Building a Research Model and Hypotheses Development for Internal Audit Consulting: Insights from Literature and Findings of Exploratory Interviews

Suhaily Shahimi1*, Nurmazilah Mahzan2

1&2 Graduate School of Business, University of Malaya, Kuala Lumpur, Malaysia

suhaily@um.edu.my1
nurmazilah@um.edu.my2

*Corresponding author

Abstract-This study identifies two main variables and one moderating variable that have an influence on the consulting role of internal auditors and the impact on a firm’s growth opportunities and performance and specifies how each of them can exert its influence. This study is based on a literature review, underlying theory that is stewardship theory and findings of exploratory interviews by the present researcher; and contributes to the literature by developing a specific and structured research model. Firstly, it explains the development of hypotheses based on the literature and findings of exploratory interviews. It presents a detailed review of the variables influencing the internal audit consulting in which it gives an impact on the firm’s growth as well as the performance. Finally, the theoretical linkages between each relationship in the framework of this study are presented in this study.

Keywords- Internal auditors; consulting activities; corporate governance; management; audit committee; firm’s growth opportunities and performance

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 an 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 knowledge 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, revised 2017)[50]. In accordance with the 2010 Global IA Survey of the Institute of Internal Auditors (IIA), maximizing the IAF is imperative to meet the 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 2016) 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)[10]. The latest version of the Malaysian Code of Corporate Governance [MCCG] (2016) 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)[100]. 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[108]; Yee,
According to sections. Section 2, 2009) - ctly on specific, customer nt in ., 2009) - l ctive stock at encourage them to perform a role - 213; Campbell, Adams, 2009; B. J. Cooper, Leung & Wong, 2006; Burnaby et al., 2007, 2013). 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 a role such as will have an impact on the firm’s growth as well as the performance. Finally, the theoretical linkages between each relationship in the research framework are presented in this study.

This paper is structured according to sections. Section 2 provides review of relevant literature on issues related to internal auditors as consultants. Section 3 presents a description of the study’s research questions and methodology. Section 4 presents the discussions and conclusion of the paper.

2. LITERATURE REVIEW

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 managers’ 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, 2017 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; Christophers, Sarens & Leung, 2009; B. J. Cooper, Leung & Wong, 2006; Burnaby et al., 2007). Reding et al., 2013). According to Pelrson (2011), 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 survey 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.

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). Finally, using a stewardship theory perspective, IA would support the board and senior 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. Furthermore, internal auditors are highly motivated and expected to utilize their expertise in assisting the organization to grow and perform. The next section provides the detailed review of the variables influencing the internal audit consulting in which it gives an impact on the firm’s growth opportunities as well as performance. In addition, the theoretical linkages between each relationship in the framework of this study are presented in the next section.

3. RESEARCH QUESTIONS AND METHODOLOGY

The purpose of this study is to develop a research model and formulate the hypotheses for this study. The conceptual framework was developed based on the extant literature on internal auditing (for example, CBOK studies: Cooper et al., 2006; Burnaby et al., 2007; IIARF, 2010a,b; IIARF, 2011a,b,c,d, etc.), underlying theory, namely stewardship theory and the findings of exploratory interviews by the present researcher. The first part of this study explains the development of hypotheses based on the literature and findings of exploratory interviews. It presents a detailed review of the variables influencing the internal audit consulting in which it gives an impact on the firm’s growth as well as the performance. Finally, the theoretical linkages between each relationship in the research framework are presented in the latter section. Given that the study on the consulting role of internal auditors is relatively new, an exploratory study is conducted to investigate to what extent internal auditors perform such role, in addition to gain some realistic view about internal audit contribution to its consulting services and factors influencing such role in current practice. This is to gain an understanding of who requires internal audit to perform consulting activities, when and why in regard to internal audit consulting, besides what constitutes internal audit to perform the engagement. More specifically, we formulated the research questions which are as follows:

1. To what extent the intentions/ambitions of IAD correlate with the consulting role of internal auditors in Malaysia?
2. To what extent the expectations of board and audit committee correlate with the consulting role of internal auditors in Malaysia?
3. What is the moderating effect of the expertise, skills and competencies of internal auditor in the relationship between the intentions/ambitions of IAD and expectations of board and audit committee and the consulting role of internal auditors in Malaysia?
4. To what extent there is an association between internal audit contribution to consulting activities and the firm’s growth opportunities?
5. To what extent there is an association between internal audit contribution to consulting activities and the firm’s performance?

In addition, this exploratory study has turned out to be a foundation of the whole research project in which further details are discussed in the following sub-section.

3.1 Exploratory Study

An exploratory study was conducted in the early stage (see the interview guide in Appendix A1) to obtain information from respondents (Malhotra, 2010); gaining inputs for building new constructs and validating the existing constructs captured from the literature (Bryman & Bell, 2007). Therefore, five (5) CAEs of large Malaysian organizations were interviewed in March and April, 2011 and their views were analyzed and used to support the hypotheses development of the present study and the measurement of constructs). The overall aim of the interviews is to gain some realistic view about the internal audit contribution to its consulting oriented services including the nature, type and extent to which internal auditors perform their consulting role, their level of independence and objectivity when performing such a role as well as the factors influencing the consulting role of internal auditors in their current practice. The exploratory interviews phase is designed in addition to the development of a research instrument (that is, survey questionnaire) for the next level of the project.
3.2 Exploratory Interview Sample and Administration

As mentioned earlier, there are five (5) interviews undertaken with the Heads of Internal Audit units (CAEs), identified as Participant 1 (P1), Participant 2 (P2), Participant 3 (P3), Participant 4 (P4) and Participant 5 (P5) in the study. Three (3) participants (P1, P3 and P5) work in large companies listed on the Main Market (previously known as Main Board) of Bursa Malaysia (local stock exchange); mostly are services industry and the other two participants are respectively from publicly-funded university (P2) and non-profit professional organization (P4). Of the CAEs who have participated in the interviews, the number of male participants exceeds that of the females by one (1) person. All participants hold an accounting qualification and are the members of the Institute of Internal Auditors Malaysia (IIAM) and the Malaysian Institute of Accountants (MIA). Further, two out of five hold a Certified Internal Auditors (CIA) qualification and one has a Master in Business Administration (MBA). The participants had reported having at least nine years experiences as internal auditors (i.e. a range of nine to twenty-plus years of experience as reported in the findings), and each participant holds his or her position in the organization as CAE for a minimum of one and a half (1 ½) years. Besides, most participants have external auditing experience as well as other areas of experience include banking operation, finance, accounting, marketing, and line resources. The interviews were tape-recorded except for one (due to certain constraints). Each interview lasted approximately 45 minutes: the shortest being about 30 minutes, and the longest was about one and a half (1 ½) hours.

Interviews were conducted at the participants’ organization and a semi-structured questionnaire (see Appendix 1) was utilized to guide the interview. Besides that, in the process of exploratory interviews, all participants were given a list of twenty-two (22) consulting assignments (with its detailed sub-activities) and they were asked to indicate which assignment(s) is/are taken up or will be taken up as future plan as well as who request for it (see Appendix 1). Table 2 below provides a summary on types of consulting work by five (5) participants. With the guidance by Patton (2002)[79] and Gibbs (2002)[33], the interviews’ transcriptions were first coded using the key themes related to the main research questions and rechecked for errors in the classification of themes that were reviewed and consensus reached before pre-coding. Further, a matrix framework was used to compare the responses across the five (5) Heads of IAD. Table 1 below shows the summary of interviewed respondents in which they support the research constructs.

<table>
<thead>
<tr>
<th>Consulting Assignments</th>
<th>P1</th>
<th>P2</th>
<th>P3</th>
<th>P4</th>
<th>P5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Due Diligence</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
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<tr>
<td>2. System Development</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Process Reengineering</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>4. Risk Management</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Implementation of ERP system, new software, new accounting standards (IAS/IFRS)</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Integration process after merger or acquisition (M&amp;As)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Strategy development of M&amp;As</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. High-risk projects such as Information systems development</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Project Management</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>10. Evaluation of external auditor’s audit work</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>11. Evaluation of work by outside professionals other than external auditors</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. Review outsourced services</td>
<td></td>
<td></td>
<td></td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>
The matrix format highlights the presence or absence of consistency and consensus across different participants (Miles & Huberman, 1984; Gibbs, 2002), besides it is a useful tool for determining commonalities and differences in the research themes (Martin & Meyerson, 1988a, b)[64][65].

In the following sub sections, this study presents detailed discussion on the independent variables that form the conceptual framework which are: i) intentions/ambitions of IAD, ii) expectations of board and audit committee and iii) expertise, skills and competencies of internal audit and the other three dependent variables, namely a) internal auditors’ involvement in consulting activity, b) the firm’s growth opportunities and c) the firm’s performance. These variables are derived from literature and the findings of the exploratory interviews. Besides, stewardship is the motivation to bring the factors to influence the internal audit consultancy.

### 3.3 Hypotheses Development

#### 3.3.1 Intentions/Ambitions of IAD

It is noted that internal auditors who perform a consulting role are inspired by their great intentions or ambitions for being a world class IAD and such a role is determined by the internal organizational and corporate governance related factors described in the stewardship perspective. Therefore, some attributes of a value-adding audit department’s profile may contribute to the dimensions of the subject of intentions or ambitions of IAD towards their role of consulting. The profile is such as 1) becoming a catalyst for change or a change agent (Stern, 1994[103]; MacDonald & Colombo, 2001[60]; Anderson, 2003), 2) extensive staff expertise i.e. top-notch audit staff are multi-disciplinary, with experts such as engineers and accountants or individuals versed in other disciplines who need a thorough understanding of business rotating through the department, 3) secondment from other departments, in-house resources complementing with selective outsourcing – knowledge transfer (Roth, 2002, 2003; Selim et al., 2009), 3) challenging work environment (Roth, 2000, 2003)[90][92], 4) organizational alignment (Stern, 1994; Roth, 2003), 5) participative, qualitative, real-time risk assessment i.e. flexible annual audit plans with higher percentage of time remaining unallocated (Roth, 2003[92]; Head et al., 2010)[38], and 6) array of audit services i.e. consistent with the revised definition of internal audit, not seeing themselves as “appraisal function” but as broader assurance and consulting activity (Roth, 2003; Anderson & Dahle, 2009)[5].

### 3.3.1.1 Catalyst for Change

Outsourcing IAF is one way to broaden the IA’s ability to add value to the various control processes and business plans, yet, instead of outsourcing, the management may recruit a new leader for IA with a history of being a change agent in the profession (MacDonald & Colombo, 2001). Furthermore, MacDonald and Colombo reported that, this is one of the steps to transform IAD into a world-class function by initiating a comprehensive reengineering effort (well supported by Anderson, 2003). According to Stern (1994), becoming a catalyst for change and action within the organization was well embedded in the internal auditors’ profession recently. Internal auditors must become a change agent within their organizations to best support business objectives. Besides, the internal auditors are encouraged to improve the company’s competitive edge; provide business process improvement suggestions as well as observing how the company operates across a business-wide operation. He further said that internal auditors may help the company decide what changes to be made to increase the profitability and return on assets. Besides, internal auditors have played a role of a “trusted business advisor” who can help the organization achieving not only regulatory compliance, but also targeting on efficiency, growth and profitability (IIARF, 2011a). This has raised the importance of internal audit as a key constituent towards good corporate governance practice (Spira & Page 2003[102]; Gramling et al. 2004)[36].

### 3.3.1.2 Extensive Staff Expertise

In respect of the extensive staff expertise dimension, top-notch audit staffs are multi-disciplinary, becoming a team of experienced business experts (such as engineers and accountants or individuals experienced in other disciplines), qualified to perform world-class internal consulting work rotating through the department (Roth,

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<table>
<thead>
<tr>
<th>Total consulting assignments taken up (in unit)</th>
<th>7</th>
<th>12</th>
<th>13</th>
<th>21</th>
<th>11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total consulting assignments taken up (in %)</td>
<td>32</td>
<td>55</td>
<td>59</td>
<td>95</td>
<td>50</td>
</tr>
</tbody>
</table>

= Yes; 0 = No
The department has a mix of internal transfer, new hires, and a core of experienced audit practitioners that provides continuity and in-depth knowledge of audit skills (Roth, 2002, 2003). According to Roth (2003), the IA departments aim to be highly trained and professionally certified as well as the members of the departments tend to actively participate in their local professional organizations besides complementing their own resources with selective outsourcing. This would give opportunities for the internal auditors to learn more in terms of knowledge transfer (Selim et al., 2009).

3.3.1.3 Challenging Work Environment

In terms of a challenging work environment, talented, motivated internal audit members are easily bored and look for challenging tasks and their creativity needs to be encouraged and rewarded whereby the most important aspect is that their professional challenges must surpass regular audit assignments (Roth, 2003). According to Roth (2000), today’s internal auditors need to be challenged regardless of what their backgrounds are; they need to learn and develop rapidly for the purpose of adding value to the organization, or else the motivation for becoming a world-class internal audit will slip away. He further claimed that the internal audit nowadays is becoming a multidisciplinary team of experienced business experts, with sufficient qualifications to perform world-class internal consulting work. Roth (2003) posited that most IADs tend to involve audit staffs extensively in decision-making processes without compromising their independence and objectivity which means that staff members are helping to determine the direction of the department, project a tone at the top that shapes a value-adding culture. The auditors are encouraged to be trainers or facilitators of internal control instead of simply being assessors and they are taught to find ways to improve the business in lieu of merely identifying control weaknesses (Roth, 2003).

3.3.1.4 Organizational Alignment

The intentions of IAD to be one of the leading audit departments would involve assigning a number of audit managers to specific lines of business just to develop in-depth knowledge of business unit activities and long-term relationships with those personnel-in-charge in respective departments (auditees). This scenario illustrates the element of organizational alignment. According to Roth (2003), terms such as “relationship managers” are used for assigning the experienced managers or in fact all members of the department who will be assigned to specific areas within the lines of business to stay in touch with the area managers. This scenario is inclusive of formal meetings with those managers at an assigned frequency or impromptu discussions. Similarly, Stern (1994) commented that audit staffs would meet with key business managers to learn the problem areas and ask those managers where they would like to see auditors to focus their efforts. The questions that are usually asked by internal auditors to business managers are such as “What is it that you need to run the business? What controls are important to you? How can we help you monitor them?” (p. 4). Therefore, it is vital to keep oneself abreast of the customers (internal audit customers, in this case) and to understand their needs, as it is a crucial way for auditors to operate in the organization.

3.3.1.5 Participative, Qualitative and Real-time Assessment

Meanwhile, today, the best audit department (known as value-adding audit department) is in the process of reducing or eliminating the cycle of audits. To be more participative and qualitative internal auditors involve proactively in the discussions with executive managers (Roth, 2003, MacDonald & Colombo, 2001) rather than just assign the risk score to every organizational unit, using weighted risk factors (mostly financial or quantitative in nature) such as transaction volume and average transaction size to determine the frequency of each unit to be audited (Roth, 2003). This is to achieve goal alignment (goal congruence) particularly to align audit plans with the organizational strategic plan, deliberately to help management to achieve objectives in a cost-effective way. The way to achieve this goal is for internal auditors to review management’s documented plan, meeting with each executive manager, often once a quarter, to keep in line with the organization’s evolving strategy and ever-changing risk profile. Therefore, Roth (2003) argued that annual audit plans should be more flexible, with a significant time reserved for any contingencies and this is considered to incorporate a real-time risk assessment in their nature of work. In short, these three elements i.e. participative, qualitative and real-time risk assessment are closely interconnected, therefore, are combined as one dimension of intentions/ambitions of IAD factor.

3.3.1.6 Array of Services

The aim of IAD to provide an array of services has also become one of the important aspects in which not to seeing themselves as ‘appraisal function’ but as broader assurance and consulting activity. In fact, prior studies also have strongly emphasized the need for the audit committee to be knowledgeable and experienced as well as financially expert (MCCG, 2016; Bursa Malaysia Listing Requirement, 2016) so that they can contribute in giving input for any emerging issues as well as useful feedback and proper direction (Mat Zain & Subramaniam, 2007). Therefore, for an audit committee to achieve certain level of effectiveness, Rezaee (2009) argued that internal auditors can provide a variety of consulting services to the board of directors, the audit committee, management and other personnel at all levels whereby the audit committee can seek advice (for achieving audit committee oversight effectiveness) from internal auditors on overseeing financial reports, internal controls, risk assessment, whistle-blower program and codes of
business ethics. In addition, Campbell et al. (2006) revealed that one of the best practices in internal auditing is to educate the board on business, controls and internal audit’s role where internal auditors proactively communicates key issues to the board and management and suggests corrective action (consistent with Practice Advisory (PA) 1111-1, IPPF, 2013). According to Sarens et al. (2011)[97], those internal audit functions that were set up in the early days of the IIA (established in 1941) are more likely to use the IIA Standards and have more internal auditors with internal audit qualifications; a quality assurance and improvement program is more common among older internal audit functions and they have a more diversified internal audit agenda and more frequently perform advanced internal audit activities. Other previous findings also provide mixed results (see for example Maher and Akers, 2003[61]; Sarens and De Beelde, 2004; 2006a, b; Sarens et al., 2009[96]; Yee et al., 2007, 2008[108][109]; Dounis, 2006)[30]. According to Dounis (2006), the study showed that more than half (70%) of respondents i.e. CAEs have involved actively in merging and acquisition (M&A) process, adding that their roles are more proactive rather than post-mortem due to certain factors one of which is active involvement of the CAE with the audit committee, by which in turn, the audit committee is aware of their responsibility and credibility to convince top management for the internal audit department to participate in the M&A process (i.e. demand for consulting) without jeopardizing their role as internal control experts.

3.3.1.7 Findings of Exploratory Interviews Support the Intentions/Ambitions of IAD

Consistently, the findings of exploratory interviews posited the implementation of internal audit outsourcing such as seeking an outside expert to perform consulting tasks if no expertise is found in the consulting area to improve the internal control system and it must be under full control of IAD (P2); buying-in expertise from outside (outsourcing), consistent with PA 1210.A1-1, IPPF (2017) or second somebody from another department within the organization to perform consulting activities (P4). Besides, one interviewee (P4) emphasized the flexibility of an annual audit plan i.e. quarterly-reviewed annual audit plan particularly on risk assessment which is known as best practice so that the audit objectives will align with the organizational objectives (i.e. goal congruence). This portrays an attribute of real-time risk assessment highlighted in the literature earlier. One interviewee (P4) also mentioned that performing consulting work is part of the definition of internal audit i.e. in accordance with the IPPF, (2017), yet, it must be done in an independent way in terms of giving advice on the improvement of the process of risk management, control and governance.

In summary, the findings of exploratory interviews are consistent with the extant literature in respect of intentions/ambitions of IAD towards internal audit practices. In accordance with the literature on intentions/ambitions of IAD and the findings of our exploratory interviews, we therefore concentrate on those six (6) dimensions of intentions/ambitions of IAD i.e. catalyst for change, extensive staff expertise, challenging work environment, organizational alignment, participative, qualitative, real-time risk assessment, and array of audit services that might influence the consulting role of internal auditors.

Based on the previous discussion the first hypothesis is then developed to answer the first research question as follows:

H1: There is a significant correlation between the intentions/ambitions of IAD and the internal auditors’ assessment of their contribution to consulting activities in Malaysia.

The main hypothesis is further divided into a few detailed hypotheses to facilitate data analysis. For instance, H1 is further divided into six specific hypotheses coded as H1a, H1b, H1c, H1d, H1e, and H1f. All of these hypotheses are illustrated as follows:

H1a: There is a significant correlation between the intention to be the catalyst for change and the internal auditors’ assessment of their contribution to consulting activities in Malaysia.

H1b: There is a significant correlation between the extensiveness of staff expertise and the internal auditors’ assessment of their contribution to consulting activities in Malaysia.

H1c: There is a significant correlation between the element of challenging work environment and the internal auditors’ assessment of their contribution to consulting activities in Malaysia.

H1d: There is a significant correlation between the element of organizational alignment and the internal auditors’ assessment of their contribution to consulting activities in Malaysia.

H1e: There is a significant correlation between the intention to be “participative, qualitative and real-time risk assessment” and the internal auditors’ assessment of their contribution to consulting activities in Malaysia.

H1f: There is a significant correlation between the intention to provide an array of services and the internal auditors’ assessment of their contribution to consulting activities in Malaysia.

3.3.2 Expectations of Board and Audit Committee

Expectation of board and audit committee is another factor that may influence the role of internal auditors as consultants and this is supported by the stewardship theory that explains the goal congruence between internal audit and expectation of board and audit committee in demonstrating their added value function which is the internal audit consultancy. Previous literature has depicted that the demand for assurance and consulting services comes immensely from the management and
audit committee constituents. For instance, IIARF (2003) reported that there is an overlapping of demands by management and audit committee. That means there is a convergence of expectation from both parties. Initially, the results showed that audit committees are interested in assurance services pertaining to risk and control, while operational management is more concerned with consulting services in terms of improving the operations’ efficacy and adequacy of control system and senior management with both assurance and consulting services (see Fig 1).


Fig 1: Major Constituents and Requests from Internal Audit

However, the overlapping demand can possibly occur in which operational management may also look for assurance about the effectiveness of the control system, whereas audit committees may consult auditors for risk assessment and control processes (IIARF, 2003). Besides, today, organizations are facing global economic challenges. In response, management, boards of directors and leaders throughout the organization are taking a fresh look at virtually all parts of the business; they think and respond collaboratively on how to enhance productivity, processes and systems, albeit still staying “in control”. This notion is supported by Chia (2004), in which she reported that audit committees in Malaysia meet more frequently and strongly encourage internal auditors to have a good working relationship with management without sacrificing their independence and objectivity. Currently, internal audit reports functionally to the audit committee; the audit committee approves the internal audit plan as part of their oversight function role. Since the internal auditors hold the knowledge of the company, they can use their broad and specialized business knowledge to help management to achieve the organizational goals and objectives as well as to meet other stakeholders’ expectations (for example, board of directors, audit committee, employees and etc.). Similarly, the result of PricewaterhouseCoopers (2014)’s annual survey suggested that alignment of stakeholder expectations (i.e., board, executive officers, line management), matching internal audit skills and capabilities to these expectations, thereby helping internal audit to enhance their value added to the organization in which internal auditors are viewed as trusted advisors.

Likewise, Head et al. (2010) provided examples of consulting that shows overlapping demands such as providing advice to process owners about the way to streamline activities for gaining efficiencies, facilitating senior management and process owners on how to assess business risks besides educating management and the audit committee on newly released authoritative guidance (IPPF etc.). Chapman (2001) commented that involvement in consulting activities has uplifted internal audit to another level of strategic role in the organization. This notion thereby fits into the stewardship perspective in which internal audit, with their expertise is expected to help the board and audit committee to improve and expand the business. She further suggested that consulting activities are that of a problem-solving nature, within their capabilities to work closely with management to achieve organizational objectives. In fact, organizations are generally better served when internal auditors take on a predominantly counselling role while performing other roles as and when needed (Pelrson, 2011)[80]. The expectations of board and audit committee towards internal consulting on certain areas are also a reflection of organizational support especially in respect of board and management support and collaboration towards IAF. Consistently, PricewaterhouseCoopers US (2014) revealed that when the expectations of internal audit’s
varied stakeholders are aligned, the function can deliver well and be seen as providing significant value as trusted advisors (67 percent) as compared to being assurance providers (33 percent). A review of the Standards and PA 1110-1 (IPPF, 2017) clearly explains about the support from organization (i.e. senior management and the board) which is needed to assists internal audit function and their day-to-day activities in gaining auditees’ (engagement clients) cooperation and to perform their work without any interference from them. Besides, the CAE must have direct interaction with the board (PA 1111-1, IPPF, 2017) and the CAE needs to attend and participate in strategic business and operational developments and to highlight high-level risk, systems, procedures, or control issues at the beginning stage which is vital. The meeting attendance is also to provide an opportunity for exchanging information relating to internal audit’s activity plans and activities and keeping each other informed of any other matters of mutual interest. And this is aligned with the assumption in the stewardship theory which it incorporates the nature of the stewards who are reported to be trustworthy individuals (Donaldson & Davis, 1991[29]; Nicholson & Kiel, 2007)[77], be pro-organizational, acquire collective attitudes that stress on higher utility rather than individualistic, be motivated to act in a way that is consistent with the organization’s objectives and are organizationally centred (Davis et al., 1997)[28]. Other several [Several other] studies also show positive association between management support and collaboration and internal audit practices (for example, Arena et al., 2006[8]; Yee et al., 2007, 2008; Mihret & Yismaw, 2007[71]; Selim et al., 2009) and these have consequently enhanced the expectations of varied stakeholders to have a value-adding IAD, with their ability to use broad and specialized business knowledge to consult with other department managers (MacDonald & Colombo, 2001).

Furthermore, the expectations of the board and audit committee may indirectly influence internal audit agenda or planning since the best practices is to incorporate the latest view of the audit plan to be reviewed on a quarterly basis (supported by the findings of exploratory interviews); thereby, motivate the internal auditors to perform consulting activity whenever it is needed. Having said all that, few dimensions of expectations of board and audit committee that may influence internal audit role of consulting are sought and discussed individually in the following subsections. In other words, such a role is determined by internal organizational and corporate governance related factors as described in the stewardship perspective.

3.3.2.1 ‘Partnership’ with Management

As mentioned above, the expectation of board and audit committee is another factor that may influence IA’s role as consultants. Therefore, the first dimension of the factor of expectation of board and audit committee is that internal auditors are viewed as partners to management (supported by Chia (2004)). That means internal auditors are positioned to help protect the organization against both traditional and emerging risks; provide consultation about how opportunities and vulnerabilities can be balanced; and make valuable recommendations for assessing and strengthening corporate governance. Arena et al. (2006) found that integration with management (that is, ‘partnership’ with management) significantly influences the development of internal audit departments in Italy. Moreover, Arena et al. reported that the degree of collaboration between internal auditors and managers in highlighting problems and threats becomes the main focus (those are, the problems can be solved in a timely manner), for instance in one of the cases illustrated, the IAD utilized its resources for consulting engagements, resulting in the improvement of business processes. In a survey of a group of Singaporean managers, Yee et al. (2007) revealed that internal auditors are perceived as consultants who work with senior management to suggest improvements to business processes under the concept of business partner model of ‘modern’ internal auditing. Based on the structured interviews with 83 Singaporean managers of various levels in the following year, Yee et al. (2008) suggested that internal auditors are being appreciated to play a business partner role and those various levels of managers are important internal audit customers.

Moreover, the internal auditors’ broad understanding of the organization and its culture prepares them to effectively monitor risks associated with new business lines; mergers, acquisitions, joint ventures and other partnerships; new systems deployments; restructuring; management estimates, budgets and forecasts; environmental issues; and regulatory compliance (Sarens & De Beelde, 2004[93]; Dounis, 2006, 2008[30][31]; Reding et al., 2013). Thus, it is believed that of increasing concern to management today are the risks associated with information technology and the control and auditability specifications of new systems. In conjunction with that, Buckley (2011) stated that the auditor should bring an independent set of eyes to the process and the mind-set of a project partner so as to enable them to provide advice before developing and implementing solutions for IT project management. Besides, internal auditors’ independent review of information systems and other high-tech projects can help ensure a controlled and reliable IT environment. And their consulting services add value to the decision-making process when management must consider the cost and benefit trade-off of IT control implementation.

3.3.2.2 Training Ground for Future Managers

Concerning internal audit which is considered an important strategic function, the IAD focuses on attracting inexperienced talented individuals who are exposed to broad experience for 2 to 3 years that will then migrate to
line management positions. Besides, the department is expected to consist of experienced internal auditors who will stay with the IAF and employ experienced internal auditors who eventually will migrate to line management positions. Also, the team of internal auditors within the department consists of experienced internal auditors and inexperienced internal auditors who will deploy their talent and migrate to other management positions (MacDonald & Colombo, 2001; Roth, 2003). These elements are included in the career model developed by CNA Financial Corporation, a Chicago-based insurance company and PricewaterhouseCoopers in order to align the staff capabilities and stakeholder expectations (MacDonald & Colombo, 2001). While, Sarens and De Beelde (2006a) claimed that in one of the cases, the CFO expected internal auditors to function as a training ground for future potential managers, Sarens and De Beelde (2004) explained that this phenomenon exists because of the support given by management to the IAF as well as their opinions and recommendations being frequently accepted and appreciated by the organization. Recently, Burton, Starliper, Summers and Wood (2012) found in a US experiment that experienced auditors have higher interest in looking for an internal audit position when the position advertises a short stint in internal audit and next, promotion into management positions and work mainly related to consulting services rather than assurance services. Consistently, Arena et al. (2006) found that internal audit was considered as a management training ground in two of the six cases in their Italian study. It was also reported that 56% of respondents in the Australian study, indicated that internal audit staff were relocated to other management positions in the company and their results confirmed that IAF is perceived as a stepping stone for future potential managers to enhance their working careers (Christopher et al., 2009)[23]. In another environment, Selim et al. (2003) discovered an establishment of rotation programs in some organizations in their study of US and European mergers and acquisitions where new staffs were offered to join internal audit as part of the training program.

3.3.2.3 Facilitator of Risk Management and Internal Control
Sarens and De Beelde (2006a) [94]reported that there is a clear demand from senior management for internal auditors to serve a supportive function to compensate for the loss of control due to increased organisational complexity. Besides, internal auditors are expected to become facilitators to design the internal control framework, if there is no proper internal control established. Furthermore, they are to serve as a supportive function by assisting with the formalisation of the risk management system; whilst the prime responsibility for risk management lies with the directors and senior management, internal auditors are duly seen as key contributors as consultants as well as assurance providers on risk management processes and systems (Steward & Subramaniam, 2010)[104]. In another environment, Allegrini and D’Onza (2003)[1] conducted a survey of internal auditors in relation to risk assessment process in these companies. They found that 30 percent of respondents co-operate with external consultants in the risk management process while 37 percent support the risk management process directly in co-operation with line management by providing methodologies or engaging in consultancy services in risk management activities. Furthermore in the Malaysian environment, Kassim (2011) found that internal auditors play their consulting role in ERM (i.e. 33 percent) among Government-link companies (GLCs). As a matter of fact, 91 percent of the respondents in his study claimed that they were best described as a consultant or business partner. Thus, it shows that internal auditors do play their role in consultancy in ERM, defined by the Committee of Sponsoring Organisations (COSO) (2004, p. 2) of the Treadway Commission i.e. legitimate internal audit roles with safeguards in Malaysian phenomenon.

3.3.2.4 Comfort Provider
As being experienced by audit committees in the study of relief of discomfort conducted by Sarens et al. (2009), it was obviously apparent that internal audit’s role of advisory, support and facilitation are significant when there is a weak internal control, reinforced by a weak control environment that exists in certain cases. Sarens et al. (2009) then found that the assurance role of internal auditors becomes the source of relieving discomfort with respect to control environment and internal controls which are inspired by a feeling of discomfort caused by the information asymmetry problem as recommended by Raghunandan et al. (2001)[85]. However, knowing that management would seek help from internal auditors through consulting activities, thereby contributing to the improvement of internal controls seems to be even more significant as the source of comfort for audit committees (Sarens et al., 2009).

3.3.2.5 Monitor of Corporate Culture
Apart from being comfort providers to the audit committee, internal auditors are expected to be the safeguard or monitor of corporate culture (the term ‘monitor of corporate culture’ was used in Sarens and De Beelde’s (2006a) study) since the nature of their work involves interacting with people in the field. In respect to the nature of their work which is interacting with people in the organization, internal auditors are likely to have appropriate communication skills during their work engagement. The demands range from assurance to consulting such as providing independent assurance on internal control and business processes’ effectiveness and efficiency, actively contributing to improve business processes and internal control, and finally, assisting management with the formalization of the risk management system (Sarens & De Beelde, 2006a).
Besides that, internal auditors seem to act as facilitators for whistle-blowing programs in respect of maintaining a good corporate culture.

3.3.2.6 Findings of Exploratory Interviews Support the Expectations of Board and Audit Committee

In respect to the demand for consulting, the findings of exploratory interviews also revealed that only the audit committee and management (for example, senior management or operational management) had requested for consulting services with the approval of the audit committee, while no other parties were found to be interested in requesting for internal audit consulting services (consistent with Anderson (2003) and IIAFR (2003)). The findings of exploratory interviews highlighted that the expectations of the audit committee and senior management are basically different but in certain circumstances as in the environment of organization and weak control system, their expectations are inclined to be similar (all participants i.e. P1, P2, P3, P4 and P5) and this was supported by Sarens et al. (2009). In addition, all participants agreed that independence and objectivity are not real issues when performing consulting activities because everyone can see the rationale and the benefits of the service, such engagement depends on the Terms of Reference and internal audit charter maintained in the IADs. Apart from that, one of the interviewees (P4) has mentioned that internal audit involvement in consulting activity depends on the maturity of governance and control (i.e. maturity of organization) whereby for less matured companies, they do not have a proper internal control framework or internal control processes thereby there are possibilities that the audit committee could also ask internal audit for consulting work. For instance, the interviewee (P4) had revealed his experience in the involvement of the consulting work for ACE (previously known as MESDAQ) companies (i.e. smaller companies listed on Bursa Malaysia as compared to Main Market companies) to design a risk management framework (internal audit acts as risk management facilitator or coordinator).

Constantly, the findings of exploratory interviews also showed that management support and collaboration (to reflect the expectations of board and audit committee factor) do influence the consulting role of internal auditors (according to all participants i.e. P1, P2, P3, P4 and P5). In terms of acceptance and appreciation of advice and recommendations, they believed it was part of the management support and collaboration and comfort provider to the audit committee; in terms of human and material resources, all IADs in the study were provided with human resources; also noted audit tools i.e. audit software were used to assist internal auditors in their audit work plus consulting project especially in the facilitation of risk management and internal control whereby a bulk of work was saved in the repository database situated in the IAD (P2). In addition, the findings of the exploratory interviews revealed that the internal audit is perceived as an important strategic function as a training ground for future managers (i.e. guest auditor program); however, one of the interviewees claimed that he/she had neither implemented such a program nor established any rotation program as it would become a future planning (P1). Apart from that, there is an IN-OUT-IN concept introduced in some established organizations in which it becomes a clear policy (30/70 rule) (P4); secondment of other staffs from other departments to be based at IAD with the audit committee’s approval, for instance, taking an engineer to be based at the IAD to perform audit or any specialized project (non-audit service) related to engineering project (P5).

In accordance with the comprehensive literature on the expectations of the board and audit committee and the findings of exploratory interviews, the interviews were therefore concentrated on those five (5) dimensions of expectations of the board and audit committee, which are ‘partnership’ with management, training ground for future managers, facilitator of risk management and internal control, comfort provider, and monitor of corporate culture that might affect the consulting role of internal auditors. Based on the previous discussion the second hypothesis is then developed to answer the second research question as follows:

H2: There is an association between the expectations of board and audit committee and the internal auditors’ assessment of their contribution to consulting activities in Malaysia.

Likewise, H2 is further divided into five detailed hypotheses coded as H2a, H2b, H2c, H2d and H2e. All of these hypotheses are depicted as follows:

H2a: There is an association between the board and audit committee’s expectations on internal auditors to have ‘partnership’ with management and the internal auditors’ assessment of their contribution to consulting activities in Malaysia.

H2b: There is an association between the board and audit committee’s expectations on internal audit as a training ground for managers and the internal auditors’ assessment of their contribution to consulting activities in Malaysia.

H2c: There is an association between the board and audit committee’s expectations on internal audit as the “facilitator of risk management and internal control” and the internal auditors’ assessment of their contribution to consulting activities in Malaysia.

H2d: There is an association between the board and audit committee’s expectations on internal audit as the comfort provider and the internal auditors’ assessment of their contribution to consulting activities in Malaysia.

H2e: There is an association between the board and audit committee’s expectations on internal audit as the monitor of corporate culture and the internal auditors’ assessment of their contribution to consulting activities in Malaysia.
3.3.3 Moderating Effect of Expertise, Skills and Competencies of Internal Audit

Internal auditors must have sufficient knowledge, experience and technical expertise to perform consulting activities as well as soft skills, for example, communication skills and leadership skill (supported by the findings of exploratory interviews). Based on the literature, internal audit characteristics commonly consists of unit size, internal audit knowledge, experience and skills as well as the maturity of the audit department which have been increasingly used as an important variable to determine internal audit effectiveness (value-added function) in the corporate governance context. Most studies have focused on the direct relationship between internal audit skills and expertise and the audit practices (for example, Sarens & De Beelde, 2004, 2006a)[94], the internal audit effectiveness (for example, Mihret & Yismaw, 2007)[71], Arena & Azzone, 2009), and firm performance (Hutchinson & Mat Zain, 2009); in which case most of the results have shown positive significant relationships. However, the variable acting as moderator has often been overlooked in prior literature.

Thus, this study attempts to address the internal audit skills and expertise as a moderating variable and indeed it is one of the contributions of the present study. In fact by leveraging the existing competencies and experience, internal auditors are more likely to contribute to the consulting role, when requested by management and/or the board (supported by Roth (2000), Head et al. (2010), PricewaterhouseCoopers (2014), and the findings of exploratory interviews). Therefore, the skills and competencies possessed by the internal auditor can be the catalyst for certain factors namely ambitions of IAD to be a world-class IAD and the expectations of board and audit committee in their reliance on internal auditors to assist management to improve risk management systems. In addition, internal auditors are needed in areas involving internal controls as well as to provide advice on future business opportunities and organizational performance. This notion fits into the stewardship perspective in which the more internal audit expertise coupled with motivated IAD to be a world-class IAD; and the expectations of the board and audit committee, resulting in internal auditors being more likely to contribute to internal consulting work.

Mat Zain et al. (2006) reported that well-resourced internal audit units (based on unit size and internal auditor’s expertise) are likely to be positively associated with the internal auditors’ assessment of their contribution to the financial statement audits. Internal audit competencies as stated in accordance with the Statements on Auditing Standards (SAS) 65 (AICPA, 1991) includes internal auditor’s educational, certification (for example, CIA/CPA) and prior experience and these elements were used as a proxy for internal audit quality by Hutchinson and Mat Zain (2009) and Prawitt et al. (2010).

Consistently, the Attribute Standards 1210 on internal auditor’s proficieny describes the acquired knowledge, skills and other relevant competencies that the internal auditors should have, so as to ensure audit effectiveness in their work performance (IPPF, 2017). This interprets that internal auditors are encouraged to show their proficiency through gaining appropriate professional certifications and qualifications, for instance the certified internal auditor designation as well as other designations offered by The IIA and other appropriate professional organizations (PA 1210-1, IPPF, 2017). This statement is supported by the empirical evidence of Mihrer and Yismaw’s (2007) study, highlighting that internal audit effectiveness is significantly influenced by internal audit quality in which one of the criteria is internal audit staff expertise. In the light of recent changes in the ‘mission’ of internal auditing with a focus of value-added internal audit range of activities, it was consistently shown that the characteristics of internal audit such as internal audit resources (that is, unit size) and competencies (those are, professional certification and broad accounting competencies) of internal audit team significantly contributes to the internal audit effectiveness (Arena & Azzone, 2009)[7].

According to Mihret (2010), internal auditors who possess technical competence and undergo continuous training may contribute to performing an effective internal audit sequentially and those criteria become important characteristics of effective IADs. This notion was well supported by Gramling and Meyers (1997)[37] in which internal audit certification is viewed as one of the internal audit competence elements while Al-Twajiry et al. (2003)[2] noted that internal auditors are powerless if they do not have necessary knowledge and experiences. As contemporary internal audit covers a wide range of activities, it is a necessity for internal audit departments to hire internal auditors with various skills to perform audits beyond financial activities (Flesher & Zanzig, 2000)[32]; Mihret & Woldeyohannis, (2008)[72]. Professional competence, for instance, is forecasted with an observable value such as having professional certification (Krishnamoorthy, 2002)[55]: measurable benefit of such internal audit qualifications of internal audit staff and CAEs and the designation of CAEs are the indication of internal audit effectiveness level (Lenz, Sarens & D’Silva, 2013). Notwithstanding, tertiary qualification (for example, Masters in Business Administration (MBA) or other Masters Degree or Doctorate of Business Administration (DBA)) and other specialization (for example, Human Resource, Information Technology or Engineering) might be helpful in performing audit or consulting activities within the organization.

Apart from those technical (hard) skills, Arena et al. (2006) provided evidence of the influence of additional elements such as leadership and other soft factors (those are, effective communication with client, establishment of
credibility, and resistance minimization), as suggested by White (2007)) in their IADs’ development with a focus of value-added function of internal audit. Consistent with this notion, White (2007) perceived internal auditors are required to be good at “the-off-record” conversation which is claimed as more vital than the written internal audit report and besides, internal auditors “can use related methods and techniques to dig deeper and deliver truth” if they “master the principles of effective internal consulting” (p. 60) via using Meislin’s techniques in their work. According to Chia (2004), “It requires a very strong influencing behaviour, or set of soft skills. Internal auditors must have very good communication skills to market their function as value-added partners...” (p. 6). Consistently, in some recent studies, Mihret, James and Mula (2010) and Soh and Martinov-Bennie (2011) emphasized that the critical skill of internal auditors is that they are able to speak up particularly in controversial situations.

### 3.3.3.1 Findings of Exploratory Interviews to Support the Moderating Effect of Expertise, Skills and Competencies of Internal Audit

Apart from prior studies, the findings of exploratory interviews also revealed that internal auditors must have sufficient knowledge, experience and technical expertise to perform consulting activities as well as soft skills such as communication skills (P1, P3, P4, and P5) and leadership skill (P2). One of the interviewees (P3) emphasized the ability to perform consulting activities is all about subject matter expertise, for instance having expertise in procurement area among internal audit staffs. Meanwhile, one of the interviewees (P4) mentioned about internal audit core competencies as stated in CBOK 2010 study (IIARF, 2010b) in respect of performing internal audit activities either assurance or consulting. Complimentary to the indications found in the literature and the findings of exploratory interviews, it is suggested that taking this moderating variable of expertise, skills and competencies of internal audit into account can deepen the understanding of the relationship between intentions or ambitions of IAD and expectations of the board and audit committee and internal auditors’ role in consulting activities. The third hypothesis is then developed to answer the third research question as follows:

H3a: There is a moderating effect of the expertise, skills and competencies of internal audit (auditing skill and experience, accounting qualification, professional certification) on the association between the intentions or ambitions of IAD (catalyst for change, extensive staff expertise, challenging work environment, organizational alignment, “participative, qualitative and real-time risk assessment” and array of services) and the internal auditors’ assessment of their contribution to consulting activities in Malaysia.

H3b: There is a moderating effect of the expertise, skills and competencies of internal audit (auditing skill and experience, accounting qualification, professional certification) on the association between the expectations of board and audit committee (“partnership” with management, training ground for future managers, “facilitator of risk management and control”, comfort provider, and monitor of corporate culture) and the internal auditors’ assessment of their contribution to consulting activities in Malaysia.

### 3.3.4 Internal Auditors’ Involvement in Consulting Activity and Firm’s Growth Opportunities and Firm’s Performance

Consistent with the changes to the definition of internal audit that have increased the scope of internal audit by clearly including consulting activities, prior studies (e.g. Head et al., 2010[38]; Selim et al., 2009[98]; IPPF, 2017[50]; Rezaee, 2009[88]; Gramling & Meyers, 2006; IIA, 2004; Sarens & De Beelde, 2004; Maher & Akers, 2003) depicted that several types of consulting assignments are taken up by internal auditors mostly in US, UK and some European countries. Nevertheless, these assignments have also been carried out in some developing countries such as Malaysia, based on the recent findings of exploratory interviews with five (5) CAEs of Malaysian large organizations. The literature and the support of the findings of the exploratory interviews on the types of consulting assignments are summarized in a tabular form (see Fig 2).

In respect of the independence and objectivity matters, four out of five participants (based on the findings of the exploratory interviews) perceived no issues of impairment arising when performing consulting activity. The reason is that as internal auditors, they were aware of their work scope, a timely disclosure of time spent on consulting, work boundaries, internal audit Standards (IPPF), plus their independent reporting line i.e., functionally to audit committee and administratively to their direct boss (senior or top management). These elements have been clearly stated in the Terms of Reference and internal audit Charter that are maintained in the IADs. As a result, the three interviewees (P2, P3 and P5) showed their commitments towards carrying out consulting assignments, with percentages of 55%, 60% and 50% of the total of 22 assignments (as per list in the Appendix 1) respectively.

<table>
<thead>
<tr>
<th>Types of consulting assignments</th>
<th>Literatures and Findings of Exploratory Interviews</th>
</tr>
</thead>
</table>

©TechMind Research Society
<table>
<thead>
<tr>
<th>Due diligence, system development, process reengineering, risk management</th>
<th>Literature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Involve in design, facilitating the process, training key personnel and advisory role (Head et al., 2010); ERM process (IIA, 2004; Gramling &amp; Myers, 2006; Sarens &amp; De Beelde, 2006a; Dounis, 2008); CAEs emphasize the need for internal auditors acting as consultant in system development (Maher &amp; Akers, 2003); CIA confirmed internal auditors spend, on average, 15% of their annual work time on due diligence work (Sarens &amp; De Beelde, 2006a); two-third respondents say actively involved in risk management consultation in top countries in European Union (Paape et al. 2003); actively involved in the strategic objectives’ development based on global study of internal audit’s role in strategic management (Melville, 2003).</td>
<td></td>
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</table>

**Findings of Exploratory Interviews**

Mostly system development and risk management were carried out upon request (senior management and audit committee).

<table>
<thead>
<tr>
<th>Implementation of ERP system, new software, new accounting standards (IAS/IFRS)</th>
<th>Literature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater involvement in value-adding activities (Sarens &amp; De Beelde, 2004); facilitate SM’s and process owners’ assessment of business risks as well as educate management and audit committee on newly released authoritative guidance (Head et al., 2010).</td>
<td></td>
</tr>
</tbody>
</table>

**Findings of Exploratory Interviews**

Four over five took up the assignments upon management requirement.

<table>
<thead>
<tr>
<th>Integration process after merger &amp; acquisitions (M&amp;As), system development of M&amp;As, MIS implementation, project management</th>
<th>Literature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integration process after merger &amp; acquisition (Sarens &amp; De Beelde, 2004; Dounis, 2006, 2008); advise on high-risk projects – information systems development (Reding et al., 2009); the auditor should bring an independent set of eyes to the process and a mind-set of a project partner so as to enable to provide advice before developing and implementing solution for IT project management (Buckley, 2011).</td>
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</tr>
</tbody>
</table>

**Findings of Exploratory Interviews**

Three out of five took up the assignments upon management request.

<table>
<thead>
<tr>
<th>Evaluation of external auditor’s audit work, evaluation of work by outside professionals other than external audit, review outsourced services, cash management, business valuation, change management, inventory management, capital investment analysis, human resource management, strategic management, employee performance and remuneration, feasibility studies, Corporate Governance</th>
<th>Literature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant differences revealed in respect of taking on consulting assignments between two countries Italy and UK, strategic and project management significantly undertaken in UK (Selim et al. (2009), also supported by IIA (1999, 2004); participation in both internal &amp; external CG process to improve effectiveness in post-corporate governance reform (Rezaee, 2009).</td>
<td></td>
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</tbody>
</table>

**Findings of Exploratory Interviews**

All took up inventory management, HRM & CG. Four over five took up evaluation of work by outside professionals other than EA, review outsourced services, business valuation, cash and strategic management. The least taken up assignment i.e. change management (i.e. not applicable).

<table>
<thead>
<tr>
<th>Fraud prevention &amp; whistle-blowing program, financial analysis (business continuity), CSA, procurement, Network engineering (not included in the list of types of consulting assignments in Appendix 1)</th>
<th>Literature</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSA has been highlighted by Sarens &amp; De Beelde (2004) and IPPF (2013) as a facilitative consulting engagement and requires internal auditors to go one step further and get involved in depth with the activity.</td>
<td></td>
</tr>
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</table>

**Findings of Exploratory Interviews**

All were highlighted by interviewees (P1,P2 & P3).
advising on Network Engineering project as viewed by the interviewee (P3). The other two participants (P1 and P4) showed their commitments towards consulting activities with percentages of 27% and 95% of the total of 22 assignments respectively based upon their work experience and opinion on internal audit consulting matters. A vast difference in percentage is due to certain factors such as skills and expertise, sufficient knowledge and experience, even sometimes it relates to the independence and objectivity matters. However, as a whole, the results showed that independence and objectivity were not real issues because everyone could see the rationale and the benefits of the consulting services provided by internal auditors as long as the key was that the management was the one who owned the project throughout. As further noted by the interviewee (P4) in which it is consistent with prior studies (for example, Roth, 2003; Head et al., 2010), “The Standard clearly says…the definition of internal auditing allows you to do both…but most importantly when you decided to go into consulting mode/engagement you need to define your time spent on consulting work on the regular basis back to the audit committee, because your work plan you’ve defined at the beginning of the year (annual planner…not three-year annual planner – very conventional), now turn to quarterly basis (quarterly plan) – reviewed quarterly basis (the audit plan) – best practices…you revise audit plan it become almost 50 – 50 or 40 – 60…as long as the audit committee and the Board aware that the scope of work has changed, they are aware of the maturity of governance and internal control structure that requires internal audit more to do consulting work.” (P4)

Consistently, Sarens and De Beelde (2004) in their prior study commented that internal auditors must embrace the forces of change in their business environment and expand their role in organizations in order to add value, thus by incorporating the consulting concept in the new definition and Standards, it becomes one of the major adjustments made for a better reflection of contemporary internal auditing practices. In the stewardship perspective, internal auditors would support the board and audit committee as well as management team through consulting roles. The Internal audit consulting role is part of the proactive (value-adding) role of internal auditors in which IAF is considered from a different perspective i.e. from the stewardship point of view to help organization to improve the risk management, control and governance processes. Internal auditors who play their role in consulting are expected to give advice on the business improvement provided they acquire firm-specific knowledge and technical skills as well as giving advice on future investment opportunities if the company is aggressive for new ventures etc. Besides, Chapman (2001) commented that involvement in consulting activities has elevated internal audit to another level of strategic role in the organization. This notion thus fits into the stewardship perspective in which internal audit, with their expertise is expected to help the board and audit committee to grow the business and improve the existing business operations. Furthermore, Vallabhaneni (2005)[106] pointed out that in an effort to increase revenues and market growth, companies would conduct business process reviews (either through business process re-engineering or business process improvement) in which they are parts of internal audit consulting engagements. He further elaborates that consulting engagements are that of solving problems and making recommendations to improve a client’s operations and processes by making changes whereby the steps involved are that of defining problems, developing alternatives, selecting and executing the best alternative.

Meanwhile, Hutchinson and Mat Zain (2009) claimed that the quality and the effectiveness (in this case, the skills, expertise and other competencies) of the internal audit is paramount for firms with uncertain investment opportunities and their results showed that internal audit quality contributes to firm performance in the high-risk conditions of high growth opportunities, yet, the positive relationship is weakened by increasing audit committee independence. Hutchinson and Mat Zain further suggested that it is not the independence of the audit committee that turned into a main focus but the right mix of members with the necessary skills to evaluate the risks faced by the organisation that need to be emphasized. Apparently, risk was defined by Boritz (1990) [12] as the possible loss resulting from a combination of uncertainty and exposure as a result of the investment decisions made. Boritz further elaborated that high growth firm have high levels of inherent risk, thus, firms need to establish sound internal controls so that risk can be managed effectively. Therefore, internal auditors with good skills, expertise, adequate knowledge and experience are encouraged to give advice and recommendations on business process improvement and strengthening the internal control systems.

According to Hutchinson and Mat Zain (2009)[42], low growth firms are valued independently of future investment opportunities of the firm while high growth firms are valued according to the firm’s future discretionary investment decisions (i.e. expenditures by managers) including capacity expansion projects, new product lines, maintenance and replacement of existing assets (also supported by Mason & Merton (1985)). In this case, the internal auditors should have training and experience in addressing the risks associated with uncertain growth opportunities for positive outcomes related to company’s strategies. Following Myers (1977), growth opportunities are measured as the proportion of company value accounted for by assets-in-place in which the lower the fraction of company value represented by assets-in-place, the greater are the firm’s growth
opportunities or in other words, the greater is the investment opportunity set. With reference to the empirical evidence of Hong Kong listed companies provided by Ho et al. (2004)[39], the growth of firms in an emerging Asian market have lower debt-to-equity ratios and dividend yields, paying higher cash compensation and bonus amounts to their top executives, and financing a higher percentage of their asset acquisitions via operating leases. This inferred that the growth of firms tends to associate with the expenditures undertaken by managers including expanding the projects and new product lines, maintaining and replacing the existing assets to be utilized excessively and effectively for the business expansion. In fact, both studies had used market-to-book value of equity as future financial performance yardstick to portray the firm’s growth opportunities element.

PricewaterhouseCoopers (2011) announced the results of its survey and noticed that as companies emerge from the recession, internal auditors have the opportunity to enhance their roles by aligning their business objectives with new company priorities and it was found that IA professionals who have a bigger picture of their companies can play an important role in advocating company growth strategies by getting involved in the areas such as emerging markets, mergers and acquisitions, social media, the cloud and navigating the regulatory labyrinth. Yet, the results indicated that many internal auditors failed to address the risks pertaining to these strategies (those are, strategic growth, IT and regulation), thus, the study highlighted the importance of IAF to keep up with the dramatic changes, reciprocally, it can elevate good perceptions of managers and other stakeholders towards value-adding internal audit (PricewaterhouseCoopers, 2011).

As part of the value creation opportunities, internal auditors can therefore aggressively play their role in consulting to assist the board and management with skill and courage that they have in circumstances such as expanding the business, involving in M&A activity and developing new product. In other words, they need to expand their role with the changing business environment. This was well supported by Sarens and De Beelde (2006a) where the CEO expects the IAD to play a value-adding role in due diligence work, given the importance of acquisitions for the growth of the organization. As a result, internal audit has a member on any ad hoc composed acquisition teams in confirming that internal auditors to spend, on average 15% of their annual work time on due diligence work (Sarens& De Beelde, 2006a). Sarens and De Beelde further commented that CEO expects the future importance of internal audit’s advisory role in strategically important projects and as a result, chief internal auditor has clear intentions to concentrate more on assisting and supporting management by being a proactive consultant to aid management to be capable of anticipating would-be problems.

With the visibility and a mandate (which is by US Security Commission (SEC) and Bursa Malaysia Listing Requirement in which it cuts across the entire organization, large organizations acknowledge that IAF has an opportunity to aid the organization in dealing with the major challenges and risks they face (PricewaterhouseCoopers, 2010). In other words, internal auditors must seize opportunities to enhance their relevancy by assessing future governance, risk management and control as well as improving day-to-day business performance (that is, reflected the firm performance) and ultimately supporting the execution of strategic initiatives. Based on the findings of exploratory interviews it indicates that internal auditors would perform consulting activity whenever it is necessary as long as some basic principles are being followed such as independence in consulting, proper disclosure to audit committee, right expertise and needs to do it.

In terms of firm’s growth opportunities, every major industry was once a growth industry, yet, some situations in which the wave of growth enthusiasm is very much declined due to failure of management (for example, Malaysian case, Transmile Group Berhad); the failure is at the top and the executives are accountable for it. In particular as in the final analysis, are those who take care of broad aims and policies (Levitt, 1964)[58]. This phenomenon is caused apparently by poor corporate governance within the organization. In view of that, Baker (2011) highlighted that the internal audit’s partnership with the business is necessary in which internal auditors are called upon to help management to develop a new corporate governance framework for one insurance company and the role is to assist and facilitate using their expertise in policies, processes and controls. In a larger scale, it is generally assumed that growth in highly developed economies depends to a large extent on national efforts to increase productivity through innovations. Consistent with this notion, Goedhuys and Veugelers (2011)[35] stressed that innovative performance is an important driver for firm growth. In this context, innovation is a vital precondition for growth, maintaining employment and competitiveness and it becomes the source of motivation towards changes in technology and structure and consequently, the role of technical consultants or business services are considered very important (Czarnitzki & Spielkamp, 2000)[27]. In respect of the implications of technology transfer, some firms are expanding to take on new roles, integrating new activities into their enterprises and some rather outsourcing certain activities to outside specialists (Czarnitzki & Spielkamp, 2000). As far as internal audit profession is concerned, internal auditors indirectly do help increase the firm’s financial performance i.e. improving the existing business
operations through their valuable recommendations on the crucial areas which involve high risk. Financial and non-financial performances are main indicators of corporate achievement in which is it subjected to various attributes. According to Kassim (2011)[53], significant increase in consumer demand, overall economic growth and recession, product design, marketing strategies, effectiveness of the management team, fraud, governance policy and ERM are examples of attributes that could affect a firm’s financial performance. Furthermore, it was highlighted in the limitation of the study of Kassim (2011) that the dependent variables were limited to purely financial measures; no significant result was found when using the financial measures proxies. Therefore, Kassim has suggested future research should probably consider non-financial measures such as quality of governance and board effectiveness and other measures with respect to the long-term survival of an organization. According to Ittner, Larcker and Landall (2003)[52], they found consistent evidence that firms make more extensive use of a broad set of financial and (particularly) non-financial measures than firms with similar strategies or value drivers that have higher measurement system satisfaction and stock market returns.

In addition, the performance measures suggested by Ittner and Larcker (2000) earlier such as improving the productivity levels (for example, employees’ job descriptions and required output or production), increasing the sales revenues and decreasing the transaction costs could be part of the internal audit contributions in respect of consulting activities within an organization. They mentioned that employee relations (in this case, it is part of productivity levels) is a significant proportion of a company’s value which leads to a firm’s success in performance. According to them also, improving the customer satisfaction programs and increasing the loyalty of existing customers and attracting new customers are the drivers of success in many industries. Thus, it is believed that internal auditors are able to perform their consulting role in those areas provided they have the expertise to influence the firm’s performance to a greater success. Notwithstanding, financial measures of a firm’s performance have been widely used in prior studies. Some of the examples like Kassim (2011), Klapper and Love (2003)[54] and Lin, Wu, Pennm and Terrell (2005)[59] in which case they have used return on assets (ROA) and return on equity (ROE) as proxies to the financial measures of firm’s success rate. In respect of the consulting role of internal auditors, it is believed that they could contribute to influence the firm’s financial performance across the years with strong supports from the management and board/audit committee. As a result, it gives some impact on the new role internal auditors to act as consultants provided they have broad and specialized knowledge about the business operations. The consulting role of internal auditors becomes vital especially in the high-risk conditions of high growth opportunities as well as the firm’s performance.

Based on the previous discussion, the fourth and fifth hypotheses are then developed to answer the fourth and fifth research questions respectively as follows:

H4: There is a positive relationship between internal auditors’ assessment of their contribution to consulting activities and firm’s growth opportunities.

H5: There is a positive relationship between internal auditors’ assessment of their contribution to consulting activities and firm’s performance.

3.4 Conceptual Framework Development

In this section, the study posits the conceptual framework that comprises two (2) models adapted from Mat Zain’s (2005) conceptual model. As depicted in Fig 3, Model 1 focuses on the relationships between two (2) sets of independent variables, namely intentions/ambitions of IAD and expectations of board and audit committee and the dependent variable, namely internal auditors’ assessment of the contribution to consulting activities. It also includes a moderating effect (Baron & Kenny, 1986) of expertise, skills and competencies of internal audit on the relationship between intentions/ambitions of IAD and expectations of board and audit committee and the internal auditors who perform such role (internal auditors’ assessment of the contribution to consulting activities). Model 2 sequentially explores the relationships between internal auditors’ assessment of the contribution to consulting activities and a firm’s growth opportunities as well as a firm’s performance. On top of that, those hypotheses (including the detailed hypotheses) are developed based upon the design of the theoretical framework. In summary, the hypotheses are tested so as to answer the research questions in which to examine the factors influencing the consulting role of internal auditors in Malaysia and to investigate the impact of such contribution to consulting activities on a firm’s growth opportunities and a firm’s performance. Those variables in the framework are thoroughly explained by the underlying theory which is stewardship theory. The theory explains that internal auditors (associated with their skills and expertise) are motivated to perform internal audit consulting as part of their value-added function and the level of attachment to the corporation makes them feel associated (also gained from the trust and expectations of the board and audit committee) to the corporate success and motivated to achieve the congruent goals such as the firm’s growth opportunities and performance (Donaldson & Davis, 1991).
Fig 3: Conceptual Framework - Firm’s Growth Opportunities, Firm’s Performance, Consulting Activities and Influencing Variables
4. DISCUSSIONS AND CONCLUSIONS

This paper contributes to the literature by providing and developing a specific and structured research model. It explains the development of hypotheses based on the literature and findings of exploratory interviews. It presents a detailed review of the variables influencing the internal audit consulting in which it gives an impact on the firm’s growth opportunities as well as the performance. The theoretical linkages between each relationship in the framework of this study are then developed based on the literature and findings of exploratory interviews. We investigated an unexplored area of the consulting role of internal auditors, and opened several interesting avenues for future research. The findings of exploratory interviews 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. The study also provide some major feedback pertaining to factors influencing the consulting role of internal auditors and the impact on the firm’s growth opportunities and performance. All five (5) exploratory study respondents agreed upon a few important factors (supported by previous literature) such as request from management, relevant skills to perform consulting, management support and collaborations, sharing of knowledge and ideas, valued as “business partner” or business consultant and catalyst (pro-active IAF), pressure “to do more with less” and the IAD as training ground for future managers who can contribute to the consulting role of IA within the organization. The expectations from the audit committee and senior management were found to be significantly different ranging from assurance to consulting as perceived by all the respondents. This is consistent with several studies conducted by IIARF (2003) and Sarens and De Beelde (2004, 2006a, 2006b). Nevertheless, they also felt that due to certain circumstances, the expectations from the audit committee and senior management could be similar as there are certain attributes causing the phenomenon, for instance, no risk management framework in place, weak control system and weak control environment within the organization. Besides, the study has found some attributes such as maturity of governance and control and environment of organization that may reduce the expectation gap between management and audit committee (as well supported by Sarens et al. (2009)). They would seek IA’s help via advice and facilitation to establish a proper internal control framework. Seniority in IA has also been pointed out in the study. The more senior the internal auditors, the more experience they accumulate in IA environment. This allows them to go for consulting to give an expert advice for critical areas. This notion is consistent with Sarens et al. (2011)’s work as that not only IAFs with longer history would have a more diversified IA agenda, but also the older IAFs perform more commonly advanced IA activities. With younger IAFs, the agenda is often limited to the more traditional IA activities (i.e. assurance work). 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 et al. (2009), Hutchinson and Mat Zain (2009), White (2007)[107] and CBOK 2010 study (IIARF, 2010a,b, 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 audit committee.

IA’s educational, certification and prior experience are considered as hard skills required by each auditor and these skills become proxy for IA quality (Hutchinson & Mat Zain, 2009)[42]. 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 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 et al. (2010) and Soh and Martinov-Bennie (2011) emphasized that the critical skill of internal auditors is that when they are able to speak up particularly in controversial situations. Therefore, in this study, we hypothesized IA’s skills and competencies as a moderating variable that can improve the relationship between influencing factors and the consulting role of internal auditors.

As suggested by Sarens et al. (2004, 2006a,b), this study confirms that management and the audit committee’s support and collaborations is one of the fundamentals for internal auditors to carry out and complete their consulting assignments successfully. In addition, their clients’ cooperation is highly needed as perceived by internal auditors. In addition, through their support and collaborations, bosses would always encourage internal auditors to get involved in more business improvement activities particularly in helping improve the control system within the business operations. As perceived by all
respondents in this study, internal auditors’ advice and recommendations during consultations are well appreciated by management and the audit committee and this has become a part of their added value to business. Apart from this, in line with the arguments of Selim et al. (2003) the view that “IA is considered as a training ground for future managers” is fully supported by all respondents whether it is via the rotation program or through the secondment of staff from other departments within the organization. In a similar environment, Burton et al. (2012) found that experienced auditors have a higher interest to apply for an internal audit position when the position advertises a short “pinch” in IA and next promoting to management positions and work mostly related to consulting services instead of assurance services. Conclusively, the business can get the added value through consulting role of internal auditors in today’s economic environment. Thus, we hypothesized two main factors (i.e. “intention or ambition of IAD” and “expectations of board and audit committee”) have strong relationships with the consulting role of auditors and might give some impacts on the firm’s growth opportunities and performance as illustrated in the theoretical framework (Fig 3).

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 five companies that could be considered as representatives of Malaysia’s large organizations which have both audit committee 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 views expressed by internal auditors on the value added consulting services and the views of IA customers receiving such services.

We conclude that the IADs of several companies in Malaysia have provided consulting activities based on requests from management and the audit committee apart from their assurance role. 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, there was no issue perceived by the CAEs in respect to 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 the audit committee, to have an expertise and appropriate needs when conducting a consulting engagement. The perceptions of internal auditors of factors influencing their role as consultants were gained based on their past and current working experiences and/or opinions on IA consulting matters.

All of this exploratory evidence supported by the literature finally contributes to develop the specific and structured research model as shown in the theoretical framework supported by underlying theory i.e. Stewardship theory. In a nutshell, using a stewardship theory perspective, IA would support the board and senior management team through a 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. Furthermore, internal auditors are highly motivated and expected to utilize their expertise in assisting the organization to grow and perform. Moreover, the development of hypotheses in this study based on the findings of exploratory interviews and previous literature is to help develop a survey instrument (Bryman & Bell, 2007)[18]; Arena & Azzone, 2007[6]; Oppenheim, 1992)[78] as no instrument for a survey research on consulting activities (within IA) has yet to be established.

5. REFERENCES


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Notes
1 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.

2 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.

APPENDIX 1
An Examination of the Factors Influencing Consulting Role of Internal Auditors
Exploratory (Semi-Structured) Interviews

Subject: Head of Internal Audit Department of large organization

Questionnaire Format:
Section A: Demographic and General Information
Section B: Specific Issues on Consulting Activity

Organisation: ___________________________
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

Name of organization: ___________________________
Type of organization: Finance/Banking or Retail or Manufacturing or Service or Others (Please bold, the answer)
Your present position: ___________________________
Number of years you have been:
   a) With this organization ______________
   b) An internal auditor ______________
Your professional designations (e.g. MICPA, CIA, CPA, MIA, ACCA etc.) ___________________________
Internal audit size (total number of auditors in your organization) ______________
When is the IA established in your organization? Age of IAF: ______________
Number of employees in your organization (optional): ______________
Who does CAE report to? Functionally? ______________; Administratively? ______________

Section B: Specific Issues on Consulting Activity

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) 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? Any statement(s) referring to the aspect of consulting engagement? Provide examples.
4) To perform any consulting activity, will it be the demand from AC or senior management or middle (operational)/auditee management level?
5) Besides the list of consulting assignments provided below (see question 13), are there any other consulting assignments performed in your organization?
6) Based on your experience or opinion, besides AC, SM & MM, are there any other parties interested in requesting consulting engagement?
7) Do you perceive performing consulting activities may impair internal auditors’ independence and objectivity? Why or why not?
8) If consulting activity to be performed in your organization, any applicable techniques used? Provide examples.
9) By right, the expectations from AC and SM are significantly different but in certain circumstances, there are similar expectations from AC and SM which they are more concerned on consulting activities rather than assurance services, therefore what factor(s) cause this phenomenon?
10) Do you think that internal auditors must have sufficient knowledge, experience and technical expertise to perform consulting activities? Are Soft skills needed? Provide examples.
11) Do you think that management support and collaboration influence consulting role of internal auditors? In terms of acceptance and appreciation of advice and recommendations? In terms of allocation of human and material resources?
12) Do you think that internal audit is an important strategic function in terms of providing a training ground for future managers? Any establishment of rotation program?

Should you have any provision for emerging issues, please include in the box below.
13) From the list of consulting assignments below, please tick whichever applicable (based on your experience or opinion) Indicators: AC = Audit Committee; SM = Senior Management (CEO/CFO/CRO); MM = middle (operational)/auditee management level.

<table>
<thead>
<tr>
<th>Consulting assignments</th>
<th>Requested by</th>
</tr>
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<tbody>
<tr>
<td><strong>Due Diligence (in support of management’s evaluation of acquisition candidate)</strong></td>
<td>AC</td>
</tr>
<tr>
<td>• Design evaluation checklist that can be used by other functions in evaluating acquisition candidate.</td>
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<tr>
<td>• Facilitate management discussions regarding potential acquisition candidate evaluation criteria.</td>
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<tr>
<td><strong>System Development (during and after significant system conversion project)</strong></td>
<td>AC</td>
</tr>
<tr>
<td>• Facilitate process of defining system user requirements.</td>
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<tr>
<td>• Advise on system development best practices – documentation standards, tools, &amp; test strategies.</td>
<td></td>
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<tr>
<td>• Train users on their system development roles and responsibilities.</td>
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<tr>
<td><strong>Process Reengineering (during and after process reengineering project)</strong></td>
<td>AC</td>
</tr>
<tr>
<td>• Advise on how to conduct an effective and efficient process reengineering project.</td>
<td></td>
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<tr>
<td>• Train key individuals involved in the project – steps to perform, analysis techniques, &amp; documentation requirements.</td>
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<tr>
<td>• Advise on specific procedures that will enhance design of the process.</td>
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<tr>
<td><strong>Risk Management (support of organization’s risk management program)</strong></td>
<td>AC</td>
</tr>
<tr>
<td>• Facilitate the annual risk assessment process.</td>
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<tr>
<td>• Facilitate management’s control self-assessment (e.g. guided risk and control self-assessment exercises by organizing workshops)</td>
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<tr>
<td>• Advise on different strategies that may be used to manage key risk.</td>
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<tr>
<td>• Advise on control design.</td>
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<tr>
<td>• Train risk owners on their risk management responsibilities.</td>
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<tr>
<td>• Benchmarking internal areas (educational/training in nature) with comparable areas of other, similar organizations to identify best practices.</td>
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<tr>
<td>• Advise management – steps necessary to initiate and enterprise-wide risk management program (ERM).</td>
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<tr>
<td>• Relevant training given to SM, the board as well as AC on COSO ERM and related guidance (must be clear on IA roles on ERM related activities).</td>
<td></td>
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<tr>
<td>• Act as a liaison (facilitative in nature) between management and independent outside auditors, government agencies, vendors, and contractors on control issues.</td>
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<tr>
<td><strong>Implementation of ERP system, new software, new accounting standards (IAS/IFRS)</strong></td>
<td>AC</td>
</tr>
<tr>
<td>• Advise management through participation in working groups.</td>
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<tr>
<td><strong>Integration process after merger or acquisition (M&amp;As)</strong></td>
<td>AC</td>
</tr>
<tr>
<td>• Advise on the adoption of group procedures or best practices.</td>
<td></td>
</tr>
<tr>
<td><strong>Strategy development of M&amp;As</strong></td>
<td>AC</td>
</tr>
<tr>
<td>• Advise on systems and processes that could reduce acquisition risk.</td>
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<tr>
<td><strong>High-risk projects such as Information systems development</strong></td>
<td>AC</td>
</tr>
<tr>
<td>• Advise on the model design and implementation of MIS.</td>
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<tr>
<td><strong>Project Management</strong></td>
<td>AC</td>
</tr>
<tr>
<td>• Post mortem analysis (educational/training in nature) to determine</td>
<td></td>
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</tbody>
</table>
- Advise management and AC as well as board on newly released authoritative guidance (e.g. IPPF etc)
- Participate in internal corporate governance processes such as internal control and ERM.
- Participate in external corporate governance process which includes (1) assist the board & AC in their oversight function, (2) cooperate with external auditors in their integrated reports on audits of ICFR & financial statements, and (3) participate in environmental audits and preparation of corporate governance & sustainability reports.