AN INTERNAL AUDITOR’S COMMITMENT TO INDEPENDENCE: INFLUENCE OF ROLE THEORY AND AUDIT-BASED MONITORING MECHANISMS

ZAINI BT AHMAD

Thesis submitted in fulfilment of the requirements for the degree of
Doctor of Philosophy
Faculty of Accountancy

FEBRUARY 2010
Candidate’s Declaration

I declare that the work in this thesis was carried out in accordance with the regulations of Universiti Teknologi MARA. It is original and is the result of my own work, unless otherwise indicated or acknowledged as referenced work. This thesis has not been submitted to any other academic institution or non-academic institution for any other degree or qualification.

In the event that my thesis be found to violate the conditions mentioned above, I voluntarily waive the right of conferment of my degree and agree to be subjected to the disciplinary rules and regulations of Universiti Teknologi MARA.

Name of Candidate: Zaini bt Ahmad
Candidate’s ID No.: 2005100421
Programme: PhD in Accounting (AC 990)
Faculty: Accountancy
Thesis Title: An Internal Auditor’s Commitment to Independence: Influence of Role Theory and Audit-Based Monitoring Mechanisms

Signature of Candidate: [Signature]
Date: 1st March 2010
ABSTRACT

The purpose of this dissertation is to construct and empirically examine a model for an internal auditor’s commitment to independence (IACTI) with individual and organizational factors. At the individual level, the relationship between role ambiguity, role conflict and IACTI is examined. At the organizational level, this study examines the relationship between the quality of the external auditor’s engagement, the quality of the audit committee composition and IACTI. A hypothesized moderating effect of quality of external auditor’s engagement on the relationship between role ambiguity and role conflict was also tested. Data obtained from 101 in-house internal auditors of public-listed companies in Malaysia were used to test the hypotheses. The model was assessed using hierarchical linear regression and moderated regression analysis. Overall, the results provided significant relationships between role ambiguity, role conflict and quality of audit committee composition on IACTI. Nevertheless, no significant relationship was found between quality of external auditor’s engagement and IACTI. In addition, the results did not seem to indicate any support for the moderating effect of the quality of external auditor’s engagement in the relationship between role ambiguity and IACTI. In contrast, the moderating effect of the quality of external auditor’s engagement was found to be significant in the relationship between role conflict and internal auditor’s commitment to independence (IACTI). This study makes several contributions to the literature on internal auditing, management and corporate governance. First, the notion of independence of internal auditors, in terms of not subordinating their judgment to others on audit matters, is investigated from an attitudinal rather than an instrumental perspective. A measure for the concept of commitment to independence cannot, surprisingly, be found in prior auditing research literature. Scales from established measures of organizational commitment found in the organizational behavior literature, especially the instrument originated by Porter et al. (1974), are chosen as a basis for the development of this measure. Secondly, this study has been able to develop new scales to measure the concepts of role conflict (except for the dimension of intra-sender role conflict) and role ambiguity in the context of the internal auditor’s work environment, by adapting from measures established in the organizational behavior literature which has been developed by Rizzo et al. (1970). Third, this study has been able to develop new scales to measure the concept of intra-sender role conflict in the context of the internal auditors by conceptualizing intra-sender role conflict theory established in the organizational behavior literature which has been developed by Kahn et al. (1964). Fourth, this study has successfully found that role-related factors and organizational factor of audit committee composition appeared to be strong predictors of commitment to independence. Finally, a fifth contribution of this study is the moderating effect of the quality of external auditor’s engagement in the relationship between role conflict and internal auditor’s commitment to independence (IACTI).
ACKNOWLEDGEMENTS

The doctoral experience has been a challenging and rewarding one for me. I thank ALLAH, the Almighty for his help and guidance in enabling me to complete this thesis. My deep appreciations are extended to my children, Muhammad Fauzan, Nurul Madiah and Muhammad Zakwan for being very patient, supportive and understanding the journey that I have to go through. The support, enjoyment and happiness they gave me while I am working for my dissertation has provided me with a strong courage to complete this thesis.

I am especially grateful to my beloved husband, Mohd Johari Mohd Alwi, for his encouragement, assistance, love and constant understanding. It is his support that sustained me throughout the endeavour. Special appreciation is also expressed to my mother, for her constant prayers for the completion of my PhD. To my late father, my ‘determination’ is without doubt, inherited from him.

A heartfelt thank you is proffered to my supervisor, Dr Wan Azmimi Wan Mohamed, and my associate supervisor, Prof Dennis Taylor for their guidance and assistance in the completion of the thesis. I am indeed grateful to both of them for the sharing of their time and expertise. Their contributions have been truly invaluable. I wish to thank the Dean of Faculty of Accountancy, the administrators, my family and friends for their support and understanding throughout my doctoral programme.

Special thanks also goes to the Institute of Internal Auditors for supplying information and supporting me in conducting the survey. And last, I wish to thank the internal auditors of public listed companies who have responded to my survey and made the completion of this dissertation possible.
# TABLE OF CONTENTS

DECLARATION ii
ABSTRACT iii
ACKNOWLEDGEMENTS iv
TABLE OF CONTENTS v
LIST OF TABLES x
LIST OF FIGURES xiv
LIST OF APPENDICES xv
LIST OF ABBREVIATIONS xvii

## CHAPTER 1 INTRODUCTION 1

1.0 Introduction 1
1.1 The Development of Internal Audit Function in Malaysia 1
1.2 Independence and associated issues 3
1.3 Problem Statement 9
1.4 Objectives of the Study 12
   1.4.1 Main Objective 12
   1.4.2 Specific Objectives 12
1.5 Contributions of the Study to the Literature 13
   1.5.1 Contribution of the Study to Practice 14
1.6 Definition of Key Terms 15
1.7 Organization of the Thesis 16
1.8 Summary 17

## CHAPTER 2 A REVIEW ON INDEPENDENCE: ISSUES AND REQUIREMENTS 18

2.0 Introduction 18
2.1 The Importance of the Concept of Independence 18
2.2 The Professional Practices Framework (PPF) 22
2.3 The ISPP IA Requirements with Respect to Independence 22
2.4 Definition of Independence 24
2.5 Summary 29