



The Institute of
Internal Auditors
Malaysia

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Keeping

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An exclusive publication for Members of The Institute of Internal Auditors Malaysia

Reaching Out To Future Internal Auditors



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Editor says



A year had passed with such fast pace and at the blink of the eye, 2014 is here.

According to Chinese astrology, 2013 is the year of the snake and 2014 is the year of the horse, more precisely the wood horse. The ancient Chinese believe that the year of the horse is riddled with fast paced events with a high degree of risk taking.

It is also thought to be a year with lots of travels. Thus, for auditors who have been travelling a lot in 2013, you may travel more this year. For those who had not travelled much last year, maybe a promotion or a change of job may be in the way with a lot of travelling bundled in the new position or job.

The horse is said to be free spirited, wild that acts fast, spontaneously and never loses its way. Maybe, this is a good year to consider sitting for the CIA examination for those who have yet to get this prestigious and highly acclaimed qualification for internal auditors.

Planning for self-development plan is a key impetus for career advancement and those who are not aware, the CIA examination had changed from the four-part examination structure to a three-part examination structure beginning July, 2013. If you believe in luck and right timing, the year of the horse is the right time to re-consider your aspiration in being a certified internal auditor as the horse year is regarded with full of quick victories in one's endeavours. Passing the CIA examinations opens the door to career advancement.

Happy reading and 'Gong Xi Fa Cai' greetings to our Chinese readers.

Dr Suresh Kannan
Chief Editor

VISION

To be the national voice of the internal audit profession: Advocating its value, promoting best practices, and providing exceptional service to its members.

MISSION

To provide dynamic leadership for the global profession of internal auditing. Activities in support of this mission will include:

- Advocating and promoting the value that internal audit professionals add to their organisations;
- Providing comprehensive professional educational and development opportunities; standards and other professional practice guidance; and certification programmes;
- Researching, disseminating, and promoting to practitioners and stakeholders knowledge concerning internal auditing and its appropriate role in control, risk management, and governance;
- Educating practitioners and other relevant audiences on best practices in internal auditing; and
- Bringing together internal auditors 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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THE INSTITUTE OF INTERNAL AUDITORS MALAYSIA
160-3-3 Kompleks Maluri, Jalan Jejaka,
Taman Maluri, 55100 Kuala Lumpur, Malaysia.
Tel: (603) 9282 1148 Fax: (603) 9282 1241
E-mail: ijdm@po.jaring.my Website: www.iiam.com.my

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Career Talks

IIA Malaysia conducted a series of career talks to few universities during the last quarter of 2013. The talks were carried out as part of our advocacy effort and to reach out to potential internal auditors of the future.

We visited Universiti Teknologi MARA (UITM) Cawangan Johor in Segamat Campus on 16 November and 14 December, and Universiti Kebangsaan Malaysia (UKM) on 20 November. We also hosted a group of students from Universiti Malaya (UM) on 6 December 2013.

During the talks, members of IIA Malaysia assisted with presentations on career as internal auditor, risk management and real life experience of an internal auditor.

The talks provided the students with greater understanding on the roles played by internal auditors, the positioning of internal audit function in an organisation and many other aspects of internal audit profession.



New Registration Fee Package for CIA

Effective January 2014, candidates now have an option to choose between CIA Learning System published by Holmes Corporation or CIA Review System published by Gleim Publications upon enrolment into the CIA programme. The registration fee which includes the study materials, remains at RM3,000.

For more information, please contact the Certification Department at
03 9282 1148 ext 115 or email certification@iiam.com.my



THE IIA'S CIA LEARNING SYSTEM™



PREPARE TO PASS THE 3-PART CIA EXAM

Top 10 CIA® Exam Study Tips

1. Know your learning style: You will learn faster and retain more if you choose a study method that suits your learning style.
 - Self-Study: If you're a self-motivated and visual learner, The IIA's CIA Learning System self-study course is a great choice! Read the printed study materials or download the e-book files to your mobile device. Create a color-coded system of highlighting and flagging topics and take notes in the margins. After reading a chapter, go online and complete the chapter quiz. Be sure to utilize the online flashcards or print them out and carry them with you for a quick refresher.
 - Facilitator-led Courses: If you're a tactile learner who struggles with motivation, join a facilitator-led class. Discussion with your instructor and peers will keep you engaged and allow you to clarify difficult topics. Find a class near you.
2. Understand how much time you need to commit to your studies. Find out how many hours per week you'll need to study based on your goals, experience and study preferences by creating your own customized CIA Review Plan. This planning tool is free to use as many times as you like on www.LearnCIA.com. For a more detailed plan, The IIA's CIA Learning System offers a SmartStudy™ tool that factors in pre-test scores to determine which topics need more focus.
3. Create a study project plan: Considering your work and personal schedules, identify how much time you have available each week to study. With this in mind, set target dates for your CIA exam and add required study times to your calendar. Take your commitment seriously and stick to your plan. This is an investment in yourself and will benefit you for your entire career.
4. Study the topics that need the most work. If your time is limited, focus your attention on topics that are weighted most heavily on the exam (i.e. "Proficiency" topics in the CIA exam syllabus) and on topics with which you have the least experience. To identify your weakest topic areas, complete The IIA's CIA Learning System online pre-test and review the topic report. Using these results, create a study plan with the SmartStudy™ tool.
5. Reinforce concepts tested at the "Awareness" level: There are a number of topics in the CIA exam syllabus that are tested at the "Awareness" level, which is a basic understanding of terminology and concepts. The IIA's CIA Learning System includes online and printable flashcards to help you review key terms and definitions.
6. Understand the CIA concepts and how to apply them. To pass the CIA exam, you must understand how to apply concepts. Memorization of books is not an effective preparation tactic. After studying and understanding concepts, apply that knowledge with practice test questions. If you get a question wrong, use the rationale provided to go back and understand why you were wrong and the reason for the correct answer. Ensure that you're getting 90% correct on practice quizzes before taking the CIA exam.
7. Approach the exam from a broad perspective. Your organization, department, or industry may have unique ways of handling certain audit procedures. The CIA exam is a global exam taken from a broad perspective. When studying and taking the exam, try to think of what would be appropriate for any internal auditor as opposed to what you would do in your job.
8. Budget your time and don't rush. Be prepared for how quickly you must complete the CIA exam. Plan to have approximately one minute per question. This will give you enough time to go back and review questions you have skipped or want to review. The test timing feature in The IIA's CIA Learning System will help you determine if you are on pace.
9. Be prepared for the test format: The exam is administered online by PearsonVUE. The exam software will track your time and allow you to flag questions for review. The CIA Practice Test in The IIA's CIA Learning System includes a CIA exam emulation to help you build confidence with the exam software and gives you an indication of whether you are on pace to complete the exam.
10. Commit to your studies and do the work. The CIA exam is not easy. If it were, everyone would pass on the first attempt and there would be little value associated with the certification. However, passing the exam on the first attempt is achievable if you take your studies seriously. Choose a comprehensive training program that teaches the entire global CIA exam syllabus and use all the tools that come with your training program. Read the books, apply what you've learned by completing online test questions, test your knowledge of terms with flashcards, and prepare for the computer-based exam with a CIA practice test.

Obtain Your CIA Through Sunway-TES CIA Programme

Most people would just talk about good governance and transparency, but 23-year-old Desmond Chang Kuok Lim decided he would walk the talk when he enrolled for the Certified Internal Auditor Programme (CIA) in 2009.

At the age of 20, he is the youngest Malaysian to have completed his CIA examination and graduated with the prestigious qualification from The Institute of Internal Auditors in February 2010. He graduated from Sunway-TES as an affiliate of the Association of Certified Accountants (ACCA).

Chang, who is currently Senior Internal Auditor with Sime Darby Berhad since 2010, said that the CIA offered a good foundation to build a career in the internal audit profession. "The CIA qualification appeals to existing or aspiring internal auditor/financial professional who appreciates a profession-focused credential which adds value to their existing degree, experience and skillset," he said.

He explained that the lecture sessions for the certification at Sunway-TES were relevant to current developments as lecturers appointed were closely affiliated with the Institute of Internal Auditors (IIA) and are practitioners who are holding or have held prominent positions in the profession.

An alumnus of Sunway-TES, Chang said he decided on the career path because he wanted something different from what most people have. "Everyone was like jumping into the bandwagon. They graduated with an ACCA, but I wanted a brighter career. Therefore, I chose CIA because, due to the nature of the work, it gives me an opportunity to build a good business acumen when one is involved in the daily operations of the business."

Chang, who is born and bred in Kuala Lumpur, explains that he owed the experience and knowledge gained thus far to the blessings and opportunities given by his family, friends, mentors and colleagues. "Managing expectations have always been a challenge but if done right, it will be the key to building a path to success which one should be proud of, whether in one's career, network or relationship," he said.

The lecturers at Sunway-TES have also been a great help. "They are people who have made a name for themselves in the industry itself," he said. "The classes are based on real-life situations."

Speaking about his career goals, Desmond envisioned that the ability to add value and be a team player is key. "With the external environment being increasingly dynamic, the dexterity to encourage continuous learning and flexibility in adopting the relevant skillsets become increasingly critical. I appreciate the exposure given in my current working environment to work with outstanding individuals and hope that I can aspire or be aspired to thrive for excellence in the profession," he added.

A former student of Mutiara International School, Chang believes that with his CIA, his future is bright. "With so much emphasis these days on good governance both in the government and the private sector, I believe the demand for internal auditors will also be there," he said. "However, I do not think I will be an internal auditor for my entire career. I hope to enter move upwards in the corporate ladder, maybe in the area of corporate finance, strategic planning or business development."

SOLE PROVIDER

In Malaysia, Sunway-TES is the exclusive sole provider appointed to run the CIA programme since October 2009. Its executive director, Teo Ee Sing said that the country is still experiencing a huge shortage for qualified internal auditors.

To further enhance the corporate governance, Bursa Malaysia has made it mandatory for public listed companies to set up an internal audit department. Internal auditors help in managing the failure of risk management and ensure that there is growing pressure on boards to demonstrate risk management oversight.

"We hope to boost the number of certified internal auditors in the country, which stood at 688 as at November 2013," he said. "Even if every public listed company were to hire one qualified internal auditor, there are still not enough certified auditors for over 1,000 companies listed in Bursa Malaysia."

To accommodate working individuals, the CIA Programme is offered on a part-time basis, where classes are held during weekends.

"With some working experience, enrolled students will benefit from the guided lectures, interactive classroom discussions, practice on model examination questions and ultimately, intensive revision classes in preparation for the final examination," he said, adding that Chang is a good example of someone who worked hard and qualified as a certified internal auditor.



The next intake for CIA programme will be in **March 2014** and is now open for registration.
For more information, please contact **Andrew Jong**, at andrewjong@sunway.edu.my or **03-7491 8622 Ext. 8039**.

Workshop on Auditor-in-Charge Tools and Techniques

IIA Malaysia organised a 4-day workshop on **Auditor-in-Charge Tools and Techniques** on 7-8 October 2013. The workshop was conducted by Mr Chua Chang Moo at Renaissance Hotel, Kuala Lumpur and attended by 17 participants. This interactive workshop stirred active participation in discussions and case studies among participants. The workshop covered the organisational, time management and problem solving skills necessary to manage a successful team.

Workshop on Audit Management and Monitoring of Construction “Projects”

Brought back by popular demand, a two-day workshop on **Audit Management and Monitoring of Construction “Projects”** was organised on 9-10 October 2013. The session attended by 20 participants at Concorde Hotel, Kuala Lumpur. The workshop was conducted by Gursharan Singh and tailored for audit professionals where it highlighted the importance of the need to be aware of the weaknesses and shortcomings that exist in the construction industry.

Risk Based Auditing and Reporting Workshop

IIA Malaysia organised a two-day workshop on **Risk Based Auditing and Reporting Workshop** on 28-29 October 2013 to 20 participants at Concorde Hotel, Kuala Lumpur. The workshop was conducted by James Roth. He is one of the speakers from the 2013 International Speaker Series. Participants gained an understanding on audit process used increasingly by world class audit departments, practice the key skills used in this process and take home proven evaluation tools used in this process.



Workshop on Audit Manager Tools and Techniques

A four-day workshop on **Audit Manager Tools and Techniques** took place on 11-14 November 2013. The session attended by 11 participants at Concorde Hotel, Kuala Lumpur. The workshop was conducted by Monnie Goh. This workshop focused on providing new managers with the tools they need to lead effectively in an internal auditing environment. Through practical exercises and case studies, participants learned how to manage the roles and relationships of the diverse parties involved in the auditing process.

Financial Auditing for Internal Auditors Workshop

IIA Malaysia organised a workshop on **Financial Auditing for Internal Auditors** on 12-13 November 2013 to 14 participants at Renaissance Hotel, Kuala Lumpur. The workshop was conducted by Lee Chew Foong for internal auditors and managers who wanted to understand and expand their roles related to financial reporting, as well those who simply needed a “refresher” programme on financial accounting concepts.

Workshop on Value Added Business Controls: The Right Way to Manage Risk

IIA Malaysia coordinated a workshop on **Value Added Business Controls: The Right Way to Manage Risk** on 13-14 November 2013 to 10 participants at Hotel Istana, Kuala Lumpur. The workshop was conducted by Lee Fook Sun for internal auditors and managers who wanted to gain a basic understanding of internal controls and learn how to identify needed controls based on business objectives and risks. This workshop provided staff and senior auditors, as well as non-auditors the skills to use controls to detect and prevent fraud, design cost-effective control systems, identify “hard” and “soft” controls, and analyse existing control systems.

Leadership Skills for Auditors Workshop

A workshop on **Leadership Skills for Auditors** was organised by IIA Malaysia on 18-21 November 2013 to 7 participants at Renaissance Hotel, Kuala Lumpur. The workshop was conducted by Shanmugam M for internal auditors and managers who wanted to learn the tools and techniques for cultivating and maintaining an effective and efficient team, keeping them motivated and efficient through the entire audit process.



Workshop on IT Audit and Control from Theory to Practice



IIA Malaysia put together a workshop on **IT Audit Control from Theory to Practice** on 27-29 November 2013 to 22 participants at Concorde Hotel, Kuala Lumpur. The workshop was conducted by one of our international speakers, Frank Yam. The course was designed for general auditors and accountants who need to gain practical knowledge to control and evaluate processes, systems and business environment.



Workshop on COSO 2013: Implementing the Framework

A workshop on the new framework of COSO was organized by IIA Malaysia and conducted by the developer of the course himself, Don Espersen. Attended by 36 pax from all over Malaysia and took place at Prince Hotel and Residence, the course examined how a principles-based approach can be used to design, implement, and evaluate a system of internal controls. Participants had the opportunity to discuss the implications that the updated Framework presented to the internal audit profession and to individual internal audit activities.



Beginning Auditor Tools and Techniques Workshop

The 2013 Training Calendar of IIA Malaysia ended with Beginning Auditor Tools and Techniques at Seri Pacific Hotel, Kuala Lumpur. Attended by 30 participants and successfully conducted by one of our senior trainer, Madhu Marimuthu, the course imparted a foundation of knowledge that allowed participants to prepare properly for and conduct a successful audit, using preliminary surveys and evidence-gathering techniques. A basic understanding of how to identify risks and internal controls in auditing will also be stressed, along with interpersonal and team-building skills.



The Internal Auditor's Guide to Risk Assessment

Risk assessment is a core activity that impacts internal auditors on a daily basis. That is why it is so important for everyone in the internal audit function to have the skills and knowledge to assess risk. The Internal Auditor's Guide to Risk Assessment will show you how to:

- Conduct a risk assessment, step by step
- Use the risk assessment to create the audit plan
- Align risk assessment to business objectives

This comprehensive guide includes a resource package with:

- Seven customisable templates for audit universe risk assessments
- Three customisable templates for engagement risk assessments
- Scoring criteria and definitions
- Risk category and risk factor definitions
- Glossary of key concepts

Whether you are a staff auditor, a new chief audit executive (CAE), or a business professional rotating into an internal audit assignment, this book will equip you to confidently conduct your organisation's risk assessments.

Management's Guide to Sarbanes-Oxley Section 404: Maximise Value within Your Organisation

The only framework recognised by the U.S. Securities and Exchange Commission (SEC) is COSO's Internal Control – Integrated Framework, which was updated in 2013. Every organisation is required to use a recognised internal control framework for its Sarbanes-Oxley programme. It is designed to address the system of internal control for all objectives, not just internal control over financial reporting and compliance with the U.S. Sarbanes-Oxley Act of 2002.

Experience and the regulators have made it clear that a top-down and risk-based approach to management's assessment of internal control is essential. The guidance presented in this updated book is consistent with COSO 2013 and promotes an efficient and effective top-down, risk-based assessment programme.

Popular author and thought leader Norman Marks shows how to:

- Streamline the management process and reduce total assessment cost.
- Implement the high-level management guidelines from the SEC and the Public Company Accounting Oversight Board (PCAOB).
- Accurately identify key controls and use technology to test them.
- Assess any deficiencies.
- Understand how Section 404 requirements relate to Section 302.

This book provides management with all the details needed to assess internal control over financial reporting — and design an assessment scope and testing programme that is not only effective but efficient.



COBIT 5

COBIT 5 helps enterprises create optimal value from IT by maintaining a balance between realising benefits and optimising risk levels and resource use. The framework addresses both business and IT functional areas across an enterprise and considers the IT-related interests of internal and external stakeholders. Enterprises of all sizes, whether commercial, not-for-profit or in the public sector, can benefit from COBIT 5.

COBIT 5 is the overarching business and management framework for governance and management of enterprise IT. This volume documents the five principles of COBIT 5 and defines the 7 supporting enablers that form the framework.

This evolutionary version incorporates the latest thinking in enterprise governance and management techniques, and provides globally accepted principles, analytical tools and models to help increase the trust in, and value from, information systems. COBIT 5 builds and expands on COBIT 4.1 by integrating other major frameworks, standards and resources, including:

- ISACA's Val IT and Risk IT
- Information Technology Infrastructure Library (ITIL)
- Related standards from the International Organisation for Standardisation



Welcome New Members from October – November 2013

Professional Members

Teh Kian Lang	209954
Wong Seng Chong	209955
Ch'ng Thian Hooi	209974
Loo Lean Hock	209979
Ng Shi Yan	209996

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Mohd Azrain Asari	209956
Khor Keng Lieh	209957
Nur Insyirah Abdullah Nicholas	209958
Nur Azlina Abd Ghani	209959
Farah Hanis Ahmad Azhar	209960
Ooi Ying Jee	209962
Wan Nurliana Wan Hamansor Adabi	209963
Tamil Selvi A/P Shanmugam	209964

Ahmad Izuddin Shah Ahmad Nazri	209965
Leong Kai Hing	209966
Ong Tong Yang	209967
Darshini Kanaya A/P Mohan Kanaya	209968
Faizal Khaleed	209969
Sangitha A/P Supramaniam	209970
Muhammad Aiman Shaari	209973
Jasmene Kaur Sangha	
A/P Hardev Singh	209975
Tang Boon Hiap	209976
Gani Vicente Navarro @ Mohd Sani	209977
Rathi Devi A/P Silvadorai	209978
Loh Mun Ngar	209980
Yap Cheoi Mee	209981
Seow Chi Leong	209982
Chan Rae Ling	209983
Ma Tinyan, Danny	209984
Amilia Abdul Aziz	209985
Aw Yoong Jet	209986
Idzwan Mohamad Mustapha	209987
Loh Sook Ling	209988
Carolyn Elaine Choong Yee Ching	209989
Azwan Arief Ahmad Ghazali	209990
S.Selvanagum Sathasiyam	209991
Kishal Vishnu A/L Subramaniam	209992
Ng Wai Lok	209993
Adib Ambong	209994
Lau Kar Wai	209995

Norlin Mainir	209997
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Siti Norhafizah Othman	209999
Shamsul Bahrom Mohamed Ibrahim	210000
Ng Ek Leong	210001
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Latha A/P Alahu Thevar	210003
Noor Hidayah Abdul Halim	210004
Cheng Heng Wei	210005
Lim Jun Xian	210006
Sanjay A/L Selvaretnam	210007
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Alif Fahmi Abdul Razak	210009

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Renew Your 2014 Membership!

As 2014 unfolds, we wish you a happy, healthy and prosperous New Year. It is also time to renew your membership to enjoy continuous services and benefits. You may renew your membership by:

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 Malayan Banking account no: **5144 0450 1825**
(Please fax the bank-in slip to 603- 9282 1241 or email to membership@iiam.com.my with your name, membership no. and contact no. written on it)
- Online banking: <http://www.maybank2u.com.my>
(Log on to the website, go to bill payment, select 'Ins. Internal Auditors and key in your relevant details)
- Credit card (please obtain the authorisation form from Membership Dept.)

As a gesture of our appreciation for your continued support, we will be sending you the 2014 desk calendar upon receipt of your membership renewal

For enquiry, kindly contact **Membership Dept. at (603) 9282 1148 Ext 110/107** or e-mail to membership@iiam.com.my

Did You Know...

All certified members are required to maintain the status of their designation by reporting CPE annually and remit the re-certification fee. The fee is RM100 for CIA and RM35 for each specialty exam that a member holds.

For members who fail to report their CPE and pay the re-certification fee will not be allowed to use the designatory CIA/ CCSA/ CFSA/CGAP/CRMA letters and will be placed in inactive status. A reinstatement fee of RM350 will be charged by The IIA to re-activate the status.

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.

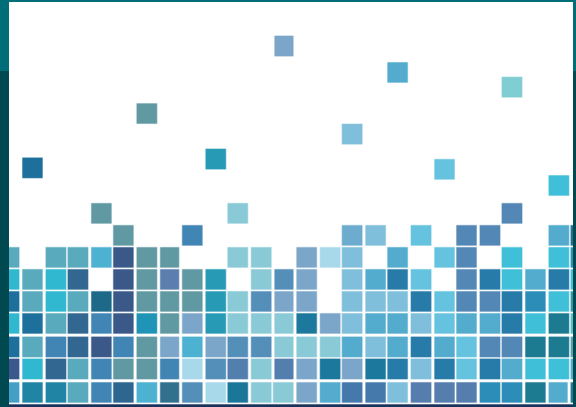
We encourage submission of fraud findings and audit stories that reflect the new age of internal auditing – those that emphasise best practices, use of technology and value-added results. If your article is published, you will be awarded a token from IIA Malaysia.





Closing the Gaps in Third-Party Risk Management: Defining a Larger Role for Internal Audit

This article is an extract of the report 'Closing the Gaps in Third-Party Risk Management: Defining a Larger Role for Internal Audit' published by The Institute of Internal Auditors Research Foundation (IIARF) in November 2013. The study was conducted by the IIARF and Crowe Horwath LLP. Permission has been obtained from the copyright holder, The Institute of Internal Auditors Research Foundation to publish this reproduction, which is the same in all material respects, as the original unless approved as changed. No parts of this document may be reproduced, stored in any retrieval system, or transmitted in any form, or by any means electronic, mechanical, photocopying, recording, or otherwise, without prior written permission of IIARF.



Third-party relationships are growing in importance for all types of organisations in all industries. Helping to assess the risks and the controls associated with an organisation's relationships with third parties - service providers, distributors, partners, and others - would seem to be a natural role for an internal audit department.

In view of this emerging risk, The Institute of Internal Auditors Research Foundation (IIARF) and Crowe Horwath LLP conducted a study to assess the level of involvement of internal audit in assessing third-party relationships. One goal of the study was to identify the approaches and tools used by organisations and internal audit departments in relation to third-party risk.

A major component of this study was a cross-industry survey of 164 chief audit executives (CAEs) predominantly at organisations in North America. The survey was supplemented by additional research and individual interviews with a number of CAEs.

One overarching conclusion to be drawn from the study is that many large organisations are concerned about their vulnerability to third-party risk. And, despite what would seem to be an obvious role for internal audit in assessing risks and controls associated with third-party relationships, a surprisingly large number of organisations report limited use of internal audit resources in this effort.

The study revealed that more than 65% of the internal audit executives who responded to the survey described their organisations' reliance on third parties as either "significant" or "extensive." An overwhelming majority (82%)

said they devote less than 20% of their internal audit resources to assessing third-party risks.

This relative lack of internal audit involvement does not necessarily reflect a lack of concern. More than three-quarters (78%) of the CAE respondents said they had either "some concern" or "high concern" about difficulties with monitoring third parties' risk management practices.

It could be argued that the vulnerabilities the survey revealed are due in large measure to an underlying issue that the survey also addressed: the lack of consensus in the business community about who has clear ownership of third-party risk. When the respondents were asked who has the primary day-to-day responsibility for evaluating and overseeing third-party risk in their organisations, the answers varied widely.

As follow-up interviews with CAEs indicated, the internal audit function must consider expanding its role in assessing third-party risks and controls. With such relationships growing more common - and more complex - third-party risk is clearly a critical factor for all enterprises.

INTERNAL AUDIT'S INVOLVEMENT IN THE DECISION MAKING FOR THIRD-PARTY RELATIONSHIPS

The majority of internal audit executives indicated that their department have little involvement in the decisions to establish or renew third-party relationships. About 41% described their involvement as "minimal" and 38% said that they had no role at all. While internal audit should not be making decisions about whether or not to create

third-party relationships, internal audit could offer significant value by educating and advising decision-makers on the potential risks.

PREVALENCE OF THIRD-PARTY CONTROLS AND RISK MANAGEMENT ACTIVITIES

Even after a contract with a third party is signed, the survey indicates that internal audit plays only a secondary role in most aspects of risk management. Thirty-two percent said internal audit was responsible for periodically auditing or obtaining assurance related to compliance with agreements, but an even larger number (36%) said primary responsibility of this task resided elsewhere in the organisation. Surprisingly, 25% of the respondents said their organisations do not audit compliance with agreements at all.

The only other areas in which a significant number of respondents attributed responsibility to internal audit were:

1. Confirming compliance with organisational policies, laws and regulations; and
2. Verifying the existence of a service-level agreement with performance monitoring standards.

In both of these instances, however, a far larger proportion of respondents assigned responsibility for these activities to departments other than internal audit.

WHO OWNS THIRD-PARTY RISK?

When asked who has the primary day-to-day responsibility for evaluating and overseeing third party in their organisations, the answers varied widely. While the individual “business unit or functional leadership” was the most frequent response, it was far from a consensus choice, cited by only 32% of respondents. Other frequent responses were “corporate leadership” and “the procurement function”. Significantly, only 6% affixed the ownership of third-party risk to a centralised enterprise-wide risk function.

INTERNAL AUDIT’S ROLE

Roles and expectations vary with each audit committee and management team. That said, in many organisations there is a bigger, more important role that internal audit departments can play. The business case for this role has to be built on the skills of the team (risk management, risk aggregation, controls, inspection audit and assurance, and purchase improvement).

Following are nine areas where internal audit might be able to provide significant value:

1. Assist management with identifying the third-party risk universe and risk ranking.
2. Identify, quantify, and assess the risks to the organisation that arise out of third-party relationships.



3. Identify or evaluate management’s understanding of how third parties comply with regulations or policies that should be in place.
4. Evaluate the third-party risk management activities in place at the organisation and the relative maturity of the third-party risk management programme related to the risk exposures in the organisation.
5. Compare the third-party risk management approaches to those used in the organisation’s enterprise risk management (ERM) programme.
6. Determine the adequacy and effectiveness of assurance activities.
7. Perform testing for compliance with agreements and regulations or policies.
8. Confirm service-level agreements are being met.
9. Identify process improvements for third-party interactions.

Each of these areas provides an opportunity for the internal audit function to provide an objective point of view on how well third-party risks are being managed. And each may have a different level of interest or importance, depending on the nature of the organisation’s unique risks and external relationships.

CONCLUSION: EVALUATING THIRD-PARTY RISK MATURITY

There are opportunities for improvement in managing third-party risks. As organisations look to improve their capabilities, often the first place to start is understanding where the organisation is today so that strategies can be developed to move to a more mature process (if required). Regardless of the levels of maturity, third-party risk management activities should be clearly tied to the overall risk management programme of the organisation.

Members of The IIA are able to download the full report at: <http://www.theiia.org/bookstore/product/closing-the-gaps-in-thirdparty-risk-management-defining-a-larger-role-for-internal-audit-1765.cfm>



TRAINING CALENDAR 2014

Month	Dates	Topic	Location
January	20 - 23	Beginning Auditor Tools and Techniques	Kuala Lumpur
February	10 - 11	Management-Audit-Monitoring of Construction 'Projects' (Previously known as Audit, Management and Monitoring of Construction 'Projects')	Kuala Lumpur
	12 - 13	NEW IT Security Incident Handling and Digital Forensics Management	Kuala Lumpur
	17 - 20	Leadership Skills for Auditors	Kuala Lumpur
	26 - 27	UPDATE Forensic Investigations : Practical Workshop for Beginners	Kuala Lumpur
March	3 - 5	High-Impact Operational Audit of Human Resource Management	Kuala Lumpur
	10 - 11	Corporate Governance Review - Roadmap to Boardroom Presence *	Kuala Lumpur
	12 - 13	Value-Added Business Controls : The Right Way to Manage Risks	Kuala Lumpur
	17 - 18	NEW Interview Essentials and Lie Detection for Auditors	Kuala Lumpur
	19	NEW Social Engineering	Kuala Lumpur
	20	Audit Committee Conference **	Kuala Lumpur
	24 - 27	Auditor-in-Charge Tools and Techniques	Kuala Lumpur

* This Seminar/Workshop is in collaboration with ACCA Malaysia

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Malaysian Institute of Accountants

Contact Person: Izham Tel: 603 2279 9358 • Fax: 603 2273 5167 • Email: sp@mia.org.my • Website: www.mia.org.my

The Institute of Internal Auditors Malaysia

Contact Person: Veronica Tel: 603 9282 1148 ext 109 • Fax: 603 9282 1241 • Email: conference@iiam.com.my • Website: www.iiam.com.my