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Internal Audit Effectiveness in Zakat Institutions from the Perspective of the Auditee

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ABSTRACT

Internal audit function (IAF) is one of the most important meanings for management to confirm and verify the compliance of administrative units in the financial and administrative policies, legislations, financials and administrative systems as well as the adoption of public policies. IAF also helps in running an organization more efficiently and effectively to increase stakeholders' value. IAF is important due to the growing size and attention given to zakat institutions in recent years. Due to the importance of IAF, this paper aims to identify the perceived effectiveness of internal audit departments (IAD) in zakat institutions (ZI) from the auditees' perspective to assist in improving the IAF. To develop an understanding of the factors that lead to the effectiveness of the IAD, this paper used a semi-structured interview with auditees from four selected ZI in Malaysia. Each ZI was represented by two auditees from two different departments. There are two factors explored, namely organizational status and competency of IAD. The findings show that both factors are important to achieve effectiveness in the IAF. Additionally, most of the auditees (ZI1, ZI2 and ZI3) agreed that management support is the main factor affecting IAD effectiveness. Meanwhile, ZI4 perceived that training is the main factor contributing to the same effectiveness. It is hoped that the findings can increase awareness among ZI auditors and management to improve IAD effectiveness in the future.

Keywords: *Internal audit, internal audit effectiveness, zakat institution, competency, organizational status*

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INTRODUCTION

The internal audit function (IAF) exists to help members of an organization to improve the performance of their activities (Ali et al, 2012). Basically, internal audit is needed in reviewing the existence of control and its relevancy with current operations.

Nowadays, the roles of the internal audit department seem to be widening. Business organizations start to enhance the function of its internal audit, not only in monitoring and control but also as risk assessors and business advisors. Besides that, internal auditor also plays an important role in assisting the audit committee in fulfilling their jobs. Thus, the internal auditor is expected to have good skills in assessing risks (Ahmad, et.al. 2009; Dittenhofer, 2001) and develop an action plan on how to mitigate those risks.

Zakat institutions have a significant responsibility in economic development because they are liable to collect and distribute zakat effectively and their failure will affect the entire zakat management system (Basir, Azmi, Ismail, Ibrahim & Mohamed, 2017) economic or even social. Malaysia is the founder of the Islamic financial system that is increasingly globally popular. Malaysia is also a precursor to the Islamic-based quality management system when the government launched the Islamic Quality Management System MS1900 in 2005. The quality system underlined three (3. Zakat that is paid to zakat institutions will be distributed to eight *asnaf* (beneficiaries) which are clearly specified in the Qur'an (surah At-Taubah; verse 60). The *asnaf* include the poor, the needy, the administrator of zakat, those whose heart are to be inclined (including new Muslim converts who lack economic support), slaves, debtors (debts due to real needs), in the cause of Allah (*Fi sabilillah*), and the wayfarers.

Being an institution that manages public funds, people are looking at the performance and accountability of zakat institutions in managing zakat funds. Additionally, as a religious institution, people are looking at good governance in zakat institutions. However, prior studies have shown that zakat payers still questioned the issue of accountability among zakat institutions in Malaysia and suggested continuous improvements in current disclosure practices (Sapingi, Nelson & Obid, 2016).

Zakat institutions in Malaysia have gone through many changes and developments since the government implemented the Islamization policy in 1980s. One of the changes and achievements is corporatization of some zakat institutions. The main objectives for corporatization is to ensure that ZI become more efficient particularly in management and oversight function (Wahab & Rahman, 2013). These corporatized zakat institutions in Malaysia have applied corporate governance, but it is still not comprehensive as compared to institutions in the private sector (Kaslam & Bahrom, 2007).

As mentioned by Wahab & Rahman (2013), the audit committee structure which includes the internal audit function has a significant impact on zakat efficiency. Thus, continuous improvement can be applied if the institution actively makes use of the internal audit function. Nowadays, the better auditing practices have emerged to detect fraud and improve financial accountability (Baharuddin, Shokiyah & Ibrahim, 2014). As stated by Lenz and Hahn (2015) the study about the effectiveness of the internal audit from the auditees' perception is still under study and it needs more researchers to study this gap. Hence, this study intends to identify the perceived effectiveness of the internal audit department in zakat institutions from the auditees' perspective to focus on organizational status and competency.

This paper organised as follows: the next section reviews literature on internal audit effectiveness. Section three discusses the research method and framework. Section four discusses the findings and analysis and finally, section five concludes the findings.

LITERATURE REVIEW

Internal audit is the backbone of business accounting where they need to ensure that the application of accounting systems is in place and assess the implementation of departments (Matari, Swidi & Fadzil, 2014). Internal audit plays the important role to be an enigmatic one where they need to monitor the implementation of the operations and provide consultation or advice to improve the performance of an institution.

The internal audit function is defined by the International Standard of Auditing (ISA 610, 2013, p.2, 14(a)) as:

“A function of an entity that performs assurance and consulting activities designed to evaluate and improve the effectiveness of the entity’s governance, risk management and internal control processes”

(International Federation of Accountants, 2013).

The roles of internal auditors comprises communication, management intimidation, technical, risk management support, control oversight, decision support, system involvement and governance (Mahzan, Zulkifli, & Umor, 2012). The existence of internal audit systems in the public sector will give an assurance that public money is monitored and evaluated effectively by the government (Baharud-din et al., 2014).

An effective internal audit will directly motivate the superiority of corporate governance that comprises of risk management and internal control to accomplish organizational goals (Lenz & Hahn, 2015). In the context of the public sector, Badara and Saidin (2013) stated that internal audit effectiveness means the capability of the internal auditor to accomplish the recognised objectives inside the local government. The internal audit must have independent attributes from any management control where they cannot influence any further information, conclusion and assessments of the internal audit. As stated by Matari et al. (2014), independence is an important element in determining the success of the implementation tasks by internal audits where they determine the reliability, reality, and integrity of financial and operational information.

In addition, the internal audit is effective when the function meets the expectations of the management, audit committee, external auditor and auditees (Lenz & Hahn, 2015). Besides that, the internal audit is effective when it is risk based and an effective internal audit requires skills and competence (Lenz & Hahn, 2015) and also independence, objectivity and have enough management support (Baharud-din et al., 2014). Neglect of audit opinion by the management and the absence of a final disposal of the audit reports, may cause frustration among the audit staff and have the feeling of being engaged in a useless exercise (Khan, 2003).

An effective internal audit function will speed up the audit process by external auditors. However, an external audit needs to measure the

work of the internal audit function based on ISA610 before using it in their audit process such as the extent of organizational status and the level of competency of the internal audit function. Continuous auditing is an important criterion for external auditors' reliance on the internal audit function. The external auditor does not count on the internal auditors work in a traditional environment compared to a continuous auditing environment which has an economic impact (Malaescu & Sutton, 2015). Furthermore, the extent of reliance on internal auditors' work with continuous auditing practice is the same as the extent of reliance on an outsourced internal audit where this situation shows that an external audit can establish the reliability towards the internal auditor's work within the continuous auditing context (Davidson, Desai & Gerard, 2013).

There are several factors affecting the effectiveness of IAF's. One of the factors is organizational status. The ISA 610 (2013) does not clearly define the organizational status. However, it can be understood from the standard that the term refers to reporting lines and employment decisions, to whom the internal auditors need to report professionally and independently. As stated by Mahzan et al. (2012), internal auditors need to have the right authority and be independent from management. They should have access to make an assessment towards the management's activities and staff.

Additionally, a good organizational status enables audit work to run smoothly and get useful audit findings that lead to proper reports (Mahzan & Hassan, 2015). Seiton (straightening). However, prior studies in the Saudi public sector shows that the internal audit function has no real organizational status and they have difficulty to achieve the independence objective (Alzeban & Sawan, 2013). supported by 29 semi-structured interviews revealed that the underpinnings of the Saudi Internal Audit Regulation did not tie in directly with perceived international best practice - the International Standards for the Professional Practice of Internal Auditing. Institutional factors are also likely to play a part in terms of the existence of the state-required 'Follow-up department' in all organizations, tasked with performing investigation and inspection, the 'auditing department' (which monitors the propriety of transactions and accounting). A study in Malaysia also found that the internal audit function in the public sector also has difficulties in auditing their own "boss" due to lack of independence (Shamsuddin, Manijegar, Kirupanangtan, Rahman, &

Selvanathan, 2014) the internal audit functions are becoming vital in both private and public sectors. With respect to public sectors, the core objective of internal auditing is to aid the public sector to achieve its objective through an orderly and disciplined approach. This can be achieved by improving the effectiveness of control and governance process. This study examines the factors that influence the effectiveness of the internal auditors' functions in public sectors in Malaysia. Data were collected through semi-structured face-to-face interviews conducted on eight internal auditors from three government ministries as well as an auditor from the Auditor General (AG). A study by Kasim et al. (2016) indicates that the organizational structure and the implementation of audit findings through management support systems have a significant influence on the internal audit quality in Islamic organizations in Malaysia.

Another factor that affects the effectiveness of IAF is competency. The evolution of auditing has changed auditors' role and practice (Ajao, Olamide, & Ayodejitemitope, 2016). Cangemi (2015) states that the auditor must have extra talent and be thoughtful to audit a computer system used by the organization if the organization uses computers in their operation. Difficulties faced by the internal auditors in the Saudi public sector which are work proficiency, educational qualifications, professional credentials, staff enrolment and continuous improvement cause the lack of qualified personnel is one of the most significant problems (Alzeban & Sawan, 2013) supported by 29 semi-structured interviews revealed that the underpinnings of the Saudi Internal Audit Regulation did not tie in directly with perceived international best practice - the International Standards for the Professional Practice of Internal Auditing. Institutional factors are also likely to play a part in terms of the existence of the state-required Follow-up department in all organizations, tasked with performing investigation and inspection, the auditing department (which monitors the propriety of transactions and accounting). Furthermore, technical competency of internal auditors is a vital element in order to improve organizational performance because internal auditors can make valuable judgements in various situations with their experience (Matari et al., 2014). In the Zakat Centre in Melaka, all the internal auditors have to go through a series of audit training during the year (Basir et al., 2017) economic or even social. Malaysia is the founder of the Islamic financial system that is increasingly globally popular. Malaysia is also a precursor to the Islamic-based quality

management system when the government launched the Islamic Quality Management System MS1900 in 2005. The quality system underlined three (3) to guarantee that they are appropriately competent to provide internal audit activities.

The Relevance of ISA 610 in Determining the Effectiveness of IAF

The main objectives of ISA 610 are to provide guidelines for the external auditors in using the internal auditor's works to modify the nature of timing or reduce the extent of audit procedures to be performed directly by the external auditor. The knowledge and experience of IAF can inform the external auditor's understanding of the entity and its environment, identification and assessment of risk of material misstatement. Through effective communication between internal and external auditors the external auditor can be informed of significant matters that may affect his/her work (ISA 315).

However, since the establishment of IAF in an organization varies due to the size and structure of the entity and the requirements of management and where applicable, those charged with governance. Therefore, guidelines are needed by the external auditor in using the work of the internal auditor, specifically in determining the areas and to what extent.

The external auditor should consider some of the important factors highlighted in this standard to obtain an understanding and perform preliminary assessment of the IAF. One of the main criteria is that the external auditor need to review IAF's organizational status. Organizational status refers to the position of the function in the organization, authority and accountability of the function. IAF is expected to be free from other operating responsibilities and should report to the highest level of management (Board of Directors). Besides that, there should be no restriction on IAF in performing the audit.

External auditors also need to review the scope of function of the IAF. As mentioned before, the function of the internal audit is determined by the management. It includes the nature and extent of the audit assignments performed. Thus, it is crucial for the external auditor to review whether

management takes appropriate actions on internal audit advice and recommendations (Lee M., 2007). This include whether policies and procedures support the objectivity of the internal auditor. It is also important to review whether internal auditor's recommendation reflects the decision-making process if there is any serious improvement action taken and does the management include the internal auditors in every business plans and strategy. The external auditor is also expected to see whether IAF is properly planned, performed, supervised and documented.

The second important element that needs to be considered by the external auditor is the competency of the internal auditor. Competency include the educational background, skill and experience, professional qualification, sufficient number of staff to execute the function as well as due professional care. All those elements may indicate that the quality of the audit work performed is high and accountable.

Thus, it can be concluded that the internal auditor or IAF is seen as effective, credible and performing high-quality audit work if the function is able to meet all the criteria discussed above.

METHODOLOGY

Figure 1 shows the research framework of this paper where the focus on characteristics of the internal audit function which are organizational status and competency towards the perceived effectiveness of the internal audit function:

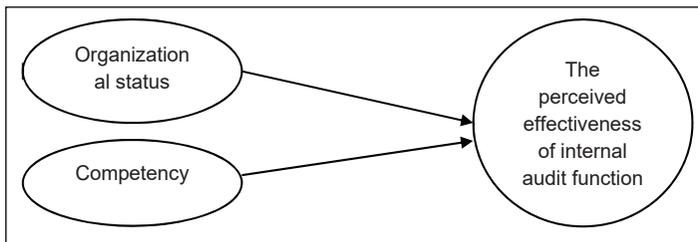


Figure 1: Research Framework

This study used a qualitative method which is a semi-structured interview to get data from the auditees and develop an understanding of the factors that lead to effectiveness of the internal audit function. This paper explores the effectiveness of the internal audit function from the auditees' perspective in four selected zakat institutions in Malaysia, namely ZI 1, ZI 2, ZI 3 and ZI 4. For every zakat institution, two interview sessions were conducted; one with the Chief Audit Executive (CAE) and the Internal Auditors (IA) and the other with the auditees. The auditees were represented by two auditees from different departments.

All variables; organizational status, scope of work, management support and competency were measured in the interview sessions. All the variables were gathered from the interview sessions with the CAE and IAs whereas, only two variables namely; organizational status and competency was measured from the interview sessions with the auditees. The interview method has been used in prior studies on internal audit functions (Alzeban & Sawan, 2013) supported by 29 semi-structured interviews revealed that the underpinnings of the Saudi Internal Audit Regulation did not tie in directly with perceived international best practice - the International Standards for the Professional Practice of Internal Auditing. Institutional factors are also likely to play a part in terms of the existence of the state-required 'Follow-up department' in all organizations, tasked with performing investigation and inspection, the 'auditing department' (which monitors the propriety of transactions and accounting and disclosure practices by zakat institutions (Sapingi et al., 2016). The interview questions were developed based on the ISA610 (2013) and findings from prior research.

Sampling Method

The sample of zakat institutions was initially identified by region; North, East, South and West. The researchers had communicated through email and phone calls to the selected zakat institutions for every region. However, due to unavoidable circumstances we only managed to get positive feedback from four zakat institutions of which two zakat institutions (ZI1 and ZI2) represented the western region, one zakat institution (ZI3) from the southern region, one zakat institution (PZ4) from the eastern region and none from the northern region.

Appointments were scheduled, and the questions were emailed to the respective zakat institutions before the interview sessions were conducted as a notification to our respondents about the scope of discussion after they confirmed to give their cooperation. This is to enable the respective person in charge of the zakat institution to review the questions so that they will get a general overview of this study and to ease the interview session. The interview session with the auditees lasted around twenty to thirty minutes.

Data Analysis

The recorded responses from both groups of respondents in ZI1, ZI2, ZI3 and ZI4 were then transcribed according to the identified variables namely; organizational status and competency. Organizational status was measured through seven items which are importance and roles in the organization, quality of advice and suggestions, impact of advice in the decision-making process, trust, align with organization's objectives, importance of the IAD report and non-satisfactory report on IAD.

Meanwhile, competency was also measured through seven items which are qualification, skill, efficiency, quality of advice, ethics and experience.

The data were analysed based on content analysis of the transcriptions for all the variables mentioned above. The details of the findings will be discussed in the next section.

ANALYSIS AND FINDINGS

This paper only explores two factors that affect IAF's effectiveness based on prior studies, namely organizational status and competency of the internal audit department (IAD). The findings show that both factors were perceived to be important to achieve effectiveness of IAF. This section discusses detailed findings and analysis for these two factors.

Firstly, with regard to organizational status, the auditees were asked regarding their views on the importance of IAD and their roles in the zakat institution, quality of advice and suggestion by the IAD, the use of IAD advice in decision making, their trust on IAD, whether the roles of IAD

match with the organization's objectives, the importance of the IAD report in decision making and the satisfaction level of the auditee on the IAD report.

Secondly, in relation to competency, the auditees were asked regarding their opinions whether the IAD have good qualification, skilful, efficient, experience and ethical. Besides that, the auditees were also asked about the quality of IAD's suggestion and the positive critics and advice by the IAD. Table 1 and Table 2 show details of the auditees' view about the organizational status and competency individually.

Table 1: Organizational Status

	Characteristic	ZI 1	ZI 2	ZI 3	ZI 4
1	The importance and roles in organization	Yes; organized documentation	Yes; guidelines and monitored	Yes; department improvement	Yes; improve compliance on SOP
2	Quality of advice and suggestions	Yes; suggestion is necessary	Yes; recommendation is expected	Yes; but if suggestions too rigid, not fulfilled	Yes; improve the organization's efficiency
3	Use of IAD advice in decision making	Yes; notified by related departments	Yes; accepted and applied, when applicable	Yes; desire but avoid NCR status	Yes; compulsory if not deduct staff's salary
4	Trust on IAD	Yes; trust	Yes; highly trust	Yes; trust	
5	Roles of IAD match with organization's objectives	Yes; in line with objectives			
6	IAD report is important in decision making	Yes; important, main source for the departments' improvement, so auditee really need IAD report to take an action			
7	Non-satisfactory report on IAD	Yes NSR; auditor suggestion not in line with auditee expectation	No NSR; monitoring and auditing SOP	No NSR; communication and tolerance	No NSR; tolerance and understand

Table 1 shows that all auditees agreed with the importance of IAD and their roles in the organization. To be specific, IAD has assisted in organizing documentation (ZI1), giving guidelines and monitoring compliance (ZI2), department's improvement (ZI3) and improving compliance on the standard of operation (SOP) (ZI4). The second criterion of organizational status is the

quality of IAD advice and suggestions where generally auditees confirmed that the IAD gives good advice and suggestions and individual auditees said that suggestions are necessary (ZI1), recommendations are expected (ZI2) and the suggestions improved the organization's efficiency (ZI4). However, auditees said that if the suggestion is too rigid they will not be fulfilled (ZI3).

Thirdly, all auditees agreed that they use the advice and specifically the advice is notified to the relevant department (ZI1), the advice is accepted and applied when it is applicable in certain situations (ZI2), auditees expect the advices but they always try to avoid the non-compliance report (NCR) status (ZI3) and lastly the auditees said that it is compulsory to follow the advice. If there are any losses due to noncompliance to the IAD advice, the person in charge needs to bear the costs (ZI4).

The fourth criterion is trust put on their respective IAD. All auditees put their trust on the IAD with ZI2 declared that they highly trust on their IAD. The fifth criterion is roles of IAD that match with the institution's objectives where all auditees agreed that the roles of IAD are in line with the institution's objectives. The sixth criteria is IAD report is important in decision making and the finding shows that all auditees confirmed that the report is important and it is a main source for departmental improvement, and as such auditees really need the IAD report to take action.

The last criteria for organizational status is whether auditees have a non-satisfactory report to the IAD and the finding views that, auditees (ZI1) have a non-satisfactory report because the IAD suggestions are not in line with the auditees expectations. However, other auditees (ZI2, ZI3 and ZI4) did not have any non-satisfactory reports because they positively think that the IAD helps them in monitoring and auditing the SOP (ZI2), IAD have a tolerating attitude (ZI3 and ZI4) besides good communication skills (ZI3) and understanding (ZI4). Generally, the findings show that auditees agreed with the organizational status of the IAD in the zakat institutions.

Table 2: Competency

	Characteristic	ZI 1	ZI 2	ZI 3	ZI 4
1	Qualification	Yes; qualified and knowledgeable	Yes; experienced and well-trained	Yes; qualified	Yes; credential from SIRIM
2	Skilful	Yes; but auditor approach is important	Yes; skilful	Yes; capable and caliber	Yes; very skilful
3	Efficient	Yes; faulty detector	Yes; efficient		Yes; very efficient and attentive
4	Quality of audit suggestion	Yes; watch language and delivery of message	Yes; consider recommendation highlight	Yes; detect misstatement of weakness	Yes; directly follow suggestion to improve
5	Ethical	Yes; but still need to be improve in term of approach	Yes; ethical and respects the right of auditees	Yes; respect and full of courtesy	Yes; ethical and tolerate
6	Positive critics and advise	Yes; but need to understand the organizational culture	Yes; suggestion for improvement always been accepted. During a discussion; auditee ideas are considered		Yes; positive and auditee can justify and defend back
7	Experience	Yes; well experience and credible	Yes; efficient in detecting any in compliance with SOP	Yes; well experience, understand the SOP, people from the operation	

Table 2 views the criteria of the IAD's competency where for the first criterion, all auditees agreed that the IAD has a good qualification and specifically auditees stated that staff in the IAD are qualified and knowledgeable (ZI1), experienced and well-trained (ZI2), qualified (ZI3) and have credentials from SIRIM (ZI4). Secondly, it is about IAD's skill whereby the auditees argued that IAD has skilful staff but auditors also need to have a good approach when implementing the audit processes (ZI1), IAD has skilful staff (ZI2), the IAD are capable and have calibre (ZI3), and IAD is very skilful (ZI4).

The third criterion is the IAD is efficient, whereby auditees generally agreed with this (ZI2 and ZI3), IAD are very efficient and attentive (ZI4) and auditees think that the IAD is a fault detector (ZI1). The fourth criterion is quality of audit suggestions whereby all the auditees agreed that the suggestions have their own quality where auditees will consider

recommendations highlighted (ZI2) and directly follow suggestions to improve (ZI4) however the auditor must watch their language and delivery of messages (ZI1), then auditors have an ability to detect misstatement of weakness (ZI3).

The fifth criterion is whether IAD is ethical during their audit process. All auditees agreed that the IAD have high ethical values. However, auditors still need to improve in terms of approach, other auditees only give positive views that auditors are ethical and respect the right of auditees (ZI2), auditors respect others and are full of courtesy (ZI3) and then ethical and tolerant (ZI4). All auditees notified that, the IAD give positive critics and advice with further identification on IAD need to understand the organizational culture (ZI1), suggestion for improvement has always been accepted and auditees also can give ideas during the discussion of the audit findings (ZI2 and ZI3) and provide justification and defend issues raised (ZI4).

The last criteria for competency is experience whereby all auditees agreed that the IAD staff have sufficient and credible experience (ZI1), efficient in detecting any noncompliance with the SOP (ZI2), and they are well experienced, understand the SOP and the operation very well since they are also operations people (ZI3 and ZI4). These findings showed that the level of competency among the IAD in zakat institutions are acceptable by the auditees.

Finally, findings from open ended questions shows that management support (ZI1, ZI2 and ZI3) and training (ZI4) are important factors for IAD effectiveness. Strong management support to the auditing process leads to better understanding of the whole organization on the internal audit function. Meanwhile, internal audit may cause a disaster, bad experience and waste of money (Baharud-din et al., 2014) if it does not receive agreement, encouragement and inspiration from the management (Baharud-din et al., 2014; Alzeban and Sawan, 2013).

CONCLUSION

Generally, all auditees confirmed that their zakat institution has a good organizational status. The IAD plays an important role in organizing

documentation, given the guidelines, monitored and then improved the department's performance and compliance to the SOP. Most of the auditees agreed that they need the auditor's advice and suggestions and recommendations to improve the organization's efficiency. However auditee in ZI 3 also argued that too rigid suggestions may cause them to refuse the suggestion given. Besides that, the auditees will use the advice in their decision making when it is applicable (ZI2), will be notified by related departments (ZI1), mandatory to follow the advice (ZI4). However, auditees tried to avoid the non-compliance report (ZI3). Furthermore, auditees trust the auditors' work because their roles are in line with organizational objectives. All auditees also think that the auditor's report is a main source for the improvement of their department. Additionally, other auditees did not make any non-satisfactory report due to the auditors' attitude and work. However only auditees in ZI1 used to make non-satisfactory reports towards the auditor because the auditor's suggestion is not parallel with their expectation.

All respondents agreed with the auditors' competency where they are qualified, knowledgeable, skilful and experienced in conducting audit tasks. Furthermore, most of the auditors conduct their audit work with courtesy, tolerate and respect the right of auditees except an auditee in ZI1 who has an argument on the approach used by the auditor and suggested that the auditor needs to watch his/her language and message delivery. Additionally, auditees will always consider the recommendations highlighted because they are confident with the ability of auditors to detect any misstatement of weakness and improve the departmental efficiency. Then, any suggestion for improvement is always accepted by the auditees because they can defend and give ideas during the discussion of auditor's findings. However, auditees in ZI1 argued that the auditor must also understand the organizational culture when proposing critics and advice.

In conclusion, this paper explored only two factors which are organizational status and competency of the IAD and shows that both are important factors to achieve effectiveness of internal audit functions. This is in line with prior research that agreed that good organizational status leads to useful audit findings and a practical report (Mahzan & Hassan, 2015) Seiton (straightening and the extent of competency is also significant in improving organizational performance (Matari et al., 2014) when the

auditors are well-trained during the year (Basir et al., 2017) economic or even social. Malaysia is the founder of the Islamic financial system that is increasingly globally popular. Malaysia is also a precursor to the Islamic-based quality management system when the government launched the Islamic Quality Management System MS1900 in 2005. The quality system underlined three (3).

Lastly, most of the auditees (ZI1, ZI2 and ZI3) agreed that management support and training (ZI4) are the main factors for IAD effectiveness. However, this paper did not cover more details about management support factor due to the target sample being auditees. This paper can increase the awareness among ZI's internal auditors and management to improve IAD effectiveness in the near future, and besides to share with the public how ZIs have taken serious efforts in improving ZI governance through implementing the IAF, but there is still room for improvement.

RECOMMENDATION

The finding indicates that IA effectiveness will depend to organizational status, auditors' competency and management support. During the study, we found that there are very limited journals and articles discussing internal audit function in zakat institutions. Research in this field should be encouraged to give input for institutional improvement. This research was only able to reach four out to fourteen zakat institutions in Malaysia.

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