



## Analysing the Internal Control System in Malaysian Statutory Bodies: How Well Do They Adhere to the Global Standard?

Nurhidayah Yahya, Jamaliah Said, Nor Balkish Zakaria, Muhammad Fairuz Muhammad Fuad

To Link this Article: <http://dx.doi.org/10.6007/IJARAFMS/v12-i3/15178> DOI:10.6007/IJARAFMS /v12-i3/15178

**Received:** 19 July 2022, **Revised:** 21 August 2022, **Accepted:** 08 September 2022

**Published Online:** 29 September 2022

**In-Text Citation:** (Yahya et al., 2022)

**To Cite this Article:** Yahya, N., Said, J., Zakaria, N. B., & Fuad, M. F. M. (2022). Analysing the Internal Control System in Malaysian Statutory Bodies: How Well Do They Adhere to the Global Standard? *International Journal of Academic Research in Accounting Finance and Management Sciences*, 12(3), 612–625.

**Copyright:** © 2022 The Author(s)

Published by Human Resource Management Academic Research Society ([www.hrmars.com](http://www.hrmars.com))

This article is published under the Creative Commons Attribution (CC BY 4.0) license. Anyone may reproduce, distribute, translate and create derivative works of this article (for both commercial and non-commercial purposes), subject to full attribution to the original publication and authors. The full terms of this license may be seen at: <http://creativecommons.org/licences/by/4.0/legalcode>

Vol. 12, No. 3, 2022, Pg. 612 - 625

<http://hrmars.com/index.php/pages/detail/IJARAFMS>

JOURNAL HOMEPAGE

Full Terms & Conditions of access and use can be found at  
<http://hrmars.com/index.php/pages/detail/publication-ethics>



## Analysing the Internal Control System in Malaysian Statutory Bodies: How Well Do They Adhere to the Global Standard?

Nurhidayah Yahya<sup>1</sup>, Jamaliah Said<sup>1</sup>, Nor Balkish Zakaria<sup>1</sup>,  
Muhammad Fairuz Muhammad Fuad<sup>2</sup>

<sup>1</sup>Accounting Research Institute, Universiti Teknologi MARA, Shah Alam, Malaysia, <sup>2</sup>RHB Islamic Bank Bhd, Malaysia

Correspondence Author's Email: nurhidayahyahya@uitm.edu.my

### Abstract

An internal control system is a crucial system and governance aspect in public organisations. It serves as a defender, protector, guide, and alarm for any discrepancies or red flags. Each organisation must have such a system. Hence, it is vital for organisations, especially public sector organisations, to instil an internal control system. However, what is the level of internal control system, specifically in Malaysian statutory bodies. Thus, this study focuses on analysing the internal control system in Malaysian statutory bodies and whether they have what all the proposed global standards of the internal control system want. As recommended by COSO and INTOSAI, there are five elements of the internal control system: control environment, risk assessment, control activities, information and communication, and monitoring. The study collects data by distributing questionnaires to all Chief Executive Officers of statutory bodies. 194 out of 291 questionnaires were successfully gathered. Each element was above average, and the overall mean of the internal control system scored 5.597 out of seven scales. This shows that Malaysian statutory bodies follow the standard and procedures of the global internal control system framework. Hence, the current internal control system should be maintained and enhanced further through top management commitment and information system. So, there is still room for improvement to obtain a higher score. A sound and robust internal control system reflect good governance, especially in public sector organisations. Eventually, it helps to achieve high performance and accountability.

**Keywords:** Internal Control System, Malaysian Statutory Bodies, COSO, INTOSAI.

### Introduction

As the government, Malaysia must be a united nation, filled with strong moral and ethical values, living together in a democratic, liberal, tolerant, economic justice, economic resilient, dynamic, progressive, and prosperous manner. Government is the most prominent spending organisation, with an average of 42% of gross domestic product across the organisation for Economic Cooperation and Development countries (OECD, 2015). Therefore,

government organisations must practice the highest level of governance to ensure that they perform to their full potential, provide value for money, respond to the community, and achieve accountability. One of the most crucial governance aspects is the internal control system (CIPFA & IFAC, 2013; IFAC, 2001; IFAC & CIPFA, 2014; Yahya, 2022). A robust internal control could safeguard organisations' assets and prevent abuse of power and corruption.

However, many cases have reported problems with the internal control system in Malaysian statutory bodies. For example, the Auditor General's report of Pahang's statutory bodies in 2019 highlights that Yayasan Pahang's governance is less satisfactory (National Audit Department Malaysia, 2019). It has been emphasised in the report that the organisation's operation procedures needed to be explicitly improved in financial management. This shows internal control issues in the organisation. Furthermore, the Federal Land Development Authority (FELDA) suffers a loss of RM73.63 million due to a breach of procedures, an absence of feasibility study, and an absence of due diligence before undertaking a project, which is a breach of safeguarding internal control and shows a lack of governance (National Audit Department of Malaysia, 2015b). Due to the lack of good governance in management, the absence of a properly operating system and weak internal control has led to the waste of assets and resources. Additionally, FELDA's sturgeon fish farming project, which amounts to RM47.6 million, is a case of power abuse and misappropriation of funds committed by FELDA's former general manager, former deputy director, and officers (Shah, 2017). This case shows weakness in the internal control system of FELDA.

On top of that, there are also governance issues of internal control in the *Majlis Amanah Rakyat* (MARA) case. In June 2015, there was a case in which MARA top officials had purchased a student apartment unit in Australia at an inflated price of \$4.75 million (RM13.7 million) from the actual cost of \$17.8 million in 2013 (Boey, 2015; Garnaut et al., 2015; McKenzie et al., 2015a, 2015b; Sulaiman, 2016; Zahiid, 2015). There was also a case whereby FELDA was at risk of losing its land valued at RM270 million to a local company without the board's knowledge and consent. There were unknown and dubious transactions from 2015 regarding the land's name transfer. Although they finally recovered the land's ownership, police investigations and forensic audits were held to investigate it (Carvalho, 2018). These examples are cases of fraud, corruption, and asset mismanagement. Therefore, a proper and effective internal control system is vital to trace discrepancies and inappropriate activities.

In addition, state statutory bodies also have governance issues. For example, *Perbadanan Kemajuan Ekonomi Negeri Perlis* has an issue in which the same officer is in charge of receiving payments, writing, and signing receipts (National Audit Department of Malaysia, 2015a), which shows a weakness in the internal control system since there is no segregation of duties among officers. Given the cases of internal control system issues in Malaysian statutory bodies, this study takes on board the analysis of the internal control system level in Malaysian statutory bodies. Do they have what all the proposed standards of the internal control system wanted? Furthermore, this study focuses only on statutory bodies as previous studies were done mainly in the entire public sector (Abd Aziz et al., 2015; Kamaliah et al., 2018) or local authorities (Badara & Saidin, 2013b) or only selected statutory body organisation (Abdul Aziz et al., 2010).

In Malaysia, the public sector is divided into several sectors, including ministries, federal departments, statutory bodies, and local authorities, with the focus of this study being on statutory bodies. Statutory bodies are public organisations that operate on the same principles as other government functions and are overseen by the executive and legislative branches of government (Seidman, 1954). The public sector, which includes government

agencies and statutory bodies, is critical to the development and administration of a state and the nation. Malaysian statutory bodies are divided into two levels: federal and state statutory bodies. Parliament established federal statutory bodies and carried out government policies through their activities following Federal laws (National Audit Department Malaysia, 2015b). As incorporation legislation requires, each federal statutory body is assigned to a ministry in charge. On the other hand, state statutory bodies are formed under the enactments and laws of each state government. Their primary responsibilities are to preserve and develop the states.

### **Review of the Literature**

Internal auditors oversee the internal control system. A study calls for an organisation to pay more attention to internal audit than internal control to ensure practical improvements due to the insignificant relationship between internal control and accountability (Avery & Obah, 2018). Internal audit is primarily used as a tool to manage operational, financial, legal, and regulatory risks (Alazzabi et al., 2020; Asaolu et al., 2016; Avery & Obah, 2018; Mu'azu Saidu Badara & Saidin, 2013a, 2014; Fadzil et al., 2005; Gheorghe, 2008; Mahzan et al., 2012; Rae et al., 2017; Shamsuddin & Johari, 2014; Vijayakumar & Nagaraja, 2012; Yusuf & Kanji, 2020). Thus, internal auditors are a first-line defence against fraud because they know and understand an organisation's control structure and business environment. Therefore, there must be coordination between internal audit and internal control (Kartal & Depren, 2020).

Several guidelines have been drawn for internal control, such as the Turnbull Report and the Sarbanes-Oxley Act in the United States of America. Currently, there are guidelines and frameworks established that are initiated by several bodies such as the International Organization of Supreme Audit Institutions (INTOSAI), The International Standards of Supreme Audit Institutions, Committee of Sponsoring Organisations of the Treadway Commission (COSO), The Institute of Internal Auditors, Institute of Management Accountants, and Financial Executives International. The most established internal control frameworks are COSO and INTOSAI. The latest improvised internal control framework for COSO was in 2013 and 2004 for INTOSAI. INTOSAI focuses more on guidelines for public sector organisations. International interest in enhancing public sector accountability led to the founding a significant institution as early as 1953. As for COSO, the COSO committees are created to develop an unambiguous definition of internal control.

Therefore, internal control systems need to be effective and adequate. A clear set of objectives is required for an effective internal control process. The objectives of internal control are to execute in a well-organised manner, ethical, economic, efficient, and effective operations which fulfil the obligation of public accountability; follow laws and regulations; prevent waste, abuse, mismanagement, errors, fraud, and irregularities from causing loss, misuse, and damage to resources; and consistent with the organisation's mission (INTOSAI, 2004). The internal control standards of INTOSAI further state that specific control objectives must be developed for each ministry, department, or agency activity. They must be relevant, comprehensive, reasonable, and related to broader organisational objectives. Internal control system also helps organisations to sustain (Liu et al., 2022) and innovate (Wang et al., 2022). However, organisations can adopt internal control structures to manage uncertain environments and achieve internal control effectiveness (Annukka Jokipii, 2010).

COSO framework also prioritises risk management by making it an integral part of the decision-making process in all the institution's activities (Bouheraoua & Djafri, 2022). Based

on a study by COSO (2013), internal control must be present to function together with all five components as guided in the framework. The risk of not reaching an objective can be reduced to an acceptable level by combining all five components (Phuoc & Ngoc, 2020; Tinh et al., 2020). All five components are integrated and operated together. It will be discussed further in the elements of the internal control system. The components are interconnected, with many interrelationships and linkages, especially in how principles interact within and amongst components. Applying judgement within the boundaries of by-laws, rules, regulations, and standards can improve management's capacity to make better internal control decisions, but it cannot guarantee faultless results. It is not a panacea that can remedy all risks and cure organisational weaknesses.

The proficiency of Malaysian public sector auditors improves public sector audit effectiveness (Noor & Mansor, 2019). Each statutory body, primarily federal, will have an internal audit department that oversees the internal control system. Internal audit is vital for the accountability process, ensuring the effectiveness of the internal control environment and opportunities for performance improvement (Asare, 2009). Government organisations must improve internal control effectiveness to progress organisation objectives (Badara & Saidin, 2013a; Jokipii, 2010; Vijayakumar & Nagaraja, 2012). The requirement for Internal Audit departments in public sector organisations in Malaysia is Treasury Circular No. PS 3.1 of 2013 (Implementation of Internal Audit in Ministries Or Federal and State Government Departments, 2013). The circular highlights the function of the internal audit department, the secretary-general, and the treasury and provides direction on implementing internal audits. This includes internal control of the organisation. The primary goal is to assist the public sector in analysing and determining the efficacy of all internal control systems and governance to fulfil the organisation's stated goals (Noor et al., 2017).

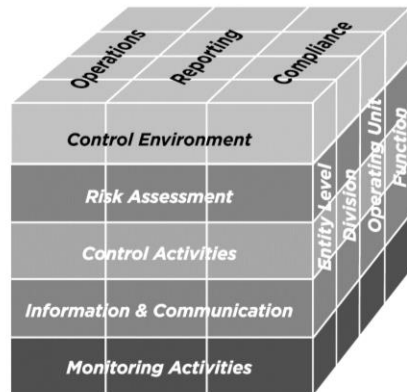
There is also The Institute of Internal Auditors Malaysia, whereby adequate infrastructure, coordination, support, and communication are provided to build and sustain the internal audit profession in Malaysia. Internal auditors can be the institute members and keep updated with the internal audit environment. In terms of documentation, based on the result from a study on federal ministries, a financial group scheme is found to have average documentation on the internal control system, whereby other schemes such as engineering, information system, education, and medical and health schemes are below average (Abd Aziz et al., 2015).

Internal control comprises elements of control environment, risk assessment, control activities, information and communication, and monitoring activities (COSO, 2013; INTOSAI, 2004; Jokipii, 2006; Jokipii, 2010). All components are integrated. Objectively, all components are executed and required for an organisation to strive for achievements and directly link organisational goals of the operation, reporting, accountability, asset safeguard, and compliance. The fundamental elements or components must be implemented and applied in each level of organisational structure from the function, operation unit, division, department, and up to the organisation level. Each organisational structure has a set of control mechanisms to direct organisational activity (Schene, 1991).

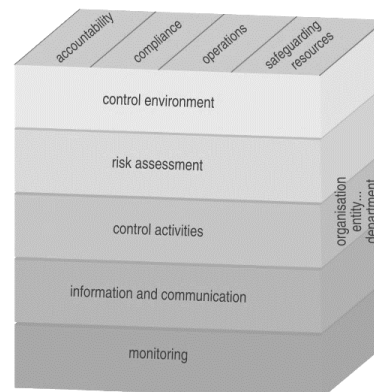
### *Control Environment*

The control environment is the set of discipline, standards, processes, and structures that serve as the foundation for implementing internal control throughout the organisation (COSO, 2013a; Jokipii, 2006), influencing the control conscience of its people (Kizirian et al., 2005; Mahadeen et al., 2016; Rafindadi & Olanrewaju, 2019). It is a foundation of an internal

control system, hinges on the procedure value of the control environment (Ogunmakin, 2020) and sets the organisation's tone. These are the standards and expected standards set by the board of directors and senior management, which need to be emphasised at every organisational level. They are accountable for establishing an effective control environment (INTOSAI, 2004) and overseeing its development and performance. Some scholars also found that board effectiveness contributed to internal control effectiveness (Cheng et al., 2021). Even in New Zealand's public sector organisations, the board of directors' effectiveness is also considered part of the internal control system (Redmayne, 2004).



COSO internal control framework



INTOSAI internal control framework

### *Risk Assessment*

The element or component of risk assessment in the internal control system comprises a dynamic and iterative process in which the risk to achieve objectives is identified and evaluated (COSO, 2013a) towards organisational goals and determined a suitable response (INTOSAI, 2004). Risk can be defined as a combination of probabilities and expected values, consequences, and uncertainties (Aven & Renn, 2009; Mackie, 2008). It avoids fraud and risks such as environmental, credit, liquidity, and technology (Jones, 2008). It is required to determine how risks are managed (INTOSAI, 2004; Rafindadi & Olanrewaju, 2019). It is usually related to an adverse effect or a threat to goals' attainment. The scope of risk is from and across every level of the organisation to form the basis of risk assessment (Länsiluoto et al., 2016; Rae et al., 2017). Risk can derive from internal and external sources of the organisation.

### *Control Activities*

The control activities are daily operational controls that enable an organisation to achieve its objectives, which include competent, reliable personnel; defined areas of responsibility; proper authorisation; adequate documentation; segregation of incompatible duties; independent checks on performance; and the physical safeguarding of assets (Jones, 2008). Control activities are also rules and procedures that help to ensure that the management's directives to mitigate risks in achieving objectives are implemented, carried out, and put into action (Arena et al., 2010; Avery & Obah, 2018; Badara & Saidin, 2013b; COSO, 2013c; Lansiluoto et al., 2016). Control activities are associated with the organisational risk assessment approach (Rae et al., 2017). It helps an organisation control risk that inhibits it from objective attainment. Hence, an organisation protects its assets and performance or accountability measurement through control activities (Mahadeen et al., 2016). Control

activities also refer to the formalisation of standardised functions (Jokipii, 2006), and thus it is performed at all organisational levels and stages, and even in the technology environment.

### *Information and Communication*

Information is essential for the organisation to carry out its internal control tasks and achieve its goals. Hence, to support the operation of other internal control components, the management obtains or creates and uses relevant, high-quality information from internal and external sources (COSO, 2013c). There is a need for timely, relevant reports and periodic reports that communicate using technology, with direct personal, face-to-face reporting or impersonal indirect controls (Jones, 2008). The information needed to support other internal control components is identified, captured, and transmitted in a format and time frame that allow employees to carry out internal control tasks (Coetzee, 2016; Fourie & Ackermann, 2013; Onumah et al., 2012). The organisation communicates information internally to support the internal control function, including the objectives and responsibilities for internal control (Ilyas et al., 2021). Such information must be disseminated throughout the organisation for employees to fulfil their roles in achieving objectives (Avery & Obah, 2018).

### *Monitoring Activities*

Jones (2008) stated that monitoring is a form of detection, not prevention, including internal audit, management, supervisory activities, inspection, observation, enquiry and confirmation, computation, and analytical procedures. Continuous monitoring, separate monitoring or a mixture of the two are used to determine if each of the five internal control elements, including control, is present and operating to implement the principles of each component (Bowrin, 2004; COSO, 2013c; Onumah et al., 2012). Some define monitoring as an information system that provides real-time access to critical business indicators (Mahadeen et al., 2016). Hence, examining, evaluating, and monitoring are done continuously and adequately to maintain internal control system effectiveness and quality over time (Badara & Saidin, 2013b; INTOSAI, 2004). Organisations must work hard to safeguard internal control monitoring to determine the establishment of control and ensure the proper function of the internal control system (Ayagre et al., 2014).

The framework lays out the requirements for an effective and successful internal control system, which could reasonably assure organisational objectives' accomplishment (COSO, 2013a; Fourie & Ackermann, 2013). All these five components are interrelated (Länsiluoto et al., 2016). If all five elements of the internal control system function following the established requirements, the internal control system will be effective (Avery & Obah, 2018; Ayagre et al., 2014; Badara & Saidin, 2013b; Länsiluoto et al., 2016; Mukhina, 2015).

## **Methodology**

### *Data Collection*

The questionnaires were distributed to 291 Malaysian statutory bodies through an online survey sent to personal Chief Executive Officer (CEO) e-mails. There were 127 federal statutory bodies and 164 state statutory bodies. The respondents were chosen as the respondents of the study as they knew the governance matters, updates and regulations requirements of the organisation.

*Items' Measurement*

Internal control system refers to a design to provide fair assurance of objectives and achievements related to operations, reporting, and compliance. Five established facets of the internal control system formed the dimensions of the internal control system in this research. They are control environment, risk assessment, control activities, information and communication, and monitoring activities. The measurements for the internal control system are adopted with some modifications from the established framework and literature (Brennan & Solomon, 2008; Comptroller of the Currency Administrator of National Banks, 2001; COSO, 2013a; INTOSAI, 2004; Jones, 2008; Spira & Page, 2003). There are 16 items to measure the level of the internal control system. As it is formatively measured, a global single-item question is also included. The Likert scale used for respondents to rate their organisation's internal control system level is a 7-point Likert scale whereby 1 = strongly disagree, 2 = somewhat disagree, 3 = slightly disagree, 4 = neither disagree nor agree, 5 = slightly agree, 6 = somewhat agree, and 7 = strongly agree.

**Results***Control Environment*

The element 'control environment' was observed by four items coded as ICS1, ICS2, ICS3, and ICS4. This element only scored a mean of 5 and did not reach 6, but it was still above average. Most respondents had generally agreed that their organisation's commitment to ethical values and integrity had been demonstrated, which resonated with a mean and SD of  $5.462 \pm 2.128$ . This item had the same mean score for organisations that monitored internal control development and compliance ( $5.462 \pm 1.957$ ). Besides, the respondents agreed with a mean score of 5.613 and SD 1.754 that their organisations had established a well-organised organisational structure (authorisation, responsibilities and reporting lines) to achieve internal control objectives. Lastly, it was agreed that the respondents' organisations committed to hiring, training, or retaining competent individuals in line with internal control objectives, as illustrated by the attained mean of  $5.629 \pm 1.677$ . Overall, the total mean was 5.542 and SD 1.475, where it denoted it was somewhat agreed that statutory bodies had a high control environment implementation. The results are depicted in Table 1.

Table 1

*Descriptive Analysis- Control environment*

<b>Code</b>	<b>Items/Questions</b>	<b>Mean</b>	<b>SD</b>
ICS1	Demonstrates commitments to integrity and ethical values.	5.462	2.128
ICS2	Monitors the development and compliance of internal control.	5.462	1.957
ICS3	Established a well-organised organisational structure (authorisation, responsibilities, and reporting lines) to achieve internal control objectives	5.613	1.754
ICS4	Committed to hiring, training, or retaining competent individuals in line with internal control objectives.	5.629	1.677
<b>Total score</b>		<b>5.542</b>	<b>1.475</b>

*Risk Assessment*

For the risk assessment element, there were three items to measure risk assessment coded as ICS5, ICS6, and ICS7. However, all items scored a mean below 6 but above the mean of 5, which was above average. Whether the respondents' organisations conducted risk



assessment based on internal control objectives scored a mean of 5.661 and SD 1.495. Hence, such a statement was agreed upon by respondents. Furthermore, respondents agreed that organisations managed risks using mechanisms, given a mean of 5.747±1.428. Finally, for questions asking whether organisations developed control activities to reduce risk, the respondents agreed on such a statement, leading to a mean score of 5.887±1.471. It could be deduced that it was somewhat agreed that statutory bodies practised high-risk assessment with a mean of 5.765 and SD 1.273. The descriptive analysis is illustrated in Table 2.

Table 2

*Descriptive Analysis- Risk Assessment*

Code	Items/Questions	Mean	SD
ICS5	Conduct risk assessment based on internal control objectives.	5.661	1.495
ICS6	Manages risks using mechanisms set in place.	5.747	1.428
ICS7	Develops control activities to reduce risk.	5.887	1.471
<b>Total score</b>		<b>5.765</b>	<b>1.273</b>

*Control Activities*

Control activities consisted of three items coded as ICS8, ICS9, and ICS10, and all items' mean scores were around 5. For items asking respondents whether their organisation had developed technology control to support internal control objective achievements, it scored a mean of 5.28 with an SD of 1.969. Moreover, a relatively large section of the respondents generally agreed that policies and procedures were established to enforce control activities, indicated by a mean of 5.677±1.539. Finally, the respondents agreed that their organisations addressed proper segregation of duties between the authorisation, custody, and recordkeeping personnel with a score of 5.952±1.43. So, it could be concluded that it was somewhat agreed that the control activities of statutory bodies were high (5.636±1.289). The results are depicted in Table 3.

Table 3

*Descriptive Analysis-Control Activities*

Code	Items/Questions	Mean	SD
ICS8	Develops technology control to support internal control objectives achievements.	5.28	1.969
ICS9	Has policies and procedures to enforce control activities.	5.677	1.539
ICS10	Addresses proper segregation of duties between the authorisation, custody, and recordkeeping personnel.	5.952	1.43
<b>Total score</b>		<b>5.636</b>	<b>1.289</b>

*Information and Communication*

The element of information and communication of the internal control system was reflected by three items coded as ICS11, ICS12, and ICS13, with all the items scoring a mean of around 5, which was above average. The results are shown in Table 4. The respondents agreed that relevant and quality information was being used to support internal control functions in their organisations, thus attaining a mean of 5.554±1.826. Coherently, the respondents agreed that relevant and timely information was communicated to stakeholders to support internal control functions, attaining a mean of 5.312±1.766. Lastly, the respondents agreed that relevant and timely information on the functioning of internal

control was communicated with stakeholders and attained a mean of  $5.301 \pm 1.693$ . Thus, the total mean score of 5.389 and SD 1.556 signified that it was somewhat agreed that the information and communication dimension of the internal control system in statutory bodies was highly functional.

Table 4

*Descriptive Analysis- Information and Communication*

Code	Items/Questions	Mean	SD
ICS11	Uses relevant and quality information to support the function of internal control.	5.554	1.826
ICS12	Communicate with stakeholders relevant and timely information that supports internal control functions.	5.312	1.766
ICS13	Communicate with stakeholders relevant and timely information on matters affecting the function of internal control.	5.301	1.693
<b>Total score</b>		<b>5.389</b>	<b>1.556</b>

*Monitoring*

Finally, the monitoring element consisted of three items coded as ICS14, ICS15, and ICS16. All items scored above average, with a mean of above 5. Respondents agreed upon the first item of monitoring. Their organisations evaluated and informed internal control deficiencies to responsible parties on time for corrective action. It scored a mean of 5.511 and an SD of 1.73. Most respondents agreed that their organisation undertook continuous evaluations to ascertain the presence and functionality of internal control components, thus having a mean of  $5.538 \pm 1.646$ . Finally, the respondents agreed that fund recipients were monitored in their organisations to ensure funds were spent on authorised activities and matters only, thus the reason for a general mean of 5.188 and SD of 1.325. Nevertheless, the total mean score was 5.412 and SD 1.282, which implied that it was slightly agreed that statutory bodies did good monitoring. Table 5 displays the results.

Table 5

*Descriptive Analysis- Monitoring*

Code	Items/Questions	Mean	SD
ICS14	Evaluate and inform internal control deficiencies to responsible parties in a timely manner for corrective action.	5.511	1.73
ICS15	Performs continuous evaluations to ascertain the components of internal control are present and functioning.	5.538	1.646
ICS16	Monitor fund recipients to ensure funds are spent on authorised activities and matters only.	5.188	1.325
<b>Total score</b>		<b>5.412</b>	<b>1.282</b>

Conclusively, the item that asked whether, overall, respondents' organisations' internal control system level was operating to standard, respondents approved it since the mean scored 5.597 and SD 1.202.

**Discussion and Conclusion**

The organisation must have robust internal control and risk management system to safeguard the organisation's objective achievements and value creation for the stakeholders

(Abdul Aziz, 2012). Aligning internal control and risk management illustrates an enhanced role of internal audit (Spira & Page, 2003), which requires top management and leadership commitment. In addition, the new technological solution can further tune internal control (Pathak, 2005). Due to the extensive information system used in the internal control system, information system control has become essential. Some researchers found that information technology governance influences internal control system implementation (Rubino et al., 2017).

In addition, monitoring also ensures the effectiveness of internal control (Avery & Obah, 2018; Cadbury Report, 1992; Shamsuddin & Johari, 2014). Other determinants include good financial ratio, efficient deployment of resources, reliable financial reports, the efficacy of accounting activities (Ha, 2021), adherence to a legislative framework (Abdul Aziz, 2012; Ha, 2021), and accounting information system (Yusuf & Kanji, 2020). However, the leading indicator for internal control system effectiveness is the implementation, execution, and operationalisation of all five internal control components. Thus, the legislative framework and accompanying internal control provisions must be improved by relevant entities (Think et al., 2020). External control can also enforce compliance (Bland, 2016). and external auditors must evaluate and determine internal control system effectiveness (Owolabi & Onyeka-Iheme, 2021; Sawalqa & Qtish, 2012).

Nevertheless, the internal control system has limitations that might hinder the smooth flow of business activities or the system itself. Based on a study by COSO (2013), it is highlighted that limitations might result from objectives established, faulty human judgement, breakdown due to human failure, override of internal control by management, circumvention by personnel, and uncontrollable external events. Those limitations are also highlighted in a study by (INTOSAI, 2004). However, additional limitations arise because they still depend on human factors subject to misjudgement, abuse, carelessness, collusion, and misunderstanding. Besides, the weakness of the internal control system is judgemental, whereby comparison of an organisation's past performance with other organisations can provide a more solid basis for judgement of the impact of the internal control system on an organisation's risk, so that appropriate time and effort of auditors can be allocated (Avery & Obah, 2018).

## References

- Abd Aziz, M. A., Said, J., & Alam, M. M. (2015). Assessment of the Practices of Internal Control System in the Public Sector of Malaysia. *Asia-Pacific Management Accounting Journal*, 10(1), 43–62.
- Alazzabi, W. Y. E., Mustafa, H., & Issa, M. (2020). Conceptualising the Interaction among Organisational Factors towards Internal Control Quality. *Journal of Financial Crime*.
- Asaolu, T. O., Adedokun, S. A., & Monday, J. U. (2016). Promoting Good Governance through Internal Audit Function (IAF): The Nigerian Experience. *International Business Research*, 9(5), 196–204.
- Asare, T. (2009). Internal Auditing in the Public Sector: Promoting Good Governance and Performance Improvement. *International Journal of Governmental Financial Management*, IX(1), 15–28.
- Avery, B. P., & Obah, O. D. (2018). The Impact of Financial Control on Accountability in the Public Sector in Nigeria. *IOSR Journal of Economics and Finance*, 9(6), 37–56.
- Badara, M. S., & Saidin, S. Z. (2013a). Antecedents of Internal Audit Effectiveness : A Moderating Effect of Effective Audit Committee at Local Government Level in Nigeria.

- International Journal of Finance and Accounting*, 2(2), 82–88.
- Badara, M. S., & Saidin, S. Z. (2013b). Impact of the Effective Internal Control System on the Internal Audit Effectiveness at Local Government Level. *Journal of Social and Development Sciences*, 4(1), 16–23.
- Badara, M. S., & Saidin, S. Z. (2014). Internal Audit Effectiveness : Data Screening and Preliminary Analysis. *Asian Social Science*, 10(10), 76–85.
- Boey, K. C. (2015). Aussie Paper Links MARA's 'Elite' Officials to A\$4.75m Melbourne Property Bribe. *Malay Mail*.  
<https://www.malaymail.com/news/malaysia/2015/06/23/aussie-paper-links-mara-officials-malaysian-elites-to-a4.75m-inflated-buy-o/920115>
- Bouheraoua, S., & Djafri, F. (2022). Adoption of the COSO Methodology for Internal Sharī'ah Audit. *ISRA International Journal of Islamic Finance*, 14(2), 221–235.
- Carvalho, M. (2018). Felda Gets 16 Plots of Jalan Semarak Land Back. *The Star*.  
<https://www.thestar.com.my/news/nation/2018/03/09/felda-gets-16-plots-of-jalan-semarak-land-back/>
- CIPFA, & IFAC. (2013). *Good Governance in the Public Sector — Consultation Draft for an International Framework* (Issue June).
- COSO. (2013). *Internal Control: Integrated Framework* (Issue May).
- Fadzil, F. H., Haron, H., & Jantan, M. (2005). Internal Auditing Practices and Internal Control System. *Managerial Auditing Journal*, 20(8), 844–866.
- Garnaut, J., McKenzie, N., & Baker, R. (2015, June 24). Melbourne Property Deal Rocks Malaysian Government. *The Age*. <https://www.theage.com.au/national/melbourne-property-deal-rocks-malaysian-government-20150624-ghwu0k.html>
- Gheorghe, T. I. (2008). The Internal Audit As a Component of the Public Entities' Internal Control System. *Annals of the University of Oradea, Economic Science Series*, 17(3), 589–594.  
<http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=48176358&lang=tr&site=eds-live&authtype=ip,uid>
- IFAC. (2001). *Governance in the Public Sector: A Governing Body Perspective* (Issue August).
- IFAC, & CIPFA. (2014). *International Framework : Good Governance In The Public Sector*.
- INTOSAI. (2004). *Guidelines for Internal Control Standards for the Public Sector– Further Information on Entity Risk Management*.
- Jokipii, Annuka. (2006). *The Structure and Effectiveness of Internal Control*.
- Jokipii, Annukka. (2010). Determinants and Consequences of Internal Control in Firms: A Contingency Theory Based Analysis. *Journal of Management and Governance*, 14, 115–144.
- Kamaliah, K., Marjuni, N.-S., Mohamed, N., Mohd-Sanusi, Z., & Anugerah, R. (2018). Effectiveness of Monitoring Mechanisms and Mitigation of Fraud Incidents in the Public Sector. *Administratie Si Management Public*, 30, 82–95.
- Kartal, M. T., & Depren, S. K. (2020). Evaluating the Effectiveness of the Coordination Between Internal Control and Internal Audit: A Survey-Based Analysis on Turkish Banking Sector. *Ethics and Sustainability in Accounting and Finance*, 2, 141–160.
- Liu, J., Wu, Y., & Xu, H. (2022). The Relationship between Internal Control and Sustainable Development of Enterprises by Mediating Roles of Exploratory Innovation and Exploitative Innovation. *Operations Management Research*.
- Mahzan, N., Zulkifli, N., & Umor, S. (2012). Role and Authority : An Empirical Study on Internal Auditors in Malaysia. *Asian Journal of Business and Accounting*, 5(2), 69–98.

- Implementation of Internal Audit In Ministries Or Federal and State Government Departments, 1 (2013).
- McKenzie, N., Baker, R., & Garnaut, J. (2015a). Corrupt Overseas Buyers Ramp up Property Price, Burn Locals. *The Sydney Morning Herald*.  
<https://www.smh.com.au/national/corrupt-overseas-buyers-ramp-up-property-price-burn-locals-20150622-ghu5pn.html>
- McKenzie, N., Baker, R., & Garnaut, J. (2015b). Ex-Westpac Banker Says Threats by Malaysians Prompted Property Fraud. *The Sydney Morning Herald*.  
<https://www.smh.com.au/business/ex-westpac-banker-says-threats-by-malaysians-prompted-property-fraud-20150814-giyyfz.html>
- Noor, M. N. R. A., Kamarul Zaman, L., Mustapha, W. A. H., & Zulkifli, N. (2017). Effectiveness of Internal Audit: Ensuring Public Sector Accountability and Integrity. *Voice of Academia*, 12(2), 1–14.
- Noor, M. N. R. A., & Mansor, N. (2019). Proficiency of Internal Auditors and Effectiveness of Public Sector Audit in Malaysian Public Organizations. *International Journal of Advanced Science and Technology*, 28(15), 164–171.
- National Audit Department Malaysia. (2015a). *Activities of Departments/Agencies and Management of State Companies Perlis 2nd Series*.
- National Audit Department Malaysia. (2015b). *Auditor General's Report; Synopsis on the Audit of Activities of the Federal Statutory Bodies and the Management of Subsidiary Companies and Financial Management, Series 1*.
- National Audit Department Malaysia. (2019). *Auditor General's Report Series 1 on the Audit Activities of Ministries, Federal Government Departments and Federal Statutory Bodies*.
- OECD. (2015). *Corporate Governance and Business Integrity. A Stocktaking of Corporate Practices*.
- Phuoc, N. K., & Ngoc, V. T. Q. (2020). Factors Impact on the Effectiveness of Internal Control Systems in Credit Facilities in Binh Thuan Province Commercial Banks. *Ho Chi Minh City Open University Journal of Science*, 10(2), 94–111.
- Rae, K., Sands, J., & Subramaniam, N. (2017). Associations among the Five Components within COSO Internal Control-Integrated Framework as the Underpinning of Quality Corporate Governance. *Australasian Accounting, Business and Finance Journal*, 11(1), 28–54.
- Schene, P. M. (1991). *Accountability in nonprofit organisations: A framework for addressing the public interest*.
- Seidman, H. (1954). The Government Corporation: Organization and Controls. *Public Administration Review*, 14(3), 183–192.
- Shah, A. (2017). Sturgeon-Farming Project: How Felde 5 Beat the System. *New Straits Times Online*. <https://www.nst.com.my/news/2017/01/207460/sturgeon-farming-project-how-felde-5-beat-system>
- Shamsuddin, N., & Johari, N. (2014). The Effect Of Internal Audit Towards Internal Control System Effectiveness. *Synergising Knowledge on Management and Muamalah*, 301–308.
- Sulaiman, N. A. (2016). 3 Ditahan Reman Kes Pembelian Aset MARA Di Australia. *Berita Harian Online*. <https://www.bharian.com.my/taxonomy/term/11/2016/03/136857/3-ditahan-reman-kes-pembelian-aset-mara-di-australia>
- Thinh, T. Q., Anh, L. H., & Tuan, N. K. (2020). The Effectiveness of the Internal Control System in Vietnamese Credit Institutions. *Banks and Bank Systems*, 15(4), 26–35.
- Vijayakumar, A. N., & Nagaraja, N. (2012). Internal Control Systems : Effectiveness of Internal Audit in Risk Management at Public Sector Enterprises. *BVIMR Management Edge*, 5(1),

1–8.

Wang, P., Bu, H., & Liu, F. (2022). Internal Control and Enterprise Green Innovation. *Energies*, 15(2193), 1–20.

Yahya, N. (2022). *The Effects of Governance Mechanisms on Organisational Accountability of Malaysian Statutory Bodies*. Universiti Teknologi MARA.

Yusuf, M., & Kanji, L. (2020). Effect of Internal Audit and Accounting Information System on the Effectiveness of Internal Control. *ATESTASI : Jurnal Ilmiah Akuntansi*, 3(2), 120–125.

Zahiid, S. J. (2015). MARA Thought RM65m Melbourne Apartment Buy Was a Bargain, Chairman Claims. *Malay Mail*.

<https://www.malaymail.com/news/malaysia/2015/06/24/mara-thought-rm65m-melbourne-apartment-buy-was-a-bargain-chairman-claims/920971>