ACIIA CAE LEADERSHIP FORUM
NAVIGATING UNCHARTED FRONTIERS
25-26 APRIL 2016 • Pullman Kuala Lumpur City Centre Hotel and Residences
The exit of UK from the EU has been the most talked about topic the past week. There is an air of uncertainties on both side of the fence. There are many questions that have no answers as yet. Only time will tell.

In a similar fashion, internal auditors face uncertainties due to the dynamic changes in their business environment. Internal auditors need to be aware of and detect events that cause changes and uncertainties in their organisations. Being agile and reacting to these changes and uncertainties is a virtue of any internal auditor.

Networking with fellow internal auditors does help in strategy formulation and development to overcome or minimise the negative effects of changes in the business environment and to ride into the storm of uncertainties. The Institute encourages networking groups aka fraternities based on industry. Joining and actively participating in such industry based networking group provides a good platform for effective management and value-add of the IA function.

In this issue, read the interesting article in the technical column for a better insight on the roadmap towards improving the effectiveness of public sector’s internal audit function. The roadmap is useful for both public and private sector.

Joyful reading.

Dr Suresh Kannan
Chief Editor

VISION
Internal Audit professionals will be recognised as indispensable to effective governance, risk management and control.

MISSION
To provide dynamic leadership for the profession of internal auditing. Activities in support of this mission will include, but will not be limited to:
- Advocating and promoting the value internal audit professionals add to their organisations.
- Providing comprehensive professional educational, standards and other professional practice guidance, and certification programmes.
- Researching, disseminating, and promoting knowledge concerning internal auditing and its appropriate role in control, risk management, and governance to practitioners and stakeholders.
- Educating practitioners and other relevant audiences on best practices in internal auditing.
- Bringing together internal auditors from Malaysia and Asia to share information and experiences.

OBJECTIVES
1. To be the recognised voice for the internal audit profession;
2. To develop and sustain the internal audit profession in Malaysia through appropriate infrastructure, coordination, support and communication; and
3. To provide exceptional service to IIA Malaysia’s members.

MOTTO: “PROGRESS THROUGH SHARING”
The Institute maintains its motto “Progress Through Sharing” and share with our members information on new trends, latest internal audit techniques, regulatory and statutory requirements and the emerging issues affecting the profession.

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2016/2017
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Briefing Session

In an effort to assist CIA candidates to prepare for their exams, a Briefing Session was organised on 18 May 2016. The session highlighted the right exam techniques and study tips for the CIA exam and process flow of the programme. It was attended by 33 participants from various companies, among others are Bank of China, Danajamin Sdn Bhd, FELDA and PLUS.

A similar briefing session was held at Malaysian Industrial Development Finance Berhad (MIDF) on 26 May 2016 for their internal audit staff who are currently pursuing the CIA exam. Dr Zakiah Muhammaddun Mohamed conducted this session.
Career Talk For Universities

A series of presentation for institutions of higher learning took place in the months of April and May 2016. We visited Universiti Putra Malaysia on 7 April 2016 and hosted students from Universiti Teknologi MARA, Kampus Johor and Universiti Kebangsaan Malaysia on 19 and 27 May 2016 respectively.

During the talks, members of IIA Malaysia assisted with presentations on career as internal auditor, and shared the challenges and skills required to be an internal auditor. Students posed interesting questions to the speakers and gained greater understanding on the roles played by internal auditors and the positioning of internal audit function in an organisation.

CIA Briefing Session

The next session of CIA Briefing will be held on

- **Date**: 8th August 2016
- **Time**: 2.00 pm – 5.00 pm
- **Venue**: IIA Malaysia

Please contact Syafiqah/Arafah at 03 21818008 ext. 218/221 or email at certification@iiam.com.my if you wish to attend the session.
# WELCOME
New Members from Mar - May 2016

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- Lee Hoy Yen
- Tengku Muzafar Kamal Tengku Mahmood
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- Khairil Azri Zainal Abidin
- Khairul Nizam Ghazali
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- Nazaruddin Jonit
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- Choung Kooi Mee
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- Paul Gan
- Kao Lay Min
- Kalvinder Kaur
- Kew Kian Boon
- Kok Pei Wen
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- Kuan Sheat Siew
- Lim Chi Huey
- Lew Choo Hong
- Lean Low
- Rusnah Muhammad
- Ng May Yeng
- Ooi Wan Rou
- Ng Pui Pui
- Mohamna Ramasamy
- San Mei Kim
- Seng Mei Chen
- Kiran Seth
- SlawYen Jak
- Sim Siew Han
- Soh Pei Wen
- Hawaby Sultan Muhamad
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# Renew Your Membership!

**Have you renewed your membership for 2016?**

To ensure uninterrupted services and benefits from IIA Malaysia, do not forget to renew your membership with the Institute.

**4 easy ways to renew your membership:**
- Cheque or bank draft made payable to: **THE INSTITUTE OF INTERNAL AUDITORS MALAYSIA**
- Direct bank-in / Online transfer to the Malaysian Banking account no: 5144 0450 1825  
  (please fax the bank-in slip to 603-2181 1777 with your name and telephone number written on it or scan and email to membership@iiam.com.my)
- Credit Card (please obtain the authorisation form from the Secretariat)
- Online Banking:  
  (please fax a copy of your online transaction with your name and telephone number written on it or scan and email to membership@iiam.com.my)

**For enquiry, please contact membership department at 03-2181 8008 Ext 215/216 or e-mail to membership@iiam.com.my.**

Rejoining fee of RM100 will be charged to members who failed to renew their membership in 2016

**Note:** All fees are subject to 6% GST
Congratulation

2016 Membership Drive Campaign Result

The Membership Drive Campaign ended on 31 May 2016 and IIA Malaysia would like to thank the following members for participating in the Campaign:

<table>
<thead>
<tr>
<th>No</th>
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<td>Guru Prakash Prasanna</td>
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We need your contributions!

Members with writing talent, here’s the opportunity to share your thoughts with your friends in the internal audit fraternity. The Editorial Board welcomes contributions from members. We accept articles, short stories, jokes, tips, etc.

We encourage submission of fraud findings and audit stories that reflect the new age of internal auditing – those that emphasise best practices, use of technology and value-added results. If your article is published, you will be awarded a token from IIA Malaysia.

Advertise With Us

Employment advertisement space is available in our website for members who are interested in advertising internal audit job opportunities with a minimal cost. You will be able to reach out to target audience from a wide range of sectors including banking, insurance, manufacturing, services, educational, constructions and many more.

Please contact the Membership department at 03-2181 8008 Ext 217 or email to siti@iiaam.com.my if you are interested in advertising in the website.
Changing Needs for Compliance Auditing Improving Techniques Skills and Reporting Style

This workshop was conducted by Steven Yee on 18-19 April 2016. The session held in Concorde Hotel Kuala Lumpur was attended by 21 participants. This 2-day session had enabled the participants to understand the common and emerging auditing approach to conduct compliance audit. This session also stressed on the need of auditors to devise new approaches to research issues effectively and to understand how to apply the knowledge gained to the circumstances being tested in order to explain to the organisation what compliance means in today’s operation. IIA Malaysia will organise 1 more similar session on 24-25 October 2016 in Kuala Lumpur.

Document Review and Data Analysis in Audit and Investigation

The two-day workshop was one of the new topics introduced by IIA Malaysia and it was held at Concorde Hotel, Kuala Lumpur on 9-10 May 2016. The workshop was successfully conducted by Kent Hoh and attended by 20 participants. This session mainly focused on two areas:

1. Document Review - An effective document is essential as it propels auditors to dig further and discover the true meaning of a signature, a piece of agreement, delivery order, expense form, invoice, board resolution, and others. This session has equipped the participants with the relevant document review skills to uncover true audit finding and fraud.

2. Data Analysis – As there is an intensive use of integrated systems that stored large financial and non-financial databases, audit and investigative review can hardly be conducted without a proper data and digital analysis. Valuable evidence may be staring in the face of auditor and not be picked up if he or she does not know how to mine and connect seemingly unrelated data to make sense out of it. Knowing the significance of the data analysis, this session has exposed the participants to various data analysis techniques, tools and templates in the conduct of audit or investigation.

Overall this workshop had enabled the participants to perform detailed and effective document review and data analysis for targeted audit test/scenario.

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ACI Australia, IIA China, IIA Hong Kong China, IIA India, IIA Indonesia, IIA Japan, IIA Korea, IIA New Zealand, IIA Papua New Guinea, IIA Philippines, IIA Singapore, IIA Sri Lanka, IIA Chinese Taiwan, IIA Fiji, IIA Thailand and IIA Malaysia. IIA Malaysia is the secretariat for ACIIA.

The two-day forum with the theme “Navigating Unchartered Frontiers” emphasised the need for CAEs to explore the potential of moving beyond both hindsight and insight, as well as positioning themselves to provide foresight. This is essential for CAEs to contemplate key risks and challenges that organisations could conceivably face. Enick Isham Bhat, the Deputy Secretary General (Trade) represented the Minister of International Trade and Industry Malaysia, Dato’ Sri Mustapa Mohamed, at the Forum to deliver his special keynote address to over 100 participants from private and public sector organisations throughout Asia Pacific Region.

In his welcome address, the President of IIA Malaysia, Dato’ Shaburuddin Ibrahim said, “High profile governance failures have changed the face of governance and as risks are becoming more dynamic and complex, stakeholders are turning to internal audit to apply their competency to the organisation to the emerging risk it faces. As pressures on Board and Audit Committee members grow, it creates new demands on the Chief Audit Executive.”

2016 ASIAN CONFEDERATION OF INSTITUTES OF INTERNAL AUDITORS (ACIIA) CAE LEADERSHIP FORUM

Chief Audit Executives (CAE) urged to step up to meet the constantly evolving demands in order to stay relevant and value add to organisations

He also added, “As the leaders of the internal audit function and with the expanding role of the Chief Audit Executive, you are required to acquire and augment certain soft skills in addition to the technical audit skills that are needed to perform the traditional CAE role. Internal audit’s success depends on the direction provided by its CAE and the organisation’s management team.”

During her speech at the opening ceremony, the President of ACIIA, Helen T. De Guzman said, “The role of the CAE has become more crucial and even more challenging in the business environment today. Business technology has revolutionized the way companies conduct business. For newer and less familiar aspects of auditing, such as operational risk and technological vulnerabilities, we will need to engage our capacities for discernment, creativity, astute analysis, determination and perseverance.”

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*For years, the Institute of Internal Auditors has been responsive to

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Key speakers at the conference included Tan Sri Dato’ Selia Haji Ambrin Buang, Auditor General of Malaysia; Chandran Nair, Founder and Chief Executive of Global Institute for Tomorrow; Nadathur Murak Narasimhan, Head of GRCO Governance and Risk Analytics of CBM Group; Masahiro Mori, Executive Corporate Officer, Chief Internal Auditor, AIG Japan Holdings; Phil Farling, Vice President of Internal Audit Centre of Excellence, Huawei Technologies Co Ltd; and many other speakers who shared new perspectives and trends in internal auditing.
Effective Report Writing for Audit and Investigation

This workshop was also conducted by Kent Hoh and attended by 21 participants. It was organised at Concorde Hotel, Kuala Lumpur on 11-12 May 2016. This 2-day session enabled the participants to understand the overall concept of effective writing skill for audit report and investigative report.

Writing a factual and legally acceptable investigative report and a quality audit report have always been a challenging task for many first-time auditors. Various legal implications and higher requirement writing skills are being called for in investigation/audit report. Hence, the session focused in facilitating the participants to write investigative report that is factual, relevant and logical. Additionally, the session also assisted the participants on structuring the audit report in a systematic, clear and persuasive manner.

Basic IT for Non-IT Auditors

The two-day workshop was conducted by Professor Frank Yam at Concorde Hotel on 7-8 June and was attended by 22 participants. This workshop provides some fundamentals about IT environment, its concepts, terminologies, and jargons that allow the non-IT auditors to speak the same IT language when dealing with the IT people. Participants were also provided with some IT audit techniques that they can use during fieldwork. A mix of presentation, group discussion, the concepts practical exercises and case studies of real life experiences took place in order to help the participants to understand better. IIA Malaysia will organise 1 more similar session on 7-8 November 2016 in Kuala Lumpur.
Securing an IT Organisation through Governance, Risk Management, and Audit

By: Ken Sigler, Dr. James L. Rainey, III
Publication date: January 2016

The book introduces two internationally recognised bodies of knowledge: Control Objectives for Information and Related Technology (COBIT 5) from a cybersecurity perspective and the NIST Framework for Improving Critical Infrastructure Cybersecurity (CSF). Emphasising the processes directly related to governance, risk management, and audit, the book provides details of a cybersecurity framework (CSF), mapping each of the CSF steps and activities to the methods defined in COBIT 5. This method leverages operational risk understanding in a business context, allowing the information and communications technology (ICT) organisation to convert high-level enterprise goals into manageable, specific goals rather than unintegrated checklist models.

The real value of this methodology is to reduce the knowledge fog that frequently engulfs senior business management, and results in the false conclusion that overseeing security controls for information systems is not a leadership role or responsibility but a technical management task. By carefully reading, implementing, and practicing the techniques and methodologies outlined in this book, you can successfully implement a plan that increases security and lowers risk for you and your organisation.

Features

- Introduces COBIT 5 methods from a cybersecurity perspective
- Provides details of the cybersecurity framework (CSF) with emphasis on the processes directly related to governance, risk management, and audit
- Maps each of the CSF steps and activities to the methods defined in COBIT 5 which results in an extension of the CSF objectives with practical and measurable activities
- Leverages operational risk understanding in a business context, allowing readers to be proactive and competitive
- Conveys value to the ICT organisation’s stakeholders, converting high-level enterprise goals into manageable, specific goals rather than unintegrated checklist models

To obtain the order form and for further information, please contact Adiha at 603-2181 8008 Ext. 220 or email adiha@iiam.com.my
Analytics in a Big Data World: The Essential Guide to Data Science and its Applications

Year of Publication: 2014

By leveraging big data & analytics, businesses can create the potential to better understand, manage, and strategically exploiting the complex dynamics of customer behaviour. This book reveals how to tap into the powerful tool of data analytics to create a strategic advantage and identify new business opportunities. It focuses on analytics techniques that really provide added value in business environments.

The book draws on the author's expertise on the topics of big data, analytics and its applications in e.g. credit risk, marketing, and fraud to provide a clear roadmap for organisations that want to use data analytics to their advantage, but need a good starting point.

Executive Roadmap to Fraud Prevention and Internal Control: Creating a Culture of Compliance

Year of Publication: 2012

This book helps corporate executives and managers understand the full ramifications of good corporate governance and compliance. It covers best practices for establishing a unit to protect the financial integrity of a business; theories and models on how and why fraud occurs in an organisation; importance of strong internal controls; major compliance and corporate governance initiatives and milestones since 1985; and more.

Complete coverage includes implementation guidance for a robust fraud prevention and compliance program, including sample policies, best practice examples, and a 14-point management anti-fraud program.

Fraud Analytics: Strategies and Methods for Detection and Prevention

Year of Publication: 2013

This book thoroughly reveals the elements of analysis that are used in today's fraud examinations, fraud investigations, and financial crime investigations. It reviews the types of analysis that should be considered prior to beginning an investigation and explains how to optimally use data mining techniques to detect fraud. Packed with examples and sample cases illustrating pertinent concepts in practice, this book also explores the two major data analytics providers: ACL and IDEA.
This book provides complete guidance on the latest framework established by the Committee of Sponsoring Organisations (COSO). With clear explanations and expert advice on implementation, this guide shows auditors and accounting managers how to document and test internal controls over financial reporting with detailed sections covering each element of the framework. Each section highlights the latest changes and new points of emphasis, with explicit definitions of internal controls and how they should be assessed and tested. The new framework identifies seventeen new principles, each of which are explained in detail to help readers understand the new and emerging best practices for efficiency and effectiveness.

Lean Auditing is a practical guide to maximising value and efficiency in internal audit through the application of lean techniques. It is an ideal book for anyone interested in understanding what progressive, value-adding audit can be like. It is also ideal for anyone wondering whether audit activities can be streamlined or better co-ordinated with other activities. The book contains practical advice from the author’s experience as CAE of AstraZeneca PLC. It combines expert instruction and actionable advice that helps Internal Auditors to streamline the workflow using Lean techniques.

People-Centric Skills is a comprehensive guide to the "soft skills" that make technical professionals more effective. It aims to improve all aspects of personal interactions, relationship development, and communication. These skills are as essential to success as are technical capabilities. The book demonstrates the impact that interpersonal and communication skills — whether good or bad — have on an auditor’s effectiveness, job, and career. Readers will be able to empathise with the characters, and relate to the real-life situations in which they find themselves. Each chapter features a summary of key People-Centric points and guidelines that will help readers apply what they have learned.

To obtain the order form and for further information, please contact Adiha at 603-2181 8008 Ext. 220 or email adiha@iiam.com.my
ASSESSMENT ON INTERNAL AUDIT CAPABILITY LEVEL IN A PUBLIC SECTOR ORGANISATION

Hasnah Haron & Ishak Ismail
Faculty of Industrial Management
Universiti Malaysia Pahang

Yuvaraj Ganesan, Fathyah Hashim & Aileen Mak Siew Fern
Graduate School of Business, University Science Malaysia,
Penang, Malaysia

1.0 INTRODUCTION
The Institute of Internal Auditor (IIA) states that the internal auditing plays an independent, objective assurance and consulting role. They are intended to add value by playing its auditing role in assisting the public sector to achieve their objectives efficiently, effectively, economically and ethically (4Es) (IIA, 2015, p. 5).

The Internal Audit Capability Model (IA-CM)
In 2009, the Institute of Internal Auditors Research Foundation released an evaluation model, namely the Internal Audit Capability Model (IA-CM) to assist the assessment of internal auditor of the public sector performances in a systematic way (The IIA Research Foundation, 2009, pp. 5-7). The IA-CM draws a framework that identifies the basic need for an effective internal auditing in the public sector.

The IACM framework is used to identify the basic needs for an effective internal auditing in the public sector. It helps guide the establishment of IA step by step in progressing from level of internal auditing typical of a less established organisation to a strong, effective, internal audit capability that are generally associated with a more mature and complex organisation. The improvements of KPAs at each level provides strong foundation to progress to the next capability level and known as the building block approach. There are a total of 5 progressive capability level from Initial (Level 1), Infrastructure (Level 2), Integrated (Level 3), Managed (Level 4), and highest capability level Optimizing (Level 5), referencing to Figure 1.

There are six important elements to assess the IA activities and each element has its Key Process Areas (KPAs) and all KPAs, up to and including the KPAs at a given level must be mastered and institutionalised to achieve that level. The elements and their KPAs are as shown in Figure 2.

Exhibit 1.1
IA-CM Levels

LEVEL 1 Initial
No sustainable, repeatable capabilities—dependent upon individual efforts

LEVEL 2 Infrastructure
Sustainable and repeatable IA practices and procedures

LEVEL 3 Integrated
IA management and professional practices uniformly applied

LEVEL 4 Managed
IA integrates information from across the organization to improve governance and risk management

LEVEL 5 Optimizing
IA learning from inside and outside the organization for continuous improvement

Figure 1: IACM Model Capability Levels
Source: The IIA Research Foundation, 2009

1 The authors would like to thank National Audit Department, Institute Integrity Malaysia, National Audit Penang, Ministry of Finance, Prime Minister Department and the Head of the Internal Audit of the Public Sector who has participated in this study.
Exhibit 1.5
Internal Audit Capability Model Matrix

<table>
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<tr>
<th>LEVEL 5</th>
<th>Optimizing</th>
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<tr>
<td>Role of IA</td>
<td>Recognized as Key Agent of Change</td>
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<tr>
<td>People Management</td>
<td>Leadership Reinforcement with Professional Bodies Workforce Planning</td>
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<tr>
<td>Professional Practices</td>
<td>Continuous Improvement in Professional Practices Strategic PKP Planning</td>
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<tr>
<td>Performance Management and Accountability</td>
<td>Public Reporting of IA Effectiveness</td>
</tr>
<tr>
<td>Organizational Relationships and Culture</td>
<td>Effective and Ongoing Relationships</td>
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<tr>
<td>Governance Structures</td>
<td>Independence, Power, and Authority of the IA Activity</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>LEVEL 4</th>
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</thead>
<tbody>
<tr>
<td>Risk Management and Control</td>
<td>Integrated Assurance on Governance, Risk Management, and Control</td>
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<tr>
<td>People Management</td>
<td>RisKS Contributed to Management Development</td>
</tr>
<tr>
<td>Professional Practices</td>
<td>Audit Strategy/Strategies</td>
</tr>
<tr>
<td>Performance Management and Accountability</td>
<td>Integration of Qualitative and Quantitative Performance Measures</td>
</tr>
<tr>
<td>Organizational Relationships and Culture</td>
<td>CEO Advisor and Influence Top-down Management</td>
</tr>
<tr>
<td>Governance Structures</td>
<td>Independent Oversight of the IA Activity</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LEVEL 3</th>
<th>Integrated</th>
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</thead>
<tbody>
<tr>
<td>Advisory Services</td>
<td>Advisory Services Performance/ Value-Added Audits</td>
</tr>
<tr>
<td>People Management</td>
<td>Team Building and Competency Development Professional Quality Staff Workforce Coordination</td>
</tr>
<tr>
<td>Professional Practices</td>
<td>Quality Management Framework Risk-based Audit Plans</td>
</tr>
<tr>
<td>Performance Management and Accountability</td>
<td>Performance Measures Cost Information IA Management Reports</td>
</tr>
<tr>
<td>Organizational Relationships and Culture</td>
<td>Coordination with Other Review Groups Integrated Component of Management Team</td>
</tr>
<tr>
<td>Governance Structures</td>
<td>Management Oversight of the IA Activity Funding Mechanisms</td>
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</table>

<table>
<thead>
<tr>
<th>LEVEL 2</th>
<th>Infrastructure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance Audit</td>
<td>Compliance Auditing</td>
</tr>
<tr>
<td>People Management</td>
<td>Individual Professional Development Skills of People Identified and Resourced</td>
</tr>
<tr>
<td>Performance Management and Accountability</td>
<td>IA Operating Budget IA Business Plan</td>
</tr>
<tr>
<td>Organizational Relationships and Culture</td>
<td>Managing within the IA Activity</td>
</tr>
<tr>
<td>Governance Structures</td>
<td>Full Access to the Organization’s Information Assets, and People Reporting Relationships Established</td>
</tr>
</tbody>
</table>

Figure 2: IACM Model Six Elements and their Key Process Areas
Source: The IIA Research Foundation, 2009

2.0 RESEARCH METHODOLOGY
An IACM checklist was developed and translated based on the IACM KPA’s to use as the main analysis tool in order to conduct the in-depth understanding of the capability level at the Public Sector B. It will assess the capability level for each of the six dimensions outlined in the IACM model and gives an overall capability level of the Public Sector based on building-block rule. The outcome of the evaluation will summarize the overall capability level which is reflected from each dimension.

3.0 FINDINGS
The Public Sector’s Internal Audit Department IACM evaluation concluded at an overall capability level 2 (Infrastructure). At Level 2, the IA department will have major opportunities to improve the effectiveness of the IA activity, and as such it only partially complies to the Standards (The IIA Research Foundation, 2009, p. 43). From the evaluation, the IA department shows significant capabilities for two dimensions. First is the Services and Role of IA dimension, achieving a capability level 5 and second dimension is the Organizational Relationships and Culture with a capability level 4. It needs improvements in Dimension 2, People Management; Dimension 3, Professional Practices, Dimension 6, Governance Structures and also Dimension 4, Performance and Accountability. Figure 3 shows the detailed analysis of each dimension.

4.0 RECOMMENDATIONS AND CONCLUSIONS
The outcome of one sample of public sector’s evaluation using the IACM checklist shows that there is still much to explore to bring the capability level up to 5 (Optimizing). As the IACM uses the building-block methodology, the IA unit can easily analyze and choose the weak KPAs to focus in order to proceed to the next capability level. For example, the sampled Public Sector IA unit’s is able to know instantly that it has established a matured level for services and role of IA element as well as the organizational relationships and culture element. Hence, more focus should be placed on other elements which are the people management, professional practices, performance management and accountability, and the governance structure. Among which, the element of people management score the lowest KPAs achievement percentage. In order to progress for this element, the sampled Public Sector IA unit is required to look into the next KPA which is developing a performance matrix system to track and measure the IA’s activity effectiveness. Accomplishment of this KPA will help progress this element to level 3. The progress and development using the IACM guide helps the IA function creates a competitive platform for the Internal Auditors to attain more knowledge, be it internally (IA professional practices) or externally (company and industry issues and trends). It will create awareness to all IA functions in the public sector that the profession of the Internal Auditors is highly essential to assist the public sector towards good governance.

This study is a study on one sample study thus the findings is not generalisable to all public sector. It does demonstrate however the use of IACM as roadmap towards the improvements of the effectiveness of public sector’s internal audit function.
The Crime Triangle has been used for decades by criminologists to explain crime and its prevention from the perspective of the environment where the crime took place. In the previous issue of KIT, the Crime Triangle was introduced as a tool that internal auditors can use to assess internal controls. In this article, a more complex version of the Crime Triangle is applied to corporate governance. In this version of the Crime Triangle, a third triangle engulfs the Basic and Intermediate Crime Triangles. The three parties represented by the third triangle are the super controllers whose role is to oversee the Handler, Guardian and Manager. A super controller can oversee more than one of these parties at a time.

The following scenarios explain the application of the Crime Triangle with super controllers. In the first two scenarios, the super controllers are management and the board and its governing bodies. In the final two scenarios, regulators are included as super controllers because in these scenarios the perpetrators are management and members of the board and its governing bodies. Fraud perpetrated by management and the members of the board and its governing bodies are more difficult to prevent and/or detect because the perpetrators are key parties in the organisation’s corporate governance framework. By virtue of their position they have the capability to perpetrate the fraud and override controls (Wolfe and Hermanson 2004). Management has the capability to disguise or conceal asset misappropriations. Internal controls can be circumvented especially when members of the board and its governing bodies collude with management to perpetrate the fraud. Therefore, it can be difficult to prevent such fraud from occurring. However, the Crime Triangle can be used to highlight corporate governance weaknesses.

Scenario 1: External perpetrator
External perpetrators (offenders) can take advantage of poor or weak internal controls (guardian) to steal an organisation’s assets (target) from the organisation (place) (see Figure 2). For example, an external perpetrator can steal cash (target) from a cash register when there are poor access controls such as a cash register that is left unattended by the cashier (guardian). Alternatively, an external perpetrator can steal credit card information (target) from a server that has poor security controls (guardian). In both examples, poor or weak internal controls have allowed the external perpetrator to steal assets (e.g. cash, data) from the organisation.

Figure 1 The Crime Triangle with Super Controllers
Figure 2 Fraud by external perpetrators
The handler for the external perpetrator depends on the identity of the external perpetrator. For example, the external perpetrator is a disgruntled former employee who was recently terminated. This terminated employee attempts to steal company data (target) by gaining access to the organisation’s database. The terminated employee’s former immediate supervisor is the handler and the human resource department manager is the super controller of the perpetrator.

The human resource department manager or the immediate supervisor (depending on the organisation’s termination policies) should inform the super controller of the guardian of the target about this termination to prevent this crime event. In this case, the relevant super controller of the target is the information technology department manager. The guardian of the data is the virtual access controls.

The Crime Triangle can highlight the roles that relevant parties did not play, thus resulting in the crime taking place. In the case of the terminated employee, the crime event can occur with either: (1) the failure of the terminated employee’s former supervisor (assuming that this is the responsible party) to inform the information technology department manager of the termination; and/or (2) the failure of the information technology department manager in updating virtual access controls to prevent the terminated employee from accessing the data.

**Scenario 2: Employee fraud**

When a current employee perpetrates fraud, the place where the crime takes place is the organisation and the target would be the organisation’s assets (see Figure 3). For example, the warehouse clerk (offender) steals inventory (target) from the warehouse (place). The warehouse supervisor is the handler for the warehouse clerk. The warehouse manager is the super controller for both the perpetrator and the assets.

![Figure 3 Employee fraud](image)

**Figure 3 Employee fraud**

The fraud can occur if either: (1) the warehouse supervisor (handler) failed to exercise adequate supervision over the warehouse clerk (offender); (2) the internal controls (guardian) were not sufficient or failed; or (3) the corporate governance structure (manager) failed.

**Scenario 3: Fraud by management**

The internal control system is the guardian of the assets and the Chief Executive Officer would normally be the super controller for the assets. However, if the Chief Executive Officer is the perpetrator, the board and its governing bodies would have to step into the role of super controller of the assets (see Figure 4). If management overrides internal controls, the internal controls are no longer effective as guardians of the organisation’s assets. In such cases, the audit committee may require the internal audit function to evaluate if there is a suspicion of fraud. In the event that there is a suspicion of fraud, external parties such as forensic accountants or fraud investigators can be engaged to investigate the fraud event.

Where the perpetrator is a member of the management team, the Chief Executive Officer would be the relevant handler and the board and its governing bodies would be the super controller of the perpetrator. If the Chief Executive Officer is the offender, the board and its governing bodies such as the audit committee are the relevant handlers. The super controller of the perpetrator could be the board or regulators in cases where there has been a violation of laws and regulations.

![Figure 4 Fraud by management](image)

For example, the finance manager (offender) records the purchase of a laptop computer (target) as an expense instead of a fixed asset with the purpose of taking the laptop computer home for personal use. The transaction cycle begins with the finance manager making a requisition for the purchase of a laptop computer. The purchasing manager purchases the asset based on the approval by the relevant party as per the organisation’s policies and procedures. The receiving department receives the asset and delivers it to the finance manager who then proceeds to record the purchase of the laptop computer as an expense.

When the Crime Triangle is applied to this case, the relevant handler is the Chief Executive Officer and the board and its governing bodies is the super controller of the perpetrator. The Chief Executive Officer can engage the internal audit function to verify the existence of the laptop computer by comparing the records of the purchasing department and...
records of the purchasing department and the finance department. The relevant records are the fixed asset approval form and list of fixed assets purchased. When the discrepancy is identified in the documents, the internal auditor can look for physical evidence of the asset’s existence in the finance department. If the finance manager removed the asset from the organisation for use at home, the laptop computer will not found in the finance department and cannot be accounted for by finance department staff and the finance manager.

**Scenario 4: Fraud by the board and governing bodies**

If the fraud is perpetrated by a member of the board other than the Chairman, the Chairman of the board would be the relevant handler (see Figure 5). If there was a violation of laws and regulations the super controller of the perpetrator would be the relevant regulator. Regulators such as the securities commission and stock exchange can investigate and prosecute members of the board, its governing bodies, and management who commit fraud.

The internal control system is the guardian of the assets and management would be the super controller of the assets. If a member of the board and its governing bodies circumvent controls, internal controls are no longer effective as guardians of the organisation’s assets. In such cases, the management or audit committee may require the internal audit function to evaluate if there is a suspicion of fraud. In the event that there is a suspicion of fraud, external parties such as forensic accountants or fraud investigators can be engaged to investigate the fraud. The Chairman of the Board, the board as a whole, or a governing body is the super controller of the place.

**Figure 5 Fraud by members of the board and its governing bodies**

The Crime Triangle’s application to internal controls and corporate governance in these articles are limited to asset misappropriations and fraud where there has been no collusion. The aim of these articles is to introduce an additional tool for the internal auditor that can be used on its own or alongside other tools to prevent, detect, and/or respond to past fraud incidences.

**Reference**

Tea Talk Sessions

IIA Malaysia held two tea talk sessions on governance, risk and control topics for its members in May and June 2016. These series of talks are aimed at raising members’ technical awareness and to focus on the International Professional Practices Framework (IPPF), which is the authoritative guidance for internal audit professionals. The talks were presented by members of the Research and Technical Advisory Committee, who took time away from their busy schedules, to present topics of interest to the members.

16 May 2016: Reporting and Communicating Audit Results

Speaker: Zalily Mohd. Zaman Khan
(Member of the Research and Technical Advisory Committee, IIA Malaysia)

The speaker covered Standard 2400 - Communicating Results and the related Practice Advisories (PA) in detail during the talk. Among the PAs discussed were Communication Criteria, Quality of Communications, Disseminating Results, Communicating Sensitive Information Within and Outside the Chain of Command and Communication Outside the Organisation. The speaker explained the contents of the report as recommended by the PA (objectives, scope and applicable conclusions, recommendations and action plans) and the key qualities of reporting (accurate, objective, clear, concise, constructive, complete and timely).

Participants were able to see different report formats (narrative and tabular) and the speaker provided some practical points on effectively presenting results to the Audit Committee. As a Chief Audit Executive, the speaker also shared her experience in communicating audit results with the auditee, starting from the fieldwork until the issuance of the final report. The speaker ended the presentation with examples of parties outside the organisation where communication may be required.
The scope of this talk was on Standard 1000 - Purpose, Authority and Responsibility, Standard 2020 - Communication and Approval and Standard 2030 - Resource Management. The speaker started by defining the purpose of an Internal Audit Charter, information that needs to be included in it, as recommended by the Implementation Guide IG1000 Purpose, Authority and Responsibility. The speaker also stressed the importance of an Internal Audit Charter and creating awareness of this document among the employees of the organisation. Responding to a participant’s enquiry if the internal audit function was outsourced, the speaker explained that the Internal Audit Charter is necessary even though the internal audit function was outsourced.

The speaker went on to cover the areas requiring communication and approval in the Internal Audit function, such as the annual audit plan, work schedule, staffing plan and financial budget. In terms of managing resources, the speaker spoke at length on the considerations for deploying resources and ensuring an effective Internal Audit Department. The other areas covered were on assessing skills, resource planning, staff development and evaluation. The talk concluded with the speaker highlighting the critical skills of internal audit staff as reported by studies conducted in the recent years.
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<th>Date</th>
<th>Location</th>
<th>Course Title</th>
<th>Agenda</th>
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<td>KL23</td>
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<td>Risk Management Assurance</td>
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* For further information call us today at +603-2181 8008 or email us at training@iiam.com.my.
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