



# The Asia Pacific literature review on internal auditing

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## Abstract

**Purpose** – By conducting the 2006 global Common Body of Knowledge (CBOK) study, The Institute of Internal Auditors (IIA) attempts to better understand the expanding scope of internal auditing practice throughout the world. The purpose of this review of recent internal auditing literature in Asia Pacific is to document how the internal audit function is changing in response to the shifts in global business practices.

**Design/methodology/approach** – The literature in Asia Pacific is reviewed with a focus on developments that have implications for the expanded scope of internal auditing and the changing skill sets of internal auditors. This focus has implications for CBOK 2006.

**Findings** – The literature indicates a paradigm shift in the activities performed by internal auditors. The increasing complexity of business transactions, a more dynamic regulatory environment in Asia Pacific, and significant advances in information technology have resulted in opportunities and challenges for internal auditors. Although in 2004, The IIA responded to the changing organizational environment by updating the professional practices framework, more work needs to be done to prepare internal auditors for the expanded set of skills and knowledge required to perform audits of the future.

**Originality/value** – By presenting an overview of past literature in Asia Pacific and discussing the shifting demands on internal audit services, the researchers hope to motivate further research in the field.

**Keywords** Internal auditing, Auditors, Knowledge management, Reports, Asia, Pacific region

**Paper type** Literature review

## Introduction

As a means of better understanding the expanding scope of internal auditing practice throughout the world and determining what skills will be needed by internal auditors, The Institute of Internal Auditors (IIA) is conducting the 2006 global Common Body of Knowledge (CBOK) study. This paper provides a review of the internal auditing literature from the Asia Pacific area and is followed by literature reviews covering the Americas and Europe. These literature reviews in total provide a basis for conducting the CBOK study.

The area defined as Asia Pacific includes a range of countries as detailed in the Appendix. Unfortunately, a review of the literature specific to the Asia Pacific area as designated in Appendix is relatively silent on most of the countries listed. Most available literature relates to Australia, New Zealand, China and, to a lesser extent, Malaysia, Singapore and Hong Kong, with empirical studies having been undertaken in all the above-mentioned countries with the exception of China. Thus, this literature review is of necessity limited to mainly the countries listed in the above-mentioned Appendix. As internal audit has arguably developed considerably as a profession in the past 10-15 years, as have many businesses processes and practices, the approach in this literature



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review is to review Asia Pacific developments in approximate chronological order rather than country by country.

### Early 1980s

The first known empirical study on the role of internal audit in the Asia Pacific region was that undertaken by Cooper and Craig (1983). This seminal research on internal audit in Australia found a number of issues that were of concern to the profession. It was found that there were a number of misconceptions about what internal auditors were doing and what their chief executive officers (CEOs) perceived was being done and in fact there were expectations by the CEOs that internal audit could do more than the traditional financial auditing work mainly being done at the time. There was nevertheless strong support for internal audit by CEOs and at the time it was seen as offering long-term career prospects. However, the profession in Australia in the early 1980s suffered from an image problem, it did not have a strong professional body to represent its interests as it has now, and there were no generally accepted professional qualifications recognized as necessary to practice as an internal auditor. This study was undertaken before the development of modern internal auditing as we now know it. It did, however, set the scene for a number of subsequent studies in Australia, Hong Kong and Malaysia.

### Early 1990s

Another early study undertaken in the region was that by Cooper *et al.* (1989) in Hong Kong. Like the earlier study in Australia by Cooper and Craig (1983), the Hong Kong study surveyed both CEOs and internal audit managers with respective response rates of 25.8 percent and 23.1 percent in a survey of 485 organizations. This was at the time a very good response from business people, as the culture in Hong Kong is not generally conducive to responding to surveys and was a response rate very unlikely to be achieved today.

The Hong Kong study was aimed at determining the (then) current state of internal audit practice in Hong Kong, the level of professionalism evident in internal audit departments and their training needs. The majority of CEOs (45.6 percent) saw the main role of internal audit as being an independent appraisal of the internal control system; 21.6 percent perceived internal audit's main role as an independent review of the efficient operation of the organization; and 19.2 percent were more concerned with proper safeguarding of assets and preventing and detecting fraud and error. From the perspective of internal audit managers, they saw their main role in financial auditing (including internal control reviews), representing up to 50 percent of the activity in 94 percent of the internal audit departments responding to the survey. The other major activity was the audit of operational areas to improve operational efficiency, in line with the expectations of the CEOs as noted above.

The Hong Kong study also found that only a minority of internal audit managers were members of the IIA and that on-the-job training was mainly relied upon to develop internal audit skills.

One of the earliest reported studies in the literature, and which covered broader issues than the Hong Kong study, was a study on the profile of internal audit in Australia by Cooper *et al.* (1994). During 1992, a major survey of the internal audit profession was undertaken in Australia through mailed questionnaires sent to CEOs and internal audit managers of a wide range of organizations in both the private and

public sectors. The research aimed to provide a profile of internal audit in Australia in the 1990s and address a number of issues including attitudes and recognition; professionalism; role and scope of internal audit work; career opportunities; education and training; and the future role of internal audit. A total of 687 organizations were surveyed with separate surveys being sent to CEOs and internal audit managers, with usable response rates of 31.0 and 30.9 percent, respectively.

In terms of attitudes and recognition, the overall view was a positive one, although there was some confusion between perceptions by CEOs and the reality as seen by the internal audit managers. The perceived high profile of internal audit as reported by the CEOs was not necessarily borne out by CEOs' understanding of the audit process, such as, for example, their strong support for the "mechanical" aspects of the process rather than a more management-oriented role for internal audit. Also, reporting levels were generally less than ideal and the confusion between perceived status and the reality of the situation was further reinforced by internal audit managers' views on how their role was seen by auditees, particularly in respect of a perceived policing function. In the early 1990s the issue of professionalism was then also very important to internal auditors and the survey did uncover some concerns. These included the number of internal audit managers who were not members of the IIA and also confusion about the value of the existing internal audit qualifications such as the CIA program.

In respect of the role and scope of internal audit, the CEOs appeared to place greatest emphasis on the audit of financial areas, and yet most internal auditors were by then concentrating on operational areas. The main areas believed by CEOs as being covered by internal audit included the (then) traditional areas of accounting and finance, management information systems, personnel and administration, production and operations, and management effectiveness. The major area of audit coverage as acknowledged by 66 percent of CEOs was accounting and finance. This high expectation of coverage in accounting and finance was reinforced by their strong perception of internal audit as an independent appraisal of the internal control system.

This heavy emphasis, however, was not borne out by an analysis of time spent on internal audit tasks. This revealed that only 40 percent of internal audit managers spent between 30 and 80 percent of their time on financial auditing, while almost another 40 percent spent only 10-30 percent of their time on financial auditing. Also, in contrast to the wishes of CEOs, there was then inadequate attention being given to EDP audit by internal auditors for a variety of reasons.

While there was general overall support for education and training, there was apparent confusion among internal audit managers as to whether internal audit is a training ground or a career position. This was reinforced by the fact that there was no strong support for the available internal audit qualifications. In terms of promotion, 59 percent of internal audit managers believed that neither the CIA nor the Accredited Internal Auditor – Australia (AIA) qualification (developed in 1989 and since discontinued) were a significant factor, and over 20 percent were not sure. Moreover, only 48 percent of internal audit managers believed that an auditor possessing an CIA or AIA qualification was likely to be more professional than one without such a qualification, and 22 percent were unsure.

Finally, the future role of internal audit was seen in a very positive sense by both CEOs and internal audit managers. It was evident from the CEOs' survey that there was a very positive view about the future role of internal audit, although there was

some confusion on the part of CEOs and internal audit managers themselves in terms of perceptions about the role of internal audit as discussed above. Nevertheless, CEOs saw the future role of internal audit in the next three to five years as expanding beyond the traditional boundaries within which internal audit was often then constrained. The survey disclosed that the major change of emphasis envisaged by CEOs (61 percent) was an expansion in the need for independent reviews of the operational efficiency of their organizations. Furthermore, 34 percent also believed in the emergence of greater internal audit emphasis in independent evaluations of the effectiveness of management, and the use of internal audit as an internal consultant to management.

From the perspective of the internal audit managers, the future at the time generally looked promising, with 85 percent of them agreeing that management usually implemented audit recommendations, and 80 percent agreeing that there was adequate feedback from management on audit recommendations. Also 85 percent agreed (including 24 percent strongly agreeing), that the internal audit function would become increasingly important to management in future.

### The mid 1990s

In 1996, the first study on benchmarking internal auditing in the region was published by Cooper *et al.* (1996). The three countries compared were Australia, Malaysia and Hong Kong. The paper was based on the above-mentioned studies Australia in 1992 and Hong Kong in 1989 and a study by Mathews *et al.* (1994) in Malaysia in 1994, which was based on a comparable methodology to the Australian and Hong Kong studies. The comparative studies showed that CEOs in Malaysia were very positive in their perceptions of internal audit as were CEOs in Australia. The perceptions are less positive with CEOs in Hong Kong, as is shown in Table I.

As illustrated in Table II, the CEOs' understanding of internal audit functions in Malaysia and Australia appeared to set positive benchmarks, with Malaysian CEOs particularly positive in their view of internal audit as an independent review of the efficient operation of the organization. However, the CEOs in Hong Kong were more concerned with internal audit resources being devoted to appraisal of internal control, which is reinforced by their views of internal audit being more exploitative and authoritative than consultative.

An important benchmark is ensuring that audit recommendations are well thought through and useful for management and this will normally be evidenced by the extent to which management takes notice of, and implements, internal audit findings. In this comparative study, 79.6 percent of Australian internal audit managers agreed (with

The internal audit approach	Australia (percent)	Malaysia (percent)	Hong Kong (percent)
Exploitative and authoritative	3.3	3.3	17.6
Benevolent but authoritative	10.8	6.7	28.0
Consultative	48.8	38.3	28.0
Participative and group oriented	29.1	40.0	25.6
Other	3.8	6.7	0.8
Non-replies to this question	4.2	5.0	0.0

Source: Cooper *et al.* (1996, p. 25)

**Table I.**  
The internal audit approach as perceived by CEOs

Descriptions of internal audit functions	Australia (percent)	Malaysia (percent)	Hong Kong (percent)
An independent appraisal of the internal control system	41.8	30.0	45.6
Safeguard assets and prevent and detect fraud and error	19.7	8.3	19.2
An independent review of the efficient operation of the organization	29.6	31.7	21.6
An independent evaluation of the effectiveness of management	10.3	8.3	6.4
An internal consultant to management	11.7	10.0	7.2
The provision of specialized audit services	4.2	1.7	0.0
Other	2.3	5.0	0.0
Non-replies to this question	0.0	5.0	0.0

**Table II.**  
CEOs' understanding of  
internal audit functions

**Note:** For the Australian survey, a number of CEOs indicated more than one description as matching their perceptions

**Source:** Cooper *et al.* (1996, p. 25)

19.1 percent strongly agreeing) that CEOs recognize their accomplishments, compared with 80.1 percent in Malaysia and 83.3 percent in Hong Kong (although in this case, only 13.6 percent strongly agreeing). In respect of the implementation of internal audit recommendations by management, 85.5 percent of internal audit managers in Australia were in agreement compared with 84.4 percent in Malaysia and 84.9 percent in Hong Kong. As regards adequacy of feedback from management on audit findings and recommendations, more than 75 percent of internal audit managers in all countries were positive on this issue. Table III summarizes the views of the internal audit managers and indicates a remarkable consistency on the issues across all three countries.

### The late 1990s

In 1997, a special edition on internal auditing in China was published by *Managerial Auditing Journal*, with papers by a number of practitioners and academics. Although none of the papers presented empirical data, they did provide an insight into internal auditing practice in China at the time. However, before reviewing these papers, it is important to understand that internal auditing in China is an agent of the state, unlike in Western countries. Tang *et al.* (2000) provide a background on how internal auditing operates in China in their book on *Accounting and Finance in China – A Review of*

Nature of changes	Percentage								
	Strongly agree			Agree			Not sure		
	A	M	H	A	M	H	A	M	H
Top management recognizes my accomplishments	19.1	19.3	13.6	60.5	60.8	69.7	14.5	15.7	13.6
My recommendations are usually implemented by management	22.3	13.3	15.2	63.2	71.1	69.7	3.3	4.8	10.6
I receive adequate feedback from management on my audit findings and recommendations	15.2	12.0	12.1	65.1	65.2	68.2	5.3	8.4	16.7

**Table III.**  
Perceptions by internal  
audit managers of  
support by management

**Notes:** Those in disagreement or with no opinion are not included in the above table A – Australia, M – Malaysia, H – Hong Kong

**Source:** Cooper *et al.* (1996, p. 28)

*Current practice.* In 1983, the State Council in China established the Audit Administration of the Peoples Republic of China (AAPRC) to supervise all auditing activities in the republic and in 1988 issued the Regulation on Audit of the People's Republic of China, the first comprehensive statute on state audit, which dictated that state auditing, internal auditing and public auditing are all to be guided by the AAPRC. In 1994, the Eighth National People's Congress adopted the Audit Law of the People's Republic of China, which provided for an audit organizational framework consisting of government audit institutions (departments), internal audit institutions and public audit institutions set up at various levels with varying degrees of authority.

As observed by Tang *et al.* (2000, p. 192):

... internal audit in China has some unique features in that it is considered an integral part of the state audit system and is thus called on to supplement state audit.

Under the system in China, the designated scope of work carried out by internal audit institutions includes the audit of financial revenues and expenditures; the audit of economic contracts; the audit of construction projects; the audit of internal control; and the audit of economic responsibility, which is ensuring that management assumes its economic responsibilities, including the maintenance of assets, observance of economic laws and regulations and fulfillment of operational budgets.

Cai (1997) agrees with the categorization of internal audit roles as noted by Tang *et al.* (2000) but observes that as the socialist economy continues to develop in China, it is the latter role of the audit of economic responsibility that is assuming major importance. As the economy develops, different challenges will face internal audit and as management and state ownership separate in formerly state-owned enterprises, the role of internal audit to help management make the transition and still protect the interests of the state will become more important. Wang (1997) also points out that with the development of the market economy, enterprises need to improve internal control systems, management and production technology, and reduce production costs and, therefore, market competition requires the strengthening of internal audit.

In addition to the constraints on internal auditing in China compared with practice in the West as discussed above, another issue facing Chinese internal auditors is dealing with the practice of "guanxi" in business. In the Chinese language, "guanxi" is the term for a personal relationship. It refers to the networks of informal relationships and exchanges of favors that dominate all business and social activities that occur throughout China (Lovett *et al.*, 1999; Lou, 1997). Historically, Chinese society has been built around family clans. Like that of familial relationships, *guanxi* works on the basic, unspoken word. Individuals seek to meet their *guanxi* responsibilities, and failure to do so results in damaged prestige and in China, business people first strive to build personal relationships with a potential customer, and once admitted to the clan/*guanxi* family, business follows. Thus, trust must be established before business may be conducted. *Guanxi* is nurtured by the exchange of gifts and favors. It is a common and acceptable business practice in China (Hwang and Staley, 2005). However, such gifts strike ethical nerves in Western society, and are contrary to at least the spirit if not the letter of the laws such as the Sarbanes Oxley Act 2002. The above discussion is another example of the complexities of business relationships in China that do not necessarily transpose Western values on which the standards for the professional practice of internal auditing are based.

**2000 onwards**

A major study has been undertaken in New Zealand by Van Peurse (2004) on internal auditors' role and authority. In this study, internal auditors are asked to come to a view on whether functions they perform in connection with internal audit engagements are essential, and to what degree they feel they enjoy the authority over, and independence from, management that we might expect of a professional. The research constituted a survey of New Zealand auditors, all of whom were members of the New Zealand branch of the IIA. A very high 73 percent response rate was achieved over the original and follow-up survey. The study found that characteristics of a "true" profession exist but do not dominate. Significantly, and as subgroups, Van Peurse (2004) also observed that public practice and experienced auditors may enjoy greater influence over management, and accountancy-trained auditors may enjoy greater status owing to the "mystique" of their activities emanating from their membership of well known accountancy professional bodies. The research supports prior studies by Cooper and Craig (1983), Cooper *et al.* (1996) and Myers and Gramling (1997), which all expressed serious reservations about the effectiveness of the internal auditor's role.

Van Peurse (2004) also notes that Cooper *et al.* (1996) identified a potential issue in a confusion between expectations that internal auditors will both independently evaluate management's effectiveness, and that they will also aid management. More recent observations by Glascock (2002) and McCall (2002) have expressed similar concerns. Van Peurse (2004) also concludes that a key issue is that internal auditors will assume whatever position is in the best interests of their employer and will be reluctant to counter management, irrespective of the consequences, which is potentially damaging in terms of image for the internal audit profession.

In a follow up study in New Zealand, Van Peurse (2005), examined the role of the New Zealand internal auditor and conceptualizes on the auditor's influence over that role. The fundamental question is how an effective internal auditor can overcome the tension of working with management to improve performance, while also remaining sufficiently distant from management in order to report on their performance. The research found that there are three concepts characteristic of those who best balanced their role: the internal auditor's external professional status; the presence of a formal and informal communication network; and the internal auditor's place in determining their own role. Informing these concepts is the auditor's ability to manage ambiguity. This was a qualitative study using a multiple case-based approach in which the researcher made observations, examined documents and interviewed senior internal auditors in six New Zealand organizations. The author notes that, being qualitative research, it suffers from inherent limitations. However, it is a very thorough study and offers insights arguably not readily available in more traditional quantitative research.

In a Singaporean study reported by Goodwin and Yeo (2001), factors that may impact on the independence and objectivity of internal audit were looked at. In particular, the researchers considered the relationship of internal audit and the audit committee and the use of the internal audit function as a management training ground, in terms of the potential effect on the independence and objectivity of internal audit. A survey of chief internal auditors found a strong relationship between internal audit and the audit committee, particularly where the committee was comprised solely of independent directors. Chief internal auditors were generally found to have regular and private access to the audit committee and this was supported by the regulatory

framework in Singapore which provided support for the independence and objectivity of internal audit.

The use of internal audit as a management training ground was also found to be widespread. It was also more common where an audit committee existed and where the organization was a larger entity. This existence of an audit committee minimized any negative impact on independence and objectivity of the internal audit function in situations where internal audit was used as a management training ground.

A study undertaken by Goodwin (2004) explored similarities and differences between public sector internal auditing and its counterpart in the private sector. Features examined include organizational status, outsourcing, using internal audit as a “tour of duty” function, audit activities and relationships with the external auditor. The study is based on a survey of chief internal auditors in organizations in Australia and New Zealand. Results suggest that there are differences in status between internal audits in the two sectors, with public sector internal auditors generally reporting to a higher level in the organization. While a similar amount of work is outsourced, public sector organizations are more likely than those in the private sector to outsource to the external auditor. There is little difference between internal audit activities and interactions with external audit in the two sectors. However, private sector internal audit is perceived to lead to a greater reduction in external audit fees compared to that in the public sector.

Goodwin-Stewart and Kent (2006) explored the voluntary use of internal audit by Australian publicly listed companies and sought to identify factors that lead listed companies to have an internal audit function. The study predicted that internal audit use is associated with factors related to risk management, strong internal controls and strong corporate governance. To test the predictions, the study combined data from a survey of listed companies with information from corporate annual reports. The results indicate that only one-third of the sample companies use internal audit. While size appears to be the dominant driver, there was also a strong association between internal audit and the level of commitment to risk management. However, the study found only weak support for an association between the use of internal audit and strong corporate governance. The study indicates that a large proportion of Australian listed companies do not use internal audit and many of those firms that do, have only one or two internal audit staff, a finding supported by research by Leung *et al.* (2004). The implications of these findings for sound corporate governance are serious, as it has been suggested that it is difficult for audit committees to be effective without the support of internal audit. It would appear that there is considerable scope for strengthening the relationship between internal audit, audit committees and external auditors.

Leung *et al.* (2004) researched the role of internal audit in corporate governance and management in Australia. The specific objectives of the research were to: identify the accountability structures and internal audit objectives of organizations; determine the nature of extent internal audit practice; determine the management and governance relationships of chief audit executives (CAEs) within organizations; assess the application of the redefined internal audit function; identify financial reporting risks and governance issues encountered by internal auditors; assess the effectiveness of internal audit’s role in management accountability in a world actively concerned with corporate governance issues; and recommend improvements in internal audit. The researchers used a two-pronged approach to ascertain information pertinent to the objectives. Firstly the total population of CAEs in Australia was surveyed using an



e-mail survey. The population total, based mainly on membership of the IIA – Australia, was 397 and a 21.4 percent response rate yielded 85 usable responses. Secondly, 18 CAEs were interviewed to gain a deeper insight into issues that internal audit faces in Australia. To minimize any selection bias, an additional seven senior business representatives from listed companies and the governmental sectors, including regulatory bodies, were also interviewed.

This Australian study found that CAEs were generally very positive about the performance of internal audit. They see themselves as a key part of the management team, and that they can influence decisions, maintain a sufficient level of objectivity, integrity and competence in their jobs, and are able to provide good support for their own staff. They view the culture and support of management as a key factor in ensuring the effectiveness of their role.

A high percentage of respondents indicated that they perceived management recognized their role in enhancing good corporate governance and that management appeared to take an interest in their work. On the other hand, there were views expressed that they should have a greater role in the organization's governance processes, although some were concerned that they did not have sufficient resources to discharge such additional work effectively. Many were also unsure about how they should actually go about making an effective contribution to the improvement of corporate governance in their organizations. What this Australian study indicates is that despite the universal concerns about the need to enhance good corporate governance and the contribution that the internal auditing profession can make, the internal auditor's role in contributing to the process cannot be taken for granted.

Ernst and Young *et al.* (2004) undertook a benchmarking study of internal audit services in the communications and entertainment sectors in both Australia and New Zealand. The study found that 63 percent of respondents indicated they had entered into a co-sourcing relationship with an external party and 13 percent had completely outsourced their internal audit. As regards reporting relationships, 72 percent report primarily to the chair of the audit committee and 62 percent have increased the size of their internal audit functions in the prior 12 months. In respect of corporate governance, 63 percent of respondents are involved in providing assurance or monitoring compliance with the Australian Stock Exchange (ASX) Corporate Governance Principles.

Fadzil *et al.* (2005) undertook a study in Malaysia to determine whether the internal audit department of the companies listed on the Bursa Malaysia (Malaysian Stock Exchange), comply with the Standards for Professional Practice of Internal Auditing (SPPIA) and to determine whether compliance with SPPIA affects the quality of the internal control system of the company.

It was found that management of the internal audit department, professional proficiency, objectivity and review processes, significantly influence the monitoring aspect of the internal control system. The scope and performance of audit work significantly influences the information and communication aspects of the internal control system, while performance of audit work, professional proficiency and objectivity, significantly influence the control environment aspect of the internal control system. The study also shows that management of the internal audit department, performance of audit work, the audit program and audit reporting, significantly influences the risk assessment aspect of the internal control system. Lastly, performance of audit work and audit reporting significantly influences the control activities aspect of the internal control system.

A study in Malaysia by Ali *et al.* (2004) looked at internal audit in the State and Local governments of Malaysia. Based on a series of semi-structured interviews, it was found that only a minority of local governments in Malaysia have an internal audit function. The presence of quite a small number of local governments with internal audit may be due to the fact that in at least two states, the internal audit function of their local government departments is conducted by the internal audit departments or units attached to the two state governments. There is no comfort, however, for such an arrangement – though it is certainly better than having no internal audit done at all at the local government level. This is because internal audit in so many of the state governments and their statutory bodies are operating with numerous limitations. The severest problems are concerned with a shortage of audit staff and staff lacking in audit competencies. In many organizations, the non-audit personnel and top management are generally unsupportive of internal audit.

Another study in Malaysia by Ernst and Young (2004) was undertaken to develop an understanding of the practice of internal audit following the tightening of regulations and the increasing importance of risk management and corporate governance practices in Malaysia. The survey was given to participants of the IIA Malaysia's National Conference held in September 2004 in Kuala Lumpur. Responses were received from 292 out of more than 600 participants. A total of 87 percent of the respondents stated that the primary function of internal audit is to provide assurance of internal control and risk management processes and systems. The secondary role of the internal audit function is focused on three areas, namely, operational reviews (32 percent), efficiency of operations/cost savings (20 percent) and risk management (11 percent). The majority of respondents indicated having staff levels ranging from less than 5 to 25, although 50 percent of the respondents indicated that the size of internal audit has increased in the past 12 months. The increase in the number of internal audit staff could be the result of the rising importance of corporate governance in Malaysia.

Respondents reported that more than half of internal audit staff are qualified auditors (53 percent), complemented by staff with a commercial background (26 percent) and information technology specialists (12 percent). Most of the respondents (in excess of 70 percent) indicated that their methodology commonly included risk assessment, control evaluation and process analysis. However, about 13 and 15 percent of the respondents, respectively, reported not having risk assessment and control evaluation process. Only 30 percent of respondents reported internal audit having commissioned an independent review. Of the 30 percent of respondents who had indicated that a review had been conducted, 46 percent indicated that the review was conducted by peer companies while 44 percent engaged a professional services firm.

Ernst and Young (2005) also conducted a survey of internal audit in Australia and New Zealand of the ASX top 200 companies in Australia and the top 100 listed companies in New Zealand and received 173 responses. The aim of the survey was to further the understanding of how internal audit functions in both the public and private sectors are continuing to evolve to meet ever-increasing demands and expectations. In total, 39 percent of respondents increased the size of their internal audit functions over the previous 12 months and 78 percent of internal audit functions now report to either the audit committee chair or the CEO. Just 54 percent of internal audit staff have a financial background, suggesting that internal audit teams are increasingly undertaking non-financial reviews and are recruiting more commercial

and other specialist skills; 77 percent of respondents have at least part of their internal audit delivered by an external party, mostly due to the need for specialist skills.

Over half the organizations surveyed have changed the coverage of internal audit to help support the ASX Principles of Good Corporate Governance. These internal audit teams are undertaking more detailed controls testing and increasing their focus on providing assurance around risk management frameworks, to underpin compliance with the principles. In New Zealand, 76 percent of private sector respondents have audit committees that satisfy the requirements of the updated New Zealand Stock Exchange Listing Rules. In both countries, 84 percent of internal audit functions are basing their annual audit plan on generally accepted risk management principles.

Carey *et al.* (2006) undertook a study to investigate the determinants of internal audit outsourcing using survey data on 99 companies listed on the ASX. It was noted that 54.5 percent of companies fully rely on an in-house internal audit function, with the others outsourcing all or some of their internal audit activities. Outsourcing is associated with perceived cost savings and the technical competence of the provider. However, it was also observed that 75 percent of those companies outsourcing did so to their external auditor, which may have implications for perceptions about the independence of the external auditor.

### **In conclusion**

In reviewing the above literature, a few observations can be noted:

- While internal audit has been strongly supported by management, including the CEOs, conclusive consensus as to the role of internal audit has not yet emerged.
- The lack of perceived status and lack of consensus of the role has been further complicated by the perceived lack of strong professional leadership in the Asia Pacific region.
- The function of internal auditors has changed from a more financially-oriented role into one which has focused on internal controls and risk assessment through the last two decades. CEOs have generally perceived internal audit as having a financial function, while internal auditors had moved their emphasis into systems and risks.
- There was, and still is, confusion regarding the independence of internal auditors. This is made more complex by the definition of internal audit which encompasses both the expectations of the consulting role and the assurance role. Internal auditors are uncertain as to how to balance independence in both roles.
- During the 1990s, the increasing use of international accounting firms in consulting and assurance engagements over-shadowed the internal audit function.
- Sarbanes Oxley Act has added the dimension of internal financial reporting assurance expected of internal auditors and audit committees.
- With the apparent lack of a structured approach to the body of knowledge, a clearly defined role, and an apparent lack of status underpinned by a rigorous generally accepted professional program (the CIA program has had limited uptake in Asia Pacific), internal audit has suffered from lack of prominence in Asia Pacific.
- The above-mentioned common body of knowledge study project is timely and highly significant in shaping the profession of internal audit in Asia Pacific in the years to come.

The above provides a summary of the trend and literature covering internal audit in the Asia Pacific region from the seminal work by Cooper and Craig in 1983 until the most recently reported studies in the academic and professional literature. Most studies have been undertaken in Australia, New Zealand and Malaysia and to a lesser extent in Singapore and Hong Kong. Given the emergence of rapidly developing countries in the region, such as China and India and the number of members of the IIA in those countries and others such as Japan, Thailand and the Philippines, there is substantial scope for further research into internal audit in the Asia Pacific region.

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#### Appendix. Asia Pacific countries and membership of IIA

Asia-Pacific Affiliate	Number of members
China	2,191
Chinese Taiwan	2,030
Australia	2,261
Bangladesh	60
Fiji	81
Hong Kong – China	318
India	2,165
Malaysia	1,461
New Zealand	373
Pakistan	119
Pakistan – Islamabad	154
Pakistan – Lahore	70
Papua New Guinea	62
Philippines	1,229
Singapore	1,217
Indonesia	456
Japan	1,502
Korea	375
Kyrgyzstan	21
Thailand	1,207

Table AI.

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