



# Internal Audit Excellence Award 2012

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## The Winners' Perspective

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*Prepared by SIAS, IIAS and SKBI*

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## Message from Organisers

**P**ointillism is a style of painting where the artist carefully places thousands of tiny dots of different colors come together. Each single dot on its own is meaningless. But seen together, the dots form a larger picture that captures the artist's vision.

Like the pointillist, the internal auditor produces a slew of recommendations and insights from his work across the organization. Each one may seem insignificant. But seen as a whole, the internal auditor's work comes together to help the organization achieve its objectives and realize its vision. The board and the management receive assurance that the organization's processes and controls are sound and robust through the internal auditor's testing and evaluation. Stakeholders' concerns about strategic, financial, operational and compliance risks are alleviated by up-to-date information gathered and communicated by the internal auditor. Constantly working on the ground, the internal auditor acts as the eyes and ears of the shareholders.

While internal audit may be viewed as costly, the larger picture that emerges is that the function adds value to the organization through its independent, objective assurance and consulting activities, governed by the International Professional Practices Framework (IPPF) comprising standards promulgated by The Institute of Internal Auditors (IIA). The risk-centric IPPF has developed in tandem with the dynamics of the business and regulatory landscape, such as the King III Report on Corporate Governance, so that internal auditors prioritize their work based on risk assessment. Risk is also the area of great concern to stakeholders today.

In view of all the above, internal audit in a listed company is a vital function, requiring adequate resources to enable internal auditors to perform effectively. Organizations should thus carefully balance the use of independent service providers for internal audit with the involvement of full-time employees. The latter are positioned to provide the audit committee with a better sense of the tenacity of assurance. The results produced will go far toward reducing the risk of scandals and the associated loss of shareholder trust.

We launched the Internal Audit Excellence Award in 2011 to recognize excellent internal audit functions and raise awareness of the importance of effective internal audit. The award's long-term goals are twofold: firstly to inspire internal auditors to continue raising the bar in their profession; and secondly to encourage listed companies to put in place effective internal audit functions. We firmly believe that internal auditors can be the catalyst for needed organization changes and transformations!

In this spirit, we congratulate the winners of this year's Internal Audit Excellence Awards and encourage them to continue their excellent efforts. As leaders in the field, they serve as role models; and their work provides a benchmark of professional excellence for the benefit of organizations and stakeholders alike.

**David Gerald**  
*President / CEO*  
*Securities Investors Association*  
*Singapore (SIAS)*

**Eric Lim**  
*President*  
*The Institute of Internal*  
*Auditors Singapore*

**Foo See Liang**  
*Associate Professor (Practice),*  
*Co-Director, Centre for Corporate*  
*and Investor Responsibility (CCIR)*  
*Sim Kee Boon Institute for Financial*  
*Economics, Singapore Management*  
*University.*





RSM Ethos Pte Ltd

The quality and perceived strength of a listed organisation's governance practices has an undeniable influence on its market value. To the Board and Audit Committee, a robust governance and internal control framework complemented by a proactive and competent internal audit function safeguards organisational value and is a multi-functional tool which deters and weeds out undesirable business practices. Shareholders and regulators take comfort in an internal audit function that goes beyond ticking the boxes, appreciating one that promotes robust and effective control activities that emphasises substance over form.

In today's business environment, internal auditing with perfect hindsight is no longer adequate. The internal auditor now needs to be forward looking and able to proactively address risks and help the organisation negotiate turbulent weather ahead.

RSM Ethos is proud to be sponsoring the Internal Audit Excellence Awards. We recognise the growing importance of internal audit in building resilience and achieving business performance that is balanced with good corporate and social citizenry. The excellent standards and achievements set by the award winners is testimony to the emphasis and importance placed on internal audit and serves as a beacon for the industry to aspire towards and follow. We extend our congratulations to the winners.

Chris Liew  
*Chairman*  
*RSM Ethos Pte Ltd*



## The Importance of Internal Audit

As Singapore works towards becoming a leading global financial hub, it is investing in building the appropriate framework of sound corporate governance, recognizing that the quality of governance practices can be either a significant competitive advantage or a key limitation. At the same time, organizations face profound challenges in creating and preserving sustainable corporate value in today's business environment of increasing complexity and uncertainty. The unfolding of various high profile financial scandals has further escalated these challenges to new heights.

All these factors have ushered the internal audit function to the forefront of corporate governance.

The Singapore Code of Corporate Governance recognizes the internal audit function as integral to sound corporate governance. Internal audit provides assurance to key stakeholders on the tenacity and integrity of organizational conformance and performance. The desired outcome is an organization that is well directed and controlled to achieve its objectives, while addressing fraud prevention, detection and deterrence.

The conformance aspect of governance has been the responsibility of internal audit from its beginning. While assessing the effectiveness of organization policies, procedures and related controls, internal audit is well placed to identify gaps and/or deficiencies in policies and design, and recommend remedial measures for improvement. From the perspective of the board of directors, having the internal auditors on the ground provides an additional safeguard that appropriate procedures are in place and adhered to.

The performance aspect of governance now sees the risk-centric approach occupying centre stage to address business uncertainties. Here, the internal audit function's long-standing expertise in risk assessment, as well as observations at ground level, enable internal auditors to alert the board of directors on the organization's evolving risk profile through their reports to the audit committee.

With regard to fraud, there is empirical evidence to suggest that *“organizations with an internal audit function are more likely than those without such a function to detect fraud within their organizations. Further, organizations that rely solely on outsourcing for their internal audit function are less likely to detect fraud than those that undertake at least part of their internal audit function themselves. These findings suggest that internal audit adds value through improving the control and monitoring environment within organizations to detect fraud<sup>1</sup>.”*

Finally, beyond the importance of all these contributions, the intrinsic value of an effective internal audit function includes more than the “dollars and cents” of compliance with policies and processes and risk management. At its best, internal audit helps promote the organization's ethics and values, helping to foster and reinforce a sound enterprise-wide governance culture into the organization's DNA.

<sup>[1]</sup> Paul Coram, Colin Ferguson & Robyn Moroney. 2007. *The Importance of Internal Audit in Fraud Detection*. [http://aaahq.org/audit/midyear/07midyear/papers/Coram\\_TheImportanceOfInternalAudit.pdf](http://aaahq.org/audit/midyear/07midyear/papers/Coram_TheImportanceOfInternalAudit.pdf). See also *Internal Audit, Alternative Internal Audit Structures and the Level of Misappropriation of Assets Fraud*. *Accounting & Finance*, Vol. 48, No. 4, pp. 543-559, December 2008.

Professor Mervyn King, a world authority on Corporate Governance, has said, “The only way of ensuring that there is quality information coming out of the company is for the institution to test the quality of the governance of the company.” In this context, the integral role of internal audit is recognized and embedded in the Singapore Code of Corporate Governance. The thrust of internal audit is to inspire confidence.

David Gerald, President and CEO of SIAS, has described the role of internal audit in vivid terms. *“The internal auditor’s job is to leave no stones unturned. He is the watchdog, the buddy to the CEO. He is the conscience to the board and the CEO. As the guardian angel to the CEO, he should tell him where the devils are”* (CPA Forum, 11 July 2011).

To recognize and promote the importance of internal audit, the Institute of Internal Auditors Singapore (IIAS), the Securities Investors Association (Singapore) (SIAS) and Sim Kee Boon Institute at Singapore Management University (SKBI@SMU) launched the “Internal Audit Excellence Award” as part of the SIAS Investors’ Choice Awards. This award honours publicly listed companies that have put in place effective internal audit functions that enhance corporate governance, and highlight the need for excellence in internal audit.

The organizers of the award recognize that internal audit excellence is demonstrated when companies establish the following dimensions:

- Positioning excellence, such that the internal audit function builds up an organizational status to enhance its value proposition;
- Proficiency excellence, whereby internal audit is equipped with the capability and capacity to deliver excellent service;
- Process excellence, meaning that internal audit is both efficient and cost effective;
- Performance excellence, where internal audit makes a difference to the organization and provides high quality assurance for the governance, risk and controls processes and systems of the company.

Apart from these dimensions, another important part of the success of the Singapore Internal Audit Excellence Award lies in its framework, that explicitly encompasses the views of key stakeholders in the participating organizations. The framework incorporates a four-party view of internal audit excellence through the perspectives of the Chief Audit Executive/Head of Internal Audit, the Chief Executive Officer, the Audit Committee Chair and the External Auditor (refer to the diagram below). The Audit Committee and External auditor are essential and independent elements of sound corporate governance. Their inclusion makes the award framework distinctive and enhances the robustness of the framework with a wider and more balanced perception of internal audit excellence.

The award selection process comprises three phases. Phase one requires the four key stakeholders (i.e. CEO, CAE, AC chair and external auditor) of participating organizations to independently submit their self-assessment of their internal audit functions. In Phase two, the

applicants are shortlisted based on the self-assessment scores. Finally, in Phase three, shortlisted applicants are further assessed and ranked based on quantitative and qualitative factors (e.g. track records of excellence in corporate governance) to determine the eventual award winners.

As the business environment grows increasingly uncertain and complex, the Singapore Internal Audit Excellence Award aims to showcase leading internal audit practices and reinforce the ethos that internal audit is an essential element of sound corporate governance. Winners of the award demonstrate, through their achievements, that excellent internal audit makes sound business sense, through helping to preserve and create sustainable corporate value.

### **SIAS Investors' Choice Awards - Internal Audit Excellence Award Framework**





# The Winning Companies

## DBS Group Holdings

Internal audit is about inspiring confidence, something indispensable to any company. And for DBS, Singapore's largest bank, the Group Audit function is integral to its system of checks and balances. With an in-depth understanding of DBS' businesses and risks, including corporate governance, risk management frameworks and key internal control issues in the operating environment, Group Audit works closely with the CEO, senior management and the first and second lines of defence. It steers the internal control agenda, promotes risk and control awareness, and proactively shapes the risk and control culture of the bank.

"As an independent internal audit function, we take pride in enabling the bank to achieve its long-term business objectives by performing effective and efficient audits to foster a robust control culture within DBS," says Mr Jimmy Ng, Managing Director and Head of Audit for DBS Group. "We add further value through promoting cross-unit, cross-location operating effectiveness and learning, and nurturing talent and future leaders within the bank."

To promote risk and control awareness within DBS, Group Audit has introduced programmes such as inviting guest auditors from various parts of the bank to participate in the audit process. This provides fresh, independent opinions on the adequacy and effectiveness of controls in other units, facilitates information sharing across functions and geographies, and gives participants a better appreciation of the importance of risk and control. This cross-unit scheme extends to the DBS talent management programme, where mid-career wholesale bank credit officers or relationship managers spend a minimum of one year in job rotation with Group Audit's credit risk review team.

Since 2009, Group Audit has used an integrated risk-based audit approach that ensures end-to-end audit coverage. It enables the function to perform comprehensive end-to-end integrated risk-based audit reviews on loan portfolios including business risk, credit quality and processes, and focus more closely on Basel II and III regulatory requirements. Further, it emphasises the first line of defence and allows greater coordination between audit and the second line of defence. Group Audit has also moved towards more extensive use of computer-assisted audit techniques for greater efficiency and effectiveness, and shifted towards a 'continuous monitoring' audit approach which provides a more timely assessment of risk and controls.

The DBS IA function was set up when DBS was incorporated. Today, it has grown from a single Singapore-based team to include teams in DBS' key markets of Hong Kong, China, Taiwan, Indonesia and India, with Singapore as the headquarters. The audit teams in Singapore and Hong Kong support other locations, including international branches, in specialised areas such as technology and risk management. Together, the teams make up a multi-disciplinary professional services function, using a common risk-based audit methodology, language and system.



DBS Group Holdings was established in 1968 as the Development Bank of Singapore and is today one of Asia's leading financial services groups. DBS operates in 15 markets and is headquartered in Singapore and listed on the SGX mainboard.



# The Winning Companies

## Singapore Airlines Limited

The internal audit function of an organisation that operates literally worldwide, with a network spread across six continents, may be said to have a broader task than usual. For Singapore Airlines Limited, the IA function contributes to increasing transparency and control knowledge organisation-wide. This task is accomplished firstly through education: the IA function establishes and runs familiarisation and course based training programmes for key personnel overseas. Within these courses, control matters are discussed at both a generic and specific level with regards to the area of posting.

To further ensure that audit and other teams can learn from their counterparts in other locations, the SIA IA function regularly shares information about common control issues. For example, the IA function assisted the department in charge of monitoring account crediting and usage for customer loyalty accounts. The IA team developed data analytic tools and shared them with the department so that the department could better manage the authenticity of data in customer accounts and more easily detect suspect or unusual activities.

This broad reach is possible because the SIA IA function holds audit responsibilities for all the subsidiaries in the SIA Group, including some joint ventures where SIA or its subsidiary has obtained approval for audit coverage. The IA function also has charge of the Group's fraud management and whistleblower programmes. The latter was implemented in the mid-2000s, at the same time that the IA function moved from a compliance monitoring focus to a more holistic governance centric model.

The SIA IA function was first established more than two decades ago and has played an increasingly significant role over the last decade. For example, the IA function initiated a control self assessment programme for company operations in the mid-2000s, as well as continuous monitoring and data analytics review techniques. The whistleblowing programme was also an IA initiative.

Besides these, the SIA IA function also hosts a number of governance improvement and awareness programmes including a Management Control Self Assessment (CSA) programme, a Human Resource Talent Attachment to Internal Audit programme, a Fraud Continuous Monitoring programme and a pre-out-station posting control and audit matters familiarisation programme.

"Internal Audit too strives like all components in the Company for the highest standards in our work and aims to be the best in everything we do" – Mr. Derrick Lim, Divisional Vice President Internal Audit.



Singapore Airlines Limited is the flag carrier airline of Singapore and a top global air transport company with a network across six continents. In addition to operating its aircraft fleet, Singapore Airlines owns a range of air travel-related businesses.



# The Winning Companies

## Cerebos Pacific Limited

**M**aintaining high standards is top priority for a company in the food and health supplements industry, and that is where Cerebos Pacific Limited's IA function shines. Since its establishment in 1998, Cerebos's IA department has served as the "eyes, ears and nose of management", as the company describes it: providing management with independent assurance that the company's established processes and controls are working effectively, and that its resources are deployed in accordance with strategic and corporate goals.

The Cerebos IA department has followed best practices since 2001. The department reports functionally to the Chairman of the Audit Committee and administratively to the Group Chief Financial Officer. Further down the line, the department works closely with each business unit in the Cerebos Group to introduce best practices and generate efficiencies between subsidiaries, while remaining independent.

IA achieves this aim by improving transparency and identifying gaps, says Mr. Ramlee Bin Buang, Executive Vice President & Group Chief Financial Officer: "As a reputable and responsible food and health supplements company, Cerebos believes in the importance of corporate governance and compliance. Group Internal Audit helps the company to achieve this through bringing transparency to business processes and helping to identify gaps in controls which leads to a more efficient and effective organization."

For example, at a routine audit in China several years ago, the IA team noted several gaps in the management of stocks which could potentially result in unaccountable stocks. The team brought these lapses to the notice of the local management, who then made improvements to the process.

Cerebos's IA function is also exemplary for having successfully positioned itself as a valued partner to the various business units. Initially seen as the company's "policemen", the IA team had difficulty getting the trust of other departments, and was hampered in its job because Key Performance Indicators for local management included the number of points raised in audit findings – placing pressure on auditees and making them resistant to the findings. Over time, however, the IA function adjusted its image to better match the nature of its work: not fault finding, but promoting improvements for the good of individual business units and the company as a whole. The IA team accomplished this by addressing the business units' concerns about the audit process: for example, they developed and implemented a more consistent framework for rating audit findings, so that auditees would have less reservations when being audited.

The Cerebos logo is written in a blue, cursive script font.

Cerebos Pacific Limited is one of Asia's leading food and health supplements providers. Formed in 1981 and is now a wholly owned subsidiary of Suntory Beverage and Food Limited, Cerebos is the owner of household name BRAND'S® and a range of other well known food brands.



# The Winning Companies

## OCBC Bank

**G**ood corporate governance and risk management are integral to the operations of the banking sector. And for OCBC, Singapore's second-largest bank, the IA (Internal Audit) function plays an integral role in upholding both these qualities.

"Our mission is to provide independent and objective assessments to enable OCBC to accomplish its strategic initiatives, using a risk based, systematic and disciplined approach to evaluate and help improve the effectiveness of risk management, control, and governance processes," says Ms Goh Chin Yee, Head of Group Audit for OCBC Bank. "We believe that maintaining a robust risk and control culture involves participation from all our employees."

Over the years, OCBC Bank's IA function has moved from a compliance-based approach to a risk-based approach that is in line with industry standards and regulatory expectations. This strong focus on risk management has led to some innovative initiatives: for example, the IA team has conducted a Guest Auditor Programme since 2001, under which employees from various business and support units have the opportunity to be guest auditors through classroom training and direct audit experience. By giving staff a better awareness and understanding of risk and controls, this programme has contributed to the development of the strong risk and control culture within OCBC.

The global coverage of the IA function, allows the team to provide holistic recommendations that helped to streamline operations and improve the risk management system. For example, the IA team in the past observed resource and expertise constraints in some geographies where OCBC operates, and had recommended centralising certain functions at the head office.

The IA function has also implemented various other initiatives to help maintain OCBC's risk management and corporate governance standards, such as developing a fraud risk indicator library which enables auditors to assess fraud risks consistently. This library has also been extended to OCBC's Operation Risk Management department for bankwide fraud risk assessment. In addition, the IA function has implemented an automated audit issues tracking solution which promotes proactive and timely resolution of audit issue closures by the business units.



OCBC Bank is the longest-established Singapore bank and the second-largest financial services group in Southeast Asia by total assets. It is one of the world's most highly-rated banks, with an Aa1 rating from Moody's and was ranked by Bloomberg Markets as the world's strongest bank in 2011 and 2012. OCBC Bank operates in 15 countries and territories.

# Internal Audit Excellence Award 2012 Winners



Group Photo



Winner: DBS Group Holdings Ltd



Runner Up: Singapore Airlines Limited



Runner Up: Cerebos Pacific Limited



Merit: Oversea-Chinese Banking Corporation Ltd



Special Recognition: Mr. Lim Him Chuan

## 2013 Internal Audit Excellence Award FAQ

### **1. What is the purpose of the award?**

The award seeks to honour and recognise public listed companies that have put in place an effective internal audit function to enhance corporate governance, risk management and internal controls.

### **2. Is the award part of the SIAS Investors' Choice Awards?**

Yes

### **3. How can I participate in the award?**

An invitation will be sent to companies with full-fledged Internal Audit (IA) function and a good score for Audit Committee related questions where information can be found in the Companies' Annual Report and Website.

Companies should complete the Internal Audit Excellence Survey Questionnaire and the Internal Audit External Perceptions Survey.

### **4. Who should complete the Internal Audit Excellence Survey Questionnaire and deadline?**

The Questionnaire should be completed by company's Head of Internal Audit. If you have entirely outsourced your internal audit function, you should get your internal audit service provider to complete this Questionnaire. The Questionnaire can be completed within 30 minutes. Submission deadline is 26th September 2013.

### **5. Who should complete the Internal Audit External Perceptions Survey and deadline?**

The Survey should be completed by the company's Audit Committee Chairman, CEO and External Audit Partner, which can be completed within 10 minutes. Submission deadline is 26th September 2013.

### **6. How are the winners selected?**

The winners will be determined by the selection committee, which comprises of representatives from SIAS, SMU and IIAS.

### **7. When will the award be given out?**

The winners of the award will be announced at the SIAS Investors' Choice Awards Ceremony on 8th November 2013, at Resorts World Convention Centre, Singapore - Compass Ballroom, West.

### **8. Who should I contact if I have more questions regarding the award?**

The Institute of Internal Auditors Singapore at [IAEA@iia.org.sg](mailto:IAEA@iia.org.sg) or Singapore Management University, Ms Gin Nguyen at [knhnguyen@smu.edu.sg](mailto:knhnguyen@smu.edu.sg)

