

Internal auditors gaining recognition

BY PANG HONG YEE

THE interests of minority shareholders in many public companies are not served by the still strong executive management influence over their internal auditors who should ideally be acting independently, said Wee Hock Kee, the newly elected president of Institute of Internal Auditors Malaysia (IIA Malaysia).

"Internal auditors are still reporting more to the chief executive officer (CEO) than to the audit committee chairman and board of the audit committee, which are deemed to be independent," he said in an interview with *StarBiz*.

Wee stressed that reporting to the CEO, who may be a major shareholder, might lead to biased assessments and might not be in the best interest of the company's investors and stakeholders as a whole.

As such, internal auditors should have a "full line" reporting to the audit committee as opposed to a "dotted line" reporting to the CEO, he said.

Wee, nevertheless, said that a lot had changed with the tougher requirements of the Code on Corporate Governance that needed to be followed by companies listed on Bursa Malaysia.

While in the past, internal auditors "suffered in silence" in the process of carrying out their responsibilities due to

disparities in organisational hierarchy and restrictions in the scope of audit, there had been noticeable improvement in the ability of internal auditors to function more effectively.

In a survey carried out jointly by IIA Malaysia and Deloitte & Touche last year on how and where internal auditors added value, 95% of board directors said the standing of internal auditors had improved over the last three years, while rating the value provided by their internal audit functions a "7 out of 10."

Wee said that especially among large multinational firms, auditors were being increasingly recognised for the crucial "check and balance" role they played, while independence was maintained by their compensation and performance being appraised by the audit committee rather than executive management.

There has also been growing global pressure in Malaysia and the region to assimilate the Sarbanes-Oxley Act 2002, which was passed in the United States in response to the accounting and finance scandals that embroiled Enron Corp, WorldCom Inc and others.

In the wake of very much publicised



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cases of bribery, accounting fraud and the like, corporate governance had come under intense scrutiny from industry regulators as well as investors, he said.

IIA Malaysia, in a dialogue with Bursa Malaysia, has been asked to produce a draft of audit best practices. "The draft should be ready before the next dialogue in August," Wee said.

In addition, IIA Malaysia has raised with Bursa Malaysia the issue of internal audit being part of mandatory listing requirements for companies seeking to go public.

"The New York Stock Exchange included it in its listing requirements in the third quarter last year, and we hope the same will happen for us here soon," said Wee.

Stressing the importance of strong co-reliance between audit committees and internal auditors, he said: "Both parties should rely on each other's trust in providing an independent, objective assessment on every aspect of the company."

Auditors and audit committees should therefore be in constant dialogue to enhance their oversight functions, he added.