

# ASSESSING THE INFORMATION CONTENT OF THE STATEMENT OF INTERNAL CONTROL OF SELECTED SECOND BOARD MALAYSIAN PUBLIC LISTED COMPANIES: A QUALITATIVE APPROACH

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## ABSTRACT

*In the Revamped Bursa Malaysia Listing Requirement 2001, all public listed companies are required to include a statement of internal control (SIC) in their corporate annual reports. SIC is an important statement to highlight to the stakeholders, the steps taken by the company to manage and control its business risks. To manage risk properly, appropriate risk assessments and evaluations are needed. Once risks have been identified, the company needs to implement an appropriate control system to manage and control these risks regularly. Nevertheless, all relevant processes and procedures on internal control system must be transparently described and illustrated by the proposed SIC. This paper highlights the need to develop an assessment instrument to evaluate the information content of the SIC. An evaluation of the statement of internal control of selected second board counters portrays a fairly unfavorable scenario. In general, these companies do not provide good information content on their internal control system. Most of the companies under review give minimum information to the stakeholders. The low score of the SIC is primarily due to the insufficient monitoring and enforcement by the regulatory bodies in Malaysia. In moving forward, this study proposes the use of a self-assessment SIC checklist. Companies must take it upon themselves to be transparent and comply with the various requirements enforced upon them. In other words, they must take care of themselves.*

**Keywords:** *Statement of Internal Control, Disclosure, SIC Disclosure Framework, Risk Assessment*

## Introduction

Numerous recent events involving global corporate failures such as Dotcoms, Nortel, Cisco, Tyco, Parmalet and Enron have resulted in the change of corporate landscape, particularly how corporate annual reports are being presented. Such issue has attracted the attention of the stakeholders, particularly investors, in putting a lot of pressure on corporation to be more alert on risk management and to report them accordingly in their annual reports. In tandem with the situation, Bursa Malaysia has made the issuance of the Statement of Internal Control (SIC) as a Listing Requirement (see Paragraph 15.27 (b) of the Bursa Malaysia Listing Requirement). The requirement specifically stipulates that all public listed companies (PLCs) whose accounting year ends after December 31, 2001 are required to prepare the SIC in their annual reports.

SIC is an important statement to highlight to the stakeholders, the steps taken by the company to manage and control its business risks. To manage risk properly, appropriate risk assessments and evaluations are needed. Once risks have been identified, the company needs to implement an appropriate control system to manage and control these risks regularly. Nevertheless, all relevant processes and procedures on internal control system must be transparently described and illustrated by the proposed SIC. The objectives of the internal control system are to further strengthen the reliability and integrity of information; ensure compliance with policies, procedures, laws and regulations; safeguard the assets; ensure economical and efficient use of resources and accomplishments; and establish objectives and goals for operations and programs.

The Board of Directors (BOD) plays an important role in identifying the risks associated within the company and implements an appropriate system for managing such risks. Besides, the BOD should also review the adequacy of the company internal control system in relations to the compliance of such rules, laws, regulations and guidelines. Effectively, the BOD of each (PLC) must establish an internal audit function (department) as the best practice that in turn is responsible in obtaining assurance of the internal control system of the company.

Bursa Malaysia on the other hand does not provide relevant, sufficient guidelines to companies to deliver the information to the stakeholders especially the shareholders. The only guideline that is available is *Statement of Internal Control – Guidance for Director of Public Listed Companies* issued by the Institute of Internal Auditors (IIA, Malaysia). However, this guideline does not detail the range of information that is sufficient to be deliberated and disclosed to the stakeholders. Finally, the disclosure of the internal control system is on the discretion of the BOD. So, there is a possibility that companies may not disclose their weaknesses because these impact the shareholders directly. The Turnbull Review (2005) highlights that companies faced the difficulty of deciding what sort of information they should disclose to stakeholders and worry that they might be giving away pertinent information that could adversely affect their competitive advantage.

## **Research Objectives**

The general objective of this study is to evaluate the information content of the SIC so that it fulfills the aspiration of the Malaysian Institute of Corporate Governance. Specifically, this study hopes to achieve the following objectives:

1. develop an Internal Control disclosure framework that supports the aspiration of the Malaysian Institute of Corporate Governance which could be used as a guideline to determine the information content of the SICs.
2. assess the information content of the SIC issued by PLCs in Malaysia by using the framework developed in (1) above.
3. analyze the trend of the information content score for the SIC from 2001 to 2005.
4. rank companies based on the information content of their SIC.

## Literature Review

### Regulatory Framework Perspectives

In Malaysia, the importance of maintaining a strong internal control system is stressed in Part 1 (D II), Internal Control under Accountability and Audit of the Malaysian Code of Corporate Governance (2007). The Code places the responsibility to maintain a sound internal control system in the hands of the (BOD). Effectively, the BOD is responsible to review the adequacy and the integrity of a company's internal control and management information systems. In addition, the BOD must ensure that a company complies with applicable laws, regulations, rules, directives and guidelines. The results of earlier surveys conducted by the Malaysian Institute of Corporate Governance in 2001, however, indicate that the majority of the Malaysian PLCs' BODs do not consider themselves ultimately responsible for ensuring that the effective system of internal control is in place. So, the Revamped Listing Requirement (2005) forces the BODs to ensure that there is a satisfactory framework of reporting the internal financial control and regulatory compliance. In addition, the Combined Code (1998) in the United Kingdom (UK) also states that Company Directors should conduct a review on the effectiveness of their internal control systems and should accordingly report the information to the shareholders (Solomon et al., 2000).

Bursa Malaysia Listing Requirements emphasize the importance of the internal control system under Para 15.27, page 379 of the said statement. Specifically, this statement states that:

“A listed issuer must ensure that its BODs make the following additional statements in its annual report: -

- (a) statement explaining the board of directors' responsibility in preparing the annual audited accounts; and
- (b) a statement about the state of the internal control of the listed issuer as a group”.

The Statement of Audit Standard 300 issued in the United States (US) defines the internal control system as one that “comprises the control environment and control procedures”. It includes all the policies and

procedures adopted by the directors and management of an entity to assist in achieving its objectives of ensuring, so far as practicable, the orderly and efficient conduct of its business, including adherence to internal policies, the safeguarding of assets, the prevention and detection of fraud or error, the accuracy and completeness of the accounting records and timely preparation of reliable financial information. The control environment and control procedures otherwise known as control activities must be embedded within the organization and the companies need to make the information available to the stakeholders. This standard also requires the auditor to perform a thorough evaluation of the internal control system of the company and to make the necessary comments on the state of the system. Auditors should obtain a full understanding of the internal control system of the company to determine the nature, timing and extent of audit testing. This evaluation is important for error and fraud detections and prevention of an audit failure. The feedback obtained from the evaluation must be reported to client management. On the other hand, the strong evaluation of the internal control is important for abbreviation of unnecessary substantive testing and this may directly minimize audit costs. Thus, reliance on the internal control may be an important means of improving audit efficiency in the coming years (Bierstaker, 2003).

Meanwhile, the Cadbury Report (1992) in the UK defines internal control as “an internal control established in order to provide reasonable assurance of the safeguarding of assets against unauthorized use or disposition and the maintenance of proper accounting records and the reliability of financial information used within the business or for publication” (Spira and Page, 2003, pp: 58). The main highlight of this report is to focus the attention to the disclosure of risk information as part of the agenda of the Corporate Governance reformation. This is consistent with the Turnbull Report (2000) which states that “a company’s system of internal control has a key role in the management of risks that is significant to the fulfillment of its business objectives”. Thus, the statement of internal control must disclose the risk management process carried out by the company.

The Committee of Sponsoring Organization of the Treadway Commission (COSO) in the US identifies five important components of internal control system which cover risk management framework, control environment, control activities, information and communication processes and monitoring

process. Hence, the PLCs should combine each element to come out with a sound internal control system.

The Statement of Internal Control – Guidance for Directors of Public Listed Companies (2000) issued by the Institute of Internal Auditors Malaysia states that establishing an appropriate control environment is the responsibility of the board and top management. The control environment will cover matters such as overall attitude, awareness and actions of the directors and management regarding the internal control system. It will include written communication of company values; the expected code of conduct, policies and procedures; the function of the board of directors' committees; the management philosophy and operating style; the company's organizational structure and method of assigning authority and the responsibility and clear definition of authorities as well as the responsibility of each manager, employee and department.

Meanwhile, Section 8 of the Rutterman Report (1994) issued in the UK as sighted by Bryan S., Lilien S., (2005), prescribes a minimum content of the director's report on internal control as follows:

1. acknowledgement by the directors that they are responsible for the company's system of internal financial control;
2. explanation that such a system can provide only reasonable and not absolute assurance against material misstatements or loss;
3. description of the key procedures that the directors have established which are re-designed to provide effective internal financial control; and
4. confirmation that the directors (or board committee) have reviewed the effectiveness of the system of financial control.

Generally, the Rutterman Report (1994) emphasizes the information pertaining to the responsibility of the BODs towards maintaining a sound internal control system and their obligation to regularly review the company's internal control system, and acknowledge the limitations and key procedures of the internal control system.

To disclose internal control system matters, the directors cannot simply withhold the bad news even though they engage in maintaining a good corporate image of the company (Linsley and Shrives, 2006). The Turnbull Report (2000) had extended the requirements of the director to report the state of internal control beyond a company's financial aspects because all risks have potential financial implications and this prevents some consequences to its business, operation and compliance.

## SIC Disclosure Framework

This study proposes the development of a SIC disclosure and assessment framework. The proposed framework encompasses four important elements namely (i) *the objectives of the internal control*, (ii) *the roles and responsibilities of the BOD & audit committee*, (iii) *internal audit function and the risk management* and (iv) *the control structure and environment* (See Figure 1).

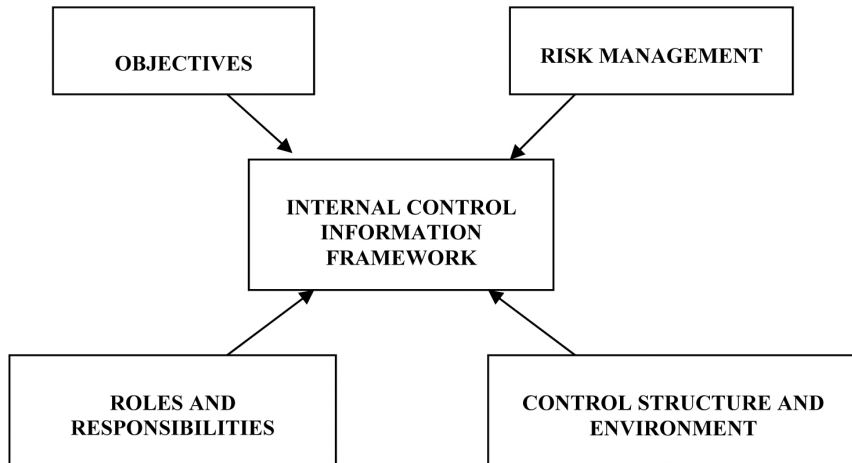


Figure 1: Proposed SIC Disclosure and Assessment Framework

First, companies must report how they will achieve the objectives of maintaining a sound internal control system. Second, the report must also elaborate on the roles and responsibilities of every member (e.g. Board, internal audit, audit committee) of the organization towards maintaining a

credible internal control system. Third, the report must detail out the risk management framework used by the company and finally, companies must report on the information related to control structure, control environment, control activities, communication and monitoring processes of the internal control system.

The analysis of each company is using Statement of Internal Control Grid that was developed during the study. There are four components which include objectives, roles and responsibility, risk management and control structure & environment. There are one parameter under objectives, five parameters under roles and responsibility, four parameters respectively under risk management and control structure & environment. Score will be given by using the parameter of full disclosure - 4, fair disclosure - 3, minimum disclosure - 2 and no disclosure - 1. The total score is 56, but to facilitate the analysis, the score computed is converted to percentage. Effectively, a "full disclosure" firm could get a score of 75% to 100%, a "fair disclosure" firm could get a score between 50% and 74%, a "minimum disclosure" could get a score between 25% and 49% and a "none disclosure" firm could get a score of less than 25%. The score is computed by taking the score of the company divided by the total score which is 56 and multiplied with 100% (see Appendix 1).

## **Findings on SIC Contents**

This study reviews the SIC of selected Second Board companies in Malaysia with the hope of analyzing the information content of the SIC based on the four components of the theoretical framework. Only 74 Second Board companies whose financial year ends on 31<sup>st</sup> December were isolated for this study from 2002 to 2005. A total of 306 statements of internal control were assessed. The analysis of the SIC was based on the predetermined checklist that covered all the four elements of internal control framework.



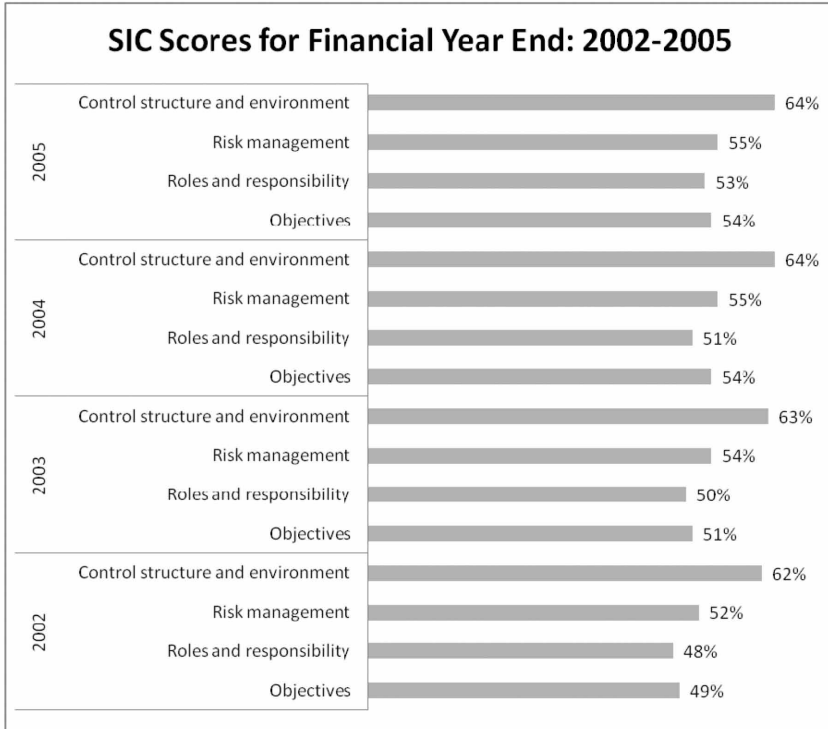


Figure 2: SIC Scores for Financial Year End: 2002-2005

The evaluation of information content on *objectives* reveals that although the scores have increased from 2002 to 2005, they were relatively very low with a maximum of 54% in 2005. When the scores were further scrutinized based on the parameter on each of the dimension that was pre-determined within the SIC checklist (see Appendix 1), 72% of the companies indicated the importance to ensure the reliability and integrity of information, to safeguard company assets and shareholders’ investment, to ensure compliance with policies, plans, procedures, laws and regulation, to ensure economical and efficient use of resources and to ensure accomplishment of established objectives and goals for operations and programs.

Basically, the second board companies supplied more information on the roles and responsibilities of the Internal Audit function followed by those of the BOD and the Audit Committee. Less or no information was provided

on the roles of the other members, for example other top management including the roles and responsibilities of the Finance department as well as the personnel of that organization.

In Figure 2, the general results showed that there was an increasing trend for risk management reporting from 2002 to 2005. However, the scores obtained by the second board companies were still relatively low, with none exceeding the 60% mark.

The best SIC reporting was in the category related to the control structure and environment with overall scores exceeding the 60% marks for all four years of 2002 to 2005. Specifically, all elements under this category obtained a score of more than 60% except for the information content on the *information and communication processes*, implicating the need to enhance the communicating channel in relaying the importance of SIC for the PLCs.

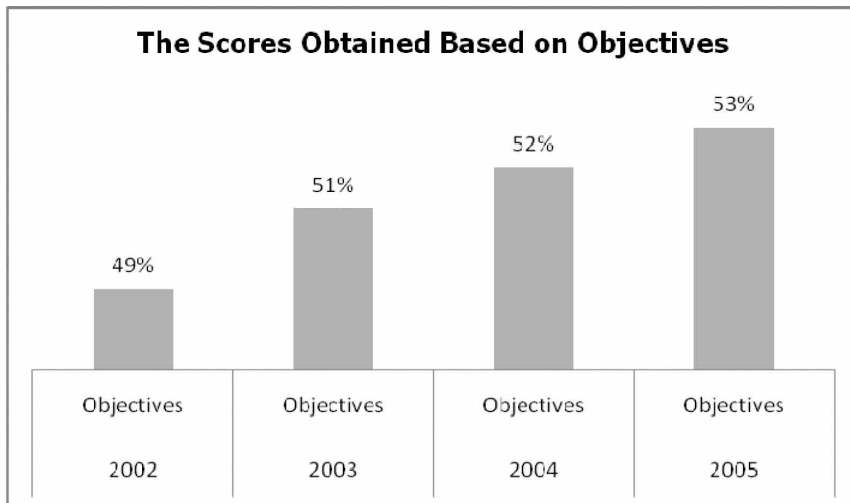


Figure 3: The Scores Obtained Based on Objectives

Figure 3 shows the scores obtained in the four years based on the objectives of the company to maintain a sound internal control system by the PLCs. Although the trend showed an increase from 2002 to 2005, the scores were still very low with a maximum of 53% in 2005. This was respectively followed by the accomplishment of established objectives and goals for

operations and programs (47%), to ensure the reliability and integrity of information (16%), to ensure compliance with policies, plans, procedures, laws and regulations (15%) and finally to ensure economical and efficient use of resources (3%). 12% of the companies did not provide any information.

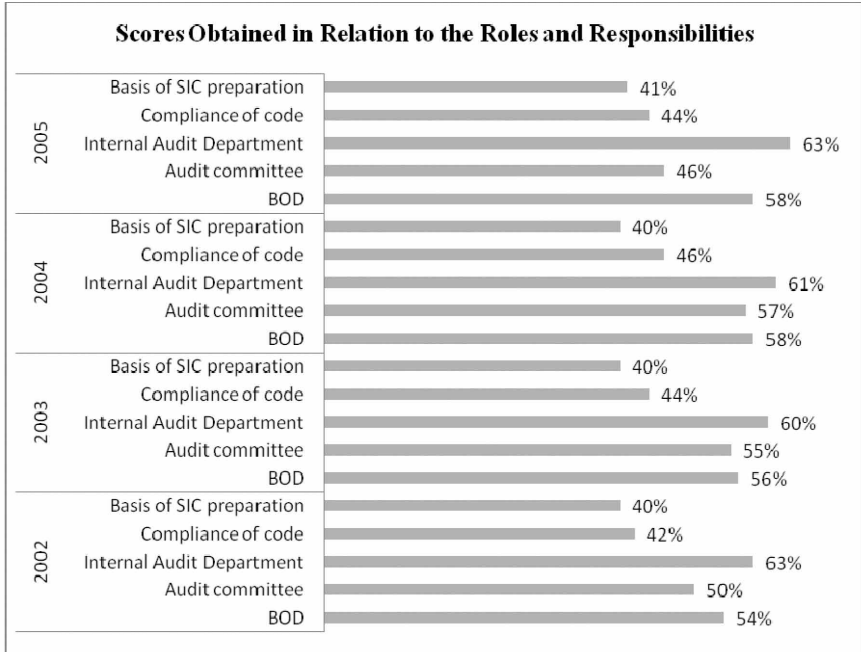


Figure 4: The Scores Obtained in Relation to the Roles and Responsibilities

For all the years under review, all the information available in relation to the roles and responsibilities showed an increasing trend except for the information on the roles and responsibilities of the Audit Committee. Although, most of the dimensions had an increasing trend, the score was still very low which was less than 70%. Basically, the companies supplied more information on the roles and responsibilities of the Internal Audit function followed by those of the BOD and the Audit Committee. Less information was provided on the disclosure of compliance of specific codes and the basis used to prepare the SIC, whereby both of the dimensions showed a score of less than 50%. This phenomenon should not happen because the companies know which codes they comply to and the basis used to guide the preparation of the statement. However, only information on the roles

and responsibilities of the Internal Audit function showed a disclosure of more than 60%. The failure of the company to provide sufficient information showed a lower credibility of the statement.

The PLCs chose to deliver more information on the roles and responsibilities of the Internal Audit department. When the scores were scrutinized based on the five parameters, 81% of the companies disclosed information on the management of risk exposure by conducting periodic reviews on the internal control system; followed by reporting of material internal control deficiencies to the Audit Committee (74%); improving the organization's risk management and control system (34%); monitoring the effects of change on an organization's risk exposure and related control (18%), and promoting an understanding within the organization's risk exposure and the management (16%). However, 9% of the companies did not provide any information in relation to the roles and responsibilities of the Internal Audit department.

On the other hand, when the scores for the roles and responsibilities of the BOD were scrutinized based on the five parameters provided earlier, 81% of the companies disclosed that the main role and responsibility of the BOD was to review the adequacy and integrity of the company's internal control system. Furthermore, 46% of the PLCs disclosed information on the responsibility of the BOD, which was to identify principal risk, and 36% of the PLCs disclosed information to ensure the implementation of an appropriate system to manage the significant risk. There was a low disclosure of the fourth and fifth parameters which were the review of the management information system including the system for compliance with applicable laws, regulations, rules, directives and guidelines and to ensure that corrective measures have been taken on reported weaknesses. Only 4% and 18% of the companies delivered information based on parameters 4 and 5 respectively. Based on these findings, ultimately, most of the BOD of the PLCs assumed that the main responsibility of the BOD was to review the adequacy and integrity of the company's internal control system. However, 4% of the companies did not provide any information on the roles and responsibilities of the BOD.

By looking at the compliance of code, 80% of the companies provided information on the compliance as listed in Para 15.27 of the Listing

Requirement of Bursa Malaysia (2001). However, the remaining companies did not provide any information on the compliance of the specified code. These results were consistent with the information on the basis of the SIC preparation whereby only 58% of the companies provided the information on the basis of the preparation. But all 58% of the companies only disclosed the use of the Statement of Internal Control = Guidance for the Directors of Public Listed Companies. The remaining companies did not provide any information in pursuant to the basis used to prepare this SIC. These findings showed that these companies did not consider providing information on the compliance of code and the basis used to prepare the SIC even though this information was as important as the other provided information.



Figure 5: The Scores Obtained in Relation to Risk Management

Basically, the risk management framework considers four important dimensions. In Figure 5, the results show that there was an increasing trend for all the dimensions from 2002 to 2005. However, the scores obtained by the PLCs were relatively low which was less than 80%. The information

content on risk management framework obtained a 74% score in 2002 compared to a 79% score in 2005. Generally, the information content on the risk management framework and how the BOD monitors the effectiveness of the internal control system was satisfactory because the score for these two items was more than 70%. But, the score for information on limitation and weaknesses of the internal control system is worrying because the highest scores for these two items were only 54% and 38% respectively.

By relying on the information content of the risk management framework and when the scores were scrutinized based on the five parameters, 80% of the companies disclosed information on the preventive control, 72% of the companies disclosed information on the compliance control and another 70% of the companies disclosed information on the due diligence of financial and operational controls. Only 51% of the companies disclosed information on the detective controls. 8% of the companies disclosed the overall parameters of the risk management framework. The disclosure of the risk management framework was quite satisfactory since the four parameters had a disclosure of more than 70%. This effort should be continued among the PLCs to maintain the credibility and truthfulness towards the SIC.

By looking at the limitation of the internal control system, 99% of the companies disclosed information that the internal control system may reduce but may not eliminate all together the risks of the internal control system. In addition, 97% of the companies also disclosed information on how the sound internal control may provide reasonable but not absolute assurance. The highest amount of disclosure for both these information was consistent with the requirements stipulated under the Statement of Internal Control = Guidance for the Directors of the PLCs whereby the company should provide a “safe statement” within the SIC. Furthermore 14% of the companies did disclose the occurrence of unforeseeable circumstances. However, no company made any disclosure on human errors and management’s override towards the internal control system.

In addition, by looking at the disclosure of the weaknesses, only 23% of the PLCs disclosed information that the companies were exposed to the weaknesses of the internal control system. The remaining PLCs disclosed that there were no material weaknesses faced by the company’s internal control system. However, the main focus of this dimension was that, all 23%

of the PLCs did not provide any detailed information regarding the nature of the weaknesses and the impact of the weaknesses towards financial reporting as well as the ability of the companies to face uncertainties or business risks. Hence, in order to be truthful in the disclosure of information, the company should deliver more information to the public on matters such as nature of the weaknesses, the impact of the weaknesses to the financial reporting as well as the action taken by the companies to rectify the problems. Then, the company should make fair and true view on the conclusion of its internal control system.

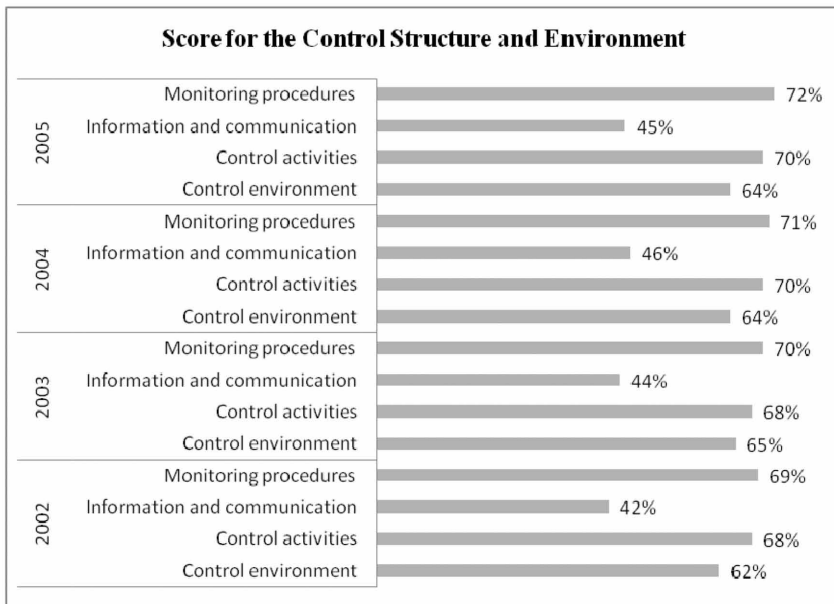


Figure 6: The Score for the Control Structure and Environment

From Figure 6, this study was able to view the increasing trend of the control structure and environment from 2002 to 2005. However, the trend of information content was considered as medium where a lot of improvements were still needed. All elements under the control structure and environment obtained a score of more than 60% except for the information content on the information and communication processes. The highest score obtained among all these elements was for the monitoring process followed by the information on control activities and control environment.

By looking at the information of the monitoring procedures, based on the five parameters, 91% of the companies disclosed the ongoing monitoring performed by the companies towards the internal control system. This was followed by the information on the roles and responsibilities of the BOD, the Audit Committee, the Internal Audit department, top management and relevant departments whereby 88% of PLCs disclosed those information. 73% of the companies provided information on the process of reviewing the financial performance of the companies. 22% of the PLCs disclosed this information on the follow up procedures to ensure that appropriate change occurred in response to changes in risk and control assessments while only 8% of the companies disclosed information on the process of reporting deficiencies to the top management. Again the PLCs had understood the monitoring procedures. These processes are important because the monitoring procedures will ensure that the available internal control system is on the right track.

Referring to the control environment, 98% of the PLCs freely disclosed information on the approval and authorization, as well as the segregation of duties. These were then followed by the information on the reconciliation and review of the operating performance whereby 80% of the companies stated such information within the SIC. However, less information was provided on the verification process and security of assets for the internal control system.

All in all, a higher disclosure of these elements showed that the companies understood the significance of the control structure and environment within the PLCs. The disclosure of such information highlighted the fact that the PLCs showed improvements in setting up the control structure and environment. The willingness of PLCs to give such information was highly appreciated in enhancing the credibility of the statement. A higher disclosure of the information has portrayed a higher credibility on the statement.



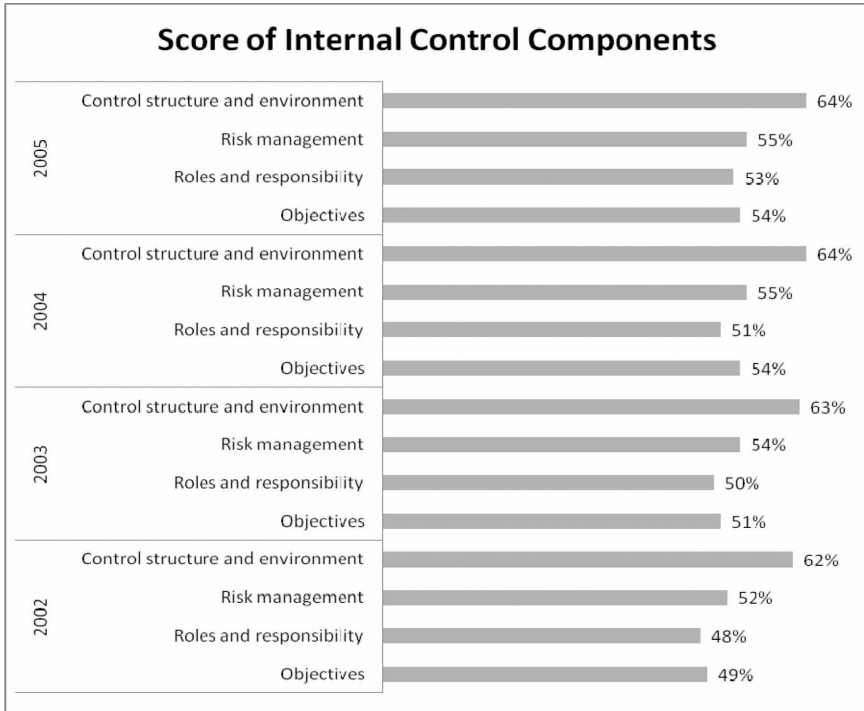


Figure 7: The Score of the Internal Control Components

Particularly all the components have been discussed in the earlier sections. However, this section will look into the general perspectives of each component from 2002 to 2005. Basically, there was an increasing trend for each of the components but the increment was slightly smaller whereby the increase was only between 2% and 4% only. In addition, out of the four components, the PLCs provided more information on the control structure and environment with an average score exceeding 60% for all the years under review. This was followed by the information on risk management framework, objectives of the company to maintain a sound internal control system and roles and responsibilities of the BOD, Audit Committee and Internal Audit Department.

## **Conclusion**

Overall, this study was able to meet its objectives. Although most of the previous studies focused on the companies listed on the First Board counter, this study looked into companies listed on the Second Board counter. From this study, the highest score of the SIC was only 73% and 61% of the companies obtained similar scores for at least three consecutive years. This proved that PLCs did not care about the information provided within the SIC. Through content analysis, this study drew attention to the regulatory bodies where the SIC was unable to provide relevant information to the stakeholders especially the shareholders.

The low score of the SIC was primarily due to the insufficient monitoring provided by the regulatory bodies such as Bursa Malaysia and Institute of Internal Auditors Malaysia. Both of these bodies did not monitor the information content of the SIC. So, the PLCs did not have the initiative to improve the SIC in the future.

This study aimed to achieve four objectives. The objectives of this study were to develop an Internal Control framework that supported the aspiration of the Malaysia Institute of Corporate Governance and to use it as a guideline in determining the information content of SIC. By using the framework developed in Phase One, the study assessed the information content of the Malaysian SIC issued by the PLCs to analyze the trends of the information content scores and ranked companies based on the information content of their SIC from 2002 to 2005.

Basically, objectives numbers one and two of the four objectives were achieved during Phases One and Two of this study. Both these objectives were important in this study because they provided significant information to conduct objectives three and four. The framework developed during this study provided the highest contribution and could be used by the regulatory bodies to evaluate and assess the information content of the SIC.

The third objective of this study was to observe the trend of the information content of the SIC. Based on the overall analysis, the PLCs supplied more information on the control structure and environment followed closely by information on the risk management and objectives of the company to

maintain a sound internal control system. However, less information was provided on the roles and responsibilities of the BOD, Audit Committee and the Internal Audit function.

The last objective of this study was to rank the companies based on the score obtained. Basically the companies in the top three in 2004-2005 were similar but the position in the rank was different. However, there was no pattern found in companies ranked in 2002 and 2003. This highlighted that the companies would copy the same SIC for at least two years.

The understanding of the objectives of the preparation of the statement is important to all PLCs, so that they are more willing to give information to the public. This study, which covered 74 companies listed in the Second Board, found that 45 companies or 61% of the companies had a similar score of the information content for at least three consecutive years. This finding highlighted the fact that the PLCs adopted a “cut and paste” procedure during the preparation of the said statement.

Meanwhile, the willingness of the companies to disclose more information was considered low, since the highest score for the period under review was only 73%. As PLCs, the companies should disclose more information since they were normally owned by individuals and corporate organizations and involved huge investments. Any matter that occurred within the companies should be disclosed to these individuals and organizations. However, even though the government had imposed a mandatory requirement to provide such information to the public, the PLCs still withheld some information; one example was the weakness of the internal control system. In fact, the regulatory bodies should play a more effective role in strengthening the regulation and reviewing the action taken by these companies. A tight regulation without any close monitoring would not benefit both parties.

Another issue obtained from this study was the weaknesses of the internal control system. Some of the companies confessed that they found minor or major weaknesses of the internal control system but there was no detailed information provided and the management still concluded that the company’s internal control in the financial reporting was effective. In order to be truthful in the disclosure of information, the company should deliver more information to the public on matters such as the nature of weaknesses,

the impact of weaknesses on the financial reporting as well as the action taken by the companies to rectify the problems. Then, the company should make fair and true view on the conclusion of its internal control system.

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**APPENDIX A: STATEMENT OF INTERNAL CONTROL (SIC) CHECKLIST**  
**(by Masetah and Normah 2006)**

CRITERIA	CHARACTERISTIC	SIC SCORE			REMARK
		Full Disclosure	YES Fair Disclosure	Minimum Disclosure	
		4	3	2	1
<b>(A) Objective</b>					
1) The SIC statement clearly state the objectives of maintaining sound internal control system.	<ul style="list-style-type: none"> <li>• To ensure the reliability and integrity of information.</li> <li>• To safeguard company assets and shareholders investment.</li> <li>• To ensure compliance with policies, plans, procedures, laws and regulation.</li> <li>• To ensure economical and efficient use of resources.</li> <li>• To ensure accomplishment of established objectives and goals for operations and program.</li> </ul>	All items being stated.	At least three item being stated.	At least one item is stated.	None.

CRITERIA	CHARACTERISTIC	SIC SCORE				REMARK
		YES		NO		
		Full Disclosure	Fair Disclosure	Minimum Disclosure	No Disclosure	
		4	3	2	1	
<b>(B) Roles and Responsibility</b>						
1) The SIC statement outlines the main functions of the board of directors.	<ul style="list-style-type: none"> <li>• Identification of principal risk (ex: market risk, business risk, liquidity risk and etc).</li> <li>• To ensure the implementation of appropriate system to manage the risk.</li> <li>• Review the adequacy and integrity of the company's internal control system.</li> <li>• Review management information system including system for compliance with applicable laws, regulation, rules, directives and guidelines.</li> <li>• Ensuring correction action been taken on reported weaknesses.</li> </ul>	All items being outlined.	At least three item being outlined.	At least one item is outlined.	None.	

<p>2) The SIC statement clearly state roles and responsibility for audit committee.</p>	<ul style="list-style-type: none"> <li>• Develop ongoing strategy on the identification of risk.</li> <li>• Evaluation and managing of risk.</li> <li>• Reporting of findings and material weaknesses to the Board of Director.</li> <li>• Review the effectiveness of internal control system.</li> <li>• Holding discussion with management and external auditors.</li> </ul>	<p>All items being stated.</p>	<p>At least three item being stated.</p>	<p>At least one item is stated.</p>	<p>None.</p>	
<p>3) The SIC statement provides detail information on the function of the internal audit department.</p>	<p>Internal audit services provides assurance that risk exposures are understood and managed appropriately as follows:</p> <ul style="list-style-type: none"> <li>• Management of risk exposure by conducting periodic reviews on internal control system and etc.</li> <li>• Promoting understanding within the organization about risk exposure and the management of risk.</li> <li>• Improving organization's risk management and control system.</li> <li>• Monitoring the effects of</li> </ul>	<p>All items being disclosed.</p>	<p>At least three item being disclosed.</p>	<p>At least one item is disclosed.</p>	<p>None.</p>	





CRITERIA	CHARACTERISTIC	SIC SCORE				REMARK
		Full Disclosure	YES Fair Disclosure	Minimum Disclosure	NO No Disclosure	
		4	3	2	1	
<b>(C) Risk Management</b>						
1) SIC statement contains detailed information on how the boards monitor the effectiveness of internal control system.	<ul style="list-style-type: none"> <li>• Establish an internal audit department or outsource the function to the external parties ex: public accounting firms.</li> <li>• Establish Audit Committee.</li> <li>• Establish risk management committee.</li> <li>• Obtained feedback on state of internal control from external auditors.</li> <li>• Review of internal control process regularly (ex: weekly, monthly, quarterly, and interim).</li> </ul>	All items being stated.	At least three item being stated.	At least one item is stated.	None.	

<p>2) The SIC statement discusses the whole risk management framework of the company.</p>	<p>Risk management framework should covers:</p> <ul style="list-style-type: none"> <li>• Due diligence on financial perspectives.</li> <li>• Operational procedures.</li> <li>• Compliance controls on specified rules, regulations and laws.</li> <li>• Preventive controls (ex: segregation of duties, physical safeguard on human, financial and physical assets, effective budgeting process and effective “whistle blowing processes.</li> <li>• Detective controls (ex: review and approval of reference file maintenance, comparisons of reported results with plans and budgets, reconciliation of subsidiary ledger balances with general ledger and review of on-line access and transaction logs.</li> </ul>	<p>All items being disclosed.</p>	<p>At least three item being disclosed.</p>	<p>At least one item is disclosed.</p>	<p>None.</p>	
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<p>3) The SIC statement discusses on the scope limitations of the internal control system.</p>	<ul style="list-style-type: none"> <li>• The whole system of internal control reduces but cannot eliminate the risk from internal control system.</li> <li>• Sound system of internal control provides reasonable but not absolute assurance.</li> <li>• Management override of internal control over financial reporting function (ex: back dating sales document to a prior period, making adjusting entries during financial reporting closing process and etc).</li> <li>• Occurrence of unforeseeable circumstances.</li> <li>• Human error.</li> </ul>	<p>All items being disclosed.</p>	<p>At least three item being disclosed.</p>	<p>At least one item is disclosed.</p>	<p>None.</p>	
<p>4) The SIC statement disclosed on the material weaknesses of internal control system.</p>	<ul style="list-style-type: none"> <li>• The nature of material weaknesses.</li> <li>• The impact on the financial reporting and the control environment.</li> <li>• Management current plans, for remediation the weaknesses.</li> <li>• The company ability to reduce the incidence of material misstatement.</li> </ul>		<p>(BONUS MARK) 1-4 if any of the items is disclosed.</p>			

CRITERIA	CHARACTERISTIC	SIC SCORE				REMARK	
		YES					NO
		Full Disclosure	Fair Disclosure	Minimum Disclosure	No Disclosure		
		4	3	2	1		
<b>(D) Control Structure and Environment</b>							
1) SIC statement contains a summary on the characteristics of control environment.	<ul style="list-style-type: none"> <li>• Written communication of company values, the expected code of conduct, policies and procedures.</li> <li>• The functions of the board of directors and audit committee clearly stated.</li> <li>• Management's philosophy and operating style.</li> <li>• The company's organizational structure and method of assigning authority and responsibility.</li> </ul>	All items being disclosed.	At least three item being disclosed.	At least one item is disclosed.	None.		



	<p>individuals to report suspected problems on internal control system.</p>					
<p>4) The SIC statement discuss on the monitoring processes of the company.</p>	<ul style="list-style-type: none"> <li>• On-going monitoring process within the company's operation system.</li> <li>• The existence of follow up procedure to ensure that appropriate change occurs in response to changes in risk and control assessment.</li> <li>• Process of reporting deficiencies to the top management and board of directors.</li> <li>• Process to review the financial performance during the year.</li> <li>• Outlines the roles and responsibility of audit committee, internal audit department and external audit &amp; other top management and related department.</li> </ul>	<p>All items being disclosed.</p>	<p>At least three item being disclosed.</p>	<p>At least one item is disclosed.</p>	<p>None.</p>	