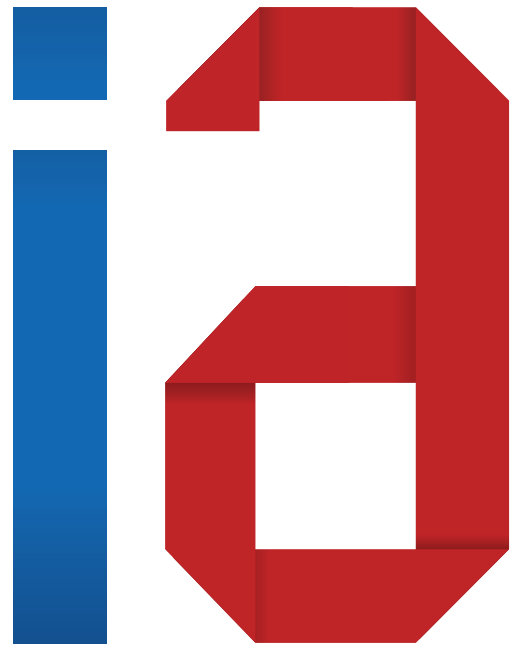


taking the pulse



a survey of internal audit
in singapore 2013



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Foreword

Internal audit (IA) has long been relied on as the third line of defence. The expectations placed on internal auditors have risen following from the developments of the last global financial crisis.

Today, a wider scope of coverage means that corporate governance, risk management, fraud, operations and strategy have been added on to the usual business process and IT audits.

This means an increasing focus on internal controls and risk management, placing greater responsibility on compliance and risk functions but in particular, the internal audit function.

Regulators around the world are tightening rules and oversight. Major changes have come to Singapore's shores too. These take the form of revisions to the Singapore Code of Corporate Governance (the Code) in the form of changes to SGX Listing Rule 1207(10) and Principle 11.

Raising awareness among company directors about their responsibilities over the adequacy and effectiveness of internal controls and risk management, these changes echo similar moves by other global institutions such as the Financial Stability Board (FSB), Basel Committee on Banking Supervision, Institute of Internal Auditors (IIA) and Committee of Sponsoring Organisations of the Treadway Commission (COSO).

As part of the Asia Centre of Excellence for Internal Audit (ACEIA)'s advocacy for an effective and well resourced Internal Audit function for corporate governance, KPMG and the Singapore Accountancy Commission (SAC) conducted the Internal Audit Survey in the first half of 2013. This survey centred around the 3Ps of the KPMG Internal Audit Framework, Positioning, People and Processes. We would like to

extend our thanks to the Institute of Internal Auditors and Institute of Singapore Chartered Accountants who supported us in this survey.

Complementing the survey, KPMG and the SAC hosted a forum on 31st July 2013 to share the preliminary findings of the survey. Our thanks go to our fellow panelists who have provided us with valuable insights:

- **Mr Derrick Lim**, Divisional Vice-President, Internal Audit, Singapore Airlines Ltd
- **Mr Quek Suan Kiat**, Country Manager and Chief Operating Officer, Barclays Singapore
- **Mr Soh Gim Teik**, Partner, Finix Corporate Advisory LLP.

The survey and discussions affirm the crucial role played by internal audit and its importance as part of a holistic approach to corporate governance.

The time is right for internal audit to rise to the fore, as company directors and audit committees become increasingly reliant on internal audit for the assurance that their company's internal controls are adequate and effective.

It is time to shed the profession's perception as a 'necessary evil'. Internal auditors need to be seen as the 'people who understand my business'.

As a profession, internal auditors need to re-think what skills they need to possess if they are to step up to the task of providing assurance over a wider area of a company's operations.

Almost like a re-branding, the profession must take this opportunity to close the perceived skill gaps highlighted in the survey through training, expand certifications and standards to drive excellence in IA, and provide thought leadership on the future of the profession.

Perhaps Mr Quek Suan Kiat puts it best: "I would like to see more internal auditors becoming the CEO because I think the best way to learn about the business is as an internal auditor. As the head of IA, you have the opportunity to understand the firm a lot better than a lot of people."

We hope you find this report of interest and welcome any questions and comments you may have.

IRVING LOW

Head of Risk Consulting
KPMG Advisory LLP

UANTCHERN LOH

Chief Executive
Singapore Accountancy Commission



A Regulatory Perspective

In Singapore, SGX Listing Rule 1207(10) and Principle 11 of the revised Singapore Code of Corporate Governance ('the Code') issued in May 2012 have created a greater awareness of the responsibilities of Directors and in turn their organisations.

In particular, SGX Listing Rule 1207(10) requires the Board, with the concurrence of the Audit Committee, to provide an opinion on the adequacy of a company's internal controls in addressing its financial, operational and compliance risks. The Code takes this one step further and requires the Board to comment in the annual report on the adequacy and the effectiveness of the company's internal controls, including financial, operational, compliance and information technology controls, and its risk management systems.

These requirements are echoed globally by other governing bodies. The Financial Stability Board (FSB) has now issued the findings of its 'Thematic Review on Risk Governance'. The review assessed the supervisory oversight of banks' risk governance frameworks, and banks' progress towards enhanced risk governance practices.

The FSB acknowledged that significant progress has been made, most notably in relation to the roles of the Board and the Chief Risk Officer (CRO), but observed that significant gaps remain, particularly with regard to the need to develop greater clarity in, and a common language for, the assessment of risk appetite, risk capacity and risk limits within companies.

A key recommendation was that supervisors should require the Board (or its Audit Committee) to obtain an

independent annual assessment of the effectiveness of the company's risk governance framework. Internal audit plays a key role in assessing the effectiveness of risk governance frameworks, and it is clear that regulators are taking an increasing interest in the expected coverage of internal audit.

The Basel Committee on Banking Supervision issued revised supervisory guidelines for assessing the effectiveness of the internal audit function in banks. The '*Principles for Enhancing Corporate Governance*' stated that every bank should have an internal audit function with sufficient authority, stature, independence and resources, and with access to the Board of Directors.

The Institute of Internal Auditors (IIA), the standard-setting body for internal auditing worldwide, has issued amendments to its International Professional Practices Framework (IPPF) that strengthen the benchmark requirements under the IPPF. The IIA has also launched the Certification in Risk Management Assurance (CRMA) to further align internal audit with risk governance.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) has recently issued its *Internal Control – Integrated Framework 2013*. The evolutionary changes in the 2013 Framework were designed to enhance an organisation's internal

control structures by taking into account its dynamic and rapidly changing environment, and they provide guidance to key stakeholders such as investors, the Board and internal auditors. Further guidance was provided by the European Confederation of Institutes of Internal Auditors (ECIIA) in its report entitled *Making the Most of the Internal Audit Function*, which provided 10 key recommendations for Board and Committee oversight of internal audit.

These changes clearly indicate the growing regulatory focus on the operational effectiveness of internal audit functions, and have also highlighted areas of improvement for internal auditors. Internal audit must rise to this challenge by challenging the status quo and seeking to create even greater value, especially in light of its increasing importance as the third line of defence.



Executive Summary – Key Highlights

In this report we present the findings of our survey on the state of IA in Singapore companies. Our key findings include the following:

- **The IA function is still focused on the traditional compliance and operational areas.** However its future focus will include Enterprise Risk, Information Technology (IT), Governance and Fraud.
- **There is growing maturity in risk-based IA plans.** Key risks are included when preparing the internal audit plan, as indicated by both Audit Committee (AC) Chairmen and Chief Audit Executives (CAEs). Eighty-eight percent of AC Chairmen and 97 percent of CAEs also considered IT risks in preparing the IA plan, as well as the frequency/scope of high-risk activities and follow up on prior year findings.
- **A strong working relationship with ACs bodes well for independence, but the relationship with Senior Management is less strong.** This may have led to perception and expectation gaps related to IA's scope and responsibilities, whereby 24 percent of Senior Management still viewed IA as a 'policeman', a 'necessary evil', 'nit pickers' and a function that does not add value.
- **The AC is placing more trust in and reliance on IA in the wake of increasing regulatory changes.** This increase is expected to continue given the focus by regulators in Singapore on ensuring that organisations maintain a sound set of internal controls, and that these are continually updated through risk assessment and process improvement.

- **Among CAEs, 44 percent indicated that either co-sourcing or outsourcing is the most cost-efficient means of obtaining a diverse/wide range of skill sets.** The areas covered in these arrangements are primarily Human Resources (HR) and Payroll (17 percent), IT (17 percent), Compliance with Policies and Procedures (17 percent), Risk Management (13 percent) and Operational Audits (13 percent). The survey also revealed that IA lacks expertise in the areas of performance audits/value for money audits.
- **Among AC Chairmen, 77 percent and 86 percent of CAEs use external consultants to fill skill gaps,** and this is also factored into the development of the IA plan.
- **Among AC Chairmen, 67 percent and 48 percent of CAEs and 62 percent of Senior Management responded that IA's role, scope and responsibilities are at least the same as those of External Audit (EA).** However, 62 percent of Senior Management indicated that the IA budget is currently smaller than that of EA. Although only indicative, this allows us to infer that IA's status is lower than that of EA, as it has fewer resources.
- **Some 33 percent of IA functions do not benchmark salaries against those in the market place.** In addition, 24 percent of CAEs indicated that IA does not offer adequate career progression opportunities.
- **Although the expectations of IA are increasing, there is still a lack of investment in IT tools for IA functions, particularly data analytics.** This is an area that requires greater investment to leverage technology and increase coverage.

Focusing on these key areas in the short to medium term will have a profound impact on IA's relationship with the Board, the AC and Senior Management.

Improvements in these areas, once complete, will assist the Board/AC and Senior Management in carrying out their roles and responsibilities.

Board of Directors/AC: With the release of SGX 1207(10) and Principle 11 of the Code, the Board and the AC have a greater focus on assessing the adequacy and effectiveness of internal controls and risk management (refer to Figure 1). As such, they need to work closely with IA, and vice versa, to ensure that IA is perceived as their 'eyes and ears' in the organisation.

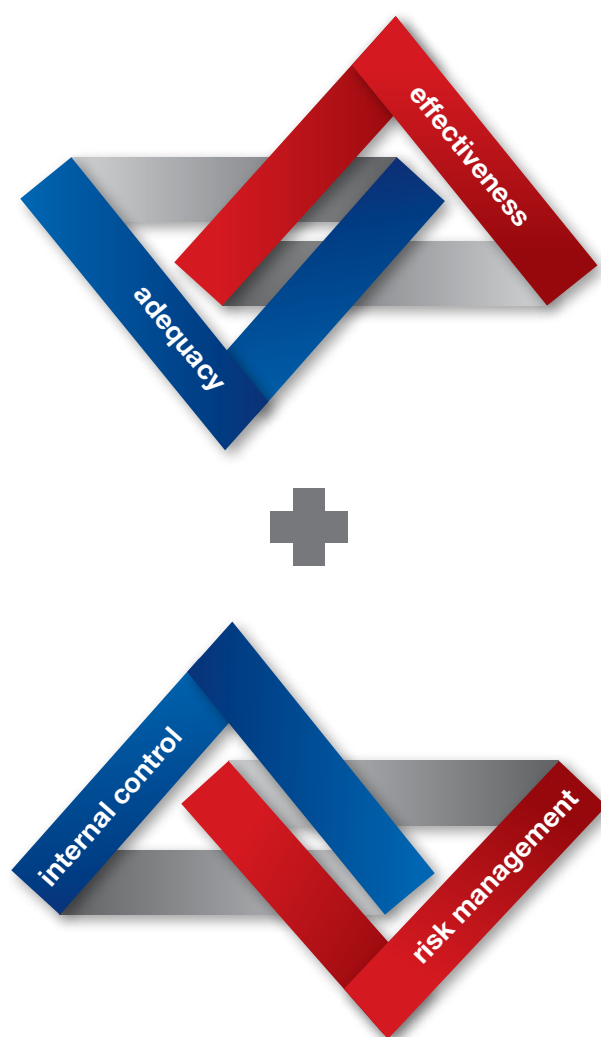


Figure 1

Additionally, the Board should ensure that its organisation's risk management framework is effective and within the scope of internal audit, as the Board is now expected to report on the adequacy and effectiveness not only of internal controls but also risk management activities and systems.

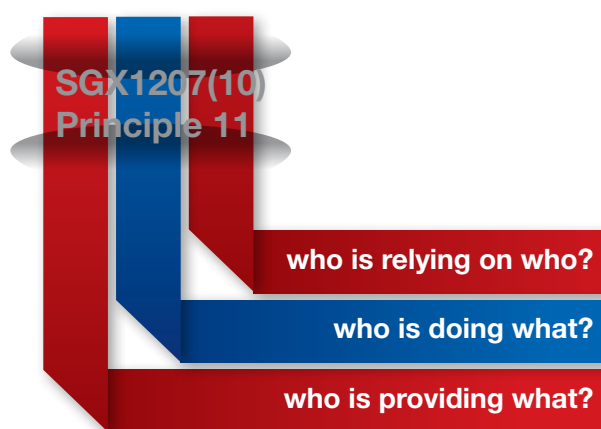
Internal Audit: With the increasing emphasis placed on risk management, IA's role is likely to become more significant than ever, including an increase in its level of interaction with stakeholders. IA needs to close its stakeholders' perception gaps, particularly those of Senior Management, by addressing their concerns on a regular basis and via open channels of communication. Going forward, Compliance, Risk Management and Internal Audit should also be viewed as distinct from each other, with clear objectives and scope.

Using the analogy of driving a car, Mr Irving Low, stated that "compliance and IA are like looking in the rear-view mirror to look at transactions in the past, whereas risk management is looking ahead through the car's windshield with respect to the activities of the organisation." He added that some companies may try to group IA and risk management together, but that doing so can be problematic. He stated, "We often get asked by smaller organisations [if they] can put risk management into IA. The correct answer is actually 'No,' as who would then audit the risk management activities and function if you, as IA, are undertaking that role?"

One possibility is for IA to oversee risk management activities by playing the **role of a coordinator**, while leaving the actual risk management implementation and legwork to another department. An alternative

for companies in which IA is carrying out some risk management activities is to outsource the review of risk management to an external service provider.

However, IA needs to have sufficient internal capabilities to accomplish the above. A quality assurance review (QAR) can be performed to assess the current internal capabilities of the IA function (refer to Figure 2). Shortcomings can be overcome by providing training and continuing education to IA staff, investing in relevant tools and technology and updating IA methodologies to bring them in line with better practice. Additionally, there should be sufficient opportunities for career progression within IA or within the organisation, such that IA is not considered as a 'stepping-stone' job. Finally, to retain employees, IA pay should be benchmarked to the market to place the profession on par with other job profiles.



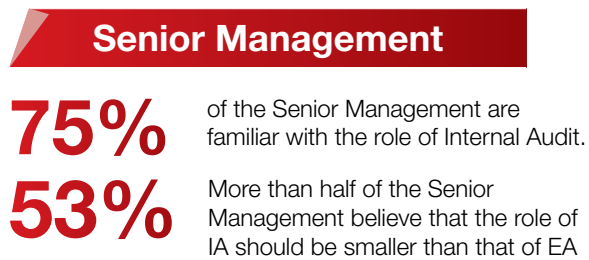
56% AC Chairmen and 41% CAE indicated that there is no quality assurance review of Internal Audit

How well is the 3rd line of defense working?

Figure 2

Senior Management has taken on the additional responsibility of not only ensuring the accuracy of financial statements but also for assisting the Board in reporting on the effectiveness and adequacy of the organisation's overall risk management and internal controls. To make this happen, Senior Management needs to place equal emphasis and reliance on IA and

EA, and to view IA not as a 'rubber-stamp' function but as a true value-adding function established to provide independent assurance for the organisation's risk management and internal controls.



VS

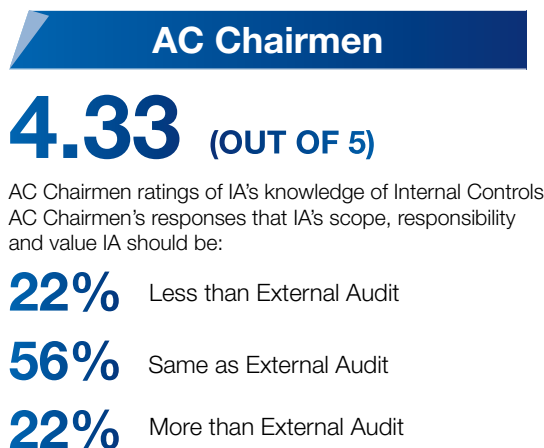


Figure 3

There is great potential to establish the IA brand as a strong and well-recognised function in which people can build careers, either within IA or within the organisation. The important task of re-branding IA cannot be done alone: it requires support from the Board, the AC and Senior Management. Regulatory bodies such as the SAC have played their part with the launch of the Asia Centre of Excellence for Internal Audit (ACEIA). The ACEIA was set up to widen the talent pool and deepen expertise in internal audit for the Asia-Pacific region. One immediate focus of the ACEIA is to develop a structured professional development pathway for internal auditors. IIA also

helps to promote and increase the profile of internal auditors by giving them a voice and education through standards such as the IPPF.

Viewing IA as important and providing it with support will eventually have win-win outcomes, not just for IA but for all of the other lines of defence in an organisation.



Survey Background

The SAC and KPMG jointly conducted a survey in the first half of 2013 to assess the current state of the IA function in Singapore, and to predict its future state. The survey, which comprised more than 75 questions, also sought to determine where IA in Singapore stands with respect to global standards, particularly the Global Audit Information Network (GAIN) reports published by the IIA.

3.1 HYPOTHESIS AND OBJECTIVE

In developing the survey questions, hypotheses were created on the state of IA in Singapore, taking into account improvements in global practices, changes in the regulatory environment, particularly the SGX Listing Rules and the revised Singapore Code of Corporate Governance ('the Code') issued in May 2012, and the four lines of defence outlined in the KPMG Board Risk Assurance Framework. We also used the KPMG Internal Audit Framework to derive the theme of the survey.

The KPMG Board Risk Assurance Framework, illustrated in Figure 5, identifies Internal Audit as the third line of defence.

This last bastion of defence is required to provide the assurance required by the Board for the effectiveness and adequacy of the organisation's internal controls. This is often a demanding task for the IA function, and the levels of assurance and effectiveness with which audits are performed are largely dictated by their Positioning, People and Processes (3Ps), as highlighted in the KPMG Internal Audit Framework.

Coupled with the Board's expectations, filling the perception gaps of Senior Management and managing the 3Ps, the Chief Audit Executive (CAE)/outsourced

internal audit provider must manage the scope of the audit and the competency of the auditors, often with a small budget. This can create tension, and may at times result in less depth/coverage than desired, despite the increasing demand for scrutiny and disclosure from a legislative perspective.

The survey's objective was to capture the responses to these challenges made by the three key stakeholders: the CAE, the AC Chairmen and Senior Management, mainly Chief Financial Officers (CFOs). It also looked at the co-sourcing and outsourcing of IA models to support CAEs in fulfilling their obligations.

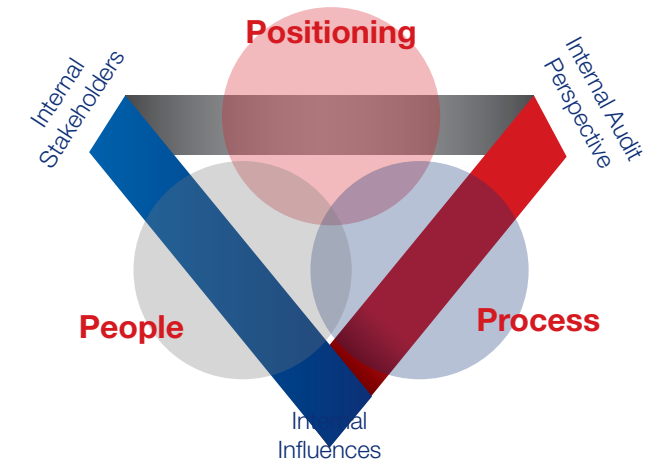
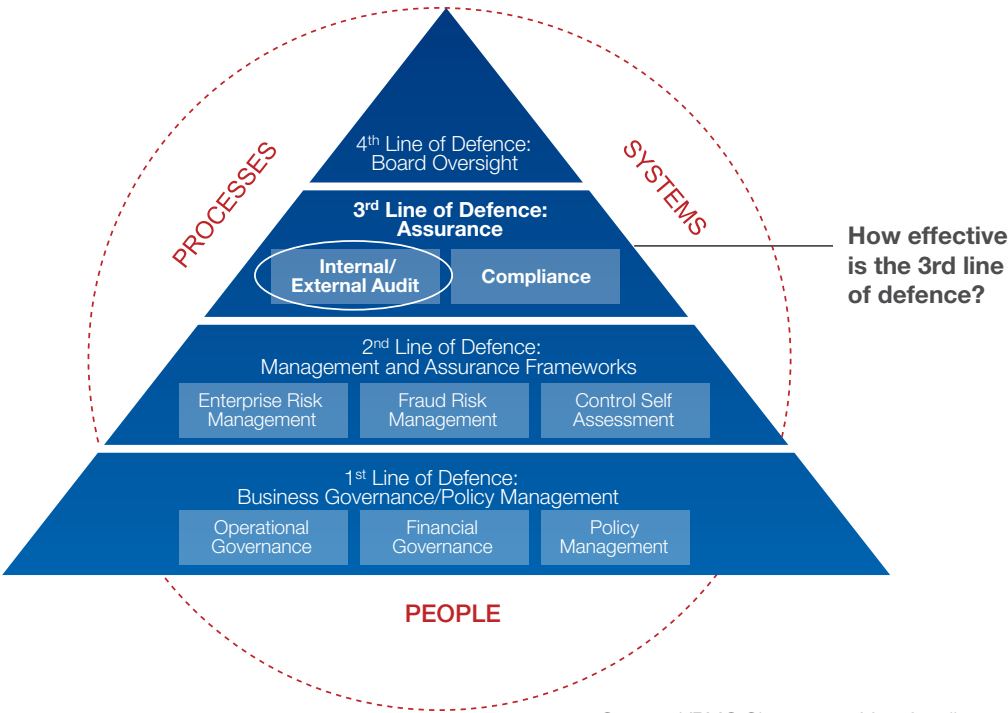


Figure 4: 3P's



Source: KPMG Singapore – Your four lines of defence.

Figure 5



About the Sample

Our survey was circulated to AC Chairmen, Senior Management and CAEs of Singapore-based companies.

4.1 INDUSTRY CLASSIFICATION

The sectors and industries represented in the survey were well diversified and represented as follows.

	AC Chairmen	Senior Management	Chief Audit Executive
Consumer Markets	3	9	6
Financial Services	1	7	9
Industrial Markets	3	26	10
Information Communication & Entertainment	2	4	1
Infrastructure & Healthcare	0	7	3

Figure 6

4.2 COMPANY'S LAST ANNUAL TURNOVER

The majority of the responses (55 of 91) were from companies classified as mid-sized, with an annual turnover of more than S\$100 million to less than S\$5 billion, followed by 26 small companies with an annual turnover of less than S\$100 million, and 10 large companies with annual turnover greater than S\$5 billion.

4.3 NUMBER OF EMPLOYEES

The majority of the respondents (26 of 91) worked in organisations with 1,000 to 4,999 employees, 27 respondents were from organisations with 200 to 999 employees, and 19 respondents were from organisations with more than 5,000 employees.

4.4 IA STRENGTH

The majority (82 of 91) of the respondents indicated in the survey that their IA teams do not exceed 30 employees. Of the 82 respondents, 56 indicated that their internal audit teams comprise five or fewer employees.

4.5 ADOPTION AND PRACTICE OF INTERNATIONAL STANDARDS FOR PROFESSIONAL PRACTICE OF INTERNAL AUDIT (ISPPIA)

The majority of the respondents (82 out of 91) indicated that the IA functions in their respective organisations have adopted and practise such standards as those set by the ISPPIA. Six respondents indicated that their IA teams have not adopted such standards, and three respondents were not sure.

4.6 IA FUNCTION

Fifty-one percent of the respondents (46 of 91) indicated that their companies' IA functions are in-house; 37 percent indicated that the IA function is out-sourced; and 12 percent indicated that it is co-sourced.

4.7 EXISTENCE OF RISK MANAGEMENT FRAMEWORK

The majority (76 of 91) of the respondents indicated that a risk management framework such as the AS/NZS ISO 31000 or the Committee of Sponsoring Organizations (COSO) ERM existed in their organisations. However, 12 of the 53 Senior Management respondents indicated that no risk management systems had been implemented by their organisations.



Findings

The detailed findings from our survey are as follows:

5.1 EXPECTATIONS OF IA

5.1a. Does IA add value?

When asked to list the top three areas in which IA was most effective and value adding, the AC Chairmen and the CAEs gave consistent answers, as follows:

- (i) Internal control;
- (ii) Risk management;
- (iii) Compliance with regulations.

Corporate governance and fraud investigation were also indicated as areas in which IA had started adding value.

The change in the role of the IA function in the past few years can be attributed to recent changes in the local regulatory environment, increasing complexity in business and greater emphasis on the responsibilities of Board of Directors with regard to companies' internal controls and risk management systems.

As a result, it is expected that IA will gradually increase its focus to encompass not only the traditional compliance and operations-related audits but also corporate governance, risk management and fraud investigation.

5.1b. Does IA address stakeholders' concerns and consider the high-risk areas identified by stakeholders?

Addressing key customers' concerns is an important means of building trust and confidence in the IA function. By failing to address key stakeholders' concerns when developing an IA plan, IA may lose its credibility and eventually its responsibility for providing assurance activities designed to add value to an organisation and improve its operations (refer to Figure 7).

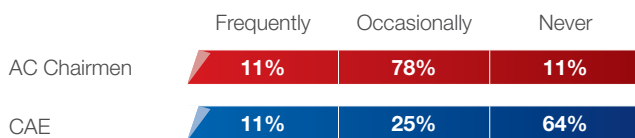


Figure 7: Stakeholder concerns addressed by IA?

5.1c. Does Internal Audit have a proper understanding of the organisation's risk environment, mission and objectives?

On a scale of 1 to 5, with 5 being 'to a very great extent', both the AC Chairmen and the CAEs gave IA's understanding of the organisation's strategic and operational risks, mission, objectives and risk environment a rating greater than 3.7 (refer to Figure 8). Both the CAEs and the AC Chairmen thus acknowledged that IA has a proper understanding of the organisation. Similarly, when the Senior Management respondents were asked if IA has a good understanding of the organisation and the risks it faces, 91 percent said 'Yes' and 9 percent said 'No'.

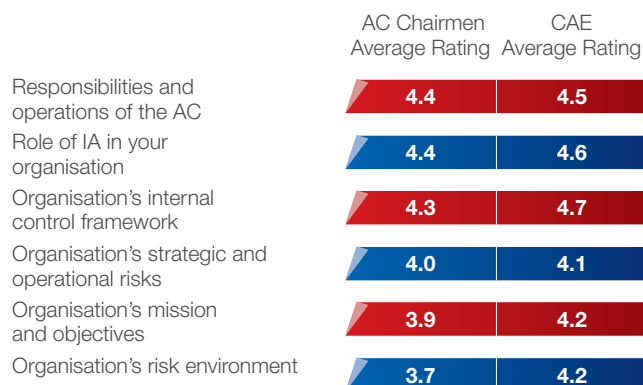


Figure 8: Stakeholder perception

5.1d. Are IA plans completed on time?

The CAEs' and AC Chairmen's perceptions of the timeliness of the completion of IA plans differed, as 67 percent of the AC Chairmen but only 34 percent of the CAEs indicated that IA is completed on time. However, 17 percent of the CAEs indicated that although IA plans are not always completed on time, incomplete activities are reported to and approved by the AC (refer to Figure 9).

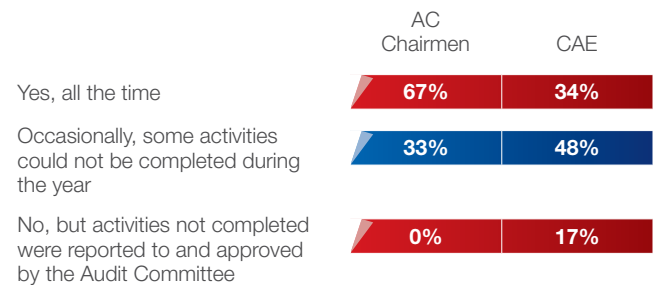


Figure 9: IA plan completion

AC Chairmen and CAEs need to work together to address the factors that prevent the IA function from completing IA plans in a timely manner. The possible reasons are a shortage of resources, a lack of planning or delayed responses from auditees, either in providing information or providing action plans, which result in delays in finalising the IA report. The sooner the shortcomings are addressed, the more effective the IA function will be in supporting the AC in its roles and responsibilities.

5.2 POSITIONING IN THE ORGANISATION

5.2a. Does IA have a good image and high visibility within the organisation?

IA's relationship with the AC is viewed as healthy and cooperative. Both Senior Management and the CAEs indicated that the relationship between the IA and the AC is 'good' to 'excellent' (refer to Figure 10).

	Senior Management	CAE
Relationship with AC	4.2	4.5
Relationship with C-Level	4.0	4.3
Relationship with External Auditor	3.7	4.1
Relationship with Senior Management	3.7	3.7
Relationship with Line Management	3.4	4.0
Relationship with Co-sourced IA	3.6	3.8

Figure 10: Relationship with stakeholders
(1 being very poor and 5 being very good)

As seen in Figure 11 and Figure 12, IA is respected ‘to a great extent’, exceeds expectations and is felt to have a good understanding of the organisation’s business issues. However, 16 percent of Senior Management also indicated that IA was a policeman and a necessary evil, and 8 percent felt that IA did not add any value to the organisation.

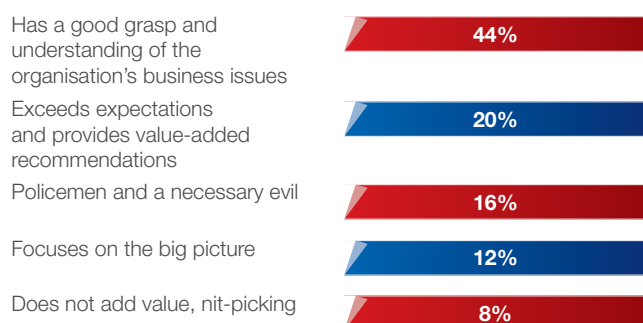


Figure 11: Image in the organisation

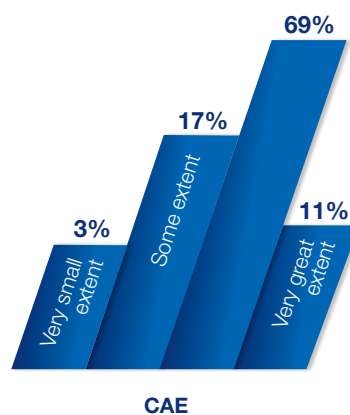
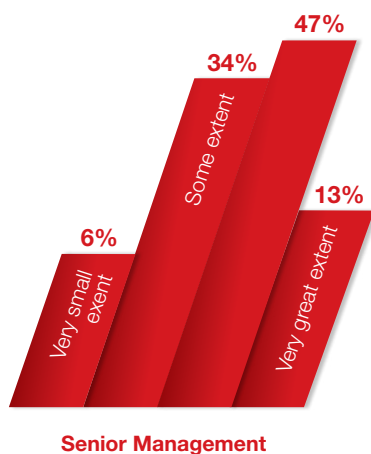


Figure 12: Respect for IA in the organisation

We also asked members of Senior Management whether they were familiar with the roles and responsibilities of the IA function, and whether the IA charter was communicated effectively within the organisation.

Among Senior Management, 75 percent responded that they were familiar with the IA function ‘to a great extent’. However, the remaining 25 percent were familiar only ‘to some extent’ (refer to Figure 13).

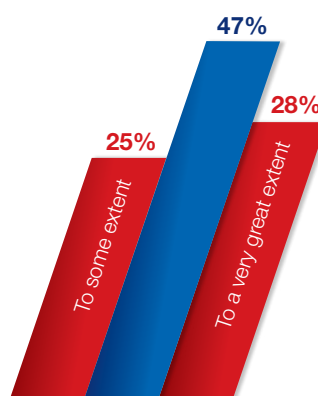


Figure 13: Familiar with IA role

It is likely that 25 percent of Senior Management claimed that they were familiar with IA’s role only ‘to some extent’ because they have not seen the IA charter. Only 57 percent of the CAEs responded that the IA charter had been communicated ‘to a great

extent' within the organisation. About 31 percent indicated that the charter had been communicated only 'to some extent' and the remaining 12 percent indicated that the communication of the charter within the organisation had been poor (refer to Figure 14).

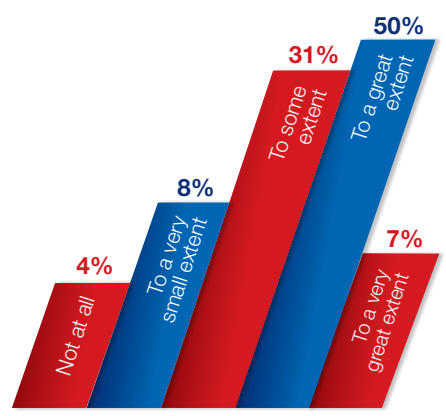


Figure 14: Communication of IA Charter

Although IA previously focused heavily on operational issues, its remit has now expanded to cover a wider range of governance issues. Given this expanded role, the function will be expected to go beyond the simple legwork of carrying out checks by also providing insightful suggestions for improving the company's activities and processes. To achieve this, IA and Senior Management will need to work together to improve their expectations of and relationship with each other.

5.2b. Can IA deal with difficult situations?

Although 93 percent of the CAEs responded that IA is well positioned to handle difficult situations, only 71 percent of the Senior Management responded in the same way (refer to Figure 15).

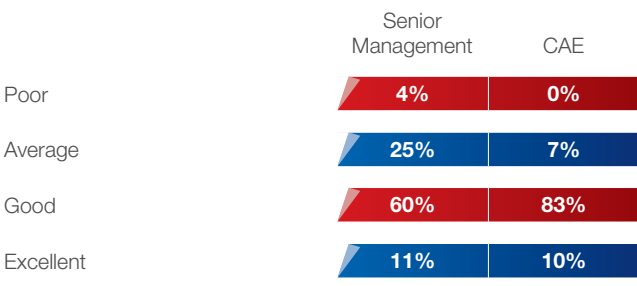


Figure 15: Handling difficult situations

As the IA team interacts with auditees on a frequent basis, Senior Management are given far more insight into IA's ability to handle difficult situations than CAEs, who are normally present only for key meetings and during the fieldwork phase of the audit. This explains the perception gap described above.

We asked Senior Management whether they were satisfied with the way IA resolved disagreements during audits. The overall response was that IA-related disagreements between IA and Senior Management are resolved amicably, with the involvement of AC/Senior Management if required. However, 6 percent of Senior Management believed that IA has the final say (refer to Figure16).

To obtain Senior Management's confidence and respect, it is imperative for IA to resolve disagreements in an amicable manner. By taking the aggressive approach of refusing to listen to and discuss IA issues with Senior Management, IA will not only lose respect but will be seen as a 'policeman'.

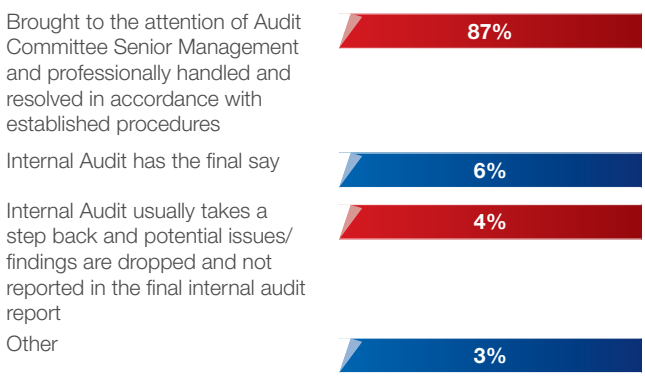


Figure 16: Resolving disagreements

5.2c. Is the profile of IA appropriate to and consistent with its role in the governance framework and with the organisation's other 'lines of defence'?

About 89 percent of AC Chairmen were confident that IA would report controversial issues regarding Senior Management to them. This is a strong indicator of the independence and objectivity of IA operations today.

The higher up in the organisation the CAE directly reports, the more autonomy he or she will have in reporting controversial issues to the AC. The survey results revealed that 100 percent of the AC Chairmen and 93 percent of the CAEs report internal audit matters directly to the AC (refer to Figure 17).

Reporting Line		AC Chairmen		CAE	
Direct Reporting Line	AC		100%		93%
	C level		0%		7%
Administrative Reporting Line	AC		22%		14%
	C-level		34%		76%
	Other Senior Management		22%		7%
	Director of Finance/Personnel		22%		3%

Figure 17: IA Reporting Lines

On administrative matters, 56 percent of the AC Chairmen and 83 percent of the CAEs indicated that internal auditors report to members of Senior Management. This calls into question the independence of IA. If Senior Management maintains a degree of control over IA, how likely is IA to be overtly critical of how Senior Management operates?

One factor that may complicate the issue of independence is career progression. If people working in IA aspire to progress to other roles within the organisation later in their careers, this may influence how they manage their relationships with Senior Management today.

Mr Derrick Lim commented on the intertwining relationship between career progression and IA's relationship with Senior Management, stating that "if the next role you are aiming at is in the company's Senior Management, you may not want to ruffle too many feathers."

5.2d. How do internal stakeholders perceive the scope, responsibilities and value of IA?

As an indication of the scope and value of IA, the survey respondents were asked to compare the IA budget with the EA budget. Sixty-seven percent of AC Chairmen responded that the two were similar, and 100 percent of the CAEs responded that the IA budget was similar to or larger than the EA budget. However, 62 percent of the Senior Management indicated that the IA budget was smaller than the EA budget (refer to Figure 18).

	IA Budget vs. EA Budget		
	Smaller	Similar	Larger
AC Chairmen	33%	67%	0%
Senior Management	62%	28%	10%
CAE	0%	83%	17%

Figure 18: IA budget comparison

In comparison to the statistics reported in the GAIN reports, we noted that the budget allocated to IA is greater than that for EA (refer to Figure 19).

	Percentage of Total Revenue	Percentage of Total Assets	Percentage of Total Expenses
Cost			
Internal Audit Costs	0.099%	0.059%	0.120%
External Audit Costs	0.079%	0.047%	0.096%
Difference	0.020%	0.012%	0.024%

Figure 19: GAIN report statistics (as of 2012)

We also asked the survey respondents what scope, value and responsibility IA should have when compared with EA. Fifty-three percent of the Senior Management, 22 percent of AC Chairmen and 14 percent of the CAEs responded that these capacities should be lesser than those of EA (refer to Figure 20).

	Less than EA	Same as EA	Larger than EA
AC Chairmen	22%	56%	22%
Senior Management	53%	26%	21%
CAE	14%	52%	34%

Figure 20: IA scope, responsibility and value 'should be'

Our survey results highlight clearly that Senior Management attributes less importance to IA than EA because it does not perceive IA to add as much value to the organisation, indicating yet again that the IA function needs to significantly improve its relationship with Senior Management.

According to Mr Soh Gim Teik, the roles and responsibilities of IA and EA should be complementary. He added that "risk management is now a big area, and compared to EA, IA will have more in-depth knowledge about risk areas within the company since they are working in there on a daily basis. So both IA and EA will come in with different mindsets because they have their own knowledge of something. And when you put them together it is immensely powerful."

5.2e. Can Internal Audit obtain the funds required to execute the internal audit plan?

The ability to obtain funds to execute an IA plan is a strong indicator of the positioning of IA in the organisation's structure, and its value as perceived by key stakeholders. Eighty-three percent of the CAEs indicated that they do not face any difficulties in obtaining the required budget to carry out their activities (refer to Figure 21).

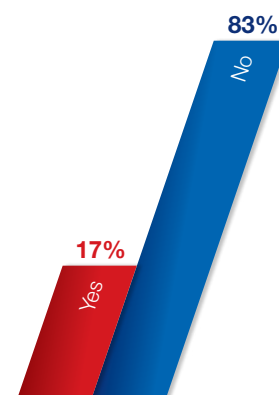


Figure 21: Difficulty in obtaining budget

It appears that information on IA budgets is highly sensitive, as only 10 of the 29 CAEs provided a response, with the remainder choosing not to answer the question. From the responses obtained, of the three organisations with an IA budget greater than \$500,000, two were large (annual turnover of more than S\$5 billion) and one was mid-sized (between S\$100 million to S\$5 billion) (refer to Figure 22).

Budget value	CAE Response
S\$100,001 to S\$200,000	1
S\$200,001 to S\$300,000	2
S\$300,001 to S\$400,000	2
S\$400,001 to S\$500,000	2
More than S\$500,000	3

Figure 22: IA budget

Our survey also provided information on the allocation of IA funding to various activities. Salaries and bonuses accounted for 58 percent of the total budget, and 26 percent was allocated to co-sourcing activities, indicating a high level of dependence among Singapore-based organisations on third-party internal audit service providers.

It was also noted that only 7 percent of the total budget was allocated to providing training and certification

for IA staff in Singapore. However, this is higher than indicated by the statistics obtained by GAIN, which found global IA functions to invest only 2 percent of their total budget in training (refer to Figure 23).

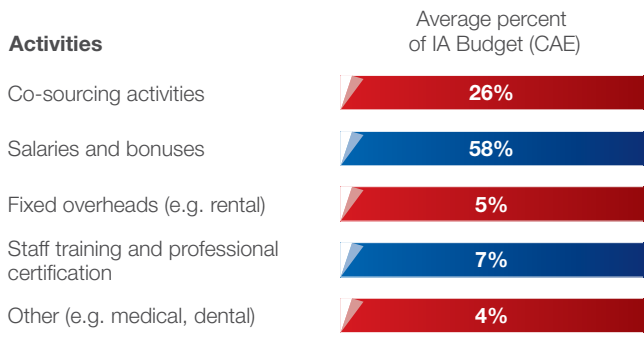


Figure 23: Allocation of IA budget

5.3 METHODOLOGY AND TOOLS

5.3a. Are internal auditors tech-savvy?

Only 41 percent of the CAEs responded that IA uses tools and technology such as data analytics, whereas the GAIN reports indicate that IA is well-equipped with tools and technology such as those in Figure 24 and Figure 25 below.

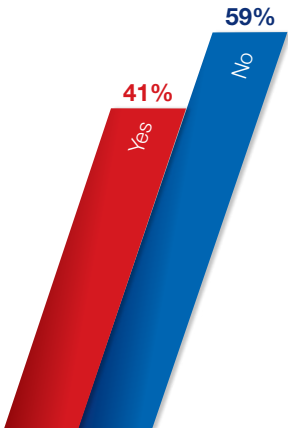


Figure 24: Utilisation of data analytic tools

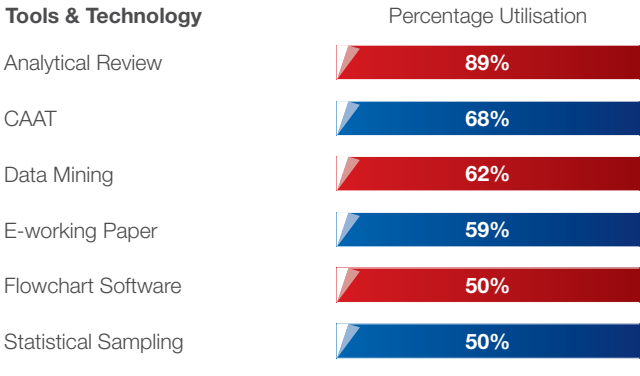


Figure 25: GAIN report – Tools & Technology

Furthermore, IA in Singapore does not complement its activities with automated audit software and tools such as electronic working paper systems, electronic policies and procedures, manual and automated resources, and schedule management systems, to name but a few (refer to Figure 26).

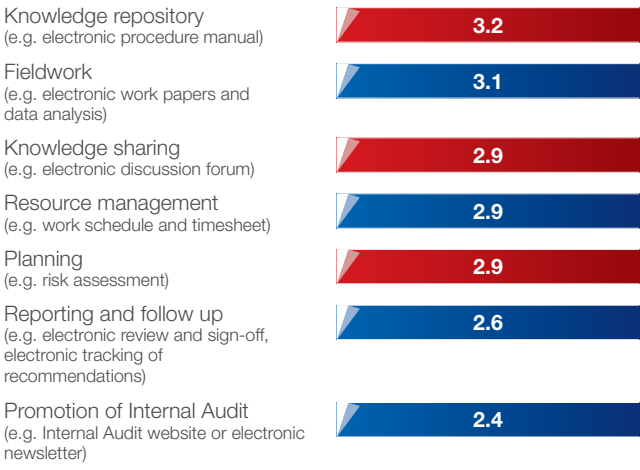


Figure 26: Utilisation of IT Tools (1 being to a Very SMALL Extent and 5 being to a Very GREAT Extent)

5.3b. Key factors considered when preparing and executing an internal audit plan. Is Internal Audit's methodology based on leading practices/principles?

IA considers several key factors when preparing and executing an IA plan. They perform a risk assessment to identify the key risks (including business- and

IT-related risks); determine the required frequency, scope and coverage of the IA on the basis of the high-risk activities identified during the risk assessment; perform follow-up audits on prior IA findings; and involve external consultants when the in-house IA team lacks the necessary skills or resources.

As seen in Figure 27, IA has evolved significantly from a control-focused to a risk-based IA plan prepared only after a thorough assessment of the risks likely to have the greatest impact on the organisation, as well as areas audited in the past.

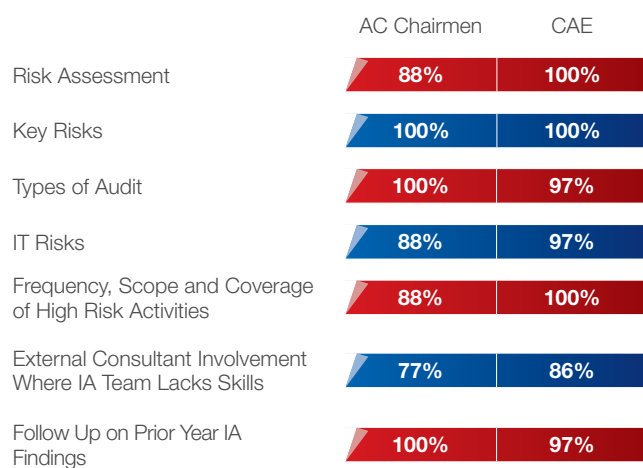


Figure 27: IA plan focus

5.3c. Is the auditee kept well informed about the audit's progress, and consulted during various phases of the audit?

It appears that IA keeps the auditees and Senior Management well abreast of the audit's progress. Among Senior Management, 79 percent noted that the scope of the audit is agreed with the auditee prior to the audit (refer to Figure 28). Similarly, 88 percent of Senior Management agreed that IA findings are discussed and comments obtained on them prior to issuing a final IA report (refer to Figure 29).

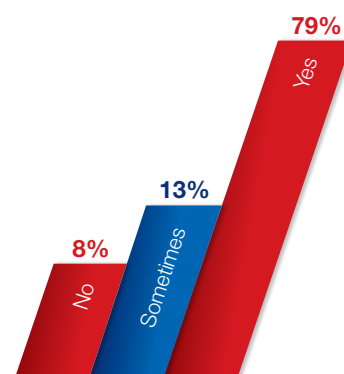


Figure 28: IA discusses scope of audit with auditee before audit

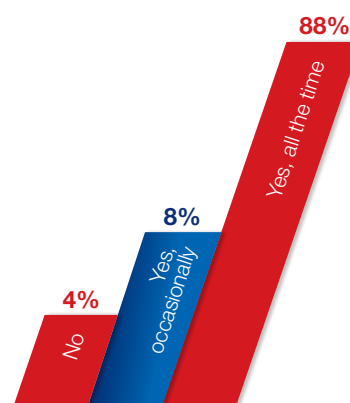


Figure 29: IA findings discussed with auditee before final report issuance

However, 8 percent of Senior Management also claimed that the scope of the audit is not discussed with them or their team, and 4 percent noted that audit reports are issued without first discussing the findings. We also asked Senior Management to rate their level of satisfaction with IA. On a scale of 1 to 5, with 5 being 'very satisfied', Senior Management gave the lowest ratings to the following three areas:

- Your team has been kept abreast of the progress of the audit (rating of 3.21);
- The internal audit team provides early identification and notice of contentious issues, problem areas and delays (3.21);
- The internal audit team has engaged your functional areas sufficiently in the pre-planning stage (3.26).

Keeping the auditee/Senior Management in the loop during various stages of an audit benefits the auditor by allowing him/her to provide an unbiased and mutually agreed internal audit report with 'no surprises', as well as ensuring that the audit is carried out according to leading practices.

5.4 PEOPLE AND PERFORMANCE

5.4a. Is the effectiveness of Internal Audit benchmarked against good practice, and do internal auditors use constructive feedback from stakeholders to improve their operations?

Some 56 percent of the AC Chairmen and 41 percent of the CAEs indicated that no QAR of the IA function are undertaken in their organisations (refer to Figure 30). According to the GAIN reports, however, 65 percent of IA functions include a formal quality assurance and improvement programme.

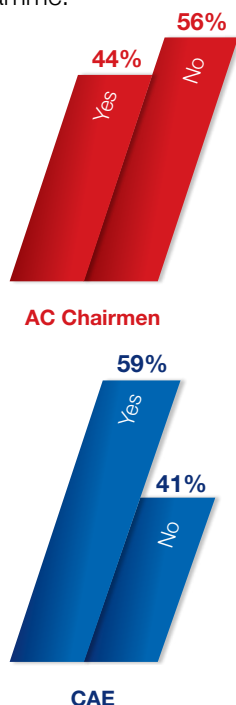


Figure 30: QAR of IA function

Of the AC Chairmen and CAEs who responded that a QAR of the IA function was indeed performed in their

organisations (49 percent and 59 percent respectively), half reported using an external party to conduct the review, and the other half an in-house team. However, the GAIN reports indicated that external parties are more frequently recruited to perform QARs (refer to Figure 31).

	Respondent Group	
	GAIN Report	
	AC Chairmen	CAE
External Party	70%	53%
In-house Team	30%	47%

Figure 31: Who is engaged to do the QAR

We also asked our survey respondents whether IA obtained regular feedback from auditees and stakeholders, and 18 percent of the respondents indicated that no such feedback is obtained (refer to Figure 32). However, more than half of the respondents across the three groups indicated that IA does a good job of obtaining feedback on a regular basis.

	AC Chairmen	Senior Management	CAE
After each audit	33%	43%	28%
Quarterly	33%	10%	41%
Semi-annually	22%	19%	4%
Annually	N/A	11%	17%
Never	N/A	15%	3%
Other	12%	2%	7%

Figure 32: Frequency of feedback from auditees

5.4b. Are internal auditors professional, technically sound and in possession of domain knowledge and soft skills?

Among Senior Management, 66 percent (62 percent 'Good' and four percent 'Excellent') indicated that internal auditors possess the seniority and

experience required (refer to Figure 33). The Senior Management respondents also indicated that they are very satisfied with internal auditors' professionalism and project management skills.

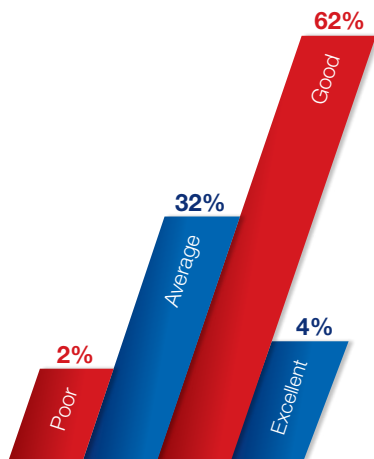


Figure 33: Seniority and experience of IA staff

Both the CAEs and the AC Chairmen indicated that internal auditors lack competencies in performance (i.e. value for money) audits and information technology audits (refer to Figure 34).

Types of Audit	AC Chairmen Average Rating	CAE Rating
Financial reporting standards	4.4	3.5
Control self assessment	4.1	3.9
Risk management	4.1	4.1
Financial management concepts	4.0	3.7
Industry-specific practices and risks	3.8	4.4
Treasury	3.5	3.5
Human resources	3.4	3.7
Performance (i.e. value-for-money)	3.3	2.9
Information technology	3.3	3.6

Figure 34: IA competency in key functional areas (1 being very weak and 5 being very strong)

5.4c. Are deficiencies in the IA function adequately addressed, and if so, how?

Although 86 percent of the CAEs (refer Figure 27) would consider involving external consultants to fill gaps in the skill-sets required by the in-house IA team to execute IA projects, 21 percent of the CAEs do not co-source/outsourcing such projects to external consultants despite gaps in in-house skills or other resources (refer to Figure 35).



Figure 35: Percentage of IA functions that do not co-source/outsourcing

5.4d. If shortages in staff skills and resources are not filled by engaging in co-sourcing and outsourcing, are they addressed by other means such as the provision of continuing education/training to IA staff to allow them to develop the necessary skills over time?

Seventeen percent of the CAEs indicated that there is no continuing education programme in place. Another 28 percent noted that although a continuing education programme is in place, staff are not required to complete a minimum number of hours of training annually (refer to Figure 36).

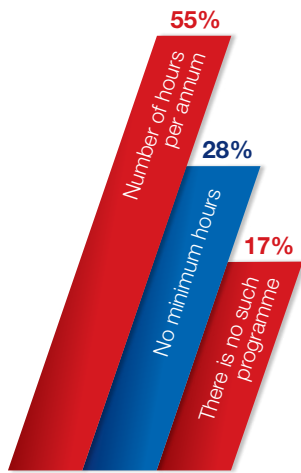


Figure 36: Continuing Education programme (CAE responses)

5.4e. Is a career in Internal Audit progressive and lucrative?

The CAEs were asked a series of questions on their perceptions of a career in internal audit: whether it could be considered as a training ground for future leaders, whether it offers adequate career progression, and whether the pay structure is capable of attracting and retaining employees.

- The majority (52 percent) of the CAEs disagreed that IA is a training ground for future leaders (refer to Figure 37).

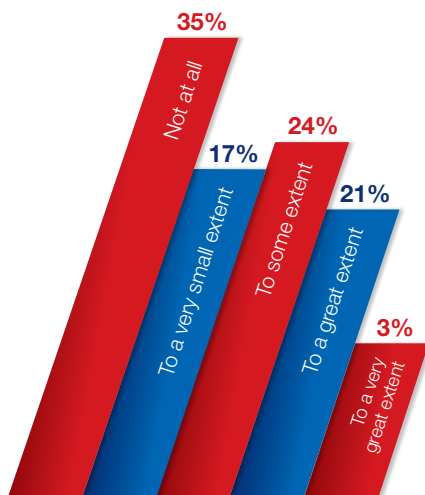


Figure 37: Training ground for future leaders

- Thirty-one percent of IA functions do not benchmark salaries against those in the market (refer to Figure 38).

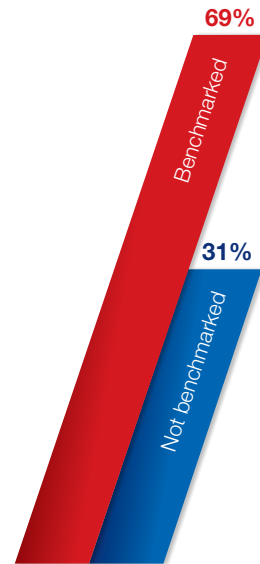


Figure 38: Pay benchmarked to market

- Twenty-four percent of the CAEs indicated that IA does not offer adequate career progression opportunities. This may be primarily because IA is underappreciated and internal auditors think of a career in IA only as a stepping stone (refer to Figure 39).

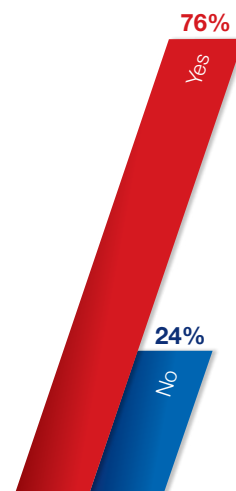




Figure 39: Career progression

 Mr Quek Suan Kiat stated that “I would like to see more internal auditors becoming CEOs because I think the best way to learn about the business is as an internal auditor. As the head of IA, you have the opportunity to understand the firm a lot better than a lot of people.” 

5.5 CO-SOURCING: IS IT WORTH IT?

5.5a. What is the primary purpose of co-sourcing/outsourcing internal audit activities?

Of the CAEs, 44 percent indicated that co-sourcing is the most cost-efficient means of obtaining a diverse/wide range of skill sets that may not be fully utilised in an in-house context (refer to Figure 40). Considerable importance is placed on co-sourcing in Singapore because the IA function is not seen as offering adequate career progression, and thus not enough time and resources are allocated for training and continuing education to uplift the in-house IA team's skills and expertise.

Reasons	CAE Count	Percentage
More cost-efficient to contract a diverse/wide range of skill sets, which may otherwise not be fully utilised in an in-house setup.	7	44%
Costs are variable and can be better managed depending on the need for reviews.	3	19%
It is difficult to attract the right people in the current market environment to set up an in-house internal audit function.	3	19%
Others, please specify: • language constraints in some countries • provide a different perspective on the area being reviewed; co-source for any short-fall in resources	2	13%
Expensive to maintain a quality in-house function	1	5%

Figure 40: Reasons for co-sourcing IA

5.5b. What kinds of audits are most often co-sourced/outsourced?

The CAEs indicated that Human Resources, Compliance with Policies and Procedures, IT, Risk Senior Management and Business Process/Operational Audits are the most common types of co-sourced audits.

The increased focus on IT and risk management shows that internal audit is not only addressing the traditional areas of compliance and operations but also diversifying to incorporate areas such as the vulnerability of information systems to cyber attacks, and strategic risk management. As seen in Figure 41, our survey reveals that organisations are not only outsourcing/co-sourcing traditional internal audit areas such as compliance with policies and procedures, operational audits and Human Resources and Payroll audits but also risk management and IT audits. The results highlight yet again that in-house IA teams in Singapore generally lack the required skill sets and expertise to perform various types of audits, as these would not otherwise be out- or co-sourced.

Type of Audit	Percentage
Human resources and payroll audits (due to the sensitive nature of this information, a third-party review is preferred)	17%
Compliance with policies and procedures	17%
Information technology	17%
Risk management	13%
Other processes (please specify): • Business Processes, Operational audits	13%
Performance audits	8%
Treasury audits	8%
Internal Audit Quality Assurance Review (QAR)	4%
Governance audits	3%

Figure 41: Type of audit co-sourced

The results of our survey are further supported by the GAIN reports, which state that IT audits, audits requiring subject matter expertise and general internal audits (including compliance with policies and procedures) are the most frequent activities sourced from external IA service providers (refer to Figure 42).

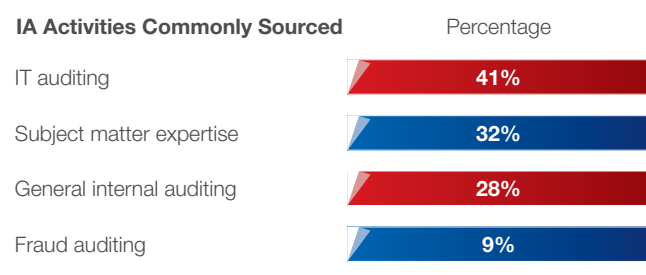


Figure 42: GAIN report

5.5c. What are the key criteria for the assessment of outsourced internal audit service providers?

The CAEs were asked to rate their top three criteria for selecting an external IA services provider. The top three criteria were as follows:

- (I) Expertise and experience in providing similar services;
- (II) Industry experience; and
- (III) Proposed deliverables.

Fees were rated the fourth most important criterion in selecting a co-sourced IA services provider.

5.5d. Does appointing an external IA service provider add value? If 'Yes', how so?

CAEs responsible for co-sourcing internal audit services rated the staff mix and competency of external IA service providers at 4 and 3.7 respectively

(1 being 'unbalanced'/'incompetent' and 5 being 'well balanced'/'very competent').

On a scale of 1 to 5, with 5 being 'excellent', the CAEs were asked to comment on the quality of the findings and recommendations of co-sourced IA providers. They described findings that addressed the importance of IA and its impact on the organisation, were relevant and clear, issued on a timely basis and addressed the root causes, and provided constructive recommendations. However, they also stated that co-sourced IA service providers need to ensure that their findings are constructive, and that their recommendations are practical and can be implemented in a cost-effective manner (refer to Figure 43).

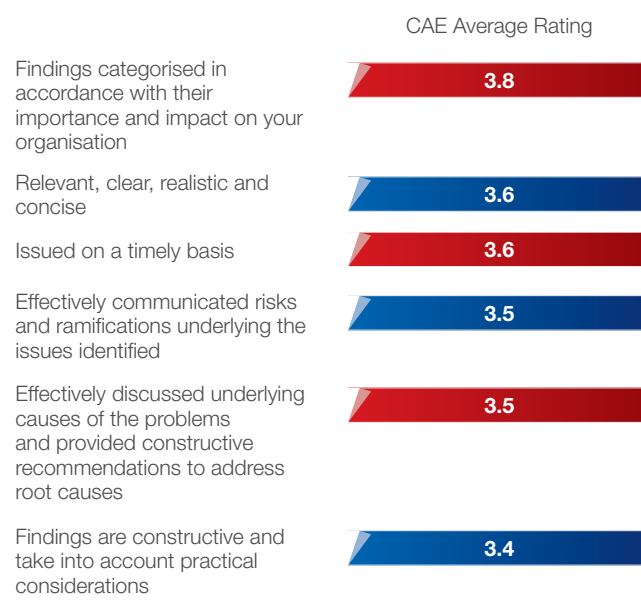


Figure 43: Quality of findings and recommendations by co-sourced IA

Overall, the CAEs were satisfied with the co-sourced IA service providers' professionalism, technical skills and soft skills (refer to Figure 44).

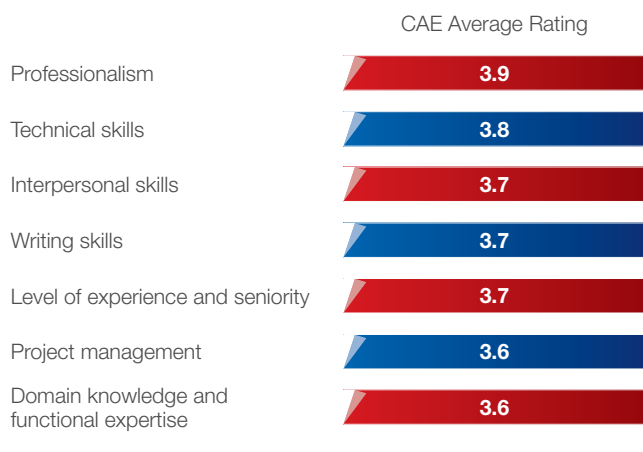


Figure 44: Satisfaction with co-sourced IA

Once a firm has been appointed to provide co/ outsourced IA services, monitoring the ongoing quality of the work is equally important. The survey results indicated that 60 percent of CAEs who engage the services of an external IA service provider do not have a formalised process for evaluating the performance of the external provider.

Although outsourcing is a common and effective means used by companies to gain access to IA skill sets that they do not have in-house, it is important to balance this strategy with a degree of internal oversight.

Mr Derrick Lim highlighted that even when an organisation hires an external party to carry out the actual auditing legwork, there must still be internal ownership of the IA function and how it is applied within the entire organisation. According to Mr Lim, this is necessary to avoid a potential conflict of interest. He commented that “the outsourced auditors obtain revenue based on the amount of work that they do. So if they both control both the concept of how a firm should be audited and also do the work itself, they may be in a bit of a position of conflict. Not legally, but holistically.”

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