

# **A Study Of The Internal Audit Committee In The Co-operative Movement In Malaysia**

Indar Kaur  
Nurizah Noordin  
Zulkiflee Aspan  
Sharina Abdullah  
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## **Executive Summary**

The framework of internal audit was introduced into the co-operative sector with the enforcement of the Co-operative Societies Act (CSA) 1993 in January 1994. Under the CSA 1993, it is mandatory for all co-operatives to appoint an Internal Audit Committee (IAC) comprising of between three to six (3 - 6) members. The functions and powers of the IAC are clearly spelt out in the CSA 1993 and Co-operative Societies Regulations 1995.

The objective of this research is to study the extent to which the IAC in co-operatives is functioning in compliance with provisions of the co-operative legislation. More specifically this study aims to provide an insight into the IAC's level of knowledge of their functions, their experience as IAC, attendance of mandatory training and frequency of audit and audit reports.

A sample of 274 co-operatives representing five regions, namely the north, south, east, west and central regions of Malaysia was selected. In each selected co-operative, three IAC members were randomly chosen as respondents. Data was collected using a self administered questionnaire. Responses were received from 473 IAC members from 176 co-operatives, a response rate of 64.2%.

The findings show that only 53.3% of the IAC know their functions as shown by their score of more than 85% for knowledge of IAC's functions. One third of the IAC have yet to attend the mandatory course. Those who have attended mandatory training, served

one to three years on the IAC, are long term members of the co-operative and attended other training have a significantly higher knowledge of IAC functions.

One third (33.2%) are not complying with the legal requirement to audit once in three (3) months. A substantial number of IAC are not submitting audit reports in compliance with the law. It is also found that those who have attended mandatory training, have more than one years' experience as IAC or receive allowances tend to carry out significantly more frequent audits. Similarly there is a significantly strong positive relationship between mandatory training and compliance with audit reporting requirements.