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GOVERNANCE



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In Malaysia's evolving corporate landscape, board evaluations are gaining traction.

However, they are often still treated as a formality.

For small and mid-cap companies, especially, this is a missed opportunity.

Done right, board evaluations can sharpen leadership, align strategy and build trust with stakeholders and investors.

But to get there, we need to rethink who's at the table – and that includes internal audit.

Why Internal Audit Matters More than You Think

Internal auditors are often seen as compliance checkers.

But in reality, they're governance professionals with a unique, enterprise-wide view.

Their insights into risk, control and governance are exactly what boards need to evaluate their effectiveness.

Yet in most companies, internal audit is not involved in board evaluations.

This is despite the fact that their work often overlaps with key evaluation areas, like tone at the top, risk appetite and strategy and decision-making culture.

As IIA Global president and chief executive officer, Anthony Pugliese observes that in today's environment of lighter regulation, internal auditors must embrace self-regulation and expand their contribution beyond compliance.

This includes leaning into their advisory role, offering strategic insights and counsel that support both boards and management in strengthening governance.

For small and mid-cap companies, where resources are limited and governance structures are still developing, internal audit can be a powerful and cost-effective ally in strengthening board performance.

It is harder for second-tier companies to attract talent, both management and board; finding the right mix is key to complementing capability shortfalls.

This is where internal audit can help the organisation to identify gaps and reinforce the talent management change process.

What A Strong Evaluation Looks Like

A robust board evaluation typically includes three layers:

- **Board Effectiveness Evaluation** – How well the board functions as a whole.

These evaluations are increasingly encouraged by regulators.

For example, the Malaysian Code of Corporate Governance (2021) recommends that independent board reviews be conducted every three years for large-cap companies.

But the principles apply to all companies, regardless of size.

How Internal Audit Can Add Value

While internal audit doesn't need to lead the evaluation, it can provide objective, evidence-based input that strengthens the process.

For example, internal auditors can:

- Validate whether board practices align with governance policies and practices.
- Identify disconnects between board decisions and risk management.
- Highlight gaps in oversight that interviews and interactions alone may miss.
- Help track follow-through on evaluation outcomes.

This shifts evaluations from perception-based ratings to fact-based assessments – something especially valuable for growing companies looking to professionalise their governance.

Making it Work in Practice

For the internal audit to play this role effectively, three things are needed:

- **A clear mandate** – The Internal audit must be empowered to assess governance issues, not just financial and controls.
- **The right skills** – Evaluating board dynamics requires more than technical know-how.
It requires trust, effective communication skills, sound judgment, and the ability to interpret qualitative data.
- **Access to information** – Internal auditors need visibility into board materials, minutes, and candid conversations to provide meaningful input.

An observer at the board level would be a wish list.

These conditions are more likely to exist in companies with mature leadership and a culture of transparency.

And even smaller firms can start by giving internal audit a seat at the table and encouraging open dialogue.

From Good to Great Governance

Most Malaysian boards today perform adequately, but few excel. As an evaluator with the Institute of Corporate Directors Malaysia, I frequently observe boards that range from average performers to those with potential to be high performers, often falling between a 3.0 and 4.0 rating.

The difference between good and great often comes down to one thing – the willingness to have candid conversations and act on them.

Internal audit can be the muscle or fuel that turns board evaluations into engines of improvement – but only if boards are willing to listen and internal auditors are empowered to speak and transform.

For business owners and audit professionals alike, the message is clear: meaningful board evaluations aren't just for the big players.

They are a strategic tool for any company that wants to grow with integrity, resilience and purpose.

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