

THE EVOLVING ROLE OF THE INTERNAL AUDITOR

The internal auditor is tasked with juggling a wide variety of internal governance activities in order to mitigate risk and help improve overall operations. Duties of the internal auditor have traditionally revolved around forging comprehensive internal controls and then evaluating their success and reporting the results to the appropriate oversight bodies. However, a recent report suggests that deeper involvement in structuring — and cleaning up — corporate culture is a role coming soon to internal auditors.

Internal Auditor Versus Compliance

Although there is a tendency to confuse internal audit with compliance functions, each has a unique role to play within the corporate structure. The internal auditor enjoys the benefit of reporting directly to the Audit Committee while the compliance officer oversees a niche role — albeit a very broad one — that falls under internal auditing. Compliance focuses on ensuring adherence to laws, regulations and internal policies while internal audit is charged with closely monitoring and evaluating a company's internal control mechanisms for adequacy and effectiveness. A report by The Basel Committee on Banking Supervision states that the compliance function should be separate and apart from the audit function in order to ensure that the compliance performance comes under independent internal audit review.

Corporate Culture Cleanup

Cleaning up “toxic corporate culture” is a new challenge for internal auditors in the wake of the scandals of the last decade. The questions being asked are: Was internal audit too poorly organized to grasp what was occurring in the corporate culture? Did internal audit fail by neglecting to dig, discover and report? Or did they do their job — but management dismissed the warnings? Even if the latter, this too may have constituted a breakdown in internal audit since one of its main goals is to both communicate and persuade.

UK Report Offers Assistance

A report by the UK's Chartered Institute of Internal Auditors notes that while the internal auditor's role has traditionally emphasized quantitative metrics — including relying on enterprise-wide surveys as a primary tool for reading corporate culture — what has been lacking are qualitative analyses for determining underlying deficiencies. Although internal audit may have highlighted the existence of a toxic corporate culture, it offered little in the way of identifying the causes or proposing remedies. The report advises how the internal auditor can shoulder its new role, including:

- undertake root-cause analysis to identify cultural weaknesses;
- audit whether or not corporate culture and values are in fact the bases for business decisions;
- include recruitment policies, training, performance management, and reward as audit indicators;
- audit throughout the organization — top to bottom;
- do not hesitate to trust judgment and intuition even if it means taking a subjective approach.

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