Technical Newsletter

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The Institute of Internal Auditors Malaysia

Internal Auditors as Strategic Partners in Strengthening Governance

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INTRODUCTION

Good governance is the cornerstone of organisational success. It provides the framework through which organisations establish accountability, transparency, ethical conduct, and effective decision-making. While boards of directors and senior management bear primary responsibility for governance, internal auditors play a critical supporting role by providing independent assurance and objective insights.

Historically, internal audit functions focused primarily on verifying compliance with policies, procedures, and regulatory requirements. However, the increasing complexity of business operations and stakeholder expectations has expanded the scope of internal auditing. Today's internal auditors are expected not only to identify control weaknesses but also to provide strategic advice that helps organisations anticipate risks, improve processes, and achieve their objectives.

This transformation reflects a broader shift from the traditional assurance approach to a value-driven approach, positioning internal auditors as strategic partners in governance.

THE EVOLVING ROLE OF INTERNAL AUDITORS

The modern internal auditor operates in a dynamic environment where risks are interconnected and continuously evolving. Organisations face challenges ranging from digital transformation and cyber threats to environmental, social, and governance (ESG) concerns. As a result, internal auditors are expected to provide assurance over emerging risks while supporting management in strengthening governance frameworks.

The role of internal auditors now encompasses two key dimensions:

1. Assurance Provider

Internal auditors play a critical role in supporting effective governance by providing **independent and objective assurance** on the effectiveness of an organisation's internal controls, risk management processes, and governance structures. Through systematic and disciplined evaluations, internal auditors help boards and audit committees gain confidence that organisational objectives are being achieved responsibly, ethically, and efficiently. Their assurance activities enable leadership to identify control weaknesses, manage risks proactively, and enhance accountability across the organisation.

This role is reinforced by the **Global Internal Audit Standards (GIAS)**, which emphasise that internal auditing extends beyond traditional compliance and control reviews. Under **Domain I – Purpose of Internal Auditing**, the Standards establish the fundamental purpose and value of the internal audit function within an organisation.

Purpose of Internal Auditing

According to the GIAS, the purpose of internal auditing is:

"To strengthen the organisation's ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight."

This purpose statement highlights the evolving role of internal audit as a strategic contributor to organisational success. Internal auditors create value through four key dimensions:

- **Assurance** – Providing independent evaluations of governance, risk management, and internal control processes.
- **Advice** – Offering recommendations and consulting services to improve organisational effectiveness and efficiency.
- **Insight** – Delivering meaningful analysis and perspectives that support informed decision-making.
- **Foresight** – Anticipating emerging risks, trends, and opportunities that may impact the organisation's future performance.

By combining these elements, internal auditors serve not only as assurance providers but also as trusted advisors and strategic partners. Their contributions help organisations strengthen governance, enhance resilience, and support the sustainable achievement of strategic objectives. This broader mandate positions internal audit as a key enabler of value creation, protection, and long-term organisational success.

2. Trusted Advisor and Strategic Partners

Beyond assurance, by combining above 4 elements, internal auditors serve not only as assurance providers but also as trusted advisors and strategic partners. Their contributions help organisations strengthen governance, enhance resilience, and support the sustainable achievement of strategic objectives. This broader mandate positions internal audit as a key enabler of value creation, protection, and long-term organisational success.

INTERNAL AUDIT AND GOVERNANCE EXCELLENCE

Effective governance requires organisations to establish clear accountability, ethical leadership, risk oversight, and performance monitoring mechanisms.

Domain III – Governing the Internal Audit Function is one of the most significant domains of the Global Internal Audit Standards because it establishes the responsibilities of the board in ensuring that the internal audit function operates effectively, independently, and with sufficient authority. Strong governance depends on reliable assurance, and Domain III provides the framework that enables internal audit to fulfil this role.

Domain III contributes to governance excellence in the following ways:

1. Strengthens Internal Audit Independence

Governance excellence requires objective and unbiased assurance. Domain III emphasises the board's responsibility to safeguard the independence of the chief audit executive (CAE) and the internal audit function. By establishing appropriate reporting relationships and protecting auditors from undue influence, the board ensures that audit findings and recommendations remain impartial and credible.

As a result, stakeholders can trust the information provided by internal audit when making governance and oversight decisions.

2. Enhances Board Oversight and Accountability

A key principle of good governance is accountability. Domain III requires the board to actively oversee the internal audit function, including approving the internal audit charter, supporting the audit plan, and evaluating the performance of the chief audit executive.

This oversight ensures that internal audit activities are aligned with organisational priorities and that governance, risk management, and control issues receive appropriate attention.

3. Aligns Internal Audit with Organisational Strategy

Governance is most effective when assurance activities support strategic objectives. Domain III encourages the board and senior management to ensure that internal audit's mandate, resources, and priorities are aligned with the organisation's mission, objectives, and risk profile.

This alignment enables internal auditors to focus on the areas that matter most to organisational success and long-term sustainability.

4. Promotes Effective Risk Governance

Organisations today face increasingly complex risks, including cybersecurity threats, regulatory changes, environmental concerns, and geopolitical uncertainties. Domain III requires the board to ensure that internal audit has sufficient authority and access to evaluate these risks independently.

Through its assessments of governance, risk management, and controls, internal audit provides assurance that risk oversight mechanisms are functioning effectively and that emerging risks are being addressed appropriately.

5. Supports Transparency and Ethical Conduct

Good governance depends on transparency, integrity, and ethical behaviours. Domain III reinforces the role of internal audit in evaluating organisational culture, ethical practices, and accountability mechanisms.

By reporting objectively on governance weaknesses, ethical concerns, and control deficiencies, internal audit helps strengthen transparency and supports an organisational culture grounded in integrity.

6. Ensures Adequate Resources and Competence

An effective governance system requires a capable internal audit function. Domain III places responsibility on the board to ensure that internal audit has sufficient resources, skills, and competencies to carry out its responsibilities.

This includes supporting professional development, technology adoption, and access to specialized expertise necessary to address evolving risks and governance challenges.

In summary, **Domain III of the Global Internal Audit Standards** serves as a cornerstone of governance excellence by establishing the board's responsibility for governing the internal audit function. Through strong oversight, protection of auditor independence, strategic alignment, and support for adequate resources, Domain III enables internal audit to provide trusted assurance and strategic insight. In doing so, it strengthens accountability, transparency, risk governance, and organisational resilience—hallmarks of effective governance.

CHALLENGES FACING INTERNAL AUDITORS

Despite their expanding role, internal auditors face several challenges:

Maintaining Independence

While acting as trusted advisors, auditors must preserve their independence and objectivity. Balancing advisory services with assurance responsibilities requires careful governance and professional judgment.

Skills and Competency Gaps

The evolving risk landscape demands expertise in technology, data analytics, ESG, and strategic risk management. Continuous professional development is essential.

Stakeholder Expectations

Boards and senior executives increasingly expect internal auditors to provide strategic insights while maintaining traditional assurance activities. Meeting these expectations requires effective communication and resource allocation.

Resource Constraints

Many audit functions operate with limited resources despite expanding responsibilities. Prioritisation and technology adoption are critical to maximising audit effectiveness.

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RECOMMENDATIONS FOR LEVERAGING INTERNAL AUDIT AS A STRATEGIC PARTNER IN GOVERNANCE

The following recommendations can help organisations strengthen governance and enhance the effectiveness of the internal audit function.

1. Position Internal Audit as a Key Contributor to Governance Discussions

Internal audit should be actively involved in governance-related discussions at both board and executive management levels. With an organisation-wide perspective, internal auditors provide valuable insights into governance practices, emerging risks, control effectiveness, and operational challenges. Their participation helps ensure that governance decisions are informed by reliable assurance and a comprehensive understanding of organisational risks.

2. Encourage Collaboration Between Internal Audit, Risk Management, and Compliance Functions

While internal audit, risk management, and compliance functions have distinct roles and responsibilities, effective governance requires close coordination among them. Collaboration helps reduce duplication of effort, improve communication, and provide a more integrated view of organisational risks. Internal audit can leverage information from risk management and compliance activities to enhance audit planning and focus assurance efforts on areas of greatest significance.

3. Invest in Technology and Data Analytics Capabilities

The increasing complexity of business operations and risk environments requires internal audit functions to embrace technology and innovation. Investments in data analytics, artificial intelligence, continuous auditing tools, and automated monitoring systems can significantly improve audit effectiveness and efficiency. These capabilities also enable internal auditors to perform structured scenario planning and systematic horizon scanning to anticipate future risk developments. By combining technology-enabled assurance with forward-looking analysis, internal audit can provide more timely insights, identify emerging and cross-cutting risks more quickly, and support proactive governance and informed decision-making.

4. Support Continuous Professional Development for Auditors

The evolving business environment requires internal auditors to continuously expand their knowledge and capabilities. In addition to traditional auditing competencies, auditors should develop expertise in areas such as cybersecurity, data analytics, environmental, social and governance (ESG) reporting, artificial intelligence, regulatory compliance, and strategic risk management. A highly skilled audit team is better equipped to provide meaningful assurance, insight, and foresight.

5. Ensure Direct Access to Boards and Audit Committees

A fundamental principle of effective internal auditing is organisational independence. To maintain this independence, the Chief Audit Executive (CAE) should have direct and unrestricted access to the board and audit committee. Direct access empowers internal auditors to raise concerns objectively and provide candid assessments that support informed decision-making at the highest levels of the organisation.

6. Foster a Culture that Values Transparency, Accountability, and Ethical Conduct

Governance excellence is ultimately shaped by organisational culture. Even the most robust governance frameworks and control systems may be ineffective if an organisation's culture does not promote ethical behaviour, transparency, and accountability. Internal audit can play an important role in assessing and reinforcing organisational culture by evaluating ethics programmes, whistleblowing mechanisms, conflict-of-interest management, and tone at the top. However, responsibility for fostering an ethical culture rest with both the board and management.

CONCLUSION

To strengthen internal audit's role as a strategic partner in governance, organisations should establish key performance indicators (KPIs) that measure both assurance quality and strategic contribution, in line with the IIA Global Internal Audit Standards (2024). Beyond traditional operational metrics, KPIs should assess the alignment of the risk-based audit plan with organisational objectives, the effectiveness of identifying and communicating emerging risks, stakeholder satisfaction, the value generated through advisory engagements, and the adoption of technology-enabled assurance practices such as data analytics and continuous auditing. Regular reporting of these indicators enables the board and executive management to evaluate internal audit's contribution to governance, risk-informed decision-making, organisational resilience, and sustainable value creation while supporting continuous improvement and conformance with the Global Internal Audit Standards.

K**eywords**: Internal Audit, Corporate Governance, Risk Management, Strategic Partnership, Assurance, Accountability, ESG, Governance Excellence.

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