Watchdogs, Helpers or Protectors? – Internal Auditing in Malaysian Local Government

Abstract

This paper examines internal auditor roles to support public governance in a developing country context, through interviews with chief audit executives across 17 Malaysian Local Government Authorities. Drawing on critical theory, the research shows that internal auditors seek to legitimise their position through compliance (watchdog) and performance (helper and protector) audits. At the micro level of practices, in performing these dual roles, internal auditors are not colonised by governance rules and managerial influence, but instead are enabled by them to perform communicative action. Nevertheless, this was undermined by financial and managerial capacity issues that are a challenge in developing countries.

Keywords: Critical Theory, Emancipatory Accounting, Internal Audit, Governance, Local Government Authorities, Malaysia, Developing Countries

1. Introduction

Following the global financial crisis (GFC) of 2008, a significant issue for public service organisations is the importance of good governance (Ferry & Ahrens, 2016). Importantly, good governance has increasingly 'come to be seen as a critical element for sustainable development' (Siddiquee, 2006, p. 343), extending earlier accountability, environmental and ethical concerns regarding institutions and organisations (Burritt & Lehman, 1995; Fiedler & Lehman, 1995). The GFC highlighted deficiencies of the process of governance and governmental regulatory mechanisms and the need for structural change in the public sector (Peters, Pierre, & Tiina, 2011). This is even more pertinent in developing countries such as Malaysia (the focus of this study), where systemic shocks can often have greater impacts on the economy and society, leading to vulnerability in managing financial and managerial capacity. Recognising this, and the increased concern with corporate governance and accountability in the public sector more generally (Ahrens & Ferry, 2015; Bovens, Gooding, & Schillemans, 2014; Ferry, Murphy, Zakaria, & Zakaria, 2015; Grossi & Pianezzi, 2016), this study aims to provide empirical evidence of the development in public sector governance practice, from an internal audit perspective, in Malaysia (see Ferry, Zakaria, & Eckersley, 2014), and the challenges faced, in a developing country context.

Generally, the auditing profession, including internal audit, has an important role to play in the structural change of public services, particularly in promoting compliance and performance in the ways public resources are managed (Ferry & Murphy, 2017). This can include acting as watchdogs, helpers and protectors of management as well as being an independent advisor to government. These form part of the many roles that auditing practitioners play in supporting the governance structure of public sector organisations. Nevertheless, in framing the expertise and independence of the auditing profession in the eyes of the general public, there has been a substantial focus on the compliance audit (Zakaria, Selvaraj, & Zakaria, 2006), but less focus on their roles in providing good governance (Roussy, 2013; Tremblay & Gendron, 2011). Local Government Authorities (LGAs) are often given extensive power, and hence the importance of examining governance within the public sector and the role played by internal auditors.

The auditors' role in helping to ensure the governance infrastructure (Asare, 2009) is specifically critical in developing countries (such as Malaysia) that have shifted to a New

Public Management (NPM)[1] approach. NPM is not only a legitimate platform for increasing accounting colonisation of public sector practices (Broadbent & Laughlin, 2013, Laughlin, 1987) but also a mechanism of moving public sector services within an audit society (Power, 1997). For instance, ideas about performance and efficiency have become increasingly influential in the public sector as a result of facts building and expertise of public sector auditors (Gendron, Cooper, & Townley, 2007). Importantly, for this paper, the GFC and subsequent fallout brought the crucial role of internal audit with regard to governance in the public sector firmly to the forefront of international practitioner guidance (CIPFA, 2010, 2012; IFAC & CIPFA, 2014). For instance, CIPFA (2010) highlighted the importance of internal audit to a whole system approach of public financial management for good governance. Extending this work, IFAC and CIPFA (2014) have each stressed the importance of internal audit to ensure all actions are in the public interest in their international public governance code.

In prior accounting research, Roussy (2013), in her study of Quebec, highlights that the government identified internal auditing as the crucial function in promoting good governance. Nevertheless, empirical studies of internal auditing in the public sector have thus far discussed governance as part of studying internal auditing in general. These include studies that investigate the factors influencing the effectiveness of internal auditors in public sectors (Mihret & Yismaaw, 2007), sourcing of internal audit functions (Caplan & Kirschenheiter, 2000; Rittenberg & Covaleski, 2001, Spekle, Elten, & Kruis, 2007) and structuring of internal audit functions (Archambeault, DeZoort, & Holt, 2008; Miguel & Govindarajan, 1984, Norman, Rose, & Rose, 2010). While some researchers have started to examine the ways in which internal auditors interpret their roles in the context of providing good governance in the public sector (Roussy, 2013), the focus on how internal auditors interpret the concept of good governance in the light of their own roles (Tremblay and Gendron, 2011) remains limited. Our interest in this study is how internal auditors critically regard their role(s) as providing support to good governance.

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[1] New Public Management is an attempt to make public sector management and accountability processes more like the private sector through employing doctrines of markets, managerialism, and performance management. This was evident in doctrines wanting more emphasis on visible hands-on top management, explicit formal measurable standards and measures of performance and success, and greater emphasis on output controls (Ferry, Eckersley, & Zakaria, 2015; Hood, 1991, 1995).

We acknowledge that gaps in the meaning of good governance may exist between regulators and internal auditors (Tremblay & Gendron, 2011). However, we suggest that internal auditors can reflect on the external rules and understand organisational activities as a basis for exhortations that can be extended through communicative action with management as a potential means towards transformation and emancipation (even if exhortations do not ultimately lead to action). Key to the successful exhortation is the auditor's ability to demonstrate professional identity as an independent expert to management (Gendron et al., 2007).

The attempt to maintain professional identity, that is coherent with the individual's own conception of being 'a professional', has been examined in critical accounting research especially in the context of the auditing profession (Anderson-Gough, Grey, & Robson, 2001; Covaleski, Dirsmith, Heian, & Sayan, 1998; Haynes, 2008; Kosmala & Herrbach, 2006). Foucault's (1988) notion of 'technology of self' (in Foucault, Martin, Gutman, & Hutton, 1988) has been widely used in such research. For instance, to interpret the auditors' judgement of their professional self within broader regimes of discourses and disciplinary actions (Covaleski et al., 1998; Townley, 1995), and in securing more empowerment and self-fulfilment in their jobs (Kosmala & Herrbach, 2006). Such Foucauldian based studies have informed our understanding of the ways in which the disciplinary powers constitute auditors' subjectivities, partly created through socialisation in the work place (Anderson-Gough et al., 2001; Kornberger, Justesen, & Mouritsen, 2011). Habermas shares Foucault's concern on the practice of normalisation and surveillance (Power & Laughlin, 1996), within which linguistic action forms a technology of governance (Miller & Rose, 1990). However, in a Habermasian context, the theoretical insight is more inclined towards understanding the ways in which ordinary language can be a tool for meaningful interaction between people (Edgar, 2006). For Habermas, language is critical in understanding human actions. Following this, the distinction between strategic and communicative action is key to understanding whether a speech act is able to reach consensus and co-ordinate actions (Baxter, 1987). In the context of the present study, Habermasian analysis of communicative action is particularly useful in understanding how the day to day processes of internal auditing, which based on professional strategic actions, may have the potential to be communicative actions that enable management to co-ordinate actions for better governance of LGAs.

In the context of public sector corporate governance, and colonising accounting rules, we are interested in explaining the role of internal auditors with regards to their emancipatory practices. Rather than draw on traditional macro-historical emancipatory approaches, we instead look at ongoing micro practices of emancipation in everyday life through employing critical theory (Masquefa, Gallhofer, & Haslam, 2016). Our paper assumes that any research aimed at mediating human emancipation potential necessitates an ontological position ascribing some capacity for agency and reflexivity to human beings, widely accepted in critical accounting and management studies (see e.g., Alvesson & Willmott, 1992; Broadbent & Laughlin, 2013; Cooper & Hopper, 2007; Fournier & Grey, 2000; Laughlin, 1987; Masquefa et al., 2016). However, a diversity of opinions exists as to whether critical accounting research has been successful in engendering emancipation potential and how this may be brought about (see e.g., Bebbington, Brown, Frame, & Thomson, 2007; Brown & Dillard, 2013; Cooper, 2005; Cooper, Coulson, & Taylor, 2011; Cooper & Coulson 2014; Gallhofer & Haslam, 2003; Neu, Cooper, & Everett, 2001; Sikka & Willmott, 2005; Tinker, 2005). The latter issues are however beyond the scope of this paper.

For this study, and its focus in a developing country environment, Malaysia provides an appropriate country context due to a number of factors. These include its adoption of NPM in common with other developing countries (see Siddiquee, 2006 for a detailed historical review), its growth experience and the need for public sector management. Of specific importance, following the GFC there was recognition that good governance of the public sector in Malaysia was strategically important for its socio-economic recovery and future economic growth (Ferry et al., 2014; Ferry, Zakaria, Zakaria, & Slack, 2017). More recently, the World Bank (2016) draws attention to the Malaysian experience as relevant for 'emerging economies in Asia, Africa and elsewhere that are transitioning…into shared prosperity'. Specifically, the World Bank (2016) contends this experience includes front-line service delivery embracing public sector governance that this study is specifically concerned with. Within Malaysia, there exist three tiers of LGAs, of which by far the largest in terms of budget, population and services provided, and arguably the most influential politically, are the large city and municipal councils on which this study is based. Through in-depth semi-structured interviews of internal auditors in both city and municipal LGAs in Malaysia, we critically analyse the role(s) of internal auditors in relation to governance in the public sector.

Based upon this, we suggest that internal auditors can retain an enabling (and in some cases 'emancipatory') potential. This is through their 'exhortations' from reflection and understanding of their everyday activities. We also highlight that their ability to transform and emancipate cannot be achieved solely by internal auditors themselves. Indeed, they do not have the power to take such actions, as these remain an overall authority management responsibility. Improving accountability and ensuring actions are in the public interest therefore remains an exhortation to encourage or urge someone to do something. This is not an instrumental action per se, but a 'communicative action' that is fundamentally co-operative undertaken by individuals based upon mutual deliberation and argumentation (Habermas, 1984, 1987). The internal auditors' professional role is therefore as a (great) exhorter, who looks to extend exhortations through communicative action practices.

The remainder of this paper is organised as follows. The second section reviews relevant literature on internal auditing and establishes the theoretical framework for our empirical analysis. The third section describes the setting of our field work and provides a background description of LGAs in Malaysia. This is followed by section four which covers the research methods employed in this study. In section five, we present the narratives from the empirical data and highlight the ways in which internal auditors contribute to the governance of LGAs in Malaysia. Finally, in section six, we discuss our findings and provide conclusions in terms of the contributions from this study considering its managerial and wider implications. We also highlight future research needs emerging from this study, as well as recognising the limitations of the current research, specifically in relation to the context of the study, its generalisability and the research approach adopted.

2. Internal Auditing and Emancipation

Studies on the governance roles of internal auditors have been mainly directed towards understanding the influence of corporate governance mechanisms in enabling their role (Ferry & Ahrens, 2016). There are two main strands of literature that seek to discuss the roles of internal auditors in supporting good governance. Firstly, those studies that focus on the relationship between internal auditors and audit committees (Beasley, Carcello, Hermanson, & Neal, 2009; Davies, 2009; Gendron & Bedard, 2006; Mat Zain & Subramaniam, 2007; Sarens, De Beelde, & Everaert et al., 2009). In particular, such studies have explored the

activities through which internal auditors support the audit committee functions such as providing a sense of 'comfort' to the audit committee (Sarens et al., 2009) or support management at the expense of the audit committee (Roussy, 2013). Secondly, those studies that have examined the structuring of internal audit functions. For instance, in examining reporting lines of internal auditors and considering implications for the independence of internal auditors (Archabeault et al., 2008; Christopher, Sarens, & Leung, 2009; Miguel & Govindarajan, 1984, Norman et al., 2010).

These prior studies are notable in fleshing out the interplay between internal auditors and other governance mechanisms such as audit committees or external auditors (Schneider, 2010). In contrast, less attention has been devoted to the ways in which internal auditors have mobilised the concept of good governance in the performance of their roles. Such a consideration may have some enabling (if not emancipatory) potential (Ahrens, 2008; Ahrens & Chapman, 2004). Emancipation has its roots in critical theory, which itself has foundations in Marxism and an emphasis on hermeneutic science as a methodological approach. This is reflected in its four key characteristics: reflection, understanding, transformation, and emancipation (Outhwaite, 1996; Finlayson, 2005). These four fundamental characteristics are summarised by Chua (2004, p. 259): 'A critical theory, then, is a reflective theory which gives agents a kind of knowledge inherently productive of enlightenment and emancipation.'

In this context, Laughlin (1987, p. 482) suggests the use of critical theory in empirical accounting research is a consequence of 'the view that the present is not satisfactory [and] that reality could be better than it is'. A focus on the way accounting affects both individuals and the common good is fundamental to this view and the search for improvement (Broadbent & Laughlin, 2013; Lehman, 2007, 2013). Power (2013) notes Laughlin's (1987) extension of Habermas to accounting and organisational contexts. The emphasis on reflection, understanding, transformation, and emancipation that is at the heart of critical theory, has also lent itself to considerable use in empirical accounting research (Broadbent & Laughlin, 2013; Dillard & Bricker, 1992; Gallhofer & Haslam, 2003; Jonsson & Macintosh, 1997; Oakes & Berry, 2009; Power, 1991). Two broad aspects of the application of critical theory to accounting have been identified (Tilling & Tilt, 2004). Firstly, critical theory allows accounting and accounting practice to be situated in and understood in its wider societal context. Secondly, in terms of accounting colonisation, the use of critical theory is a call to participate in the transformation of accounting and its role in society. From this, our paper

suggests human beings, and in our case internal auditors, consider themselves and their practices in relation to their social context, that is local government. Without such a capacity, internal auditors would have few opportunities to change the conditions affecting their lives and will reproduce dominant social orders.

Arising from this is the epistemological implication for ourselves as researchers to adopt a position that assists groups and individuals in reflexively engaging with the world as a means of engendering emancipation potential (Alvesson & Willmott, 1992; Laughlin, 1987; Neu et al., 2001; Roslender & Dillard, 2003). In this sense, we appreciate that the accounting literature has stressed the power of accounting to colonise practices through coercive institutional processes and affect human behaviour (Laughlin, 1987), including within the public sector (Broadbent & Laughlin, 1998). Accounting is implicated in every aspect of organisational life (Broadbent & Laughlin, 2013) to the extent that it can colonise organisations and has significantly influenced the behaviour of those that work in them. In particular, accounting colonisation studies drawing on Habermas have suggested that regulative steering mechanisms of accounting follow societal requirements. In contrast, constitutive steering mechanisms fail to reflect the values, traditions and norms of the society (Broadbent, Jacobs, & Laughlin, 2001; Broadbent, Laughlin, & Read, 1991; Power & Laughlin, 1996) and have a potential to colonise as they reflect the values and norms of the technical system, rather than society (Dillard & Yuthas, 2006). Power and Laughlin (1996) and Broadbent and Laughlin (2013) draw on Habermas's discussion of the steering media of law to illustrate how constitutive and complex steering media can lead to colonisation. Indeed, accounting as a set of rules in organisations can colonise organisational life. However, due to increasing formalisation and abstraction of this regulative intent (Power & Laughlin, 1996) accounting that is intended to be regulative becomes constitutive and embedded in organisational life. Crucially in the context of accounting, and especially with regards to emancipation, 'the participants lose the capacity to question and criticise because they lack the ability to formulate alternatives' (Dillard & Yuthas, 2006, p. 212).

We recognise that colonisation studies have shown that accounting can be instrumental and communicative in the public sector in enabling ways (Oakes & Berry, 2009). More specifically, accounting can be enabling through its emancipatory potential (Gallhofer & Haslam, 2003). This is critical to the idea that accounting can, if not ensure, at least exhort if actions are undertaken in the public interest such as by internal auditors. Emancipation

studies have provided important insights into the potential of accounting but have tended towards a macro-level emphasis (Gallhofer & Haslam, 2003, 2006), although some commentators have argued for its extension to examine micro-level processes engendering its emancipation potential (e.g., Alvesson & Willmott, 1992; Broadbent & Laughlin, 2013; Laughlin, 1987; Masquefa et al., 2016). As noted by Broadbent et al. (2001), Habermas's model of how steering media interact with the societal life-world does not explicitly attend to deep-seated cognitive processes implicated in the generation of institutional persistence and change. However, even in their case, it is difficult to discern any deeper concerns with how such processes shape more subjectively held views of the world at the individual level of analysis.

An important dimension of micro-level processes has therefore been relatively unexplored that might otherwise enhance our understanding of how social actors may attempt to emancipate themselves from institutional constraints and how efforts to this end become implicated in struggles for domination and power (Cooper, Ezzamel, & Willmott, 2008; Masquefa et al., 2016). Issues of socialisation and professional identity (Anderson-Gough et al., 2001, Kornberger et al., 2011) are examples of the ongoing micro-level activities that auditors may face in carrying out their job. Indeed, studies have shown how the attempt to balance the role as a protector to management and upholding professional independence is not unique to the auditing profession, but has been a common challenge for the accounting profession in general. Studies have shown that management accountants were expected by the management to perform a variety of roles that could draw them further from the professional prescriptions for being an accountant, often referred to as a competition between the traditional role of book-keeping (Friedman & Lyne, 1997; Granlund & Lukka, 1998) or a more business oriented role (Baxter & Chua, 2008; Burns & Baldvinsdottir, 2005; Morales & Lambert, 2013). They are expected by management to be an internal consultant (Burns & Vaivio, 2001; Coad, 1999; Mouritsen 1996), business advocate (Jablonsky, Keating, & Heian, 1993) or business partner (Byrne & Pierce, 2007; Järvenpää, 2007; Lambert & Sponem, 2011).

In contrast to research that considers emancipatory potential in a macro-historical context (Gallhofer & Haslam, 2006), and in the spirit of Cooper et al. (2008) and Masquefa et al. (2016), we aim in this paper to consider a current issue of micro-level processes engendering emancipation. We do this through critically analysing the role of internal auditors in helping

to fulfil the governance of LGAs. This is in terms of internal auditor enabling tendencies to ensure often conflicting actions of compliance and performance are communicated in the name of (if not always in) the public interest, against both external colonising rules from government and internal management pressure to conform to their will. To this end, we will adopt Harbemas's notion of communicative action in interpreting the data.

Habermas explains, 'I shall speak of communicative action whenever the actions of the agents involved are coordinated not through egocentric calculations of success but through acts of reaching understanding. In communicative action participants are not primarily oriented to their own individual success; they pursue their individual goals under the condition that they can harmonize their plans of action on the basis of common situation definition. In this respect the negotiation of definitions of the situation is an essential element of the interpretive accomplishments required for communicative action.' (Habermas, 1984; page 285-286).

For Habermas, communicative action entails the interaction and relationship between two or more individuals through the use of ordinary language where parties to the interaction establish shared understandings and the intention of the speaker is made explicit or avowed. The shared understandings and avowed intentions are the criteria that differentiate communicative action with linguistically mediated strategic action (Edgar, 2006). Habermas categorises strategic actions into concealed strategic action and open strategic action. Concealed strategic action occurs when the speaker pursues non-avowable intentions, such as to influence the other parties to buy in the speaker's ideas. In open strategic action, a speaker may make explicit their intentions, but still acts strategically in order to encourage or influence the other parties to share their views, such as in the case of exhortations. Habermas explains that in the case of open strategic actions, the criteria of acceptability needs to be fulfilled before any speech acts can be considered as a communicative action. Habermas suggests that to understand a speech act is to know the condition under which the claim of utterance will be acceptable (Baxter, 1987, p. 42). One condition for the acceptance of an utterance is that the hearer knows how to respond to the utterance, either to act or not to act, and the speaker's validity of claim, that is a claim to truth, truthfulness or rightness, is criticisable. In a more normatively authorised speech act, that is when the speaker makes a request by referring to accepted norms in a given context. The condition of acceptability is established when the hearer knows how to respond in order to fulfil the request, and the basis

of the speaker's request, such as the legality of the procedures and the authority of the speaker to make such a request. The normatively authorised speech act would however constitute communicative actions when the speaker has an obligation to provide reasons and justifications for a validity claim, and the hearer can oppose the validity claim by criticism or reasons, such as challenging the legality of the instructions. According to Habermas, the act of providing and giving reasons for the validity claim constitutes rational potential to communicative action (Ibid, p. 45).

In the context of this study, Habermasian analysis of communicative action is useful in analysing the dual roles performed by internal auditors. On the one hand, the traditional compliance role requires the internal auditor to communicate strategically; on the other hand, the role as helper or protector to management enables the internal auditor to exercise the communicative potential of their works. Core to these Habermasian ideas is to understand the ways in which day to day interactions can lead to emancipation. The study of how internal auditors carry out their governance roles as part of everyday activities in LGAs is illustrative of critical theory. That is the capacity of internal auditors to engage others in their context in rational arguments that could reduce the effect of distortion of information due to effect of political inequalities in the society (Edgar, 2006). For example, in a macro-historical context, government circulars may constitute communicative action that draw global understandings of good governance, but the audience of this circular would not have direct interactions with the government. A focus on micro-level processes may provide insight into how the circular coordinates actions among individuals with diverse interests in order to reach shared understandings of what good governance looks like in their context.

The next section will describe the context of this study followed by the methodology adopted.

3. Local Government Authorities in Malaysia

To provide a contextual background, the salient points regarding the role of LGAs in Malaysia are now outlined. Malaysian LGAs are under the purview of the Ministry of Housing and Local Government. Local government administration is the third tier of government in Malaysia with responsibility for handling local issues, namely the obligatory and discretionary functions, that have been given to them by Federal Government through the State Government. Local government in Malaysia is made up of three categories comprising

city councils, municipal councils and district councils. The most significant of these are city councils, being those former municipal councils that have been upgraded to city status upon fulfilment of several criteria; two of which are total residents exceeding 100,000 and revenue collection exceeding RM20 million per annum. Municipal councils relate to an urban locality with residents exceeding 100,000 and revenue collection exceeding RM5 million per annum. Finally (and outside the scope of this research), the much smaller size District councils are in rural-based localities with residents less than 100,000 and less than RM5 million revenue collections per annum. In summary, city councils are those responsible for major cities such as Kuala Lumpar City Hall; municipal councils for municipalities such as Ampang Jaya Municipal Council and finally the large rural areas, albeit financially small, in relation to the district councils such as Hulu Selangor District Council.

Local governments are given extensive power under the Local Government Act 1976 covering mandatory functions (such as refuse collection, street lighting and activities pertaining to public health) as well as discretionary functions (such as providing and maintaining recreational parks, housing, and commercial activities). The Local Government Act 1976 grants roles and authority for local government in Malaysia with respect to a range of functions. These include local planning, licensing, the power to impose certain taxes, undertake building, housing and commercial construction, the power to perform urban planning and management functions, traffic management and control including public transport, and the power to plan and provide public utilities. Several other laws such as the Town and Country Planning Act 1976 and the Street, Drainage and Building Act 1974 allow local authorities to assume more developmental functions in urban management as well as undertake a more dynamic role in national development. The Local Government Act 1976 also specifies the setting up and terms of several committees, including the Audit Committee that oversees an LGA's core functions.

Similar to other internal auditor functions in Federal and State government, internal auditors in LGAs follow treasury circulars in discharging their duties. The establishment of an internal audit function in Malaysian public sector organisations including LGAs is based on circular number 2/79, subsequently superseded by treasury circular number 9/2004. This circular provides guidelines as to the role and function of internal audit within public sector organisations. According to circular 9/2004, the objective of an internal audit function is to assist a public sector organisation to achieve its goals by assessing the effectiveness of

internal control and governance processes. This circular also points to the importance of co-operation between internal and external auditors in order to improve the effectiveness of governance processes, financial management, and accountability in public sector administration. The focus on supporting effective governance processes is consistent with the Performance Standard 2110 of the Institute of Internal Auditors' International Professional Practices Framework. This standard requires internal audit activities to assess and make appropriate recommendations for improving the governance processes, such as helping to ensure effective organisational performance management and accountability.

4. Research Method

As of August 2013, there were 149[2] LGAs in Malaysia. However, there are distinct differences in the rules and regulations governing LGAs in Peninsular West Malaysia compared to those in East Malaysia. Thus, to ensure consistency in the research data from the interviews, the primary data was focused upon the larger region of Peninsular West Malaysia (with roughly 80% of the national population and economy) where there are 99 LGAs compared to 50 in the East Malaysia region. Of the three levels of LGAs; city councils, municipal councils and district councils, this study focuses only on the first two categories of councils. City and municipal councils have far higher budgetary and population importance, and reflective of this, their internal audit departments are much larger, compared to the smaller district councils. As such, activities within the internal audit department activities (interactions with auditees and number of audit programmes approved annually) are far more prevalent in the far larger city and municipal councils. Indeed, district councils normally only employ two to three members of staff in the internal audit department.

As it was envisaged that interviews would be the primary data collection instrument, prior to contacting any of the city and municipal LGA's, ethical approval processes at the respective universities of the research team members were fully complied with. Within this process, it was made clear that all participants would be free to withdraw from the research at any stage prior to the interviews or have their interviews redacted if they so requested. The research team then contacted, by telephone, all of the city (nine in total) and municipal (33 in total)

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[2] http://www.epbt.gov.my/osc/PBT2_index.cfm?Neg=00&Taraf=0&S=2 (accessed on 20th August 2013)

councils. Formal written invitations were then sent to Chief Audit Executives (CAE) by email to re-affirm the purpose and main aims of the research. This also covered their voluntary consent to participate in the research interviews and their anonymity in the research.

The CAE is a senior position in each LGA, reporting directly to the Head of the LGA and the audit function is independent from all other functional areas of the LGA. For this research, the views from CAE are important for two reasons. Firstly, the size of the internal audit function in most of the LGAs often comprises of five to six non-executive level auditors who focus on certain audit areas. Thus, to get comprehensive views on the governance role of internal auditors, perspectives from the CAE are crucial. Secondly, the CAE would ordinarily be the most appropriate candidate to interview due to their involvement in major decisions in the organisation by virtue of their participation in senior management meetings. Hence, we sought, wherever possible, to interview the CAE whilst recognising that due to timings and logistics this may not always be possible.

Following this invitation, the CAE's of six city councils (67%) and 11 municipal councils (33%) agreed to participate in the research. Further follow-up calls were made to municipal councils to try to increase their participation but none were forthcoming beyond the original 11 who had agreed to take part. The higher proportion of city councils in the interview sample is however reflective of their greater size compared to municipal councils. Thus, from a total of 42 city and municipal councils in Peninsula West Malaysia, 17 (overall 41%) LGA's agreed to participate in the research.

In total, 18 respondents, across the 17 confirmed LGAs, were involved in this study, one interviewee in each LGA except in one municipal LGA where two participants were interviewed (the CAE and the Deputy CAE) [3]. On two occasions, due to CAE availability at the time of the scheduled interview, the researchers interviewed an alternate senior member of the audit function. Both senior members were nominated by the CAE; one was the Deputy CAE and another was the Acting CAE who was covering for the CAE who was about to retire at the time of conducting the interviews. Both these senior alternates were involved extensively in the audit planning and supervisory roles of the audit activities. The final

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[3] Three additional interviews were also conducted with CAEs of district councils. They all confirmed the small scale of their operations in comparison to city and municipal councils. Whilst no significant differences were noted in terms of audit process, due to their size, as well as the small number of interviews, the data is not included within the findings of the study.

sample of 18 interviews (across the 17 LGAs) compares well to other qualitative interview-based research (Barker, Hendry, Roberts, & Sanderson, 2012; Campbell & Slack, 2011; Coram, Mock, & Monroe, 2011; Solomon, Solomon, Norton, & Joseph, 2011).

For the interviews, a semi-structured interview research approach was purposively designed to help obtain a richness of research data and to provide a meaningful understanding of the views of participants. In our case this was from the senior level of the internal audit function across the LGAs. Employing this method also enabled interviewees some degree of freedom to explain and elaborate on their thoughts and relevant experiences (Barker, 1998; Beasley et al., 2009; Jones & Solomon, 2010). Each interview had a common purpose to explore the perceptions of CAEs towards their role as internal auditors in the governance process. To help with the reliability of the data collected in the interview process, an interview guide, based on the prior literature and LGA practice, was used to provide a consistent framework and commonality of topic coverage in each interview (see e.g. Campbell & Slack, 2011). All the interviews followed the same format.

At the start of each interview, the researchers again provided an overview of the research and their role as information gatherers, with a resolute position of neutrality on the issues associated with governance, so that the interviewee would be inclined to speak openly and honestly on their role and the issues of governance. All interviews were undertaken between August and December 2013. The majority of the interviews lasted between fifty minutes to one hour. The interviews were generally conducted by one or two of the research team in a face-to-face meeting with each participant in their own office. With participants' permission, each interview was digitally recorded and subsequently transcribed.

Whilst the findings are based on the evidence from the interviews, to further triangulate internal auditors' perceptions, LGA documentation was also reviewed including council minutes, audit reports, audit file notes, annual reports and audit programmes. On the completion of all the interviews, the full data-set was analysed using qualitative procedures. The open coding technique suggested by Strauss and Corbin (1998) was adopted at the initial stage of the data analysis. Using this technique, issues, actions, interactions and key concepts were identified through careful reading of the interview transcripts, documents, notes and reflections of the context in which they occurred. The interview transcripts and documents

were therefore scrutinised to identify statements or discourses that reflected the perceptions and views surrounding the activities of internal auditors in supporting good governance.

Subsequently, these emergent analytical codes were arranged into the categories suggested by the data. In developing categories to make sense of this data, attention was given to the actions, the meaning underlying those actions and the wider phenomena to which these actions responded and which they shaped (Silverman, 2001). Categories are concepts, derived from data that stand for phenomenon or abstract explanatory terms (Strauss & Corbin, 1998). Emerging patterns or themes were also derived through comparative analysis, which is the act of finding similarities and differences in the data by comparing conceptually similar events, incidents or issues with those previously coded. These data were arranged according to the emerging themes and only finalised after careful reading and repeated discussion among authors of this paper (Ahrens & Chapman, 2006).

Due to the potential confidentiality of the matters discussed and the anonymity of participants, in the findings that follow in section 5, quotes extracted from the interviews are only be referred to by the respondent number which was assigned randomly. Responses have also been gender neutralised to further safeguard the anonymity of participants.

5. Findings: Internal Auditor Roles in Governance

The findings are presented in two main sections that consider the dual aspects of a compliance role and an enabling role of internal audit. Throughout, these findings are supported by verbatim quotations from the interviews, anonymously denoted using AE in reference to the respective participants. Firstly, we consider the compliance role and internal audit's function in upholding rules and regulations. This is then extended beyond compliance into service delivery and the image of the LGA. Here, tensions may be evident through concerns over managerial control, in contrast to internal audit independence and professional competence. This is manifested in the level of audit activity and the acceptability to management of associated internal audit recommendations. Secondly, we consider the enabling role of internal auditors in seeking to fulfil performance, as measured by associated performance ratings, and to improve public service delivery. Inherent in this, is their belief that corporate governance is explicitly to serve the wider public.

5.1 Government Rules and Internal Auditing Activities

Government rules and internal auditing activities are designed to support effective governance processes. This includes conformance to rules for the prevention of malpractice, to assist performance by management in public service delivery and to help them protect organisational image. These activities not only legitimate rules and management actions, but the internal audit profession itself.

In relation to the importance of external rules, the most common reason cited in the interviews, is their crucial role in preventing the misuse of power and wastage of public money. The importance of the treasury circular as providing the main rules that guide the internal audit activities is therefore widely shared by the interviewees in this study, exemplified by AE 3 who commented:

> *'For internal auditors, rules and regulations such as treasury circulars are like a bible!'*

Recognising that the treasury circular has gone through stringent deliberation, the participants stressed the need for auditing organisational compliance in accordance with the circular and their full implementation in practice. AE 1 was typical of a common response in relation to their use and implementation of treasury circulars:

> *'The applicability of treasury circulars in public sector organisations has been thoroughly studied by the government. So our role as internal auditors is to ensure the circulars are implemented accordingly.'*

The treasury circulars are rules that colonise the activities of public sector organisations and compliance to the circulars is a form of demonstrating public accountability to the citizen. The recognition of the importance of following procedures in relation to the provision of public services is encapsulated by AE 2 in their response:

> *'Our main role as internal auditors is basically reminding the department to follow circulars. The objective of the public sector is to provide (a public interest) service to*

citizens, so before we do anything, we must ensure we follow the right procedures and consider the impact on citizens.'

Whilst the above quotes are evidence of the public sectors' internal auditors reference and adherence to the treasury circular, they also suggested that the underlying motivations behind the reliance was in protecting the wellbeing of citizens. For example, the statements that the treasury circular is a bible and that their role is to remind and ensure departments follow the circular. Such opinion suggests their tendency to draw the department to acknowledge their power in requesting that departments act according to their request. Such requests are a strategic action. This is because the shared understandings that all government departments shall follow the treasury circular is a common knowledge, hence any department cannot easily contest this statement by arguments.

It was apparent that the internal auditors' focus on compliance audit is expected by the management to assist them in discharging their responsibility. However, the participants also suggest that they have detached themselves from the traditional view that internal audit is to (solely) police other functions. In this vein, one of the interviewees, AE 4, specified participation in senior management meetings and the involvement of internal audit in activities to improve the quality and corporate image are platforms that enable them to exercise the potential communicative action of their works:

> *'That internal audit is to find others' fault is an old concept. Now our role is to assist management. For example, management always ask our views on certain issues and encourages us to participate in various meetings.'*

Indeed, emergent from the interviews, is the recognition of an increasing demand for internal auditors to be more involved in improving the governance of the organisation beyond assuring compliance with rules and regulations that colonise through coercive institutional processes. For example, as AE 5 opined, they are expected, by the senior management, to contribute to activities that enhance the quality of public sector delivery and corporate image.

> *'Audit is not to find others' fault. Previously we were police, but now we are involved in activities to improve quality and corporate image.'*

Hence internal auditors' contributions in improving corporate image and quality management are viewed as recognition to the (professional) skills and competencies of the internal audit function. Indeed, AE 9 specifically commented that, 'by providing recommendations [that] can help the auditees to improve their processes'. In order to carry out such roles, as management facilitators in improving quality and image, internal auditors develop various strategies. For instance, AE 7 referred to the need to 'mingle with people in order to get information'.

However, as internal auditors become enabled, through not only their exhortation of recommendations but communicative action, it increases the risk of them becoming more under management influence (and even control), especially to legitimate their actions. Indeed internal auditors openly recognised the stark reality that auditors could go native with management, an issue directly referred to by AE 5.

> '*Our activities can be pressured by management, and sometimes it would be easy to go native, but this has to be resisted… Ultimately if pressure was unreasonable and management would not relent then the CAE would have to inform the HMC (Head of Municipal Council) or even Auditor General, in line with the statutory duty of internal audit. Obviously no one would want this…*'

As such, internal audit may become regarded as legitimating management actions, and even more so internal audit may begin to set the management agenda by making their recommendations instrumental and therefore more likely to be accepted. Internal auditors therefore need to carefully mediate this potentiality and look to maintain their independence. Less one set of colonizing governance rules are replaced with a new and more direct master. Indeed, there was clear recognition of the need to maintain internal audit independence and of the audit processes performed. One of the participants, AE 18, framed this independence of the audit process and management recognition as follows:

> '*I don't feel that our activities are being controlled by the management. Indeed we can simply report on anything……in one of the audits we found that the Mayor's office did not have an organisational chart, we included this as part of our audit observation and the Mayor was happy that we do not close our eyes on his activities.*'

'So far we have got very good support from management and the Mayor. I think because they can see that we can help them to deliver a good service to the public……sometimes we have heads of departments request us to audit their activities. For example, one of the departments asked us to audit the landscape activities because they faced problems with their contractors….so they asked us to audit the activities to confirm their observations' (i.e. whether the problems are caused by the department or the contractor).

Nevertheless, the emancipatory role of internal audit is influenced by the professional judgement of an individual internal auditor. For example, AE 13 comments on the need to exercise their discretion in dealing with misappropriation of assets in the LGA:

'In a misappropriation case … I don't trust anybody except myself….that's my way…now I am investigating something…and the deputy HMC happens to know…but I will not show him the details…because until I can gather sufficient evidence to implicate the individual, I would not share anything with anyone including my HMC.'

Whilst the internal auditor may be appreciative of senior management input on an ongoing investigation, there is a need, consistent with their independence, to withhold the preliminary information in order to ensure that a complete case is presented to the management for further actions. AE 13 also explained that in the case of misuse of position for personal benefits or misappropriation of assets, the most difficult task is not obtaining the evidence but dealing with the negative perceptions on their role as an internal auditor. The emotional feeling of putting a co-worker through disciplinary actions, or the perception of other colleagues on their perceived lack of sympathy to the family members of the alleged perpetrator are the main challenges that need to be overcome.

However, whilst treasury circulars were often lauded by the participants as to their standing (as evidenced earlier) the associated rules are not always clear cut for implementation at the localised operational level. As a result, in some instances, internal auditors need to exercise discretion as to what is an acceptable and unacceptable activity. For example, providing recommendations is not simply requiring the organisation to comply with rules or procedures, but it is within these activities that internal auditors exercise their professional judgment in

exhorting recommendations and extending this in communicative action. As suggested by AE 6 below, making a recommendation is a process to convince the senior management that compliance with government procedures is crucial for the governance of LGAs and a failure to do so may attract public complaints.

> *'To make audit findings acceptable to an auditee or to attract their attention, we must have convincing arguments, say for example, if you don't do this, the risk will be (x)..., or we highlight the rules and regulation, maybe senior management overlooked that... but the purpose is for us to help each other to improve our quality of services to the public.'*

This is illustrative of how acceptability is an important criteria in determining communicative action. The internal auditor needs to make a convincing argument and demonstrate the consequences of not following rules and regulations as a claim of validity for their recommendation. While the internal auditor refers to the established norm, through the rules, in the case of providing a recommendation, the clients can criticise the claim of validity through arguments such as the suitability of implementing their recommendation within the client's context.

This also reveals that providing recommendations as an activity becomes more challenging for internal auditors. For instance, senior management in the LGA may no longer appreciate recommendations that only solve the problem in the short term. Internal audit recommendations would be perceived as adding value if they are practical, prevent the recurrence of the problem in the long term, and could give positive impact to the citizen in the public interest. In order to provide perceived value added recommendations, AE 6 and their team discussed with auditees possible solutions to the problem as part of communicative action. Hence they advise, 'the auditee to do the job in the right way and not just based on existing practices… you know… what they need to do based on an act or guidelines'.

Based on their experience, auditees have usually thought of the solutions but these were not implemented due to financial and non-financial constraints. This is more often experienced by the municipal LGA's that are located in areas that have a relatively lower level of financial resource and income generating activities. Such LGAs need to prioritise their budget and often the maximum amount of financial resources will be channelled to the departments that

provide direct impact services to society such as the town planning department than a backstage function such as the finance department. As a result of this, internal auditors emphasise and extend the recommendations that have the highest likelihood of being implemented by the respective LGA. The discussion between auditors and auditees in determining a suitable solution to the problem is a process that can lead to the acceptability of the recommendation and constitutes communicative action. This shows that communicative action is a way to promote human emancipation as through this process both internal auditors and clients work towards reaching shared understandings within the confines of the LGA.

By incorporating potential management solutions in their audit recommendations, participants sought to create the expectation that their recommendations would be implemented. This extended exhortations beyond a mere compliance role and sought to improve both the system control for conformance but also potentially business performance. The audit recommendations therefore are not a normatively authorised action, by way of internal auditors having a policing power, but a communicative action that enables management to know what to do, how to do it, and negotiate possible appropriate actions in governing the organisation. Take for instance the following two responses:

> *'As (internal) auditors we are not 'only' to highlight the errors or wrongdoings of others, we have to show the right ways of performing their tasks. For example, when I came in, staff didn't really know the right information to include in a LO (Local Order). So I labelled the right information in each column and wrote down instructions on how to fill in the LO, then I scanned the sample LO, did a memo and emailed them to the staff copying in my HMC.'*
>
> *(AE 3)*

> *'We found that many auditees did not know how to properly fill in the CP67 form and some did not present the form (when reporting the revenue collection). So we told the Human Resource Department to organise a training event and it was delivered by our CAE.'*
>
> *(AE 18)*

While the act of telling the human resource department to conduct training constitutes linguistically mediated open strategic action, the act of writing down the instructions to fill in

a Local Order is an example of a co-ordinated action to encourage acceptability of the instruction and thus constitutes communicative action. The internal auditor's effort to demonstrate the right information to include in a Local Order and to conduct training on how to fill in the CP67 form is an extension of an exhorted recommendation through communicative action that helps with the lack of knowledge on the subject matter. By this act of educating the organisational members on the right ways to do their job it not only encourages compliance to government rules, but for management action to transform the operation or even emancipate some workers from the procedure. In addition, the auditor moving from conformance to also embrace performance further legitimates their professional role as being more advisory as a helper than just a watchdog.

5.2 On an Enabling Role of Internal Auditors

Emergent from the interviews, was that the enabling role of internal auditors involved a focus on quality tools and performance management system star ratings and rankings. This was in the name of the potential of exhortations to improve public service delivery serving to legitimate internal audit's own activities for communicative action. The alternative overt public measurement mechanism covers the number of complaints on LGA (and also non-LGA) services. More broadly, internal audit supports corporate governance mechanisms serving to ensure public services for the population. Consistent with this, AE 10 commented that the focus of their audit activities on improving the work processes is designed to help control the quality of its service delivery. This relates public service delivery to the current government tag line:

> *'Since now the government's aspiration is to ensure 'Citizen First', so I try to align my audit activities toward that idea.'*

The importation of management control systems from private sector organisations into public sector organisations is one of the common features of NPM. Local authorities in Malaysia are not left behind in this regard. Further, the regulatory authorities that monitor the performance of local authorities formulate their own monitoring tools such as an Accountability Index developed by the Auditor General and a STAR rating developed by the Ministry of Housing and Local Government. Internally, most of the interviewees are involved in activities related to operation of quality standard tools such as International Organization for Standardization

(ISO) and the Japanese workplace organisation system 5S (Seiri, Seiton, Seiso, Seiketsu, and Shitsuke) in their respective LGAs. The level of monitoring practices and the link to performance was highlighted by AE 1 as follows:

'We also have 5S and ISOs that provide extra guidelines to us. So the government have sufficient rules and procedures to guide us, just we need to ensure the improvement in work practices.'

Whilst these guidelines are primarily designed to regulate organisational activities, the interviewee positively suggests that such guidelines will be used to improve the organisational practice and not be constrained by them. Following this, some interviewees use the third party control tools in shaping their scope of audit. This is possible because most of these guidelines share common criteria. For example, public sector financial management is one of the criteria stated in both the Accountability Index and Star Rating and is also an important audit area identified in the treasury circular. AE 6 for instance uses STAR rating components in deciding their audit priorities. The STAR rating comprises comprehensive indicators to measure LGAs performance including measures such as the existence of strategic planning, commitment towards quality and creativity, ICT, and public sector management and financial management.

For the majority of our interviewees, the STAR rating is seen to have a significant influence on the image of LGAs. While ensuring a high rating is the responsibility of everyone involved with the LGA, internal auditors are expected by LGA management to play an active role in providing recommendations to help improve the rating. Although all interviewees suggest that STAR rating has a positive effect on organisational performance, they argued that this has increased their job scope significantly. This is a challenge to the internal audit function as many interviewees face headcount and budgetary issues. Too many types of audits not only put more pressure on the financial constraints faced by LGAs but also confuse the organisational members on the reasons behind such audits. Thus, some internal auditors use their discretion and judgment to organise their work around STAR rating requirements. As many organisational members are sceptical about the benefits that these audits can do for their organisation, aligning internal audit activities with these audits is an attempt to encourage organisational members to further debate and suggest priority areas for audit and enable acceptability of the audit function in enhancing organisational image. Based on the

rating received in each category of performance, AE 6 for example will focus their internal audit activities on the areas which receive poor scoring. They argued:

> *'When we have indicators (referring to STAR indicators) that were recognized throughout Malaysia, so this is a measure of quality. Say a LGA has got two stars, the public will say 'yeah we know that this LGA is bad' ... so the LGA's image will be affected and staff morale will be low.'*

> *'Since we have a Malaysian standard, so I thought why not align my internal audit activities with the activities related to the STAR rating.'*

This view is also supported by AE 12 who has been using both the STAR rating and Accountability Index as guides to determine audit areas, who explained:

> *'In 2008 our performance in accountability audit conducted by the Auditor General was embarrassing. We were the second last in terms of ranking among LGAs in our state. So in 2012, we did a pre-audit (self-assessment) before the accountability audit and provided recommendations and in that year our ranking rose significantly... you know the Auditor General in the exit conference was really impressed with the way we transformed.'*

The activities of AE 6 and AE 12 both reflect the ways in which internal auditors perform their function in an enabling way to improve rankings and ratings. Whilst compliance with the various government circulars is the backbone of this function, they embrace their work by aligning internal audit activities with the operational priorities. This creates greater consensus of common activities that can serve to enhance the image of the organisation. By using the STAR rating and Accountability Index elements in selecting their audit areas it enables communicative action with other members in the organisation to further legitimate the perceived value of audit to their operations.

However, this internal audit focus on external ranking criteria for LGA image as a way to legitimate the usefulness of internal audit activities to management is not without potential unintended consequences. For instance, with changed audit activity and associated measurable outputs, the focus of attention may mean other areas are neglected. In essence,

internal audit activities should not be compromised as an instrumental action driven by ratings as a means to legitimate their own existence. This is not to say that the underlying performance management systems are inherently poor or that internal auditors are wrong to give them attention, but more so to highlight that internal auditors should be able to use their professional judgment to determine their activities.

As the third tier of government that provides direct services to the general public, corporate governance in LGAs has been generally understood by our interviewees as a system to provide good services to citizens and ensure actions are in the public interest. For instance, AE 8 clearly noted that, 'good corporate governance means making sure there are good services for citizens'. One indicator of good services to citizens is the number of complaints received by the LGAs. In this context, AE 5 explains the experience of their LGA,

> *'To me, the management of complaints is the measure of our performance. Therefore our role as auditors is to do a random audit on the management of complaints once every three months.'*

Complaints on services provided by LGAs are also monitored closely by the council members (local politicians) and are one of the permanent agenda items in LGAs monthly full council meeting. In each LGA there is a team to monitor the management of complaints and an internal auditor is one of the standing team members. The importance of managing public complaints as an indicator of good governance is acknowledged by all of our interviewees. For instance, AE 12 explains that sometimes public complaints might not be within the LGAs administration. For example, the drainage system is under the jurisdiction of the Irrigation and Drainage Department which is a department under the Federal Government. However since LGAs collect tax, the public assume that any infrastructure issues shall be directed to the municipal council. AE 12 comments:

> *'We cannot ignore the complaint although we are not responsible for it. We have to show that we care for our citizens by quickly channelling complaints to relevant departments.'*

Recognising the importance of public complaints to the image and standing of LGA's, from an internal audit perspective, AE 12 explained:

'We focus on work procedures because this is the key that could reduce the public complaints.'

Whilst it is recognised that internal auditors still ensure compliance to rules (in their watchdog role), the above quotes suggest that internal auditors regard an important part of their audit activities to be geared towards improving the quality of public sector delivery (in a helper role) and to uphold organisation reputation (in their protector role). However, this is not merely to help and protect management, but is partly to legitimate internal audit activities themselves in an instrumental manner. This is especially the case in Malaysia where internal audit function activities in LGAs are still at their infancy, particularly in municipal councils outside Kuala Lumpur and Selangor (its neighbouring state). In general, our interviewees recognised that their ability to exhort recommendations, but with a need for communicative action with management to extend the recommendations into action, has therefore been influenced by the contextual conditions. These include physical infrastructure, human resources capacity and budgetary constraints, which limits the scope of audit they can perform in a year, and managerial perceptions on the internal audit roles. AE 13 highlighted the issue of capacity faced by their audit team:

'We don't have enough staff, but the problem with this LGA is that we can't recruit more people…even to get contract staff… so we have to double or triple our efforts to complete audit assignments.'

Beyond this, their recognition of audit capacity constraints suggested some areas are more demanding for internal auditing. For instance, when an audit examines wider technical issues of engineering aspects related to infrastructural works that go beyond the knowledge of accountants and auditors. To deal with such issues, CAEs enrol other department specialists, such as engineers and quantity surveyors, to help on such assignments. This is an example of communicative action that has coordinated interaction between the internal auditors and other organisational members. The same practice also was enacted by another interviewee from a city council (AE14). This interviewee suggested that enrolling officers from different departments to commission some technical audit tasks would help to tackle the issue of lack of resources within the internal audit department as well as to increase their appreciation on the role of internal auditors as an exhorter to the management.

6. Discussion and Conclusions

Employing a Habermasian frame, it has been argued that public services activities have been colonised by accounting that permeates all aspects of work. This has affected professionals and the way they behave, including internal auditors. In supporting good governance, it was found that internal auditors legitimise their position through dual roles; compliance (watchdog) and performance (helper and protector) audits. It was illustrated in the research that governance processes carried out by internal auditors were primarily to prevent malpractice through compliance audit to rules that colonised practices. Further, such processes helped to assist management in improving public service delivery and upholding corporate image. However such processes also raised issues that risked internal auditors becoming (more) beholden to management.

In performing these roles, internal auditor actions had intended and unintended consequences. A compliance audit can, as intended, reduce the amount of malpractice and help ensure rules are followed. However, it may become instrumental and not focus on the broader concerns outside of the specific confines of rules and thus potentially waste resource by auditing activities that are considered trivial. In terms of public service delivery, the audit could be intentionally used to focus on areas to improve rankings. However, this instrumentalism could have unintended consequences by focussing on work processes that lead to a focus on procedures rather than outcomes, and thus lack concentration on areas that are not measured but could have (serious) service implications. With regards to improving corporate image, the audit could instrumentally focus on areas to achieve a better reputation and reduced complaints. However, such actions may also have unintended consequences of only addressing LGA complaints for those that have an active voice and thereby not helping the majority of citizens. For complaints on non-LGA services it may use up time without achieving any genuine joined up services.

These dual roles (compliance and performance) also have greater consequences on the professional identity of the internal auditor. As we have illustrated, in the attempts to convince the management to comply with rules and to adopt performance improvement ideas, internal auditors will suggest possible solutions to the problem, hence assuming the guise of a wider management role. This can possibly be an identity threat to the internal auditors'

independence and could cause internal auditors to carry out jouissance [possessive] acts (Kosmala & Herrbach, 2006). Nevertheless, the internal auditors in this study took a more critical approach in dealing with the issue of professional identity. Instead of being captured by the rules and beholden to management needs, they opted to convince management by providing reasons to support the validity of their work. This also allows the management to respond in a more reflective approach by way of debate, criticism and arguments on practicality and socio-economic dimension of the auditors' recommendation.

Within this study, critical theory is the key to getting into the rich, mundane and yet complex fabric of everyday life such as the internal auditors' efforts to balance conformance and performance. In the context of communicative actions, internal auditors accept the position that their professional authority to impose rules in organisations cannot be simply exercised without having practical intervention to avoid loss of meaning in everyday social life (Edgar, 2006). This has been seen, for instance, in the context of providing recommendations on the managements' compliance to external rules and the various forms of quality audit, where internal auditors contextualise their activities according to the mutually recognised needs of the organisation. Similarly, this is also evident in the act of not disclosing the ongoing audit of sensitive information even to top management. This not only seeks to preserve the auditor's independence, but also to prevent unintended actions that may undermine wider moral and psychological issues. Further, the auditor's choice of linguistic strategic actions is not to distort the communication to the management, but to provide better reasons for validity claims and acceptability of the information when full evidence is obtained.

While most of the internal auditors' activities stem from linguistically mediated strategic actions, with the aim to shape management behaviours according to their will, the present study noted that in most cases internal auditors would resort to communicative action. Internal auditors therefore uphold rules, but enable potential for pockets of change through their exhortations and communicative action that could have transformation and even emancipation potential. For example, there could be changes to rules in a functional business area or a change to a measure in the ranking indices.

From the findings in this paper, we agree with Roussy (2013) that internal auditors can be watchdogs (compliance audit of rules), helpers (with making recommendations on public service delivery) and protectors (by addressing complaints). However, we also suggest that

these roles are only possible as internal auditors legitimate their own actions by their professional experience to exhort recommendations that can be extended through communicative action with management who have the power to transform and emancipate. Internal auditors therefore are fundamentally 'exhorters', with their strengths and weaknesses in power lying in 'communicative action' which relies on legitimation of their own 'professional' status.

The findings of this paper should be read in the context of a developing country that still lags behind in terms of physical resources to support the internal audit function in their role as a mechanism of good governance. The findings show that issues of head count and budgetary allocation indeed limit the internal auditor role in supporting the LGA governance. The issue of LGAs' capacity are further magnified by various types of audits conducted by the external agencies such as the STAR rating audit and Accountability audit. While the essences of these audits are understandable attempts at improving governance and public delivery services of LGAs, they also put pressure on the limited financial and technical capacities available in the LGAs. Indeed, the findings have highlighted potential consequences of the various external agencies audit on the internal audit scope of work as well as the ways in which they prioritise their audit areas. This is a typical challenge in the auditing field more generally (Johnson, 2006). Although, this is a challenge to the internal audit function, some auditors embraced this challenge by enrolling members of other functional units such as the engineering department to auditing areas that require non-audit expertise.

Our study contributes to the existing literature on internal auditing in three ways. Firstly, we show the ways in which internal auditors mobilised the concept of good governance in their roles (Tremblay & Gendron, 2011). We suggest internal auditors rely on their exhortation and extension through communicative action in supporting governance of LGAs. Secondly, following the increased concern with corporate governance and accountability in the public sector more generally (Ahrens & Ferry, 2015; Bovens et al., 2014; Ferry & Ahrens, 2016; Ferry et al., 2015a, b; Grossi & Pianezzi, 2016), this study provides empirical evidence of the development, and challenges faced, in public sector practice in the context of a developing country, in our case, Malaysia (and see Ferry et al., 2014; Ferry et al., 2017). Thirdly, our study provides micro-level perspectives of how exhortations as recommendations can be extended by practices of internal auditors in supporting governance of local authorities (Masquefa et al., 2016). This was through communicative action for potential management

action, which could even transform and emancipate from humble everyday origins. Indeed, the present study shows how internal auditors and management discuss, negotiate and argue for solutions to the problem that can enhance their accountability to the public. For example, knowing merely how to fill out a local order form may appear to be part of everyday ordinary activities. However such actions collectively have important consequences to governance in the public sector that can be as significant as a transformation manual or circular that aims to standardise behaviour in the public sector. This study thereby complements prior studies that have mainly focussed on the potential of accounting as being emancipatory at a broader macro-level (Gallhofer & Haslam, 2003, 2006).

We recognise that the study is limited by its specific examination of Malaysia, which whilst a developing country, has its own cultural, political, economic and social influences. Further, we recognise that the findings of the research are limited to the specific region of Peninsular West Malaysia, and within that, the focus upon the larger tiers of LGAs; city and municipal councils. Whilst this enabled consistency of regulatory environment, the scope of the research is necessarily restricted. As such, the study is inherently limited in its generalisability for Malaysia. Further, despite the adoption of NPM as a framework by developing countries, such as Malaysia, we recognise that other developing countries with NPM practices will often have different local rules and regulations within which country specific studies should be set. Thus, future studies could contrast the experience of Malaysia with other developing countries to examine if there is a broader consensus on the public sector governance issues faced in such a context.

We also appreciate that our analysis is mainly derived from interviews with CAEs. We recognise this is just one voice in the process of governance and thus may be subject to bias or other self-serving motivations. By assuring anonymity and by interviewing across a section of LGAs we sought to minimise this potential weakness in research method. Additional insight may be obtained in future research by extending the inquiries to include politicians, senior management, members of audit committees, protest groups, and citizens which supports calls for more research on public sector governance and accountability (Ahrens & Ferry, 2015; Ahrens & Ferry, 2016; Almquist, Grossi, van Helden, & Reichard, 2013; Ferry & Ahrens, 2016). Finally, it is our interpretative framework that has allowed us to develop these insights, based on the CAE interviews, informed through Habermas. Whilst we sought to ensure the reliability of our findings we accept the 'fallacy of internalism'

(Ferguson, 2007) of our own analysis and would also welcome alternative ontological approaches that could be used to frame future studies.

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