

# A Descriptive Study of Association of Whistle Blowing Activities and Auditing Practices in Listed Companies of Lahore Stock Exchange

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## Abstract

Association of whistle blowing activities and internal auditing practices is of great importance to the companies and field of auditing. Pakistan has three stock exchanges which are Lahore stock exchange, Karachi stock exchange and Islamabad stock exchange, the issue of whistle blowing is prevailing in the listed companies of Pakistan especially in their internal audit department. This research was quantitative in nature. Our respondents in this study were the internal auditors working in the listed companies of Lahore Stock Exchange. Total 303 questionnaires were completely filled and entered in SPSS for analysis. Descriptive statistics and differential statistics were done in SPSS 18 on data results. The results support the association of these factors as these conceptions are interrelated with each other in the organizational context.

## Keywords

Whistle Blowing Activities, Internal Auditing Practices, Lahore Stock Exchange

Received: April 8, 2015 / Accepted: April 17, 2015 / Published online: May 8, 2015

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## 1. Introduction

In Pakistan our research is one of the first of its type in auditing and accounting in scrutinizing some of the administrative, individual and situational variables specifically in the auditing career and the disposition to expose unlawful activity in the organization. Our study observes the activities of whistle blowing among accountants and auditors and the impact of these activities on the choice to blow the whistle. A diversity of whistle blowing features in accordance with the decision to pursue whistle blowing are morality, commitment and performance of whistle blowers as well as demographics also matters which include age, job description, educational level and gender of the participant. Whistle blowing related to organizational wrongdoings have many positive responses for the organization. Due to the significance of whistle blowing in implementing strong internal control, the area of auditing practices has developed

in the relevant field. Whistle blowing activities are reviewed as the complete ethical framework for the organization. The conception of whistle blowing activities are associated with the theories of expectancy, bystander intervention and moral judgment (Dozier & Miceli, 1985).

Internal auditing is recognized as the controlling technique that support management and board members to achieve the organizational purposes highlighted by the internal auditing approaches in the post Sarbanes Oxley act arena (Gramling, Maletta, Schneider, & Church, 2004). Whistle blowing to internal auditors occurred in companies where the responsibilities of internal auditors are monitoring and evaluation prospects and compliance with the rules and regulations. Organizational status of chief internal auditor is related to the involvement of audit committee in decisions and providing access to all the necessary information. The code of conduct regarding whistle blowing activities has some association with the auditing practices. Using the internal audit function, internal auditors explain that

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descriptions of job are rarely suitable for duty of disclosure rather than restrictions. Previous researches proposed that internal auditors perform their responsibilities within the jurisdiction of autonomy, and their positions within the firm makes them responsible to management for their control processes and they are related to audit committee members challenging the culture and moral values of internal auditing (Gramling et al., 2004). Previous researches proposed that the leaders of large business firms consider the audit processes as a technique to manage the demands of internal and external auditors (Guner, 2008). Internal audit function is formulated to support reliable financial data and to protect assets of company against any embezzlement activity (Spekle, Van Elten, & Kruis, 2007). The international accounting standard board (IASB) is an independent body that develops and approves the international financial reporting standards (IFRS) and it mostly deals with the accounting and auditing standards and was formed to replace the international accounting standard committee. The IASB has got a marvelous legacy from its previous format in terms of standards but also in international goodwill and support. The International Auditing and Assurance Standards Board (IAASB) is an independent standard setting body that protects the interest of common people by establishing high quality after appointing high level international standards for auditing practices and other relevant standards, as it enhances and improves the reliability and quality of auditing procedures and performances throughout the world and creating confidence among public in the auditing profession and auditors Auditing & Board, (2010).

Wrongdoings, frauds and errors are related to some extents of wrongdoings which are cost, quality and evidence of wrongdoing for the effective whistle blowing in auditing practices. Wrongdoing is predictor of retaliation and whistle blowing and it should be managed if sample size permits control. The issues of whistle blowing have increased negatively in large firms as compared to small firms and these activities are also related with the demographics of internal auditors performing the duties of internal audit. Formal structures, internal and external reporting structure also have some association with the whistle blowing activities within the firm. Training of internal auditor is also a mandatory factor in auditing practices and it has a strong association with understanding of the internal auditors. Demographic factors of internal auditors and their confidence on these factors are also in association with whistle blowing activities. It is also notices that adequate formal structures which may be internal and external auditors have some association with the whistle blowing practices. Protective legislations are also enacted to protect the whistle blowers from retaliation by other employees and some forms also

have some sort of protective measures in favor of auditors to protect them. Audit committee performance also restricts the negative whistle blowing activities within the firm and qualification of internal auditors also matters in this regard. The average length of committee meeting timings is also considered for the proper evaluation of the association of whistle blowing activities and auditing practices. Internal audit proposals may be related to plan of audit, budget evaluation and coordination with external auditors. Results of internal auditing are related to financial reporting, internal control and compliance with rules and regulations. This study is basically focused on the audit department of those companies which are listed in Lahore Stock Exchange. Lahore stock exchange (LSE) is second largest stock exchange of Pakistan after the Karachi Stock Exchange. Whistle blowing consists of four elements constituting the whistle blower, the whistle blowing act, the complaint receiver and finally the organization against which the complaint is made.

### 1.1. Research Background

Whistle blowing has its origin 50 years back and traced to the schoolyard where some authority figure, monitor or referee acts to stop proceeding with a view to their orderly continuation. Though a relatively new term, the practice of publicizing wrongs that is harmful to public interest and has a long history, constituting isolated cases and the activities of pamphlet writers. The broad relationship of whistle blowing activities with auditing practices is that sometimes the corrupt individual or any auditor becomes informer and it is not desired because whistle blowing is above the accusation. More such type of connection resultantly causes indiscriminate whistle blowing with enhanced rationalization. Previous researched proposed that whistle blowing is considered as control tool established by administrative structures or legislatures to promote it by acknowledgement and protection. The focus of whistle blowing activities gains credibility from legislative backing of whistleblowers and from corporate structures and policies that encourage speaking up.

### 1.2. Internal Auditors and Whistle Blowing

Internal auditors are hired to certify the effectiveness and accuracy of internal control within their organization because they investigate, check and report errors, frauds and wrongdoing at the workplace. Internal auditors have the authority to report by a proper series of command or to the audit committees in some organizations. Internal auditors are required to report wrongdoing as they are not alone in formally reporting. Whistle blowing on all unethical or illegal activities are rarely role specific like the Institute of

Internal Auditors, the professional organization for auditors which set standards for auditing, appreciates reporting through a proper medium. When an internal auditor's procedures lead to suspicion of some kind of wrongdoing, the auditor should determine the possible effects of the wrongdoing, discuss the matter with the appropriate level of management should investigate or otherwise follow up the suspicion. When wrongdoing is suspected, the auditor's responsibility extends to the appropriate level of management within the organization. Internal auditor monitors and reviews working of accounting and internal control system and take necessary measure to avoid any fraud and misrepresentation of errors and blow the whistle if results could not obtained in preliminary efforts of rectification of errors. Internal audit also evaluates the financial and operating data to determine its accuracy and reliability. Internal audit also reviews compliance with laws and managerial policies and if not satisfied then inform the higher management and supreme authorities of the firm about that activity, because at this stage whistle blowing is mandatory to keep a firm away from loss.

### 1.3. Objectives of the Study

The research is for the purpose to explain the conception of the whistle blowing activities and its association with internal auditing practices in listed companies of Lahore Stock Exchange, to recognize the readiness of formal structures, internal and external reporting and training for whistle blowing activities in listed companies of Pakistan, to recognizing the association of demographic factors of internal auditors, protective legislation and firm's size with whistle blowing activities, to recognizing the internal audit committee performance, internal control and whistle blowing activities in listed companies of Pakistan

### 1.4. The Problem of the Study

Listed companies of Pakistan are among the leading companies of the country which contributes in the Gross Domestic Product of Pakistan as they can provide huge exports to Pakistan. It can fulfill local demands as well as foreign demand also but there are some issues in these organizations which affect their performance a little bit, these issues are whistle blowing activities among the internal auditors. The main purpose of this study is to explore the association of whistle blowing activities and internal auditing practices. Today there exist some sort of issues regarding the human resource management issues and our study is basically focusing on association of training and formal structures like internal and external reporting structures on the whistle blowing activities of auditors, connection between demographic factors of internal auditors, firm's size and whistle blowing activities within the firm, presence of

protective legislations for internal auditors to protect them from retaliation. Finally, the role of internal auditors, audit committees and their performance in the situation of whistle blowing activities is also examined. Consequently, the problem is recognized in the following queries:

1. Does there exist formal organizational structures, internal, external reporting structures and training arrangements for internal auditors to face whistle blowing activities in listed companies of Lahore, Pakistan?
2. Do the demographic factors like age, gender and seniority of internal auditors have any association with whistle blowing activities in listed companies of Lahore, Pakistan?
3. Does the size of firm is related to whistle blowing policy and activity in listed companies of Lahore, Pakistan?
4. Do protective legislations exist for internal auditors to protect them from retaliation of blowing the whistle in listed companies of Lahore, Pakistan?
5. Does audit committee performs effectively to counter negative whistle blowing activities in listed companies of Lahore, Pakistan?

## 2. Literature Review

### 2.1. Whistle Blowing Activities

Whistle blowing can be defined as the act of exposing wrong doing (Jubb, 1999). Near & Miceli, (1985) defined that whistle blowing is the act of disclosing immoral and illegal activities by members of organizations to affect the actions of organizations with the help of subordinates. This definition deals with both whistleblowers who utilize internal channel which may be within the organization and external channel which may be outside the organization. Jubb, (1999) proposed that whistle blowing is a measured act of revelation, which gets publicized and is done by a person who had access to confidential information of an organization to an external organization or a person having the potential to resolve the wrongdoing. Dozier & Miceli, (1985) explained that whistle blowing is a positive social behavior involving both selfish and altruistic behavior. Patel, (2003) proposed that researchers can only inspect the whistle blowing behavioral intents instead their definite behavior. Near & Miceli, (1996) proposed that whistle blowing have some objectives which may be the termination of current wrongdoing activity or avoiding a similar future acts. Ponemon, (1994) observed that whistle blowing can play a vital role as a precautionary and investigatory regulator if the firm openly starts reporting appliance that unveil the circumstances of any illegal and unlawful activity within its

internal corporate structure.

## 2.2. Constituents of Whistle Blowing

Whistle blowing consists of four elements constituting the whistle blower, the whistle blowing act, to whom the complaint is made and finally the organization under observation accused of relevant complaint against which the complaint is made (Near & Miceli, 1985). Latane & Darley, (1970) identified a five step approach regarding whistle blowing process; initially bystander should be conscious about any unlawful activity; secondly the observer should take decision whether he/she is accountable for such act; fourthly a suitable method of action must be applied and finally, the action must be commenced. This process focused the ethical decision making. De George, (1990) argued that organizational revelations should not rupture the organization's trust and not disrupt its registered privileges, due to this it is uncertain that whether such revelations formulate whistle blowing or not. Whistle blowers are persons who have devoted many years to the organization and are persons of specialized professional rank and probably are the persons who have won performance awards and their behavior towards job is more positive as compared to other inactive employees, concluding this we can say that they observe but do not report wrongdoing within the organization (Dworkin & Near, 1997).

## 2.3. Whistle Blowing Formal Structures and Training of Auditors

Courtemanche, (1988) supported the same conception that interior disclosures should not be deliberated as whistle blowing proposing that whistle blowing is assumed as a complimentary action irrelevant to one's occupational responsibilities and obligations. Near & Miceli, (1985) and King III, (1999) proposed that complaining about unlawful activity whether it is external or internal, is the same practice. While the impact of external or internal reporting might be dissimilar, King III, (1999) and Near & Miceli, (1985) argued that theoretically both cases symbolize an uninterrupted contest to the felonious corporation's authority arrangement and both should be measured legal circumstances of whistleblowing. Whistle blowers have the choice to select whether internal or external party for whistle blowing. Mostly whistle blowers select internal parties as the preliminary beneficiary of their facts and Hooks, Kaplan, & Schultz, (1994) because Ponemon, (1994) proposed its reason that for the objectives of remediation, control mechanism or prevention and internal channel may be more effective as compared to external channel because the corporation and its management will most likely check the external sources as a desecration of secrecy. Whistle blowers who blow the whistle internally normally are more conscious

of unethical actions but may be scared of results of disclosing the facts (Read & Rama, 2003). While external whistle blowers have less level of fear from the results of blowing the whistle and may not have interest about the presence of unprincipled and immoral actions or may not be familiar with the extent of unethical behavior within the organization (Read & Rama, 2003).

## 2.4. Whistle Blowing and Demographics of Auditors

While Arnold & Ponemon, (1991) investigated that educational level and job experience cannot be associated to ethical cognitive aptitude of a group of auditors doing internal audit. (Miceli & Near, 1988) investigated that women are least expected to blow the whistle as compared to men. Hill et al., (1998) tested that age and gender were associated with ethical intellectual aptitude of accounting students and accountants, he further found that female accountants and fresh accountants have higher level of ethical reasoning aptitude.

## 2.5. Whistle Blowing and Protective Legislation

Ponemon, (1994) suggested that the first obligation of auditors who act as receiver of whistle blowing activity, is to examine whether these assertions are true or not. Determination of accuracy of this complain is necessary because any unwarranted complain may have some dysfunctional results (Read & Rama, 2003). Due to the sensitive nature of whistle blowing, appellants may be cautious to disclose the facts if he did not find any supportive measure from higher levels of organizations Read & Rama, (2003) and the whistle blower must be supported by any person who has the supreme authority in the organization. When one has to blow the whistle in case of internal auditing such authority is applied when internal auditors work freely without any pressure and share their findings and some important solutions with the audit committee without any internal intervention from the organization (Read & Rama, 2003). The Blue Ribbon Committee (BRC) and Reporting & Treadway, (1987) proposed that audit committee should be involved decision making relevant to chief internal auditor should not meet him publically. Some researchers argued that in some circumstances prospective whistle blowers may not aware about the weather audit committee is involved in decision making about chief internal auditor or not and in other context some chief financial auditors have private access to chief auditor and if it happened then organizational internal control system can dictate the amounts of reaction taken by committee with reference to any complain (Read & Rama, 2003).

## 2.6. Whistle Blowing and Size of Firm

The activities of whistle blowing are found mostly in large organizations that appreciate both positive and negative whistle blowing and in those organizations also in which whistle blower observes high resemblance between organizational and personal values (Berry, 2004). Organizations are appreciated to formulate whistleblowing laws and these laws are enacted as part of internal control system (Brennan & Kelly, 2007). Previous researches proposed that little organization employees normally have the identical extent to blow the whistle within the organization as they provide argument large auditors are anticipated as the high quality auditors, following this argument whistle blowing activities are expected to be found in high quality audit firms also. In large firms, behavior of whistle blowing is governed by the external support and casual standards of that particular firm, it is further explained that the association between the action and intention to act and the action may be weaker as compared to intentions. Within the whistle blowing extent in large firms an individual with more expertise, better task performance and job tenure is highly appreciated in the organization for providing the leverage to report the errors and frauds Miceli & Near, (2002).

## 2.7. Whistle Blowing Activities and Audit Work in Pakistani Firms

Whistle blowing provides justification for Government and private sector internal auditors to proactively think about the management of whistle blowing circumstances. Public arguments contribute propositions about the drastic effect of blowing the whistle in such a way that if wrongdoing occurs only few internal auditors uncontrolled to blow the whistle. Previous literature explains that whistle blowing in organizations is a more frequent and a routine part of daily work. In Pakistan about half of the federal public servants especially internal auditors have observed wrongdoing in their organization. Previous study observed that more respondents tend not to report about wrongdoings about those persons who made it. Some common mistakes which by those internal auditors who aims to blow the whistle about wrongdoing are trusting too much, not having evidence, using the wrong style, not waiting for the right opportunity, not building support, playing the opponent's game and not knowing when to stop. The most immediate explanation to understand why a problem arises and why it persists is that a person or group has something to gain, typically money, power or status for example financial fraud can be motivated by greed.

## 2.8. Auditing Practices

Accounting standards committee (IASC) and the

international organization of securities commission (IOSOC) have dedicated significant struggle for standardization and synchronization of accounting reverses across the countries (Graham & King, 2000). Malsch & Gendron, (2011) stated that audit which is the principal for the reliability of the capital market system is the requirement to certify sustained trust in the declaration process. The auditing profession and other supervisory organizations are now professing for whistle-blowing to be a noticeable fragment of organizational culture. Dart, (2011) proposed that according to professional code of ethics the necessity for the audit associated to perform their duties with honesty and to expose any misconduct both genuine and doubtful, commercial outrages have interrogated the reliability of the accuracy of professional code of behavior in restricting these scandals and defending the public interest. M. DeFond & Zhang, (2013) proposed that auditing is appreciated for delivering autonomous guarantee of reliability of accounting information which progresses resource distribution and contracting effectiveness and the increasing complication of business transactions and accounting standards enhances auditing's prospective to add value. M. L. DeFond & Jiambalvo, (1991) found that the firms which are least possibly to have an audit committee face the problems of overstatement of their revenue by fraud.

## 2.9. Corporate Governance Manual

At present governance is the basic issue for multinational organizations but sometimes it is not understood at workplace in some contexts. Corporate governance is a mandatory factor for an organization because without it, the growth and development may slope down. Economic growth and economic development is incredible for an organization and cannot be thought without properly following the codes of corporate governance. Corporate governance leads to national development, specially. Governance process which leads helps to achieve overall economic development.

## 2.10. Internal Audit is Mandatory in Accordance with Code of Corporate Governance (CCG)

This rule proposed that in every listed company there should be separate department for internal auditing and its chairman will have the proper access to audit committees and these committees will be responsible to ensure that all the internal audit works, internal audit reports, test checking, auditing note books and vouching would be reviewed under the supervision of external auditor and these external auditors will be responsible to discuss major results related to audit in their opinion and compliance with the policies formed by audit committees attested which will be attested by the board of directors.

### **2.11. Nomination and Educational Requirement for an Internal Auditor**

Previous researches proposed that there exists a deficiency in the rules and regulations formed by corporate governance sectors as the educational eligibility is not discussed properly, that's why there rise some confusions that everyone is eligible to perform these responsibilities having the qualification of MCOM, ICAP, CA, ACCA, ICMA, CIMA, IIA and CFA or not.

### **2.12. Audit Commissions, Committees and Responsibilities of Internal Auditors**

Audit committees provide anticipation about the financial reporting structures and processes which also include internal control systems for cash, store and purchases etc (Barua, Rama, & Sharma, 2010). Barua et al., (2010) proposed that the better performance of on auditing committee is mandatory for ensuring the standard and quality of internal and external reporting. Hermanson & Rittenberg, (2003) found in his research that for the effectiveness of internal auditing performance, the audit committees can be assisted by auditors to assure the control, examination of accounting procedures and regulation and finally the evaluation of fraud. When audit committee estimates the internal audit budget then more resources are apportioned for the better performance of auditing function (Carcello, Hermanson, & Neal, 2002). Wallace & Kreutzfeldt, (1991) in his study found that whistle blowing activities are highly connected with the size of the firm, internal auditing, financial position and the presences of audit committee. Gronewold & Heerlein, (2009) in his previous researches found some determinants of internal auditing in German companies and found that internal auditor's aptitude is related with the size of the firm, audit works performed by internal auditors, significance of the capital market and decentralization of internal auditing.

### **2.13. Composition of Audit Committee**

DeZoort, Hermanson, & Houston, (2003) proposed that "the constituents of audit committee are the basic themes of legislative and supervisory amendments because it's a basic factor to examine its efficiency. Composition of audit committee can be explained with the help of two variables which are expertise and independence of audit committee members (Barua et al., 2010), both of these advantages are beneficial for agency related costs"

### **2.14. Frequency of Meetings and Attendance at These Meetings**

"The Audit Committee of a listed company shall meet at least once every quarter of the financial year. These meetings shall

be held prior to the approval of interim results of the listed company by its Board of Directors and before and after completion of external audit. A meeting of the Audit Committee shall also be held, if requested by the external auditors or the head of internal audit. According to the regulations of CCG, The CFO, the head of internal audit and a representative of the external auditors shall attend meetings of the Audit Committee at which issues relating to accounts and audit are discussed. At least once a year the Audit Committee shall meet the external auditors without the CFO and the head of internal audit being present. Further elaborated that at least once a year, the Audit Committee shall meet the head of internal audit and other members of the internal audit function without the CFO and the external auditors being present. Levitt, (1998) and Board, (1993) proposed that these audit meetings consequently cause better communication among members and auditors to make them more effective. Previous researches proposed that more holdings of audit committee meetings resultantly reduce the chances of fraudulent financial reporting, restatement and frauds (Dorothy A McMullen & Raghunandan, 1996a)".

### **2.15. Responsibilities of Internal Audit**

#### **2.15.1. Consider an Annual Opinion on Internal Control**

Previous researches proposed that the function of internal audit should be according to best quality standard of internal accounting standards and according to the chartered accountant acts to implement the proper internal control within the organization. Internal auditors who have a vision to give opinion at the organizational level should follow these steps as proposed by (Power, 1999). Firstly he has to make the routes for proper audit plan to face the major risks associated with the proposed plan and it will control the organization. Secondly asses the last years risks face to make and opinion and outline associated with the last years risk. Thirdly, identify last projects and their performances. Fourthly, has to check the objectives depending on the organization's coding. Fifthly, internal auditor has to make the estimations and reconsider the potentially strong projects and their assurances. In performing these assessments, internal auditors should not outweigh the risk routed scheme, like considering same projects in different scenarios; auditor has to use new techniques and standards like lower risks techniques.

#### **2.15.2. Internal Audits as Financial Control Approach**

The internal audit department envisions to perform audit that are the basic themes for the financial disclosure and proper accounting transaction handling within the organizations like they want to use approaches like closing processes for

entries, entries for debtors, entries for creditors and inventory processing entries. An internal auditor have to understand the effectiveness of the of the internal control approach implemented within the organization in compliance with the management information system, control and technology. Further an internal auditor considers the importance of review made by external and internal auditors for control and reporting, their specific findings and their generalizability with the higher authority in the organization, review and understand the charter, policies and organizational structure of audit performing function, ensure the justification of appointment, discharge and replacement of head of audit within that organization and also review the effectiveness of internal audit techniques and meet privately with the chief of the relevant departments.

### 3. Methodology of the Study

In this chapter the methods being applied in this study are discussed. The description of our study includes design of research, size of sample and data collection procedures. This chapter also explains the data collection instrument being applied, target population, sample size and the procedures of survey being applied in detail. This study investigates the association of whistle blowing activities and auditing practices in private listed companies of Lahore Stock Exchange, Pakistan. This study explains whether there exit any association between formal structures, internal and external reporting structures, demographic factors of the firm and respondents, firm's size, protective legislation, audit committee performance and whistle blowing activities. This study used self-administered questionnaires for the data collection from the respondents. The study is depended on the technique of analyzing statistics and analysis of the content on primary data. Primary data of this study is obtained through instrument which is aimed depending on the nature of whistle blowing activities in relation with auditing principles. The statistical expressive style analysis method, also the analysis of content, has been used to obtain the purposes of the research. The research questionnaire comprises two parts: the first part contains demographic features, and the second part contains the responders' commitment of just in time system necessities and complications.

#### 3.1. Sampling Procedures

For this study 303/320 questionnaires were distributed among the internal auditors of listed companies of Lahore stock exchange. Proportionate sampling technique is used in order to distribute the questionnaires among internal auditors. As the ratio of private listed companies is more as compared to public listed companies, so we distributed questionnaires

only in private listed companies.

#### 3.2. Population of the Study

A comprehensive covering technique for the research population contains listed companies of the Lahore Stock Exchange and 15 companies were used for this survey. The instrument was distributed among 303 employees of these companies who were the internal auditors of the firm or involved in the internal auditing.

#### 3.3. Data Analysis

Statistical program for social science (SPSS) is used to elaborate data. The biography of the respondents of the research and the analysis of their replies and responses on the instrument is based on arithmetic mean and standard deviation is used for testing of hypothesis. Table 2 contains the sample of responses based on gender which are as

## 4. Data Analysis and Results Including Descriptive Statistics

#### 4.1. Sample Based on Gender

Table 1. Ranges and frequencies of gender

	Frequency	Percent %
Male	255	84.2
Female	48	15.8
Total	303	100.0

There are 255 males and 48 females in the research figure.

#### 4.2. Sample Based on Age

Table 2. Ranges and frequencies of age

Age	Frequency	Percentage (%)
21-25	96	31.7
26-30	114	37.6
31-35	57	18.8
36-40	15	5.0
41-45	18	5.9
51-55	3	1.0
Total	303	100

In this research maximum numbers of respondents are belongs to the age of 26-30 years old which shows that they are able to understand the problem upon which this research is based on.

#### 4.3. Sample Based on Experience of Respondents

The maximum numbers of respondents are those who have experience up to 5 years as they hold 68.3% of total respondents which demonstrate that they are quite able academically to respond the instrument regarding problem

statement of this research.

**Table 3.** Frequencies of experience of respondents

Experience	Frequency	Percentage (%)
1-5	207	68.3
6-10	54	17.8
11-15	15	5.0
16-20	21	6.9
21-25	6	2.0
Total	303	100

#### 4.4. Sample Based on Job Title of Respondents

The maximum numbers of respondents are those who are senior auditors and hold 47.5% of total respondents.

**Table 4.** Frequencies of Job title of respondents

Job Title of Respondents	Frequency	Percentage (%)
Senior Auditors	144	47.5
Junior Auditors	93	30.7
Management or Above level Auditors	66	20.8
Total	303	100

#### 4.5. Sample Based on Qualification of Respondents

The maximum numbers of respondents are those which have qualification of ACCA as they hold 36.6% of total

respondents which demonstrate that they are quite able academically to respond the instrument regarding problem statement of this research.

**Table 5.** Frequencies of qualification of respondents

Qualification	Frequency	Percentage (%)
ACCA	111	36.6
ACMA	39	12.9
CA	84	27.7
CFA	21	6.9
CIMA	15	5.0
MCOM	21	6.9
Other	12	4.0
Total	303	100.0

#### 4.6. Sample Based on Number of Staff

**Table 6.** Frequencies of Number of staff

Number of staff which a firm employs	Frequency	Percentage (%)
1-100	141	46.5
101-200	27	8.9
201-500	129	42.6
Other	6	2.0
Total	303	100

The maximum numbers of respondents are of those firms which have 100 maximum employees and hold 46.5% of total respondents.

**Table 7.** Formal structures, training, internal and external reporting influence whistle blowing

Questions	N	Minimum	Maximum	Mean	Std. Dev
I received training regarding our statutory duty to blow whistle in certain circumstances	303	1.00	5.00	3.8317	.88103
I am aware of any statutory duty upon me as an auditor to blow the whistle in certain circumstances	303	2.00	5.00	3.9010	.82797
I am aware of any legislation to protect me in the event you are forced to fulfill your whistle blowing duties	303	2.00	5.00	3.8317	.82272
My firm have adequate formal reporting structure	303	2.00	5.00	3.8020	.86911
My firm have whistle blowing policy	303	2.00	5.00	3.7723	.97534
I have confidence on the internal reporting structure within the firms	303	2.00	5.00	4.1188	.68019
I have confidence on the external reporting structure within the firms	303	2.00	5.00	3.8218	.92853
Auditor's confidence in the internal reporting structure is influenced by the training they receive	303	2.00	5.00	4.2079	.68062
Auditor's confidence in the external reporting structure is influenced by the training they receive	303	3.00	5.00	4.0990	.68336
Overall field				3.9318	0.89212

The above table shows that listed companies have accurate internal audit programs to examine the whistle blowing activities on regular basis as lowest mean was for the whistle blowing policy in the firm which was 1.80, but the highest mean was for the Auditor's confidence in the internal reporting structure which is influenced by the training they receive was 4.2079. The standard deviation of each question

shows that there is no dispersion in the replies of the respondents. The average standard deviation of instrument reached 0.89212 which means there are necessary formal structures, training, internal and external reporting structures associated with whistle blowing activities in internal audit departments of listed companies of Pakistan.



**Table 8.** Auditor's confidence and the influence of gender.

Questions	N	Minimum	Maximum	Mean	Std. Dev
Auditor's confidence in the external reporting structure is influenced by the age	303	1.00	5.00	3.5347	1.08784
Auditor's confidence in the external reporting structure is influenced by the gender	303	1.00	5.00	3.2574	1.30450
Auditor's confidence in the external reporting structure is influenced by experience or seniority	303	1.00	5.00	3.8812	1.11243
Auditor's confidence in the internal reporting structure is influenced by the age	303	1.00	5.00	3.3762	1.12631
Auditor's confidence in the internal reporting structure is influenced by the gender	303	1.00	5.00	3.4059	1.31606
Auditor's confidence in the internal reporting structure is influenced by experience or seniority	303	1.00	5.00	3.9901	.86310
Overall field				3.4768	1.13504

Table 8 shows that listed companies of Pakistan have accurate internal audit programs and internal auditors of these organizations have proper confidence on the internal and external reporting structure. According to the table, auditor's confidence on the in the external reporting structure is influenced by the age as its mean value is 3.5347. The highest value of mean is for Auditor's confidence in the internal reporting structure influenced by experience or

seniority is 3.9901 and the lowest value is for Auditor's confidence in the external reporting structure influenced by the gender is 3.2574. The standard deviation of each question shows that there is no dispersion in the replies of the respondents. The average standard deviation of instrument reached 1.13504 which means that Auditor's confidence in the external and internal reporting structure is influenced by the age, gender and experience of internal auditors.

**Table 9.** Confidence of internal auditors and size of firm

Questions	N	Minimum	Maximum	Mean	Std. Dev
An adequate formal reporting structure/ a whistle blowing policy is related to firm size.	303	1.00	5.00	3.5149	1.12421
My confidence in the internal reporting structure is influenced by audit firm size.	303	1.00	5.00	3.0792	.89904
My confidence in the external reporting structure is influenced by audit firm size.	303	1.00	5.00	3.1386	.90286
Overall field				3.2442	.97537

Table 9 shows that in listed companies of Pakistan, an adequate formal reporting structure/ a whistle blowing policy is not significantly related to firm size and it has highest mean value of 3.5149. Results show that auditor's confidence in the external and internal reporting structure is not

influenced by size of firm. The standard deviation of each question shows that there is no dispersion in the replies of the respondents. Resultantly internal auditor's confidence in the internal and external reporting structure is not influenced by audit firm size.

**Table 10.** Awareness of internal auditors about protective legislation

Questions	N	Minimum	Maximum	Mean	Std. Dev
I am aware of whistle blowing legislations applying to auditors and protecting employees	303	1.00	5.00	3.6832	.86810
I have confidence in the internal reporting structures within the firm is influenced by the awareness of legislation	303	1.00	5.00	3.9010	.73923
My confidence in the external reporting structures within the firm is influenced by the awareness of legislation	303	1.00	5.00	3.9101	.71184
If I were forced to "blow the whistle", I am confident that current employment legislation would protect me	303	1.00	5.00	3.6438	.95165
Overall field				3.7822	.83825

Table 10 shows that in listed companies of Pakistan, auditors are aware about the protective legislation about whistle blowing activities within the firm and it has highest mean value of 3.9010. Results show that auditor's confidence in the external and internal reporting structure is not influenced by awareness of legislation and the auditor is confident that

current employment legislation would protect me. The standard deviation of each question shows that there is no dispersion in the replies of the respondents. Resultantly internal auditors are aware about the whistle blowing legislation and their confidence in external and internal reporting structure is influenced by protective legislations.

#### 4.7. Variable Testing: Descriptive Analysis about Audit Committee Performance, Internal Auditors and Whistle Blowing Activities

E1: Our audit committee has members who relate to independence/competence of audit committee are following

Table 11. E1. Members of audit committee

Our audit committee has members who relate to independence/competence of audit committee are following	Frequency	Valid Percent (%)
Non employees	6	2
Independent auditors	60	19.8
Have accounting or finance background	177	58.4
No idea	51	16.8
All above	9	3.0
Total	303	100

Table 11 shows that our audit committee has members who relate to independence/competence of audit committee are 2.0% nonemployees, 19.8 % independent auditors, 58.4 % have accounting or finance background, 16.8 % respondents

have no idea and 3.0 % respondents consider first three options as relevant answers.

E2. Each year, our audit committee meets \_\_\_ times, I meet \_\_\_ times a year with the committee

Table 12. Frequency of meetings

Each year, our audit committee meets ___ times, I meet ___ times a year with the committee members	Frequency	Valid Percent (%)
Once, Once	9	3
Two Times, Two Times	30	9.9
Three Times, Three Times	18	5.9
Four Times, Four Times	192	63.4
More Times	24	7.9
No Idea	30	9.9
Total	303	100

Table 12 shows that Each year, our audit committee meets \_\_\_ times, I meet \_\_\_ times a year with the committee members like organizations in which audit committee meet once are 3.0% , organizations in which audit committee meet two times in a year are 9.9 % , organizations in which audit committee meet three times in a year are 5.9 % , organizations in which audit committee meet four times in a year are

63.4 % which is the highest among all, organizations in which audit committee more times than above options once are 7.9 % and organizations in which auditors have no idea about the meetings of their committee or they have not any audit committee are 9.9 %

E3A. The average length of committee meeting is on average, about \_\_\_\_\_ minutes.

Table 13. Average length of meeting

The average length of committee meeting is on average, about _____ minutes.	Frequency	Valid Percent (%)
0-30 Minutes	12	4.0
31- 60 Minutes	75	24.8
61-90 Minutes	39	12.9
91-120 Minutes	12	4.0
121-150 Minutes	9	3.0
151-180 Minutes	30	9.9
181-210 Minutes	42	13.9
211-240 Minutes	42	13.9
No idea	40	2.0
Total	303	100

Table 13 shows that the average length of committee meeting is on average, and highest number of percentage (24.8%) are for those companies in which timing of audit committee meeting is 30 – 60 minutes while lesser time meetings is for

0 - 30 minutes (12.0%) of audit committees in internal audit department of listed companies.

E3B. The time internal auditor spend with the committee each meeting is on average, about \_\_\_\_\_ minutes.

**Table 14.** Average time of auditor meeting

The time internal auditor spend with the committee each meeting is on average, about minutes.	Frequency	Valid Percent (%)
0-30 Minutes	120	39.6
31- 60 Minutes	108	35.6
61-90 Minutes	21	6.9
91-120 Minutes	9	3.0
No idea	44	14.9
Total	303	100

Table 14 shows that the average time internal auditor spend with the committee each meeting is on average, about \_\_\_\_\_ minutes., and highest number of percentage (39.5%) are for those companies in which timing of audit committee meeting is 0 – 30 minutes while lesser percentages of

meetings is for 90 - 120 minutes (3.0%) of internal auditor time spent with committee in each meeting in internal audit department of listed companies.

*E4. Do you meet privately (without) management practice with the audit committee?*

**Table 15.** Private meetings

Do you meet privately (without) management practice with the audit committee?	Frequency	Valid Percent (%)
All meetings are entirely private	84	27.7
All meetings have some private time	42	13.9
Not all, but ___ meetings a year have private time	48	15.8
No private meeting	129	42.6
Total	303	100

Table 15 shows that 27.7 % respondents told that all meetings are entirely private, 13.9 % respondents told that all meetings have some private time, 15.8% respondents told that Not all, but meetings a year have private time and

42.6 % respondents told that there exist no private meeting.

*E5A. Does the audit committee review the internal audit proposal related to program plan?*

**Table 16.** Review of internal audit proposal by audit committee (program plan)

Does the audit committee review the internal audit proposal related to program plan?	Frequency	Valid Percent (%)
No	21	6.9
Yes	282	93.1
Total	303	100

In table 16.0, 93.1 % respondents show that audit committee reviews the internal audit proposal related to plan program while 6.9 % respondents show that audit committee does not

review the internal audit proposal related to plan program.

*E5B. Does the audit committee review the internal audit proposal related to budget?*

**Table 17.** Review of internal audit proposal by audit committee (Budget)

Does the audit committee review the internal audit proposal related to budget?	Frequency	Valid Percent (%)
No	39	12.9
Yes	264	87.1
Total	303	100

In table 17.0, 87.1 % respondents show that audit committee reviews the internal audit proposal related to budget while 12.9 % respondents show that audit committee does not

review the internal audit proposal.

*E5c. Does the audit committee review the internal audit proposal related to coordination with external auditors?*

**Table 18.** Review of internal audit proposal by audit committee (Coordination)

Does the audit committee review the internal audit proposal related to coordination with external auditors?	Frequency	Valid Percent (%)
No	75	24.8
Yes	228	75.2
Total	303	100

In table 18.0, 75.2 % respondents show that audit committee reviews the internal audit proposal related to coordination with external auditors while 24.8 % respondents show that

audit committee does not review the internal audit proposal.

*E5AA. Does the results of internal auditing are related to financial reporting?*

**Table 19.** Relevance of internal auditing with financial reporting

Does the results of internal auditing are related to financial reporting?	Frequency	Valid Percent (%)
No	9	3.0
Yes	294	97.0
Total	303	100

In table 19.0, 97 % respondents show that results of internal auditing are related to financial reporting while 3 % respondents show that results of internal auditing are not

related to financial reporting.

*E5BB. Does the results of internal auditing are related to internal control?*

**Table 20.** Relevance of internal auditing with internal control

Does the results of internal auditing are related to internal control?	Frequency	Valid Percent (%)
No	18	5.9
Yes	285	94.1
Total	303	100

In table 20.0, 97 % respondents show that results of internal auditing are related to internal control while 3 % respondents show that results of internal auditing are not related to

internal control.

*E5CC. Does the results of internal auditing are in compliance with laws/ regulations?*

**Table 21.** Relevance of internal auditing with laws

Does the results of internal auditing are in compliance with laws/ regulations?	Frequency	Valid Percent (%)
No	39	12.9
Yes	264	87.1
Total	303	100

In table 21.0, 87.1 % respondents show that results of internal auditing are in compliance with laws/ regulations while 12.9 % respondents show that results of internal auditing are not in compliance with laws/ regulations.

*E6A. Does the audit committee inquire with the chief internal auditor about Management's response to internal auditing findings/suggestions?*

**Table 22.** Inquiry about suggestions

Does the audit committee inquire with the chief internal auditor about Management's response to internal auditing findings/suggestions?	Frequency	Valid Percent (%)
No	30	9.9
Yes	273	90.1
Total	303	100

In table 22.0, 90.1 % respondents show that the audit committee inquires with the chief internal auditor about Management's response to internal auditing findings/suggestions while 9.9 % respondents show the audit committee does not inquires with the chief internal auditor

about Management's response to internal auditing findings/suggestions.

*E6B. Does the audit committee inquire with the chief internal auditor about any difficulty/ scope restrictions encountered by internal auditing?*

**Table 23.** Inquiry about difficulties

Does the audit committee inquire with the chief internal auditor about Any difficulty/ scope restrictions encountered by internal auditing?	Frequency	Valid Percent (%)
No	12	4.0
Yes	291	96.0
Total	303	100

In table 23.0, 96.0 % respondents show that the audit committee inquires with the chief internal auditor about Any difficulty/ scope restrictions encountered by internal auditing department while 9.9 % respondents show the audit committee does not inquire with the chief internal auditor

about Any difficulty/ scope restrictions encountered by internal auditing department.

*E7A. Within the past two years, have you received complaints any “whistle blowing” from employees?*

**Table 24.** Complaint receipts about whistle blowing (from employees)

Within the past two years, have you received complaints any “whistle blowing” from employees?	Frequency	Valid Percent (%)
No	180	59.4
Yes	123	40.6
Total	303	100

In table 24.0, 59.4 % internal auditors show that within the past two years, have you received complaints any “whistle blowing” from employees while 40.6 % internal auditors show that within the past two years, you have not received

complaints any “whistle blowing” from employees.

*E7B. Within the past two years, have you received complaints any “whistle blowing” from outsiders?*

**Table 25.** Complaint receipts about whistle blowing (from outsiders)

Within the past two years, have you received complaints any “whistle blowing” from outsiders?	Frequency	Valid Percent (%)
No	270	89.1
Yes	33	10.9
Total	303	100

In table 25.0, 89.1 % internal auditors show that within the past two years, have you received complaints any “whistle blowing” from outsiders while 10.9 % internal auditors show that within the past two years, you have not received

complaints any “whistle blowing” from outsiders.

*E7C. If you have received whistle blowing, the complaints are related to financial fraud?*

**Table 26.** Complaints related to financial frauds

If you have received whistle blowing, the complaints are related to financial fraud?	Frequency	Valid Percent (%)
No	195	64.4
Yes	108	35.6
Total	303	100

In table 26.0, 64.4 % internal auditors show that if they had received whistle blowing, the complaints are related to financial fraud while 35.6 % internal auditors show that if they had received whistle blowing, the complaints are not

related to financial fraud.

*E7D. If you have received whistle blowing, the complaints are related to other violation of policies and procedure?*

**Table 27.** Complaints related to violations of policies and procedures

If you have received whistle blowing, the complaints are related to other violation of policies and procedure?	Frequency	Valid Percent (%)
No	225	74.3
Yes	78	25.7
Total	303	100

In table 27.0, 74.3 % internal auditors show that if they had received whistle blowing, the complaints are related to other violation of policies and procedure while 25.7 % internal auditors show that if they had received whistle blowing, the

complaints are not related to other violation of policies and procedure.

*E7E. If you investigated, did you find the last such complaint to be true?*

**Table 28.** Accuracy of complaints

If you investigated, did you find the last such complaint to be true?	Frequency	Valid Percent (%)
No	186	61.4
Yes	117	38.6
Total	303	100

In table 28.0, 74.3 % internal auditors show that if they had received whistle blowing, the complaints are related to other violation of policies and procedure while 25.7 % internal auditors show that if they had received whistle blowing, the complaints are not related to other violation of policies and procedure.

## 5. Conclusion

The outcomes of the research demonstrate that there exist an association between whistle blowing activities and internal audited practices in listed companies of Lahore, Pakistan. A reliability analysis was tested to check that whether the data is reliable or not. The results show that listed companies have accurate internal control program to examine the whistle blowing activities. Further, these results demonstrate that internal auditors of these organizations have proper confidence on the internal and external reporting structure to avoid any retaliation from other employees. More over results explain that an adequate formal reporting structure or a whistle blowing policy is related to firm size it means that the volume and managerial performance of many employees does not affect the reporting structure. Auditor's confidence in the external and internal reporting structure is not affected by the size of firm; they work confidently and fulfill their obligations properly without any psychological pressure.

Furthermore, results show that internal auditors are aware about the legislations to protect them in case of any opposed action by other employees. Auditor's confidence in the external reporting structures within the firm is influenced by the awareness of legislation and they perform well due to surety of protective measure by the organization. Internal Auditors are confident that if they are forced to blow the whistle then the current employment legislations will protect them. Audit committees of internal audit department have members who have accounting and finance background and are internal auditors. Most of the internal auditors of multinational companies respond that their audit committees meet quarterly in a year and the internal auditor personally meet with other member to discuss the issues within the organization. The average length of committee meeting is 90 minutes in most of the organizations. The time internal auditor spend with the committee each meeting is on average, about 45 minutes. Most of the members of internal audit department respond that private meetings are not held but some auditors respond that in their organization meetings are private.

The audit committee reviews the internal audit proposal related to program plan and budget regularly. Most of the audit committees also review the internal audit proposal

related to coordination with the external auditors. The results of internal auditing are related to financial reporting and the results of internal auditing are related to internal control. Results also conclude that practices of internal audit program are in compliance with the rules and regulations of the firm. In most of the organizations, audit committee inquires with the chief internal auditor about management's response to suggestions about whistle blowing issues and other related problems also. The audit committees of listed companies of Lahore Stock Exchange inquire the chief internal auditor about any difficulty encountered so that the issue of whistle blowing could not get any chance to rise. Our research has also found that internal audit departments of most of the organizations have received complaints regarding whistle blowing activities in last two years within the firm and most of the respondents' show that the half of the complaints, received were related to financial fraud. Results also explain that the most of the complaints were not related to violation of policies and procedures.

### 5.1. Recommendations

Proper and effective training should be provided to internal auditors and other employees of the organization regarding their statutory duty to blow the whistle in uncertain and certain situations according to the circumstances. Awareness should be created by the management through seminars and conferences among the internal auditors to inform them about the availability of the protective legislation so that they could blow the whistle, when faces with a negative and destructive situation within the organization. Organizations should make formal arrangements regarding the whistle blowing policy and its implementation. There should be adequate internal and external reporting structures which can create confidence among auditors regarding the whistle blowing policy. Auditor's confidence in the external and reporting structure should not be influenced by the age, gender or their job experience and it is only possible when firms will train them effectively. Audit committees should review the internal audit proposal related to program plan and budget to avoid any uncertainty in the internal control and internal check of the whole organization. Audit committee should review the internal audit proposal related to coordination with external auditors, this will enable them to avoid any misunderstanding among auditors and this can also avoid negative and political whistle blowing in the internal audit department.

### 5.2. Limitations of the Study

Comparable to further studies, this research has its limitations; the supreme constraint is the absence of collaboration by the subdivisions of companies with the researcher because of unsatisfactory understanding about the

whistle blowing activities. This study is limited in the sense that it captures the internal audit department listed companies of Lahore Stock Exchange only; it could not be carried out on the internal auditors of Karachi and Islamabad Stock Exchange as well.

## Acknowledgement

I would like to thank Muhammad Faisal Siddiqui, who is studying at stage 1<sup>st</sup> at Institute of Cost and Management Accountant of Pakistan (ICMAP) for his precious guidance through his work and moral support, he is also working as internal auditor in a pharmaceutical industry

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