

Internal Audit Trends

A research on the current trends and future of internal auditing in corporate Malaysia



OVERVIEW

Columbus Advisory Sdn Bhd is pleased to present its inaugural research on the current trends of internal audit in corporate Malaysia. Based on assessment of the 2009 annual reports covering 1084 listed companies [main market and ACE market] listed on Bursa Malaysia Securities Berhad, the research offers an insightful perspective on the significance of internal audit amid the global economic crisis and the growing preference for outsourced internal audit functions.

While compliance or controls-focused auditing remains a common internal audit approach, the research clearly depicts the increasing popularity of risk-based internal auditing in line with evolving enterprise risks.

By understanding these trends and their implications, internal audit leaders can help senior management in their risk identification and management activities through the provision of independent, value added controls assessment and assurance.

internal audit function to independent professional firms. The balance 8% were recently listed or placed under the PN4 category and hence, did not have any dedicated internal audit function.

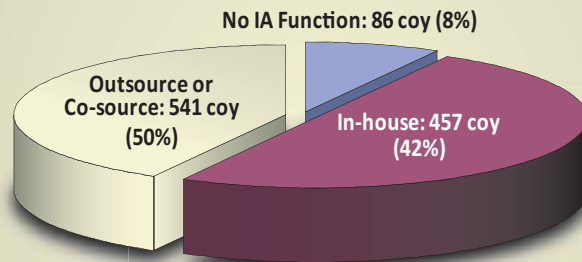


Figure 1: Nature of internal audit function of listed companies

The results show an increasing awareness amongst listed companies to observe the stringent listing regulations and raise corporate governance standards to increase investor confidence.

THE STATISTICS

Internal audit weigh its role amid the recession and evolving enterprise risks

The global financial crisis shows no signs of easing and internal audit functions face growing challenges to ensure that they are providing assurance to assist management in managing the organisation's changing risks and operating environment.

In line with the Bursa Listing Requirements, 42% of the listed companies researched have established their own internal audit function and 50% have either outsourced or co-sourced the

Growing demand for outsourced internal audit function

Internal audit outsourcing became popular because it appeared to offer significant advantages by reducing internal audit costs and offers a broad range of expertise that would be too expensive to maintain internally.

This is consistent with our research results as 50% of the listed companies have outsourced/co-sourced their internal audit function while 42% preferred to set-up their own internal audit function.

The research also shows that an average cost of RM913,000 per annum was required to set-up

and maintain an in-house internal audit function. This was approximately 10 times higher than the average fees of RM89,000 per annum paid for outsourcing services.

Industry	No of Coy	Total Internal Audit Expenditure in 2009 (RM 000)			
		In - House (328)	Outsource or Co-source (399)	Total (727)	Avg cost per coy
Investment	1	-	5	5	5
Construction	38	9,344	1,215	10,559	278
Consumer products	100	17,677	3,831	21,508	215
Finance	30	137,062	140	137,202	4,573
Hotel	3	107	49	156	52
Industrial products	206	18,510	6,781	25,291	123
Infrastructure	6	2,777	2,424	5,201	867
IPC	5	1,955	2,347	4,302	860
Mining	2	-	236	236	118
Plantation	30	9,945	2,094	12,039	401
Property	67	10,570	2,370	12,940	193
REITS	1	-	40	40	40
Technology	75	2,360	1,541	3,901	52
Trading/ Services	163	89,164	12,411	101,575	623
Total	727	299,471	35,484	334,955	461
Average Cost or per coy		913	89	461	

Figure 2: Internal Audit expenditure incurred in Year 2009

Note:

- Figures in () indicates the number of companies
- The above excludes 357 companies that did not specify the internal audit cost in their annual report

Big spenders

Despite the global economic crisis, listed companies from certain industries continue to invest heavily in their internal audit function. In the Year 2009, Finance-related listed companies spent an average of RM4.6 million on internal audit activities. The other notable spenders were Infrastructure and IPC (Infrastructure Project

Company) companies with an average cost per annum of RM0.87 million and RM0.86 million respectively.

The average internal audit cost incurred by the other industries ranged between RM5,000 to RM623,000.

Risk-based internal auditing on the rise

604 or 56% of the total companies researched preferred the risk-based audit model as compared to 36% that adopted traditional compliance-based internal auditing.

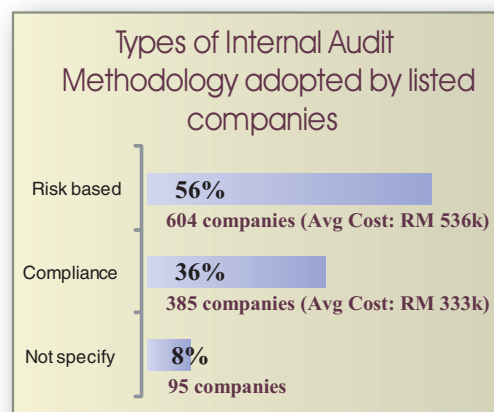


Figure 3: Types of internal audit methodology adopted by listed companies

The research also shows that listed companies preferred risk-based internal auditing although it involves an average cost (per company) of a whopping RM536,000, which was 61% higher than the compliance-based internal-auditing.

This signals the lack of experienced risk-based auditing professionals in the market, as well as there is still much work needed in terms of achieving the efficiency and effectiveness of internal audit using the risk based approach.

OVERALL TREND

With a looming and uncertain global economy outlook, business risks have become increasingly complex and amorphous. In these challenging times, aligning the internal audit focus to impending risks has become the key challenge of internal auditing.

Nevertheless, the research shows that market has reacted positively to the gradual transformation of the internal audit practice to suit the changing business environment. The global economic crisis shows no sign of slowing down of internal audit activities in Malaysia as listed companies continue to thrive on big budget spending on their internal audit function.

In addition, the preference of most listed companies for risk-based internal auditing is in line with the growing implementation of risk management initiatives within organisations in Malaysia which is also in line with one of the core principles of the Malaysian Code of Corporate Governance.

The research also shows that compliance-based auditing is no longer able to fulfil the sophisticated needs of contemporary stakeholders which demands for internal audit activities to be efficiently and effectively implemented to meet the growing demands from governance, risk and compliance perspectives.

The contemporary internal audit function now needs to be vibrant, strategic and risk-based to create sustainable value propositions that response to the changing business environments.

THE FUTURE

The release of the King III report on 1 September 2009 represents a significant milestone in the evolution of corporate governance and sustainability.

The King III report highlighted the need to have a statement by the Audit Committee on the effectiveness of internal financial controls, consideration of the strategic role of IT, positioning of internal audit as a strategic function that conducts a risk-based internal audit and governance of risk through formal risk management processes.

Moving forward, internal auditors will be expected to provide risk and controls assurance as part of coordinated efforts to keep in step with corporate advances in risk and control processes.

Entering a new era of governance assurance, internal auditors may then be required to devote more time to risk management, fraud prevention, internal controls, and corporate governance reviews.

About Columbus Advisory

Columbus Advisory Sdn Bhd is a leading provider of advisory services in Enterprise Risk Management, Internal Audit, Governance & Compliance Assessments, Forensic Accounting and Information Technology to a range of clients in the private and public sectors in Malaysia. Please contact Ranjit Singh or Fatimah Abu Bakar or Derek Lee at +603 27189008 or visit our website www.columbus-global.com for further details of this research.

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