

CURRENT ISSUE

CORPORATE GOVERNANCE GUIDE (4TH EDITION) (BY BURSA MALAYSIA)

The Corporate Governance (“CG”) Guide (4th Edition) was issued by Bursa Malaysia on 13 December 2021.

The updated CG Guide is aimed at ensuring that PLCs have comprehensive and practical guidance in terms of adhering to the various recommended Practices under the Malaysian Code on Corporate Governance (“MCCG”) issued by the Securities Commission Malaysia on 28 April 2021 and enhanced CG disclosure requirements in the Listing Requirements.

The CG Guide sets out, amongst others, the MCCG’s “CARE” (Comprehend, Apply, and Report) approach and practical guidance to ease the adoption of recommended Practices by listed issuers. In addition, the CG Guide also provides insights for the internalisation of CG in listed issuers through illustrations, case studies and references from international developments.

✚ About the Guide

The CARE concept urges companies to give effect to the spirit behind the practices whilst appreciating the significance of the principles in supporting long-term value creation. The salient features of the MCCG are summarised below:



Equipped with 3 Principles, 43 Practices, and 5 Step Ups, the MCCG calls upon companies to view corporate governance disclosures as an opportunity to demonstrate to stakeholders that they have a holistic and effective corporate governance system that governs their processes, people, and practices in their achievement of corporate excellence.

✚ Objective of the Guide

Premised on the objective of bringing about cultural and behavioural change, this Guide serves to provide insights into best practices of corporate governance including how such practices can be applied and internalised in substance rather than in form, so as to help businesses in building sustainable value.

✚ How to use the Guide?

This Guide should be read together with the MCCG.

In addition, this Guide has, amongst others, made references to Bursa Securities Listing Requirements, Capital Markets and Services Act 2007 (“CMSA”), Bank Negara Malaysia’s Policy Document on Corporate Governance and other relevant regulatory provisions. The enumerations cited in this Guide may not be a verbatim extract from the relevant source documents and as such, users should refer to the source documents for greater details on the references made.

✚ Who should use the Guide?

Whilst this Guide is primarily targeted at listed issuers and their related corporations, non-listed companies including state-owned enterprises, small and medium enterprises (SMEs) and licensed intermediaries are encouraged to draw perspectives from this Guide.

✚ Structure of the Guide

The Guide has been developed based on a thematic approach to provide readers with a focused view of the MCCG, beginning with the board and its responsibilities before addressing audit and risk management and then closing off with corporate reporting and relationship with stakeholders. The Guide is divided into three individual Pull-outs which correspond to the respective Principles of MCCG. Each Pull-out comprises write-ups on the Practices and Step Ups of MCCG.



✚ Attributes of quality disclosures

In providing reliable and meaningful disclosures on corporate governance, listed issuers should be guided by the following which provide guidance on the desired qualitative characteristics of such reporting.

- Relevant
- Complete/Balanced
- Comparable
- Conciseness
- Timely

✚ Disclosure requirements on MCCG: CG Overview Statement and CG Report

In drafting its CG Overview Statement, listed issuers can be guided by the following template:

1. Introduction
2. Corporate Governance Approach
3. Summary of Corporate Governance Practices
4. Focus Areas
5. Corporate Governance Priorities

What Internal Auditors should do?

IPPF *Standard 2110* - Governance specifically identifies the internal audit activity's responsibility for assessing and making appropriate recommendations to improve the organisation's governance process.

With the latest update of the Guide from Bursa Malaysia, internal auditors must be proactive in following trends and developments, perceiving how the latest guide and practices may apply to his or her organisation.

Internal auditors must get ready and well equipped with the latest updates and knowledge to provide value-added advice and recommendations to the stakeholders.



Reference:

<https://bursasustain.bursamalaysia.com/droplet-details/resources/corporate-governance-guide-4th-edition>

GOVERNANCE

THE CLOUD ERA IS HERE; BOARDS, PLAN ACCORDINGLY (BY MATT KELLY)

Many businesses have been accused of having their heads in the clouds, usually to disastrous effect. So, let's talk about how the board can assure that if clouds are part of your corporate strategy, you can implement that idea wisely.

Cloud computing is a fantastic way to save money, with low installation costs and agility to respond to changing business conditions. That shifting of IT responsibilities can be advantageous because cloud-based vendors are often better at delivering a service than the organisation itself.

To help boards navigate that more complex oversight environment, COSO recently published a 44-page guidance document, Enterprise Risk Management for Cloud Computing. The goal is to help boards understand applying enterprise risk management principles to cloud computing's unique challenges. Boards also have good reason to put oversight of cloud computing near the top of their agenda because the adoption of cloud computing is growing so fast.

In that case, governance is not as much about managing a physical IT infrastructure to drive business operations. It is about managing relationships with other vendors to conduct business operations, all coated with a thick layer of regulatory compliance risks, to boot.

✚ The Big Risk: Knowing Who Does What

Perhaps the biggest risk for migrating to the cloud is understanding who will be responsible during and after migrating to the cloud. That is, which systems are going onto the cloud, and why?

If a board does not understand those things, it cannot fulfil its job.

A related challenge is for the board to consider whether management has the right structures to address cybersecurity risk — or, more simply, whether roles and responsibilities have been structured correctly.

✚ Rethink Reporting

Moving into the cloud also transforms the reporting from management that boards need to get. So, management needs to provide the board with various new metrics to talk about how those vendor relationships are working.

Viewed in terms of The IIA's Three Lines Model, first-line operating units might talk about efficiency gains in processing sales or changes in product strategy made possible by migrating to the cloud.

Second-line risk oversight functions might discuss the times to resolve security glitches or vendors' ability to adhere to service-level agreements.

What Internal Auditors should do?

IPPF *Standard 2120* – Risk Management requires internal auditor activity to evaluate the effectiveness and contribute to the improvement of the company's risk management processes, including procedures for cloud computing.



Reference:

<https://internalauditor.theiia.org/en/articles/2021/october/the-cloud-era-is-here-boards-plan-accordingly/>

INTERNAL AUDIT

[TRUSTED ADVISORS IN TIMES OF UNCERTAINTY: WHY SOFT SKILLS ARE NEEDED NOW MORE THAN EVER \(BY CÁTIA SILVA\)](#)

Soft skills such as effective communication, persuasion, collaboration, and critical thinking are essential competencies of internal auditors. Armed with these competencies, internal auditors can better respond to the demands of the profession, strengthen business relationships, and contribute to audit engagement effectiveness.

Worldwide, internal auditors have had to adjust to an increasingly challenging business environment, with the global pandemic significantly impacting the way they perform their duties. In particular, remote auditing has changed internal audit engagement dynamics because it limits face-to-face contact and physical observations. As a result, collaboration and effective communication with audit stakeholders are more complicated, requiring flexibility, teamwork, and empathy on the part of internal auditors.

+ Audit with Empathy

When conducting an audit or an advisory review, internal auditors should reassure audit clients that they will make every reasonable effort not to interrupt the operations by working to reduce requirements for stakeholder involvement. Internal auditors should emphasise that they are there as a safety net during the crisis, and that their role is to add value rather than identify mistakes or find fault.

+ Communicate Effectively During a Crisis

In times of uncertainty, communication needs to be simple, concise, proactive, continuous, and timely. Further, soliciting regular feedback from all stakeholders, especially remote ones, is essential to ease their stress and address their concerns during the crisis.

To deliver a compelling message, it's also important to adjust the communication style based on the client's cultural background and internal auditors should always listen to the undertone.

Effective persuasion relies on the internal auditor's ability to convey a compelling and concise message, supported by audit facts. Internal auditors should understand that methods and lines of communication should be varied to promote flexibility and efficacy in auditing.

+ Stay Relevant and Collaborate Meaningfully

During a crisis, collaboration can seem more challenging because audit clients worry about the outcome of the audit report, costs, their own jobs, and the business — all while struggling to keep up with many other priorities. Internal auditors need to make a greater effort to engage with audit stakeholders, continuing to develop strong relationships with clients around trust, credibility, efficiency, and transparency.

Successful collaboration relies on the internal auditor's ability to understand the challenges and needs at the organisation level. Collaboration needs to be relevant to add real value to audit stakeholders —therefore, the internal auditor should be evaluating the organisation's priorities and identifying its most significant risks.

+ Boost Critical Thinking

Critical thinking is essential to identifying the most significant risks threatening an organisation and to finding opportunities to maintain effective governance during a crisis.

Internal auditors who demonstrate excellent critical thinking skills will have a sense of purpose and a genuine interest in asking the "why" questions to continuously search for knowledge.

They also may have an ability to analyse people's emotions, enabling them to ask appropriate questions and read body language and other nonverbal cues.

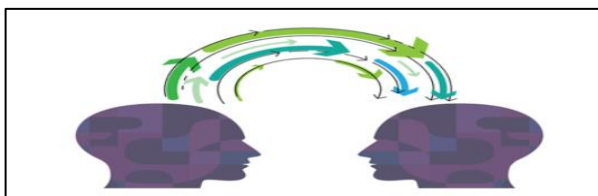
Good critical thinking contributes to audit engagement effectiveness, together with confidence, courage, and the ability to articulate information.

What Internal Auditors should do?

IPPF *Standard* 1200 - Proficiency and Due Professional Care mentioned that engagements must be performed with proficiency and due professional care.

For internal auditors, soft skills are highly relevant to the job — and to becoming a trusted partner, especially in times of uncertainty. Whether these skills come more naturally or require more practice, it is possible for auditors to strengthen such skills to better respond to crisis situations. With experience, internal auditors can learn to adopt best practices for effective communication, persuasion, collaboration, and critical thinking that positively influence audit engagements.

In difficult times, being a trusted advisor means more than simply giving management an opinion — it means identifying the challenges facing organisations, providing active collaboration and assistance, ensuring compliance, and monitoring risk exposure. It also means internal auditors must use soft skills to gain trust, provide reassurance, communicate frequently and effectively, and read between the lines.



Reference:

<https://internalauditor.theiia.org/en/articles/2022/january/trusted-advisors-in-times-of-uncertainty/>

TONE AT THE TOP

COVID-19: ENHANCING THE VALUE OF GOVERNANCE (BY IIA AUDIT EXECUTIVE CENTER)

The consequences of the lingering COVID-19 pandemic seem to multiply daily, with organisations encountering new levels of complexity and risk. And there is a growing list of uncertainties emerging in other areas, including new technologies that change traditional ways of doing business, and new demands from shareholders on a number of fronts.

✚ **ESG Concerns at the Forefront**

ESG addresses how organisations impact the world around them, which presents a different set of considerations than traditional financial challenges. “This broad risk category includes areas that are dynamic and often driven by factors that can be difficult to measure objectively, such as inclusion, ethical behaviour, corporate culture, and embracing sustainability across the organisation,” according to *Internal Audit’s Role in ESG Reporting*, a white paper from The Institute of Internal Auditors.

✚ **Internal Audit and ESG**

As board members are deluged with more and more ESG data to use in their governance role, they can turn to internal audit for beneficial assurance, advice, and input. Internal audit is already poised to take on this responsibility. “Although an independent audit of ESG reporting is not currently required, internal audit functions are increasingly involved, performing assessments of the underlying internal control framework, supporting publicly available information, and validating the completeness and accuracy of the data used in reporting,” according to a Deloitte article.

A holistic approach that embraces not only financial strategies and metrics but also those

related to ESG factors are considered indispensable to long-term value creation, according to the IIA white paper.

A focus on governance

For directors worried about the many obstacles facing their organisations, the positive news is that good governance is the solid foundation that boards and organisations can rely on to weather such challenges, including ESG issues. Governance typically refers to how an organisation is directed and managed, how its rules, practices, processes, and controls support and achieve its objectives.

Objective Assurance, Insights, and Advice

when boards do maintain a strong focus on governance concerns, they will be better prepared for whatever challenges arise. What is clear is that strong governance over ESG — and effective governance overall — requires alignment among the principal players. As is the case with any risk area, an internal audit is well-suited to support the governing body and management with objective assurance, insights, and advice on ESG matters.

What Internal Auditors should do?

IPPF *Standard 2110 - Governance* specifically identifies the internal audit activity’s responsibility for assessing and making appropriate recommendations to improve the organisation’s governance process.

A comprehensive, objective, and independent review by an internal audit can add value. Beyond sustainability reporting, internal audits can offer assurance on all aspects of ESG risk management.



Reference:

<https://www.theiia.org/en/resources/research-and-reports/tone-at-the-top/>

GLOBAL PERSPECTIVES AND INSIGHTS

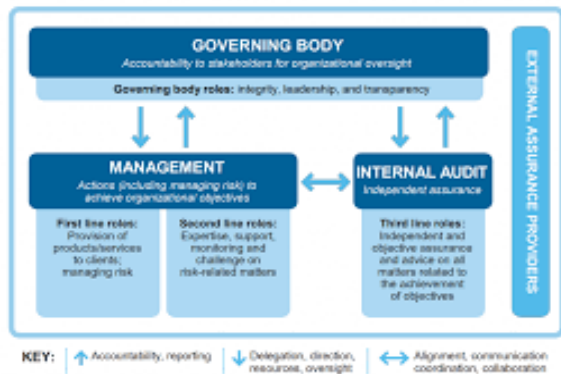
INTERNAL AUDIT AND COMPLIANCE: CLARITY AND COLLABORATION FOR STRONGER GOVERNANCE (BY IIA GLOBAL)

This report explains why a clear understanding of roles is critical to effective compliance and independent assurance. It includes an analysis on applying the Three Lines Model's Six Principles and practical illustrations from practitioners.

This report also helps to clarify these complexities and avoid confusion, gaps, and unnecessary duplication. Clear understanding is essential, collaboration is strongly encouraged, and internal audit independence is essential.

Instead, it serves as a tool for boards, management, compliance professionals, and chief audit executives. It uses the Three Lines Model to explain the relationship between internal audit and compliance. The Six Principles of the Three Lines Model and how they can be applied to compliance are examined later in this paper.

The IIA's Three Lines Model



The model’s Six Principles can be used to better understand compliance—as an outcome, as a category of risk, as a role or department, as a set of activities — and its contribution to a successful governance framework.

Readers should use this paper to identify, understand, evaluate, and apply within a governance structure - regardless of jurisdiction, industry, complexity, maturity or size - effective compliance and compliance risk management in various aspects of the Three Lines Model.

The relationship between internal audit and compliance is sometimes unclear, giving rise to important questions: Can internal audits have compliance? Is a compliance function responsible for all compliance across an organisation? As a Chief Audit Executive, is it OK to be in charge of compliance?" the report's authors write. They say the paper is intended to serve as a tool for boards, management, compliance professionals, and chief audit executives and uses the Three Lines Model to explain the relationship between internal audit and compliance.

Key takeaways:

- The IIA's Three Lines Model provides a clear understanding of roles to ensure effective compliance and independent assurance.
- The Three Lines Model's six principles assist in evaluating the respective roles and responsibilities in an organisation.
- Assigning compliance roles should align with the Three Lines Model and its Six Principles.
- Despite the confusion on compliance roles, one thing must be clear: internal audit is the organisation's sole provider of assurance independent from management.

The Three Lines Model:

Compliance

The First line roles include providing products and services to clients or customers and providing the support needed to comply with requirements and expectations.

Second-line roles provide specialist oversight and advice, assess risk, and perform risk management activities, credibly challenging the first line. The graphic used to represent the model does not identify a compliance role or department or other specific second-line roles, departments, or responsibilities. It depicts relationships between the central roles of governance instead of a prescribed organisational structure.

Determining responsibility for compliance roles and activities

One employee may be responsible for more than one role. In this case, there should be an appropriate assessment of the compatibility of these multiple roles and a clear definition of each role's responsibilities and the oversight and assurance on the performance of those roles. There may be an increased risk of incompatibility, conflict of interest, and diminished clarity on accountability and responsibility with multiple roles.

A collective effort to achieve compliance

Even where there is a designated compliance role or department, it is important to recognise that all compliance activities do not reside in just one place within an organisation's structure. Employees at all levels and executive and non-executive directors are required to contribute to the collective compliance effort. Examples may include compliance with human resources legislation and regulations handled by the HR department and compliance with the finance department's financial reporting and taxation requirements.

Applying the Six Principles

- The Three Lines Model encourages a principles-based approach to assessing and aligning roles and responsibilities, considering an organisation's circumstances, including its specific compliance requirements and expectations.
- The model's Six Principles can be used to better understand compliance—as an outcome, as a category of risk, as a role or department, as a set of activities — and its contribution to a successful governance framework.

Principle 1: Establish governance requirements

Describes the minimum requirements of governance to be:

- Accountability (by the governing body to stakeholders for success).
- Actions and application of resources.
- Assurance and advice (from an independent internal audit function on all aspects to enable effective oversight and transparency and to promote confidence and continuous improvement).

The governing body is ultimately accountable for ensuring the organisation behaves following the accepted standards and societal norms.

Management must manage risk associated with compliance and noncompliance according to the appetite expressed by the governing body.

This may include establishing individual roles and teams with a specific focus on compliance aspects and clearly defining decision rights between the first line owning the risks and the second line providing credible challenge and driving first line conformance with risk appetite.

Principle 2: Maintain adequate governance oversight

Defines the roles of the governing body for:

- Governance.
- Overseeing management.
- Establishing and overseeing an effective internal audit function.

The governing body is ultimately responsible for governance and ensures appropriate structures and processes are in place. This includes arrangements for compliance and oversight of the role of internal audit.

In determining its compliance risk appetite or tolerance, the governing body will oversee management's execution of activities and fulfil the respective responsibilities of designated roles and departments to achieve compliance outcomes following the compliance risk appetite and related tolerances.

Principle 3: Define management roles over the first and second line

Describes management roles (both first- and second-line roles that may be blended or separated depending on resources, goals, regulation, etc.).

The first and second-line roles constitute management. They reflect the responsibilities of the first line to provide the products and services to clients, and the second line to provide specialist oversight, assess risk (particularly on a collective or portfolio basis) and perform risk management activities, credibly challenging the first line.

This reporting line or accountability to the governing body may appear to establish greater independence for the head of the compliance department or individual.

However, an essential aspect of independence is the absence of decision-making responsibilities.

✚ Principle 4: Define the role of the third line

Describes internal audit's role as the provider of independent assurance and advice.

The Three Lines Model amplifies the critical need for assurance on the adequacy and effectiveness of risk responses, including controls, as a fundamental component of governance. Internal audit maintains accountability to the governing body and independence from management responsibilities. This is critical to understanding assurance roles and the distinct position of internal audits within the governance structure.

If the independence of the internal audit activity and the objectivity of internal auditors are threatened, the CAE must report this to the governing body for corrective actions. In assessing the effectiveness of compliance roles and departments, internal auditors should be open to communication, coordination, and collaboration to effectively apply the Three Lines Model and promote a culture of compliance and control.

✚ Principle 5: Maintain third line independence

Describes the importance of internal audit independence.

These include an independent functional reporting line to the governing body or committee and, importantly, independence from management decision-making. Risk management functions, while often having a functional reporting line to the governing body or committee, typically also have within their respective roles management decision-making responsibilities, particularly concerning taking, managing, mitigating, controlling, and reporting risk, including compliance risk.

✚ Principle 6: Create and protect value through collaboration

Describes the importance of ensuring coordination and collaboration among all these roles. Effective governance requires the appropriate assignment of responsibilities and a strong alignment of activities through coordination, collaboration, and communication.

What Internal Auditors should do?

It helps internal auditors better understand internal audit and compliance that can avoid confusion, gaps, and unnecessary duplication. Also, Internal Auditor can refer to the Practical illustrations provided in the report that will help in the practical application of the model's Six Principles when evaluating the alignment of compliance activities following the Three Lines Model.



Reference:

<https://www.theiia.org/en/content/articles/global-perspectives-and-insights/2022/internal-audit-and-compliance-clarity-and-collaboration-for-stronger-governance/>

If you missed out the previous issues of e-techline, you may visit our website at <https://iiam.com.my/technical-ga-services/e-techline/>.

STANDARDS AND GUIDANCE

AUDITING PROCUREMENT IN THE PUBLIC SECTOR

Reference:

<https://www.theiia.org/en/content/guidance/recommended/supplemental/practice-guides/auditing-procurement-in-the-public-sector/>

AUDITING BUSINESS APPLICATIONS

Reference:

<https://www.theiia.org/en/content/guidance/recommended/supplemental/gtags/gtag-auditing-business-applications/>

AUDITING ANTI-CORRUPTION ACTIVITIES

Reference:

<https://www.theiia.org/en/content/guidance/recommended/supplemental/practice-guides/auditing-anti-corruption-activities/>