

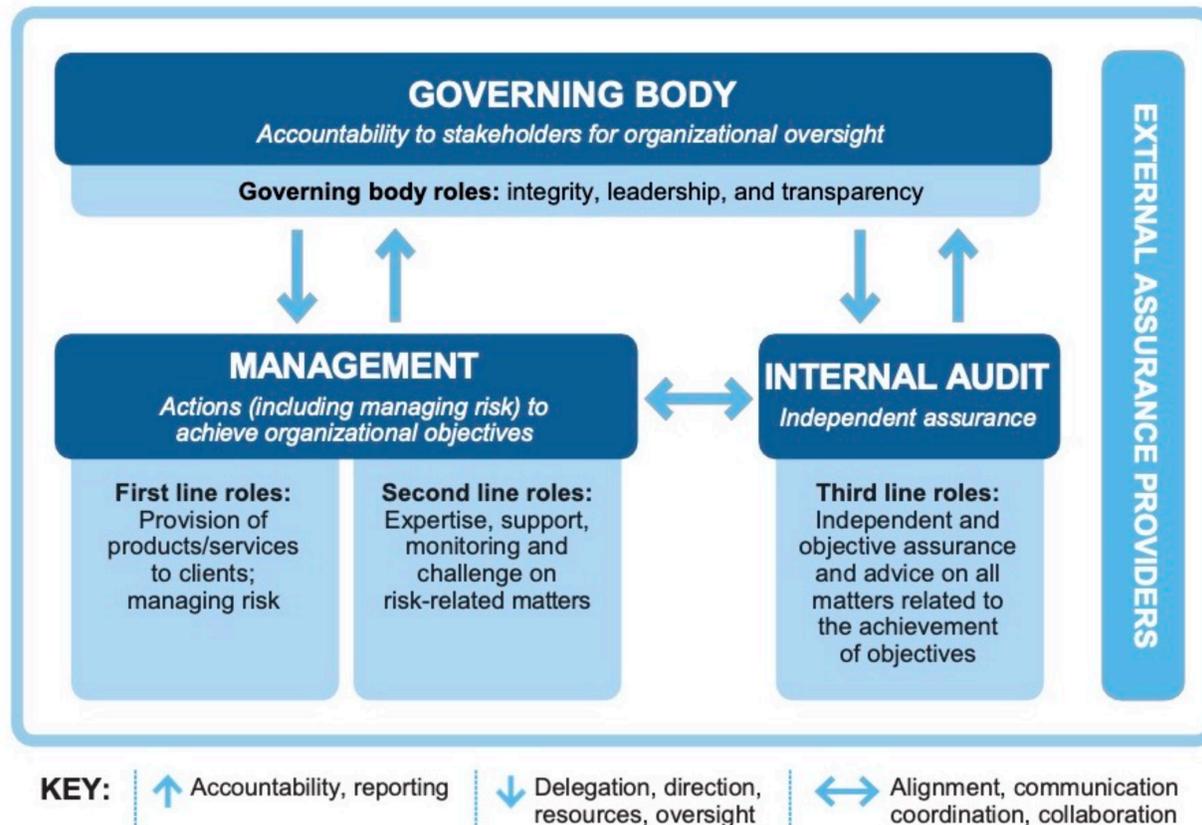
Introduction

“Good governance begins at home and internal audit is at the frontline of our system of checks and balances” and “a strong internal audit function will serve as the compass to help companies stay on course”, said Mr Tan Boon Gin, CEO of Singapore Exchange Regulation (SGX RegCo).

With effect from 1 January 2019, Singapore Exchange (SGX) Listing Rule 719(3) requires an issuer to establish and maintain on an ongoing basis, an effective internal audit function (IAF) that is adequately resourced and independent of the activities it audits.

The key attributes for effective IAF, namely “independent from management” and “objective mindset of internal auditors” are embodied in The Institute of Internal Auditors’ (The IIA) International Standards for Professional Practice of Internal Auditing (Standards). The IAF, being a key pillar of sound governance, supports the two essential groups in the organisation - Board (Governing Body) and Management. The relationship among the three groups is shown in **The IIA’s Three Lines Model**, a simple framework depicted below showing the roles of each group and how they work with each other.

The IIA’s Three Lines Model



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Core Principles for the Professional Practice of Internal Auditing

The Practice Bulletin aims to explain and demonstrate that The IIA's 10 Core Principles (Principles) taken as a whole, articulate internal audit effectiveness. The Principles are mandatory elements of the International Professional Practices Framework (IPPF)¹. For an IAF to be considered effective, all Principles should be present and operating effectively. Importantly, Principles 2, 3 and 5 underscore SGX Listing rule 719(3) and the Practice Guidance 10: Audit Committees² were echoed by SGX RegCo.

The Board³ and Management should ask the Chief Audit Executive (CAE) whether all 10 Core Principles are present in the assessment of the effectiveness of the IAF. Key factors such as geographical presence of its businesses and relative size of internal audit team in each location and reporting lines of these audit teams to the CAE are key considerations in evaluating effectiveness.

Typically, established IAFs would have a Quality Assurance Improvement Program (QAIP) that is built on these Principles. For IAFs that do not have a formalised QAIP documented in its internal audit charter (IA Charter), they should assess their effectiveness against these Principles as tabulated below.

Where an organisation outsources its internal audit services, the external professional services firm may use the guidance to assess the effectiveness of the IAF⁴.

Demonstration of Principles in Internal Audit Function

The tables below list examples of the drivers and measurable indicators that enable the IAF to demonstrate each Principle. The CAE should consider the drivers and indicators from the examples in the tables that are relevant to their organisation to demonstrate the Principles, taking into account the governance structure and internal control environment. The CAE should aim for ongoing improvement of its internal audit quality to demonstrate the Principles.

The first column of each table lists examples of drivers that are actions internal auditors may take to demonstrate the Principle. The second column gives examples of key indicators to help gauge how well the IAF has demonstrated the Principle. The third column is the self-assessment by the CAE on the extent of demonstration of the Principle. To support the demonstration of the Principles, the IAF should maintain documentation of the source of information e.g. Audit Committee (AC) meeting minutes, emails to Management, memos, results of assessments, survey results, etc.⁵

¹IPPF is the conceptual framework that organises authoritative guidance promulgated by The IIA. The mandatory elements are: (1) Core Principles; (2) Code of Ethics; (3) Standards; (4) Definition of Internal Auditing

²Practice Note 10 of Code of Corporate Governance 2018

³Board or the Audit Committee

⁴Professional services firm may refer to "Supplemental Guidance: Applying The IIA's International Professional Practices Framework as a Professional Services Firm" on interpretation of its role under IPPF

⁵Implementation Guidance (IG) 2060 provides that parties should keep documentary evidence of communication



Principle 1: Demonstrates Integrity

Does IAF uphold a culture of integrity?

"The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement"
- International Professional Practices Framework (IPPF)

| Drivers <i>What should be present in this principle?</i> | Indicators <i>How do we know that we have been successful?</i> | Assessment |
|--|---|--|
| <ul style="list-style-type: none"> ○ IIA Code of Ethics is embodied in the IA Charter. ○ There are IA policies on ethics ○ CAE informs internal auditors of their ethical responsibilities ○ Training on the Code of Ethics takes place ○ Internal auditors confirm compliance to the Code of Ethics annually | <ul style="list-style-type: none"> ◆ Feedback from Management/ reviews/surveys indicates team members demonstrate integrity ◆ No complaints of internal auditors regarding ethics/ integrity ◆ All internal auditors have completed ethics related CPE/ CPD requirements ◆ Presence of IA ethics policies | <p>D: Demonstrate</p> <p>PD: Partially Demonstrate</p> <p>DND: Does Not Demonstrate</p> |



Principle 2: Demonstrates Competence and Due Professional Care

What trainings were given to the audit team in the last one year to demonstrate that they are competent, possess the relevant skills and knowledge to enable them to apply with due professional care in performing their audit work?

“As with other market professionals, the internal auditors must perform their engagements with due care, proficiency and in accordance with professional standards. Doing so requires internal auditors to have the necessary knowledge, skills, and experience to discharge their responsibilities. They must also seek to continuously improve their competence and the effectiveness and quality of their services.

Accomplishing this requires structuring the IA activity and creating job descriptions, taking an inventory of the skills needed to achieve the IA plan, and developing a strategy to recruit and/or train internal auditors with specific competencies.”

- Regulator’s Column: What does SGX RegCo expect of issuers’ internal audit function?

| Drivers <i>What should be present in this principle?</i> | Indicators <i>How do we know that we have been successful?</i> | Assessment |
|---|--|--|
| <ul style="list-style-type: none"> ○ Staff development based on relevant competencies identified in the Singapore Skills Framework or IIA Global’s Internal Audit Competency Framework ○ Policy encourages IIA certifications such as CIA and CRMA ○ Internal Auditors’ annual training plan linked to development needs is carried out ○ Risk assessment was done for each engagement ○ Background research is done as part of audit engagement ○ Performances of IAF are assessed for each engagement ○ Assurance procedures change based on level of engagement risks | <ul style="list-style-type: none"> ◆ Skills required to audit key areas can be matched to in house team/or with co-sourced provider ◆ All internal auditors have undergone 40 hours of relevant training per annum ◆ Percentage of team who have earned certifications e.g. CIA, CISA, CRMA, CFE ◆ Percentage of audits not performed on a risk-based approach ◆ Percentage of internal auditors with above average rating from Management survey of staff’s competencies ◆ Percentage of audits that have disagreements with audit clients after final reports are issued ◆ No cases of major errors or omissions in reports are identified after issuance of final reports ◆ Number of instances of IA activity failing to escalate delayed closure of high-risk observations ◆ Percentage of internal audit management oversight and review of engagement process and workpapers compared to total hours of the engagement | <p>D: Demonstrate</p> <p>PD: Partially Demonstrate</p> <p>DND: Does Not Demonstrate</p> |



Principle 3: Is Objective and Free from Undue Influence

Are the internal auditors objective and free from undue influence and conflict of interest in carrying out their responsibilities?

“The IA function reports directly to the AC. In this positioning, AC must ensure that the IA is free from any undue influence including the influence of the auditees, and any conflict of interest, either of which would impair their ability to discharge their responsibilities objectively”.

- Regulator’s Column: What SGX RegCo expects of issuers’ internal audit function?

| Drivers <i>What should be present in this principle?</i> | Indicators <i>How do we know that we have been successful?</i> | Assessment |
|---|--|--|
| <ul style="list-style-type: none"> ○ Confirmation of objectivity (Conflict of Interest with family members, customers, suppliers) is submitted to the AC ○ Process exists to verify whether third party assurance providers have performed work for management that constitutes conflict of interest ○ No audit is done in the area internal auditors have responsibilities during the previous 12 months ○ IAF’s functional reporting to the AC is defined in the IA Charter ○ AC reviews CAE’s independence and objectivity on periodic basis ○ CAE has direct access to the board as defined in the IA Charter | <ul style="list-style-type: none"> ◆ Feedback from engagement survey indicating internal auditors is impartial and objective ◆ Internal auditors have completed forms acknowledging they are free from conflict of interest ◆ Trends in report/ratings show internal auditors do not avoid negative ratings for observations ◆ Declaration from third party assurance provider that no management work had been performed ◆ QAIP affirms that conclusions and opinions are reliable and supported with facts ◆ AC reviews CAE performance and approves appointment, compensation and termination ◆ No undue pressure or instances where restrictions had been placed on agreed scope of audit work to be carried out ◆ Scheduled at least one formal private session with the AC without management’s present ◆ Access and communication with the AC are not restricted ◆ Presence of an IA Charter that defines the IAF is reviewed and approved by the AC annually | <p>D: Demonstrate</p> <p>PD: Partially Demonstrate</p> <p>DND: Does Not Demonstrate</p> |



Principle 4: Aligns with the Strategies, Objectives and Risks of Organisation

How does the audit work plan align with the strategies, objectives and risks of the organisation?

“To develop the risk-based plan, the Chief Audit Executive consults the senior management and the board and obtains an understanding of the organisation’s strategies, key business objectives, associated risks and risk management processes.”
- International Professional Practices Framework (IPPF)

| Drivers <i>What should be present in this principle?</i> | Indicators <i>How do we know that we have been successful?</i> | Assessment |
|---|--|--|
| <ul style="list-style-type: none"> ○ IAF’s strategic plan is aligned to organisational strategy ○ IAF’s strategy is updated based on changes in internal and external environments ○ IA plan is updated based on organisation’s strategies/ objectives and risk profile ○ IA plan links engagement to risks and strategic objectives of the organisation ○ Top organisational risks in the audit universe are used as the basis of the annual plan | <ul style="list-style-type: none"> ◆ Feedback from stakeholder survey indicates that IAF is operating in alignment with stakeholders’ priorities ◆ CAE attends organisation’s strategy and risks discussions ◆ Strategic risks are identified in the IA universe and plan ◆ Audit scope for each assignment covered included strategies and risks where applicable | <p>D: Demonstrate</p> <p>PD: Partially Demonstrate</p> <p>DND: Does Not Demonstrate</p> |



Principle 5: Is Appropriately Positioned and Adequately Resourced

Is the IAF appropriately positioned to carry out responsibilities in an unbiased manner and adequately resourced to implement its engagements efficiently and effectively?

“The AC should make recommendations to the Board on establishing an adequate, effective and independent internal audit function. AC should ensure that the internal audit function is adequately resourced and staffed with persons with the relevant qualifications and experience.”

- Practice Note 10 of Code of Corporate Governance 2018

| Drivers <i>What should be present in this principle?</i> | Indicators <i>How do we know that we have been successful?</i> | Assessment |
|--|--|--|
| <ul style="list-style-type: none"> ○ Functional reporting to the AC and administratively to a senior executive in the organisation ○ Sufficient budget and resources are approved by the board ○ Periodic discussions occurred with AC on QAIP ○ HR, technology and tools are available to IAF ○ IAF has access to subject matter specialists, within and outside the organisation ○ There is adequate travel budget for periodic visits to key operations | <ul style="list-style-type: none"> ◆ CAE job grade compared to the other members of the management team ◆ CAE is part of leadership and participates at key management, board and leadership meetings ◆ Audit engagement results are given due considerations by management ◆ Completion of all the projects in the IA plan and any cancelled projects are justified by the CAE ◆ Internal audit plan has catered resources for management requests ◆ Budget has been reviewed and approved by AC for IA needs, e.g. consultancy, tools, travelling expenses, etc. ◆ QAIP results has been communicated to senior management and AC | <p>D: Demonstrate</p> <p>PD: Partially Demonstrate</p> <p>DND: Does Not Demonstrate</p> |



Principle 6: Demonstrates Quality and Continuous Improvement

How does the IAF demonstrate and seek quality and continuous improvement in enhancing efficiency and effectiveness?

“The IIA Standards require that a Quality Assurance and Improvement Programme (QAIP) be put in place to cover all aspects of the internal audit function. The QAIP must include both internal and external assessments.”

- Audit Committee Guide produced by the Singapore Institute of Directors, Section 4, 4.6.3

| Drivers <i>What should be present in this principle?</i> | Indicators <i>How do we know that we have been successful?</i> | Assessment |
|---|---|--|
| <ul style="list-style-type: none"> ○ QAIP elements are established ○ QAIP items are tracked and closed on a timely basis ○ Procedures are in place to solicit feedback from clients and stakeholders for improvement ○ Operational KPIs are monitored to promote IA improvements and innovations ○ Outsourced internal audit activities are required to conform to the Standards ○ Tools are in place to improve efficiency | <ul style="list-style-type: none"> ◆ Internal assessments which include on-going monitoring of performance and periodic self- assessments by the IA team and could be independently reviewed by a management staff within the organisation with sufficient knowledge of internal audit practices ◆ External assessments performed at least once every 5 years with general conformance with the Standards and Code of Ethics ◆ Senior management and AC receive the results of QAIP ◆ Number of QAIP action plans closed after target dates ◆ Tools being adopted to improve processes e.g. 6 Sigma, Kaizen, etc | <p>D: Demonstrate</p> <p>PD: Partially Demonstrate</p> <p>DND: Does Not Demonstrate</p> |



Principle 7: Communicates Effectively

How does the CAE demonstrate that its audit activities were effectively communicated to the stakeholders?

“The Head of IA (or equivalent) should continue to maintain open communication with the AC and be able to report any risks or control issues to the AC Chairman”

- Regulator’s Column: What SGX RegCo expects of issuers’ internal audit function?

| Drivers <i>What should be present in this principle?</i> | Indicators <i>How do we know that we have been successful?</i> | Assessment |
|---|--|--|
| <ul style="list-style-type: none"> ○ IA communication policy is in place ○ Engagement reports are customised for reporting to stakeholders ○ Engagement reports are factually accurate, highlight risks, address root causes and encourage action from Management for areas under review ○ Structure exists to encourage active, two-way communication with stakeholders ○ Unresolved risks accepted by Management that are unacceptable by CAE are communicated to the AC ○ IA has implemented controls to secure the confidentiality of the data it receives, accesses and issues | <ul style="list-style-type: none"> ◆ IA communicates to stakeholders on engagement objectives, scope and results ◆ No cases of major errors or omissions in reports are identified after issuance of final reports ◆ Conduct awareness sessions with stakeholders ◆ Audit reports issued within the timeframe per audit policy ◆ No cases of unauthorised or erroneous disclosure of confidential data by IA ◆ CAE communicated the unaccepted risks to AC | <p>D: Demonstrate</p> <p>PD: Partially Demonstrate</p> <p>DND: Does Not Demonstrate</p> |



Principle 8: Provides Risk-Based Assurance

How does the IAF provide risk-based assurance to the board that the risks of the organisation are being managed within their means?

“To develop the risk-based plan, the Chief Audit Executive consults with senior management and the board and obtains an understanding of the organisation’s strategies, key business objectives, associated risks, and risk management processes. The Chief Audit Executive must review and adjust the plan, as necessary, in response to changes in the organisation’s business, risks, operations, programs, systems, and controls.”

- International Professional Practices Framework (IPPF)

| Drivers <i>What should be present in this principle?</i> | Indicators <i>How do we know that we have been successful?</i> | Assessment |
|---|---|--|
| <ul style="list-style-type: none"> ○ IA mandates risk assessment for each engagement ○ IA planning is aligned with organisational risk universe and risk appetite ○ IA plan is flexible to adapt to changing risks ○ IA interfaces with risk management function/framework ○ Reporting of results are linked to top organisational risks | <ul style="list-style-type: none"> ◆ Auditable areas are categorised with reference to risk ◆ All top risks are covered by IA plan ◆ Emerging risks identified by the business are included and updated in the IA plan ◆ IA observations can be linked to top risks ◆ Documented risk assessment performed for each audit assignment | <p>D: Demonstrate</p> <p>PD: Partially Demonstrate</p> <p>DND: Does Not Demonstrate</p> |



Principle 9: Is Insightful, Proactive and Future Focus

What are the indications to demonstrate that IAF is insightful, proactive and future focused?

Mission of Internal Audit

“To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.”

- International Professional Practices Framework (IPPF)

| <p>Drivers</p> <p><i>What should be present in this principle?</i></p> | <p>Indicators</p> <p><i>How do we know that we have been successful?</i></p> | <p>Assessment</p> |
|---|--|--|
| <ul style="list-style-type: none"> ○ Internal auditors obtain training and education about emerging issues, data analytics, and technology ○ A structure exists to encourage active, two-way communication with stakeholders (receiving and delivering information) ○ Systemic issues and/or trends in risk or controls are identified ○ Data analytics are deployed throughout the various phases of the audit life cycle to identify risks and root causes ○ IA plan addresses risks to strategic objectives ○ IA observations highlight the risk/impact ○ IA supports ongoing monitoring of external and atypical risks that could impact the organisation, and assesses readiness/preparedness | <ul style="list-style-type: none"> ◆ Feedback from board and management surveys or interviews indicates that IAF is insightful, proactive, and future-focused ◆ Technology and/or data analytics are used effectively in engagement ◆ Technology/data analytics usage across the audit life cycle ◆ Observations with forward looking analysis and issue framing ◆ Internal auditors attend trainings on emerging risks and technologies ◆ Number of planned awareness sessions conducted/coordinated by IAF on how emerging issues/technologies can impact various business areas ◆ Demonstrate ongoing consideration of current events and/or emerging trends that may directly/indirectly impact business ◆ Issues highlighted are new and emerging | <p>D: Demonstrate</p> <p>PD: Partially Demonstrate</p> <p>DND: Does Not Demonstrate</p> |



Principle 10: Promotes Organisational Improvements

What has IAF achieved to demonstrate that organisational improvement is present?

IA Definition

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations...”

- International Professional Practices Framework (IPPF)

| <p>Drivers</p> <p><i>What should be present in this principle?</i></p> | <p>Indicators</p> <p><i>How do we know that we have been successful?</i></p> | <p>Assessment</p> |
|--|--|--|
| <ul style="list-style-type: none"> ○ IA work program makes recommendations to improve the organisation's governance and processes ○ Appropriate coordination takes place with other assurance providers to streamline assurance activities across the Three Lines Model ○ Reports focus on and address root causes of issues ○ Best practices, insights, and control/risk trends are shared with the business and across business units ○ IA plan includes consulting (advisory) engagements and reserves a reasonable percentage of the plan to accommodate management requests during the year ○ IAF identifies opportunities to promote organisational efficiency and increase organisational value | <ul style="list-style-type: none"> ◆ Consulting (advisory) on governance, risk management and controls (GRC) or value for money engagements included in IA plan ◆ Percentage of IA improvements recommendations are implemented within the agreed timelines ◆ Management and board view IAF as business partner and advisor, evidenced by regular requests for IA engagements ◆ Internal auditors share best practices with the business ◆ Number of audit projects concern implementation of new procedure or new system ◆ Cost savings achieved or identified ◆ IAF is being consulted about business processes and system transformations during initial assessments and pre-implementation ◆ Number of management requests received per year ◆ Collaboration and communication amongst the three roles are carried out annually | <p>D: Demonstrate</p> <p>PD: Partially Demonstrate</p> <p>DND: Does Not Demonstrate</p> |

Communication of Core Principles Assessment

While IAF should demonstrate the Principles, the communication tool should be customized by the organisation because key indicators vary from one environment to another.

Following the assessment, an example of a communication tool comprising the assessment of the indicators of Principle 1, its corrective action plan, and its target dates of completion is given below. This is for CAE to communicate to Management and Audit Committee on the status of the Principles demonstrated by the IAF together with the action plans that could enhance the effectiveness of the IAF.

| Example of Assessment of Principle 1 | | | |
|--|--|---|--------------|
| Indicators | Assessment with Explanation | Corrective Action Plan | Due Date |
| Presence of IA ethics policies | DND (Absence of IA ethics policies in the IA Department Manual) | CAE will incorporate it in the IA Department Manual | End Dec 202X |
| No complaints of internal auditors regarding ethics/integrity. | PD (One auditor was not familiar with the Code) | Educating and counselling | End Oct 202X |
| The CAE may recommend management support and resources such as budgets and specialists' involvement that are needed to work towards the demonstration of the Principles. | | | |

Conclusion

The demonstration of the 10 Core Principles is important as it characterises the effectiveness of the IAF. Failure to embody any principle jeopardises stakeholder's faith and trust in the results and conclusion of audit work.

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References

The Practice Bulletin has taken reference and guidance from the following:

- International Professional Practices Framework (IPPF)
- The IIA Global Perspectives and Insights – The Three Lines Model 2020 edition
- The IIA's Three Lines Model – An Update of the Three Lines of Defense
- Internal Audit Assessment Tool for Audit Committees By The IIA
- Audit Committee Guide: Corporate Governance Guides for Boards in Singapore. Produced by the Singapore Institute of Directors 2017 edition
- Singapore Code of Corporate Governance 2018 and Practice Guidance

About The IIA

Established in 1941, The Institute of Internal Auditors (IIA) is an international professional association with global headquarters in Lake Mary, Florida, USA. The IIA is the internal audit profession's global voice, recognised authority, acknowledged leader, chief advocate, and principal educator. Members work in internal auditing, risk management, governance, internal control, information technology audit, education, and security.

About IIA Singapore

IIA Singapore is the only professional body dedicated to the advancement and development of the internal audit profession in Singapore. For more than 40 years, we have been advocating the interests of the profession and remain committed to raising the profile and standing of the internal audit profession and developing the knowledge, skills, and expertise of internal auditors. Representing 2,500 members, we enhance technical excellence through The IIA's International Standards for the Professional Practice of Internal Auditing and Code of Ethics. IIA Singapore is an affiliate of The IIA. As an affiliate, this means that our members are concurrently members of The IIA and have exclusive access to content, resources, and benefits issued by The IIA. For more information about IIA Singapore, visit www.iia.org.sg.

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