

# **The Importance of the Internal Audit Function in Tough Economic Times**

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The internal audit function is critically important during tough economic times since the function serves to aid the organization in accomplishing its objectives, which are at an increased risk of not being achieved during such times. The internal audit function can serve to help the organization achieve its objectives by evaluating the effectiveness of the governance process and risk management.

In terms of governance the Institute of Internal Auditors Standard 2110 charges that the internal audit function must assess and make appropriate recommendations for improving the governance process in terms of accomplishing its objectives. The internal audit function serves the important role of helping provide the board and senior management with an objective assessment of the effectiveness of the governance process. This assessment becomes extremely important since the achievement of these objectives is at greater risk during tough economic times. For example, one of these objectives is to promote appropriate ethics and values within an organization, during tough economic times it is likely that employees and upper management will be tempted to make unethical decisions in order to ensure favorable performance evaluations. The assessment performed by the internal audit function increases the chances that the unethical behavior will be discovered and allows for improvements that can be immediately suggested to the board and management. Another objective is to ensure effective organizational

performance management and accountability. During tough economic times it is extremely important to ensure effective organizational performance management since the economy will likely have a negative impact on performance, thus increasing the pressure on management to produce favorable performance results. An effective assessment performed by the internal audit function will hopefully discover any inappropriate organizational performance management that is occurring and enable the internal auditors to immediately inform the board and senior management of these happenings in order to mitigate damages in an already tough economic environment.

During tough economic times the organization's enterprise risk management process is increasingly beneficial as it is management's process of understanding and dealing with the uncertainties that could affect the organization's ability to achieve its objectives. The uncertainty affecting the achievement of objectives is likely to be increased due to unfavorable economic conditions. The internal audit function can provide important assistance here as it assists management and the board by examining, evaluating, reporting on, and recommending improvements to the enterprise risk management system. Management can directly benefit from the objective examinations and evaluations conducted by the internal audit function by studying their reports and implementing the recommendations it believes will be beneficial.

The importance of the internal audit function should be undisputed during tough economic times. It is without question that an organization gains significant benefit from the internal audit function through having an independent and objective function that works to help the organization accomplish its objectives.