

# BACK ROOM TO BOARDROOM

Internal auditing is set for a stronger role, says the Institute of Internal Auditors' former Malaysia president **Wee Hock Kee** FCCA

**A**ccountancy isn't just a profession; it's a vocation. Done right, nobody knows it exists. Done wrong, nobody lets you forget. And unfortunately, the profession has been in the spotlight for the wrong reasons rather a lot in the past decade, beginning with Enron in 2001. There are, however, some valuable lessons to be learned. Considering how fraud was perpetrated in these cases, one segment of accountancy, internal auditing, looks set for an infinitely more expanded, if not completely new, role within the corporate set-up.

## Tightening rules

For a very long time, the accountant's position was inviolate. No one thought to question, much less challenge, the decisions that were made by finance at the highest level. But then came a slew of financial scandals that rocked the corporate world and pointed to fraud with the collusion of top management – and suddenly anyone who ever crunched numbers came to be viewed with the same kind of distrust traditionally reserved for politicians.

Realising the long-term implications of this – one of the major ones being loss of confidence in the profession – efforts were put in motion by the accountancy profession itself to remedy the situation. The implementation of the Sarbanes-Oxley Act in 2002 tightened many controls, primarily internal ones, and

emphasised detailed documentation. Unarguably, the tedium of auditing was increased by the act's requirements, but stripping every transaction down to bare bones was deemed necessary if transparency was to be put back into corporate dealings. With the act's implementation, internal audit started to move from being a back-room function to a boardroom one. Internal auditors found themselves more frequently called on to explain the vagaries of operations at board level, so that risks could be more efficiently identified and managed, while decisions could benefit from better-defined information. The overhaul of the internal auditor's role had begun.

The question is whether this relatively new role can be sustained, and much hinges on the quality of current and future internal auditors. Most large companies have auditing departments, which is where fresh accounting graduates start. Auditing is an integral part of their training, but most of them move on after their required three-year stint.

However, the career path for those who choose internal audit is beginning to look very different from the traditional, number-crunching and compliance role.

Internal auditors of the future will need the right skillsets. It won't be enough to know what goes where; it will be necessary to know what the implications of each and every

transaction are, how they will impact on the business in the short and long terms, and how difficulties can be mitigated before they have a chance to turn into major problems.

## Looming challenges

While an external auditor provides assurance to the board and by extension, stakeholders, of the integrity of financial statements, the internal auditor provides independent assurance to the board. Viewed from this perspective, even external auditing has to depend on the integrity of internal auditing, especially on financial control reviews. Auditors are now an inalienable part of the good governance process, and will need to provide comfort to the board regarding the integrity of financial statements of the corporation. Compliance requirements are already stringent, and they will not get easier anytime soon.

Because compliance is such a big part of auditing, it is not unreasonable to expect internal auditors to understand how every department is run, and to be able to plan (or at least suggest) improvements in efficiency in the long term. This level of understanding, and the ability to advise accordingly, will not develop overnight – but those who have already gone through the auditing mill will find themselves at an advantage.

The role of compliance in the organisational governance agenda is gaining importance, particularly where

## INTERNAL AUDITORS AND CHIEF AUDIT EXECUTIVES OF THE FUTURE HAVE THEIR WORK CUT OUT FOR THEM

### \*ONE-MINUTE CV

**Wee Hock Kee is CEO of BackToHealth and MD of CG Board Asia Pacific in Malaysia. Despite his current entrepreneurial roles, he retains a passion for auditing. Wee was fast-tracked, via an accounting technician's course, to ACCA, and carried out his studies partly in Singapore, and partly in the UK. Auditing positions at Fraser and Neave, ICI, Cycle & Carriage Group, Guinness and AstraZeneca followed. He was also president of the Institute of Internal Auditors (IIA) Malaysia from 2004–06, president of the IIA Asian Confederation (2006–07), a board member of IIA Global (2005–07) and was the organising chairman of the 2011 IIA International Conference.**

the laws of different countries are concerned. Companies have to respect the regulations of the respective countries where they operate; the onus will therefore be on internal auditors to ensure that these are adhered to, as compliance is mainly a board governance agenda.

Every aspect of operations will have to be scrutinised in order for internal auditors to form an opinion on their effectiveness, and this has to be done in a consolidated manner which can be integrated, without duplication, into the assurance matrix for risk and control management.

#### Career development

Juxtaposed with the requirements of traditional auditing, this seems a tall and rather daunting order but the more complex the operation, the

more opportunity it holds. Because of the nature of this expanding role, several other skillsets will be required – versatility, flexibility and rapid analysis, among others. This also opens the internal audit field to those accountants who have acquired expertise outside auditing.

Simultaneously, corporations will need to start mapping out their own internal auditing strategies, which must include ensuring adequately skilled personnel who will be able to maintain continuity. One approach may be to allow them to move to other line functions with the intention of returning to internal audit as more senior auditors in the near future.

Internal audit may be seen by some as a low-profile function, but it has wide-ranging implications. At present, there is a general lack of interest in

the area because it may not be deemed 'sexy' enough. However, trends indicate that all countries and economies are concertedly moving towards more stringent compliance, better corporate governance and higher ethical standards. Stakeholders are growing more vociferous by the day, and the general public has already signalled its distaste and intolerance for fraud and what it perceives as bad corporate behaviour.

#### Strong-minded and fearless

Internal auditors of the future have their work cut out for them. They will be expected to show high levels of integrity and independence in their jobs, in addition to being multitasking, strong-minded and fearless enough to blow the whistle when white-collar crime rears its ugly head. Soft controls, such as tone at the top, morale, ethical climate, trust, integrity, corporate cultures, are unlike clearly defined, hard controls. Internal auditors are expected to perform this under board governance review. Obtaining reliable information about soft controls is one of the most daunting challenges internal auditors must confront.

The staid world of internal audit has some exciting things in store.