

## **Perceptions of Singaporean Internal Audit Customers Regarding the Role and Effectiveness of Internal Audit**

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### **Abstract**

In recent times, the “dominant paradigm” of internal auditing as attest function has been largely supplanted by the “business partner” model. We interview a purposeful sample of Singaporean senior, middle and junior managers to assess their perceptions about both the role and effectiveness of internal audit. We utilized structured interviews with 83 Singaporean senior, middle and junior managers who are internal audit customers from 25 organizations. Unlike in Saudi Arabia (Al-Twaijry et al., 2003), the traditional attest function of classical internal auditing seems to have been largely supplanted as the dominant paradigm for internal auditing in Singapore. In addition, our results suggest that both Singaporean senior and junior managers appreciate internal auditors that serve in the business partner role. By contrast, mid-level managers often regard internal auditing activities negatively and in terms of “watchdog” activities. This paper further expands and develops the literature on the role and effectiveness of internal auditing from the perspective of internal audit customers. Senior, middle and junior managers are important groups of customers. Our theoretical framework utilizing Marxist

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economic theory is a first in the IA literature. We also present a research agenda for further work with implications for developing country researchers.

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## 1. Introduction

Contemporary professional practice of internal auditing (IA) was born around 1941. Two important landmarks that occurred during that year were the publication of the first internal auditing book, Victor Z. Brink's *Modern Internal Auditing* (Brink, 1988), and the creation of the Institute of Internal Auditors (IIA) (Gay & Simnett, 2007, p.687). Brink's book is still widely regarded as having made an important contribution to IA theory and practice. Since 1941 the IIA, for its part, has done much to enhance the professional stature of internal auditors, by undertaking the following actions and programmes: (a) approving and issuing a statement of responsibilities; (b) researching and developing a common body of knowledge; (c) setting up continuing education and professional certification programmes; (d) making and adopting standards for the professional practice of IA; and (e) establishing a code of ethics.

In terms of IA theory, Al-Twaijry *et al.* (2003, p.507) maintain that there are two main benefits in having an internal audit department (IAD). The first arises from the conventional audit of financial systems and controls. This has "a primary focus on the prevention and detection of irregularities, whether they arise from mistakes or fraud, and the safeguarding of the assets of an organization" (Al-Twaijry *et al.*, 2003, p.507). The second is "operational" (also known as "performance") audit, "which concerns the economy, the efficiency and the effectiveness of various aspects of the organisation. Its scope can be wide ranging, but its chief purpose is to enhance the overall economy, efficiency and effectiveness of the organisation by adding value to its operational performance" (Al-Twaijry *et al.*, 2003, p.507).

The critical importance and relevance of IA to business, as well as the *raison d'être* for the establishment of the IIA in the USA, can best be gauged from the following comments made by one of the IIA's charter members: "Necessity created internal auditing and is making it an integral part of modern business. No large business can escape it. If they haven't got it now, they will have to have it sooner or later, and, if events keep developing as they do at present, they will have to have it sooner" (Arthur E. Hald, 1994, cited in Flesher, 1996, p.1, 3).

A major survey was undertaken by the IIA in 1999 and published as the globalized Competency Framework for Internal Auditing (CFIA) (Birkett *et al.*, 1999a, 1999b). This survey found that a fairly traditional role for IA was common at this time, with the major tasks of IA perceived to be computer and financial audit, internal control reviews, fraud detection, and operational audit. Operational audit was identified as a significant potential growth area. Potential growth areas identified by survey respondents focused on the value-adding business partner role and, in particular, the internal auditor's potential role in risk management and corporate governance (Birkett *et al.*, 1999b, p.24-25; Christopher *et al.*, 2007; Gay & Simnett, 2007, p.695).

The purpose of this paper is to examine the perceptions that Singaporean senior, middle and junior managers, as important customers of internal audit services, presently have about the role and effectiveness of IA in Singapore. Our study is the first to apply Marxist economic theory to the area of IA, and in so doing we extend Robert Bryer's important applications of Marxist economic theory to financial accounting, management accounting, and accounting regulation (see, for example, Bryer, 1999, 2006). The Marxist perspective is especially relevant for developing countries where competent IA services have the ability to improve the rate of return on capital of business enterprises, thus, contributing to the achievement of socially desirable goals such as reduced corruption, poverty alleviation, and maximum employment levels. With its narrow agency theory focus, which relies on the primacy of self-interested behaviour, much Western IA research has failed to emphasize sufficiently the flow-on benefits of competent IA that extend far beyond one individual enterprise's short-term bottom-line. Many of these benefits can be viewed as being social and not merely economic in nature. We predict that, due to the Western-styled corporate sector and the size and age of the external auditing profession in Singapore (Saudagaran & Diga, 1997; Saudagaran, 2004), that Singaporean customers of IA services view IA primarily as value-adding business partners. The results of our 83 structured interviews with Singaporean managers from 25 organizations are consistent with this prediction. When IA is viewed primarily as value-adding, its primary goal is not fraud detection and integrity of the financial records but *directly* increasing the rate of return on capital through sound advice. This has desirable social consequences such as the ability to drive increased employment and wage levels that are crucial from the Marxist perspective. Generally speaking we find that senior managers of Singaporean organizations are satisfied with the standard of IA and IA reporting within their organizations. By contrast, junior and middle managers view IA activities much more negatively. This is most likely because they are pressured to conform to requests for information and directions from the IA and from senior managers acting in response to IA

results but have little input into how IA is conducted or how IA recommendations are implemented. Clearly an empowerment issue is involved here. Senior managers need to involve middle and junior managers more closely in IA work so that they feel some degree of ownership of the IA process and, in particular, can see the purpose and ultimate ends of information requested and recommendations provided. The value-adding approach should allow for this to some extent. Our focus on Singapore may provide a model for developing countries to follow as Singapore has reached developed nation status and has one of the world's highest GDPs per capita (USD48,400 on Purchasing Power Parity terms, eighth in the world; Indexmundi.com, 2009). This outcome has been achieved through sustained focus over the past 40 years on the upgrading of its economy, improvements in the efficiency of its businesses, and the skilling and education of its workforce.<sup>1</sup>

The remainder of the paper is structured as follows. Section 2 provides an overview of the development and objectives of an IA. It concludes with the development of the study's Research Proposition. Section 3 presents a description of the study's research methodology. We present and discuss the results of our interviews in Section 4. We first discuss the perceptions of the interviewed Singaporean managers (in aggregate) regarding the role of IA today, as well as its relative effectiveness. In the second part of Section 4 we discuss to what extent the four groups of interviewees – that we classify as either directors, financial controllers, mid-level managers, or general executives (working under mid-level managers) – agree or otherwise with further statements about the role and effectiveness of IA. Section 5 concludes the paper.

## **2. Literature Review**

### ***2.1. Historical Background of Internal Audit***

Our focus is the internal audit, which began in the USA in the 1940s as an intra-organizational professional tool. Serious problems concerning organizational control and supervision, as well as the rapid growth of the public sector, resulted in the demand for independent internal testing and evaluation systems that could assist senior management in both achieving efficiency and protecting assets. The field's pioneers soon found themselves implementing and conducting intra-organizational activities, which had not existed previously in any form. The new task rapidly became "institutionalized", and around 1941 was dubbed "internal audit". The

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<sup>1</sup> Whilst in conference in Romania in 2008, the third-mentioned author had a conversation with a leading Hungarian accounting professor who suggested that his country could learn much from the Singapore experience.

IIA defines an internal audit as “an independent activity which is established as a service inside an organisation, it examines and evaluates the suitability and effectiveness of other controls” (cited in Friedberg *et al.*, 1995, p.15). This statement reflects the modern day de-emphasis of accounting and financial matters and the modern objective of IA being to add value (Carey *et al.*, 2006, p.12) for shareholders/stakeholders.

IA is a check on the adequacy and effectiveness of the organization's other controls. IAs are appointed by senior management and report to senior management. Typically, a large organization will have an IAD that periodically examines the functioning of all of the organization's operating units. The IAD head usually reports to the Senior Vice-President of Finance or to the CEO and also to the board of directors. Many boards now have audit committees that work with the head of IAD. Classical IA, with its focus on accounting and financial performance, has been gradually expanded to include more and more operating aspects of the organization, thus, evolving into modern IA or operational auditing.

The aim of operational auditing is to improve organizational efficiency and effectiveness through constructive criticism. The concept of constructive criticism ties in very well with the traditional Marxist values of growth and improvement through criticism and self-criticism propounded by twentieth-century Marxist scholars such as Louis Althusser (2008, p.49). The last leader of the former Soviet Union, Mikhail S. Gorbachev, famously instituted his large-scale reforms of “*glasnost*” (openness) and “*perestroika*” (restructuring) in the late-1980s (see, for example, Gorbachev, 1987, 1996). He believed that it was possible to introduce Western cost-accounting, management, and technology, into his country whilst retaining a key role for the Communist Party of the Soviet Union (CPSU) as the guardian of socialist values. The concepts of *glasnost* and *perestroika* suggest a major role for IA in both private and public-sector organizations. The four main practical elements of operational auditing are: (a) verification of written records; (b) analysis of policy; (c) evaluation of the logic and completeness of the procedures, internal services, and staffing to ensure that they are efficient and appropriate for the organization's policies; and (d) reporting recommendations for improvements to senior management.

Although it is a clear departure from the IA's assumed role of exclusively serving the audit committee, Cosmas (1996) points out that modern marketing techniques have emerged to draw operating management into IA's “circle of customers”. A number of authors find that audit customers do not always appreciate the value of the IA function (Birkett *et al.*, 1999a, 1999b; Gay & Simnett, 2007, p.694). For example, Galloway (1995) points out that senior managers may restrict the IAD's role to the evaluation of ICs over traditional areas such as accounting and finance. Furthermore, Mathews *et al.* (1995) note that an apparent lack of

understanding exists regarding the wide range of services that IA can provide. In their survey of Australian CEOs, these authors find that 41.8% of the respondents believe the IA function to simply be an independent appraisal of the IC system. Regarding information system audits, Hunton and Wright (1995) report general dissatisfaction with auditors' abilities to clearly communicate findings and recommendations, auditors' technical skills, and the perceived net benefit of implementing audit recommendations. Further to this, the May 1997 international edition of *Accountancy* (Anonymous, 1997) reports that a recent survey commissioned by the Chartered Institute of Public Finance and Accountancy (CIPFA) provides evidence of a thriving IA "expectations gap".

## **2.2. Theory Framework and Literature Review**

Before the 1950s, IA activities focused on financial audit; IADs were heavily involved in the review of financial statements. The IIA, in its Statement of Responsibilities of Internal Auditors, however, suggests a broad and all-encompassing role for IA:

The objective of internal auditing is to assist all members of management in the effective discharge of their responsibilities by furnishing them with analyses, appraisals, recommendations and pertinent comments concerning activities reviewed." Internal auditors are concerned with any phase of business activity in which they can be of service to senior management. This involves going beyond a study of the accounting and financial records to obtaining a fuller understanding of the operations under review.

However, because the objective of IA must be consistent with the function of IA, it must also involve ensuring and promoting the accountability of management. Although it is difficult to define "accountability" precisely, it involves the obligation or responsibility of management to take custody of and utilize the economic resources entrusted to them by beneficial owners, and report to these owners the results/position of custody and utilization. This is consistent with both the perspective of conventional agency theory (Jensen & Meckling, 1976; Watts, 1977; Watts & Zimmerman, 1986) and the perspective of Marxist economics (Bryer, 1999, 2006, p. 576-577; Carter & Tinker, 2006, p.526; James, 2008a). However, in most respects these two theoretical positions are different. Marx was a classical economist walking in the footsteps of David Ricardo and Adam Smith. By contrast, the agency theory and positive accounting theory rely upon neo-classical economics and the shareholder-wealth maximization theory. Most important to Marx's perspective is the "labour theory of value" where the value of "constant capital" or  $c$  (raw materials and depreciation of fixed assets) simply

transfers its value to finished products whereas “variable capital” or  $v$  (labour power) transfers its own value and creates excess value when combined with constant capital in the production process (Mandel, 1976, 1978; Marx, 1976, especially chaps. 7-10, p. 283-416 and “Appendix: Results of the Immediate Process of Production”, p.949-1084; Bryer, 1999, 2006; Tinker, 1999; James, 2008a, 2008b). Marx termed this excess value “surplus-value” or  $s$  and for him it is only derived from labour. As Marx (1976, p.316-317) writes:

We know however from what has gone before that the labour process may continue beyond the time necessary to reproduce and incorporate in the product a mere equivalent for the value of the labour power. For this, six hours alone would be sufficient: but the process lasts longer, say for twelve hours. The activity of labour-power, therefore, not only reproduces its own value, but produces value over and above this. This surplus-value is the difference between the value of the product and the value of the elements consumed in the formation of the product, in other words the means of production and the labour-power.

In equation form, the application of Marx’s labour theory of value gives us: rate of profit ( $\bar{n}$ ) =  $s/C$  (where  $C$  = total capital invested in production) or  $p = s/(c + v)$  (Marx, 1976, p.442, translator’s footnote to 1976 Penguin Classics edition; Marx, 1981, p.141, 355). In addition, the rate of surplus-value or the rate of exploitation is:  $s/v$  (Marx, 1976, p.326-327) where  $v$  is measured in terms of normal labour hours and actual wages fluctuate around  $v$ . In contrast to Marx, the agency theory and Modern Finance Theory either state or imply that capital (money invested for the purposes of making a profit) can create new value *by and of itself* with labour simply another cost to be minimized.

According to Marxist economic theory, senior management are accountable to “social capital” (investors) for the *rate of return on capital employed* (which, in Marx’s words, is the “rate of profit”; Marx, 1981, p.117-140,254-301,317-375; Bryer, 2006, p.567). Therefore, to discharge this accountability, senior management is required to report this rate of return periodically to social capital. Bryer (1999, 2006) regards accounting as the primary mechanism of control over the labour process within contemporary capitalism. As Bryer (2006, p.565-566,576-577) further explains, senior managers within capitalism are accountable to social capital for the rate of return on capital employed for the organization taken as a whole. Middle managers, in their turn, are accountable to senior managers for the rate of return on capital employed within their own divisions. For labour process theorists, IA is an integral part of the labour control process by which modern managers discharge their accountability to social capital. Classical IA assists in the timely and accurate reporting of the rate of return on

capital, and may prevent reductions in that rate or even wasting of capital when it is used for fraud and corruption detection and the protection of assets. By contrast, modern operational auditing aims *directly* to increase the rate of return on capital as its primary objective, i.e. it aims to be value-adding. When examined from the perspective of Marxist economics, by focusing on improving the rate of return on capital, IA aims to correct situations where capital is earning less than a minimum acceptable rate of return. From the Marxist viewpoint, such capital is described as wasting or de-valuing since it is unable to support existing productive facilities and employment levels. Frequently in developing countries we see wasting and devaluing of capital due to inefficiencies, fraud, corruption and the protection of favoured relationships. The following quotes from Marx's (1978) *Capital Volume 2* give some indication of how he thought capital could waste or devalue (and clearly this is not meant to be an exhaustive list). The first quote refers to capital in the commodities phase of Marx's "circuit of industrial capital" and the second to the process of conversion of commodity capital into money capital:

If they [commodities] do not enter into productive or individual consumption within a certain interval of time, according to their particular characteristics, in other words if they are not sold within a definite time, then they get spoiled, and lose, together with their use-value, the property of being bearers of exchange-value. Both the capital value contained in them and the surplus-value added to it are lost (Marx, 1978, p.205-206).

Every crisis temporarily decreases luxury consumption; it delays and slows down the re-transformation of (I**b**)<sub>v</sub> into money capital, so that only a partial transformation is possible and a section of the luxury [goods] workers are thrown onto the streets (Marx, 1978, p.486).

In *Capital Volume 3*, a longer section on p. 353-362 describes competitive processes in an industry that has begun to experience overproduction and crisis. The net result is the wasting and devaluation of part or all of the capital of some businesses in the industry due to competitive pressures that may reveal inefficiencies. Physical productive facilities that were purchased with now devalued financial capital also lose their ability to function as productive assets and lay dormant. Marx (1981, p.361-362) explains that whose capital experiences devaluation is explained by competitive pressures as each industry player attempts to survive the crisis individually. In Marx's (1981, p.362) words:

Under all circumstances, however, the [industry] balance will be restored by capital's lying idle or even by its destruction, to a greater



or lesser extent. This will also extend in part to the material substance of capital; i.e. part of the means of production, fixed and circulating capital, will not function and operate as capital, and a part of the productive effort that was begun will come to a halt. Even though, as far as this aspect goes, time affects and damages all means of production (except the land), what we have here is a far more intense actual destruction of means of production as the result of a stagnation in their function.

IA can assist a firm to improve its efficiencies and devote its operations to areas of high consumer demand both before (the ideal situation) and during an industry crisis. This can ensure that its capital experiences as small a wastage and devaluation as is possible under the circumstances. Based on the above, a Marxist definition of IA might be as follows: “An independent assurance activity designed to protect the integrity of and contribute to the expansion of the circuit of industrial capital so that the surplus-value in products might be fully realized through their sale and that capital might not waste”.<sup>2</sup>

IA, especially if undertaken by workers on behalf of the working-class is consistent with the traditional Marxist emphasis on improvement through criticism and self-criticism (Althusser, 2008, p.49) and the unhindered development of the productive forces. IIA Standard 2000 (cited in Gay & Simnett, 2007, p.691) specifically requires the IAD head to “manage the department to ensure that it adds value to the organization”. From the Marxist perspective this is defined as ensuring that capital earns the minimum acceptable rate of return on each part invested and, hence, does not waste (Marx, 1978, 1981). The present paper is the first in the accounting literature that we are aware of to apply a Marxist economic framework to the IA area. Therefore, we extend Robert Bryer’s important work on the implications of Marxist economic theory for financial and management accounting and for financial accounting regulation and accounting standards. A Marxist perspective is especially timely in this era of global financial crisis when we have seen companies that do not produce real products (that involve the use of productive labour in a production process) suffer the largest declines in share-market values.

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<sup>2</sup> Marx clearly had, in modern parlance, an “income-statement” rather than a “balance-sheet” view of the world. In this respect his position was very similar to the famous twentieth-century American accounting theorists Paton and Littleton. In fact, as Bryer (2007) carefully documents, Paton and Littleton went extremely close to accepting a labour theory of value. However, they did not take that final step towards explicit commitment to such a theory because they did not want their views to be associated with socialism and the workers’ movement.

The 1990s and 2000s have seen a significant need for the provision of IA services in the UK and in other Western countries. In the Cadbury Report, Sir Adrian Cadbury highlighted the critical nature of ICs and asserted that failures of listed companies in the past have nearly all involved failures of ICs (Ernst & Young, 1995). The principal mechanism used by boards to monitor the quality of IC is the IA function (Birkett *et al.*, 1999b, p. 24-25). The Cadbury Report further suggests that it is good practice for companies to establish IA functions to undertake regular monitoring of key controls and procedures. A mid-1990s UK survey (Liu & Poi, 1993) shows that while there is some evidence of external providers (out-sourcing of IA), there is an increasing trend towards the use of in-house departments (89%). In addition, an independent survey commissioned by the UK office of Ernst & Young (1995) revealed that in 1995, 61% of surveyed organizations had an IAD. Of the remainder, one in five asserted that they intended to establish an IAD in the near future. Furthermore, three in ten of these organizations believed that the contribution of the Cadbury Code and the expectations of non-executive directors made it more likely that they would establish an IAD in the near future.

In Australia, Carey *et al.* (2006) report that 45.5 per cent (45/99) of their surveyed ASX-listed companies utilizing IA services outsourced some or all of the IA function. A total of 60 per cent of outsourcers did not have an in-house IAD prior to outsourcing and 75 per cent of outsourcing firms outsourced to their external auditor, which may have significant ramifications for external auditor role definition and independence at these firms. Gay and Simnett (2007, p.694) have expressed similar concerns regarding lack of external auditor independence when such outsourcing occurs. Carey *et al.* (2006) find that the choice to outsource (dependent variable in their logistic regression) is positively associated with both the perceived cost of the external provider and the perceived technical competence of the external provider. By contrast, the outsourcing choice is not significantly associated with either firm size or a corporate strategy to outsource non-core activities. However, consistent with our own expectations, these authors find that operational auditing, where specialized knowledge of the company is important, is the least likely IA function to be outsourced. We concur with Carey *et al.*'s (2006, p.28) closing comment that widespread outsourcing of IA to the external auditor in Australia may be the "result of clever marketing strategies by [these same] external auditors".

There is a widespread view in Western auditing circles that IA is an "independent appraisal" function. To achieve the assumed objective of IA, we must satisfy three basic conditions – independence; organizational status; and objectivity.

IA independence is an essential component of corporate governance (Al-Twaijry *et al.*, 2003, p.517; Christopher *et al.*, 2007; Gay & Simnett, 2007, p.690). Without independence, the IAD simply becomes a part of the management team, losing its ability to offer a fresh perspective. Although total independence is not an attainable goal, since obviously employees are employees and not outsiders (Gay & Simnett, 2007, p.687, 690), practical independence is possible and essential (Christopher *et al.*, 2007). This independence is derived from two characteristics – organizational status and objectivity (see below). Hawkes and Adams (1995) find that audit customers feel that IA is enhanced when auditors and audit customers establish close relationships based on a cooperative and participative approach, as opposed to an independent and prescriptive appraisal approach. These findings indicate that, although audit customers realize the importance of auditor independence, they feel that it may be overemphasized. In contrast to external auditors, IA independence must exist more in fact than appearance.

As suggested in the IIA's Statement of Responsibilities, the organizational status of the IA function, and the support accorded to it by senior management, are major determinants of its range and value (Al-Twaijry *et al.*, 2003, p.521, 528). The IAD head, therefore, should be responsible to an officer whose authority is sufficient to assure both a broad range of audit coverage and the adequate consideration of, and effective action, on the audit findings and recommendations (Gay & Simnett, 2007, p.687, 690). IADs should report to an organizational level above the level(s) audited.

The IIA's Statement deals with objectivity as follows:

Objectivity is essential to the audit function. Therefore, internal auditors should not develop and install procedures, prepare records, or engage in any other activity which they would normally review and appraise and which could reasonably be construed to compromise the independence of the internal auditor (cited in Liu *et al.*, 1997).

External auditors will assess the ICs to determine whether they may rely on the controls and thereby reduce the number of substantive procedures to be carried out in the discharge of their statutory duties (Goodwin-Stewart & Kent, 2006, p.389, 391; Gay & Simnett, 2007). An IA function must be assessed by the external auditors in determining the degree of reliance that can be placed on the IA findings. Of course, if the IAD has already been outsourced to the external auditor, coordinating the distribution of work at the external auditor firm should be fairly straightforward. However, role definitions will blur and external auditor independence may be compromised.

The UK auditing standard relevant to internal audit is SAS 500 (see also IIA Standard 1110 on Organizational Status and IIA 1200 on Professional Proficiency and Due Professional Care), which sets out the

factors to be considered when assessing the level of reliance to place on internal audit. It specifically mentions the following matters:

- (a) *Organizational status*: To ensure objectivity, IAs must be as independent as possible; ideally they should report to the board of directors and/or the audit committee and should be free to report to the external auditor (Al-Twajjry *et al.*, 2003, p.518). External auditors need to take into account any constraints or restraints placed on the IAD that may result in adverse findings being suppressed.
- (b) *Scope of Function*: The external auditor should consider whether the IAD's recommendations have been implemented.
- (c) *Technical Competence*: External auditors need to be satisfied that the IAD comprises competent, experienced and appropriately qualified staff (Moeller & Witt, 1999). External auditors may wish to review the recruitment and training made available. Unqualified staff should be encouraged to take professional examinations and ongoing staff training should be in place (Ridley & Chambers, 1998). This factor is likely to be especially important in developing countries.
- (d) *Due Professional Care*: External auditors should assess whether IA work is properly planned, supervised, reviewed and documented.

In the case of Enron, there has been some discussion of IC procedures as they relate to transaction review requirements. The fact that Andersen performed IA work for Enron has led some to believe that, therefore, Andersen must have known what was going on inside Enron. The Enron event and the subsequent discussions in the financial press led to the ban under the Sarbanes-Oxley Act of 2002 on CPA firms performing IA services for a US-listed company whose financial statements they audit (Lander, 2004, p.75-84; Gay & Simnett, 2007, p.694). As Carey *et al.*'s (2006) findings clearly demonstrate a similar provision is not part of Australian law. However, we contend that IA work is significantly different *in its nature* from external audit work (Al-Twajjry *et al.*, 2003, p.523). Poor skills and a shortage of internal auditors, rather than a lack of independence, are the primary factors that cause external audit firms to do poor quality IA work.

Whilst external auditors often do evaluate ICs, what is not commonly emphasized is that this review is limited (Gay & Simnett, 2007). To the extent that a review of certain controls can further the external auditor's purposes, external auditors include such a review within the scope of their work. Two points are worth considering. First, in some cases an external auditor may find it more cost-beneficial to audit specific financial transactions and avoid reliance on controls. This is perfectly acceptable. Second, external auditors are primarily concerned with financial controls, which are only one of three important control areas, the others being operational and administrative controls. However, all control areas are

within the scope of work performed by IAs. Not only are the various types of controls different, the approach to auditing these controls differs as well. In general, the scope of an external audit is much more defined and closed-ended, whereas the scope of an IA is broader and more open-ended. While one can take the time and effort to develop the skills to perform both types of audits, competence in one does not always imply competence in the other.

Good IA staff will develop valuable working relationships with employees at all levels throughout the organization. If the IAs are on-site full time, these relationships grow stronger and employee concerns are likely to surface more readily and can be addressed in a more timely fashion. Not only are external auditors not generally on-site full time, the AICPA and similar codes of ethics (including APES 110 in Australia) preclude external auditors from serving in a management role at the client or acting in the capacity of an employee. As a result, a good in-house IAD is better able to identify issues and reallocate its resources throughout the year to those areas that present the greatest risk. Our maintained position, which Carey *et al.* (2006, p.16) claim has “less credence in recent years”, is that the specialized knowledge of an in-house IAD may mean that outsourcing this function is less desirable. This will be the case, especially if the outsourcing is to an external audit firm that lacks IA skills and experience. Significantly, Coram *et al.* (2006) provide Australian evidence consistent with the assertion that self-reporting of fraud occurs less often when the IA is outsourced than when there is an in-house IAD.

### **2.3. Research Proposition**

Al-Twaijry *et al.* (2003) find that the attest function of classical IA remains the dominant paradigm within which IA is conducted in Saudi Arabia. We predict that our sample of Singaporean senior, middle, and junior managers will perceive that the dominant paradigm for IA in Singapore is presently the business partner paradigm of modern IA. The reason for this is the presence of a more Western-styled corporate sector in Singapore compared to Saudi Arabia, and the presence of a larger and older external auditing profession in Singapore. As such, both those demanding and those supplying IA services in Singapore are likely to perceive the IAD's contemporary role as being akin to that of a business partner offering a value-adding service. CIFAR (1995, cited in Saudagaran, 2004, p.167) notes that Singapore ranks equal 5<sup>th</sup> among 21 countries for disclosures, with 79/100 average score, equal to Malaysia and South Africa, and above USA, Canada, Denmark, Norway, and Hong Kong. Craig and Diga (1998, p.264) report that in 1998 Singapore companies disclosed significantly more accounting information than Indonesian, Thai, and Filipino companies. Tower *et al.* (2003) find that IASB compliance is 90% or above in Australia,

Singapore, Thailand and Malaysia compared to 89% in Hong Kong and 88% in Philippines. Singapore has “largely or wholly” adopted IFRS as domestic accounting standards (Saudagaran & Diga, 1997, updated 2002, cited in Saudagaran, 2004, p.170) and Singapore has developed its own conceptual framework (Saudagaran, 2004, p.10-11). The Singapore conceptual framework cites “decision usefulness” as an important objective of accounting and maintains that the accounting profession plays an important role in the development of accounting standards and accounting practice (Saudagaran, 2004, p.11). In terms of auditors per 100,000 population, Singapore ranks 5<sup>th</sup> out of 19 developed nations with 273, which is ahead of both Ireland and the USA, which have 262 and 168, respectively (Saudagaran & Diga, 1997, cited in Saudagaran, 2004, p.172). All of this evidence is consistent with there being a large and strong independent auditing profession in Singapore. As many internal auditors have a background in external audit, Singaporean internal auditors’ skills and experiences are likely to be at such a level, both in terms of thinking strategically and technical skills, that they are able to function successfully in the business partner role. This has implications for their ability to add value to the Singaporean organizations in which they are housed. Competent internal and external auditors have doubtlessly contributed to the sustained economic growth, and high employment levels and living standards that Singapore has enjoyed in the past 40 years. As such, they have contributed to its reaching developed country status.

Singapore’s IA profession is also relatively well-established. The local chapter of the IIA was established in 1975 (versus 1977 for Malaysia and 1979 for Hong Kong).<sup>3</sup> Singapore is one of 28 non-US countries where CIA examinations are held, every May and November. There are 1,082 Singapore chapter members as at 31 August 2005 and 378 of these have CIA designation. Internal auditors, therefore, comprise 23.76 per 100,000 of population in Singapore and CIA holders comprise 8.3 per 100,000 population. The IIA chapter in Singapore seems to be reasonably well-established and, judging by their website, also proactive and forward-looking. In the IIA Singapore chapter *Electronic Newsletter* of February 2007, Ms. Debbie Goh (2007), head of IAD at Fraser & Neave Group in Singapore, makes the following statements as to how she perceives the present role and status of IA in Singapore. Her statements support the “value-adding” role of IA:

My view is that Internal Audit function in any organization can only be a *successful partnership with Management* if it gets an

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<sup>3</sup> Information in this paragraph was obtained from the main IIA website and from the various IIA chapter websites (of Hong Kong, Malaysia, and Singapore).

appropriate standing within the organization, ie, tone from the Top and support from the Audit Committee. In turn, as Internal Auditors, it is important for us to acquire business knowledge and understanding of the business environment that we audit, so as not to appear as “textbook auditors” (emphasis added).

This leads us to the following Research Proposition:

*P<sub>1</sub>: The customers of internal audit services in Singapore perceive the role of internal audit within their organization as primarily being that of a value-adding business partner that can assist in maximizing the rate of return on capital.*

### **3. Research Methodology**

Interviewees were selected from a sample of 25 organizations including banks, insurance companies, hotels, food retailers, financial institutions, government bodies, and petroleum companies. As larger companies are more likely to have an IA function, we included both listed and unlisted organizations but only those which headed groups of companies. A total of 25 organizations were selected from the above industries, including eight listed public companies. The aim of our structured interviews with internal audit customers from these 25 organizations was to find out how these individuals viewed the IA function. Managers were divided by the researchers into four generic categories, based on seniority, experience, and decision-making autonomy. We call these categories: directors, financial controllers, mid-level managers, and general executives (who work below the mid-level managers).

The first-mentioned author interviewed 83 Singaporean managers that are customers of internal audit at the 25 sample organizations. There were 18 interviews with directors, 22 with financial controllers, 20 with mid-level managers, and 23 with general executives. As in Al-Twajjry *et al.* (2003, p.515-516), initial points of contact within each organization who assisted in arranging other interviews were personal contacts of the first-mentioned Singapore-based author. Initial contacts were mostly financial controllers and general executives. Many of these were part-time students in the same accounting honours degree programme as the first-mentioned author in Singapore, in calendar year 2004. A second group of interviewees were contacts gained through the first-mentioned author’s past or current work duties (she has more than ten years of full-time working experience as an accountant in Singapore). A third group of interviewees were personal friends of the first-mentioned author. As a result, following Kim (2004, p.104; see also Patton, 1990, p.169; Facio, 1993, p.76), both the 25 organizations and the 83 interviewees in the present study can at best be viewed as “purposeful” or “convenience” (i.e. non-random) samples.

There were two parts to each structured interview. Items 1 to 3 in Part 1 asked the respondents some basic questions such as their positions in the organization; if they already had an IAD; etc. Items 4 to 13 were designed to gather information about the reporting responsibilities of the internal auditors, and the respondents' understanding and perception of the IA function in the organization. Items 14 and 15 looked at the link between the work of internal and external auditors. Because of the general nature of the questions about audit function in Part 1, we aggregated the responses across all four groups of interviewees. In Part 1, interviewees were asked to choose the "best response" or "most important criterion" out of four or five possible responses provided by the research team.

Part 2 asked specific questions on the professionalism and performance of the internal auditors and the resulting effect perceived by the interviewees. Interviewees were asked to indicate their answers on a 5-point Likert scale, with the extremes being "strongly agree" and "strongly disagree" with each of the individual statements presented by the research team. The Likert scale contained a "neutral" midpoint option, and "unable to comment" was also an available option for all of the questions. Items 1 to 6 were designed to gauge the interviewees' impressions of the internal auditors in terms of their knowledge, attitudes and recognition. Items 7 to 11 were designed to gauge perceptions regarding the effectiveness and efficiency of the internal auditors. The interviewees were asked whether they were satisfied with the results of the work performed by the internal auditors and if the recommendations given were reasonable. Results for Part 2 were analyzed across the four groups of interviewees to see if they differed in their viewpoints on specific issues.

#### **4. Results and Discussion**

A total of 83 per cent of interviewees have an IAD in their organization. This figure can be compared with the comparable percentages reported in two recent published Australian studies. Carey *et al.* (2006, p.19-20) report 18 per cent (54 out of 304) for ASX-listed companies responding to their survey, while Goodwin-Stewart and Kent (2006, p.395) report 33 per cent for their 401 respondent ASX-listed companies. The percentages are not strictly comparable with those in the present study due to the different populations and sampling methods used across the studies. In addition, because of the purposeful nature of this study's sampling method (in terms of organizations selected), it was expected that a high percentage of respondent organizations would have an IAD.

Of the interviewees in this study whose organization do not have an IAD (this may include outsourcers), more than 50 per cent of interviewees indicated that their organization does not intend to set up one in the near future. One of the reasons given why these organizations do not have an



IAD is the reliance on external auditors to detect deviations. The rationale behind this is the perception that external auditors are better, more efficient and save money in terms of the cost/benefit trade off (see also Carey *et al.* 2006). Our results also show (not reported) that the percentage of private companies having an IAD is lower than the percentage of listed companies. This is especially expected in the Singapore context where many of even the larger private companies are owned and managed by Chinese family groups (Chau & Gray, 2002; Ball *et al.*, 2003) where an IAD might be regarded as redundant, expensive, and intrusive.

The interview results show that in 60 per cent of the cases the IAD head reports to the audit committee. A further 20 per cent report to the CEO whilst others report to the financial controller or to another assigned director. Generally if there is no audit committee in an organization, the CEO performs or supervises all of the duties otherwise assigned to the audit committee. Under the Singaporean Companies Act Section 201B it is compulsory for all listed companies to set up an audit committee staffed mostly with non-executive directors.

The interview results show that organizations are most concerned with their “accounting/finance” function when it comes to conducting IA, followed by their “IT/ management information systems”. The area of least concern is the “marketing” function.

A total of 65 per cent of the interviewees believe that “having the ability to properly evaluate the IC system” is the most essential aspect for effective internal auditing (ahead of “auditor independence”, which received 19 per cent support). It is needless to say that the IC system, which can have an in-built IA function, can play a significant monitoring role in maintaining accountability in an organization. As a result, one of the key roles of an internal auditor has been the identification and evaluation of adequacy and effectiveness of ICs (Birkett *et al.*, 1999b; Gay & Simnett, 2007). At the same time, most interviewees (75 per cent) agree that, as a department, IAD is mainly involved with resolving problems and recommending improvements.

A total of 64 per cent of the interviewees agree that in analyzing the function of the IAD, the key area of concern for the audit committee should be reviewing and monitoring (senior and middle) management’s responsiveness to the findings and recommendations of the IAD. As management is responsible for the identification, assessment, management, and monitoring of risk, and also for development, operation and monitoring the IC system, it is their responsibility to assure the board that they have done so (Bryer, 1999, 2006). The audit committee should receive reports from the management on the effectiveness of the system that they have established and the results of any testing that has been carried out.

Of the interviewees 63 per cent think that proper identification of organizational risks and their appropriate management are the areas where

assurance from the IA function is most demanded by internal customers. We understand it is crucial to ensure in today's business environment that risk management is given due priority. This finding is consistent with the risk management "focus for the future" put forward by the survey respondents in the Birkett *et al.* (1999b) Australian study.

The majority of the interviewees (52 per cent) regard "the continuous review of the accounting system and IC" to be the main advantage of having an IA function. The existence of an IAD should assist the directors to discharge their responsibilities. In total 35 per cent (the next most popular response) think that the IA function "provides the organization with profit-enhancing recommendations". The interviewees selecting this alternative are probably thinking of the long-term benefits of having an IAD in sustaining organizational profitability and maximizing the rate of return on capital. This result suggests that the attest function still remains an important part of the IA service in the minds of Singaporean managers.

Opinions are divided on the next question. A good number of interviewees (45 per cent) regard "business planning and corporate governance" as more important for IA reviews, while others (28 per cent) select the "more traditional purposes such as accounts payable and payroll". It is widely accepted nowadays that external auditors take corporate governance into account when planning audits. Companies with more independent directors on the board and on the audit committee are considered to have lower audit risk. The 28 per cent selecting traditional functions is consistent with Birkett *et al.*'s (1999a) Australian survey results.

More than half of the interviewees (58 per cent) think that "interviewing staff and their management" is the "best" source of information to know how the system operates, followed by 22 per cent (the second most popular response), who think that "reviewing existing documents such as statutes, committee reports, policies and procedures" is the "best" way. In practice, internal auditors use both of these sources widely as complementary information sources.

Of the respondents 73 per cent believe that the most important criterion to evaluate the internal auditor's work should be the consistency of the internal audit report with the results of the work performed. Integrity, honesty, clarity, clear-thinking, and boldness seem to be valued most highly here, consistent with the socialist notions of criticism, self-criticism, and glasnost discussed previously.

The majority of interviewees (67 per cent) think that external auditors are likely to examine the "tests of the system" of accounting controls conducted by the IA. They test a sample of items checked by the internal auditors. If the results are the same as that of the internal audit, reliance can be placed on the IAD's work, resulting in the external auditor needing to examine fewer items (Goodwin-Stewart & Kent, 2006, Gay & Simnett, 2007). This saves external audit time and audit fees.

Most of the interviewees (80 per cent) are in agreement that “due professional care” is the most important aspect to consider while assessing/gaining understanding of an internal audit work by the external auditors. It was noted in Section 2 that external auditors should assess whether internal audit work was properly planned, reviewed, and documented. “Professional care” might seem to be a Western capitalist concept but this is not necessarily so if we express it in terms of efficiency, honesty, and competence.

The rest of this section discusses the second part of the questionnaire where responses are compared across the four groups of managers. Most financial controllers (67 per cent) and mid-level managers (64 per cent) “strongly agree” that internal auditors display sufficient background/knowledge about the activities they review. Similarly, 59 per cent of the directors and 53 per cent of the general executives express the same opinion. It is of utmost importance for the internal auditors to understand the business well enough to be able to look beyond the apparent facts, and *identify root causes* of problems.

Concerning the next question, there is no substantial difference between the four groups of interviewees, with an average percentage of 56 in agreement (“strong” and otherwise) that the internal auditor displayed technical proficiency whilst conducting the reviews.

The answers to this and the previous question suggest that internal auditors in Singapore competently and expertly deliver quality services, and so are more likely to be viewed as business partners with the proven ability to add value through sound advice. Other questions, to be discussed below, shed additional light on this study’s Research Proposition.

The majority of the interviewees either strongly or moderately agree that the information requested by the internal auditors was reasonable. However, 23 per cent of mid-level managers disagree (strongly or otherwise) with this statement. This is not surprising as mid-level managers are most affected when an internal review of procedures is undertaken by the IAD. With their hectic day-to-day management of the business operations, and various reporting responsibilities, internal audit places extra pressure on their time. They may well perceive that the auditors’ asking for various documentation and repeated quizzing on different procedures exceeds the necessary. There is an empowerment issue here and clearly senior managers must attempt to ensure that junior managers are educated on the overall benefits to the organization (and to its employed workers and to society) of having a pro-active and efficient IAD whilst also considering ways in which these junior managers can more actively participate in management and implementation. This may involve hearing their suggestions as to future tasks to be performed by the IAD and building more flexibility into how and when IAD recommendations are implemented in practice. Our result supports Hawkes and Adams (1995)

who find that audit customers feel that IA is enhanced when auditors and audit customers establish close relationships based on a cooperative and participative approach, as opposed to an independent and prescriptive appraisal approach.

Directors (55 per cent) and financial controllers (59 per cent) strongly agree that there was logical documentation of the internal auditor's opinions and conclusions. However, the results reveal that most of the general executives (62 per cent) and mid-level managers (45 per cent) are unable to comment on this statement. The most likely reason is that opinions and conclusions are not discussed with these two groups of respondents. Instead, they just receive directives from those above them in the hierarchy without necessarily knowing the originating point of those directives. It is questionable, therefore, whether managers at these levels can truly be called "customers" of IA services. Offering middle and junior managers greater access to IAD reports and documentation may assist them to develop a greater understanding of the role of the IAD and improve the perceptions that such managers have of IA services and activities.

The next question relates directly to the study's Research Proposition. Consistent with our Research Proposition, a large section of interviewees understand the role of internal auditors to be "business partners". In fact, financial controllers and directors record the highest percentages of 72 and 68, respectively, in strong agreement. Most general executives (65 per cent) also strongly agree with this statement. This finding goes against Al-Twajjry *et al.*'s (2003, p.524) result for Saudi Arabia, which indicates that the "dominant paradigm" in Saudi Arabia, regarding the role of IA, remains the traditional attest of financial records function. The different result in this paper is not surprising due to the more Western-styled corporate sector in Singapore, compared to Saudi Arabia, and the presence of a larger and older external audit profession in Singapore (Saudagaran & Diga 1997; Saudagaran 2004). However, only 44 per cent of the interviewed mid-level managers strongly support the statement. A possible reason could be that the nature of the audit function leads the mid-level managers to suspect that they are being watched or controlled by the internal auditors rather than there being a genuine partnership relationship. Some of this dissatisfaction could reflect a dislike by Production Managers of interference from Accounting (and similar) Departments as has been documented by Major and Hopper (2005). The support of general executives for the business partner role, even though they work *below* the mid-level managers, is somewhat surprising. This result could reflect their possibly younger average age meaning that they are more amenable to company education on the role of the IAD and are less confident of their own experience and job security (compared to the mid-level managers). As such they may be more willing to offer responses supporting the IAD and less willing to voice dissent compared to mid-level managers.

Empowerment remains an issue: clearly mid-level managers, and especially in technical and skilled businesses, will have much to offer the IAD in terms of their “hands-on” knowledge of practical business operations. However, clearly some of them are sceptical of the IAD’s ability to add value as they may feel that the IAD’s specialized knowledge of production issues is at a lower level than theirs. The English philosopher Bertrand Russell (1963, p.24, 28, 47), an anti-capitalist social-democrat rather than a Marxist or communist, had much to say about the question of empowerment in the workplace (and the lack thereof):

But above all we need a system which will destroy the tyranny of the employer, by making men [*sic*] at the same time secure against destitution and able to find scope for individual initiative in the control of the industry by which they live. The tyranny of the employer, which at present robs the greater part of most men’s lives of all liberty and all initiative, is unavoidable so long as the employer retains the right of dismissal with consequent loss of pay. ... The concentration of business initiative in the hands of the employers is a great evil, and robs the employees of their legitimate share of interest in the larger problems of their trade.

The next question (“internal auditors serve as business watchdogs who scrutinize every aspect of business practice”) is essentially the converse of the previous one. Viewing internal auditors as watchdogs is consistent with the attest function of classical IA, and is inconsistent with them also being viewed as business partners. This item received strong opposition from the interviewees. More than half of the directors, financial controllers, and general executives “strongly disagree” that internal auditors have the watchdog function. The only group of interviewees who express agreement with this item is the mid-level managers with a high percentage of 52, consistent with their views expressed in the earlier responses. The responses to this question, thus, provide additional evidence in support of the study’s Research Proposition. Whilst most directors and financial controllers tend to regard IAs as business partners, most mid-level managers tend to regard them as watchdogs. An interesting finding is that mid-level managers are the most likely group to voice negative opinions regarding the work of the IAD. General executives may not feel that they have the self-confidence or experience to express views contrary to that put forward by senior managers. The opposition of the mid-level managers to the business partner perception may reflect a “production worldview” on the part of these managers; although expert and experienced in technical aspects of the production process the potential downside is that such managers may be less in tune with commercial demands and modern business terminology and practice. As Bertrand Russell (1963, p.29) writes:

At present, owing to the fact that all industrial changes tend to cause hardships to some section of wage-earners, there is a tendency to technical conservatism on the part of labour, a dislike of innovations, new processes, and new methods.

“Production worldviews” may well be more entrenched among mid-level managers in developing countries and in countries emerging out of communism such as those in Eastern Europe. Major and Hopper (2005) present and discuss a case study of a Portuguese telecommunications company where production and commercial managers are in disagreement over the merits of the company’s Activity Based Costing (ABC) system. Commercial and senior managers support the system but mid-level production managers oppose it (because of their “production worldview” the authors Major and Hopper allege). We see the same dynamic possibly at work in our results in terms of interviewees’ different perceptions of IA role and effectiveness.

There are mixed findings for the next item with 70 per cent of the financial controllers agreeing that the audit report was concise, explicit, and discussed. A similar response is received from the directors. More than 80 per cent of the managers and general executives are, however, unable to provide comment, consistent with their (no) response to earlier items. Having no access to the audit reports is the most likely reason for this.

Concerning the next question, while interviewees agree in general that the internal auditor provided constructive and reasonable recommendations, 20 per cent of the managers and executives are unsure if the “best” recommendations are typically made.

As IA reports are disclosed to only the senior management, a large number of interviewees are unable to comment on whether they are satisfied with the overall purpose, scope, objectives, procedure, and results of the review. This is somewhat worrying. The directors and financial controllers were in a position to comment and register their satisfaction (62 and 60 per cent, respectively) with the overall results of the reviews. We hope (and believe) that this is because of the objective competence of the internal auditing services rather than senior managers simply aiming to save face by expressing ex-post support for the IA services that they commissioned.

The majority of the interviewees, with an average of 76 per cent, either “strongly agree” or “moderately agree” that the IA exercise had been beneficial to them. It is an added assurance and protection for the workers and management. It may also provide ways to develop and implement improvements to existing work practices, consistent with the traditional Marxist values of criticism and self-criticism repeatedly emphasized by Marxist scholar Louis Althusser. The responses to this and

the previous three questions also provide evidence consistent with the study's Research Proposition. Satisfaction with IA services suggests IAD proficiency, which then suggests the IAD's ability to function in the more demanding and challenging business partner role. The word "constructive" (as in constructive recommendations) in an earlier question (for which there was majority agreement) suggests more of a business partner than attest role.

In line with the responses so far, a large proportion (73 per cent on average) of the interviewees "strongly agree" that, with the presence of an IAD, the organization will become more effective and efficient. As internal auditors are well versed in the organization's culture, structure, record systems, policies and procedures, it enables them to provide a quick response to contentious issues as well as to regularly review services and operations. Responses to this question provide additional evidence consistent with the study's Research Proposition.

## **5. Summary of Findings and Conclusion**

In line with prior research findings discussed in Section 2, our interview results also reveal a high percentage of Singaporean companies having an IAD or intending to have one in the near future. We also find evidence, consistent with the extant IA literature, that auditor independence is not the most essential aspect for effective internal auditing. However, contrary to prior suggestions in the literature that there is a thriving expectations gap in IA (Anonymous, 1997; Birkett *et al.*, 1999a, 1999b; Gay & Simnett, 2007), we find the Singaporean senior managers who are internal audit customers (the directors and financial controllers) to be generally satisfied with the professionalism and effectiveness of the internal auditors, and appreciate the presence of an IAD in the organization. The other important finding of our survey is that the mid-level managers and general executives are mostly unable to comment upon whether "there was logical documentation of the internal auditor's opinions and conclusions".

Although the evidence presented here supports our study's Research Proposition, one interesting finding needs to be emphasized. We find that mid-level managers view the IA function largely in terms of attest whereas the other three groups view the function largely in terms of business partner. Also mid-level managers are less likely than the other three groups to regard information and other requests by the IAD as being "reasonable". Mid-level managers may feel that they have the self-confidence and experience necessary to challenge modern/trendy notions of business partner (that is grounded in a business school jargon that may be incompatible with "production worldviews"). The general executives, having the same view as senior managers, suggests that company education campaigns have been effective and/or that modern university business

school education emphasizes strategic partnerships and/or less willingness on the part of general executives to voice dissenting views because of their relative youth and junior staff member status. It is suggested that senior managers aim to allow more input and discretion by mid-level managers into the work that the IAD does and give them more discretion as to when and how IAD recommendations are implemented in practice. If this occurs they will be more likely to view information requests by the IAD as “reasonable” and less likely to view the IAD as (non-human) “watchdogs”. Our results support Hawkes and Adams (1995) who find that audit customers feel that IA is enhanced when auditors and audit customers establish close relationships based on a cooperative and participative approach, as opposed to an independent and prescriptive appraisal approach.

It is recommended that follow-up research explore the perceptions held currently about the role and effectiveness of internal audit in other Middle-East and Asian nations, as well as in Africa. Mihret and Yismaw (2007) and Mihret and Woldeyohannis (2008) provide an important starting point in this regard in their studies of internal audit role and effectiveness in Ethiopia. This ongoing Ethiopian research is being extended in Dessalegn Mihret’s PhD research at the University of Southern Queensland, Australia. Of special interest in Mihret’s research is the observation that the communist government in power in Ethiopia from 1975-91 actually laid a foundation for the future development of IA in the country and explains the relative strength of internal audit versus external audit in the country, even today. In the developing country context, IA may well be able to play an extremely important function in ensuring that capital is not wasted through inefficiency, fraud, corruption and being invested in the wrong areas (areas where the surplus-value contained in products cannot be fully realized through their sale). As such it can play a vital role in increasing employment levels and in poverty alleviation. The unfortunate reliance by most IA authors on Western agency theory has meant that the social implications of effective IA have been largely overlooked. We hope that our unique Marxist theoretical framework, derived from Robert Bryer’s (1999, 2006) important work on the implications of Marxist economic theory for modern financial and management accounting and accounting regulation, empowers future researchers to approach IA from a social/collectivist rather than individualist/economic rationalist perspective.

Lastly, our paper’s Singapore focus (Singapore was a developing country 50 years ago and now is a highly developed one) may be especially useful for readers in developing and ex-communist countries hoping to emulate certain things from the Singapore experience. Countries such as Hungary, Moldova, and Romania, twenty years after the fall of their communist regimes, would be well advised to devote substantial energy



and resources to building up effective and competent internal auditing professions in their countries. Being relatively small countries they may find that Singapore's experiences with IA are especially relevant. Although the "old regimes" are long gone in the Eastern European countries, Mikhail Gorbachev's lasting legacy, the introduction of glasnost and perestroika, was surely correct and retains an ongoing relevance today in the region.

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