Internal Audit Excellence Award

2013

The Winners’ Perspective

Prepared by SIAS, IIAS and SKBI

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

The board typically relies on management, line departments and external audit to provide assurance on the adequacy of internal controls. With the growing demands made on the directors and senior management, a key question for the board is how it could render an effective opinion on these internal controls. There is a heightened oversight focus on the importance on importance of internal assurance. Listed companies are increasing leveraging on internal audit to fulfil their listing obligations. The new rule is an important development and it underpins the importance of the role of internal audit function. It also underscores the importance of internal audit as a “third line of defence” and an integral element to sound corporate governance.

Whilst an internal audit function is currently not required by law in most parts of the world, many companies do not appoint a full-time internal auditor because of either the ignorance of the significance of having one or of the cost of doing so. That is a mistake because whilst appointing a full-time internal auditor can be costly, scandals are even more expensive. Companies spend millions of dollars in professional fees after a scandal in putting things right with their reputation damaged, investors lose confidence and regulators and law enforcement agencies incur losses.

Frederick D. Lipman and L. Keith Lipman on ‘Corporate Governance, Best Practices’ suggest perhaps 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 the role an internal auditor contributes to an organisation, SIAS together with IIA and SMU, 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.
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
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.”

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.


Prepared by: A/Prof 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.
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

Prepared by: A/Prof 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.
SingTel’s Group Internal Audit (IA) function exemplifies the ability of internal audit to evolve over time and remain relevant to the needs of a company as the SingTel Group transforms its business and operations. Established in 1992 when SingTel was corporatized, its earliest mandate was to provide the SingTel Board with independent assurance on the adequacy and effectiveness of internal controls to address key business risks. Today, SingTel is the largest listed company on the SGX mainboard, and its IA function has grown proportionately in size, capability and importance.

SingTel Group IA’s activities cover financial and operational audit, information technology audit, revenue assurance audit, investments audit and fraud risk. On top of this, it holds an internal consulting and control advisory role, with up to 20 percent of SingTel IA’s resources dedicated to the control advisory role. Through performing reviews and making recommendations, SingTel Group IA helps to constantly improve SingTel’s risk management and internal control systems.

Since 2001, the head of internal audit at SingTel has held a top management position, reporting to the Audit Committee functionally and to the Group CEO administratively. Between 2002 and 2013, the size of the internal audit team grew from 39 to 54 as the geographical footprint of SingTel’s operations increased.

SingTel Group IA consistently seeks better ways to improve its capabilities and perform its duties. To promote IA excellence among the IA functions of SingTel’s regional mobile associates in the Asia-Pacific region, SingTel Group IA inaugurated the SingTel Regional Chief Audit Executives Forum in 2004. The forum strengthens the relationships between SingTel IA and its counterparts in the SingTel Group’s regional mobile associates in Africa, India, Indonesia, Thailand, and the Philippines. For example, SingTel IA carries out joint audit reviews, control self assessments, best practice benchmarking and other collaborations with its counterparts.

To promote continuous improvement in its practices, SingTel Group IA has implemented a Quality Assurance Programme that includes annual review of the Internal Audit Charter by the Audit Committee to align with global best practices, peer review, and regular external Quality Assurance Review. In the last two years, SingTel Group IA has also extensively deployed data analytics in its work to enhance the efficiency and effectiveness of reviews performed.

To enhance the independence and effectiveness of investigations into fraud and other irregularities, SingTel Group IA established a dedicated Fraud Risk Unit in 2006. This unit was augmented with the launch of an independently managed external whistle blower hotline in 2008, and today investigations into fraud and whistle blower complaints are handled by a team of seven staff across Singapore and Australia. SingTel Group IA has further enhanced fraud and control awareness across the company through publishing a quarterly fraud newsletter to share learning in fraud matters. And in 2013, SingTel Group IA collaborated with the Human Resources Department to roll out a mandatory e-Learning module on fraud and controls that raises awareness of fraud risk and promotes accountability.

To ensure that key personnel in the company have a strong grounding in risk management and internal controls, SingTel Group IA implemented a Talent Rotation Programme in 2012. This programme rotates future leaders of the company into IA for one year, so that they can acquire knowledge and develop skills in assessing risks and controls which are essential competencies for their future leadership role.

"SingTel Internal Audit’s mission is to conduct independent, objective assurance and consulting activities designed to add value and improve SingTel Group’s operations and help the Group accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve effectiveness of risk management, internal controls and governance processes."

Mr. Chor Khee Yang, Group Chief Internal Auditor for SingTel Group

Singapore Telecommunications Limited is Asia’s leading communications group, with more than 130 years of operating experience providing voice, data and video services over fixed and wireless platforms. The SingTel Group is a major communications player across Asia and Africa, with further investments in India. SingTel is the largest listed company on the SGX mainboard.
DBS Group Audit has the challenging task of supporting Singapore’s largest bank in an increasingly diverse and complex operating environment. Within DBS Group, the internal audit function is integral to the system of checks and balances that underpins the bank’s stringent corporate governance practices, risk management and robust internal controls.

To effectively fulfil its role, DBS Group Audit has built its attitude, methodology and practices around being productive, proactive, predictive and preventive. The team takes a proactive and constructive stance in helping to shape the risk and control culture of the bank, offering useful and pragmatic views to stakeholders and raising issues that may potentially have a real impact on the bank. This attitude and approach has positioned DBS Group Audit as a trusted and respected advisor on internal controls.

DBS Group Audit consists of audit teams in six key operating locations: Singapore, Hong Kong, China, Taiwan, Indonesia and India. All these teams report to the Head of Group Audit, who in turn reports functionally to the Chairman of the Audit Committee and has an administrative reporting line to the DBS Group CEO. Each year, DBS Group Audit works closely with the CEO, senior management and stakeholders in the first and second lines of defence to define 10 key areas of focus to streamline the bank’s internal control agenda. These 10 areas of focus are then incorporated into DBS Group Audit’s annual audit plan, ensuring that the internal control agenda dovetails with the bank’s strategic priorities.

DBS Group Audit keeps abreast of key developments both within and outside the bank, allowing it to react quickly to any changes. For example, it revised its Audit Charter this year in response to the April 2013 revision to MAS’ Guidelines on Corporate Governance for Financial Holding Companies, Banking, Direct Insurers, Reinsurers and Captive Insurers. DBS Group Audit is also developing an audit approach to defend the bank in cyberspace, in response to growing and evolving threats posed by cyber crime.

Since 2009, DBS Group Audit has been applying a risk-based approach to its internal audit activities. It has adopted the extensive use of technology, such as computer-assisted audit techniques and data analytics. The team plans to leverage these technologies to progress to continuous auditing, an approach which will enable auditors to continually analyse key business systems for both anomalies at the transaction level and for data-driven indicators of control deficiencies and emerging risk on a continuous basis.

DBS Group Audit has implemented various measures to promote risk and control awareness among stakeholders. This includes a regular internal bulletin to provide thought leadership, structured programmes and subject matter expert training. People from various parts of the bank are also invited to participate in the audit process under the DBS Guest Auditor Programme. Another initiative, the Job Rotation programme, which was established in June 2010, identifies mid-career credit officers or relationship managers from the wholesale bank to participate in a job rotation for a minimum of one year with Group Audit’s credit risk review team. These programmes facilitate information sharing, promote the formation of fresh opinions and help to build a strong control culture.

"What we do is akin to what the pit-wall crews in Formula One do. Armed with lots of information about the cars and drivers at different points during the race, members of the F1 pit-wall crews are able to pinpoint the exact problems afflicting the cars and drivers, and are the people whom drivers trust to call back into the pit-lane for fine-tuning. This is similar to what DBS Group Audit aims to achieve: to be trusted by the bank’s business and support units to monitor, guide and predict risk and controls, as well as to be able to use all the data and technology at our disposal to analyse data to identify trends, assess gaps and improve controls. By being productive, proactive, predictive and preventive, we ensure that DBS’ corporate governance practices and internal audit standards are aligned to those in the winner’s circle."

Mr Jimmy Ng, Managing Director and Head of Audit for DBS Group

DBS Holdings was established in 1968 as the Development Bank of Singapore and is today one of Asia’s leading financial services groups, operating in 17 markets in Asia. DBS is headquartered in Singapore and listed on the SGX mainboard. This is the third consecutive year in which DBS Group Audit has won the Internal Audit Excellence Award.
The internal audit function of Singapore Airlines Limited has the mandate of increasing transparency and control knowledge organisation-wide. For an organisation that operates literally worldwide, with a network spread across six continents, this may be said to be a broader task than usual.

The SIA IA function was first established more than two decades ago and has played an increasingly significant role over the last decade. It 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.

Over the years, the SIA IA function has developed a variety of initiatives to better carry out its objectives. In the mid-2000s, it moved from a compliance monitoring focus to a more holistic governance centric model. During this period, it initiated a control self assessment programme for company operations in the mid-2000s, a whistleblowing programme, and a number of continuous monitoring and data analytics review techniques.

The SIA IA function influences SIA’s control culture primarily through education. It 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.

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-outstation posting control and audit matters familiarisation programme.

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.

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 for Singapore Airlines Limited

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. This is the third consecutive year that SIA Internal Audit has been accoladed at the Internal Audit Excellence Award.
Over the last 50 years, City Developments Limited (CDL) has transformed from a small local residential developer to the global property and hospitality conglomerate it is today. And as it has grown, so has CDL’s internal audit (IA) function.

CDL’s IA function was initiated in the early 1980s and became formally designated as a full-fledged IA department by the early 1990s. It reports directly to the Chairman of the Audit and Risk Committee and administratively to the CEO. Today, CDL’s IA function is backed by the company’s firm commitment to implementing and maintaining the highest standards of corporate governance and business integrity in all its business activities, contributing to the health and stability of financial markets and the economy.

With dynamic business growth, higher expectations of IA are inevitable. To this end, CDL’s IA not only strives to adopt the best practices and standards set by the Institute of Internal Auditors, it also endeavours to rapidly gain intimate knowledge of the company’s diverse business operations and challenges across global borders in order to continually add value.

CDL’s IA today covers a wide variety of services to both Management and the Audit & Risk Committee, providing not only independent assurance reviews covering financial, operational, regulatory and compliance matters, but also the much-needed consultative activities to business units in various forms and means.

With intimate knowledge of the operations and systems within the organisation, IA provides valuable and objective insights and options for management to consider relevant risks and benefits of its on-going operations in a timely manner. This has, in turn, helped various business units to consider changes and implement more effective and efficient systems and procedures. With this synergistic partnership, the risk management and assessment processes and good corporate governance principles are internalised throughout all levels of operations and by all staff within the organisation. It represents CDL’s first line of defence in mitigating the many business risks that can arise.

With rapid changes in technologies and facing increasingly sophisticated and complex business models, CDL’s IA team leverages on state-of-the-art technology and computer-assisted tools as part of its capacity building and talent enhancement focus.

“Equipped with the right knowledge and having gained trust and respect within the organisation, IA is well-positioned as a critical change agent to address challenges ahead and help the Company move to the next level.”

Ms Jennifer Vayding, Head of Internal Audit for City Developments Limited
When the F&N Group’s internal audit function was first set up more than 30 years ago, its mandate was to ensure proper compliance to group policies and to instill a good control culture throughout the Group. Over the years, as the F&N Group expanded through Asia and beyond, F&N Group IA expanded its scope in tandem while still adhering to that mandate.

Through its activities, the F&N Group IA seeks to raise the awareness of a strong control culture with emphasis of the importance of an effective internal control environment in managing both its strategic and operational risks. In addition, F&N Group IA acts as a communication link between the overseas operating entities and the corporate office in Singapore.

F&N Group IA operates as an independent assurance function, reporting directly to the Chairman of the Audit Committee. Administratively, the Head of Internal Audit reports to the Group Company Secretary. This reporting structure enables the IA function to maintain its objectivity and independence, so that it can provide a balanced assessment of the operational risk exposures and effectiveness of the internal control systems of the different businesses.

Over the years, the F&N Group IA has shifted from its initial compliance-based approach to that of a risk-based methodology so as to utilise its audit resources effectively. The IA team consists of 23 professional staff, more than twice the size it was a decade ago, with lead team members specialising in each of the business groups; ie. Properties, Food & Beverage and Printing & Publishing.

F&N Group IA focuses on communications with both management at the corporate office and local operational level. When it finds control lapses or flaws in the system, it works with management to help them understand the issues and suggest areas of improvement to address the risk concerns highlighted. In reporting to the Audit Committee, it strives to ensure that each review is substantiated by facts and observations so that audit opinions can be rendered independently. In addition, F&N Group IA watches for significant matters, especially those that could have a potential impact on the reputation of the F&N Group, and brings such matters to the attention of appropriate management or the Audit Committee; for discussion and resolutions.

The senior management of the F&N Group recognises that a strong internal control environment can only come from its people understanding and taking ownership of the control processes while balancing the business risks it takes. To achieve this commitment, the F&N Group IA measures effectiveness of the internal control systems at various levels, and this measurement is included within the key performance indicators of operational business heads to that of the CEOs of the different businesses. Over the years, this has led to higher awareness of good governance practices leading to greater transparency in the management of operational concerns.

"Over the last 2 years, we have seen various challenges and changes within the Group. Internal Audit will continue to be an important independent function as acknowledged by the Board and senior management. We will continue to stay focused on our role to support the Group’s growth and momentum."

Ms Debbie Goh, Head of Internal Audit for Fraser and Neave, Limited
Ms Debbie Goh, the Head of Internal Audit for the F&N Group, heads a team that focuses on establishing good practices in operational risk management and control processes in the countries which the Group operates. To Ms Goh and her team, IA’s primary objective is to provide an independent assessment of the adequacy and quality of an entity’s internal control system in managing its operating environment. With so many businesses operating in different environments, it is a complex task to ensure consistency of group practices.

To achieve high standards across the entire group, the F&N Group IA seeks to act as a corporate ambassador in sharing governance practices expected by the board of directors and the senior management. In doing so, they have to understand local regulations and diverse work practices and cultures of local management which may not be immediately accepting of the team’s suggestions. From Ms Goh’s experience, the key to overcoming these challenges is patience and willingness to work with local management, and balancing business opportunity with risk exposure to achieve the “better” practice.

Ms Goh believes that any IA function needs three key factors to be truly effective: support from the Audit Committee, tone at the Top and communications of business strategies. It is critical that the Head of Internal Audit should have a clear and direct reporting line to the Audit Committee, so that the internal audit team can perform its work with independence and objectivity. This will also enhance transparency in the reporting process. Senior management must believe that a strong control culture is fundamental in all business environment; in order for this value to take hold at every level. And finally, internal audit must be kept abreast of the business strategies, so that it can focus its efforts in the right areas incorporating appropriate changes in its audit plans to ensure relevance.

With these factors in place, Ms Goh and her team have been able to contribute significantly to raising awareness and the control culture of the F&N Group. Ms Goh says: “The F&N Group takes pride in setting high standards and striving to deliver value to our stakeholders. As a key function supporting the Board and more specifically, the Audit Committee, Internal Audit has set similar high standards for a risk assessment framework that evaluates the businesses’ compliance with group governance practices, policy frameworks and operating control systems.”