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Internal audit key to long-term success



Ms Wong: GIA brings transparency to business processes, introduces best practices to business operations, generates efficiencies between subsidiaries and helps identify gaps in controls - leading to a more efficient and effective organisation

BT speaks with the recipients of the Internal Audit Excellence Award 2012 to find out what challenges they face in ensuring that nothing falls through the cracks.

BT: How is internal audit valuable to the operations of your company?

Wong Swee Chin: Our Group Internal Audit (GIA) department serves as the eyes, ears and nose of management, to provide an independent assurance that the company's established processes and controls are working effectively.

GIA brings transparency to business processes, introduces best practices to business operations, generates efficiencies between subsidiaries and helps identify gaps in controls - leading to a more efficient and effective organisation. GIA also provides assurance that valuable resources are deployed in alignment to strategic and corporate goals.

Lim Him Chuan: DBS's internal audit (IA) team takes a proactive and constructive approach to help shape the risk and control culture of the bank, offering our stakeholders useful and pragmatic views and raising issues that are of real impact to the bank. Over the years, we have earned the respect of our stakeholders as a trusted adviser on internal controls.

Effective and efficient audits help foster a robust control culture within the bank, and add further value through enhancing the bank's operating effectiveness, promoting the sharing of best practices across business lines and geography, and nurturing the bank's future leaders.

OVERVIEW

OFTEN vilified as an impediment to the work of business units, internal audit teams are now getting their turn in the limelight as shareholders increasingly consider the robustness of a company's internal controls as a key element of long-term success.

BT speaks with the recipients of the Internal Audit Excellence Award 2012 to find out what challenges they face in ensuring that nothing falls through the cracks.

Participants:

- Wong Swee Chin, Vice-President, Group Internal Audit, Cerebos Pacific Ltd
 - Lim Him Chuan, Managing Director and Head of Group Audit, DBS Bank
 - Kng Hwee Tin, Head of Group Audit, OCBC Bank
 - Nicholas Ionides, Vice-President of Public Affairs, Singapore Airlines Ltd
- Moderator:** Andrea Soh, Reporter, The Business Times

The internal audit team is empowered by the strong mandate and support from our Board Audit Committee and senior management, who see IA as more than just a corporate governance requirement: It is seen as an enabler for the DBS business. IA's breadth and depth of knowledge of the bank's businesses and risks makes it a valuable resource for the bank.

Ng Hwee Tin: OCBC Bank recognises that good corporate governance and strong risk management are the foundation blocks for instilling confidence among our key stakeholders, namely our shareholders, customers and regulators.

The internal audit division plays an integral role of helping to provide independent and objective assessment of the effectiveness of the bank's risk management, control and governance processes.

Nicholas Ionides: In addition to the value of corporate governance, Internal Audit serves to provide opinions on, and assists in, ensuring consistency of operations, discipline in performance and a methodical risk/outcome approach to all areas of SIA.

BT: What challenges do your company's internal audit team face?

Ms Wong: The GIA team used to be viewed as the organisation's "policemen" and hence auditees were previously wary of the team. However, in recent years, we have successfully positioned ourselves as business partners promoting improvements in processes rather than fault finding. Hence, the auditees have become more open to the GIA team.

At Cerebos, the number of points raised in the audit findings form part of the local management's Key Performance Indicators (KPI). This places pressure on the local management to establish processes with robust controls. Due to this, the GIA team would face resistance to the audit findings. The GIA team manages this by putting in place a consistent framework to rate audit findings.

Mr Lim: Post-global financial crisis, the banking industry has become more challenging, with the regulatory landscape fast changing. DBS's operating environment has also become more complex, as we continue to expand our presence in the region to become the Asian bank of choice.

Against this backdrop, the IA team needs to stay on top of things by responding to these challenges proactively. IA steers the bank's internal control agenda, with clear themes and focus.

In order to stay effective and relevant, we need to ensure that the IA team continues to comprise professionals from different disciplines who are able to join the dots together well and communicate their views clearly to our stakeholders.

Ms Ng: With globalisation and the dynamic change in regulatory and business environment, a key challenge we face is building and maintaining the bench strength of our people, to ensure that they can keep up with business developments and industry trends. We manage this through focused staff hiring, talent management and targeted training programmes.

Mr Ionides: Retaining experienced staff in internal audit roles can be a challenge for any organisation.

Reputation risks are also broad in nature, especially for a company such as SIA that carries the "Singapore" brand. Expectations are particularly high for us to have a strong governance model and ensure that all errors, omissions and even fraud will be prevented.

BT: What functions of an internal audit team - among those of ensuring reliability of financial reporting, compliance with laws and regulations, effectiveness and efficiency of operations etc - are particularly important for your company?

Ms Wong: Compliance with laws and regulations, and the effectiveness and efficiency of operations.

As Cerebos is a reputable food and health supplements company, any non-compliance would translate into negative publicity and potentially affect sales adversely. Our Group Internal Audit adds value by sharing with management various control practices adopted by different entities within the Cerebos Group. This gives management a more holistic view and allows an impartial review platform for the implementation of more effective control practices.

Mr Ionides: All the areas mentioned above are of importance to IA. As the audit team is responsible for the audit of all areas of the organisations within the group, different functions take on importance when dealing with specific activities. The order of functional importance is also related to the maturity of the company under audit.

For instance, newer operations (for example, new airline) would see a focus on compliance with laws and regulations. For matured operations with a continued assurance of their control environment, the focus may be on effectiveness and efficiency of operations.

Ms Kng: The internal audit team is a strong advocate of a robust risk and control culture within the bank. For example, we have a Guest Auditor Programme since 2001, which provides staff from various business/support units the opportunity to be guest auditors for a better understanding, awareness and appreciation of risk and control, through classroom training and audit experience in the field.

Mr Lim: At DBS, we see IA as an important function to steer the corporate governance and internal control agenda of the bank.

In addition, we help to promote risk and control awareness through a range of programmes. We regularly invite guest auditors from other parts of the bank to provide an independent opinion of the effectiveness of controls in other units. We have also introduced a job rotation programme, which is part of our talent management programme. We identify mid-career wholesale bank credit officers or relationship managers for a minimum one-year job rotation with IA's credit risk review team. In addition, the bank's IA provides subject-matter expert training.

BT: Could you give an example of an instance when the internal audit team helped to spot a major risk to the company or identified operational improvements which in turn helped the bottom line?

Ms Wong: During a routine audit in China several years ago, the audit team noted several gaps in the management of stocks that could potentially result in unaccountable stocks. The lapses noted were highlighted to the local management who subsequently put into place improvements for a more robust process.

Ms Kng: The global coverage of the internal audit team enables it to provide holistic recommendations that help our business units to streamline operations and improve the risk management system. For example, we have made recommendations in the past to centralise certain functions at the head office when we noted resource/expertise constraints in the other geographies where the bank operates.

Mr Ionides: Major risks identified are usually in new areas, for example, outsourcing of information or data management, or changes to the rules and regulations within the landscape that the company operates in (for example, anti-competition practices, carbon emissions rules, etc).

BT: Does your company have an effective process for whistle blowers? Is this handled by the internal audit team, and what protection can they offer whistle blowers?

Ms Kng: OCBC has a well-established whistle blowing policy, fully endorsed by the CEO and senior management of the bank. Whistle blowing cases are handled by internal audit as an independent party. The policy includes protection of the whistle blower to allay potential fear of reprisal. All staff have avenues for reporting or whistle blowing to the senior management of the bank, including chairman of the Board of Directors, CEO and head of Group Audit. All new and existing staff are trained to ensure that they are familiar with the bank's whistle blowing policy.

Ms Wong: Yes, Cerebos has a whistle blowing policy as well as a code of ethics.

The VP - GIA sits on the Cerebos Ethics Committee, together with the group CEO, legal adviser and human resources representative. The whistle blowing policy provides an alternative channel for a whistleblower to lodge a report of improper conduct on a confidential or anonymous basis, and has provisions to protect the identity of the whistle-blower.

Mr Lim: DBS has a whistle blowing policy which empowers staff at all levels to raise matters of concern directly to the heads of internal audit, human resource or compliance. The investigation will be independently carried out by any of these departments depending on the nature of the complaint. The names of the whistle-blowers are strictly not made known to the parties investigated.

Mr Ionides: Our whistle blowing policy includes the following: confidential receipt of information and call line; assessment of complaint and investigation; recording and reporting of all cases; and protection of the whistle-blower's identity. We also work on improving auditor knowledge and audit test programmes on controls, and provide a "susceptibility to fraud" assessment to management and the audit committee periodically.

BT: How does the internal audit team maintain objectivity in its work, since it needs cooperation from those it has to audit to accomplish its task effectively?

Ms Wong: This is indeed a constant challenge. The GIA team carries out its duties objectively and obtains management buy-in by positioning the audit observations as a win-win situation. Internal auditors would share management concerns and knowledge on identified processes, but would not be involved in the setting up of process flows and controls that they could be auditing.

The internal audit work would include various rounds of reviews and discussions among the team members as well as with senior members of the audit department to ensure that audit scepticism is intact and objectivity is in place.

Mr Lim: Firstly, DBS adopts a three-line-of-defence risk management and internal control structure, with clear roles and responsibilities. The first line is the business units and support units. The second line is the risk and control functions (including risk management and compliance). The bank's IA is the third and last line: We are totally independent as we report to the DBS Board's Audit Committee.

In accomplishing our task, the bank's IA maintains objectivity by ensuring that each audit project is subject to several levels of review with proper check and balance, and that there are regular quality assurance reviews performed by a party not involved in the actual audit.

At the end of the day, the strong mandate and support from the DBS Board's Audit Committee and senior management is key to ensuring that DBS's IA is able to discharge our responsibilities professionally with the right stature in the bank.

Ms Ng: Our internal audit team follows the global best practices of the Institute of Internal Auditors (IIA). The internal audit function has an independent reporting line to the Audit Committee of OCBC.

We have also seen success in our practice of moving several experienced auditors into positions in business units. It helps that as they perform new roles in the bank, they carry with them the control mind-set and exposure gained from their internal audit exposure to various business units. This contributes towards disciplined and aligned governance and risk management practices in different parts of the bank.

Mr Ionides: Objectivity is assured at different structural levels. At the overall corporate level, there is independence of the IA function. The charter includes that IA reports directly to the Audit Committee. Auditors, by provisions in the IA charter, are not allowed to hold any operational responsibilities including transactional processing, checking or approval roles in the organisation.

At a working level, auditor performance scorecards exclude performance indicators that set issue finding as a measure of individual capability. All audit projects are assigned by audit management based on an audit plan independently drawn up and approved by the Head of Audit and Audit Committee. All audit tests and the results of testing undergo several levels of review by different audit management.