

# **Assessing Audit Committee Effectiveness of a Government Statutory Body: Evidence from the Inland Revenue Board of Malaysia**

## **Abstract**

This study examines the effectiveness of an Audit Committee (AC) operating in a large government statutory body in an emerging economy, namely the Inland Revenue Board of Malaysia (IRBM). Prior studies focussing on AC effectiveness in relation to the public sector are sparse. Data collection was through in-depth interviews with key individuals involved in the IRBM governance process, including AC members, senior management and external auditors. We find the existence of a weak AC governance function that inadequately oversees financial reporting and internal control systems and that the independence of AC members is questionable since a communication gap exists between AC members and the external auditor. Our study highlights that top management should ensure that its AC fulfils its assigned role and that urgent attention is given to issues on composition, appointment and diligence of its AC members. We conclude that the IRBM should consider improving independence by appointing an external independent AC member(s) from either the big four or an influential industry expert to provide the necessary input and expertise to ensure that public confidence continues.

Keywords: Accountability, Audit Committees, Effectiveness, Inland Revenue Board, Malaysia

## **Introduction**

Over the last few decades, the rise of new public sector reforms along with economic crises have applied pressure on governments worldwide to observe good governance in order to restore public trust and confidence (Brinkerhoff, 2008; De Vries and Namec, 2013). It was high profile cases such as Enron and Worlcom that pointed to the failure of corporate governance in general and of Audit Committees (ACs) in particular in undertaking their work effectively though an AC comprised of well-qualified individuals. Consequently, the accounting profession became subject to criticism as pressures mounted, increasing questioning of the quality of financial reporting and auditing. In promoting audit quality and to restore public confidence in the accounting profession, the importance of the AC's role continues to be highly relevant (see DeZoort and Salterio, 2001; Gendron and Bédard, 2006; Davies, 2009; Holmes and Zaman, 2012; Fitzgerald and Giroux, 2014).

Although a growing body of literature relates to ACs in the private sector, only a few studies have examined the organizational context and process of AC operations in relation to public sector organisations (Hermalin and Weisbach, 2003; Pollitt, 2011). In this light, Subramaniam et al. (2013) emphasised that public sector governance practice could best be understood through systematic examination of managers' understandings and perceptions of factors that facilitate or inhibit good governance. Similarly, attempting to understand the role and function of the AC through the perceptions of members and senior managers of an organization could provide valuable insight about the importance of what constitutes ACs' real practice.

Despite the importance of ACs in government organisations, research studies in this area are rare and tend to focus on the private sector. AC members are reported to lack competence in undertaking their role and function, with serious repercussions on the quality of financial statements assurance (see for example Magrane and Malthus, 2010; Purcell et al., 2014). When

the issue on AC competence is examined, this draws attention to an essential element on AC effectiveness, i.e. the process involved for proper functioning of the AC. The governance of ACs is not solely effected by the existence of formal structure and process but is also dependent on the informal interaction with other internal parties as well as internal and external auditors (Goodwin-Stewart and Kent, 2006; Turley and Zaman, 2007). For this reason, our main objective is to explore the governance role played by the AC in one of the largest Malaysian public administrations set up as a statutory body<sup>1</sup>, namely the Inland Revenue Board of Malaysia (IRBM). The IRBM, as an agent for the government, was provided autonomy to assess, enforce and collect direct taxes. Therefore, the IRBM has the responsibility to ensure the quality and the effectiveness of the overall administration of direct taxes. In considering the fiscal and public accountability burden that it carries, it would be worthwhile to subject the IRBM to rigorous examination to establish whether or not the AC practices of the IRBM are in line with the provision of Malaysian statutory acts. Therefore, this study has two specific aims; first, we attempt to ascertain the accountability and governance practices, specifically the role of the AC within the IRBM organisational framework. Our second aim is to evaluate the effectiveness of the AC in discharging its duty.

Several studies have indeed focussed on IRBM. However, these studies have mainly relate to tax determination and assessment issues (Loo et al., 2010; Dandago and Hassan, 2013; Isa, 2014; Mohamad et al., 2016) and the usefulness of tax audits (Isa and Pope, 2011; Nordin et al., 2017). To the best of our knowledge, this is the first study that explores the governance role of the AC in the IRBM, and therefore a study of this nature fills an important gap in the literature not only from a government statutory body standpoint but also from an emerging

---

<sup>1</sup> Some examples of statutory bodies in Malaysia are Bank Negara Malaysia (Central Bank of Malaysia), Securities Commission of Malaysia and Electoral Commission of Malaysia.

country perspective. In addition, this study directly responds to a call for qualitative case study research using semi-structured interviews to explore the governance role of ACs (Uddin and Choudhury, 2008; Hegazy and Stafford, 2016) in contrast to the typical quantitative research (Goodwin and Yeo, 2001; Goodwin, 2003; Davies, 2009; Cai et al., 2015).

A further contribution is that our study touches upon corporate governance theory. Berle and Means (1932), in their seminal study, introduced the concept of separation of ownership and control through shareholding and the subsequent disputes. This later produced an important economic-based theoretical framework contributing to the concept of corporate governance, i.e. the agency theory. Jensen and Meckling (1976) generally defined the agency relationship as a contractual relationship between the shareholder as the principal and the managers as agents who are given authority to perform services on behalf of the principal. Prior research has also claimed that the agency theory provides understanding into the concept of analysing the governance relationship and outcomes of the particular organization (Gillan, 2006; Brennan and Solomon, 2008; Merino et al., 2010). Analyzing through the lens of agency theory, this study raises concerns on the overall effectiveness of the AC at the IRBM in the context of its independence and oversight function. This brings about an important question on the ability of the AC to drive IRBM towards compliance to legislation and meeting societal norms and community expectations (see for example Thomas and Purcell, 2018).

The remainder of the paper is structured as follows. The next section presents the literature review and focusses on the effectiveness of ACs. The literature review also discusses issues relating to the accountability and credibility of public sector entities in general. This is followed by a section discussing the background to IRBM. Our next two sections describes the research

methodology and a thematic discussion of our findings, respectively. The final section summarises the conclusion and outlines some possible implications of the study.

## **Review of Literature**

The formation of an AC and a sound internal audit is a cornerstone in establishing good corporate governance to reduce organisational risk (Goh, 2009; Bédard and Gendron, 2010; Purcell et al., 2014; Alzeban and Gwilliam, 2014; Alzeban and Sawan, 2015; Hegazy and Stafford, 2016). The requirement for ACs to be more effective was given prominence after the financial collapses in the early 2000s. The US Sarbanes–Oxley Act of 2002 specified the duties of ACs in scrutinizing the financial statements and related disclosures and reviewing reports of internal and external auditors regarding internal control issues. In providing quality assurance, ACs are obligated to review and monitor the work performed by internal audit functions (DeZoort et al., 2002; Davies, 2009; Alzeban and Sawan, 2015). To achieve this, an AC should demonstrate strong governance and be competent, independent and transparent in providing full disclosure to both shareholders and other stakeholders alike (Graham et al., 2005; Barth and Schipper, 2007; Uddin and Choudhury, 2008; Billings and Capie, 2009; Bédard and Gendron, 2010; Redmayne et al., 2011).

Prior studies have shown that ACs' independence and competency provide effective monitoring and allowed for better evaluation of internal and external audit functions (Beasley and Salterio, 2001; Goodwin, 2003; Zain et al., 2006). The effective monitoring role of ACs can also increase with a close working relationship between ACs and external auditors (Beasley and Salterio, 2001; Farber, 2005). Some studies have even reported a positive correlation between the internal audit function and AC effectiveness (Goodwin, 2003; Turley and Zaman, 2004; Zain and Subramaniam, 2007; Davies, 2009; Alzeban and Sawan, 2015). Such evidence

further indicates that the effective communication and direct reporting line between the AC and the internal auditor are important, as the AC's decision depends on the information and results performed by the internal auditors (Turley and Zaman, 2004; Zain and Subramaniam, 2007).

Several empirical studies have further highlighted AC effectiveness issues. AC effectiveness can be identified through competency (Kalbers and Fogarty, 1993, p. 27), diligent oversight efforts (DeZoort et al., 2002), added value to the organization (NACD, 2000), fulfilling its responsibilities (Rittenberg and Nair, 1993) and frequent meetings to discuss the discovery on the issues of internal control and to reduce fraud risk (Farber, 2005). Other researchers, such as Gendron and Bédard (2006), have conducted in-depth interviews with several key players in three large Canadian publicly listed entities to examine the processes relating to AC effectiveness. The researchers implied that the concept of AC effectiveness can be translated into several dimension of AC process and outcome. Their research highlighted that ACs have enough power to perform their governance task in reviewing the financial statement and overseeing the internal control system, although ACs have less ability to detect fraud. Other researchers such as Yu-Hsuan Wu et al. (2016) have examined the relationship between AC independence, auditor-provided non-audit services (NAS) and the likelihood of auditor going-concern decisions in failed UK companies. Their study reported that only 34% of failed UK companies tended to receive auditor going-concern modifications on their financial statements. Their empirical findings also claimed that the AC's characteristics are mediated to the auditor-provided NAS on auditor reporting decisions. The results showed that independent and expert ACs are less likely to issue unmodified going-concern reports prior to company failure.

Focussing on the public sector, several studies have highlighted that the credibility of the AC in providing reasonable assurance is still being questioned due to a lack of sufficient knowledge, experience and skills relating to the overall operation and process of these public entities (Magrane and Malthus, 2010; Purcell et al., 2014). For example, Magrane and Malthus (2010) conducted semi-structured interviews to examine the AC effectiveness in New Zealand's public sector. Their study revealed concerns over the independence of AC members and their competency while undertaking their audit task due to member rotation practices. Meanwhile, in an Australian-based study, Purcell et al. (2014) highlighted that in the local government of Victoria, the AC was introduced to act as a mechanism to assist council members and executive management towards honest stewardship. This included maintaining reliable systems of internal control and enhancing internal auditors' independence. Purcell et al. (2014) also suggested that, as a way forward in improving local government governance, the governance structure and AC effectiveness needs to be reinforced by providing oversight of compliance, governance, internal control and risk mitigation.

In addition, Davies (2009) reported that the significant relationship between the AC and internal auditor would result in the effective communication and promotion of a sound corporate governance system in the local government in Wales, United Kingdom. In a similar study, Subramaniam et al. (2013) identified those factors that may affect the corporate governance of state government agencies in Australia. Their study highlighted that the culture of good working relationships and sharing understanding among governance players in different functional areas could result in effective corporate governance. In an Eastern European context, Raudla et al. (2015) conducted a Estonian-based study that focussed on public officials who had been involved in performance audits between 2005 and 2012 to address the impact of performance audits on public sector organizations. The researchers

indicated no such trade-off between auditor accountability and audit performance, though, surprisingly, the results of the survey showed that less than 10% of the respondents uphold the value of accountability in evaluating audit performance. In addition, Raudla et al. (2015) asserted that an increase in AC effectiveness would result in a positive performance audit as perceived by auditees. Recently, Hegazy and Stafford (2016) highlighted findings on the important governance role of the AC in two UK public sector organisations, i.e. foundation trusts and local authorities. The researchers revealed that improvements on the AC governance mechanism (i.e. membership, competency) enhanced the accountability of both UK public entities in relation to their internal control system and financial reporting quality.

Studies on the audit quality in the public sector in the emerging economies provide some suggestions on the extent of work in this area. For instance, Chowdhury et al. (2005) revealed that there exists a gap between the report issued by the Bangladesh Auditor General (AG) and the expectations of its users. The gaps exist because the Public Account Committee has a lack of training and not much knowledge on public sector governance. In the context of the Association of Southeast Asian Nations (ASEAN), Kiraka et al. (2002) suggested that the legislation of member countries under their investigation strengthen their oversight of audit officials to ensure their accountability. Meanwhile, issues on the Malaysian public sector have gained the interest of several researchers. Said et al. (2016), for example, argued that the integrity of the Malaysian public sector is determined by practicing strategic planning, audit and fraud control. On the other hand, Ahmad et al. (2009) asserted that the involvement of the AC in the public sector could enhance the effectiveness of internal audit functions and maintain their audit independence from management pressure. Hence, the AC, which is independent from management, has sufficient knowledge and experience auditing the organization and therefore would be able to monitor the government activities and identify its potential risk.

Therefore, the above discussions highlight serious concerns on the need for effective governance mechanisms to be in place in government organisations and provide direction for the current study on AC effectiveness in the IRBM.

### **Background to the Inland Revenue Board of Malaysia**

To ensure that public sector expenditure, revenue and assets are equitably managed, the Auditor General's Department was established to audit the public sector. In 1998, the Malaysian Prime Minister's Department stipulated a mandatory requirement for Federal Statutory Bodies (FSBs) to establish ACs in their organizations and specified clearly that the role of the AC is crucial in overseeing the management of the FSBs in their day-to-day operations. Meanwhile, the Malaysian Statutory Bodies (Accounts and Annual Reports) Act 1980 emphasised that the FSB shall within six months of the financial year-end submit the Financial Statements to the Auditor General for audit. Furthermore, Articles 106 and 107 of the Federal Constitution and the Audit Act 1957 require the Auditor General to audit the financial statements, financial management and the activities and management of both the government agencies and government-linked companies. Reports on those findings are to be submitted to His Majesty for Royal assent and for it to be tabled in Parliament for debate (National Audit Department, 2015).

The IRBM, as one of the government agencies established under the Inland Revenue Board of Malaysia Act 1995 has been given the autonomy to manage all the collection of government tax administration including income tax, petroleum income tax, real property gain tax and other taxes so that the agency may achieve the targeted total revenue collection. As at end of 2017, the IRBM has successfully increased the tax collection by 8.15% amounting to RM123.23 billion (Kanyakumari, March, 2018). As with other FSBs, the IRBM has included in its governance structure the pivotal role of the AC as being responsible for providing oversight

functions that enhance audit quality and that build public confidence in the integrity of financial reporting. The establishment and governance role of the AC is subject to the Term of Reference set out by the IRBM<sup>2</sup>.

### **Research Methodology**

Our study is exploratory in nature and employs a case study approach. A case study method has been commonly used as the research method in the social sciences to allow researchers to explore the characteristics of real life events, such as small group behaviour (such as ACs), and organizational and managerial processes (Yin, 2009). The AC Term of Reference mentioned above and the governance role of ACs discussed in the literature have been used to guide us in our evaluation on the effectiveness of the AC of the IRBM. We opted to utilise the in-depth interview method to provide us with ideas emanating from the interviewees and to explore all factors that underpin the answers from the participants such as reason, opinion and belief (Lewis and Ritchie, 2003; Turner, 2010). A researcher was tasked to interview seven key players in the governance structure of the IRBM who are directly involved with the organisation's AC. These interview participants are: AC Chairperson; AC members; Chief Executive Officer (CEO); Director of Finance Department; Director of Internal Audit Department (IAD); Director of Risk Management Division; and, finally a senior member of the external audit team. Our interviews took place in the IRBM's headquarters, where most of the interviewees are based, lasted approximately 1 to 2 hours in length and were guided by a set of pre-determined questions and additional probing. Table 1 presents the detailed background of our interview participants. It can be seen that all of our interviewees were experienced individuals and were able to provide valuable information.

---

<sup>2</sup> The Term of Reference for ACs was set out by the IRBM's Board Secretariat Legal Advisory Department and became effective on 23 September, 2016.

[Insert Table 1 about here]

To facilitate our analysis, we transcribed our interview data to analyze interview responses. The main ideas and statements were highlighted and additional comments recorded. Content analysis was used to aid in the classification of the textual interview data for any of the themes that emerged from discussions with interviewees. All phrases, sentences and statements contained in the interview data were reviewed in relation to the themes and then organized into the most relevant category. In analyzing our interview data to determine emerging themes for our findings, elements of agency theory on independence and oversight functions of ACs were used to guide our analysis.

## **Findings and Discussion**

This section discusses the main findings obtained from our interviews based on the themes that emerged from our discussions with the key governance actors in the AC process of the IRBM. The findings are presented in the subsections below.

### *The Role of the IRBM Audit Committee*

In relation to the important role played by the AC in the IRBM, our interviewee responses varied as each interviewee provided his/her own perspective on how the AC influences the IRBM's operations. For example, the Director of IAD reported that the AC's role is significant in garnering public confidence and is a mechanism for instituting checks and balances, since the IRBM is responsible for tax administration in the country. The Director of IAD remarked:

“The AC ensures the public that good corporate governance is in place in the IRBM. The AC also oversees the establishment of

effective risk management, internal control and good governance.”

Meanwhile, the CEO of the IRBM highlighted the AC’s capacity in shaping corporate culture within the organisation. The CEO emphasised this well and remarked:

“Our AC makes positive impacts on maintaining and enhancing a strong corporate culture. I know that our AC promotes a culture of integrity and high-efficiency at all levels of the organisation.”

Other interview participants were of the view that the AC held mainly a monitoring and supervisory role. For example, an AC member and another two Directors of the IRBM interviewed (i.e. Director of Finance Department and Director of Risk Management Division) highlighted the responsibilities of the AC in ensuring that the IRBM’s financial statements comply with the standards and regulatory requirements<sup>3</sup>. Interestingly, a discussion on the role of the AC emphasised the fact that the AC is independent in undertaking all the responsibilities mentioned. An AC member remarked:

“The AC is a committee of the board and is independent from the management. By this, the committee needs to make

---

<sup>3</sup> On March 2013, the Malaysian Public Sector Accounting Standards (MPSASs) were developed and governed by the Accountant General’s Department (AGD) to enhance public sector accountability and transparency by implementing high-quality accounting standards in the preparation of financial statements. Generally, the development of MPSASs is drawn from International Public Sector Accounting Standards (IPSASs), which are published by the International Federation of Accountants (IFAC). Later, in November 2015, MPSASs 33 was introduced, which requires all public sector entities, including the IRBM, to practice accrual basis in reporting their financial statements. This is, however, yet to be implemented.

accountability a real practice in the organization in all the work done to ensure that its accountability is fulfilled.”

Curiously, it was revealed by a number of our interviewees that no meetings are held between the AC and the external auditor despite there being a stringent requirement for the AC to hold such a meeting at least once a year, as specified in the Term of Reference of the IRBM’s AC. However, this non-compliance was justified with a cautious remark that such meetings will be undertaken in the future. The AC Chairperson pointed out:

“We didn’t meet with the external auditor because there is no problem with the IRBM accounts. We reviewed the accounts before it was submitted to the Treasury for audit. In this case, we found that all the presentation and information in the accounts is acceptable.”

Studies have indicated that informal interaction between the AC with top management and an external auditor enhance the reporting quality of financial statements and ensure adequacy of internal control within the organization (Turley and Zaman, 2007; Davies, 2009; Salleh and Stewart, 2012; Alzeban and Gwilliam, 2014). Nevertheless, the Director of IAD provided assurance that future engagement with the external auditor will be held later in the year. The officer remarked:

“The chairman of our AC has agreed to organize a meeting with the external auditor. We really do need their input.”

It is apparent from the above remarks that the AC is aware of the importance of engaging with the external auditor. However, since it is stated in the Term of Reference for the ACs, it is advisable that the AC meet external auditors at least annually to discuss any issue that may offer benefit to both.

#### *Audit Committee Effectiveness*

When focussing on the composition of the IRBM's AC, it appears that the committee comprises three members with non-executive capacity, two being independent members and one being a non-independent director. It was also revealed that one of the AC members had served the committee from 2005 in two different capacities. From 2005 until November 2010, the AC member was an Accountant General (AG) and sat on the board of the IRBM and chaired the AC. After his retirement (at the end of 2010), he sat on the board of the IRBM as an independent consultant from December 2010 and currently remains in this position at the time of this research and when the interview was conducted. At the same time, he also serves as a member of the AC, and now his former deputy is an AG and chairs the AC. This, according to him, will not affect his performance and independence in the committee. He remarked:

“Although I was the chairperson before and now my former deputy in the Accountant General's office has taken the role of the chairperson, this does not affect my professionalism. As an accountant I am professional.”

Discussions with interview participants also revolve around the issue of how the AC members can actively engage in undertaking its governance role with the concern that inactive or non-performing ACs will be a burden to the IRBM, as the time and resources of the organization

will be wasted. On the account that the AC has undertaken its role in an effective manner, the AC Chairperson remarked:

“We have managed to do routine and special audits. So, we can identify any weaknesses in the bud. By going in and identifying certain weaknesses, we can also inform other IRBM’s branches to make sure they can check whether the mistake takes place or not.”

The remarks by the AC Chairperson above were supported by the Director of Risk Management Division, who agreed that the AC has added value to the organization. The Director remarked:

“I find that the AC was very proactive and made a lot of suggestions and improvements. The risk management division was established due to the suggestion by one of the committee members.”

Meanwhile, in highlighting the point regarding the effectiveness of the AC, the CEO seems to agree with the view of the AC Chairperson and Director of Risk Management Department. The CEO remarked:

“AC complements and supports the oversight function of the Board by reinforcing the independence and objectivity of the Internal Audit Department. This adds value to the IRBM’s operation in order to achieve its objective.”

On the same subject of AC effectiveness, two interviewees gave cautious statements. One of them is the Director of Finance Department, who voiced his concern about the subject. He remarked:

“The effectiveness of the AC depends on the Internal Audit Department, as most of the time the AC would rely on the audit report. So, the Internal Audit Department must have sufficient manpower and be equipped with the right knowledge and skills to do the job.”

In fact, the significance of the internal auditor’s role has also been addressed in prior studies as contributing to financial statement audits and enhancing the effectiveness of the AC (see for example Goodwin, 2003; Turley and Zaman, 2004; Zain and Subramaniam, 2007; Davies, 2009; Alzeban and Sawan, 2015). Essentially, the internal audit department carries the same requirement as the AC in that they should have at least financial knowledge and experience relating to accounting, audit and finance (Alzeban and Gwilliam, 2014). In the same subject, an AC member indicated that it is important for the AC to make self-evaluations on whether their role and function are seen by the relevant parties as significant and bringing improvement to how the IRBM operates. The AC member noted:

“We need to look at the impact. If there was a mistake before and the situation has been improved, it can be said the AC’s role was effective. Otherwise, the stakeholders will perceive us as a burden to the organization or a waste of time and resources.”

On the other hand, the Director of Risk Management Department expressed his concern on the effectiveness of the AC in relation to the current state of IAD and AC operations. The Director noted that the audit functions of IAD, a department under direct supervision of the AC, are more focused on operational issues but not on the strategic issues<sup>4</sup>. In relation to this, the Director of Finance Department gave a suggestion on how the AC and IAD can become more relevant by contributing more to the organization in the future. The Director remarked:

“The AC needs to check on effectiveness, efficiency and economics of the projects, activities and programs taken by the IRBM. The AC also needs to do a cost and benefit analysis.”

In addition, the AC was perceived by the interview participants amongst the senior management of the IRBM as being responsible to pressure all organizational machineries within the organization to strive for achieving strategic goals set up by the IRBM. Such anticipation was given from the understanding that the AC is a committee of the BOD, and hence relevant parties associated with the AC should be directed towards the same strategic issues envisioned by the BOD. Interestingly, the expectation for the AC to contribute on strategic matters was not shared by the AC Chairperson, which contradicts the AC Chairperson’s earlier assertion that the AC was being proactive in many cases. The AC Chairperson noted:

---

<sup>4</sup> The operational issues of the IRBM include managing personnel issues and budgeting, while the strategic issues touch upon the core business of the IRBM such as tax collection, tax audit and tax investigation.

“We should perform risk-based auditing and review the accounting standard used in the preparation of the IRBM accounts.”

The need to review the accounting standards used in preparing the financial statements of the IRBM raised above provide some signals where the AC could enhance its functions. Indeed, the anticipation of the IRBM’s senior management earlier and the lack of attention on essential issues as recognised by the AC Chairperson above give some indication on the quality of tasks undertaken by the AC.

## **Conclusion**

This study examined the role and effectiveness of an AC in the context of a Malaysian large statutory body, i.e. the IRBM. The findings highlighted in this study shed important light on how the IRBM can enhance both efficiency and transparency in managing public money and its financial reporting through the effective functioning of its AC as a crucial organ of the board.

This study also reports on the multiple roles played by the IRBM’s experienced AC members who support and assist the BOD in monitoring and reviewing risk, control and the governance process in the organization. Internally, that role must be undertaken by the AC to perform checks and balances in the areas of risk management, internal control and governance supported by a strong internal audit function. Although the AC has strong influence on the IRBM’s corporate culture, our attention was drawn to the lack of involvement of the AC in areas including supervision on compliance audits, taxation and on influencing the achievement of strategic goals within the power relations of the AC and the internal control system of the IRBM. Meanwhile, the aspiration to ensure AC functions that would best serve the interests of the public under the banner of public accountability appears to be compromised. In one aspect,

the independence of the AC comes into question, as the practice on the appointment of certain AC members does not appear to promote a cause for an effective governance role of the AC. We believe that there is an urgent need for the policy on the appointment of AC members to be re-examined, with changes introduced to appoint an independent outsider either from either one of the big four accountancy firms or an influential industry expert to the IRBM in undertaking its crucial task. On the other hand, the absence of meetings between the AC and the external auditor reflects the missing engagement of the two parties in improving the operations of the IRBM to the fullest expectation of the public.

As with other research, this study also suffers from several limitations. First, our findings are based on the views of a limited number of key individuals around the important role of the AC of the IRBM. Therefore, future research should examine the informal governance process of the relevant parties within the power dynamic of the IRBM's AC. It would also be interesting to investigate the possible tension that may arise in meeting the expected role of the AC for an organization responsible for collecting government revenue. To provide further insights into the issues examined in this paper, future research could examine the influence (if any) on changes in the regulatory setting, applicable accounting standards and the effectiveness of audit work undertaken by external auditors. Finally, the findings of our study also relate to a single statutory body; therefore, the findings cannot be generalised to all statutory bodies, including other public sector organisations in Malaysia.

## **Appendix**

Table 1: Background Information of Interviewees

No.	Current Position in IRBM	Number of years in current IRBM position	Academic Qualification	Other Position

1	AC Chairperson (non-independent executive director)	3 years	Masters	Accountant General Department
2	AC Member (independent executive director)	8 years	Masters	Former Accountant General Department
3	Chief Executive Officer	34 years	PhD	
4	Director of Finance Department	12 years	Bachelors	
5	Director of Internal Audit Department	17 years	Bachelors	
6	Director of Risk Management Division	31 years	Bachelors	
7	External Auditor	3 years	Masters	

## References

Accountant General Department. (2015), *Malaysian Public Sector Accounting Standards (MPSAS 33): First-Time Adoption of Accrual Basis Malaysian Public Sector Accounting Standards (MPSASs)*, Government of Malaysia.

Ahmad, H. A., Othman, R., Othman, R. and Jusoff, K. (2009), "The effectiveness of internal audit in Malaysian public sector", *Journal of Modern Accounting and Auditing*, Vol. 5, No. 9.

Alzeban, A. & Gwilliam, D. (2014), "Factors affecting the internal audit effectiveness: A survey of the Saudi public sector", *Journal of International Accounting Auditing and Taxation*, Vol. 23, No. 2, pp. 74-86.

Alzeban, A. and Sawan, N. (2015), "The impact of audit committee characteristics on the implementation of internal audit recommendations", *Journal of International Accounting, Auditing and Taxation*, Vol. 24, pp. 61-71.

Barth, M.E. & Schipper, K. (2007), "Financial reporting transparency", *Journal of Accounting, Auditing and Finance*, pp. 173-190.

Beasley, M.S. & Salterio, S. (2001), "The relationship between board characteristics and voluntary improvements in audit committee composition and experience", *Contemporary Accounting Research*, Vol. 18, Issue 4, pp. 539-570.

Bédard, J. & Gendron, Y. (2010), "Strengthening the financial reporting system: Can audit committees deliver?" *International Journal of Auditing*, Vol. 14, pp. 174-210.

Berle, A.A. & Means, G.C. (1932), *The Modern Corporation and Private Property*, Transaction Publishers, New York, NY.

Billings, M. & Capie, F. (2009), "Transparency and financial reporting in mid-20<sup>th</sup> century British Banking", *Accounting Forum*, Vol. 33, Issue 1, pp. 38-53.

Brennan, N.M. & Solomon, J. (2008), "Corporate governance, accountability and mechanisms of accountability: An overview", *Accounting, Auditing & Accountability Journal*, Vol. 21, No. 2, pp. 885-906.

Brinkerhoff, D.W. (2008), "The state and international development management: shifting tides, changing boundaries, and future directions", *Public Administration Review*, Vol. 68, Issue 6.

- Cai, C.X., Hillier, D., Tian, G. & Wu, Q. (2015), "Do audit committees reduce the agency costs of ownership structure?" *Pacific-Basin Finance Journal*, Vol. 35, pp. 225-240.
- Chowdhury, R. R., Innes, J. and Kouhy, R. (2005), "The public sector audit expectations gap in Bangladesh", *Managerial Auditing Journal*, Vol. 20, No. 8, pp.893-908.
- Dandago, K.I. & Hassan, N.I. (2013), "Decision usefulness approach to financial reporting: A case for Malaysian Inland Revenue Board", *Asian Economic and Financial Review*, Vol. 3, No. 6, pp. 772-784.
- Davies, M. (2009), "Effective working relationships between audit committees and internal audit-the cornerstone of corporate governance in local authorities, a Welsh perspective", *Journal of Management and Governance*, Vol. 13, pp. 41-73.
- De-Vries, M. & Nemeč, J. (2013), "Public sector reform: overview of recent literature and research on NPM and alternative paths", *International Journal of Public Sector Management*, Vol. 26, No. 1, pp. 4-16.
- DeZoort, F.T. & Salterio, S.E. (2001), "The effect of corporate governance experience and financial reporting and audit knowledge on audit committee member's judgements", *Auditing: A Journal of Practice and Theory*, Vol. 20, No. 2.
- DeZoort, F.T., Hermanson, D.R., Archambeault, D.S. & Reed, S.A. (2002), "Audit committee effectiveness: A synthesis of the empirical audit committee literature", *Journal of Accounting Literature*, Vol. 21, pp. 38-75.
- Farber, D.B. (2005), "Restoring trust after fraud: Does corporate governance matter?" *The Accounting Review*, Vol. 80, No. 2, pp. 441-476.
- Fitzgerald, B.C. & Giroux, G.A. (2014), "Voluntary formation of audit committees by large municipal governments", *Research in Accounting Regulation*, Vol. 26, pp. 67-74.
- Gendron, Y. & Bédard, J. (2006), "On the constitution of audit committee effectiveness", *Accounting, Organizations and Society*, Vol. 31, No. 3, pp. 211-239.
- Gillan, S.L. (2006), "Recent developments in corporate governance: An overview", *Journal of Corporate Finance*, Vol. 12, No. 3, pp. 381-402.
- Goh, B.W. (2009), "Audit committees, boards of directors, and remediation of material weaknesses in internal control", *Contemporary Accounting Research*, Vol. 26, No. 2, pp. 549-579.
- Goodwin, J. & Yeo, T.Y. (2001), "Two factors affecting internal audit independence and objectivity: Evidence from Singapore", *International Journal of Auditing*, Vol. 5, No. 2, pp. 107-125.
- Goodwin, J. (2003), "The relationship between the audit committee and the internal audit function: Evidence from Australia and New Zealand", *International Journal of Auditing*, Vol. 7, pp. 263-278.

- Goodwin-Stewart, J. and Kent, P. (2006), "Relation between external audit fees, audit committee characteristics and internal audit", *Accounting and Finance*, pp. 387-404.
- Graham, J.R., Harvey, C.R. & Rajgopal, S. (2005), "The economic implications of corporate financial reporting", *Journal of Accounting and Economics*, Vol. 40, pp. 3-73.
- Hegazy, K. & Stafford, A. (2016), "Audit committee roles and responsibilities in two English public sector settings", *Managerial Auditing Journal*, Vol. 31, No. (8/9).
- Hermalin, B. E. and Weisbach, M. S. (2003), "Board of directors as an endogenously determined institution", *Economic Policy Review*, Vol. 9, No. 1, pp. 7-26.
- Holmes, C. & Zaman, M. (2012), "Regulating audit quality: Restoring trust and legitimacy", *Accounting Forum*, Vol. 36, pp. 51-61.
- Isa, K. & Pope, J. (2011), "Corporate tax audits: Evidence from Malaysia", *Global Review of Accounting and Finance*, Vol. 2, No. 1, pp. 42-56.
- Isa, K. (2014), "Tax complexities in the Malaysian corporate tax system: Minimise to maximize", *International Journal of Law and Management*, Vol. 56, No. 1, pp. 50-65
- Jensen, M.C., & Meckling, W.H. (1976), "Theory of the firm: Managerial behaviour, agency costs and ownership structure", *Journal of Financial Economics*, Vol. 3, pp. 305-360.
- Kalbers, L.P. & Fogarty, T.L. (1993), "Audit committee effectiveness: an empirical investigation of the contribution of power", *Auditing: A Journal of Practice & Theory*, Vol. 12, pp. 24-49.
- Kanyakumari, D. (2018), "IRB records higher tax collection last year", *Malaysian Reserve*, 2<sup>nd</sup> March.
- Kiraka, R., Clark, C. and Martinis, M. D. (2002), "Public sector auditing, accountability and independence: A study of ASEAN countries", *Asian Review of Accounting*, Vol. 10, No. 2, pp. 43-61.
- Lewis, J. and Ritchie, J. (2003), *Qualitative research practice: A guide for social science students and researchers*, Sage Publications Ltd, London.
- Loo, E.C., McKerchar, M. & Hansford, A. (2010), "Findings on the impact of self-assessment on the compliance behaviour of individual taxpayers in Malaysia: A case study approach", *Journal of Australian Taxation*, Vol. 13.
- Magrane, J. & Malthus, S. (2010), "Audit committee effectiveness: A public sector case study", *Managerial Auditing Journal*, Vol. 25, No. 5, pp. 427-443.
- Merino, B.D., Mayer, A.G. & Tolleson, T.D. (2010), "Neoliberalism, deregulation and Sarbanes-Oxley: The legitimization of a failed corporate governance model", *Accounting, Auditing & Accountability Journal*, Vol. 23, No. 6, pp. 774-792.

Mohamad, A., Zakaria, M. H. and Hamid, Z. (2016), "Cash economy: Tax evasion amongst SMEs in Malaysia", *Journal of Financial Crime*, Vol. 23, No. 4, pp. 974-986.

NACD. (2000), *Report of the NACD Blue Ribbon Commission on Audit Committees: A Practical Guide*, Washington, DC: National Association of Corporate Directors.

National Audit Department (2015). Auditor General Report. Retrieved from: [www.audit.gov.my](http://www.audit.gov.my).

Nordin, Z. S., Muhammad, I., Wahab, K. A. and Yaakub, N. A. (2017), "The personal characteristics that influence tax auditors' conciliatory style: An empirical study", *Social Science and Humanities*, Vol. 25, No. 2, pp. 961-976.

Pollitt, C. (2011), "Moderation in all things: International comparisons of governance quality", *Financial Accountability and Management*, Vol. 27, No. 4, pp. 437-457.

Purcell, A.J., Francis, R.D. & Clark, C. (2014), "Audit committee effectiveness in Victorian Local Government", *Australian Accounting Review*, Vol. 24, No. 71, Issue 4, pp. 339-371.

Raudla, R., Taro, K., Agu, C. & Douglas, J.W. (2015), "The impact of performance audit on public sector organizations: The case of Estonia", *Public Organization Review*, Vol. 16, pp. 217-233.

Redmayne, N.B., Bradbury, M.E. & Cahan, S.F. (2011), "The association between audit committees and audit fees in the public sector", *International Journal of Auditing*, Vol. 15, pp. 301-315.

Rittenberg, L.E. and Nair, R.D. (1993), *Improving the Effectiveness of Audit Committees*, Inst of Management Accountants, University of Virginia.

Said, J., Alam, M. M. and Khalid, M.A. (2016), "Relationship between good governance and integrity system: Empirical study on the public sector of Malaysia", *Humanomics*, Vol. 32, No. 2, pp.151-171.

Salleh, Z. & Stewart, J. (2012), "The role of the audit committee in resolving auditor-client disagreements: A Malaysian study", *Accounting, Auditing & Accountability Journal*, Vol. 25, No. 8, pp. 1340-1372.

Subramaniam, N., Stewart, J., Ng, C. and Shulman, A. (2013), "Understanding corporate governance in the Australian public sector", *Accounting, Auditing & Accountability Journal*, Vol. 26, No. 6, pp. 946-977.

Thomas, K. and Purcell, A. J. (2018), "Local government audit committee: A behaviour framework for effective audit committee performance", *Australian Accounting Review*.

Turley, S. & Zaman, M. (2007), "Audit committee effectiveness: Informal processes and behavioural effects", *Accounting, Auditing and Accountability Journal*, Vol. 20, No. 5, pp. 765-788.

Turley, S. and Zaman, M. (2004), "The corporate governance effects of audit committees", *Journal of Management and Governance*, Vol. 8, No. 3, pp. 305-332.

Turner, D.W. (2010), "Qualitative interview design: A practical guide for novice investigators", *The Qualitative Report*, Vol. 15, No. 3, pp. 754-760.

Uddin, S. and Choudhury, J.A. (2008), "Rationality, traditionalism and the state of corporate governance mechanisms: Illustrations from a less developed country", *Accounting, Auditing, Accountability Journal*, Vol. 21, Issue 7, pp.1026-1051

Yin, R.K. (2009), *Case Study Research: Design and Methods*, 4<sup>th</sup> Edition, Sage Publication, Thousand Oaks.

Yu-Hsuan Wu, C., Hsu, H., & Haslam, J. (2016), "Audit committees, non-audit services, and auditor reporting decisions prior to failure", *The British Accounting Review*, Vol. 48, No. 2, pp. 240-256.

Zain, M.M. & Subramaniam, N. (2007), "Internal auditor perceptions on audit committee interactions: A qualitative study in Malaysia public corporations", *Corporate Governance: An international Review*, Vol. 15, No. 5, pp. 894-908.

Zain, M.M., Subramaniam, N., & Stewart, J. (2006), "Internal auditors' assessment of their contribution to financial statement audits: The relation with audit committee and internal audit function characteristics", *International Journal of Auditing*, Vol. 10, No. 1, pp. 1-18.