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Compliance - The Impact on Internal Audit

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Increasingly, the lines between regulatory compliance and internal audit duties have become blurred in recent years and this overlap is becoming a major problem for internal audit departments according to Harald Will, president and CEO, ACL Services Ltd. A recent global survey by ACL Services, in cooperation with the Institute of Internal Auditors (The IIA) reveals the key business challenges that internal audit executives face in the current regulatory environment in supporting effective controls, compliance and governance processes.

Since the accounting scandals in early 2000, regulatory compliance has been high on the agenda for organisations across the globe. Not only have firms struggled with the ability to comply with the new regulations, participation in compliance programmes has also impacted on the ability of companies to perform other business functions to the best of their ability. Perhaps the biggest effect of this kind has been seen in the internal audit department, where much of the compliance expertise in an organization has typically resided.

The Evolving Role of Internal Audit survey revealed the extent of the effect compliance pressures have had on internal audit departments, exposing that almost half of Chief Audit Executives believe that regulatory compliance pressures have impacted their ability to complete thorough audits. The survey results serve to highlight the challenge posed by regulation that requires companies to assess and test the effectiveness of internal controls on an ongoing basis.

Any auditor worth his or her salt knows that independence is the cornerstone of the internal audit profession (IIA Standard 1100). However, 20 percent of survey respondents felt that their involvement in compliance programmes compromised audit independence within their organisations.

Since regulatory compliance is here to stay, the question is what is the solution to stop this trend towards compromised audit independence and insufficient compliance resources? Well, it seems that in the midst of compliance burdens, audit leaders view the adoption of continuous monitoring and audit technology as an important solution to many of the problems identified in the survey. Over 90 percent felt that their organisations should automate the testing of their internal controls with continuous monitoring at the management and business process owner level. Furthermore, a third of organisations surveyed have adopted a continuous auditing approach across either all or within select business processes and a further third want to implement continuous auditing in the future.

Previous research also backs up this view. According to an AMR Research 2005 compliance spending report, nearly two-thirds of compliance budgets are being spent on people's time - either on internal resources or external consultants. Not the most effective use of finite resources because it keeps compliance as a project, rather than making the investment necessary to turn it into a repeatable process - through technology.

The Evolving Role of Internal Audit confirms that there are numerous issues facing Chief Audit Executives trying to support compliance efforts to meet multiple and often challenging regulatory statutes. And this survey indicates there are serious concerns about the independence and thoroughness of internal audit, making companies vulnerable to a vast array of other risks as audit focus may be diverted from its core operational, system and financial responsibilities. With an automated system for continuous auditing and monitoring, audit departments can overcome some of these challenges identified in the survey.

As compliance activities mature and companies begin to address the issues that meeting the requirements can create in the business, technology solutions will become an integral part of enterprise operations to effectively, independently, and continuously test transactions for errors, exceptions, and control weaknesses.