

Internal Audit Function serves as an Umbrella for Organizations during Stormy Economic Times

Jonathan Minch

The internal auditing function (IAF) plays an important role in an organization during tough economic times. A competent and objective IAF can help make an organization more efficient and effective in its operations and help the organization achieve its objectives absent beneficial economic conditions. The IAF provides tremendous value to an organization during tough economic times even though they lose financial resources from the organization during this time. This essay will focus on how the IAF mitigates heightened risks that are magnified during tough economic times. These risks include misappropriation of assets, third party financial distress, change in overall organizational tone, and various outside changes.

Research has shown that there is an increase in fraud within organizations when there are economic downturns as risk for all players in a company is accentuated. A recent fraud survey conducted by KPMG stated that about 75% of U.S. executives responding to the survey felt that fraudulent financial reporting and misappropriation of assets will either increase or remain the same over the next year (Svare, 2009). It is important for the IAF to be aware of an increase in “recession risks” such as the theft or sale of proprietary or confidential information, the applying of management bias or use of extreme estimates on financial numbers, and the accepting of gifts and payments from vendors to increase the organization’s chances of securing services. The IAF of an organization helps to keep a lookout for an increase in fraud by focusing on the pertinent issues related to fraud and putting procedures in place to prevent it. This proactive, action-oriented approach to risk management has proven valuable in easing the worries of executives from top organizations even during a time where they try to cut costs and increase profits. IAFs of organizations hold valuable companywide discussions on fraud, are visible around the company, and make sure controls are in place to address fraud risk

scenarios that pose the greatest threats to organizations. The IAF also analyzes the impact of the recession on risk assessment and places responsibilities on business process owners to become responsible for primary risk areas (Svare, 2009). These actions by the IAF place ownership on those who are closest to fraud schemes, and they allow the day-to-day operations of an organization to continue with more confidence while top executives focus on other issues to lead their company out of recessionary times.

The IAF also plays a vital role in assisting an organization's audit committee during recessionary times. It is important that the relationship between the IAF and audit committee is emphasized in a way that will ensure organizations can get through challenging times (Gramling and Hermanson, 2009). The IAF reports reliable and objective information that prevents the audit committee from relying only on management's information as their source on organizational matters. A big way the IAF can help the audit committee is to assess the organization's exposure to third parties in financial distress. The IAF works with management to provide an inventory of exposures relating to third parties (Gramling and Hermanson, 2009). This allows the audit committee to analyze and respond to internal and external risks brought on by tough economic times. The IAF also helps the organization and the audit committee prepare for organizational changes that are necessary as a result of tough economic times. These times are certain to bring about organization, regulatory, and economic challenges. By helping management consider the impact of these changes and providing the audit committee information by benchmarking against other organizations in the industry with their response to change, the IAF is in a strong position to help their organization get back to prosperity. Finally, the IAF provides a rational voice throughout the organization during tough economic times. They work as the "go to" for the audit committee to make sure that the leadership of the organization is stressing compliance, controls, and governance (Gramling and Hermanson, 2009). Since internal auditors are involved with the day-to-day operations of the

organization, they can make sure that the overall tone of the organization does not suffer during these times.

REFERENCES

Gramling A., Hermanson, D. (2009). Assisting the Audit Committee during the Financial Crisis. *Internal Auditing*, 24 (3), 41-44.

Svare, J. (2009). Fraud in a Down Economy. *Internal Auditor*, 9(3), 32-36.