

16th



SIAS

INVESTORS'
CHOICE
AWARDS

INTERNAL AUDIT EXCELLENCE AWARD 2015

THE WINNERS' PERSPECTIVE

Prepared by SIAS, IIA Singapore and SKBI

Organised by:



The Institute of
Internal Auditors
Singapore



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Message from Organisers

The role of an internal auditor is becoming more important. This is especially so with the recent changes to SGX Listing Rules. The board is now required to demonstrate that they have rigorously assessed and opine on the adequacy of internal controls in relation to financial, operational and compliance risks.

The board typically relies on management, line departments and external audit for such an assurance. With growing demands made on directors and senior management, a key question for the board is how it could give an effective opinion on these internal controls. There is a heightened focus on the importance of internal assurance. Listed companies are increasingly leveraging on Internal Audit (IA) to fulfil their listing obligations. This new rule underpins the importance of IA's role.

It also underscores the importance of IA as a "third line of defence" and an integral element in sound corporate governance.

Whilst an IA function is currently not required by law in most parts of the world, many companies do not appoint a full-time internal auditor because they either have not fully grasped the importance of having one, or are deterred by the cost of having one. This is a mistake because while the costs of appointing a full-time internal auditor might be considerable, scandals could cost more. Companies spend millions of dollars to hire professionals to help with damage control to their reputation when a scandal breaks out. This is because investors lose confidence while regulators and law enforcement agencies incur losses.

Frederick D. Lipman and L. Keith Lipman, authors of 'Corporate Governance, Best Practices' suggest perhaps the Board and management should look at internal audit as a substitute for scandal insurance. "If scandal insurance were available (which it is not), many companies would purchase it if the premium cost were reasonable. Internal audit cost should be viewed as a form of insurance. In fact, effective internal auditing, both operational and strategic, can save the company enormous amount of money in uncovering duplication, waste, errors and wrongdoing in the company."

Thus to acknowledge an internal auditor's importance in an organisation, SIAS together with IIA Singapore and SMU, launched the Internal Audit Excellence Award in 2011. Besides acknowledging a company's excellent IA functions, it also seeks to raise awareness of the importance of effective IA. The award's long-term goals are two-fold: 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 necessary changes in the organisation.

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 organisation and stakeholders alike.

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

Tan Boon Yen
President
The Institute of Internal
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Economics, Singapore Management
University.

RSM is proud to be the sponsor of the Internal Audit Excellence Award ("IAEA") for 2015 to recognise public listed companies that have put in place an effective internal audit function to enhance corporate governance, risk management and internal controls. We have continued to support this award since its inception in 2011 as we believe it will serve to inspire internal audit functions to scale new heights in corporate governance to improve corporate performance and accountability, create long-term shareholder value and increase investors' confidence.

The internal audit function is one of the pillars of good governance as it supports both Management and the Board of Directors in assessing the adequacy and effectiveness of internal controls, risk management and governance processes. Internal audit also deals with issues that are important to the continuity and prosperity of the business. Most importantly, the internal audit function is an objective assurance resource to the Board of Directors and its committees as it is independent of Management. Therefore, this is one of the key evaluation criterion for internal audit functions participating in the IAEA. The quality of the function is benchmarked against the International Standards for the Professional Practice of Internal Auditing — the recognised professional standards for internal audit promulgated by The Institute of Internal Auditors.

RSM extends our congratulations to all the winners of this year's award. The achievements and excellent standards set by the award winners are testimony to the emphasis and importance placed on internal audit by those organisations.

Chris Liew
Chairman, Risk Advisory



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 fraud¹."

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.

^[1] 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. 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.

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The Selection Process

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





Incorporated in March 2000, SMRT is a multi-modal land transport provider, with core businesses in rail operations, maintenance and engineering, as well as in bus, taxi and automotive services. Public listed since July 2000, it also has subsidiaries in retail, media and marketing, as well as properties and retail management.

One of the primary roles of IA is to provide independent and objective assessment on the adequacy and effectiveness of the Group's system of internal controls and risk management. Strong positioning within the organisation empowers IA to bring values to sound corporate governance. The Head of IA reports directly to the Audit Committee

Chairman, and administratively to the Chief Executive Officer. The IA team is organised according to various business units so that each IA unit is better positioned to commit to the corresponding business unit. IA is represented in the key IT Project Steering/Working Committees, as well as Productivity and Process Improvement Committees, on an advisory basis. The Head of IA attends Management Committee Meetings to be apprised of the Group's strategies and business reviews.

The IA team regularly reviews and improves its audit processes for greater effectiveness and efficiency e.g. through technologies and data analytics. The team also invests in developing the auditors' business acumen, analytical and critical thinking, and keeping themselves up to date on emerging risks and challenges faced by the organisation. These initiatives include in-house and external trainings, and short or long secondment of IA staff to business units or projects.

In today's environment of increasing uncertainties, there is an expectation of IA to expand its value beyond the traditional role of assurance. Business units are looking to IA for more timely advisory and partnering roles. IA is committed to becoming a trusted advisor to the business units. In SMRT, IA works alongside business units on various emerging issues such as cyber and data security projects, and the review of system and process readiness to meet new business and regulatory risks. To rise up to the challenge of sustaining a dynamic business environment, there is continuous dialogue, both formal and informal, amongst IA, business units and other compliance functions within the organisation, to ensure that resources are prioritised to meet the new challenges faced by the organisation.

The external Quality Assurance Review, which was conducted by a qualified independent party, highlighted the key strengths of SMRT IA. This includes the fact that the IA team has evolved from just performing the traditional compliance role of auditors to providing business units governance oversight for initiatives and implementation of systems or processes.

The role of internal audit has evolved and is now playing a more prominent and proactive role in non-financial reporting matters, risk management, key emerging risks and enabling of business performance. Because of the challenges which these roles entail and the invaluable learning experience they provide as a result, Mr. Wong Kiew Kwong, Head of SMRT Audit Division, says that he will recommend the IA profession to someone who is considering it as a career.



Frasers Centrepoint Limited

Frasers Centrepoint Limited (“FCL”) is a full-fledged international real estate company with total assets of S\$23 billion as at 30 June 2016.

It has three strategic business units – Singapore, Australia and Hospitality, which focus on residential, commercial, retail and industrial properties in Singapore and Australia, and the hospitality business spanning more than 80 cities globally. FCL also has an International Business arm that focuses on investments in China, Southeast Asia, and the United Kingdom.

Listed on the main board of the SGX, FCL is currently the only Singapore real estate company to have listed REIT platforms across the four real estate sub-sectors of retail, commercial, hospitality and industrial.

Given the scale and reach of its operations across such a diversified geographical landscape, a robust system of governance, risk management and controls, is crucial. The internal audit (IA) function performs an independent risk assessment of the entire audit universe of the Group by developing an audit plan based on comprehensive review of risk factors. Thus, IA is an important pillar in helping the directors and senior management by evaluating the Group’s system for internal controls, risk management and governance and making recommendations for improvement. To do so effectively, IA needs to constantly evolve to keep up with developments in the Group’s businesses, taking into account the prevailing economic climate and relevant changes in regulatory requirements.

After a de-merger from former parent company Fraser & Neave, Limited (“F&N”), FCL was re-listed on the Singapore Exchange in January 2014. As part of a transitional arrangement between FCL and F&N for shared corporate services, FCL’s IA function was performed by F&N’s IA department till 30 September 2014, when FCL formed its own IA department on 1 Oct 2014. As of end March 2016, the department has 17 staff. Ms Quek Khin Geok, the head of FCL’s IA department, reports directly to Mr Charles Mak Ming Ying, a non-executive as well as the lead independent director and chairman of the audit committee at FCL Group level. Ms Quek also reports directly to the Chairmen of the respective audit committees established at subsidiary group level, and Mr Piya Treruanchachada, FCL’s company secretary, on administrative matters.

Besides having proficient personnel, FCL’s IA attributes its success to the strong support from various audit committees in the group and from the management in approving expenditures on software and hardware improvements. FCL’s IA team members are also given training and development opportunities to update their technical knowledge and auditing skills. Each staff has received relevant technical training and attended seminars organised by the Institute of Internal Auditors, Singapore and other professional bodies.

As the global market becomes increasingly volatile and complex, the IA team is expected to deliver insights beyond its traditional function, which is one of providing assurance around business process risk and controls, particularly in strategy execution, emerging risks and increasing the use of data analytics.

To meet these new challenges, IA team members keep themselves updated through reading, attending courses, networking, and regular review of internal processes. The team is also committed to attracting suitable staff, and providing close supervision and guidance to new staff. To further improve efficiency and effectiveness, automated work papers and improved software have been introduced to perform data analytics.

Despite the fact that the work required is no walk in the park, Ms Quek says she will not hesitate to encourage someone to join the profession because of the opportunity it has given her to play a crucial part in an organisation. “I feel satisfied when I follow reports of an FCL entity over a few consecutive periods and later see that processes have improved because of actions taken by management to address issues raised by IA. Because of our team’s efforts, many control gaps have been closed or mitigated”.

