

Take role of internal auditors seriously

THE report "Slack on governance" (*The Star*, Dec 17), on comments by the Chief Regulatory Officer, Bursa Malaysia has highlighted a number of concerns.

As rightly noted, the audit committee's report should include disclosures on the oversight of internal auditors in terms of significant topics and issues discussed, review of adequacy and suitability of the internal audit team and resources.

This state of affairs brings the issue of corporate governance to the forefront. The four tenets or cornerstones of good governance are the board of directors, executive management, external auditors and internal auditors.

If any of these elements fail, good corporate governance is compromised. It is akin to having a stool or chair which has one or more of its legs missing or not performing its function up to expectation leading to a failure in proper governance.

Internal auditors are one of the

critical "legs" in governance whilst external auditors focus on financial statements. The regulators have recognised this and in 2008 mandated the internal audit function in all public listed companies.

Unfortunately, some public listed companies pay lip service to the requirement of Bursa on internal auditors by appointing persons who are not conversant in internal audit activities.

Inevitably, the audit committee is not able to present in the annual report coherent and intelligent analysis on the internal audit function and its activities.

This is a sad state of affairs. Do the regulators have a role to play here given the recognised importance of the said function? As it is deemed a cornerstone and hence mandatory, it follows logically that only those who have obtained professional certification should be allowed to serve as internal auditors. An example is the Certificate in Internal Auditing

in Financial Institutions (CIAFIN) under the Asian Banking School.

The regulators cannot leave the judgement on the quality of internal auditors to the market to decide. Just as external auditors need a licence, at the very least, internal auditors should have a basic certification in the subject.

This will be of immense help to audit committees in helping them to discharge their duties effectively. It will also raise the quality of good governance reporting in Malaysia

Currently, there is no guidance on parties who are qualified to conduct Quality Assurance Reviews of the internal audit function. How can the regulators vouch for the corporate governance scene where one tenet of the cornerstones is "free range" to opportunists as it is unsupervised and unregulated?

For good governance to prevail, the shift should be towards ethics and governance audits. Value judgments are at the core to high-

light practices in entities which go against the grain of good ethics, integrity and basic moral values.

If directors or management are receiving, relatively speaking, unduly high salaries or funds are being used for purposes not directly related to the core functions of the entity, it is incumbent as part of an effective management audit that such instances are highlighted to the board of directors.

It cannot be then claimed that the auditors have given an "unqualified" internal audit report.

It is for these reasons that the regulators should re-examine what needs to be done as inevitably slack governance by unscrupulous parties will affect corporate Malaysia negatively. Irresponsible governance should not be tolerated at any level.

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