

NATIONAL ANTI-CORRUPTION PLAN (“NACP”) 2019-2023

The NACP’s vision is to create a corrupt-free nation through three specific goals which are Accountability and Credibility of Judiciary, Prosecution and Law Enforcement Agencies; Efficiency and Responsiveness in Public Service Delivery, and Integrity in Business.

1. Introduction.

Chapter 1 of the NACP zooms into on some of the efforts carried out by Malaysia through the implementation of various initiatives right from 2004. However, some of the efforts such as to create transparency in asset declarations and gift management policy by Members of the Administration (including Prime Minister and Deputy Prime Minister), the introduction of Misconduct of Public Office provision, the setting up of an independent agency in managing seized and forfeited assets, the initiating of proper guidelines on lobbyists, demarcation of power between Ministers and Secretary-Generals were not followed through in its implementation. This is mainly due to lack of political will as the main factor hindering the initiatives planned back then in addressing issues of corruption, integrity and governance. With the strong commitment shown by the new Government, the NACP was drafted to give a clear focus and direction for the Government to in fight against corruption between now and 2030.

2. Future Scenarios.

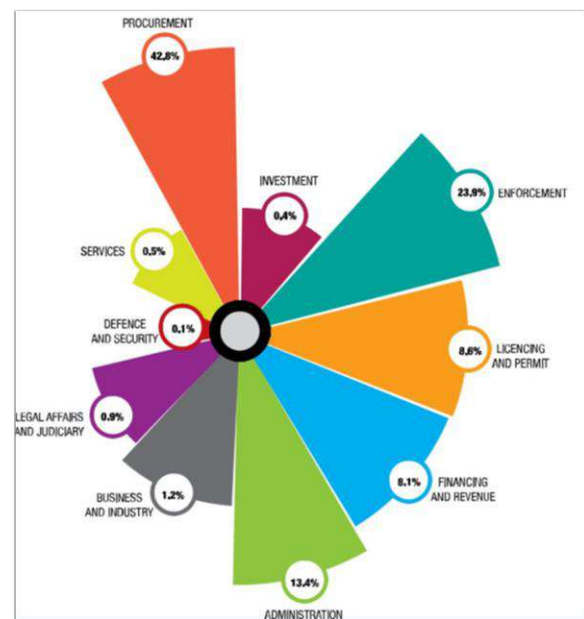
Chapter 2 captures the scenario of corruption in the future. Towards this end, a scenario planning exercise has been implemented involving all relevant stakeholders and experts to identify issues and provide guidance with practical solutions. Such exercise identified shared visions and threats upon which six key strategies will formulated in efforts to root out corruption by 2023.

3. Empowering National Anti-Corruption Efforts.

Chapter 3 features six Priority Areas that are vulnerable to corruption. These six Priority Areas are Political

Governance, Public Sector Administration, Public Procurement, Corporate Governance, Law Enforcement, and Legal and Judicial. From this six Priority Areas, the Plan further outlines the following 6 Strategies: Strengthening Political Integrity and Accountability, Strengthening the Effectiveness of Public Service Delivery, Increasing the Efficiency and Transparency in Public Procurement, Enhancing the Credibility of Legal and Judicial System, Institutionalising Credibility of Law Enforcement Agencies, and Inculcating Good Governance in Corporate Entity. These strategies lead to 17 Strategic Objectives which then produced 115 Initiatives to be implemented during the next five years.

Sectors Prone to Corruption: 2013 – 2018 (Complaints received by Malaysian Anti-Corruption Commission)



4. Governance

Chapter 4 of the NACP further focuses on the monitoring and evaluation (M&E) aspect. An essential function of M&E is not only to monitor the progress made by all the relevant stakeholders but to ensure that the implemented measures are the most suitable initiatives to undertake. The ability to identify gaps in the implementation of certain initiatives and to adjust accordingly will help achieve the desired outcome.

It is high time to seriously explore human governance in driving efforts to enhance integrity, transparency and accountability. This can only be done with the highest commitment and cooperation by all parties right from the citizens to the political leaders. It is hoped that this plan will guide the nation and the people to move towards the path of a morally developed nation.

What CAE should do?

- To educate your audit committee and management on the awareness of the NACP.
- To embrace the framework by applying the 5As guiding principal for the framework.

Reference:

<http://integriti.my/giacc/wp-content/uploads/2019/01/National-Anti-Corruption-Plan-2019-2023.pdf>

CHIEF AUDIT EXECUTIVES: INTERNAL AUDIT CAN DO BETTER

Areas that CAEs can do better. They include:

Report to the audit committee any progress — or lack thereof — in building cyber skills within the function and the reasons why. Candid discussion with the audit committee about where audit coverage is either inadequate or skill sets are lacking is the only way to prompt changes in those conditions.

Alert the audit committee and management of any cybersecurity effort gaps. This means CAEs must document the reasons effort gaps exist, including insufficient resources for co-sourcing or outsourcing, misaligned audit plan priorities, and any real or perceived disconnect with IT.

Invest more time in building relationships/partnerships with chief information security officers and chief information officers. Lack of cooperation from IT may reflect a weak relationship or concerns about internal audit's lack of cyber competence.

Invest more time in educating their teams about cybersecurity, including developing an in-depth understanding of the frameworks commonly used in cybersecurity, such as NIST CSF, NIST 800-53, and ISO/IEC 27001.

Consider co-sourcing as a viable option, when in-house skills are not adequate.

Look for opportunities for their staffs to perform basic cybersecurity auditing with support from IT that does not require cyber expertise." Such opportunities include: "identifying the organisation's most significant assets in need of protection; testing insider threat controls; and evaluating processes and structures designed to protect against accidental or inadvertent disclosure of organisation information.

The challenges internal auditors face today — complex, accelerated, global — will require agility, innovation, and effective dialogue with the board and executive management," IIA said in its conclusion to the report. "For internal audit to find its place in this brave new world, practitioners must raise their voices.

What CAEs should do?

- To perform better in areas in the abovementioned.



Reference:

<http://www.cfo.com/auditing/2019/03/chief-audit-execs-internal-audit-can-do-better/>

AUDITING CULTURE: PRINCIPLES

How can internal auditors evaluate an organisation's culture? They can look at governance documents like the **code of ethics, mission and vision statements, and stated values**. But these documents reflect the board and executives' desired culture, not the actual culture.

They can interview executives, who will describe the culture as they see it. But the information those executives receive from direct reports and below, upon which their assessment is based, is usually filtered. No one wants to give his or her boss bad news, so employees present a somewhat idealised picture of the culture — not dishonest, just slightly rosy. As information moves up the organisational ladder, the picture gets increasingly rosier. The "emperor has no clothes" syndrome generally applies. So where does the real culture exist? Three principles help explain where culture can be found and how it should be audited.

1. Culture Exists in Employee Perceptions

Ultimately, culture resides in the perception of employees. If employees believe the culture is x, y, or z, that's what it is, and they will act accordingly. Of course, getting employees to say what they honestly believe about the culture can be challenging.

2. Cultural Evaluation Must Be Based on Self-assessment

This principle flows from the first. If culture exists in the perception of employees, internal auditors have to act more as facilitators than as independent, objective observers. I have seen many dozens of effective soft control evaluation tools, and I have yet to see one that is not somehow based on self-assessment.

Auditors should keep in mind an important caveat to this principle. The term *self-assessment* sounds like people assessing themselves. For obvious reasons, auditors can't rely on this type of assessment as audit evidence — they need some form of verification. To use employee surveys as an example, phrasing questions so that employees assess their own behavior or managers assess their own area is not reliable. In addition to building a certain level of reliability into the survey process, internal auditors usually follow up on survey results by looking for corroborating evidence.

3. The Goal Is to Enrich Understanding of the Culture

An organisation's culture is amorphous, varied from place to place, and changeable over time. It does not lend itself to evaluation by any one technique alone or to reaching a definitive assessment. Rather, internal auditors should use a variety of techniques some quantitative, some qualitative with the goal of continually enriching key stakeholders' understanding of the culture. Moreover, stakeholders need to understand that this is internal audit's goal.

Internal auditors should keep in mind that they are only one source of cultural information. The first and second lines of defense also have a story to tell. Auditors should work cooperatively with the first line and coordinate their work with the second line. But with its independence and objectivity, together with the variety of techniques at its disposal, internal audit can be one of the most reliable sources of cultural knowledge in the organisation.

What Internal Auditors should do?

To give the kind of assurance required at the level they should give it, internal auditors must generate the best information they can about where the culture stands and what factors are driving it.

Reference:

<https://iaonline.theiia.org/2019/Pages/Auditing-Culture-History-and-Principles.aspx>

INTERNAL AUDITORS NEED TO STEP UP INNOVATION EFFORTS

According to findings from the “Internal Audit Capabilities and Needs Survey” conducted by consulting firm Protiviti. The result shows:

- ✚ 76% of internal audit groups are undertaking some form of innovation or transformation effort, a positive indicator that organisations are positioning themselves to thrive in the future. More progress is needed for next-generation internal audit models to mature and fulfill their full potential.

- ✚ Lesser than 31% internal audit functions have an innovation roadmap in place to guide their innovation and transformation journeys.

Another survey conducted by Protiviti, titled “Embracing the Next Generation of Internal Auditing,” it surveyed 1,113 Chief Audit Executives (CAEs) and internal audit leaders and professionals around the globe on their current views and audit plan priorities. The result shows:

- ✚ 41% of the survey respondents are concerned that they are moderately or far behind their competitors’ internal audit transformation activities.

- ✚ 48% of the survey respondents saying that they have increased focus on transformation initiatives in some capacity in the last year.

- ✚ 24% of internal audit teams who have not definitively started their digital transformation journey need to begin as soon as possible to maintain relevance within their firms and the wider industry.

- ✚ Most survey respondents believe that their teams already have the right skills in place, or they have plans to upskill their teams.

- ✚ Despite this sentiment, access to enabling technology skills and expertise remains a pervasive challenge and one that internal audit groups appear likely to address via outsourcing and co-sourcing models.

- ✚ The survey report includes analysis of the adoption of next-generation internal audit technologies. Among the technologies assessed in the study, internal audit groups have deployed advanced analytics most frequently (23%), followed by process mining (20%), robotic process automation (RPA) (19%) and artificial intelligence/machine learning (17%).

Top Ten Audit Plan Priorities

The Protiviti study also delved into specific audit plans for 2019. According to respondents, the top ten audit plan priorities for this year are:

1. Enterprise risk management
2. Cybersecurity risk/threat
3. Vendor/third-party risk management
4. Fraud risk management
5. COSO Internal Control – Integrated Framework
6. Agile risk and compliance
7. Lease Accounting Standard
8. AICPA’s Criteria for Management’s Description of an Entity’s Cybersecurity Risk Management Programme
9. Cloud computing
10. Revenue Recognition Standard

Other sections of the study cover recommendations for CAEs’ transformation action steps and an assessment of internal audit capabilities.

What Internal Auditors should do?

To remember that transformation to a next-generation internal audit function is not about one or a series of projects, but rather a culture and mindset focused on continuing innovation and seeking ways to do things better by leveraging new processes and the latest technologies.



Reference:

<https://internalaudit360.com/internal-auditors-need-to-step-up-innovation-efforts/>

THE MANY BENEFITS OF ROTATION PROGRAMS

As business processes become more complex, information more widely dispersed, and the risk environment more complicated, the need for internal auditors to adapt to this new environment becomes imperative. Therefore, the internal auditors must continuously educate themselves and enhance their skills on new competencies and technologies that are required now and in the future.

To develop a broad set of skills individually, and collectively, it can be accomplished through training and development, but also by diversifying the staffing mix and giving internal auditors hands-on experience in different roles within the organisation.

The rotation programmes can be very helpful to accelerate the learning process and provide greater opportunities to perform high-quality risk-based audits, while enhancing the career opportunities of internal auditors. In addition, it is a career development initiative used to exchange employees' assigned jobs around the organisation. Employers practice this technique for many reasons, but in general, they are designed to promote flexibility and to keep employees interested in staying longer with the organisation employing them.

There are 2 different types of rotation programmes involving internal audit:

1. allow non-auditors to rotate in and spend time in the internal audit department and then return to their regularly assigned
2. one-of exchanges where a non-auditor works with an audit team for only one assignment

Benefits and Challenges of Rotation Programme:

1. to encourage employee learning and make employees more versatile by gaining a broader understanding of the business
2. opportunity to be promoted to management or to be placed throughout the company
3. to enhances motivation as it reduces boredom while increasing knowledge about the company
4. As a training mechanism for future organizational leaders whose work in internal audit department
5. Having non-auditors perform audits requires having an efficient and effective onboarding useful and frequent feedback. Although those rotating into internal audit may not have internal

audit skills, per se, they often bring extensive business knowledge, are highly motivated, and have high potential so they serve as subject matter experts in other ways while bringing in new perspectives to the audit process.

Preserving Independence and Objectivity

Some individuals express concern that a rotation programme will compromise internal audit independence and objectivity. So, if the rotating individual observes the one-year cooling off period, discloses any conflicts of interest, and only serves as a resource and subject matter expert (SME), the rotation programme should work with minimal downsides.

Regardless of the methodology or cycle time adopted, rotation programmes should increase the knowledge of internal auditors while providing opportunities for career advancement and preparing qualified individuals to assume manager-leader roles in the future. These individuals will be ambassadors of internal audit and disseminate effective governance, risk management and control practices throughout the organisation

What Internal Auditors should do?

Rotation programs should be considered an integral part of internal auditors' training and development activities. Rotation programs can increase the knowledge of internal auditors while providing opportunities for career advancement. They can also help diversify the staffing mix to introduce new ideas, approaches and points of view that can enhance the identification of new ways to add value to the organisation.



Reference:

<https://misti.co.uk/internal-audit-insights/the-many-benefits-of-rotation-programs>

GENERATING AND BRINGING ACCURATE INFORMATION TO THE BOARD

Every executive strives to make the best decisions possible. Still, even the most thoughtful decisions in the world are only as good as the information people rely upon to make them.

Board directors know this; that's why they spend so much time seeking assurance about corporate operations before a decision is made. The very word "assurance" raises the question board directors implicitly ask when working toward a decision: Are we confident that what we've been told is in fact accurate and reliable?

The answer is uncertain right now. The problem isn't deliberate deception. That happens, but it's relatively rare. More accurate is to say that the governance duties of boards and the risk landscapes of organizations are shifting so rapidly that traditional channels of gathering and conveying information to the board might no longer be fit for purpose.

The shift that challenges boards so much is an inexorable increase in the importance of risk monitoring — especially emerging or atypical risks the organization has never before encountered. Such risks are now more likely to pose a greater threat to the organization's ability to generate value for its stakeholders. Those pressures now drive the audit committee to focus more on "anticipatory" risk and internal control systems that quantify how well the organization is preventing adverse events from happening. Which, in turn, increases the importance of getting high-quality information into the audit committee's hands so it can understand where its priorities should be.

To be clear, it is management's job to bring information to the board. That won't change. The questions here are whether the board is getting the right information in a timely manner and whether the systems for relaying information work well. Both are questions that audits could address. Audit executives can work with their audit committees to design KPIs that give board members more objective, reliable information. First comes a conversation about what the organization's objectives are, and what the risks to achieving those objectives might be. Then the audit team can design more data-driven KPIs to monitor those risks and feed that data directly to the board.

The transition from ad hoc discussions of risk that are reliant upon management's subjective judgment toward more disciplined, data-driven, up-to-the-moment snapshots of risk has the potential to be difficult, but it's move boards need to make. That's one piece of information board members can rely upon.

What Internal Auditors should do?

- ■ Assess the organization's systems to escalate information about risk. Are the systems themselves effective at relaying complete, accurate information in a timely manner? Does senior management accept that information and bring it to the board properly?
- ■ Consider corporate culture and its influence on generating accurate information. For example, conduct an employee survey asking whether employees feel confident that concerns they bring to management are heard and addressed properly.
- ■ Review accounts that are material to the financial statements to determine which ones rely on management estimates. Work with management and the audit committee to see whether those business processes could be redesigned to rely more on KPIs and less on estimates.
- ■ Hone your own audit function's abilities with data analytics. This can apply to all sorts of risk and audit issues, but remember that KPIs and risk monitoring can't happen in any disciplined way without strong capabilities in this area.



Reference:

<https://dl.theiia.org/AECPublic/Tone-at-the-Top-April-2019.pdf>