

A PRINCIPLES-BASED APPROACH TO  
SINGAPORE EXCHANGE'S LISTING RULE IN RELATION TO  
**WHAT IS AN EFFECTIVE AND  
ADEQUATELY RESOURCED  
INTERNAL AUDIT FUNCTION?**

Organised by:



The Institute of  
Internal Auditors  
Singapore





# PREAMBLE

The 2012 Singapore Code of Corporate Governance (“CG Code”) was revised in 2018 by the Monetary Authority of Singapore (MAS) after accepting the recommendations made by the Corporate Governance Council<sup>1</sup>. The revisions were intended to strike a balance between the need to keep the CG Code progressive and on par with international developments, while tailoring them to Singapore’s context and being cognisant of the profile of listed companies here. The revisions placed more focus on strengthening Board quality and fostering a supportive eco-system.

Consequent to the CG Code revision, the Singapore Exchange (SGX) amended its Listing Rules. Principle 13 of the 2012 CG Code on internal audit was shifted to the SGX Listing Rules with effect on 1 January 2019. The amended Listing Rule 719 (3) states that “An issuer must establish and maintain on an ongoing basis, an effective internal audit function that is adequately resourced and independent of the activities it audits.” This results in the internal audit function in a listed company, whether it is in-house or outsourced, becoming mandatory and is no longer an option of “comply-or-explain” as in the CG Code.

The inevitable question that listed companies would ask is – what do effective, adequately resourced and independent, as described in the new rule, mean? More importantly, listed companies would need to establish an internal audit function based on what they require internal audit to achieve and how the function could help the Board and its Audit Committee (AC) in the discharge of their responsibilities pursuant to regulations and laws.

To elaborate, as part of the requirements of Listing Rule 1207(10), the Board and its AC are required to comment on the adequacy and effectiveness of the systems of internal controls and risk management systems maintained by the organisation. The internal audit function, through the mandate given in the Internal Audit Charter, seeks to provide assurance to the Board and its AC that the controls are working properly, to advise on changes and operational issues, and to anticipate and provide insights on risks to the organisation. With reference to the globally-recognised International Standards for the Professional Practice of Internal Auditing (The IIA Standards) promulgated by The IIA<sup>2</sup>, the internal audit function adopts a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Given the wide-ranging scope and activities of an internal audit function and the dynamic internal and external environment that organisations operate in, how do the Boards or Chief Audit Executives (CAEs) determine that internal audit functions are adequately resourced?

This publication aims to provide guidance to respond to these questions, i.e. guidance on interpreting and implementing the new rule, through a roundtable discussion organised by The Institute of Internal Auditors (IIA) Singapore, together with RSM Risk Advisory who was also the discussion moderator, in November 2018. Participants included the CAEs and internal audit leaders from both the private and public sectors, with representation from local listed companies and multinationals. For a more well-rounded discussion, representative(s) from the regulatory arm of the SGX as well as an AC Chair were also invited to share their perspectives along with the CAEs and internal audit leaders’ discussion of best practices and practical issues.

---

<sup>1</sup> The 19-member Corporate Governance Council was set up by the MAS in February 2017 to review the 2012 Singapore Code of Corporate Governance.

<sup>2</sup> The IIA is an international professional association, headquartered in the United States with more than 200,000 members practising in over 170 countries and territories.





Through the succinct but intensive session, the CAEs shared their principles, good practices and spoke on practical issues encountered. With the breadth of the scope and activities of an internal audit function, coupled with the dynamism of the environment that their organisations operate in, there is no single metric or measure that can be used to determine what is considered an adequately resourced and effective internal audit function.

While it is recognised that there is no one-size-fits-all measure, it is evident through the discussion that there is consistency in the practices described, even though the CAEs came from organisations that are in diverse sectors and industries.

The priorities and focus of internal audit in any organisation will be different and change over time. Resources are finite and as such, every organisation would take a different approach in establishing their internal audit function. Internal audit provides assurance to management and the AC but at the same time, internal audit can also be deployed effectively as a consulting activity for the organisation to achieve its objectives.

The allocation of internal audit resources should primarily be based on the requirements or objectives to be reviewed and approved by its organisational stakeholders which includes the Board or its appointed AC and senior management of the organisation. Specifically, the SGX Listing Rules require internal audit to be independent of the activities that it audits.

Today's ACs must deal with complex and diverse issues and increasing responsibilities. As a result of laws and regulations, ACs are required to assess both adequacy and effectiveness of internal controls and risk management systems. ACs have to adopt a risk-based approach to appropriately prioritise internal audit resources and adequately address key risk areas. Broadly, the key elements of the internal audit function that the AC should assess in determining whether the function is effective are:

- **POSITIONING, SCOPE AND RESOURCES**

Placement of the internal audit function within the organisation and its reporting lines, what the function audits and the means by which internal audit fulfils and delivers on its value proposition;

- **QUALITY ASSURANCE**

Commitment of the internal audit function towards ensuring continuous improvement in the quality of audit delivery; and

- **VALUE PROPOSITION**

Ways in which outcomes of the internal audit function's work benefit the organisation and stakeholders, in achieving strategic objectives.

Each element has to be considered in the context of each organisation, as each differs in terms of complexity, size, maturity, culture and organisational objectives. ACs should start the conversation with their CAEs to achieve a common understanding of these elements, the expectations of what it should entail and how the elements can be effectively addressed and achieved.



As it is not possible to have a standard benchmark, IIA Singapore recommends the evaluation of the elements based on The IIA’s globally adopted 10 Core Principles<sup>3</sup>:

KEY ELEMENTS	PRINCIPLES-BASED EVALUATION OF INTERNAL AUDIT EFFECTIVENESS
POSITIONING, SCOPE AND RESOURCES	<ol style="list-style-type: none"> <li>1. Demonstrates integrity</li> <li>2. Demonstrates competence and due professional care</li> <li>3. Is objective and free from undue influence (independent)</li> <li>4. Aligns with strategic objectives and risks of the organisation</li> <li>5. Is appropriately positioned and adequately resourced</li> </ol>
QUALITY ASSURANCE	<ol style="list-style-type: none"> <li>6. Demonstrates quality and continuous improvement</li> <li>7. Communicates effectively</li> </ol>
VALUE PROPOSITION	<ol style="list-style-type: none"> <li>8. Provides risk-based assurance</li> <li>9. Is insightful, proactive, and future-focused</li> <li>10. Promotes organisational improvement</li> </ol>

“As an internal audit leader, we have a responsibility to ensure that our internal audit function is effective. And we can determine this by making sure that all 10 principles are present and operating effectively. How the internal audit function demonstrates achievement of these principles may differ from organisation to organisation. When any of the principles is not achieved, it implies that the internal audit activity is not as effective as it should be.”



**Tan Boon Yen**  
 President  
 The Institute of Internal Auditors Singapore

The following report sets out how the 10 principles can be applied in assessing the effectiveness of an internal audit function. It also summarises key points brought up by participants during the roundtable discussion.

# POSITIONING, SCOPE AND RESOURCES

## POSITIONING

The principles of integrity, objectivity and confidentiality are encapsulated in The IIA Code of Ethics. As members of the profession, internal auditors are expected to apply and uphold these principles. The positioning and empowerment of the internal audit function in any organisation must be laid down in an Internal Audit Charter that states internal audit’s purpose, authority and responsibility. To be independent, internal audit should have a direct reporting line to the AC with unfettered access to management and information. Independence however, does not mean operating in a silo, as it is inherently important for internal audit to work closely with business and operations to derive better insights and solutions.

<sup>3</sup> The IIA Global’s internal auditing framework, known as The International Professional Practices Framework, includes 10 Core Principles for the Professional Practice of Internal Auditing.



“Positioning is important from the start. It is important for internal audit to be seen and also heard. This means giving internal audit unfettered access to management and information through participation in key management meetings such as Board risk committee meetings and management risk committee meetings.”

**Yik Yeng Yee**  
COO and Executive Director  
Group Audit, DBS Bank

“For an effective internal audit function, three things need to be achieved - profile, presence and credibility. Internal audit needs to have the right people with the right skills, to establish the foundation to deliver its value proposition. The banking sector has demonstrated this with good results and with the push from regulators, it shows how an internal audit function is valued and respected.”



**Jonathan Forth**  
Executive Director  
Audit Services Group, Marina Bay Sands

## SCOPE AND RESOURCES

The role of internal audit has evolved, with significant effort invested on several fronts to shift its focus from compliance to business partnering. While the internal audit terms of reference guides the internal audit function in its role, the business partnering focus entails aligning internal audit’s work with organisational strategic objectives and risks. Changes in the business landscape result in a shifting organisational risk profile, thus the internal audit work plan needs to be aligned accordingly in order to be relevant and value-adding. Internal audit’s plan must be sufficiently flexible and adaptable to changes of organisational priorities and risks as they arise.

For internal audit to step into the role of a strategic partner to management, the breadth and depth of internal audit knowledge of the business and operations is essential for audits to be more strategic, relevant and value-adding.



“It is important for internal audit to understand the business strategies of the company; more so in this current dynamic environment. We have to keep our eyes and ears close to the ground to understand changes in the business operating environment and constantly evaluate, reprioritise so as to make relevant changes to an otherwise ‘static’ audit plan and keeping the AC informed of key changes in the plan. The ability to be agile and continuously re-define areas of focus must be a key internal audit strategy.”

**Debbie Goh**  
Head, Group Audit  
Fraser and Neave, Limited



“From management’s standpoint, it is not the policeman role of internal audit that matters but rather, how much value does its internal audit bring. This is where the skills of internal audit are very important in elevating its position.”

**Karen Tan**

Vice President, Group Internal Audit  
Mandai Park Holdings Pte Ltd



Demonstrating professional due care requires internal auditors to be equipped with professional qualifications and certifications such as the Certified Internal Auditor (CIA) or the Certification in Risk Management Assurance (CRMA) and applying The IIA Standards. It is important for internal auditors to maintain and fulfil their continuing professional development requirements.

Furthermore, the internal audit function’s resources and competencies must adequately cover the scope and extent of work that is required for the organisation to address the widening spectrum of key risks that include financial, operational, compliance and information technology (IT) risks. As the scope of internal audit grows, the repertoire of skills needed by the function as a whole also evolves beyond the conventional skillsets that were being recruited. Other than manpower, resources should also include systems, technology, tools, equipment and training.



“The leadership abilities of the head of internal audit is key to the effectiveness of internal audit. Apart from having a high EQ and being able to deal with dominant leaders, the head of internal audit cannot work in isolation, but rather, collaborate with the relevant stakeholder within the organisation in order to produce the best results.”

**Tay Woon Teck**

Managing Director  
RSM Risk Advisory

“We have changed in the hiring of people. The trend is to hire more operational people instead of the conventional type of internal auditors.”

**Stephen Ching**

Senior Vice President, Head of Internal Audit  
ST Engineering Ltd



Views from the public sector internal audit heads centred on the importance of adding value to the organisation and ensuring proper stewardship, especially when spending public tax dollars.





“Management will see value if internal audit helps to surface ‘blind spots’. Internal audit is important to help maintain stakeholders’ confidence and trust in the organisations. Internal audit must have the courage to stand up for what is right and deliver the message in a clear and purposeful manner.”

**Tan Peck Leng**  
Director of Internal Audit  
Defence Science and Technology Agency

While it is not always possible for internal audit to have all the resources that it desires and needs, there are options for internal audit to augment their resources. Notably, participants shared about organisations’ adoption of ‘guest auditor’ or rotation programmes, where employees from business and line functions have been invited to join audit projects to leverage their expertise and business knowledge. This also helps to raise the profile of internal audit, offering other functions the opportunity to learn about the workings of internal audit, while simultaneously building internal controls awareness enterprise-wide.

An outsourcing policy for arrangements to supplement in-house resources should also be established, in situations where there is a lack of in-house expertise and knowledge to perform audits. The most commonly outsourced areas include IT audit, cyber security assessments and data analytics.

Soft skills, especially good communicative ability to engage internal audit’s stakeholders, rank high as a requisite skill for the internal audit function. It was highlighted at the roundtable that internal audit leaders must be culturally sensitive and adept in managing stakeholders with diverse expectations and personalities.

“Internal auditors need to acquire good interpersonal skills in order to achieve a “win win” situation when faced with different management and leadership styles of Chief Executive Officers and ACs. Knowing the business operations well especially from the strategic and operational perspectives are key to gaining the trust and building a good working relationship with our stakeholders so as to keep internal audit’s work relevant.”

**Debbie Goh**  
Head, Group Audit  
Fraser and Neave, Limited



“Even if faced with a Chief Executive with a strong personality, it is still possible for internal audit to communicate as it depends on how the message is brought across.”

**Yeo Wee Leong**  
Senior Vice President, Group Internal Audit  
Boustead Singapore Limited



# QUALITY ASSURANCE

Internal audit functions should establish a quality assurance programme that covers all aspects of its function. Guidance is provided by The IIA Standards that includes the Code of Ethics, the Attribute Standards and the Performance Standards. It provides a framework for performing and promoting a broad range of value-added internal auditing services and fosters improved organisational processes and operations. The IIA Standards also establish the basis for the evaluation of internal audit performance.

From the roundtable discussion, it was apparent how the participants spoke on internal audit methodology that establishes their dedication to quality and continuous improvement. This also ensures that internal audit continues to bring value that is relevant to the organisation and its evolving risks, as the function seeks to review itself and strive to enhance their professionalism, competence and consequently, value-add.

It is however insufficient to simply produce work competently. The timing and manner of presentation and communication matters too. Communications must be accurate, objective, clear, concise, constructive, complete and timely. The internal audit function should also communicate any limitation of scope and the impact on its audit.

Increasingly, internal audit has to display a high degree of tact and diplomacy while maintaining their objectivity and independence in bringing their point across effectively with buy-in from stakeholders at all levels.



“The internal audit methodology and the principles on which it is based, must provide the flexibility for changes as they come, where ad hoc audits are added in response to new emerging risks as guided or directed by the AC. Assurance is not absolute but cannot be delivered without the support of sound principles and methodology, which is what the Board can rely on to deliver an informed opinion.”

**Derrick Lim**  
Former Divisional Vice-President, Internal Audit  
Singapore Airlines

“The internal audit function constantly needs to upskill, manage change and withstand the test of time; years ago, hot topics were around how internal audit can provide more effective assurance over operational risk and financial crime risk, followed by conduct risk more recently. Today, internal audit also has to adapt and develop its approach to better manage disruptions and protect the firm amidst changes, so as to continue preserving and creating value for its stakeholders.”



**Marcus Ng**  
Head of Audit  
Barclays Asia Pacific



# VALUE PROPOSITION

The value proposition of internal audit to its stakeholders are assurance, insight and objectivity.

Governing bodies and senior management rely on internal audit for objective assurance and insight on the effectiveness and efficiency of governance, risk management and internal control processes. The internal audit activity provides assurance that risks to the organisation are understood and managed appropriately and provides value-added services critical to efficient and effective organisational management.

Internal audit should take a risk-based approach in providing an independent assessment of the organisation's governance, risk management and internal control processes. The risk-based approach has to start with identifying risks that impact the performance of strategy and business objectives and especially those that disrupt the business or its operations and the ability to achieve plans and strategies. It is also important for internal audit to continually identify and recognise new, emerging and changing risks. This would necessarily involve discussion with senior management and the risk management function.

It is also important for internal audit and the AC to work closely to promote good governance, risk management and internal controls. Specifically, there should be more frequent interaction at a deeper level of detail on governance assurance methodology between internal audit and the AC. This would help facilitate alignment of their respective charters through the internal audit methodology, i.e. establishing what needs to be done under parameters defined and in what manner.



“ACs need to have regular meetings with internal audit. Once a year is simply not enough. Internal audit needs to take an active role in management’s strategic objective to demonstrate their value and relevance and has to have a seat at the table at key meetings with the Board and management. Internal audit should not be just a check and balance function.”

**Adrian Chan**  
Senior Partner  
Lee & Lee

“The voice of internal audit and the quality of their inputs are important in enabling the Board to make an informed assessment that its internal controls on financial, operational, compliance and IT risks were adequately addressed.”

**June Sim**  
Senior Vice President & Head of Listing Compliance  
Singapore Exchange Regulation Pte.Ltd.







“There are many moving parts in businesses of today and internal audit is impelled to know the company strategy and what matters to the business, in order to sustain and grow. Internal audit cannot focus only on internal controls but instead view that with governance and risk management as a whole.”

**Tan Boon Yen**  
President  
The Institute of Internal Auditors Singapore

“One of the demonstrations of internal audit’s success is when internal audit is approached for its inputs on business decisions, for advice and consultation in projects. Whether internal audit is effective or not is dependent on how your stakeholder views your contribution.”

**Stephen Ching**  
Senior Vice President, Head of Internal Audit  
ST Engineering Ltd



The IIA’s 10 principles provide a baseline for internal audit functions to assess their effectiveness as an internal audit function.

The Mission of Internal Audit, which is articulated in the International Professional Practices Framework (IPPF) that all internal audit functions should aspire to accomplish, states: “To enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight.”

Similarly, internal audit’s stakeholders, such as Boards or ACs, can make measured assessment of the effectiveness of its internal audit based on these 10 principles.

For instance, Adrian Chan, Senior Partner at Lee & Lee, proposed that a mix of objective and subjective attributes can be used in evaluating an internal audit function. While difficult to assess the subjective attributes, he suggested some objective attributes that should be present, to enable a good internal audit function. Among these, Adrian pointed out that independence is important and internal audit needs to be both adequately resourced and appropriately resourced. In addition, the internal audit function should be competent, effectively managed, and meet quality standards i.e. the IIA Standards. It is also necessary for internal audit to focus on the relevant scope, receive full management support and have a seat at the table for key management and Board meetings. The AC would also need guidance on the basis of evaluating the effectiveness of the internal audit function.

AC chairpersons are generally cognisant that it is important for internal audit to be independent and appropriately resourced, amongst the several other similar key attributes that should be present for internal audit to be able to effectively provide independent and objective assurance needed by the Board and management.

Yet a perennial struggle that many organisations face, which is also echoed by some participants, is the justification of resources for internal audit. The mandatory requirement imposed by the new rule will provide some traction as well as the opportunity for internal audit to step up and put forth a strong value proposition to become a strategic business partner for management, and an effective supporter of the AC.





## CLOSING THOUGHTS

With the three over-arching elements of an effective internal audit function described above, i.e. 1) Positioning, Scope and Resource, 2) Quality Assurance and 3) Value Proposition, that encompass generally what is described by the 10 Core Principles, organisations and their Boards will be able to use a principles-based approach to assess the effectiveness of their internal audit functions and whether the functions are adequately resourced. The elements are largely applicable for organisations of varying sizes, although smaller organisations or those with smaller internal audit teams may need a different approach to meet the requirements.

### List of Participants

S/N	NAME	DESIGNATION	ORGANISATION
1	Adrian Chan	Senior Partner	Lee & Lee
2	Stephen Ching	Senior Vice President, Head of Internal Audit	ST Engineering Ltd
3	Jonathan Forth	Executive Director, Audit Services Group	Marina Bay Sands
4	Debbie Goh	Head, Group Audit	Fraser and Neave, Limited
5	Derrick Lim	Former Divisional Vice-President, Internal Audit	Singapore Airlines
6	Marcus Ng	Head of Audit, Asia Pacific	Barclays
7	June Sim	Senior Vice President & Head of Listing Compliance	Singapore Exchange Regulation Pte.Ltd.
8	Tan Boon Yen	President	The Institute of Internal Auditors Singapore
9	Karen Tan	Vice President, Group Internal Audit	Mandai Park Holdings Pte Ltd
10	Tan Peck Leng	Director of Internal Audit	Defence Science and Technology Agency
11	Yeo Wee Leong	Senior Vice President, Group Internal Audit	Boustead Singapore Limited
12	Yik Yeng Yee	COO and Executive Director, Group Audit	DBS Bank

### Moderator

S/N	NAME	DESIGNATION	ORGANISATION
1	Tay Woon Teck	Managing Director	RSM Risk Advisory





Copyright © 2019 The Institute of Internal Auditors Singapore. All Rights Reserved.

*IIA Singapore publishes this document for informational and educational purposes. This material is not intended to provide definitive answers to specific individual circumstances and as such is only intended to be used as a guide. IIA Singapore recommends that you always seek independent expert advice relating directly to any specific situation. IIA Singapore accepts no responsibility for anyone placing sole reliance on this material. No part of this publication may be reproduced, in any format, without prior written permission of IIA Singapore.*