

**ICFC
2022**



e-PROCEEDINGS

**THE 12th
INTERNATIONAL CONFERENCE
ON FINANCIAL CRIMINOLOGY
(ICFC 2022)**

Attaining Sustainable Development Goals Through
Financial Transparency

e-ISSN 2948-488X



25 - 27th AUGUST 2022
WYNG Gardens, Trinity Hall,
University of Cambridge
United Kingdom

HYBRID CONFERENCE

<https://ari.uitm.edu.my/icfc2022>

Organiser:



**UNIVERSITI
TEKNOLOGI
MARA**

Institut
Penyelidikan
Perakaunan

Collaborators:



**UNITED
INTERNATIONAL
UNIVERSITY**



**Telkom
University**



e-PROCEEDINGS
OF THE 12TH INTERNATIONAL CONFERENCE ON
FINANCIAL CRIMINOLOGY
(ICFC 2022)

e-ISSN 2948-488X



25 – 27th August 2022
WYNG Gardens Trinity Hall, University of Cambridge, United Kingdom
Hybrid Conference
<https://ari.uitm.edu.my/icfc2022>

Organised by:
Accounting Research Institute, Universiti Teknologi MARA, Malaysia

In collaboration with:
Kolej Universiti Poly-Tech MARA, Kuala Lumpur, Malaysia
United International University, Dhaka, Bangladesh
Telkom University, Bandung, Indonesia

Impact of Internal Audit Effectiveness on Employee Performance: The Case of Bumiputera Academic Institution

Siti Aisyah Barizah Kamsis^a, Dewi-Izzwi Abdul Manan^b
^{a,b} Kolej Universiti Poly-Tech MARA, Kuala Lumpur, Malaysia

Abstract

Internal audit is one of the controls used to govern the administration of a business organization. Through internal audits, employees would be exposed to things they should and should not do. In addition, internal systems and procedures can also be monitored and evaluated through internal audits. Thus, an internal audit should be effective in achieving its intended function as a governance tool. An investigation was carried out in Bumiputera Academic Institution in Malaysia to determine the effectiveness of its internal audit and whether its effectiveness affects employees' performance positively. A total of 215 responses were gathered from academicians in the institution. Findings showed that the mean score of internal audit effectiveness was 2.9, which was at an acceptable level. Furthermore, a regression analysis showed that internal audit effectiveness influenced employees' performance positively. The investigation of the effectiveness of an internal audit is significant to institutions as the findings could become one of the indicators of good institutional governance. Then, early intervention and development programs could be appropriately designed.

Keywords: Governance; Education; Internal control; Organizational development.

Introduction

Internal audit ensures the integrity of processes in an organization. An internal audit helps an organization to govern business operations and, at the same time, manage business risks. Through internal control, members in organizations would be guided on how to do things correctly and avoid matters that they should not do. Consequently, the work behaviour and performance of employees shall be controlled. However, internal control should be effective to achieve its intended function. The effectiveness of internal control covers audit input, audit activities, audit output, and audit outcomes (Pitt, 2014). Audit input includes all necessary resources such as auditors, funds, and time. Audit activities refer to the assessment activities such as planning and communication. The audit output is the audit report. Finally, audit outcomes are the objectives of the audit, such as stakeholder satisfaction and organizational performance that can be short- or long-term oriented.

Bumiputera Academic Institution,(BAI), is one of the higher learning institutions in Malaysia. The institution performs several internal audits to ensure compliance with various policies, rules, and regulations. However, even though an internal audit is beneficial, the various types and frequent internal audits conducted put pressure on academicians at BAI. Thus, the questions whether the internal audit in BAI is effective and whether its effectiveness affects employees' work performance were raised. To answer these questions, a study was carried out. The objectives of the research were to determine 1) the level of effectiveness of the internal audit ; 2) the relationship between internal audit effectiveness and employee performance at BAI. The research framework is as in Figure 1.1.

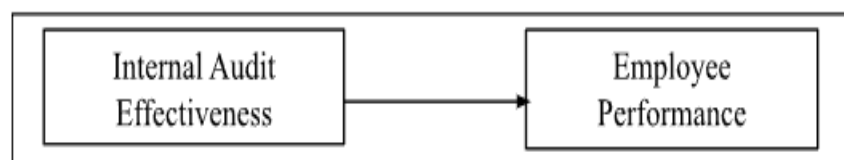


Figure 1. Research Framework

Methodology

A total of 250 questionnaires were sent out online to all academicians. However, only 215 responses were received and analysed. Questionnaire items were adapted from past studies and divided into three parts: demographic profile of respondents, internal audit effectiveness, and work performance. Internal audit effectiveness and employee performance items were on a 4-point scale. Both reliability and validity tests were tested and fulfilled. Respondents were the lecturers because they were the ones who were frequently audited for various reasons. To achieve the first objective, data was analysed using descriptive analysis. As for the second objective, data was analysed using regression analysis.

Result and discussion

There were two variables for this research. The Independent variable was internal audit effectiveness, and the dependent variable was employee performance. Descriptive analysis showed that the mean score for internal audit effectiveness was 2.97, indicating that the effectiveness level was more than adequate. Regression analysis revealed that the relationship between internal audit effectiveness and employee performance was significant and positive ($p=0.001$; $\beta=0.302$).

Internal audit in BAI can be considered as effective. The institution had an adequate amount of audit resources whereby the auditors were ethical and capable, time allocation to conduct audit was enough, funds needed for audit were adequate, and support from the top management towards the audit was received. During the audit activities, audit assessments were well-planned, headed by an authorized unit, supported by proper procedures, and communication regarding the audit were carried out with relevant faculties and administration departments. Once audit activities were done, the outcomes were reported in written and presented orally in a timely manner and shared throughout the institution so that lessons could be learned together for future development. The effectiveness of internal audits contributes to academicians' performance. The frequent and various types of internal audits conducted in BAI motivated the academicians to be concerned about their work quality, deadlines, work responsibilities, and key performance indicators.

Conclusion

Both research objectives were achieved. Firstly, the effectiveness level of internal audits in BAI can be considered high. Secondly, there was a positive relationship between internal audit effectiveness and employee performance. The findings concurred with the Behavioural Theory, where an individual's actions are shaped by his/her interactions with the environment (Krapfl, 2016; Staddon & Cerutti, 2003). Since BAI has conducted frequent and various types of internal audits, audits have become one of the stimuli in conditioning employee actions, which in turn affected their performance.

References

- Krapfl J.E. (2016). Behaviourism and society. *The Behaviour Analyst*, 39(1), 123-129. <https://doi.org/10.1007/s40614-016-0063-8>
- Pitt, S. (2014). *Internal audit quality: developing a quality assurance and improvement program*. Wiley.
- Staddon J.E.R., & Cerutti D.T. (2003). Operant conditioning. *Annual Review of Psychology*, 54, 115-144. <https://doi.org/10.1146/annurev.psych.54.101601.145124>