

**ROLE OF INTERNAL AUDITORS IN WHISTLE BLOWING
PROGRAM TO REDUCE CORPORATE FRAUD**

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LIST OF ABBREVIATIONS

Abb.	Full Lists
ACFE	Association of Certified Fraud Examiners
AICPA	American Institute of Certified Public Accountants
ANOVA	Analysis of Variance
BMB	Bursa Malaysia Berhad
BNM	Bank Negara Malaysia
CACA	Chartered Association of Certified Accountants
CAE	Chief Audit Executive
CIA	Certified Internal Auditors
CIMA	Chartered Institute of Management Accountants
CPA	Certified Public Accountant
CGFRC	Corporate Governance and Financial Reporting Centre
COSO	Committee of Sponsoring Organisations
DW	Durbin-Watson
EY	Ernst and Young
GAIN	Global Audit Information Network
GLC	Government Linked Companies
IIA	Institute of Internal Auditors
IP	Internet Protocol
MICPA	Malaysian Institute of Certified Public Accountants
NBER	National Bureau of Economics Research
NCFFR	National Commission on Fraudulent Financial Reporting
PWC	PriceWaterhouseCoopers
SAS	Statement on Auditing Standards
SC	Securities Commission
SIA	Securities Industry Act
SOX	Sarbanes-Oxley Act
SPSS	Statistical Package of Social Sciences
TRA	Theory of Reasoned Action
US	United State
VIF	Variance Inflation Factor

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ABSTRAK

Berdasarkan Kajiselidik Fraud (Penipuan) 2004 oleh KPMG Malaysia, 62 peratus responden mengakui bahawa fraud adalah satu masalah yang serius kepada perniagaan di Malaysia. Penemuan kajiselidik ini juga menyarankan kepentingan menubuhkan saluran komunikasi yang bebas bagi tujuan pemberian maklumat (whistle blowing). Pemberian maklumat adalah salah satu elemen urus tadbir korporat and ia memainkan peranan penting dalam mengurangkan penipuan (fraud). Audit Dalaman boleh membantu Jawatankuasa Audit dalam menubuhkan program pemberian maklumat yang efektif bagi melindungi pekerja dan membantu organisasi menangani penipuan sebelum ia didedahkan kepada pengetahuan umum.

Kajian ini menyelidik tahap pemberian maklumat yang diterima oleh audit dalaman berdasarkan jawapan kepada kajiselidik oleh Ketua Audit Eksekutif dari Syarikat-syarikat Senarai Awam Malaysia (PLC).

Sepanjang dua tahun lepas, hanya 18 peratus dari Ketua Audit Eksekutif yang dikajiselidik telah menerima pemberian maklumat yang sah dari pemberi maklumat luaran dan hanya 14 peratus dari Ketua Audit Eksekutif yang dikajiselidik telah menerima pemberian maklumat yang sah dari pemberi maklumat dalaman. Kekurangan dari segi penubuhan program pemberian maklumat ini disebabkan tiada undang-undang yang mewajibkan penubuhan program pemberian. Walaupun Akta Sekuriti Industri (1983) dan Akta Pasaran Modal dan Perkhidmatan 2007 (CMSA) melindungi para

pekerja, juruaudit dan pegawai-pegawai utama semasa mereka memberikan maklumat, akta ini tidak mewajibkan penubuhan program pemberian maklumat.

Dari segi keberkesanan program pemberian maklumat, kajian ini menunjukkan bahawa persepsi Ketua Eksekutif Audit tentang keberkesanan kod etika mempunyai perhubungan secara negatif dengan kejadian penipuan, iaitu semakin kod etika dilihat sebagai berkesan, kejadian penipuan akan semakin berkurangan.

ABSTRACT

According to Fraud Survey 2004 by KPMG Malaysia, 62 percent of respondents felt that fraud is a serious problem for Malaysian business. The survey finding also highlights the importance of implementing an independent communication channel for whistle blowing. Whistle blowing is one of the elements in corporate governance and it can play an important role in reducing fraud occurrence. Internal auditors can help Audit Committee in creating effective whistle blowing program that protect the employees and enable organisations to address fraud before they become public knowledge.

This study examines the extent of whistle blowing complaints received by internal auditors based on survey responses from 213 Chief Audit Executive of Malaysian Public Listed Companies (PLC).

Within the past two years, only 18 percent of Chief Audit Executive surveyed received genuine whistle-blowing complaints from internal whistle blower and only 14 percent of Chief Audit Executive surveyed received genuine whistle-blowing complaints from external whistle blower. The lack of whistle blowing program implementation in Malaysian companies is possibly due to absence of legislation in Malaysia that forces the establishment of whistle blowing program. Although the Securities Industry Act (1983) and Capital Market and Services Act 2007 (CMSA) provides the employees, independent auditors and key officers' protection when they whistle blow, the act does not compel a whistle blowing program.

On the effectiveness of whistle blowing program, this study shows the CAE perception about the effectiveness of code of ethics in their organisation is negatively related to the fraud occurrence, that is the more the code is perceived as effective, the lesser fraud incidents will occur.

CHAPTER 1

INTRODUCTION

1.0 Introduction

Whistle blowing is commonly defined as "...the disclosure of illegal, unethical or harmful practices in the workplace to parties who might take action" (Rothschild & Miethe, 1994).

The whistle blower is like the referee in a football game, using his whistle to call a foul. The main difference is that the whistle blower has no power to do this, which explains the controversy surrounding it. The whistle blower can be internal, that is someone who works for the organisation or it can be external, someone who is not employed by the organisation but privy to the workings of the organisation. The whistle blower can air his or her complaint internally, through designated channels in the organisation or externally blows the whistle outside the organisation to the media, law enforcement officials, or some other public entity (Figg, 2000).

The rising interest in business ethics has gone hand-in-glove with the interest in whistle blowing (Vinten, 1990a; 1990b). Whistle blowing arrangements are also increasingly seen to be an important component of the corporate governance framework of an organisation. Among "best practices" in corporate governance is the implementation of corporate whistle blowing policies (Olander, 2004).

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