REINVENTING INTERNAL AUDIT

A collaborative thought leadership project between Singapore Accountancy Commission, The Institute of Internal Auditors Singapore and RSM Risk Advisory
The relevance and effectiveness of current internal audit (IA) practices face tremendous challenges due to changes in today’s business environment and governance expectations from stakeholders such as boards, management and regulators.

The Singapore Accountancy Commission (SAC), together with The Institute of Internal Auditors (IIA) Singapore and RSM Risk Advisory Pte Ltd (RSM), hosted a roundtable to discuss and provide insights into the practice of IA on what works and what should change – Reinventing IA. This roundtable was moderated by Mr Tay Woon Teck, Managing Director of RSM Risk Advisory, and supported by the Community of IA Leaders.

Participants well-versed in the practice of IA across various industries and sectors, both public and private, engaged in a deep discussion on how IA should evolve and change in moving with the times. The key points of the roundtable are summarized in this whitepaper that recommends the ways in which IA should develop going forward.

SAC, IIA Singapore and RSM Risk Advisory would like to thank all participants for their invaluable time in attending the roundtable and their continued support of initiatives for IA.

**List of Participants**

- **Mr Aaron Brewer**  
  Global Head of Audit Technology, Operations, Change & Third Parties, Standard Chartered

- **Mr Jonathan Forth**  
  Regional Chief Auditor, ASEAN, Head of Audit, Singapore, Citibank, N.A.

- **Mr Jamie Graham**  
  Managing Director, APAC Regional Head of Audit; Barclays

- **Mr Bill Ho**  
  Deputy Inspector General, MINDEF

- **Mr Koh Chin Beng**  
  Partner, BDO LLP

- **Mr Derrick Lim**  
  Divisional Vice President, Internal Audit, Singapore Airlines Ltd

- **Mr Sidney Lim**  
  Country Managing Director, Protiviti Singapore

- **Ms Patricia Kodesch**  
  Executive Director, Audit Services Group, Marina Bay Sands Pte Ltd  
  *(at the time of the roundtable)*

- **Ms Lim Sok Hong**  
  Senior Manager (Internal Audit), MINDEF

- **Mr Jimmy Ng**  
  Managing Director & Head, Group Audit, DBS Bank

- **Ms Tan Boon Yen**  
  President, The Institute of Internal Auditors Singapore

- **Ms Karen Tan**  
  Deputy Director & Head, Internal Audit, Singapore University of Technology & Design

- **Mr Wong Hong Sun**  
  Director, Group Internal Audit, Far East Organization
What is Internal Audit?

According to the Institute of Internal Auditors:

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

Whilst the definition of Internal Auditing has not changed, the Institute of Internal Auditors has recently clarified what is IA’s role and this is aptly encapsulated in the IA mission statement that has been added to the new International Professional Practices Framework (IPPF) dated 29 July 2015:

“To enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.”
Focus on outcome and not how - A Change of Mindset

“Creating value is not on top of providing assurance but has to be an integral part of the assurance process. This will require a fundamental rethink of how we are currently delivering assurance.”

Jimmy Ng
Managing Director & Head, Group Audit, DBS Bank

IA has outgrown its beginnings of primarily providing an independent and objective assurance to stakeholders. Previously, the “how to” focus of IA based on historical data and perspective would be sufficient to address this need. However, IA is gradually gaining recognition as “business partner” and “change agent” to provide management and the board with advice and where necessary, insight. This requires a different focus on the outcome rather than just how to deliver IA services. The mission of IA takes a step beyond the original definition to draw the focus of IA to what it is meant to do – to enhance and protect organizational value. To do so successfully, IA needs to first turn its attention towards the outcome, and start engaging its stakeholders in partnership not only to enhance and protect but also to create value, if it has not already done so.

This gives IA the opportunity to explore innovative ways to create value, which is particularly important with limited IA resources but expanding needs and changing expectations of IA. Participants suggested various ways such as looking at IA practices within similar or other industries, obtaining management buy-in for innovative approaches, and using data analytics for trends beyond point-in-time audits. Above all, the point was also brought up that instead of being a value-adding partner, IA could look into ways of how it could help create value for the organization. The challenge many IA professionals face is being able to provide that additional or new value without further extensive efforts. What has not changed and remains fundamental to IA is the ability to provide assurance.
The existing Three Lines of Defense model provides a simple and effective way to enhance communications on risk management and control by clarifying essential roles and responsibilities. Each of these three “lines” plays a distinct role within the organization’s governance framework: (a) management control is the first line of defense in risk management, (b) the various risk control and compliance oversight functions established by management are the second line of defense and (c) internal audit is the third.

However, participants feel that there is insufficient alignment of all three lines to common risks and placing importance to governance due to competing interests and expectations. Governance should involve everyone as it is not the sole responsibility of any of the three lines. Organizations should not just focus and rely on what IA has done in the area of governance, but instead look holistically at what each line has done to achieve an overall improvement in governance. There is a need to draw all parties from their respective silos and their veil of independence to agree on and work towards a common language and definition of risks. This is an opportunity for IA to step up and out of their conventional role to facilitate coordination of assurance activities, which includes external stakeholders like regulators, which can result in lower compliance costs.

“IA can play a lead role to coordinate and drive consistent focus on common risks and governance goal by engaging and communicating with all stakeholders towards the concept of integrated assurance.”

Derrick Lim
Divisional Vice President, Internal Audit, Singapore Airlines Ltd
Communication skills at all levels is critical to the success of IA.

Starting with using the right language to express views and risks for different stakeholders (including regulators) on essentially the same message, IA can educate the board and influence different stakeholders at the right level and right time. IA can also help align and bridge any governance gaps for the first and second lines.

Being able to communicate effectively with different stakeholders by sharing insightful perspectives with them also gives IA a platform to market the value proposition of the function. This is especially helpful where IA wants to reposition itself as a trusted advisor and valued business partner to management.

“IA can take the lead to build awareness and drive healthy exchange, which allows IA to provide insights.”

Patricia Kordesch
former Executive Director, Audit Services Group, Marina Bay Sands Pte Ltd.

“The first and second lines may not always be clear on the risk management framework and their responsibilities, and hence IA can take the lead in giving a broad view to the Audit Committee.”

Jonathan Forth
Regional Chief Auditor, ASEAN, Head of Audit, Singapore, Citibank, N.A.
Different Times, Different Needs

“IA needs to re-invent itself with emphasis on soft skills, communications, change in mindset, thinking out of the box and building confidence in taking business viewpoints.”

Tan Boon Yen
President
The Institute of Internal Auditors Singapore

Today’s IA faces many different challenges and expectations. IA must have strong leadership and communication skills to address and influence various stakeholders (board, management, regulators) and lines of defense on common risks and governance goals. IA is expected not just to provide assurance but also advice and insight, which requires broad and deep business knowledge and competency across different areas beyond financial and operational controls. Not only must IA deliver more but also align its activities with business strategies and objectives. Increasing regulatory requirements and cross border business operations supported by extensive use of IT have also necessitated additional skillsets for IA. It is critical that IA and Chief Audit Executives (CAEs) have the right mindset and optimism to face a possible confidence crisis from such daunting challenges. The ability to quickly adapt and respond to changing needs of IA is imperative.
Embrace Technology

“IA has great opportunity to redefine and become relevant in the organization. If can get it right, IA stature will improve. IA just needs to be more creative and innovative, and not be afraid of slaughtering sacred cows.”

Jimmy Ng
Managing Director & Head, Group Audit, DBS Bank

Just as technology advancements have allowed businesses to flourish, IA can also take advantage of the new digital world. Lower technology costs and more user friendly features means IA can have more innovative approaches such as continuous auditing rather than point-in-time audits, and use of data analytics for comprehensive versus sample testing. IA’s internal processes can be further automated, and some controls can be embedded in operations for IA review as required. This could simultaneously enhance IA’s collaboration with operational units who can assume ownership of the checks and controls developed by IA and further improve on them. With the right approach and tools, IA can explore predictive auditing for more targeted and efficient reviews.
Next Steps

Changes in the business environment have given IA an opportunity to make a difference and redefine itself. Key points that emerged from the roundtable can be summarized as follow:

- **Shift the focus of IA from the “how to” to the “outcome”**
- **Innovate ways in partnership with stakeholders to reach the desired outcome**
- **The need for business acumen in its mission to provide advice and insight**
- **Step beyond the comfort zone to become well-informed in corporate knowledge**
- **Dare to harness technology to devise new and efficient ways of auditing**
- **Communicate and provide insights and advice to stakeholders in areas that resonate with their concerns and interests to build trust and get buy-in**
- **Engage stakeholders continuously to bridge any gaps in expectations and priorities**
- **Drive the integration of the three lines of defense to achieve a consistent understanding of organizational risks towards a collective governance effort**

“Future CAEs will face a confidence crisis with rising stakeholder expectations. Believe in yourself, continue to acquire relevant skillsets, create value and be optimistic. IA can still provide a fulfilling career as a profession.”

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