



In a recent commentary, our former Governor, Mr Uantchern Loh, discussed the three pillars of internal audit (i.e. effective, adequately resourced and independent) and suggested internal audit as a mindset that should be part of the corporate culture.

In this article, we examine two key criteria to achieving an internal audit embedded corporate culture: ***Ubiquitous Value*** and ***Persuasive Communication***.

## Ubiquitous Value

For a corporation to embrace internal audit as an integral part of its culture, internal audit must demonstrate a value to each and every part of the organisation, far beyond the traditional key stakeholder of the finance department.

As the corporation grows from a single product, single market company of limited headcount to a multi-national conglomerate operating in diverse markets and risk environments, there are plenty of opportunities for its internal audit function to similarly mature from providing value protection assurance to also providing value enhancement advisories.

Auditors must dare to tread that fine line between independence and being alongside Management in the corporate growth journey. The Chief Audit Executive (CAE) should establish ground rules, agreed with the Audit Committee and Management, for internal audit to provide consultation in major risk events. These could be performing a risks and controls assessment of a target acquisition, highlighting key controls for a system implementation, reviewing enterprise risk management initiatives, conducting whistle-blowing investigations, etc. Internal audit should actively contribute their expertise and assist the corporation in managing risks at the onset. These efforts will contribute to positioning internal audit as trusted advisors.

There is opportunity for internal audit to further value-add through the rotation of auditors into business roles. This could then lead to department heads viewing internal audit as a talent pool - auditors bring with them an in-depth understanding of the business, risks and controls and propagate good practices in their new roles. A less permanent method commonly deployed in MNCs to great success is the use of guest auditor programmes. This is where personnel from operational roles are given a one-project or three to six months secondment to internal audit to facilitate exchanges of risks and controls awareness and business experience.

Another strategy to provide ubiquitous value in recent years is for internal audit to leverage technologies in their efforts to drive greater use of analytics techniques in audit. The insights gleaned from these techniques are then shared with Management at the completion of an audit, often to their complete astonishment. As this becomes a standard practice, internal audit can progress to coaching Management in these techniques and even transferring some of the analytics codes to Management for continuous monitoring purposes.

## **Persuasive Communication**

The value of internal audit is only as good as how it is communicated and there are two key stakeholders who can and should drive effective conversations between internal audit and the rest of the corporation.

Senior Management have an undisputed responsibility in setting the tone at the top. Persuasive communications that are able to convince stakeholders on embracing the role of internal audit goes beyond paying lip service of simple reiterations of the importance of internal controls and audit. The corporation senses the emphasis placed through observing the positioning of internal audit in Senior Management's thoughts. These thoughts are clearly visible whenever internal audit is considered and allocated a key role in corporate strategy and placed prominently on the corporate road map.

At times, Senior Management tries to emphasise internal controls in a way that hinders the assimilation of internal audit into the corporate culture by setting the number of audit issues or poorly rated audit opinions as a KPI for Management. While there are differing views to such methods, extreme care must be taken to ensure that this does not create adversarial relationships that cause Management to refrain from reaching out to internal audit in times of need.

The other key stakeholder for persuasive communications is internal audit itself. Internal auditors are trained to be good communicators in sharing audit observations but may not be actively engaging the organisation on the role and benefits of internal audit. Ask an auditor or the CAE about their communication plans and some may share how they keep current auditees abreast on potential reportable findings through status updates but few will go beyond that.

Effective and persuasive communications do not happen randomly; it is a carefully thought through series of interactions, discussions and sharing that is meticulously planned and diligently executed. It should cover at a minimum:

- An auditee and other key stakeholders survey programme where feedback is received from users of the internal audit programme and concrete action plans and milestones are then established, tracked and shared with the stakeholders.
- A risk and controls education programme where key developments in the risk environments such as new data privacy laws, cybersecurity breaches, etc., are discussed with relevant process owners.
- Periodic sharing sessions with business function heads apprising them of recent common audit findings and lessons to be learnt to avoid recurrence.
- Regular training on public speaking for auditors and constant re-calibration of the language and tone of internal audit reports.

The CAE should bear in mind that different parts of the communication plan will be better received by the corporation at different points in time and he/she should constantly monitor the corporate pulse and make adjustments as needed.

Overall, we believe that, for internal audit to be an integral part of any corporate culture, auditors can no longer cite independence as a reason for shying away from other value enhancement works which the corporation needs. Only by demonstrating tangible value and communicating it in a persuasive manner will internal audit be seen by all within the corporation as a key success factor.

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