

**UNDERSTANDING INTERNAL AUDITORS' ROLES IN
ENVIRONMENTAL AUDITING PRACTICES: A
COMPARATIVE ANALYSIS BETWEEN ALPHA AND
BETA**

BY

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INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

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ABSTRACT

Numerous environmental issues, including cleanliness, flash flood, rise of dengue cases, and waste management, have often flashed as the main headlines across Malaysian newspapers. Such issues are managed and monitored by Malaysian Local Governments (MLGs) administered under their respective State Governments. The uprising environmental issues reflect poor monitoring performance by MLGs on environmental activities and programmes that occur under their nose. Inherently, the abovementioned scenario denotes weak or inadequate environmental audit practices (EAP) that ascertain the efficacy of environmental programmes and activities organised by MLGs. As stipulated by the National Audit Department (NAD), auditing processes on related environmental programmes are only executed after five-year interval due to time and auditor constraints (Buang, 2007). As such, this present study had looked into the differences and similarities in EAPs between two MLGs (ALPHA and BETA), along with the roles of internal auditors in conducting EAPs for both MLGs. This qualitative study had captured data via review of heaps of documents, multiple interviews, and vast informal observations. The case study approach was employed with a single unit analysis, and followed by the multiple case study design on ALPHA and BETA. Three perspectives; functional, interactionist, and cognitive, were described from the lens of role theory, which was initiated by Katz and Kahn (1978). As a result, this study revealed that the internal auditors constructed their roles through the following three processes: developing expectation, establishing the interaction platform, and responding to the implementation of EAPs. It was discovered that the EAPs in ALPHA were more efficient in light of expectation development particularly due to six criteria, namely: initiator of EAP, coverage of the audit, composition of the audit team, involvement of the quality officer, audit checklist, and reporting the audit findings. Next, the interactionist perspective was probed into through the lens of the role theory to describe the interaction platform in EAPs developed by the internal auditors. Accordingly, it was found that normal audit processes (e.g., annual work plan, training, letter or memorandum of audit, exit meetings, and review meeting of audit) and Management Committee Meeting served as the interaction platforms in enabling EAPs. Additionally, the roles of secretariat of audit, technology, and meeting attendees can be enhanced to improve the interaction mechanism between internal auditors and auditees. Based on the cognitive perspective in light of the role theory, as prescribed by Mantere (2008), this study affirms that internal auditors function as protector in BETA and problem solver in ALPHA.

ملخص البحث

ظهرت بعض القضايا البيئية التي تتعلق بالنظافة، والفيضانات السريعة، وارتفاع حالات حمى الضنك، وإدارة النفايات؛ عناوين رئيسة في الصحف الماليزية، وتُدير هذه القضايا وتُراقبها الإدارات المحلية الماليزية التي تُديرها حكومات الولايات التابعة لها، وتعكس القضايا البيئية الصاعدة ضعف الأداء الرقابي البيئي لحكومات الولايات على النشاطات والبرامج البيئية التي تحدث في إدارتهم، ويشير السيناريو السابق إلى ضعف العمليات الرقابية التي تؤكد صلاحية البرامج والنشاطات البيئية التي تُنظمها مجموعات متعددة الأطراف، وقد نصّت إدارة الرقابة الوطنية على أن عمليات التدقيق على البرامج البيئية لا تُنفذ قبل خمس سنوات، وذلك بسبب قيود تتعلق بمحدودية الوقت والمدققين (Buang, 2007)، وعليه؛ ينظر هذا البحث في الاختلافات والتشابهات في الأداء الرقابي البيئي بين اثنتين من الإدارات المحلية الماليزية (ألفا، وبيتا) بالتوازي مع دور المدققين الداخليين في إجراء التدقيق الرقابي البيئي في الحكومتين، وقد جمع هذا البحث النوعية البيانات من خلال مراجعة أعداد كبيرة من الوثائق، بالإضافة إلى مجموعة من المقابلات والمشاهدات غير الرسمية، ويستخدم البحث منهج دراسة الحالة مع تحليل وحدة واحدة متبوعاً بدراسة الحالات المتعددة لكل من ألفا وبيتا، ومن خلال نظرية الدور الاجتماعي لكاتز وكان (1978)؛ وصف البحث المحاور الوظيفية، والتفاعلية، والاجتماعية، ومن ثم؛ كشف البحث أن المدققين الداخليين بنوا أدوارهم من خلال ثلاث عمليات؛ هي تطوير التوقعات، وإنشاء منصة التفاعل، والاستجابة لتنفيذ برامج الرقابة البيئية، وبيّن البحث أن ألفا وبيتا كانتا أعلى كفاءة بسبب ستة معايير؛ هي الأسبقية في الرقابة البيئية، وشمولية الرقابة، وتكوين الفريق الرقابي، وإشراك مسؤول الجودة، وقائمة التدقيق، وإعداد تقارير نتائج التدقيق، وبعد ذلك، ومن خلال نظرية الدور الاجتماعي؛ حقق البحث في المنظور التفاعلي، وذلك لوصف منصة التفاعل في الأداء الرقابي البيئي التي طورها المدققون الداخليون، وتبيّن أن عمليات التدقيق العادية من مثل خطة العمل السنوية، والتدريب، ومذكرات المراجعة، واجتماعات الخروج، واجتماع مراجعة التدقيق، واجتماع لجنة الإدارة؛ كانت بمنزلة منصات تفاعل في تمكين خبراء الأداء الرقابي البيئي، ويمكن تعزيز أدوار سكرتارية التدقيق والتقانة والحاضرين في الاجتماع لتحسين آلية التفاعل بين المدققين الداخليين والمدقق لهم، واستناداً إلى

المنظور المعرفي في نظرية الدور الاجتماعي لمانتيري (2008)؛ يؤكد هذا البحث أن المدققين الداخليين يأخذون دور المحامي في ألفاء، ودور حل المشكلات في بيتا.



APPROVAL PAGE

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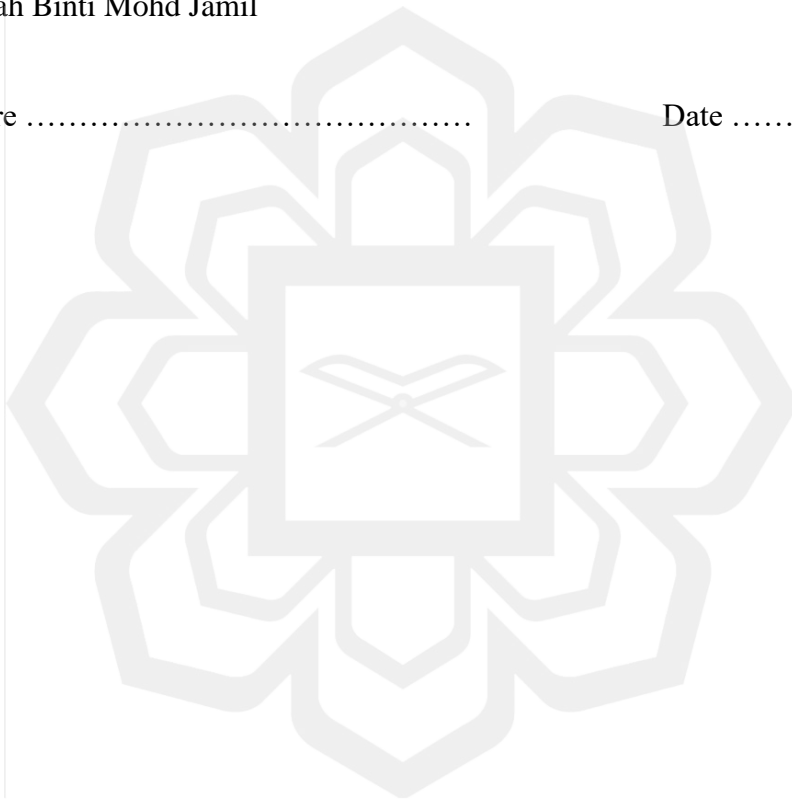
DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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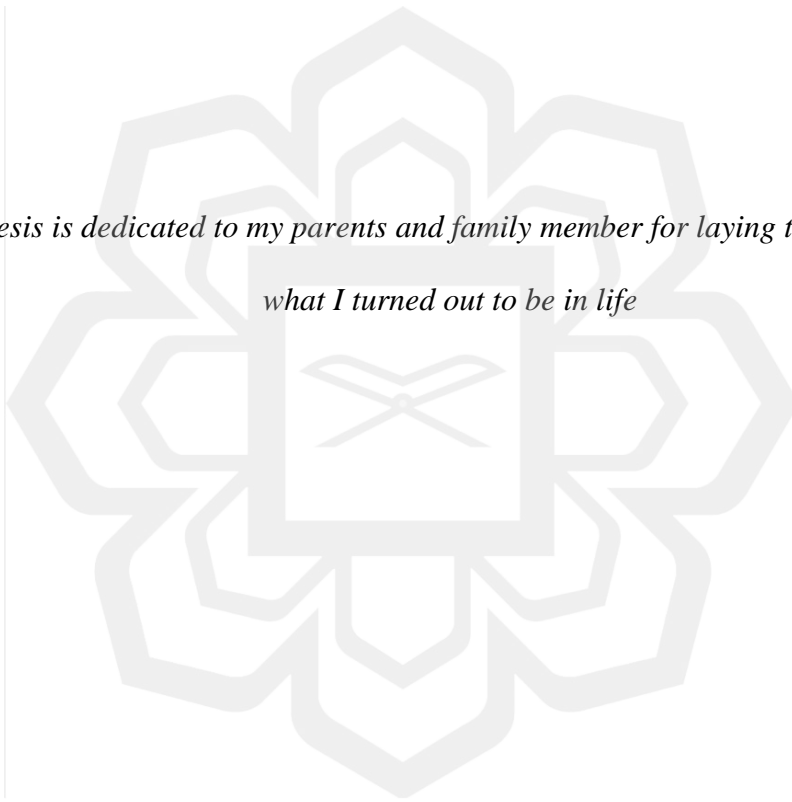
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*-This thesis is dedicated to my parents and family member for laying the foundation of
what I turned out to be in life*



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LIST OF ABBREVIATIONS

ACMC	Audit and Corporate Management Committee
CIRD	Corporate and International Relation Department
CSD	Community Services Department
DCIRD	Director of Corporate and International Relation Departments
DSWM	Director of Solid Waste Management and Public Cleansing Department
EAP	Environmental Auditing Practice
HAS	Head of Internal Audit Unit cum Secretariat
HIS	Head of the Internal Audit Section
HELI	Health and Environmental Linkages Initiatives
IAS	Internal Audit Section
IAU	Internal Audit Unit
ISO	International Standard of Organization
LD	Licensing Department
MLG	Malaysian Local Governments
MSD	Management Services Department
MOA	Memorandum of Audit
NGO	Non-Governmental Organization
NAD	National Audit Department
RC	Review Committee
SGK	State Government K
SGM	State Government M
SWM	Solid Waste Management and Public Cleansing Department

TCG	Those Charged with Governance
UNEP	United Nations Environmental Programme
USD	Urban Services Department
WHO	World Health Organization
YDP	Yang Dipertua



CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

It was indeed a globally alarming concern when approximately 12.6 million deaths among people were reported due to environmental-related diseases, including respiratory diseases, malaria, and dengue (World Health Organisation [WHO], 2019). Prior to this devastating report, both the United Nations Environmental Programme (UNEP) and the WHO had released a joint report under the Health and Environmental Linkages Initiatives (HELI) to serve as guidance for governments worldwide to overcome environmental-related issues (WHO, 2017). The instrument that determined the number of environmental risks, which was developed prior to this initiative, had been embedded in the said report (WHO, 2017). Environmental risks are measured by the proportion of the number of environmental-related diseases over the rates of economic growth (WHO, 2017).

Dengue fever, for instance, is an environmental-related disease that has caused death at an increasingly alarming rate on annual basis (WHO, 2008). In 2016, over 3.34 million cases of dengue fever were reported, in which 616,000 cases were fatal (WHO, 2019). In line with the global trend, the number of dengue fever cases in Malaysia has been increasing as well. The Ministry of Health Malaysia had announced that the number of dengue fever cases had increased sharply by 21.6% within a week between 30 April and 6 May 2017 (Fong, 2017). Therefore, a pressing need exists to uncover the factors that have been contributing to this devastatingly increasing trend.

The escalating rate of dengue fever cases has been due to the weather and poor management of cleanliness (Arumugam, 2016; Fong, 2017; WHO, 2019). Ravindran (2019) asserted that poor cleanliness management starts with inefficient garbage management process. Public awareness and participation have integral roles in managing and are part of the responsibilities of the local authorities. The Malaysian Health Deputy Director-General (Public Health), Datuk Dr Lokman Hakim Sulaiman, urged the public and local governments to work in tandem to solve this uprising issue (Fong, 2017). His opinion echoed that of the WHO (2019). As such, the activities executed by the Malaysian local governments (MLGs) in providing support to this effort should be identified.

The MLGs have initiated various community-based activities these past recent years to eradicate environmental-related diseases (Fong, 2017; Ravindran, 2019). Among the activities include distributing flyers, conducting games, and performing fogging. The MLGs hold the authority to issue fines to the public upon failing to comply with cleanliness regulation in their compound (Fong, 2017; Ravindran, 2019), despite the authority is restricted to their respective territories only.

Upon being governed by state jurisdictions, MLGs refer to independent organisations established in Malaysia (Othman et al., 2007). Each MLG has different regulations despite deriving from the same state (Nooi, 1989). Stemming from the varied regulations, each MLG has its own distinctive features. Despite this variance, all MLGs share a common ground in terms of their authority to generate their own income and to spend their own budget allocations (Nooi, 1989). Notably, the budget allocation expenditure is limited to the benefit of the community.

The involvement of MLGs in combating the uprising dengue cases is in line with the Local Government Act. The Act stipulates that the MLGs should maintain and

manage the welfare of the community (Local Authorities Ordinance 1961, 1961; Local Government Act 1976, 1976; Local Government Ordinance 1996, 1996). Some of the activities include maintaining public amenities, as well as social and environmental matters (Parliament of Malaysia, 2009). Since they hold the power to manage their funds, MLGs are responsible for ensuring that all activities meet their objectives.

In order to assess the achievement of their activities, the MLGs have set up their own internal audit department. This effort was initiated in year 2004 when the Director-General of Malaysia, through Treasury Circular No. 9, 2004, obliged the MLGs to establish their own internal audit department. The primary function of this internal audit department is to oversee the financial management of the MLGs (Ketua Setiausaha Perbendaharaan, 2004). Later in 2013, the Ministry of Finance issued the Malaysia Treasury Circular PS3/1 2013, which extended the role of the internal audit department to oversee the monitoring process of the operations within the organisations (Perbendaharaan Malaysia, 2013).

One primary responsibility of the MLGs is maintaining the environment by organising a range of environmental programmes. Therefore, the internal audit department perform auditing for all the related environmental programmes. This auditing process is called environmental auditing practices (EAPs). The literature depicts that EAP is a crucial component in monitoring environmental-related programmes (Hariz & Bahmed, 2013; Oviir, 2012; Viegas et al., 2013).

In order to facilitate the process of EAP implementation, some MLGs have adopted a standard published by the International Standards Organisation (ISO), particularly ISO 14001. The ISO 14001 refers to a standard in managing environmental management systems (SIRIM QAS International Sdn. Bhd., 2017). This deployment had led to various settings for EAPs across different MLGs. This has certainly raised

question about the differences in EAPs between MLGs with ISO 14001 certification and non-ISO 14001 certified MLGs.

1.2 PROBLEM STATEMENT

A range of environmental issues, including the rise of dengue cases and poor management of wastage, have been widely reported, which signify poor monitoring work performed upon the environmental programmes initiated by the MLGs in Malaysia (Fong, 2017; Idris, 2017; Utusan Malaysia, 2017). Even the Malaysian National Audit Department (NAD) (2015) has highlighted the occurrence of environmental issues in its report. Buang (2007) mentioned that the EAPs in MLGs were conducted based on the five-year interval due to the high number of auditees, shortage of internal auditors, and time constraint. Hence, the responsibility to conduct EAPs is determined by the respective MLGs (Buang, 2007). Similarly, the Department of Environment (DOE) (2011) outlined that the EAP was largely performed by ISO 14001 certified companies and multinational companies, which were audited by corporate environmental auditors. Those companies constituted less than 10% of the manufacturing companies across Malaysia. The absence of uniform EAP for MLGs (Soh & Martinov-Bennie, 2015; Maltby, 1995) had compelled the internal auditors in MLGs to draft their own guideline for EAP, thus vastly differing in accordance with respective MLG jurisdiction. For instance, some MLGs had adopted ISO 14001 - a standard that manages environmental system (SIRIM, 2017), while others adopted other different EAPs. Moreover, exploration on the implementation of EAPs by MLGs across Malaysia in practical reality is in scarcity.

The roles of internal auditors are mostly guided by the objectives outlined within the internal audit practices (Soh & Martinov-Bennie, 2015; Taminiou & Heusinkveld,

2017; Northcott & Chiang, 2012; Yusoff et al., 2016). The roles of internal auditors have kept evolving from year to year (Cook, Bommel, & Turnhout, 2016; Yusoff, Mohamed, & Hadi, 2016). The evolution of the roles of internal auditors depends on how the internal auditors construct their roles in EAP (Cook, Bommel, & Turnhout, 2016; Bardati, 2006; Kraus & Platkus, 2007), which is largely driven by the expectations of the stakeholders for internal auditors; either to provide consultancy or assurance services (Maltby, 1993). Besides, only a few studies have assessed how internal auditors construct their roles in EAP.

1.3 RESEARCH OBJECTIVES

The research objectives outlined for this study are as follows:

1. To explore the implementation of EAPs in ALPHA and BETA.
2. To determine how internal auditors in ALPHA and BETA construct their roles in EAPs.

1.4 RESEARCH QUESTIONS

The research objectives raised the following main research questions:

1. How do ALPHA and BETA implement their EAPs and how does the implementation process of EAPs differ?
2. How do the internal auditors construct their roles in EAPs for ALPHA and BETA?
 - a) How are functional expectations developed in EAPs?
 - b) How do the internal auditors interact with the other internal actors in EAPs?
 - c) How do the internal auditors respond to the implementation of EAPs?