors had spent an average of 15 percent of their annual work time on due diligence work (Sarens & De Beelde, 2006). Sarens and De Beelde comment that any CEO would expect the future importance of IA's advisory role to increase in the area of strategic project management while the chief internal auditor has clear intentions of playing a more proactive consultative role in making management more receptive in anticipating potential problems.

³ John Pelrson was one of the concurrent session speakers i.e. representative of Deloitte & Touche, USA, at the recent event of 2011 International Conference of Internal Auditing held from 10-13 July 2011 at the Kuala Lumpur Convention Centre, Kuala Lumpur, Malaysia.

⁴ The 2011 *Global State of the Internal Audit Profession* survey was conducted in the fourth quarter of 2010 and includes responses from over 2,000 participants from more than 50 territories.

Learning from other failures, for instance, World Com in US, Barings in UK, and Malaysian cases (e.g. Perwaja and Transmile Berhad), internal auditors seem to play an important role in “partnering” with management in order to overcome such problems since the nature of their work is mostly interacting with people from various departments and they are vastly equipped with broad and specialized business knowledge. Chia (2004) reports that, as corporate governance gains its prominence in today’s corporate world, audit committees in Malaysia meet more frequently, and she strongly encourages internal auditors to have a good working relationship with management without sacrificing their independence and objectivity. In addition, Selim *et al.* (2009) find that the ability to be independent and objective when consulting showed a significant increase of consulting activities carried out in Italian companies in contrast with UK/Ireland companies. Stewardship theory has been widely used in the accounting literature for more than a decade (see Rosenfield, 1974). He states, “An objective of financial statements is to report on the control and use of resources by those accountable for their control and use to those to whom they are accountable” (p. 126); this is well supported by Gjesdal (1981). The stewardship concept was extended because the social relationship became more complex (Chen, 1975).

2.2. Underlying Theory: Stewardship Theory

The stewardship theory, which originated in psychology and sociology, was designed to investigate the relationship between the executives who acted as stewards and are motivated to perform for the interest of the principals (Donaldson & Davis, 1991; Wasserman, 2006). Recently the theory has been increasingly used in internal audit literature. For instance, Selim *et al.* (2009) argue that stewardship theory is assumed to be more relevant instead of agency theory in their study pertaining to internal auditing and its consulting practice in UK/Ireland and Italy. Davis, Schoorman and Donaldson (1997) firmly stated that the stewardship theory provided a more humanistic model of man that based on the self-actualization model introduced in the management theory by Mc Gregor’s Theory ‘X’ and Theory ‘Y’. They further commented that the stewardship theory utilizes Theory ‘Y’ [pioneered by McGregor (1972)] to describe human characters whereby the management is not expected to betray the principal and is assumed to be organization centred; is endeavoured to improve the organizational performance by satisfying the principals which enable the individual to “turn off” his self-interest. For example, Dittenhofer, Ramamoorti, Ziegenfuss and Evans (2010) have posited four types of management styles that are usually recognized in which one of them is Theory ‘Y’ (supportive) rather than Theory ‘X’ (autocratic) and have commented upon the theory ‘Y’ as “usually a decentralized decision-making and participative management operation, can encourage participation by the client in some cases. The objective is education. Periodic communication and reporting is usually effective.” In short, it suggests that goal congruence exists between the agent and principals when Theory ‘Y’ management style is implemented. Therefore, pertaining to the role of auditor in consultancy it is more dependent on the stewardship theory (Theory ‘Y’) (Selim *et al.*, 2009; Kassim, 2011) instead of agency (application of Theory ‘X’). This explains that the motivations are created within IAF to add value to the business in terms of assisting board and management to achieve organizational goals in lieu of playing their traditional ‘rule-keeper’ role alone to reduce agency costs. Furthermore, the consulting role of internal auditors is voluntary (instead of mandatory) for them to create value-added for the benefits of the organization to which they are attached. Selim *et al.* (2009) explain that, in overall, internal audit involvement in consulting assignments delivers positive benefits in order to add value to the organization and the respondent companies in Italy mostly concentrated in family-owned businesses making the stewardship theory more relevant due to that particular structure of shareholding and existence of goal congruence between the management and the board (representing shareholders) without much independence impairment. The interests of both parties can be aligned especially when the managers own a significant portion of equity in the organization in which they are less likely to issue misleading information to shareholders and therefore the

auditors are less likely to conduct additional testing, meaning that less monitoring is required (O'Sullivan, 2000).

Of the myriad ways for IA to add value, consulting engagement is designed (i.e. goes beyond its traditional assurance work) to help improve business operation in terms of risk mitigation and control enhancement. Thus, stewardship theory is used in the context of IA consulting that explains the creation of motivations within IAF to assist the board and senior management in attaining organizational objectives. Yet, the internal auditors' function as value-added partners may create an extremely challenging balancing act, and not many of them are well-equipped to handle this dual role (Chia, 2004). Therefore, internal auditors do face challenges when they need to balance their value-creation opportunities (consulting role -- need to maintain good relationship with C-suite executives) and value preservation (assurance role) where they need to provide independent appraisal on operating activities (Ramamoorti, 2011). Partly, it may compromise the objectivity of internal auditors and threaten their independence of with respect to their assurance role (e.g. Fraser & Henry 2007; Christopher *et al.*, 2009). In accordance with the Attribute Standards 1100, "Independence and Objectivity", the internal audit activity must be independent (free from management's influence), and internal auditors must be objective (i.e. unbiased mental attitude) in performing their work (IPPF, 2013). However, prior studies show mixed results. Bou-Raad (2000) claims that benefits derived from this new value-added role may create a problem between proactive behaviour and organizational independence (i.e. IA independence). Sarens and De Beelde (2006) also indicate that there is a lack of perceived objectivity when internal auditors operate mainly as a management support role as well as when auditors create a relationship with the Audit Committee (AC) in a relatively weak position. Inversely, Ahmad and Taylor (2009) in their findings explain that the effects of a number of dimensions in role ambiguity and role conflict on internal auditors' commitment to independence were somewhat low, suggesting that Malaysian internal auditors do not perceive a conflict when discharging their dual roles in providing consultation and assurance services.

2.3. Research Questions

Many researchers have focused on IA effectiveness and audit quality particularly in assurance services (e.g. Mihret & Yismaw, 2007; Arena & Azzone, 2009; Christopher *et al.*, 2009; Hutchinson & Zain, 2009; Lenz & Sarens, 2012; Lenz, Sarens & D'Silva, 2014; Lenz & Hahn, 2015) and IA relationship with other cornerstones i.e. AC, external auditor and management (Gramling *et al.*, 2004; Sarens & De Beelde, 2006; Zain, Subramaniam & Stewart, 2006; Zain & Subramaniam, 2007). Studies on the new role of consulting are still in an infancy stage (Selim *et al.*, 2009; Stewart & Subramaniam, 2010). In fact, it would be a good strategy for internal auditors to use their expertise and business knowledge to position themselves as business consultant, to respond quickly to changes and improvise where necessary to meet market demands in today's economic environment. Furthermore, the International Professional Practices Framework (IPPF) is an authoritative guidance for internal auditors in which new changes on the definition of IA have widened the scope of internal audit by explicitly including consulting activities. However, Selim *et al.* (2009) claim that very little subsequent research has been conducted in spite of its recognition and clarification; a number of potential research questions have been proposed (Anderson, 2003), yet, there are no other studies compared with Gray and Gray (1994) that explore consulting services both in totality and at a discrete level (Selim *et al.*, 2009). Time is ripe to investigate further consulting role of internal auditors and gain understanding of who requires IA to perform consulting activities, when and why in regard to IA consulting, besides what constitutes IA to perform the engagement. The reasons for providing consulting services and the influential factors are probably the major contribution this paper may provide to the literature. In fact, the recent work by Kassim (2011) focuses on the role of internal auditors in ERM implementation. Descriptively, the results indicate that internal auditors have performed more indicating a bigger percentage (i.e. 33 percent

and 25 percent respectively) with the combination of consulting and some other prohibited roles (Institute of Internal Auditors [IIA], 2004) in respect to ERM, as compared with the percentage of ERM assurance role (i.e. 42 percent) in Malaysian government linked companies (GLCs). However, Kassim's study does not mention why the percentage is as such and what drives them to perform such roles (particularly consulting) all of which will be addressed in our study. In fact, Kassim (2011) adopted the stewardship theory in explaining the consulting role of internal auditors in ERM implementation. Therefore, by adopting the stewardship theory into the current study, we may explore the internal process of delivering consulting role of internal auditors and the factors that influence the consultancy, without compromising their independence and objectivity (i.e. "...without the internal auditor assuming management responsibility" -- per definition of consulting services given by the IIA). Hence, this study aims to seek answers to the following research questions (RQ).

- (1) RQ1: What is the nature and extent of consulting activity that internal auditors perform in the Malaysian context?
- (2) RQ2: Why do they perform consulting activities?
- (3) RQ3: What is their perception on independence and objectivity when performing a consulting activity?

3. Research Methodology

The main objective of this study is to conduct a preliminary investigation into the nature and extent of consulting activity that internal auditors perform, the reasons why as such and their perception on independence and objectivity when such a role as their added value to business. We conducted a series of semi-structured interviews with Heads of IA (i.e. Chief Audit Executives (CAEs)) from fifteen (15) various organizations which are thirteen (13) public listed companies, a publicly funded university and a profit professional organization in Malaysia. It must be pointed out that we purposely selected those fifteen companies that could be considered as representatives of Malaysia's large organizations which have both AC and IAF. This is to provide an overview of the consulting activities performed by the interviewees. The selection of the companies interviewed is based on the convenience sampling (non-probability sampling) (D. R. Cooper & Schindler, 2003). Therefore, the overall aim of the interviews is to gain a practical insight about the IA consulting activity currently performed and to identify factors influencing the consulting role. The interviews focus on the perceptions of internal auditors on their contributions to consulting oriented services across two main areas. First, the interviews focus on the nature and extent of consulting activity that internal auditors perform in the companies analyzed. Second, the interviews focus on internal auditors' perceptions of reason(s) for performing such a role and their level of independence and objectivity when performing consulting activity.

3.1. Interview Sample and Administration

There were fifteen (15) interviews conducted with the CAEs from various organizations with thirteen (13) public listed companies, a public funded university and a profit professional organization. Specifically, thirteen (13) respondents worked with large companies listed on the Main Market (previously known as Main Board) of Bursa Malaysia, more than half were from the services sector (telecommunication, aviation and industrial products); the rest were from several sectors (i.e. plantation, properties and finance). The other two respondents were from a public-funded university (i.e. R2) and a profit professional organization (i.e. R4) respectively. Of the CAEs who participated in the interviews, the male respondents were more than the female respondents by five (5) persons. All fifteen (15) chief internal auditors held an accounting qualification with some

of them with a Certified Public Accountant (CPA) designation, and were also members of the Malaysian Institute of Accountants (MIA)⁵ and more than half of the participants were members of the Institute of Internal Auditors Malaysia (IIA). As a matter of fact, five of the participants were Certified Internal Auditors (CIA)⁶ in which one of the five was a Certified Fraud Examiner (CFE). One of them was associate member of Chartered Management Accountant (ACMA) with a Certified Chartered Global Management Accountant (CGMA). In addition, two of them had Masters of Business of Administration (MBA) as part of their qualifications. The participants reported having at least nine (9) years of experience as internal auditors, and each participant had held his or her position as chief internal auditor for a minimum of one year. The interviews were tape-recorded and each interview lasted approximately 1 hour: the shortest being about 40 minutes, and the longest about one and one-half (1½) hours. Most respondents have had external auditing experience as well as experiences in other areas such as banking, finance, accounting, marketing, and line resources (as known as human resources which stated by one of the interviewees i.e. R3). The interviews were tape-recorded except for one respondent (due to certain constraints). Interviews were conducted at the participants' organization and a semi-structured questionnaire was employed to guide the interview. All participants appeared confident and seemed to have a good understanding of the organizations' background, structure and business processes. In the interviews, all respondents were asked to answer Section A and B (refer to Appendix 1). Questions concerning RQ1 (nature and extent of consulting activity internal auditors perform) and RQ2 (reasons for implementing such role) were included in the Section B, Question 1 through 4 while questions regarding RQ3 were addressed in the Section A, Question 8 and 9, and Section B, Question 5 through 7.

The interviews' transcriptions were then first coded using key themes related to the main research questions and rechecked for errors as the classification of themes were reviewed and consensus was reached before pre-coding with the guidance of Patton (2002) and Gibbs (2002). Further, a matrix framework was used to compare the responses across the fifteen (15) CAEs. The matrix format highlights the presence or absence of consistency and consensus across different respondents (Miles & Huberman, 1984; Gibbs, 2002) besides functioning as a useful tool for determining commonalities and differences in the research themes (Martin & Meyerson, 1988).

4. Results of Interviews

In this section, the findings from the semi-structured interviews are discussed under two main themes: i) internal auditors' perceptions on the nature and extent of consulting activity internal auditors perform, ii) reason(s) for performing such a role and their level of independence and objectivity when performing such a role. Nonetheless, the results of findings were to be discussed into three (3) sub-divisions as to address each of research questions i.e. RQ1 through RQ3 for the benefit of clarity of this paper.

4.1. Perceptions on the Nature and Extent of Consulting Activity Internal Auditors Perform

All fifteen (15) CAEs stated that they have performed consulting activities as and when requested by management and/or Board/AC and on ad-hoc basis in which both had direct access to IAD. For

⁵ Two of the participants possessed CIMA, two possessed Australia Chartered Accountant and New Zealand Chartered Accountant respectively and one possessed ACCA. Those professional qualifications qualified them to be a member of the Malaysian Institute of Accountants (MIA). Besides, the MIA was established under the Accountancy Act 1967 and acts as the authoritative body regulating the accounting profession.

⁶ The IIA in Malaysia was formed as a Chapter in 1977 and subsequently became a National Institute in 1988. IIA Malaysia is also affiliated to the Institute of Internal Auditors Inc., USA a worldwide body that has more than 180,000 members with representatives from over 190 countries.

instance, one of the CAEs felt that performing consulting work is part of the definition of IA [in accordance with the IPPF (2013)], however, it must done in independently in terms of giving advice to improve the process of risk management, control and governance. Nonetheless, they (except for two participants i.e. R12 and R14) would seek outsourced experts to perform consulting tasks if they had no expertise in the consulting area of improving the internal control system [in accordance with the IPPF (2013)]. As noted by one of the interviewees (R2):

“For outside provider e.g., pertaining to insurance business, they might seek help from outside actuary consultant but under full control of the IAD in-house.”

Two of participants (i.e. R6 and R15) stated that the consulting activities usually were coming from operational level of management seeking their advice in terms of control matters. There are few reasons respondents do not seek an outside provider. As noted by one of the interviewees (R14):

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

And, as mentioned by interviewee (R12), they had been called upon to give advice as internal consultants in that particular year because in the prior year there was an incident when the company had engaged with the external consultants, the advice given was similar as IA recommendation. Owing to the circumstances, they were called upon since then. Moreover, they admitted that they would seek external expertise with regards to “employing outside providers for carrying out consulting engagement, or for conducting assurance engagements in activities where audit function’s prior involvement in consulting work has been determined to impair objectivity/independence” (consistent with IPPF, 2013). The existing IA staffs would combine with other experts (i.e. outside provider or second someone from other departments within the same organization) to do a special consulting work in the particular area when there is not enough expertise among the IA staffs. Maximizing the IAF is imperative as they have core competencies inclusive of technical (e.g. computer-assisted audit techniques) and soft skills in order to help improve business operations due to current business complexity (IIARF, 2011b). As noted by one interviewee (R4):

“Under strong control of IAD...if no specific skills or expertise...should reject the engagement immediately...or ask the CEO of organization to find the right resources of the organization to support the IA in discharging that particular special assignment. I think that should be the way...don’t take it blindly...you know...it’s just because the CEO ask you take on special assignment...you take without...for example...if the CEO ask you to take a special project on treasury...not the review or audit...but you look at consulting part of it in terms of how the treasury system works in the organization and to recommend...relevant recommendation to improve the treasury system and the CAE should then review whether they have enough treasury skills in IAF to perform that role if not the IAF could have ask the management to buy-in expertise from those who has expertise to do the job or to work together with the internal auditor or to second somebody from treasury department...to be part of IA...we call it a guest auditor...to do special consulting work. It can be buying-in expertise from external auditor, some financial institutions etc.”

The results also indicate the existence of rotation among IA staff in the department when carrying out IA assignments. The respondents claimed that it allows IA staffs to be exposed to different audit areas, multi-task functions, and opportunities for consulting tasks based on their expertise on subject matter. For instance, one of the interviewees (R4) would encourage his staffs to undergo different types of audits. He personally would not encourage one person to only specialize on a certain area but he admits that certain auditors who have domain knowledge would want to do

consulting only -- in the area of IT for example. Therefore, he further stressed that there should be another auditor to perform an independent review on the effectiveness of IT control system and to express opinion on the IT control framework in the next audit. Similarly, two of the CAEs (i.e. R3 and R10) also shared their experience in which IA staffs received new exposure by rotating them on the engagements because all subsidiary companies do different types of businesses. In addition, all respondents perceived that segregation of consulting units from units conducting audits (assurance) is not a necessity; in other words, there is no need to separate the IA units for consulting activity.

4.2. Perceptions on the Reason(S) for Performing Such a Role

As mentioned earlier, the results stated that performing consulting work is part of the definition of IA [in accordance with the IPPF (2013)], however, it must be done independently in terms of giving advice to improve the process of risk management, control and governance. For instance, one of the CAEs (i.e. R14) felt that performing consulting work was part of their duty as they claimed they understood risk management well. All respondents agreed that the consulting engagement is requested to improve the performance of existing or new operations (in terms of risk and control) and to help company to achieve the objectives. In fact, most respondents stated that there are no other parties involved in requesting for their consulting advice except AC, auditee management and senior management. Yet interestingly, two of the respondents expressed that other parties such as Central Bank (R9) and general public via Government (R12) would request their consulting advice instead for certain issues. For instance, they sought advice for development of new product before the launching taken up and the other one concerning the reduction in time taken to approve loan.

In terms of risk management consultancy, the results showed that several tasks were carried out such as facilitation of annual risk assessment process (R2, R4, R5, R8, R14, R15), facilitation of management's control self-assessment (e.g. guided risk and control self-assessment exercises by organizing workshops) (R2, R4, R5, R10) and advice of control design (R2, R4, R5). Furthermore, interviewee (R4) with his extensive experience (more than twenty years) in assurance audit (across a range of industries) and consulting (e.g. implementation of CG and risk management programs), significantly perceives that IA should provide consulting services when needed. This is consistent with the notion of stress of "to do more with less" whereby successful audit shops would look for new ways to fully utilize their resources (Head, Reding & Riddle, 2010) since they have the expertise and would demonstrate the value-adding role to the organization. For instance, two of the respondents (i.e. R4 and R8) had experienced delivering due diligence consulting tasks such as facilitating management discussions regarding potential acquisition candidate evaluation criteria and providing feedback about the potential sector or certain operations. They claimed they had such capabilities to do so hence the management had requested their help in that area. At the same time, they claimed this was to maintain a good rapport with management in demonstrating their value-added to organization in terms of consulting (i.e. R9 and R14) while maintaining their independence by reporting functionally to AC and providing assurance work. This notion is consistent with the balancing act of dual roles (consulting and assurance) issue which were explained in prior studies (e.g. Chia, 2004; Ramamoorti, 2011).

4.3. Perceptions on the Internal Audit Independence and Objectivity When Performing Such a Role

Concerning IA independence and objectivity, most respondents perceived no issues of impairment arise when performing consulting activity. This is because as internal auditors they were aware of their scope of work, a timely disclosure of time spent on consulting work, work boundaries, IPPF *Standards*, and finally their committed role as consultants. Further, all respondents were found to not only report directly to the AC (group level and/or company level) on a functional basis, but also to senior/top management (i.e. their direct boss) on an administrative level. The practice of Malaysian companies is in line with the Bursa Malaysia LR (revised 2013) and the IPPF *Standards*

(IPPF, 2013) which is consistent with the most recent CBOK 2010 study (IIARF, 2010a & b; IIARF, 2011a, b, c & d).

It is also mentioned by the interviewee (R4):

“...all Malaysian PLCs’ CAEs report independently to the AC (Bursa Listing Requirement revised 2009/2010...stated clearly where AC is required to review effectiveness of IAF...do independent reviews of IAF...how? I would suggest...use IPPF and Code of Ethics as benchmark. CBOK 2010 survey results indicated that most CAEs either to the CEO or the AC with variation by region. The highest percentage of CAEs reporting to ACs was noted in the Middle East, the United States and Canada, and Latin America...but still some of the companies report to the CEO...part of it was not right.”

To perform consulting activities, all respondents agreed that the contents of IA Charter (known as Terms of Reference by some respondents) are sufficient enough to delineate the dos and don'ts with regard to the scope of work and their responsibilities toward consulting. They also emphasized a screening process for consulting projects with limits on accepting engagements that might threaten objectivity and rotation of auditors on engagements. For instance, the auditors' availability as well as their knowledge on subject matter must be considered first before agreeing and obtaining AC's approval to take up an engagement. As argued by the two interviewees (R3 and R5):

“...e.g. taking up network engineering audit... that assignment was requested as consulting engagement and chief internal auditor would determine his IA staffs with engineering background to take up the consulting work...due to subject matter expert. To avoid any impairment of independence or objectivity...auditors...involved in consulting assignments...not allowed to perform audit in that area for the next twelve months” (R3).

“...I would always fall back to the IA Charter...because it defines clearly what is our scope and our responsibilities...so I think that's covered...but in fact even we go into any consulting...we do...you know...especially in the report, we define...what is our scope, our objectives...I think that's about it” (R5).

With regards to the organizational policy authorizing IA to indicate organizational commitment of internal auditors to perform IA activities, all respondents agreed that maintaining IA Charter as a formal job responsibility with emphasis on certain aspects pertaining to consulting engagements in the IA Charter such as: 1) identifying mission and planning aligned with management objectives, 2) being open for ad hoc management requests, and 3) providing audit plans that focuses on high business risk areas, indicate their commitment toward performing consulting activities.

5. Discussion and Conclusions

Overall, this paper contributes to the literature by providing an overview of the consulting activities performed by the interviewees in which provides some practical insights into: i) the nature and extent of activity of consulting in the companies analyzed, and ii) reason(s) for performing such a role and their level of independence and objectivity when performing such a role. We investigated an unexplored area of the consulting role of internal auditors, and opened several interesting avenues for future research. The results show that the consulting assignments were taken up mostly on an ad-hoc basis. The internal auditors were requested to get involved in the consulting work to assist management to improve the control systems in identified areas.

We also identified that internal auditors must have a domain knowledge (i.e. business knowledge or subject matter expert) and relevant skills (i.e. technical and soft skills) to execute consulting

assignments. This also has been suggested earlier studies i.e. Sarens, De Beelde and Everaert (2009), Hutchinson and Zain (2009), White (2007) and in CBOK 2010 study (IIARF, 2010a & b; IIARF, 2011a, b, c & d). Sarens et al. (2009) confirm that IA's unique and abstract knowledge base should consist of general conceptual knowledge, more company-specific and practical knowledge on risk management and internal control all of which to assist the IAF in providing comfort to the AC. IA's educational, certification and prior experience are considered as hard skills required by each auditor and these skills become a proxy for IA quality (Hutchinson & Zain, 2009). White (2007) believes that internal auditors need to be proficient at "the-off-record" conversations which are more vital than a written IA report by using Meislin's techniques (focusing on two specific skills i.e. active listening and appropriate questioning) in their work where internal auditors may use appropriate methods and techniques to obtain facts to deliver the truth. White further claims that to provide value as a consultant, an internal auditor must be able to gather all facts and information to help a client understand and fix identified problems. Besides, IA's core competencies are stated in the CBOK 2010 study (IIARF, 2010b) to guide internal auditors in performing their functions. Moreover, Mihret, James and Mula (2010) and Soh and Martinov-Bennie (2011) emphasized the critical skill of internal auditors is that when they are able to speak up particularly in controversial situation.

In respect of IA independence and objectivity, the study also found there is no issues of impairment arise when performing consulting activity. This is due to that internal auditors were aware of their scope of work, a timely disclosure of time spent on consulting work, work boundaries, IPPF *Standards*, and finally their committed role as consultants. Further, all respondents were found to not only report directly to the AC (group level and/or company level) on a functional basis, but also to senior/top management (i.e. their direct boss) on an administrative level. The practice of Malaysian companies is in line with the Bursa Malaysia LR (revised 2013) and the IPPF *Standards* (IPPF, 2013) which is consistent with the most recent CBOK 2010 study (IIARF, 2010a & b; IIARF, 2011a, b, c & d). With regards to the organizational policy authorizing IA to indicate organizational commitment of internal auditors to perform IA activities, all respondents agreed that maintaining IA Charter as a formal job responsibility with emphasis on certain aspects pertaining to consulting engagements in the IA Charter such as: 1) identifying mission and planning aligned with management objectives, 2) being open for ad hoc management requests, and 3) providing audit plans that focuses on high business risk areas, indicate their commitment toward performing consulting activities. This notion is consistent with the balancing act of dual roles (consulting and assurance) issue which were explained in prior studies (e.g. Chia, 2004; Ramamoorti, 2011).

Besides its contribution to future research, this explanatory study however has a few shortcomings. Even though the method of interviews does not allow us to generalize our findings, we are convinced that the key findings obtained from the five interviews are relevant to most Malaysian companies. It must be pointed out that we purposely selected fifteen companies that could be considered as representatives of Malaysia's large organizations which have both AC and IAF. Nevertheless, future research could investigate the robustness of our findings by taking into consideration, for instance, the impact of company size, differences in the geographical dispersion of operations, and varying risk profiles. For future research, interviews with top management (CEOs/CFOs) could also be carried out to try and gauge their views regarding internal auditors providing consulting services within their organizations. Data collected via this exercise may allow comparisons to be made between the views expressed by IAs on the value added consulting services and the views of IA customers receiving such services.

We conclude that IADs of several companies in Malaysia have through their auditors provided consulting activities based on requests from the management as well as from the Board/AC besides their main role as assurance auditors. The consulting activities implemented were mostly informal and/or on an ad-hoc basis. Although such consulting activities have been duly carried out in the

organization to help improve the control system or business operations, no issues were perceived by the CAEs in respect of maintaining the independence of IAF and/or the objectivity of individual internal auditors as long as they were aware and followed certain basic principles. For instance, they need to be independent in consulting, to have a proper disclosure to AC, to have an expertise and appropriate needs when conducting a consulting engagement. All this exploratory evidence finally contributes to the literature by providing a deeper insight into the nature and extent of activity of consulting in the companies analyzed inclusive of the reason(s) for performing such a role and their level of independence and objectivity in particular. For practical implications, the results reported in this paper can be useful for practitioners who wish to benchmark their IAF especially in the practice of consulting, also for the IIA to pursue implementing their motto “progress through sharing.” On top of that, the paper investigates an unexplored area of the role of internal auditors as consultants and how the business can get added value from such a role. Further, it opens several interesting avenues for future research whereby the results of the interviews can be used to develop a survey instrument (Bryman & Bell, 2007; Arena & Azzone, 2007; Oppenheim, 1992) as no instrument for a survey research on consulting activities (within IA) has yet to be established.

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Appendix

Appendix 1

An Examination of the Consulting Role of Internal Auditors in Malaysia and Its Relevant Factors, Issues on IA objectivity and Independence

Semi-Structured Interview Guide

Subject: Head of Internal Audit Department of large organization

Questionnaire Format:

Section A: Demographic and General Information

Section B: Nature and extent of consulting, Issues on Objectivity and Independence and Related Factors Associated with Consulting

Organization: _____

Interview Date: _____

Interviewed by: _____

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

Section A: Demographic and General Information

- 1) Name of organization (optional): _____
- 2) Type of organization: _____
- 3) Your present position: _____
- 4) Number of years you have been:
 - a) With this organization _____
 - b) An internal auditor _____
- 5) Your professional designations (e.g. MICPA, CIA, CPA, MIA, ACCA etc.) _____

- 6) Internal audit size (total number of employees in IA department) _____
- 7) Number of employees in your organization (approximation): _____
- 8) Who does CAE functionally report to? _____
- 9) Who does CAE administratively report to? _____

Section B: Nature and extent of consulting activity, and Related Factors Associated with Consulting

- 1) Does your IAD perform any consulting activity? If yes, why?
- 2) If no expertise in consulting area, is there any hiring from outside expert to perform consulting tasks?
- 3) To perform any consulting activity, will it be the demand from audit committee (AC) or senior management (SM) or middle (operational)/auditee management level (MM/AM)?
- 4) Based on your experience or opinion, besides AC, SM & MM/AM, are there any other parties interested in requesting consulting engagement?
- 5) Do you perceive performing consulting activities may impair internal auditors' independence and objectivity? Why or why not?
- 6) If consulting activity to be performed in your organization, what basis will you use in order not to jeopardize their independence and objectivity?
- 7) Does your organization maintain such an organizational policy authorizing internal audit (i.e. IA charter) to indicate organizational commitment of internal auditors to perform internal audit activities? Provide examples.

Should you have any provision for emerging issues, please include.

