



MINORITY SHAREHOLDERS WATCH GROUP
Shareholder Activism and Protection of Minority Interest

MEDIA RELEASE

MIND-BOGGLING FOR PLCs TO SPEND BELOW RM5,000 ANNUALLY FOR THEIR IA FUNCTION

6 October 2020, Kuala Lumpur - That some Malaysian public listed companies (PLCs) are incurring less than RM5,000 annually for their internal audit (IA) function has raised valid concerns on the audit quality and coverage.

The analysis of internal audit cost, based on the findings of the MSWG-ASEAN CG Scorecard 2019 assessment, revealed that the cost incurred by PLCs for the internal audit function could be unbelievably low at RM1,488 per annum, and there were 158 PLCs which had internal audit cost of below RM24,000 per annum (or equivalent to RM2,000 per month).

The cost incurred for the IA is indicative of how much emphasis the PLC places on the function that provides independent assurance on risk management, control, and governance processes – three areas considered essential for PLCs.

As stated in Paragraph 30, Appendix 9C of Chapter 9 of Bursa Securities Listing Requirements, listed issuers are required to disclose the cost incurred for their internal audit function in respect of the financial year in their annual report.

Also, the Guidance on Effective Audit and Risk Management in the Corporate Governance Guide issued by Bursa Malaysia, states that the IA function should be adequately resourced in terms of manpower and supporting infrastructure for it to function effectively.

The resources and budget allocated should be proportionate with the envisaged extent and complexity of the audit work, in line with the company's size and circumstances.

The bottom-five PLCs in terms of internal audit costs, along with their turnover and sector, are: -

PLC	Sector	Turnover (RM)	IA cost per annum (RM)
1	Plantations	15,737,000	1,488
2	Consumer products & services	50,174,000	4,000
3	Consumer products & services	258,633,486	5,000
4	Consumer Products & services	14,664,894	5,000
5	Financial Services	7,784,334	5,500



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IA function critical to strong governance

A sound IA function is the fourth cornerstone of corporate governance – the other three being an effective Board, independent external auditors, and competent executive management.

Internal auditors, by definition, provide independent, objective assurance which adds value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

It is incomprehensible that IA cost can be so low, taking into account the amount of time and skill needed to provide assurance on risk management, control and governance, said Devanesan Evanson, Chief Executive Officer of Minority Shareholder Watch Group (MSWG).

With such small amounts allocated for the internal audit function, it is unlikely that the internal audit function is adequately resourced for it to function effectively.

“The low internal audit cost could also be due to the internal audit function not being regulated in any way by the regulators. Presently, there are no minimum requirements for an individual to act as an internal auditor practitioner.

“It is therefore incumbent on the audit committee to ensure that internal auditors possess appropriate qualifications and expertise to carry out the work,” said Evanson.

In contrast, external auditors must be members of the Malaysian Institute of Accountants(MIA), have a Practicing Certificate issued by MIA, and have to be registered with the Audit Oversight Board of the SC (if they are auditors of PLCs).

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For further information, please visit www.mswg.org.my or contact Devanesan Evanson, CEO of MSWG at +603 2070 9090, or e-mail at devanesan@mswg.org.my

About Minority Shareholders Watch Group

The Minority Shareholders Watch Group (MSWG) was established as a government initiative in the year 2000 as part of a broader capital market framework to protect the interests of minority shareholders through shareholder activism. It is one avenue of market discipline to encourage good governance amongst public listed companies with the objective of raising shareholder value over time.

Over the years MSWG has evolved into an independent research organization on corporate governance matters. MSWG provides a platform and a collective voice to both retail and institutional minority shareholders, and it advises on voting at general meetings of public listed companies.