

## MEDIA RELEASE

1 April 2011

### **Falling compliance with internal audit standards warrants tougher regulation**

Compliance with internal auditing standards by Australian organisations has fallen for the third year in a row, strengthening the case for regulators to mandate compulsory minimum standards, say internal audit experts.

A joint survey conducted by the Institute of Internal Auditors (IIA) and global risk consulting firm, Protiviti, has revealed that full compliance with the IIA's internal audit professional practices framework - the only globally recognised internal audit standards - has declined to 31 per cent in 2011, representing a fall of 11 per cent since 2009.

Top reasons cited for non compliance included: the organisation was too small and full implementation of the standards was too costly.

Mr Gary Anderson, IIA director and managing director of Protiviti, asserted that these were merely hollow excuses to justify indefensible lapses in quality that could compromise the board's risk oversight functions.

"Implementing standards to ensure a minimum level of rigour is naturally going to require a little more time and focus. This is the normal price of doing things properly. But it's a necessary price if management and the board are to receive accurate, objective and complete information from internal audit, about whether the organisation is being effectively governed.

"Let's also dispel some myths. These standards are not overly complex and will not break the bank. In fact, many small organisations including the IIA have implemented the standards and are reaping the benefits of better, more transparent governance, so the argument that this is too great a compliance burden just doesn't stack up".

Ms Stephanie Koehn, IIA's technical manager added that despite ongoing education campaigns over the years from industry bodies such as the IIA to improve voluntary compliance, it was now apparent that only regulatory intervention could turn the tide of persistently poor compliance and provide the 'shake-up' required to significantly improve internal audit practice across the corporate, public and not-for-profit sectors.

"The IIA is continuing to work with Commonwealth and State Governments as well as bodies such as the ASX Corporate Governance Council to

introduce uniform internal audit standards. As the survey confirms, the voluntary compliance model does not work - too many organisations would prefer to take the easy way out," said Ms Koehn.

The joint IIA-Protiviti survey also uncovered a difference in the extent to which management and the board viewed the value provided by internal audit. Audit committees placed a greater value on internal audit services (72 per cent) compared to management (45 per cent).

Mr Anderson observed that this reflected the strong relationship between internal audit and the board arising from the board's reliance on the independent assurance provided by internal audit over risk management, control and governance processes. By contrast, there was room for internal auditors to understand management needs better and deliver to them.

"Greater professionalism and adopting standards that promote quality work, plays a part in that. In addition, ensuring the internal audit function strikes a better balance between assurance and strategic consulting is also important. Internal auditors can enhance their strategic role by using reviews to identify areas where the organisation can improve efficiencies and performance. That is what will resonate with management".

Indeed, the IIA-Protiviti joint survey found that the internal audit projects that added the most value to an organisation were process and operational audits (32 per cent). These projects assess the effectiveness of a business activity in meeting an organisation's goals and recommend improvements where necessary. In contrast, less than 1 per cent of respondents indicated that finance-related projects such as financial reporting and control reviews, added value, reflecting a lower regard for compliance-focussed projects.

"Corporate Australia is notorious for its short memory. With brighter economic times ahead, it will be tempting to ease up on risk management and internal controls. That would be a mistake. Strong internal audit is an essential part of good governance. It keeps an organisation on course through both good times and bad. It's time for regulators to make it a 'non-negotiable' requirement," said Ms Koehn.

Other survey highlights included:

- The Top Five priority areas for internal audit over the next three years were: major project implementations, IT, core financial controls, risk management attestation and strategic risk
- For the third year in a row, chief audit executives reported an urgent skills shortage in the area of IT audit. This is a concern given IT has been identified as a major priority over the next three years
- Internal audit functions focus primarily on non-financial matters (79 per cent). As the majority of existing internal auditors have finance

backgrounds, organisations may need to consider alternative means to ensure internal audit teams have a broader skills base, such as secondments from other parts of the business.

The 2011 *Achieving High Performance in Internal Audit* Benchmarking Study surveyed the Heads of Internal Audit in 115 organisations across the public, private and not for profit sectors. Conducted annually, the survey is designed to provide an insight into trends and developments in the internal audit profession in Australia.

The above article was the basis of what appeared in the Australian Financial Review on Friday 1 April 2011.