Achieving balance
Scope of internal auditing ever-expanding

By Martin Sinderman
CONTRIBUTING WRITER

Internal auditors are being called upon to play a growing role in helping organizations and businesses be successful.

Since the 1950s, the emphasis of internal auditing has shifted back and forth between the traditional focus on internal financial controls and that of operational auditing, i.e., the evolution of the efficiency and effectiveness of broader organizational processes.

At the end of the day, "A profession that started as an independent verifier of transactions is now becoming a management consultant to managers on important corporate issues," said Ran Siriram, Controllers Roundtable Distinguished Professor at Georgia State University’s J. Mack Robinson College of Business.

In the late 1980s, the internal auditing function had become very focused on the operational side, according to Paul McClung, vice president of Internal Audit and Enterprise Risk Management for Carter’s Inc. (NYSE: CTR), Atlanta-based provider of apparel and related products for babies and young children.

"We got to the point where audits were very operations-focused — moving away from the more traditional types of financial control-oriented audits, and more toward looking for cost recovery and opportunities to streamline business processes," McClung said.

The Enron and WorldCom scandals of the early 2000s, which were followed on the federal regulatory front by Congress’ passage of the Sarbanes-Oxley Act of 2002 (“SOX”), shifted the focus of internal auditing back to its transaction-verifying roots.

"With the passing of SOX, the pendulum swung heavily toward a focus on internal controls over financial reporting and related financial reporting fraud," said Paul Sobel, vice president and chief audit executive for Georgia-Pacific LLC, a privately held consumer products and building materials company based in Atlanta.

Big shift: With the Sarbanes-Oxley Act of 2002, internal auditors saw their focus on transactions, but a shift is under way, says Paul Sobel of Georgia Pacific LLC.

Today’s issues

Now that the internal audit profession as a whole has been recognized as being successful in dealing with the transitional requirements of SOX, companies want more out of these professionals than just being watchdogs over corporate finances.

"With the new success and respect [for internal auditing] has come new responsibilities," said Richard Clune, associate professor and director of the Internal Audit Center at the Coles College of Business at Kennesaw State University.

"Their experience with handling SOX-related work has grown, "internal auditors have sought to do that work more efficiently," Clune said, "so that their limited resources can handle the ever-expanding list of things that stakeholders — boards, audit committees and top management — would like to see taken care of."

For the internal auditing function, "The pendulum has swung right back toward more of an equilibrium between providing financial reporting assurance and delivering value in other ways to our organizations," Sobel said.

As a result, "The pressing issues facing internal auditors today are very much tied to the challenges of the organizations they are trying to help," Clune said.

"Namely, how to be successful in a more complex world when the right resources are oftentimes scarce," he said.

One key issue for today's internal auditors is "how not to let their new and evolving role as advisors to management undermine their traditional role of assurance providers, as happened in the case of external auditors," Siriram said, "and to continue to preserve their independence — both in appearance and in fact — and act as reliable watchdogs for the stakeholders."

Another issue is attracting top-notch business grads to the ranks of internal auditors, he added.

"Unless the internal audit profession can attract ‘quality’ graduates to consider internal auditing as a serious profession, with prestige and growth opportunities equal to those of a CPA," Siriram said, "it will be difficult for the internal auditing profession to continue to develop and meet the expectations of SOX, the [Securities and Exchange Commission], the managers and the community."

Moving forward

In the challenges department, today’s internal auditors have to deal with a much more fast-changing, complex and diverse business world than they did as little as 10 years ago.

"Unlike in the past, where internal auditors dealt with more homogeneous operating environments," said Siriram, "changing organizations will be far more difficult to audit, and will demand that internal auditors find ways to deal with this complexity."

Internal auditors have their work cut out for them in keeping up with an evolving business environment where technological advances, such as cloud computing and globalization, are generating new challenges in risk management and compliance.

"The challenge for us as internal auditors is to adapt and respond quickly to new and emerging risks and changing regulatory requirements," McClung said, "working with our organizations to help them meet their strategic objectives."

Organizations, meanwhile, must make sure the internal audit function has a "seat at the table," in order to optimize its value, Sobel said.

"By that, I mean that chief audit executives must be seen as important members of management, who are involved enough with management to be aware of changes to key strategies," he said, "so that we can assess what, if anything, internal audit can do to provide assurance or advice related to those strategies. Without the ear of the CEO and board, the value we deliver will be sub-optimal."

Internal auditors themselves, meanwhile, "need to provide more than just hindsight, commenting on what happened in the past," Sobel said. "We need to provide consistent insight, which involves connecting the dots of what we have observed, and providing advice that is of current and future value to key stakeholders."