

International Journal of Applied Business and Economic Research

ISSN : 0972-7302

available at <http://www.serialsjournals.com>

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Volume 15 • Number 24 • 2017

The Effects of Internal Auditor's Competency and Whistleblowing Mechanism on Fraud Detection in Malaysia

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Abstract: This study aims to examine the moderating effect of whistleblowing mechanism on the relationship between internal auditors' competency and their contribution to fraud detection. Specific competency elements examined in this study are academic qualification, Institute of Internal Auditor (IIA) membership, fraud experience, experience in accounting, finance and external audit, professional qualifications, internal audit certification and frequency of audit training. Questionnaires were mailed to 782 internal auditors of companies listed on Bursa Malaysia's main market. The result suggests that IAs with IIA membership positively influence their contribution in detecting fraud, however, surprisingly the IIA membership does not positively influence the IA's contribution in detecting fraud, when the whistleblowing mechanism is present in the organization. Meanwhile, fraud experience positively influences the internal auditor's contribution in detecting fraud in the presence of whistleblowing mechanism but fraud experience does not positively influence the IA's contribution in detecting fraud, when the whistleblowing mechanism is not present. However, even though whistleblowing mechanism is present, it does not moderate the relationship between the highly competent internal auditors that have other competency criteria namely; academic qualification, professional qualifications, internal audit certification, frequency of training and experience in accounting, finance and external audit and their contribution to fraud detection.

Keywords: Whistleblowing, internal auditor, fraud, competency, fraud detection

1. INTRODUCTION

The number of cases involving the organizational wrongdoings worldwide has tremendously increased over the years (Bowen, Call & Rajgopal, 2010). In the light of a number of huge corporate scandals such as Enron and WorldCom in the United States (US) have caused the whistleblowing to emerge, widespread and not only that, but the US Congress had enacted the Corporate and Auditing Accountability and

Responsibility Act 2002 which is commonly known as Sarbanes-Oxley Act (Tan & Ong, 2011; Eaton & Akers, 2007; Lacayo & Ripley, 2003). Similarly, Malaysia has experienced a several number of fraud and corruption cases such as the losses of RM250 million in National Feedlot Project and RM2.52 billion incurred in MAS which have to be borne by Government of Malaysia (Lim, 2012). However, the increasing number of fraud and corruption cases indicate that most people do not blow the whistle and the number of people who reported the misconduct is still low (KPMG, 2013). According to Lim (2012), the Whistleblowing Protection Act (WPA) 2010 will not fight corruption efficiently if the Official Secrets Act is not abolished and replaced with a new culture of transparency. Corporate collapses worldwide due to financial irregularities have caused huge monetary losses, negative image and bankruptcy to certain firms. Corporate fraud has been increasing and professionals believe that the trend is likely to continue (KPMG, 2013; Voon, Voon & Pua, 2008). This has highlighted the importance of corporate governance roles in the area of the investigation, detection and reporting of the fraud incidence in an organization. Internal auditor (IA) is one of the important components of corporate governance which play an essential role in assisting the management to detect fraud.

Institute of Internal Auditor (IIA) has issued a revised International Professional Practices Framework (IPPF) in year 2013 addressing the changing roles of IAs to evaluate the potential of fraud occurrences and how the firm manages fraud risk. To enable the IA address these recommendations, indeed it is important for IA to possess the required competencies to enable them execute this role effectively. Furthermore, Read and Rama (2003) provide empirical evidence about the role of IAs as recipient of whistleblowing report and emphasize that whistleblowing could contribute to an important role in the internal control environment via the IAs as the recipients of the whistleblowing complaints. Thus, it is important for an organization to establish an effective fraud prevention and detection method because it can reduce the opportunities of fraud from occurring (Bierstaker, Brody & Pacini, 2006) such as encouraging a culture of fraud awareness (PwC, 2012).

The motivation to conduct this study arises from two aspects. Firstly, in year 2007, the revised of Malaysian Code of Corporate Governance (MCCG) has included a new clause stating that the board should establish an internal control function hence, all listed companies are required to have an internal audit function (IAF). In addition, the increased focus on corporate governance particularly in the fraud areas have resulted in nearly all companies to have the role of IAF in some ways, the important roles of whistleblowing in minimizing fraud, ensuring an effective system of internal control and of IAs in whistleblowing activities. Secondly, past studies had investigated one angle either directly measuring the contribution of IA using external auditors' (EAs) responses such as in Suwaidan and Qasim (2010) and Haron, Chambers, Ramsi and Ismail (2004) or by using IA's attributes as a proxy to measure internal audit quality such as in Mat Zain, Zaman and Mohamed (2015), Mohamed, Mat Zain, Subramaniam and Wan Yusoff (2012) and Prawitt, Smith and Wood (2009). This study complements past studies by using the IAs' perception to examine the relationship between IAs and their contribution in fraud detection in detail by using seven measures of IA's competency and whether the IAs' contribution will be more effective when there is a whistleblowing policy exist in the organization.

In particular, this study is an extension of the previous study by Hamdan, Jaffar and Ab Razak (2017) which has examined the effect of IAs' competency (measured via academic qualification, fraud experience, experience in accounting, finance and external audit, professional qualifications, internal audit certification

and frequency of training) on their contribution to fraud detection (measured via the percentage of IA's contribution in relation to fraud detection activities in his/her organization). The differences from the earlier study by Hamdan *et al.*, (2017) are that in this study; the Institute of Internal Auditor (IIA) membership is included as one of the measurement for competency, whistleblowing mechanism has been included as the moderator and the measurement of IA's contribution to fraud detection (dependent variable) is based on the questions developed from the IPPF standard. Therefore, the objective of this study is to examine the moderating effect of whistleblowing mechanism on the relationship between IAs' competency and their contribution to fraud detection.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1. Fraud detection

ISA 240 on The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements, highlighted two types of fraud under intentional misstatements that are of concerned by the auditors namely;

1. Misstatements resulting from fraudulent financial reporting such as alteration of accounting record or supporting documents from which the financial statements are prepared. Fraudulent financial reporting often involves management override of controls.
2. Misstatements resulting from misappropriation of assets such as stealing physical assets or intellectual property and using a company's assets for personal use. This misstatement is often perpetrated by employees in small and immaterial amounts.

The primary responsibility for prevention and detection of fraud rests with firstly; those charged with governance of the entity which is defined in the International Standard on Auditing 260 as the person(s) or organization(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity and secondly, management. It is of essence that management with the oversight of those charged with governance focus on fraud prevention which may reduce opportunities for fraud activities and fraud deterrence which could persuade individuals not to commit fraud because of the likelihood of detection and punishment (IAS 240). Prevention is achieved by the deterring effect of early detection. Fraudsters are less likely to attempt fraud if they believe the risk of rapid detection is high even if detection does not prevent a fraud from happening in the first time, it can lead to preventing it from happening the second time and so forth (Hopwood, Leiner & Young, 2012). Thus, IAF is one of the control mechanism set up by the management of the company to specifically look at the internal control and risk aspects for the betterment of the company specifically to assist the management in preventing and detecting fraud.

2.2. IA Competency

IPPF (2013) under Attribute Standards 1210 on Proficiency states that IAs must possess the knowledge, skills and other competencies needed to perform their individual responsibilities such as by obtaining appropriate professional certification, qualifications and knowledge to identify the indicators of fraud. Concerning fraud activity, Attribute Standard 1210.A2 further state that IAs must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization. Meanwhile,

Attribute Standard 1230 - Continuing Professional Development states that IAs must enhance their knowledge, skills and other competencies through continuing professional development. The Continuing Professional Education (CPE) may be obtained through participation in activities such as membership, attendance at conferences, seminars and in-house training programs. Competence requires knowledge and professionalism that the auditor should acquire from education, on-the-job training and experience. Thus, legislators set requirements that must be met before people are qualified and entitled to perform audits (Paape, 2007).

The notorious fraud headlines worldwide such as in United States; Enron and WorldCom, in Malaysia; Perwaja Steel and 1Malaysia Development Berhad and other high-profile companies during the last decade have left the accounting profession with a very challenging task of restoring its public image. Therefore, the IAF has received greater attention as an important contributor to an effective corporate governance and quality financial reporting. Characteristics associated with the competency of IAs have been used in previous studies as independent variables concerning the extent of EAs' reliance on the internal audit work for instance; Mohamed *et al.*, (2012), Ho and Hutchinson (2010) and Messier and Schneider (1988). Previous studies on IAs competency explore elements such as internal audit training programs and professional certification (Mohamed *et al.*, 2012; Ho & Hutchinson, 2010; Mat Zain *et al.*, 2006) and IA's experience in auditing and accounting (Mohamed *et al.*, 2012; Suwaidan & Qasim, 2010; Messier & Schneider, 1988).

The internal audit department in an organization has a role of assisting the management to achieve their objectives and add value to organizational operations by evaluating and improving the effectiveness of risk management, internal controls and government processes. Thus, to achieve this, the internal audit department is required by the IIA to conduct a continuous internal quality assessment and an external assessment of internal audit department at least once in five years (Walter and Guandaru, 2012). It was found that most internal audit department in the state owned corporations in Kenya have a very low compliance to the quality assurance standards and among the reasons are non-IIA membership (Walter and Guandaru, 2012). Furthermore, Walter and Guandaru (2012) emphasized that becoming a member to a professional body such as IIA will positively influence compliance to the internal auditing standards by the internal audit departments worldwide. The IAs assist the management to identify areas where there are no controls or the controls are weak therefore, increase the risks such as frauds, misappropriation of assets, errors in accounting records and corruption. Thus, it is of essence that IAs' work is consistently at high quality. Becoming IIA member, will ensure that the IAs comply to the internal audit standards at all times, know their roles, the required skills and knowledge and the characteristics that IAs should portray in the organization. In turn, this will help to increase the IAs' quality on a whole and they will be able to execute a quality work which may lead to fraud detection. Based on the above discussion, this study infers that IA who has IIA membership will positively influence IA's contribution in fraud detection.

According to Beasley, Carcello, Hermanson and Lapides (2000), EAs tend to place more reliance on IAs that have professional qualification in accounting or auditing. Furthermore, the result of their study indicates the more number of staff in the IAF with professional qualifications in accounting or auditing the more likely they will be able to detect or deter financial statement fraud. Likewise, the elements of competence have been used by Prawitt, Smith and Wood (2009) whereby the result indicates the more competent the IAs are, the more likely they will understand the causes and indicators of management bias

in accounting accruals resulting the earnings management activity to be prevented. Another study has used the academic level, experience, skill and the effort of auditors pursuing professional development as the element of auditor's competence levels (Baharuddin, Shokiyah & Ibrahim, 2014). Differently, this study investigates the effect of individual IAs competency elements on their contribution to fraud detection.

Previous studies have indicated the possibility of IAs' level of education affecting the IAs' ability to perform fraud-related tasks such as detect fraud. Yang, Moyes, Hamedian and Rahdarian (2010) reported that IAs' education level could have influence the level of fraud-detecting effectiveness in Iran. However, another study found no significant effect of auditor's educational level on auditor's perceived ability to assess fraud risk (Gullkvist & Jokipii, 2015). While these prior studies account education level as a demographic or a control variable, Baharuddin *et al.*, (2014) used education level as a component of auditors' competence. The more educated IA will know more techniques thus, can perform quality audit including detecting and preventing frauds. Due to mixed and limited views and empirical evidence on this matter, this study infers that the level of IAs' academic qualification positively influence IAs' contribution in detecting fraud. As a result of separation of ownership and control, agency theory states that IA is perceived as an effective monitoring mechanisms in an organization performing internal audit works on behalf of the AC and board of directors (BODs). Thus, knowledge via relevant academic qualification is an important element to IAs in executing their roles. Therefore, this study infers that academic qualification will positively influence IA's contribution in fraud detection.

Prior research also suggested that auditor should have professional certification or qualifications if they are to lead a good quality audit (Cahill, 1994) because a functional department with more staff having professional qualifications in accounting or auditing will undertake duties more efficiently. Thus, it is reasonable to expect that IAs with such qualifications would be more competent in discharging their responsibilities. Certified Internal Auditor certification (CIA) is the only globally accepted designation for IAs and the standard by which individuals demonstrate their professionalism, commitment in the internal audit profession, knowledge and expertise in internal auditing. Likewise, IAs with CIA certificate enhances the professionalism of IAs (Lambert and Hubbard, 1989; Albrecht *et al.*, 1988) and the CIA designation indicates a higher level of competence (Gramling & Myers, 1997). In addition, management has less incentive to manage earnings if they realized that a competent IAF is monitoring their accounting choices (Prawitt *et al.*, 2009). Therefore, these studies concur with Archambeault, De Zoort and Holt (2008) and Brown (1983) that one of the criteria to assess IA's competency is based on their professional certifications such as CIA, Certified Public Accountant (CPA) and Chartered Accountant (CA).

In another study, Flesher and Zanzig (2000) stated that internal audit departments should have IAs who possess a variety of skills to enable them to undertake audits of areas beyond financial activities. Based on the IIA's 2010 Global Internal Audit Survey Report, technical skills were rated as highly important for IAs. These studies imply that professional certification and other certification, in which technical skills can be acquired, have positive influence on IAs quality audit work. A quality internal audit work leads to an effective role of IA as one of the internal control mechanism to monitor the organization and report to the AC and BODs. This is to ensure the organization is being managed well by the managers along with the objectives of the organization. In addition, IAs help the management to detect fraud in order to protect the wealth of the shareholders as the owner of the company. This study infers that internal audit certification has positive relationship on IAs' contribution in fraud detection. Additionally, this study also predicts there

is a positive relationship between accounting or auditing professional qualification and IAs' contribution in fraud detection.

Previous studies also found that the ability of EAs and IAs to detect a risk of fraud may significantly increase with IAs' experience levels (Carpenter *et al.*, 2002; Moyes & Hasan, 1996; Bernadi, 1994). Another study found that EAs and IAs who have experiences in detecting fraud using red flags perceived that red flags are very effective in detecting fraud compared to those who have minimal or no experience in fraud-related areas (Yang *et al.*, 2010). Others studies also assess the competency of the IAF based on IA's experience in auditing and accounting (Suwaidan & Qasim, 2010; Messier & Schneider, 1988). IAs with vast experience in fraud related areas, auditing, finance and accounting are likely to detect weaknesses and make recommendations concerning the procedures and operation. IAs being the feedback mechanism would be able to help the principals to overcome the information asymmetry problem and to monitor the activities of agents to ensure it is cost-efficient. Therefore, this study infers that experienced IAs will contribute more to detect fraud. More specifically, it is expected that the higher the proportion of IA staff with prior working experience in fraud related areas, the more effective the IAF in detecting fraud. Likewise, it is also expected that the higher the proportion of IA staff with prior working experience in accounting, finance and external auditing areas, the more effective the IAF in detecting fraud.

Past studies have also revealed that internal audit training programs is also an element of internal audit competency (Mohamed *et al.*, 2012; Ho & Hutchinson, 2010; Mat Zain *et al.*, 2006; Brown, 1983). Auditors need to gain the required knowledge and skills through relevant training programs. It is part of the IIA's Code of Ethics that competency is based on the following rules:

- "Internal auditors shall engage only in those services for which they have the necessary knowledge, skills, and experience" (Rule 4.1)
- "Internal auditors shall continually improve their proficiency and the effectiveness and quality of their services" (Rule 4.3)

Previous studies such as Mohamed *et al.*, (2012) and Prawitt *et al.*, (2009) have used training as part of measuring IA's competency. The agency relationship in a firm is a function of the ownership and control structure of the entity thus, attending audit trainings would enhance the IA's capability in checking the internal controls and in detecting any irregularities in the flow of transactions, records or operation process of the company. In turn, this study infers that audit related trainings attended by the IAs will have positive influence on the IAs' contribution to detect fraud.

Overall, the preceding discussions suggest that the competency elements of the IA have positive relationship on the IA's contribution to detect fraud. Therefore, it is expected with such competency, the IA will be able to contribute more effectively in fraud detection. In general, the following hypothesis is proposed:

- H1: IA's competency (in terms of academic qualification, Institute of Internal Auditor (IIA) membership, fraud experience, experience in accounting, finance and external audit, professional qualifications, internal audit certification and frequency of audit training) has positive effect on IA's contribution in fraud detection.

A higher quality AC strengthens the corporate governance in an organization by ensuring the whistleblowing mechanism is in place and working thus, the IA will be able to contribute better in fraud

detection when the whistle blowing policy is safeguarded (Lee & Fargher, 2017). More people will have the courage to reveal the wrongdoings when they are aware that whistleblowing policy exist and working in organization. Whistleblower Protection Act (WPA) has been introduced in 2010 which is a legal protection introduced in Malaysia to protect the whistleblower with the prime objective to reduce misconduct and fraud in an organization. However, Nadzri (2013) found that the frequency of corruption is still increasing. This finding supports Rusniah (2009) which highlighted that even having a legislation to protect whistleblower, will not guarantee the employee's assurance to reveal the misconduct. In relation to this issue, Shamsuddin, Kasturi, Mohd Ramlan, Zamros and Mohd Sekri (2015) examined the level of perception and intention of the Malaysian Enforcement Agencies' employees such as from Royal Malaysian Police and Malaysian Anti-Corruption Commission on the WPA 2010. This is because the whistleblower normally whistle blow through the enforcement agencies whereby these agencies are expected to play their role effectively by reviewing the current situation and manage or investigate the whistleblowing cases (Shamsuddin *et al.*, 2015). Their results reveal that ethics and the locus of control have positive correlation on the perception and intention of the Malaysian Enforcement Agencies' employees on WPA 2010. Furthermore, Shamsuddin *et al.*, (2015) emphasized that enforcement agencies should conduct more courses, trainings and workshops to their employees for better understanding on WPA 2010 and this will motivate employees to have a more decent moral value and behaviour in their working environment. Thus, with better understanding and acceptance of the WPA, it is hoped that employees will have courage to whistle blow.

Prior literatures so far evidenced that there has been no study on the effect of IA's competencies with whistleblowing as the moderator on IA's contribution to fraud detection and very limited studies concerning the relationship of IAs' characteristics and whistleblowing. For instance; Ahmad, Smith, Ismail and Yunos (2011) studied on internal whistleblowing intentions among IAs in Malaysia however, the factors examined were the demographic factors of the IA (gender, age and tenure), IA's ethical judgement and IAs with internal locus of control and the effects of those factors on the likelihood of the IAs to whistle blow.

When there is a whistleblowing policy in place, it indicates that the country and management is proactive to manage fraud thus, will be easier for the IAs to detect fraud. Having the right competencies will further enhance their contribution to fraud detection or assist the investigation of the whistleblowing cases reported.

Based on the preceding discussion, this study expects highly competent IAs who have a relevant degree, acquire certification in internal audit, member of IIA, have professional qualification, have experience in fraud related areas, experience in accounting, finance or auditing and undergone audit related training will contribute positively in detecting fraud when a whistleblowing mechanism exists in the organization. This is because more internal employees or outsiders will come forward to whistle blow when they know that the organization has a whistleblowing mechanisms such as organization's whistleblowing policy, whistleblower hotline telephone number, whistleblowing committee and email address where the whistleblowers can communicate their observations and this whistleblowing could assist the IAs in detecting fraud. In addition, IAs themselves are likely to whistle blow to the management, directors or the extent to Malaysian Enforcement Agencies when they understand the WPA due to the workshops and trainings that the organization has exposed them to. Therefore, the following hypothesis is proposed:

H2: Highly competent IA will contribute more in fraud detection when a whistleblowing mechanism exists in the organization.

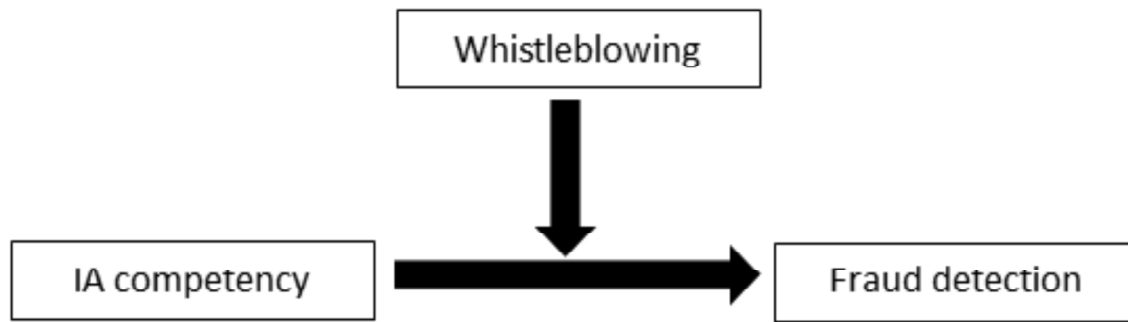


Figure 1: Framework

2.3. Whistleblowing

Near and Miceli (1985, p.4) defined whistleblowing as the “the disclosure by organization members (former or current) of illegal, immoral or illegitimate practices under the control of their employers to persons or organizations that may be able to effect action.” Thus, the definition indicates that whistleblowing can be either made internally where the wrongdoing is reported to parties within an organization or externally where it is being reported to parties outside the organization with the objective to rectify corporate wrongdoings and misconduct in an effective manner (Ahmad, Smith & Ismail, 2012). Internal whistleblowing is preferred because external whistleblowing can cause serious damage to the organization as compared to internal whistleblowing (Park & Blenkinsopp, 2009).

The famous cases of corporate debacles such as Enron and WorldCom have triggered whistleblowing studies. Past studies agree that whistleblowing, as an internal organizational structure is fundamentally important for preventing and deterring corporate wrongdoings and questionable acts (Kaplan & Schultz, 2007). According to Vinten (1992), whistleblowing may be harnessed for the benefit of the organizations and organizations that implement whistleblowing will be able to improve their effectiveness and efficiency (Kaplan & Schultz, 2007).

In another perspective, the unique position of IAs allows them to know more about the organization than anyone else thus, they may also be potential whistleblowers (Xu & Ziegenfuss, 2008; Pearson, Gregson & Wendell, 1998; Miceli, Near & Schwenk, 1991; Arnold & Ponemon, 1991). Furthermore, Pearson *et al.*, (1998) argued that when IAs report any illegal activities of an organization to higher management, BODs or government agencies it can be considered as an act of whistleblowing. This meets the definitions of whistleblowing whereby the whistleblower is an organization staff who has access or privilege access to important corporate information (Tsahuridu & Vandekerckhove, 2008; Jubb, 1999; Near & Miceli, 1985). Tsahuridu and Vandekerckhove (2008) further defined that whistleblowers know exactly what is going on at work and their nature of work grant them access to specific information about the organization. In line with this, Ahmad *et al.*, (2012) contended in their study that reporting by IAs within the organization should be regarded as internal whistleblowing acts.

There are limited whistleblowing studies that have used IAs as subject of interest and so far no studies have used whistleblowing as a moderating variable. Past studies have examined what motivates people to whistle blow and the factors that caused the employees to whistle blow. In the absence of sound

internal reporting channel, employees who discover the wrongdoings in an organization will not disclose their observation to anyone (Near & Miceli, 1995). Whistleblowing form part of the internal control system which a company adopts to achieve good corporate governance practices (Tan & Ong, 2011). Since IAF is perceived to be one of the effective monitoring mechanisms that provide effective support to AC and BODs (SC, 2012; IIA, 2009) thus, whistleblowing mechanism may enhance the IAs' effectiveness in investigating, monitoring and reporting matters pertaining the organization. This is because previous research evidenced that whistleblowing is one of the effective ways to detect fraud and wrongdoings in an organization (Mak, 2007). In turn, a more conclusive and quality reporting could be reported to the management, AC and BODs which could reduce the gap of information asymmetry of AC and other stakeholders. Furthermore, the Committee of Sponsoring Organizations (COSO), (1992) has strongly suggested for whistleblowing mechanism to be implemented as an effort to maintain an effective control environment in an organization.

Based on the above discussion, previous studies have indicated that whistleblowing is an important mechanism that could assist the management in detecting fraud and protect an organization from fraudulent attempts. In addition, majority of the organizations worldwide are implementing the whistle blowing policies and whistleblower protection laws and if implemented successfully in an organization, it would lead to a good early warning system to the organization to prevent the misconduct before the case worsening (Tan & Ong, 2011). This supports Ponemon (1994) who emphasized that whistleblowing can play an essential role as a preventive and detective control if the organization seriously incorporates reporting mechanisms such as whistleblowing to disclose any wrongdoing into its internal control structure. Based on the above discussion leads to the third hypothesis:

H3: There is a positive effect of whistleblowing mechanism in an organization on IA's contribution in fraud detection.

2.4. Agency Theory

According to Jensen and Meckling (1976), the contract between the principal (capital provider or owner/ shareholder) and the agent (board of directors) raises two important issues; moral hazard and adverse selection. Theoretically, due to the separation of ownership and control, the monitoring role is ultimately borne by BODs in supervising the managers on behalf of the stakeholders especially shareholders (Fama & Jensen, 1983). Practically, the monitoring task is commonly delegated to the audit committee (AC) and detailed work procedures are accomplished by the IAF (Cohen *et al*, 2007).

IA acts on behalf of the agent who is the BOD of the company. Due to that, in the context of this study, IA will be viewed as the proxy of the agent. Thus, in line with the present development of corporate governance, the IAF is perceived to be one of the effective monitoring mechanisms and information systems that provide effective support to the AC and BOD (SC, 2012; IIA, 2009). This concurs the suggestion by Fadzil, Haron and Jantan (2005) that the reporting of significant audit results and recommendations by the Chief Audit Executive (CAE) to the president and top management team members is a symbol of their contribution in improving the organization as a whole and Adams (1994) that IAF should be able to reduce the gap of information asymmetry of the AC and other stakeholders. In addition, the agency problem is hoped to be reduced when the IAs monitor the organization in particular, management actions and decisions to ensure they are consistent with the shareholders' interest.

3. METHODOLOGY

3.1. Study design

The survey instrument was developed based on Mohamed *et al.*, (2012), Mat Zain *et al.*, (2006), Carey *et al.*, (2006), Felix *et al.*, (2005, 2001) and Goodwin and Yeo (2001). The survey captures information on the profile of the IA and his or her organization, the competency elements of the IAF, the existence of whistleblowing mechanism within the organization and the fraud detection is based on the items in IPPF standard. The information on the competency elements includes academic qualification, fraud experience, experience in accounting, finance and external audit, accounting professional qualifications, internal audit certification, IIA membership and frequency of training attended annually. The survey was validated through pilot study and the actual survey was mailed to 782 companies listed in Bursa Malaysia's main market. Each company is represented by one IA and out of the 782 companies, only 135 participated in the survey.

3.2. Variables and measurements

This study investigates whether whistleblowing mechanism moderates the relationship of IAs' competency elements with fraud detection. The measurement of dependent, moderator and independent variables used in this study are described in the subsections below. Our model also includes the control variables which are inherent risk (IR) and return on assets (ROA).

1) Dependent variable: The dependent variable of this study is the contribution of IA in fraud detection (FRAUD) whereby 22 questions were developed based on the standards in the IPPF. The feedbacks from the IAs are measured by using a score in percentage. Lower fraud detection activities in an organization is reflected by the lower score while higher fraud detection activities are reflected by a higher score. For companies in Malaysia, the average score for FRAUD is 84.7% with a standard deviation of 9.55% thus, indicating that fraud detection is actively being carried out by all companies.

2) Moderator variable: The moderating variable is the presence of whistleblowing mechanism in the organization (WHISTLE). It is measured using the dichotomous scale to elicit a 'Yes' when whistleblowing mechanism is present in the company and a 'No' if otherwise. This study examines the relationship of whistleblowing as a moderator variable and the effectiveness of highly competent IAs on their contribution to fraud detection. Out of the 135 companies, only 73.3% of the companies have whistleblowing mechanism.

3) Independent variables: The IA's competency elements are the independent variables of this study. First, the IA's academic qualification is measured as the proportion of the IAs in IAF who holds at least a bachelor degree. Second, the internal audit certification and IIA membership are, respectively, measured as the proportion of the IAs in IAF who has the certification and the proportion of IAs who are IIA members. Similarly, IA's professional qualification is measured as the proportion of the IAs who have professional accounting or auditing qualification. Next, IA's experience in fraud related areas is measured as the proportion of IAs who has such experience. Likewise, those who have experience in accounting, finance or auditing related areas (Exp) is also measured as a proportion of experienced IAs in IAF. Finally, the seventh variable is training which measures the average frequency of audit related trainings annually.

3.3. Statistical method

Multiple linear regression analysis is adopted to collectively test the effects of independent, control and moderator variables against the dependent variable. The following regression model is estimated by the ordinary least squares (OLS) method to test the main effects and the interaction terms between the existence of whistleblowing mechanism and each IA's competency elements.

$$y = \beta_0 + \beta_1 \text{WHISTLE} + \beta_2 \text{IR} + \beta_3 \text{ROA} + \sum_{i=4}^{10} \beta_i X_i + \sum_{j=1, i=4} \beta_j (\text{WHISTLE} * X_i) + \varepsilon \quad (1)$$

where

y = FRAUD

β_0 = constant of the model

β_1 = coefficient of WHISTLE

β_2, β_3 = coefficients of control variables (IR and ROA)

β_i = coefficient of i -th competency variable

β_j = coefficient of j -th interaction between WHISTLE and i -th competency variable

WHISTLE = the existence of whistleblowing mechanism in the organization where 1 denotes exist and 0 denotes non-existence.

X_i = i -th independent variable (academic qualification, internal audit certification, IIA membership, professional qualification, fraud experience, experience in accounting, finance and external audit and training)

ε = error term

The regression model is valid if it passes the F -test such that its p -value is significant at a specified significance level. Each factor or independent variable can be concluded to have a significant effect on FRAUD with a magnitude of β_i if its p -value is smaller than a specified significance level. The significance of $\hat{\beta}_j$ suggests the interaction term between WHISTLE and an IA's competency element, say experience in fraud, indicates that the existence of whistleblowing mechanism in the organization moderates the relationship of the proportion of IAs with fraud experience on fraud detection.

4. EMPIRICAL RESULTS

4.1. Demographic profile

Table 1 presents the descriptive statistics for the demographic profile of this study. Majority of the respondents are male which is 66.7 percent of the total respondents. Majority of the IAs amounting to 55.7 percent perceived that IAF in their organization has not been used as training ground for future management positions. 62.7 percent of the total respondents perceived that the respondent or internal audit staff encounters 'red flags' of fraud in the past. It is also discovered that 60 percent or 81 respondents perceived that the respondent or internal audit staff detected fraud in the existing organization in the past.

Table 1
Descriptive statistics

<i>Items</i>	<i>Frequency</i>	<i>Percentage</i>
Gender of respondent		
Male	90	66.7
Female	45	33.3
Total	135	100.0
IAF as training ground		
No	73	55.7
Yes	58	44.3
Total	131	100
IA encounters 'red flags' of fraud in the past		
No	50	37.3
Yes	84	62.7
Total	134	100
IA detected fraud in the existing organization in the past		
No	54	40
Yes	81	60
Total	135	100

4.2. Regression Analysis

The regression model in Equation (1) was estimated to examine the effects of the main variables and the interaction terms between independent variables and the moderator variable (WHISTLE) on the dependent variable (FRAUD). The estimations of the full model, is shown in Table 2.

Table 2
Estimates of regression model

<i>Variables</i>	<i>Estimated coefficient</i>	<i>Standard error</i>	<i>t-value</i>	<i>p-value</i>
Constant	80.049	4.132		0.000
WHISTLE	3.310	4.351	0.761	0.448
IR	0.059	0.043	1.367	0.174
ROA	0.175	0.123	1.425	0.157
Academic qualification	1.610	17.975	0.090	0.929
IA Certification	13.847	9.581	1.445	0.151
IIA Membership	12.358	5.099	2.424	0.017
Professional Qualification	-2.629	4.996	-0.526	0.600
Experience in Fraud	-7.295	5.664	-1.288	0.200
Exp	-9.603	6.282	-1.529	0.129
Training	1.193	1.292	0.923	0.358

contd. table 2

<i>Variables</i>	<i>Estimated coefficient</i>	<i>Standard error</i>	<i>t-value</i>	<i>p-value</i>
WHISTLE*Academic qualification	2.069	19.188	0.108	0.914
WHISTLE*IA Certification	-10.978	11.258	-0.975	0.331
WHISTLE*IIA Membership	-17.107	6.017	-2.843	0.005
WHISTLE*Professional Qualification	-2.131	6.346	-0.336	0.738
WHISTLE*Experience in Fraud	10.634	6.416	1.658	0.100
WHISTLE*Exp	7.575	6.847	1.106	0.271
WHISTLE*Training	-0.979	1.555	-0.630	0.530
Adjusted R ² = 0.107*				

Note: *The value is significant at 5% level.

The results in Table 2 show that most competency variables, whistleblowing mechanism (WHISTLE) and interactions between competency and WHISTLE are insignificant at 10% (p -value > 0.1) thus suggesting that they do not have significant influence on IAs' contribution to fraud detection. The adjusted R-square is 0.107 which is significant at 5% level indicates that only 10.7% of the IAs' contribution to fraud detection can be explained by the variables under study. The regression model is re-estimated again after removing the insignificant variables. The estimations of the final model are shown in Table 3.

Table 3
Estimates of regression model

<i>Variables</i>	<i>Estimated coefficient</i>	<i>Standard error</i>	<i>t-value</i>	<i>p-value</i>
Constant	80.757	3.542	22.799	0.000
WHISTLE	2.479	3.287	0.754	0.452
IR	0.057	.042	1.358	0.177
ROA	0.184	.117	1.573	0.118
IIA Membership	10.067	4.631	2.174	0.032
Experience in Fraud	-10.063	4.405	-2.285	0.024
WHISTLE*Experience in Fraud	11.835	5.171	2.289	0.024
WHISTLE*IIA Membership	-15.311	5.435	-2.817	0.006
R ² = 0.136**				

Note: **The value is significant at 1% level.

The overall fit of the final model has the F-statistics of 4.001 and a p-value of 0.001 thus, indicating that the model is a good fit. The adjusted R-square of the model is 0.136 suggests that 13.6% of the variation in IAs' contribution to fraud detection can be explained by the variables under study. Based on Table 3, whistleblowing mechanism (WHISTLE) is insignificant at 10% (p -value > 0.1) thus, indicating the existence of whistleblowing mechanism does not significantly influence the IAs' contribution to fraud detection. However, the interactions between WHISTLE and experience in fraud and between WHISTLE and IIA membership are significant at 5% level. Hence, these results suggest that when whistleblowing mechanism exists in the organization:

- IAs who have experience in dealing with fraud contribute more in fraud detection.
- IAs who are IIA members contribute less in fraud detection.

For organizations without whistleblowing mechanism, the results in Table 3 imply that organizations with higher proportions of IIA members in their IAF significantly contribute more in fraud detection. While, the higher proportions of experienced IAs in fraud-related tasks, the lower their contribution in fraud detection.

5. DISCUSSION

Our first finding is that a highly competent IAs with high experience in dealing with fraud will contribute more in fraud detection when a whistleblowing mechanism exist in the organization. This is because more whistleblowers will have the courage to whistle blow when there is a whistle blowing policy in the organization and the WPA 2010 being in place. Hence, the information provided by the whistleblowers could help the IAs in detecting the fraud and could save the IA's time to investigate the fraud cases. Furthermore, with the existence of highly experience IAs in handling fraud related matters could assist the management (agent) better in solving the misconduct or wrongdoings reported by the whistleblowers. This concur with Read and Rama (2003) which highlighted that the receipts of whistleblowing complaints by the IAs was positively associated with involvement of internal auditing in monitoring compliance with corporate code of conduct. Thus, IAs could execute their work better as the internal control mechanism engaged by the management who is the agent for both the BODs and shareholders as the principals.

However, the higher proportion of experienced IAs in an organization was found significantly contributing less in fraud detection. This is because when there is no whistle blowing mechanism, the potential whistleblowers do not know the channel to report and end up keeping their observation or evidence just to themselves. Therefore, when the whistleblowing mechanism does not exist in an organization, it is very unlikely that whistleblowers have the courage to reveal the misconduct because fear of their job security in the organization. Consequently, without any clues or observation reported, it will be very challenging for the IAs to detect fraud since nowadays fraud is sophisticatedly done and involve collusion between employee and management such as Chief Executive Officer and collusion with outsiders. In turn, this could place the organization in the state of jeopardy and high risk.

Another finding from this study is that IAs with IIA membership positively influence their contribution in detecting fraud. This result is justified because their position as IAs and at the same time as employee in the organization allows them to understand better about their organization as compared to anyone else (Ahmad *et al.*, 2011). According to IIA (2017), as part of the IA's role in giving assurance on internal controls thus, they should be given the rights to investigate the incidents reported in the whistleblowing reports. Internal audit's role can include promoting whistleblowing best practice, testing and monitoring systems and advising on change where it is needed. But the ultimate operational responsibility for whistleblowing procedures lies with executive management reporting to the board. Furthermore, earlier studies have claimed that IAs may also be potential whistle blowers (Xu and Ziegenfuss, 2008; Pearson *et al.*, 1998; Miceli *et al.*, 1991; Arnold & Ponemon, 1991) when it was part of their role and responsibility according to the internal audit standard to report or communicate the wrongdoings within the organization to the higher management, BODs or government agencies (Pearson *et al.*, 1998).

However, interestingly, having IIA membership with the presence of whistleblowing mechanism does not contribute to the IA's contribution in fraud detection. This could be due to the fact that IAs lack of knowledge on the whistleblowing procedures and in managing the whistleblowing activities. Lyscom (2017) emphasized that IAs could play a key supportive role in ensuring the boards have an effective whistleblowing policy and that the role of IAs could include being a point of contact, investigating complaints particularly if they relate to fraud or corruption, dealing with the complaint if those with day to day responsibility (such as HR, legal or compliance) are implicit in the complaint, managing an external provider and giving advice, supporting the board and audit committee's oversight role and incorporating key control weaknesses identified in the audit planning framework. In addition, Lyscom (2017) highlighted a survey conducted by IIA revealed that 41% of CAEs said they had operational responsibility for their organisations' whistleblowing arrangements however, 31% of the CAEs reported to have lacked confidence in the actual procedures. Interestingly, the survey found that 57% of CAEs said that their organisations did not train staff who are specifically named within the policies, while 59% said that they may include personal grievances and complaints in their whistleblowing reports.

For other competency elements (specifically; possessing academic qualification, professional qualifications, internal audit certification, frequency of trainings and experience in accounting, finance and external audit), the existence of whistleblowing mechanism was found not moderating the effect of highly competent IA on IA's fraud detection. In the context of other competency elements, the result of the study indicates that whistleblowing mechanism is not an important criterion to exist in an organization in order for the IAs with other competency elements mentioned above to detect fraud. Based on this findings, the top management and BODs should encourage a positive culture and display good tone at the top and good example which would motivate employees to do the right things and have more decent moral value and behaviour in their working environment. Among the initiatives that can be conducted by top management in an organization are conducting road shows and workshops on the purpose as well as the importance of whistleblowing and make known or refresh the existence of WPA 2010 to protect the whistleblowers. Relevant authorities such as Malaysian Institute of Corporate Governance (MICG) and agencies such as Malaysian Institute of Accountants or other professional bodies may formulate the strategies to enhance the enforcement of WPA to be more effective thus, more employees are likely to come forward and reveal their discoveries of misconduct in their organizations. In turn, it is hoped that this effort will significantly influence the highly competent IAs (with other competency elements such as possessing higher academic qualification, professional certifications, attended audit-related trainings frequently and having vast experience in accounting and auditing) to contribute more in fraud detection in the future.

Overall, our study was able to support the hypothesis that highly competent IA contributes more in fraud detection when a whistleblowing mechanism exists in the organization. This statement is true for IAs with fraud experience only. However, this study did not support the hypothesis that there is a positive effect of whistleblowing mechanism in an organization on IA's contribution in fraud detection. Therefore, the finding indicates that the whistleblowing policy moderates the relationship between IA competency (fraud experience and IIA membership) and IA's contribution to fraud detection. Besides that, this study did not fully support the hypothesis that each competency element has positive influence on IA's contribution in detecting fraud. Our findings showed that when whistleblowing policy is involved, most of the competency

elements have insignificant effect on IA's contribution to fraud detection. Exceptions for IAs with fraud experience and IAs with IIA membership whereby they have different effects on fraud detection.

6. FUTURE RESEARCH AND CONTRIBUTIONS FROM THE STUDY

Since previous studies concerning the relationship between whistleblowing and audit quality are limited thus, more similar studies could be done to explore the effect of other independent variables such as auditor's gender and ethnicity with the presence of whistleblowing mechanism as the moderator on the audit quality. In fact, whistleblowing variable in the future could also be tested as independent variable instead of moderating.

The respondents for this study is the IAs thus, it would be interesting next to analyse the feedbacks from the perspective of the EAs.

The study contributes by highlighting to the senior management and BODs, the importance for the whistleblowing mechanism to be implemented in all the organizations whereby the information from the whistleblower could possibly assist the IAs in detecting fraud or preventing fraud from happening. In this study, only 73.3% of the organizations responded has whistleblowing mechanism. Thus, more appropriate measures could be taken in the future by the respective BODs and management to enforce the implementation of whistleblowing mechanism in their organizations.

Furthermore, based on the findings of this study, the senior management and the regulators (such as the Malaysian Institute of Accountants (MIA) and IIA, Malaysia) may formulate the strategies to promote and enhance the whistleblowing mechanisms among the IAs. This would include incorporating measures to ensure the IAs are knowledgeable in the whistleblowing procedures, the WPA and the management of the issues highlighted by the whistleblower.

7. CONCLUSION

Top management of the organization should be more proactive in educating the staff on whistleblowing mechanism such as doing roadshow to explain the purpose of whistle blow and encourage more whistleblower come forward to reveal any misconducts. In particular, initiatives should be implemented by the IAF to ensure the IAs understand the whistleblowing procedures and the appropriate way to manage the whistleblowing activities. The control environment in an organization should also be conducive for the whistleblowing mechanism to be effective such as, the tone at the top should nurture the culture of transparency and honesty at all levels and implement the whistleblowing mechanism with the reassurance of the protection given to the staff who whistle blow. Hence, the staff will know that management is very serious in preventing misconduct and detecting fraud. In addition, the top management should consider providing more fraud hotlines, improve the whistleblowing policy and establish forensic accounting department in the organization in order to enhance the fraud detection and prevention mechanism in the organization.

ACKNOWLEDGEMENT

The authors gratefully acknowledge the financial support from the Ministry of Higher Education Malaysia, under the FRGS grant (FRGS/1/2015/SS01/MMU/01/1).

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