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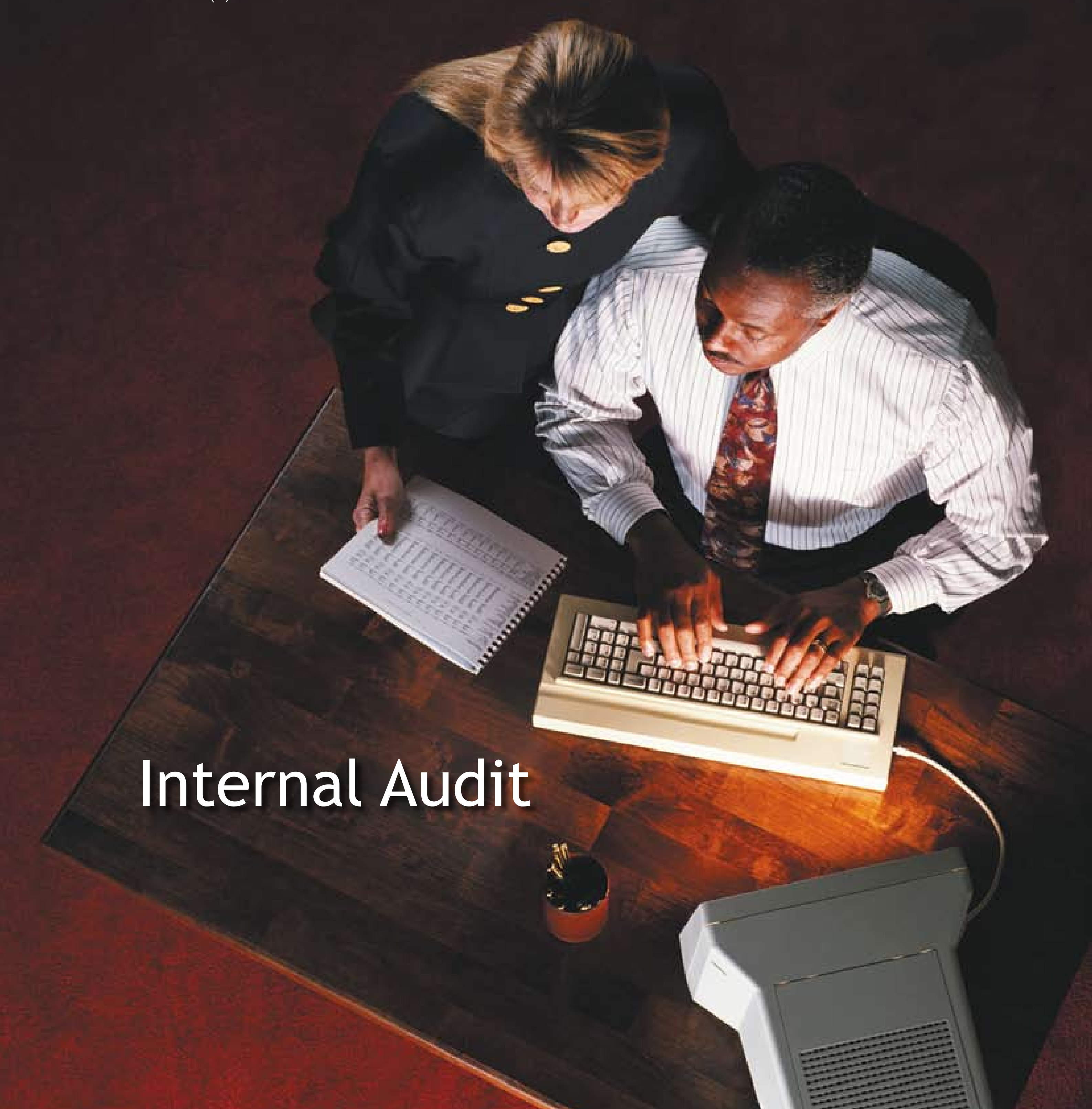

Internal Audit

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Contents

From the Editor

The last quarter since the issue of the Second Directors' Bulletin for the year has seen tremendous changes. The Second issue had looked at board renewal and compensation. That was an important topic which continues to prevail in the forefronts of market watchers, investors and others alike. Indeed, the US has just announced that it would take equity stakes in nine of the major US banks, and mandate that salaries of directors be carefully controlled. Such an announcement suggests that amongst the many factors that has led to the Credit Crunch 2008, excessive salaries are one key contributor.

The verdict on where the Credit Crunch will take us will be out for some time to come. In the meanwhile, opportune as it may be as the Credit Crunch had not yet unfolded when we decided on this topic, this Third and final Directors' Bulletin for the year looks at internal audit. The function of the internal audit is frequently spoken about, discussed at various levels of the corporate structure, recognised as being very important, but frequently relegated to lower levels of priority. Given this, the Institute felt it was important to revisit the issues surrounding internal audit, and emphasise the importance of having sound and robust systems and processes and people in place.

To this end, we have articles from the various stakeholders involved in internal audit. We start with the key corporate governance guardian, the Directors, and present them with the top 20 questions that they should be asking about internal audit. This article, which is reproduced with the kind permission of the Canadian Institute of Chartered Accountants, is an absolute must read for all directors and officers in a company. We then have a team from PricewaterhouseCoopers who provide guidance on what can an internal audit function do to be most effective as a key player in corporate governance. This is extremely useful as it comes direct from the practitioners themselves. Following through, we have articles on managing the cost associated with undertaking an internal audit as well as considering whether internal audit can legitimately and effectively be outsourced. The conclusion obviously is that there is no one size fits all approach, but that each corporate entity must review their structure and identify the best fit for them.

In addition to the series of articles on internal audit, we have a couple of articles on the new Catalyst Board and on corporate social responsibility. The latter article considers whether a case can be made out to have a CSR Board sub-committee.

On the activities front, the Institute continues to be busy with CLE programmes, having run several more with partners. The Institute also hosted a Charity Golf Tournament in September, which in more ways than one, presented members and others a fun and frolic filled way to catch up and banter with each other.

Many thanks to all contributors and others who have enabled this Third Directors' Bulletin to be produced. As I indicated in my last editorial note, the Institute looks forward to suggestions and thoughts on how else this Bulletin can serve your needs better. We look forward to hearing from you. ■

Kala Anandarajah
Editor

Presidents' Message

Dear Fellow Members,

The theme for this issue of our Bulletin "Internal Audit" could not have been more timely. Given the current global financial crisis or meltdown as some would choose to call it, the issues of effective internal audit and risk management, while relevant at all times, are being pushed once again to the forefront. With the financial industry meltdown being the top focus of all organizations, questions are increasingly being surfaced as to whether there have been major or systemic governance failings and what tools and skills boards and audit committees and risk committees have (or did not have) that could have helped to address and minimize the scale of failings we are currently witnessing among financial institutions, mainly in US and in Europe, and the unprecedented collapse of equity values across the world. Venerable names have bitten the dust and investors' and depositors' almost unquestioned trust in large financial institutions is looking more and more fragile by the day. Questions are being posed as to whether boards today are in a position to understand and monitor the complexity and scale of risk exposure in their organistions and what assurances should investors be seeking. What indicators and information should they be looking for to assess risks in their investee companies?

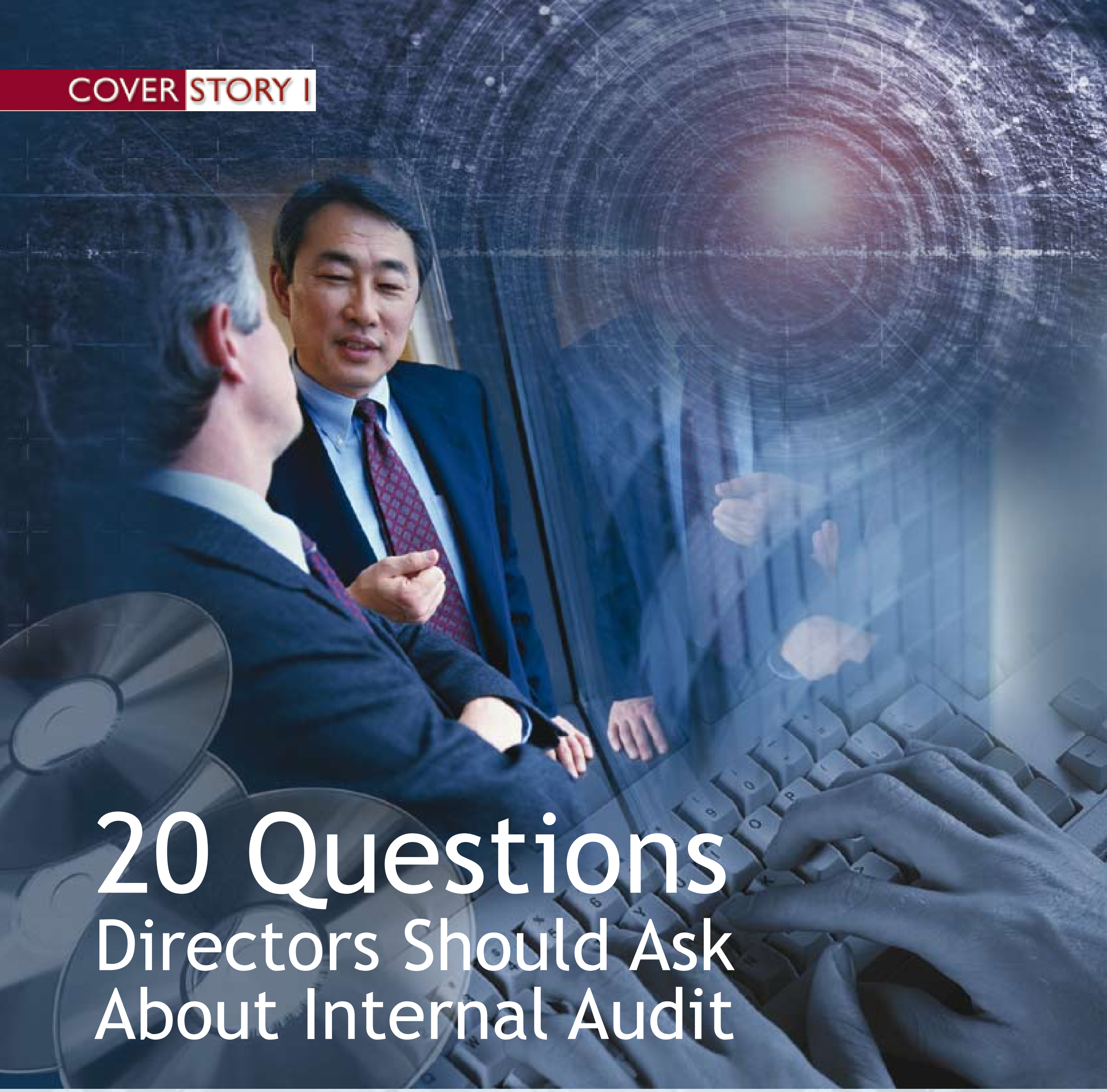
As students and alumni from a certain leading school in Singapore would love to say "the best is yet to be" the prevailing market expectation is that "the worst is yet to come". While the articles in this Bulletin are not going to give us solutions to our current problems or provide all answers to the many questions, they do remind us of the importance of internal audits and controls and provide guidance on how we can better achieve our business objectives by carefully reviewing our internal control, risk management and governance processes.

On a brighter note I am pleased to inform you that your Institute's 2008 Charity Golf Tournament was successfully held on the 21st of last month at the Sentosa Golf Club. Our Guest-of-Honour was the Speaker of Parliament, Mr Abdullah Tarmugi who very sportingly joined us on the course despite the Muslim fasting month. Thanks to the many corporations and individual members who generously supported the event, a surplus of over $50,000 was generated which will enable our Institute to make an appropriate donation to a Charity of our choice at our 10th Anniversary Gala Dinner planned for early 2009.

I would like to take this opportunity to inform members that our next Annual General Meeting will be held at 11am on Monday 17th November at the Marina Mandarin hotel. Full details will be sent to you shortly. We have decided not to have our usual AGM luncheon this year which will be replaced by the Gala Dinner referred to above in early 2009. All members are urged to attend and to support the Gala Dinner. A light lunch will be available after the AGM.

Our Institute's Strategic Review conducted by PricewaterhouseCoopers has also been completed and details of findings, recommendations and plans will be released in mid-November 2008. As we embark on the next decade of our existence, we look forward to many exciting initiatives that are being planned to enable our Institute to play an even greater role in our continued National pursuit of excellence in Corporate Governance.

Warm Regards,
John KM Lim
President



20 Questions Directors Should Ask About Internal Audit

Why directors should ask questions about internal audit

As a general rule, boards of directors are responsible for:

- The identification of the principal risks of the corporation's business and ensuring the implementation of appropriate systems to manage these risks, and
- The integrity of the corporation's internal control and management information systems

The internal audit function plays a key role in assessing and reporting on an organisation's risk management, internal controls and management information systems. Directors of companies that have an internal audit function should have a general understanding of its role and contribution. In addition, the audit committee should confirm that the internal audit function is properly constituted, has the necessary resources, and operates professionally. Boards of medium to large organisations that do not have an internal audit function should assess the need at least annually.

The questions in this briefing are designed to help directors understand the contribution of internal audit and to provide guidance to audit committee members on what to ask their chief audit executives. With each question there is a brief discussion that provides background on the reasons for asking the question and, where appropriate, some recommended practices.

The questions are organised into six groups:

- Internal Audit Role and Mandate
- Internal Audit Relationships
- Internal Audit Resources
- Internal Audit Process
- Closing Questions
- Audit Committee Assessment

Asking questions is only the first step. Directors must satisfy themselves that the answers are appropriate and that the internal audit function is effective. The comments and recommended practices in this document provide a basis for assessing the answers. Experienced directors test the answers against their own personal observations, experience, general knowledge and good business sense. They also respect their "gut feelings" – their experienced-based intuition that warns them that something is wrong or requires further explanation. Intuition alone isn't enough to challenge answers, but it's valuable if it gets people's attention and prompts them to ask more probing questions or to seek independent advice.

Internal Audit Role and Mandate

The audit committee is responsible for ensuring that management has implemented an effective system of internal control to manage the risks facing the organisation. In larger and more complex organisations an internal audit function can provide cost-effective and independent assurance that internal control is effective, provided that it has an appropriate role and mandate.

These questions, together with related discussions with the CEO and professional advisors, will put the audit committee in position to understand what internal audit functions they need and what they have in place.

1. Should we have an internal audit function?

Many medium and large organisations have an internal audit function. This is a requirement for companies listed on some stock exchanges and for banks and other financial institutions with major fiduciary responsibilities. Other companies have an internal audit function because it is considered to be a valuable element of management control which provides assurance to the audit committee and management and adds to the organization's credibility with investors and creditors.

Management is responsible for establishing and maintaining a system of internal financial controls and in some cases may be required by regulators to provide written certification of the adequacy of the controls. Legal and regulatory requirements are changing fast and companies must make sure they are aware of the latest rules.

In smaller organizations, managers are usually close enough to daily operations that they can effectively supervise and monitor the activities of their staff. When the volume and/or complexity of transactions become too great, management may need to add people whose primary role is to check the work of others and thereby strengthen internal control. Financial institutions and other organizations that deal in cash and other liquid assets usually need some form of inspection or audit function.

The decision to establish an internal audit function should involve the CEO, CFO and audit committee. The following is a list of criteria they may consider:

- The audit committee wants to get independent and objective assurance on the adequacy of internal controls from someone other than the CEO or CFO.
- The CEO wants to get independent and objective assurance on the adequacy of internal controls from someone other than the CFO or line managers.
- The CFO wants to get independent and objective assurance on the adequacy of internal controls from someone other than the line of managers.
- The organization gets too large or geographically dispersed for frequent and economical first-hand monitoring of controls by the audit committee, CEO or CFO.

The roles of internal audit and the external auditors differ substantially and provide very different assurance to the audit committee and management, namely:

- Internal auditors review and test controls at a significantly lower level of materiality than do external auditors and often review a much broader range of risks than those for external financial reporting.
- External audits are designed to report on historical data, whereas internal audits are generally focused on the efficiency and effectiveness of current and future operations.

Recommended practices:

In organizations that have no internal audit function the audit committee periodically request from management a review of the need for an internal audit function and, on the basis of this review, determines whether such a function should be instituted.

The audit committee may consider contracting outside assistance to review the need for an internal audit function if the committee is concerned that management may not have the objectivity or qualifications to conduct the review.

2. What should our internal audit function do?

This is a more difficult question than it seems. Unlike external auditors, internal auditors do not always have a clearly defined role that is established by law or regulation. Each organization must identify its own audit function. The Institute of Internal Auditors (IIA) has developed a definition of internal auditing that organizations may find useful in establishing the role of their internal audit function. In addition, there are numerous books on internal auditing.

Internal auditing is a valuable resource for management and the audit committee because of its objectivity, auditing skills and in-depth knowledge of the organization.

Internal audit functions, in many cases, are set up by corporate management to assess the internal control system that management is responsible for establishing. Internal audit does not perform the controls since this is a line management responsibility, but their role does provide another level of assurance to management and the audit committee that controls are effective. Historically, the emphasis was on compliance with company policy and the deterrence, prevention and detection of fraud and errors. These are still important roles for internal audit functions.

Over time, many internal audit functions have addressed broader aspects of control and provide services in areas other than the assessment of internal financial controls. These may include:

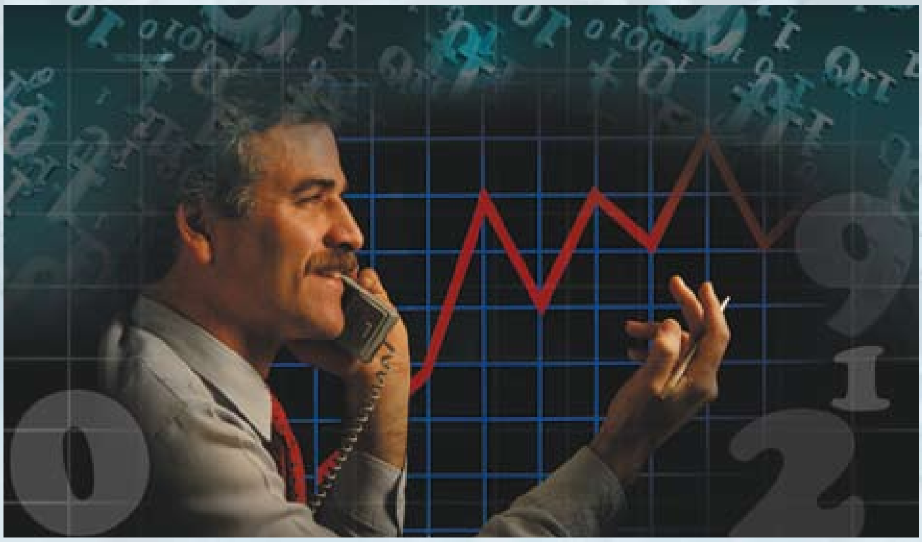
- Reviewing controls over major projects and new computer systems to help anticipate problems. This can allow corrective action to be timely and controls to be "built in" rather than retro-fitted after being detected by a subsequent audit or system failure.
- Conducting audits of the efficiency and effectiveness of operations.
- Assessing the risks related to reputation, customer service, the environment, privacy, etc.
- Providing consulting and advisory services on enterprise risk management, control and related matters.
- Participating in the investigation of fraud.

Occasionally, management may ask internal audit to assist with special projects. These may be appropriate and acceptable if done for staff development or some critical reason, but should be discouraged if the auditors are merely used as a "free" resource or if such projects distract from the internal audit function.

Recommended Practices:

The chief audit executive, in consultation with senior management and the audit committee, establishes the scope of activities of the internal audit function. The process takes into account the cost justification of each element of audit activity.

The role of internal audit is formally defined in a written internal audit charter (See Question 3) and the



audit activities are set out in the annual audit plan (Question 9).

The audit committee approves the internal audit charter periodically and the audit plan annually.

3. What should be the mandate of the internal audit function?

Internal auditors need a mandate that provides the authority they need within structure that supports their independence and objectivity.
This can best be achieved though a written charter for the internal audit function that is aligned with the mandate and needs of the audit committee. The mandate should be compatible with the best current practices and approved by the board or audit committee. Any restrictions by management should be disclosed to, and approved by, the audit committee.

Internal audit should not have any operational accountability or perform functions that would be subject to subsequent internal audit review.

Recommended practices:

The mandate of the internal audit function is set out in a written charter that is compatible with the charter of the audit committee and consistent with the Standards of the Institute of Internal Auditors.

The internal audit charter is reviewed and updated regularly and includes:

- Role and responsibilities of the internal audit function;
- Functional reporting relationship to the audit committee;
- Administrative reporting relationship;
- Access to corporate employees, facilities and records (including those of contractors);
- Any restrictions of the scope or authority of internal audit;
- Requirement that managers cooperate with internal audit and respond to reports;
- Code of ethics;
- Internal audit standards
- Relationship with external auditors;
- Distribution of audit reports and summaries;
- Follow up of recommendations;
- Specific environment, etc. as may be required for clarification; and
- The right of the chief audit executive to attend audit committee meetings.

Internal Audit Relationships

The chief auditexecutive's relationships with the audit committee and senior management are critical to the success of the internal audit function. The audit committee can use the following questions to confirm that the relationships gives internal audit the support and access it needs and that the committee receives the range of services and support it needs to meet its own mandate

4. What is the relationship between internal audit and the audit committee?

The internal audit function is a major source of information and assurance to the audit committee on internal financial controls and other risk management activities. For this reason, most internal audit functions have a functional reporting relationship to the audit committee which is defined in the charters of internal audit (Question 3) and the audit committee. A key element of this relationship is a direct channel of communication between the chief audit executive and the audit committee. This typically includes provisions for the chief audit executive to have access to the chair of the audit committee and attend audit committee meetings to present the audit plan for approval and to report audit findings.

The CFO and chief audit executive are usually present at all audit committee meetings. Much of the work performed by the audit committee relates to the roles of these individuals and one or the other may takea role in supporting the committee's planning activities. There is generally no requirement for the CEO to be present at audit committee meetings but in many cases he or she may attend for information purposes.

Chief audit executives do not generally attend board meetings. At least annually the chair of the audit committee should include a reference to internal audit's effectiveness, capabilities, the results of its work and any concerns when reporting to the board.

Recommended practices:

The audit committee charter includes provisions for:

- The audit committee to review and endorse the appointment or replacement of the chief audit executive;

- The internal audit charter to be compatible with that of the audit committee;
- The internal audit charter to be approved by the audit committee periodically (e.g. at least every three years)
- Internal audit to provide the audit committee members and senior management with independent, objective views on risk and internal controls within the organization;
- The chief audit executive to attend audit committee meetings
- The audit committee to approve that internal audit plan annually;
- The chair of the audit committee to meet privately with the chief audit executive prior to audit committee meetings to:
  - Build the necessary trust between two individuals,
  - Allow the chief audit executive to provide context informally about the function and its relationships with management that may not be possible in a formal report, and
  - Allow the audit committee chair to gain insights into issues that merit discussion at audit committee meetings but which may not otherwise get a high priority;
- The chief audit executive to report the results of major activities and key findings and issues to the audit committee;
- The chief audit executive to be expected to raise matters that have a material effect on controls, integrity of management and quality of financial reporting;
- The chief audit executive to meet with the audit committee periodically without management present;
- The chief audit executive to have unrestricted access to the chair of the audit committee at any time.

The external auditors are present when internal audit reports formally to the audit committee – except for in-camera sessions

5. To whom does internal audit report administratively?

The chief audit executive reports functionally to the audit committee on the planning, execution and results of audit activities. However, like any other corporate employee, the chief audit executive must report to someone administratively for purposes of pay, performance, space, equipment and related matters. This person should be sufficiently highly placed to reinforce the organizational status of internal audit and to support its unrestricted access to corporate resources, but must not impair the independence of the internal audit function. In practice, the individual to whom the chief audit executive reports administratively should be selected on the basis of his or her ability to respect and give effective support to the independence of internal audit, rather than for the position he or she holds

The role of internal audit is both internal and independent. Constructively evaluating the work of fellow members of the management team and providing advice to them can create tension — although this can be healthy when handled professionally by all parties. Relationships with management should be balanced — not too friendly but not hostile. Helping achieve this balance is part of the role of the audit committee and the CEO.

A major issue for the audit committee is the career risk to the chief audit executive of challenging or fully reporting serious and embarrassing deficiencies in the areas of accountability of the person who sets his or her salary, bonus and other benefits.

Reporting options, each of which has advantages and disadvantages, include:

objectivity in the planning and execution of internal audit work.

The CEO and senior management team includes the chief audit executive in senior meetings such as strategic planning sessions and operational committees where appropriate. This shows support by helping the chief audit executive understand what is going on at a senior level and exposes him or her to other executives in a more collegial environment.

The audit committee reviews this administrative relationship annually or whenever there is a significant reorganization within the senior management team. In some parts of the discussion, the views of the chief audit executive should be invited.

Reporting to	Advantages	Disadvantages
CEO	Establishes audit status	CEO may have too many direct reports
CFO	Reinforces financial control. CFO often understands the role of internal audit and can provide advice.	Potential conflict of interest: • If audit findings reflect badly on CFO • If resources are diverted to lower priorities
Other senior executive	Good for audit independence if the executive has no or few direct responsibilities subject to signigicant internal audit scrutiny.	Executives may lack knowledge of operations and internal controls, may not have a motivation for internal audit to be effective, or may lack the ability to influence.
Chief of audit committee	Good for audit independence	Internal audit is no longer seen as supporting and partnering with management. Chief audit executive may lose status and acceptance as a member of the management team.

Recommended practices:

The internal audit function reports administratively to the CEO or other senior executive and has a functional reporting relationship to the audit committee to ensure

The individual to whom the chief audit executive reports, the chair of the audit committee and the CEO jointly approve the performance review, salary, bonus and other benefits of the chief audit executive.

Internal Audit Resources

Internal audit functions need an adequate complement of staff with the appropriate experience and qualifications for the risks and businesses they audit. Staff requires continued training in their disciplines and must stay abreast of technological advances and changes in the organization's business. The internal audit function should also make full advantage of the work and resources of the external auditors by coordinating activities.

These questions are designed to be directed at the chief audit executive at an audit committee meeting as part of the process of understanding and assessing the quality of the internal audit function.

6. How is the internal audit function staffed?

Internal auditing activities can be conducted by:

- In-house resources - the organization may assign responsibility for audit activities to a corporate internal audit department or include some audit activities in the responsibilities of line functions (for risks such as safety, environment, etc.) The internal audit department may include staff from other departments as part of audit teams
- A fully outsourced internal audit function reporting to a designated executive - the organization engages an external firm to perform the internal audit function. Some

companies may be prohibited by statue or regulation from outsourcing internal audit work to their external auditors. Professional accounting standards may also restrict this activity

- A combination of the above - The organization may outsource specific activities or projects to specialist firms or include one or more outside experts with internal audit staff on a project team.

To meet the needs of boards, management and regulatory requirements, a designated executive (who may be the chief audit executive) should be responsible for ensuring that all important internal audit activities are coordinated.

Recommended practices:

The staffing of the internal audit function is based on the number of skilled individuals required to cover the activities identified in the approved audit plan.

The chief audit executive, in consultation with senior management and the audit committee determines the most cost-effective mix of in-house and outsourced internal audit staffing.

The size of the internal audit function is benchmarked against similar organizations.

The audit committee reviews and assesses the appropriateness and expertise of the resources as part of the annual audit plan.

Where material, the audit committee reviews and approves the appointment of outsourced audit firms and subsequently monitors the effectiveness of this arrangement.

7. How does internal audit get and maintain the expertise it needs to conduct assignments?

Internal auditing calls for a diverse set of knowledge, skills and experience. It is critical that the internal audit staff have the skills, industry knowledge and experience (supplemented where necessary by external resources) to provide the control assurance and related advice that the audit committee requires.

Chief audit executives should not plan or accept assignments unless they are able to staff them competently, as this can provide false reassurance or weaken the function's reputation. Consideration should be given to using the expertise of other corporate staff, engaging outside experts or outsourcing where the necessary skills do not reside within internal audit.

Recommended practices:

The qualifications of internal auditors are established and included in job descriptions and postings.

Internal audit recruits only people with appropriate qualifications and/or experience in auditing, accounting, information technology, organizational analysis, industry knowledge, etc.

Internal audit promotes professional development and formal certification of audit staff. Internal audit uses internal and outside experts when its staff lacks specialized expertise.

The internal audit budget includes adequate funds for professional development and the planned use of external experts.

Internal audit periodically reports to the audit committee on its staff capabilities, including academic and professional qualifications and years of audit, industry and organizational experience.

8. Are the activities of internal audit appropriately coordinated with of the external auditors?

External auditors rely on the work of internal auditors to the extent that it confirms the quality of an organization's system of internal control. Before accepting the work of internal audit the external auditors review the scope, audit approach, standards and results of the internal audit function in accordance with their own professional standards.

The internal and external auditors should work cooperatively to achieve the best possible value in audit coverage. Any such cooperation must respect the legal obligations of the external auditors. These obligations are evolving rapidly and require close monitoring.

The committee should ask both internal and external auditors if they are satisfied with the extent of coordination and compare the answers.

Recommended practices:

As far as possible, the presentations of audit plans are developed and combined scope.

The audit committee reviews the plans of the external and internal auditors and questions any situations where areas are apparently not covered or duplicated.

Internal audit staff are used on the external audit assignment only where it is beneficial to the organization and does not take them away from more valuable work. It should not merely be a way to reduce the external audit fees.

The committee determines whether the relationship of internal auditors and external auditors exhibits a mutual professional respect and appreciation for the other's role and contribution, and also recognizes that the audit committee's needs are paramount to each group.

Internal Audit Process

An effective internal audit function is run in a professional manner. Chief audit executives should demonstrate to their audit committees how they set priorities, plan, supervise and review the various internal audit projects and activities.

These questions are designed to be directed at the chief audit executive at an audit committee meeting. They deal with matters of organization and process and may be discussed in the presence of senior management.

9. How is the internal audit plan developed?

An annual internal audit plan is the key to matching the work of internal audit to the needs of and expectations of the audit committee, external auditors and senior management. It allows the audit committee to confirm that board priorities are addressed and provides a basis for evaluating internal audit performance.

Recommended practices:

The chief audit executive prepares an annual audit plan based on a comprehensive review and analysis of the organization's business activities and associated risks. Where an enterprise risk management process is already in place, this will provide a critical basis for developing audit plan aligned with corporate priorities.

The chief audit executive seeks management input and agreement on the scope and priority of the proposed audit projects.

The audit plan includes all projected internal audits and other activities, including review of the development of major new computer systems and critical business projects, and the provision of consulting and advisory services, where appropriate.

The audit plan includes the budget and staff resources required to accomplish the plan.

The audit plan allows flexibility to respond to unforeseen issues and events during the year.

The external auditors are constructed and their input and audit scope considered in developing the plan. They also receive a copy of the final audit plan.

The audit committee reviews the audit plan and assesses its adequacy based on their knowledge of the industry and the organization. Before they approve the final audit plan they satisfy themselves that it covers the areas of risks for which they require independent assurance from internal audit.

The chief audit executive informs the audit committee of any significant changes to the audit plan during the year.

10. What does the internal audit plan not cover?

Omissions from the audit plan may expose the organization's CEO and board to unnecessary risk. Ideally, the committee, senior management and the chief audit executive should agree on those areas of risk that will not be audited and the reasons. Audit committee members should be alert to the possibility of under-funding of the internal audit function.

Recommended practices:

The internal audit plan includes a list of those areas of risk that ranked just below those selected for inclusion in the audit plan. This enables the audit committee to assess what risks management and the committee will accept by excluding them from the plan.

11. How are internal audit findings reported?

Boards, audit committees and senior management rely on internal audit reports to confirm the quality of the system of control. Where the volume of audit reporting is high, the chief audit executive may prepare summaries at an appropriate level of detail.

Recommended practices:

Audit reports, as historical records of audit work and findings, are in writing and include the scope and objectives of the audit, the findings and recommendations for improving control.

Reports are action-oriented and include comments and proposals for corrective action from the management of the audited business unit.

Reports are balanced – reporting the good risk and control practices as well as the weaknesses observed.

Reports identify the best practices observed throughout the organization.

Reports rate recommendations as high, medium and low in order to assist management in assigning priorities for action to the issues raised.

The chief audit executive provides summaries of audit reports to senior management and the audit committee. The level of detail depends on the size of the organization but is sufficient to allow the audit commit tee to understand the types and frequency of control issues that internal audit raises and how management is responding to them.

Periodically, the audit committee asks to see a detailed internal audit report to understand the methodology and quality of reporting.

12. How are corporate managers required to respond to internal audit findings and recommendations?

Internal audit reports are only of value when managers address the problems and deficiencies identified by the audits or make informed decisions to accept the risks. Audit committees and senior management play an important role by monitoring and enforcing commitments to take corrective action.

The CEO and senior management team establish the "Tone at the Top" that is critical to the success, value and credibility of the internal audit function. This means providing support in accordance with the internal audit charter, by:

- maintaining the independence of internal audit;
- ensuring line management's cooperation in the performance of organization audits;
- requiring prompt responses and action from management on audit reports;
- recognizing and promoting internal audit as a value added activity;
- refraining from using internal audit resources for non-audit purpose that cut into audit time or create a conflict of interest; and
- keeping internal audit informed of key plans and changes to the risks and control profile of the organization's policies and procedures.

Line managers do not always view the role of internal audit positively and it can require great skill and diplomacy to obtain their cooperation on audits. Open support and monitoring of internal audit activities by the CEO and the audit committee can help ensure that all managers cooperate with the internal auditors.

Recommended practices:

Line management is required to review all audit findings and provide action plans and dates for implementation before or soon after the audit report is issued. Where management recommends that no action be taken, the decision to accept the related risk is approved at the appropriate level.

Management accepts responsibility for monitoring corrective action on weaknesses reported by internal audit.

The chief audit executive establishes and maintains a formal follow-up process for monitoring and ensuring that management actions have been effectively implemented. The skills to investigate frauds may be within the internal audit function,

Senior management, the CFO and the CEO periodically review high-risk outstanding audit recommendations as part of a management process.

The CEO (or whoever performs this role with the chief audit executive) meets periodically with the chief audit executive to review audit reports and outstanding recommendations, and to obtain input on risk and controls.

The audit committee receives periodic reports on high-risk audit recommendations that have not been resolved.

13. What services does internal audit provide in connection with fraud?

The prevention, deterrence and detection of fraud are the responsibility of management. The usual role of internal auditors is to develop audit programs and procedures to evaluate the internal controls that management has established to manage the risk of fraud. In practice, auditing sometimes deters employees from committing fraud and occasionally detects a fraud, but these are not usually the major

The term "fraud" covers a number of activities; principally:

- Property fraud - the theft or misuse of assets and,sometimes, the related information;
- Financial reporting fraud – the manipulation of information to mislead or deceive stakeholders.

Internal audit may participate in the investigation of fraud and provide forensic accounting services – provided that it is cost-effective to do so. The skills to investigate frauds may be within the internal audit function, or in a separate security department.

Recommended practices:

Internal audit includes fraud as a risk to be evaluated and included in the audit plan.

The organization has a system for investigating activities that appear to be fraudulent. The process involves individuals with legal and human resources expertise to ensure that individual rights to privacy are respected and that the investigation will support prosecution by the police and law courts

14. How do you assess the effectiveness of your internal audit function?

Good internal audit functions have processes for assessing their own effectiveness. They use the results, together with feedback from the external auditors and other stakeholders, to monitor trends over time and achieve continuous improvement in their practices and performance.

Recommended practices

The chief audit executive develops performance measures for the internal audit function and agrees them with the audit committee. Examples of measurement techniques include: customer satisfaction surveys, post audit debriefing and internal quality assurance reviews.

Internal audit evaluates its own performance against the agreed measures.

There is an external quality assurance review of internal audit at least once every five years. The quality assurance review is performed by qualified individuals in accordance with Institute of Internal Auditors standards.

Internal audit uses benchmarking to compare its operations and effectiveness with those of other organizations.

Evaluations results are reported to the audit committee.

Closing Questions

The questions in this section are designed to help the audit committee reach a conclusion on the effectiveness of internal audit. In most cases the audit committee may use them to sum up discussions of audit relationships, resources and process with the chief audit executive in the presence of the CEO and external auditors. The timing and venue for asking the questions are appropriate topics for the chair of the audit

Committee to discuss with the chief audit executive. Where there may be problems the audit committee may consider asking them in an in-camera meeting with the chief audit executive.

15. Does internal audit have sufficient resources?

This is a sensitive but important question. The answer from the chief audit executive and resulting discussion can provide the audit committee with valuable insight not only into the reliability of the audit work but also into potential problems with management. Chief audit executives who answer "no" must be prepared to provide the audit committee with a comprehensive analysis of the situation including the steps they have taken to resolve the problems with management.

Assessing the sufficiency of resources should generally include comparisons with similar organizations and the business risks and the degree of change within the organization. Internal audit resources may be insufficient because:

- Management does not respect the role and contribution of internal audit;
- Management includes internal audit in a general under-funding to meet short-term forecasts;
- Management diverts internal audit resources to manage short-term goals, operational crises and special projects.

Internal audit functions not only need an adequate budget, they must be able to attract and retain skilled people. The issue of attracting qualified staff can sometimes be a more challenging problem than budgetary constraints. The audit committee should be aware of reasons for excessive turnover that could indicate poor management or a lack of respect for the function in the organization. Depending on the function's staffing strategy, there may also be insufficient turnover when internal audit staff are not progressing in their careers and become stale or too close to management.

The audit committee should also ask the CEO about audit resources to get his or her perspective and recommendations. The committee should seek to understand management's explanations for any resource shortage and the risks the organization and committee accept as a result.

16. Does the internal audit function get appropriate support from the CEO and senior management team?

A critical part of the audit committee's role is to assess the relationship of the chief audit executive and the management team, whose support can greatly influence the effectiveness of the internal audit function and its value to the audit committee. There should be a good working relationship but also a mutual respect for the role of internal audit that includes:

- Support of audit findings - by addressing and requiring timely responses on audit reports including those that are justifiably critical of management controls;
- Inclusion of the chief audit executive, where appropriate, communications and forums of the senior management team to keep the chief audit executive informed of strategic and business plans

This is another very sensitive question because chief audit executives who answer "no" may risk being seen as disloyal to their CEO and colleagues. Under normal circumstances the audit committee would expect to hear that the chief audit executive has no concerns or is in the process of resolving them.

If the audit committee has any concerns about the chief audit executive's response, the committee should respect the sensitivities involved, consider all the evidence and assess whether further action is required.

The audit committee should also ask the CEO about the level of support for internal audit within the organization to get his or her perspective and recommendations.

17. Are you satisfied that this organization has adequate internal controls over its major risks?

The audit committee is responsible for ensuring that management has designed and implemented an effective system of internal control. In preparing to report its conclusions to the board, the committee should seek information and opinions from a range of sources including the CEO, chief risk officer and chief legal officer as well as the external auditors and chief audit executive.

This question requires the chief audit executive to take a broad view of control and audit activities. The chair of the audit committee should discuss the committee's expectations with the chief audit executive in plans advance. The scope of the chief audit executive's response may involve integrating and summarizing the results of audit work and related activities such as risk and control self-assessments, internal surveys, consulting projects and involvement in major projects and new systems.

18. Are there any other matters that you wish to bring to the audit committee's attention?

If there are any issues that affect controls, the integrity of management or the quality of financial reporting that are not addressed in the internal audit reports, the audit committee expects the chief audit executive to raise them with its chair or committee in accordance with the internal audit charter. The chief audit executive should be prepared explain why these matters were not formally addressed in audit reports.

It is critical that the audit committee reach out and build a level of trust with the chief audit executive to permit honest and appropriate communication of sensitive issues and opinions related to risk and control. Generally, the chief audit executive would be wise not to raise issues that have not been already discussed with the CEO unless there are exceptional circumstances. Concerns raised at in-camera session should never be disclosed outside the in-camera session by the audit committee unless agreed to by the chief audit executive, or otherwise formally reported in internal audit reports. Chief audit executives must have trust and confidence that disclosures will follow agreed protocols and not damage their relationship with management.

19. Are there other ways in which internal audit and the audit committee could support each other?

This question provides an opportunity for the chief audit executive and audit committee to discuss such matters as improving audit reporting to the committee and using internal audit to provide training on risk and control aspects of the business either for new members to the audit committee or the committee as a whole.

The corporate governance committee may ask the chief audit executive a similar question as part of its periodic evaluation of the audit committee

Audit committee Assessment

The audit committee is responsible for confirming that internal audit has the competence, independence, resources and corporate support to do its job properly, and is demonstratively effective in getting results. An effective internal audit function will usually have a senior reporting relationship. Its reports and opinions have high credibility and management frequently seeks its advice and consultation on risk and control issues within the organization.

The audit committee should consider asking the external auditors for feedback on the competence and support for the internal audit function within the organization. This may be most appropriate in an in-camera session.

20. Are we (the audit committee) satisfied with our internal audit function?

The following are some additional questions that audit committee members could ask themselves or use in a discussion following their meetings with the CEO, chief audit executive and external auditors:

- How well does the chief audit executive respond to probing by the audit committee?
- How well respected is the chief audit executive by senior management and how healthy is the tension between them?
- How well respected is the chief audit executive auditors and how healthy is the tension between them?
- How often do we get surprises where the internal audit has audited subsequently reveals control problems that were not identified by their reports?
- Does the chief audit executive provide adequate requested by the audit committee?
- Does internal audit bring forward significant issues to the audit committee that might not otherwise be disclosed to the committee?
- Ideally, these should have been raised first by management and their identification attributed to the internal audit function.
- Is the chief audit executive respected within the auditing profession? (Examples would be as a frequent speaker, writing articles, industry organizations, etc.). ■

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Internal Audit Effectiveness

Overview

There is clear agreement among internal audit leaders that significant change will characterise auditing environments in Asia Pacific for years to come, a direct reflection of strong economic growth. Competition is intense as more and more companies expand and go public, increasing regulatory oversight and placing greater pressure on internal control frameworks and those responsible for them.

A PricewaterhouseCoopers' survey of internal audit leaders in Asia Pacific (Internal Audit 2012) suggests that internal audit functions in this region will soon experience stepped-up requests for assistance from their chief stakeholders. Directors and executive management alike are turning to internal audit and other staff functions for help in the areas of corporate governance, risk management, fraud prevention and detection, and ethics, as well as internal controls. At this point, however, relatively few Asia Pacific internal audit groups have made the necessary adaptations to respond effectively to such requests.

In today's environment, corporate governance activities, such as internal audit, command center-stage attention. New regulations mandate that effective, verifiable governance activities assume a much higher organizational profile. For example, if a complex company is required to maintain a sound system of internal controls to safeguard shareholders' investments and the company's assets to comply with the Singapore Code of Corporate Governance, an ineffective internal audit function may be viewed by the company's external auditor as a sign that a significant deficiency or even a material weakness in internal controls exists. This could impact the auditor's opinion and potentially damage the reputation of the company. Furthermore, the Code of Corporate Governance also requires companies listed on the Singapore Exchange to establish an independent internal audit function. Of course, the mere presence of an internal audit function says little about its capabilities.

The real question is — what can an internal audit function do to be most effective as a key player in corporate governance? An internal audit function can achieve heightened levels of effectiveness if it (1) aligns strongly with stakeholder needs, (2) achieves best-in-class capabilities, (3) complies with applicable professional standards, and (4) measures results.

Align Strongly with Stakeholder Needs

Internal audit needs to understand the expectations of its primary stakeholders - senior management and the audit committee - and align its activities accordingly. This alignment ensures that internal audit functions and key stakeholders share the same priorities when it comes to applying internal audit resources to risk management and control. For example, do the audit committee, management and internal audit have the same view of the role of internal audit in ongoing corporate governance activities? Once internal audit aligns itself with the priorities of its key stakeholders, the function needs to establish solid lines of communication with senior management and the audit committee.

With good communication, internal audit can also ensure that its priorities continue to match those of its key stakeholders as they evolve.

Achieve Best-in-Class Capabilities

Highly effective internal audit groups view Best-in-Class auditing practices as key to their success as well as the success of their companies. To keep pace with organizational changes, and to meet the heightened expectations of key stakeholders, an internal audit function needs to achieve proficiency in its operations, processes and skill sets.

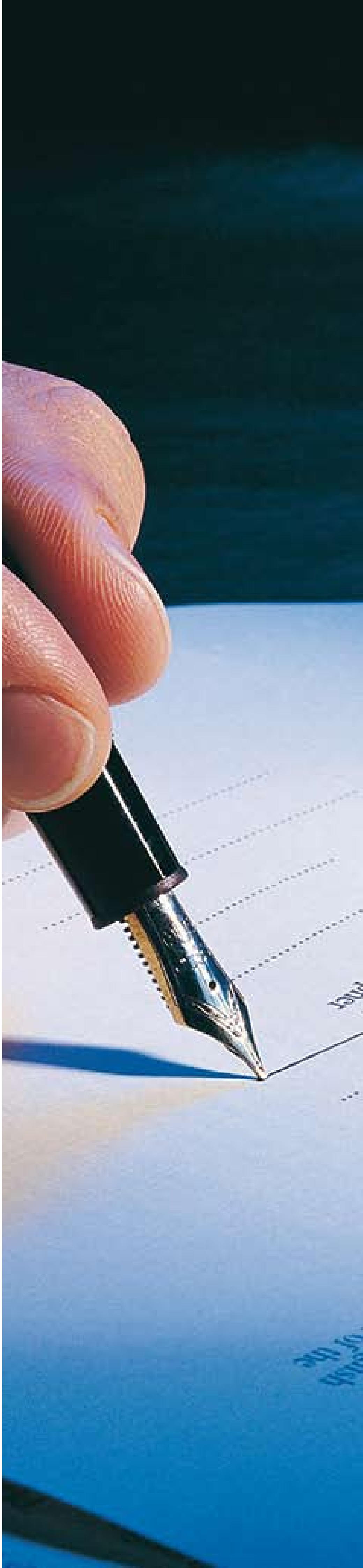
Typically, top-performing internal audit groups exhibit a strong commitment to the following areas:

Resources: Best-in-Class internal audit departments identify the skills and resources they need to achieve organizational objectives.

They expand their risk management, compliance, business and product capabilities to build on their core internal audit and control competencies. They use flexible co-sourcing arrangements to acquire specialized skills from third-parties. And they continuously measure levels of staff proficiency as well as career development progress.

Knowledge Management: Top internal audit functions capture, manage and share their internal knowledge, recognizing its importance to the long-term success of the organization.

Risk Mitigation: To strengthen corporate antifraud and risk mitigation efforts, an internal



audit function must be aware of potential schemes and scenarios affecting the industries and markets served by the organization. It must understand measures intended to detect fraud and be able to evaluate and test antifraud controls.

Risk Assessment: A highly effective internal audit function has assessed the risks facing the organization and built an audit plan to address them. There is transparency to the process so that key stakeholders can see the risk profile and understand the risks and their coverage. Without a process to identify and communicate the underlying risks, stakeholders cannot satisfy themselves that the audit plan is adequate. The process must also be dynamic and link changes in the company's risk profile to changes in the audit plan.

A PricewaterhouseCoopers Internal Audit survey conducted in 2007 shows that the controls-focused approach that has dominated internal audit functions on a global basis is expected to diminish significantly in value. As this change occurs, internal audit leaders in Asia Pacific will need to redefine their fundamental value propositions and adopt risk-centric mindsets if they expect to remain key players in assurance and risk management.

Technology: Pervasive use of technology is a hallmark of highly effective internal auditing functions, which use it to improve processes ranging from data retrieval to risk monitoring. Continuous auditing techniques, data mining and predictive modeling can all be employed to enhance the quality of the internal audit process.

Comply with Applicable Professional Standards

An effective internal audit function will also operate in compliance with professional standards, principally those of the Institute of Internal Auditors. IIA, as recommended by SGX, is one of the more recognised internal audit organisation in Singapore and referred to by many internal audit departments. IIA has developed the Professional Practices Framework (IIA Framework) which defines how internal audit departments should be structured and operated. Audit Committees should make sure that their internal audit function complies with the requirements of the IIA as part of their assessment of the department.

According to the standards, internal audit should seek to improve the governance process by promoting appropriate ethics and values, ensuring organisational performance management and accountability, communicating risk and control information within the organisation, and helping to coordinate the governance-related activities of the board and senior management.

The IIA standards also require both internal and external reviews of internal audit quality. To address these requirements, Boards should also evaluate the option to have an independent review of their internal audit function to determine if its internal audit structure is doing the job satisfactorily, i.e. meeting organizational needs and whether they are fulfilling their stewardship roles and responsibilities.

Measure Results

On a routine basis, companies measure and quantify the performance effectiveness of their business activities. In the same manner, internal audit needs to demonstrate its own effectiveness using a performance measurement system tied to the expectations of its key stakeholders. Only by circling back to the needs of its key stakeholders and regularly tracking its performance against the expectations of the board, senior management and operating management, can an internal audit function satisfy their increased scrutiny and more demanding expectations.

To achieve this, we recommend balanced scorecards, which go well beyond numbers to examine important, broad-based activities. The balanced scorecard concept, based on the simple premise that "measurement motivates," is used by thousands of corporations, organizations and government agencies worldwide.

Conclusion

The four action areas described above give management, audit committees and internal auditors a high-level framework to assess internal audit effectiveness. Unless an organization adopts each measure comprehensively, it runs the risk of having an internal audit function that may fail to meet the new, higher expectations for this key governance activity.

The following is a 10-step checklist summarising the critical "must haves" to build the foundation for a high performing internal audit department:

Stakeholders' needs

- Does the Internal audit have an appropriate reporting line to provide sufficient authority and objectivity?
- Has an Internal audit charter been developed that reflects the authority and mission of the department?

Achieve Best in Class Capabilities

- Is the internal audit department adequately staffed to provide the necessary expertise to fulfil the audit plan?
- Are business domain practices, knowledge and audit issues compiled into searchable databases that can be accessed by Internal audit staff?
- Has a comprehensive and effective enterprise wide risk assessment been conducted with participation from members of senior management?
- Does the audit plan review controls sufficient to address all identified key risks of the organisation?
- Are appropriate IT tools being used to increase the efficiency and effectiveness of internal audits?

Comply with Applicable Professional Standards

- Does the internal audit department comply with standards of IIA (or any other relevant) professional organisation?
- Has an independent assessment of the internal audit department been conducted including benchmarking the internal audit department to peer organsations?

Measure Results

- Is performance of the internal audit department and staff measured with tools such as balanced scorecards? ■

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Managing Internal Audit Cost, Effectiveness And Performance

Overview

Since the emergence of internal audit as a profession and the implementation of the Code of Corporate Governance in Singapore, demand for internal controls skills have increased exponentially. As local companies in Singapore were implementing changes to their corporate governance practices and strengthening their internal audit and internal controls systems, resourcing for skilled personnel became scarce as US Listed companies implemented their Sarbanes Oxley programs. In addition, internal audit costs increased as a result of significant “catch up” of salaries and rates due to the heightened demand over the past 5 years.

With much focus on cost and expenses amongst Singapore’s corporates, there is a need from a corporate governance perspective to ensure that cost is not the only focus when considering the level of internal audit resourcing. There is a need to ensure that the benefits of a broad program of risk based internal audit gets a fair hearing in this environment.

This article introduces a number of optional resourcing models that Directors could consider when developing the internal audit function as well as the key questions that should be asked by the Audit Committee in discharging their duties .

Resourcing Models

Companies need to determine answers to the following questions regarding resourcing:

- What should our total internal audit investment be?
- What delivery model is best suited for us?

Both questions are inter-related as the answer to one will impact the other.

A number of companies have explored various resourcing options to deal with this dilemma. Resourcing models can take the form of recruiting full time employees ("insourcing"), engaging an external provider ("outsourcing") or a hybrid model ("cosourcing").

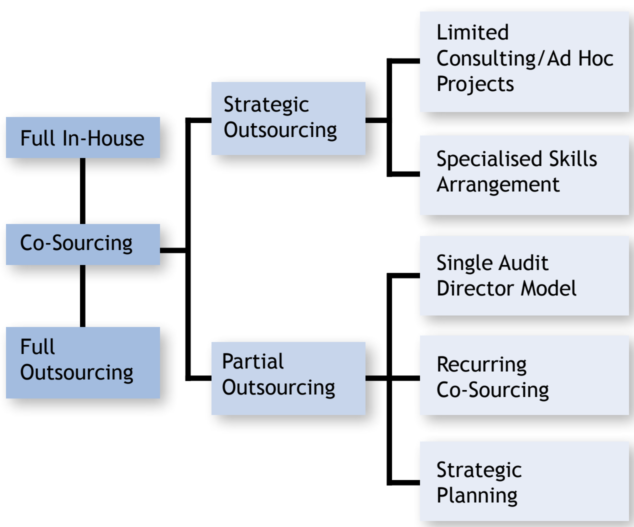
In deciding which model to select, the Audit Committee and management would be influenced by:

- The degree of regulation: the heavier the regulation, the greater need for an in-house function (in many jurisdictions around the world, banks are required through central bank regulations to have an in-house team)
- Whether start up needs to be fast tracked due to urgent requirements. Outsourced models tend to be favored as outsourced firms already have (or should have) pre-existing frameworks, methodologies and approaches that can be tailored for new clients. In the Singapore environment, a key question would be whether certain firms which do not specialize in internal audit are passing off their external audit practice as a generalist assurance practice under which internal audit is placed. Such firms often do not have the infrastructure such as the necessary technology, training, HR practices and enabling frameworks that ensure the delivery of high quality internal auditing.
- Need for specialization for language or technical issues. For example, where operations are located in countries outside the home base, there will be a need for local language skills and understanding of local business practices and regulations.

Our experience with resourcing model decisions within Singapore for internal audit is that companies selecting the in-house model (and successfully sustaining this model) tend to be larger companies with expansive operations. In Singapore, Middle market companies and small companies have cited to us their difficulties in maintaining a full time and professional team.

Co-sourcing can be structured to suit the needs of a company with an existing internal audit department and addresses a range of different challenges. This can be developed using a number of alternatives under the cosourcing model including strategic sourcing (such as for ad hoc projects of specialized skills) or one which is effectively partial outsourcing.

The diagram below describes the cosourcing alternatives and examples.



- Ad hoc consulting work and execution of internal audit projects on an "as needed" basis.
- Examples: transformation/benchmarking, facilitation, IA training, quality assurance reviews, selected internal audits, loan of personnel.
- Internal Audit leverages specialised skills/knowledge from outsource provider for specific projects.
- Examples: IT, Fraud, International, Self Assessment.
- Internal Audit Director manages internal audit function and reports to CFO and Audit Committee.
- Director is responsible for implementing the internal audit plan using outsource partner resources to execute.
- Internal Audit department teams with outsource partner for resources on regular, ongoing basis, generally spanning multiple years.
- Internal Audit partners with outsource partner to manage and execute the IA function, sharing all knowledge, proprietary tools, methodologies, and training, as well as providing substantial amount of resource on a recurring, long-term basis.

Figure 1: Internal Audit Co-sourcing Alternatives

In addition to filling in gaps, co-sourcing provides an excellent means to extend the "reach" of internal audit into different geographies, different business processes and risks.

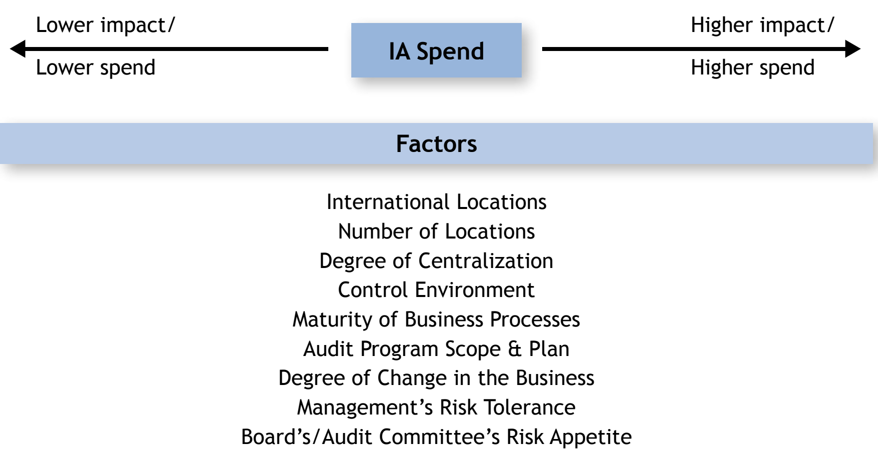
How much should internal audit cost?

As with all corporate service budgets, the estimation and budgeting for internal audit cost is often a contentious area. After all, there is no strict minimum amount of expenditure or effort required under the SGX Code or Listing Rules.

This question should not be the first question that should be asked. The first question should be "How much internal audit do we need?".

Companies with high levels of regulation, requiring wide geographical coverage and conducting different businesses will require more internal audit than a locally based company with one business model and low levels of regulation.

The following provides a framework when comparing internal audit investment between companies and entities:



While surveys are available showing internal audit benchmarks by company size and industry, such results should be treated carefully. Surveys show "what is" rather than "what should be". From our experience, such surveys miss important information which should factor into the decision of internal audit resourcing and budgeting such as:

- Company risk management maturity
- Productivity and internal audit efficiency
- Scope and expectation of audit committee, management and other stakeholders
- Unique and specific risks of the company
- Business model complexity

Such factors need to be considered to ensure that the overall internal audit budget is reasonable.

A process to provide an appropriate budget for internal audit could be:

A. Conduct an entity level risk assessment and evaluate the results
   - What key risks have been identified and how should internal audit be involved in those areas?
   - What level of effort does the risk assessment seem to indicate?

B. Understand internal audit investment made by comparable companies
   - What is the level of expenditure and effort of similarly sized companies in your industry?
   - Are there some obvious differences that would support spending less or more? (For example, obvious or significant differences in business model, organisation, degree of centralisation or decentralisation, regulation, scope of services, etc.)

C. The board and management's preferences
   - What role and scope has management and the audit committee established for its internal audit function?

D. Past, present and future
   - Have there been, are there or will there be events, issues, risks or major changes that would warrant more or less investment in internal audit?

E. Other "complementary" functions
   - Are there other functions within the company that serve to evaluate key areas and risks objectively, such as:
     - Quality control and loss prevention?
     - Regulatory and legal compliance?
     - Risk management and insurance?

- ◦ Operational and financial control units?
- If so, are these risk mitigation and control efforts already performed to a degree that a professional internal audit function might otherwise perform? Is there inherent conflict of interest in performance feedback for existing functions?
- Have we considered independence and objectivity?

The question of appropriate internal audit spend is not an easy one and is dependent on a variety of perceptions within the Company of the above criteria. Different stakeholders will have different views however the following key constraints should be kept in mind:

- Are we doing enough internal audit to support our governance goals?
- Are we properly covering our high risk areas, the key business processes and significant entities?
- Do the internal audit team have enough time at the audit project level to conduct their reviews to identify major breakdowns or control design flaws?

As someone who has personally conducted and overseen various outsourced programs, I cannot think of a time where our team could be accused of "busy work" and low value reviews. Constant negotiation with the Finance department tends to result in lean programs very focused on major risks facing companies. In my personal experience, listed companies in other developed economies allow far broader risk based coverage and deeper reviews (with substantively more mandays to conduct work per specific audit project) and as well as reviews which touch on areas that local Directors may find rather "esoteric". As a Protiviti Singapore practice, we often examine areas such as Spend Risk, Strategic Planning, Outsourced Vendors, Royalty Reviews, Business Continuity, IT Project Management, Governance and Fraud Risk Management. These are very different to those which are often considered the traditional domain such as procurement, inventory and revenue.

Once the internal audit investment has been established, it is necessary to determine what benchmarks are appropriate to assess the effectiveness of the internal audit function.

Measuring internal audit effectiveness

While beauty may well be in the eye of the beholder, many executive and Company Directors have definitive views on how effective their internal audit function is, regardless of resourcing model or cost.

In measuring effectiveness of an internal auditing function it is worthwhile recalling what internal audit actually does (and what it does not).

The Institute of Internal Auditors, the recognized global body for professional internal auditors, defines internal audit as:

"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."

As a process within an organization, internal auditing should be managed professionally and competently.

There are dozens of qualitative and quantitative key performance indicators to measure internal audit which are beyond the scope of this article. It is important in assessing effectiveness that the underlying objective of the company's internal audit function is kept front of mind:

- Is it a compliance focused function? Is the orientation of the audit committee and management towards ensuring compliance to company policies and procedures as well as external regulation?
- Is it a broad based and governance focused function? Is the expectation that internal audit should be reviewing across all areas of the enterprise with a focus of finding key breakdowns and deficiencies in risk management across all categories of risk including financial, commercial, reputation/branding etc?
- Is it expected to find revenue leakages and be involved in loss prevention? A number of internal audit functions are heavily involved in revenue assurance activities, even to the extent of having trained and experienced resources dedicated to this goal.

There are no right or wrong answers to the above questions and may even differ widely across industries. Heavily regulated industries such as banking, would require their internal audit function to have a strong orientation towards regulatory compliance as opposed to taking an operational approach.

A Further Perspective

From our perspective, the role of internal audit could be distinguished further along a continuum:

Protiviti Perspective on Internal Audit

Oversight	**Insight**	**Foresight**
• Is the process operating as planned? • Are the controls, resources and performance measures adequate and operating effectively? • Are policies being adhered to as intended?	• How can the process, measurements and controls be modified or enhanced? • What are other companies doing? • Are you missing out on some best practices?	• Where is this process going? • Can it scale as the company grows? • Will current controls be adequate in the future? • What planned or future changes need to be considered?
• Are we safe?	• Are we effective and efficient?	• Are we thinking ahead?

Ultimately when determining the answer to the question: "What is the Return on Investment?", the objectives and orientation of the IA function – as outlined above should be kept in mind. For example, a compliance focused IA department may select measures such as the number of controls issues reported and closed with management, whereas an operationally focused audit department might include losses identified and revenue recovered as part of its KPI's.

There are a number of methods to leverage the Internal Audit spend and to enhance the effectiveness of the internal audit department. These include:

- Self assessment by business units and subjecting these to validation by internal audit
- Use of technology tools and data analytics
- Use of outputs from the internal audit process such as flowcharts, risk control matrices into the company's QA, Compliance or even Operational Risk Management programs
- Enhanced scoping to allow focused reviews on identified risk areas within a business process
- Use of internal auditors as training consultants for the rest of the business
- Ensuring that management have a mindset that they own their controls

Checklist for Audit Committee's Agenda for Internal Audit

Audit Committees run a very full agenda in the current business environment.

However the effectiveness of internal audit is very closely aligned to the effectiveness of the Audit Committee.

The Audit Committee can play a very important role in ensuring that the internal audit function is effective by keeping in mind the following questions:

- Is the level of resourcing allocated to internal audit appropriate and allow a reasonable program based on our collective understanding of its role and orientation?
- Does the internal audit function have "sufficient standing" within the company? (while the term is used in the SGX Code of Corporate Governance, it is not specifically defined. Hence plain English interpretation would have to suffice and in this context, issues such as whether the internal audit function's independence is respected, whether there is sufficient cooperation by management with the internal audit department, does the internal audit department have sufficient authority to all books and records etc)
- Is the internal audit program and reporting line appropriate? (Accepted practice has moved from a sole reporting line to the CFO to one which is distinguished between administrative and functional reporting. The accepted reporting line is now administratively to the CEO/ CFO and a functional reporting line to the Audit Committee Chairman)
- Are the audit report deliverables of sufficient quality?
- How does management respond to issues raised by the internal audit function?
- Is there clear understanding of the internal audit function as to its own responsibilities and obligations?

Conclusion

The internal audit function in Singapore has evolved significantly over the past 5 years since the 2003 Code was brought into effect. It is now a high demand profession, and it is clear that the current level of demand is not going to decline anytime soon. In this environment, companies should re-evaluate their resourcing options and look to leverage the internal audit investment.

Audit Committees have an important role to play to ensure that the internal audit function is effective.

An effective and independent internal auditing function is now seen internationally by a wide range of institutions and agencies as an integral part of the supporting mechanisms for the Board to effectively discharge its responsibilities on internal control and risk management. It would be difficult for any Board to effectively meet its governance obligations without the support from a well functioning and independent internal audit function.

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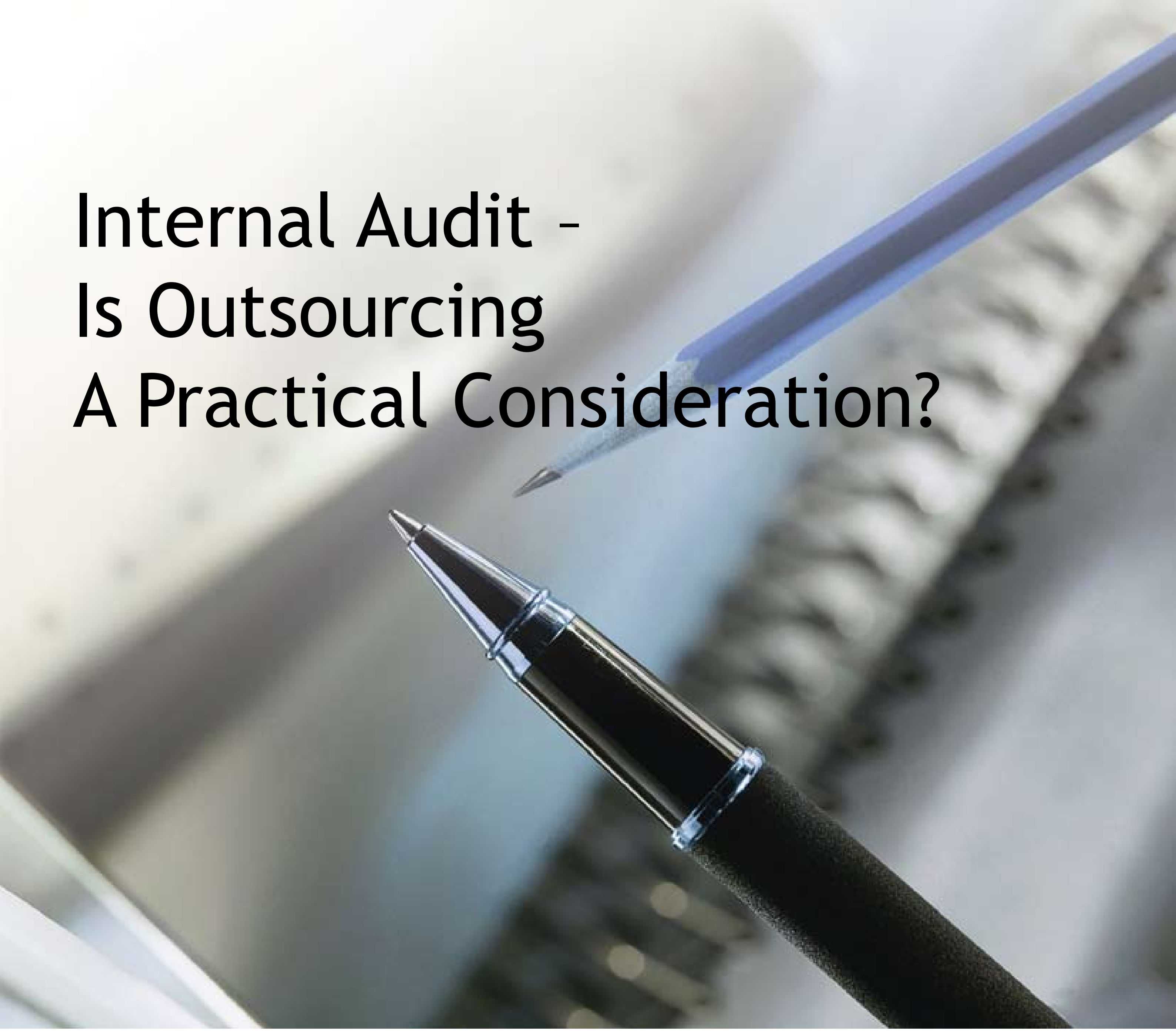

Internal Audit – Is Outsourcing A Practical Consideration?

Overview

Internal Audit helps an organization accomplish its objectives by reviewing its risk management, internal control and corporate governance processes. Most organizations would have gone through the evaluation process to maintain an in-house Internal Audit (IA) team or consider the outsource option. The key considerations would include:

- The size of the organization and the complexity of its operations.
- The expectations of the Management and Board of Directors in terms of the scope and coverage by Internal Audit after due assessment in order to adequately assess the adequacy of company's internal controls in line with the Singapore Code of Corporate Governance 2005 (CCG).
- The feasibility and cost efficiencies in maintaining a team that is adequately staffed with professional skills and expertise including various specialized areas.

Whether an organization has the resources or adequate workload to justify the employment of a team of Internal Auditors depends principally on the size of the organization. The workload is largely determined by the scope and the coverage of the annual audit plan as approved by the Audit Committee. There needs to be a balance in the seniority, experience and skills set of the IA staff to effectively execute the internal audit reviews and maintain the quality and professionalism of work performed.

Guideline 13.2 of Principle 13 of Singapore's Code of Corporate

Governance 2005 provides that "…the Internal Auditor should meet or exceed the standards set by nationally or internationally recognised professional bodies including the Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors." It is necessary to consider how Management can ensure that their Internal Auditors are able to meet this requirement. Obviously where the Internal Auditors hold recognised professional certifications, such as the Certified Internal Auditor (CIA) or Certified Information System Auditor (CISA) certifications, the presumption would be that the Internal Auditors would meet the required standards. For staff without the required qualification, on-the-job training under the guidance of a CIA/CISA and attendance at courses, seminars and conferences by the IIA and other professional bodies would be necessary.

It is also necessary to consider the feasibility of maintaining a team that meets the competency requirements above. In addition, in order to attract the IA professionals to the organization, the organization must be able to provide opportunities for career advancement and professional development. The final assessment would be whether the organization would be able to realize the cost efficiencies of maintaining such a team.

In-House Internal Auditors Or Outsource?

What types of organizations then can afford to maintain a competent in-house IA team and what are those that need to consider the outsource option? Having had the opportunity to head the IA Department of a holding company, namely Singapore Technologies Pte Ltd (STPL) for 7+ years, my considered view is that if an organization or group does not have the workload to justify the employment of a team of at least 10-12 Internal Auditors, with a quarter to a third specializing in IT audit, the organization or group should seriously consider outsourcing the IA function to a reputable service provider. Why at least 10-12 Auditors and the IT audit specialization?

The reasons are quite simple, namely that:

- There should be sufficient posts to justify at least a 3-tier hierarchy of Reviewer, Lead Auditors and Field Auditors.
- There should be sufficient opportunities for career advancement.
- Auditors can be sent for training without undue disruption to the execution of the audit plan.
- Auditors can be rotated between assignments to give them variety of work to maintain interest.
- IT systems and applications support most, if not all critical applications and processes in most organizations today. Hence, there is a need for IT audit review to assess whether the organization adequately manages IT risks to safeguard the integrity of information and the security of systems. Unfortunately it has been my experience that the majority of smaller organizations and some larger ones as well, accord low priority to IT audit as their Management and Board may not be aware of the risks and exposures in this area. As dependency on IT systems increase and critical business data are maintained on these systems, this is an area that merits higher priority and attention by the Management teams and the ACs of all listed entities.

Other than the Banks and larger business groups, most other listed companies and groups do not have the scale and complexity of operations to justify an IA team of 10-12 auditors. For these organizations, outsourcing of the IA function is clearly the more practical option for the following reasons:

- The best qualified team can be employed. The larger more established outsource service providers typically have staff experienced in audit of areas that smaller in-house team lack.
- The organization does not have to deal with staff retention and related professional development issues of a small in-house team.
- An outsourcer brings an independent perspective to the audit and is not prejudiced by any legacy issues.

Even for organizations and groups with their own IA team, there would be occasions and events that may necessitate the engagement of outsourced services to supplement in-house resources. In 2005 and 2006 when organizations and groups that needed to comply with Sarbanes-Oxley Act (SOX)

requirements found themselves short of in-house resources and expertise, they supplemented with outsourced resources. There would also be occasions when due to staff resignations, reorganizations or other reasons, temporary outsource IA resources may be required by an in-house team. Also for payroll audit and fraud investigation which are sensitive in nature, outsourcing may be more appropriate in some instances.

Some arguments have been advanced for an in-house IA team, no matter how small, as opposed to outsourcing the function. In particular, that an in-house team has better knowledge of the business requirements and therefore better able to recommend practical solutions that will be accepted. My view is that such a small IA team will face limitations, especially in organizations with an autocratic Chief Executive Officer (CEO) or Senior Management team. In such situations, the in-house IA team may lack independence and not be sufficiently objective.

Conclusion

Ultimately whether the IA function (and indeed the whole framework of good corporate governance) in an organization is able to fulfill its role objectively and effectively depends on the culture of the organization and the tone from the top as demonstrated by the CEO and the Board of Directors. It is necessary not only to comply with the letter and form of good corporate governance, but also with its spirit and substance in its application, including in respect of the Internal Audit function.

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Catalist: The Sponsor-Supervised Board Of The SGX-St

Overview

On 17 December 2007, SESDAQ, the now-defunct second board of the Singapore Exchange Securities Trading Limited (the "SGX-ST"), was transformed into the Catalist board. Companies previously listed on SESDAQ have been transferred to Catalist and given up to 5 February 2010 to comply with the new Listing Manual Section B: Rules Of Catalist (the "Catalist Rules"). This article provides a brief introduction to Catalist and an overview of the admission requirements and continuing obligations of a Catalist issuer, including the measures required to be implemented by companies previously listed on SESDAQ to facilitate the transition into the new Catalist regime.

What is Catalist?

Catalist is the sponsor-supervised board of the SGX-ST modeled on the Alternative Investment Market ("AIM") of the London Stock Exchange, where nominated advisers ("Nomads") are authorised to act as gatekeepers, advisers and regulators of AIM issuers. The use of Nomads provides a flexible regulatory system to allow smaller companies to float their shares.

Similarly, the sponsor-supervised regime of Catalist provides a more conducive listing platform for fast-growing companies by according issuers more flexibility in certain regulatory aspects as compared to the Mainboard of the SGX-ST or SESDAQ. For example, there are no prescribed financial admission criteria or size requirement for a company seeking to list on Catalist. Further, the thresholds for requiring shareholder approvals in some instances are higher. For instance, for acquisitions of assets, shareholder approval is only required for the acquisition of assets of more than 75% but less than 100% of the relevant bases (i.e. group net assets, profits, market capitalisation or equity securities issued, as the case may be), or if the acquisition of assets will result in a fundamental change in the issuer's business. Thus, the Catalist Rules are responsive to growth companies' frequent need to raise capital in a timely manner.

Listing on Catalist is open to issuers from any jurisdiction or industry. However, only primary listings of equity securities are currently permitted on Catalist.

Who are Sponsors?

Sponsors are qualified professional companies experienced in corporate finance and compliance regulatory work authorised by SGX-ST to act as sponsors of Catalist issuers. There are two types of sponsors: (a) full sponsors and (b) continuing sponsors. Full sponsors are authorised to undertake initial public offerings ("IPO") and post-IPO continuing sponsorship activities, while continuing sponsors are authorised to undertake post-IPO continuing sponsorship activities only. The full sponsor will assess a company's suitability to list and will advise and guide the company through the listing process. After listing, the full or continuing sponsor will supervise and advise the issuer to ensure its compliance with the Catalist Rules, including reviewing documents to be released by the issuer to the market and monitoring the trading of the issuer's listed securities. In the performance of its continuing activities, a sponsor is expected to whistleblow to the SGX-ST when the issuer has or is suspected to have breached the Catalist Rules. A sponsor is also obligated to notify the SGX-ST when it forms the opinion that trading of the issuer's securities should be halted or suspended, or that the issuer should be delisted.

A full sponsor that brings an issuer to list on Catalist must continue to sponsor that issuer for at least 3 years after the issuer's admission to Catalist. The approval of the SGX-ST is required to end the sponsorship within the 3-year period.

Regulatory Structure of Catalist

The SGX-ST does not directly review a company's application for admission to Catalist or directly supervise companies listed on Catalist. However, it regulates Catalist issuers through admission and continuing obligation requirements and retains the power to discipline them for violations of the Catalist Rules. The SGX-ST also has the power to regulate sponsors through strict admission and continuing obligation rules and to discipline them for breach of rules imposed by the SGX-ST.

Key Admission Requirements for Listing on Catalist

The SGX-ST has eased certain admission requirements under the former SESDAQ rules to facilitate growth companies' listing on Catalist. An issuer that seeks to list on Catalist does not need to comply with prescribed track record, market capitalisation or quantitative requirements. There are also no prescribed requirements based on financial parameters or size of the issuer. The Catalist Rules also do not prescribe any quantitative distribution rules for the distribution of invitation shares similar to those prescribed under the former SESDAQ rules.

Below are the key admission requirements for companies to list on Catalist:

a. IPO Document:
    - An offer document, in place of a prospectus, must be lodged on SGX-ST's Catalodge website and disclosures contained therein must comply with the Securities and Futures Act and other applicable regulations.

b. Sponsorship:
    - The listing applicant must appoint a full sponsor to list and, post-listing, must retain a sponsor at all times or face possible delisting.

c. Shareholding Spread:
    - The post-invitation share capital in public hands must be at least 15% at the time of listing and must not be obtained by artificial means such as giving shares away and offering loans to prospective shareholders to buy the shares.
    - At IPO, there must be at least 200 public shareholders, instead of 500 under the former SESDAQ rules.
    - The overall distribution of shareholdings should be expected to provide an orderly secondary market in the securities when trading commences, and be unlikely to lead to a corner situation in the securities.

d. Directors and Management:
    - The listing applicant's directors and executive officers should have appropriate experience and expertise to manage the group's business.

- The character and integrity of the listing applicant's directors, management and controlling shareholders are relevant factors for consideration.
- There must be at least 2 independent directors; if the issuer is a foreign corporation, at least 1 of them must be resident in Singapore.

e. Financial Information
   - The offer document must contain financial information for the preceding 3 years (if applicable) and include statements from the directors and the sponsor that the working capital available to the company is currently sufficient and will remain sufficient for at least 12 months from the date of listing.
   - Financial statements must be prepared in compliance with Singapore GAAP, International Financial Reporting Standards, or US GAAP and the issuer's audited accounts must not be qualified in a material way.

f. Financial Position and Liquidity
   - Prior to listing, the issuer's directors and substantial shareholders, including companies controlled by such directors and substantial shareholders, must settle all debts owing to the group (this rule does not apply to subsidiaries and associated companies of the issuer).
   - Surplus arising from the revaluation of plant and equipment should not be included when computing the issuer's net tangible assets per share.

g. Restriction on the Issuer's Promoters' Sale of Shares:
   - Promoter's sale of shares is not permissible at IPO if (i) all promoters in aggregate hold less than 50% of the issuer's post-invitation share capital or (ii) such sale will reduce their aggregate shareholding to less than 50% of the issuer's post-invitation share capital

In addition to the general admission criteria listed above, the SGX-ST has prescribed other requirements in respect of foreign issuers and property development companies:

a. Foreign Issuers:
   - All information released to the SGX-ST must be in English.
   - All securities must be quoted in Singapore dollars, unless the SGX-ST agrees to a quotation in a foreign currency.

b. Property Development Companies:
   - A valuation report must be provided which states the effective date at which the properties are valued, which should not be more than 6 months from the date of submission of the pre-admission notification to the SGX-ST.
   - Properties that have remaining leases of less than 30 years must not, in aggregate, account for more than 50% of the issuer's group's operating profits for the past 3 years.

Key Continuing Obligations for Issuers

The key continuing obligations of issuers under the Catalist Rules include:

a. Immediate disclosure of material information;

b. Announcement of financial results within:
   - 45 days of the end of each quarter (for the first 3 quarters, if the issuer exceeds a certain market capitalisation threshold) or the relevant financial period (for first half financial statements, if it does not exceed the market capitalisation threshold), and
   - within 60 days of the end of the financial year;

c. Compliance with the Code of Corporate Governance;

d. Ensure that at least 10% of the total number of issued shares in a class that is listed is held by the public at all times; and

e. Appointment of 2 authorised representatives (either directors or a director and the company secretary) to act as the principal communication channel between SGX-ST and the issuer.

The Catalist Rules have introduced some changes relating to the undertaking of corporate actions requiring shareholder approval, inter alia, as reflected in the table on the next page.

Corporate Action	SESDAQ	Catalist
Change in share capital	Issuer may obtain shareholder mandate to issue up to 50% of the issuer's share capital (of which shares issued on non pro-rata basis must not exceed 20%)	Issuer may obtain shareholder mandate to issue up to 100% of the issuer's share capital (of which shares issued on non pro-rata basis must not exceed 50%). The 50% limit can be increased to 100% where shareholders approve by special resolution on or after the first shareholders' meeting
Major transactions	Shareholder approval for acquisitions or disposals of assets of more than 20% but less than 100% of the relevant bases (i.e. group net assets, profits, market capitalization or equity securities issued, as the case may be)	Shareholder approval for acquisitions of assets: (i) of more than 75% but less than 100% of the relevant bases or (ii) that result in a fundamental change in the issuer's business Shareholder approval for disposals of assets: (i) of more than 50% of the relevant bases or (ii) that will result in a fundamental change in the issuer's business

Transition Measures

Companies listed on SESDAQ were transferred to Catalist on 17 December 2007 as non-sponsored Catalist ("Catalist NS") companies. These companies have been given up to 5 February 2010 to: (a) appoint a sponsor and comply with the Catalist Rules or (b) transfer to the SGX-ST Mainboard upon compliance with the quantitative and other listing requirements applicable to the Mainboard. During the transition period, Catalist NS issuers would continue to be governed by the former SESDAQ rules and supervised by the SGX-ST. A Catalist NS company that fails to comply with either option before the transition deadline may face delisting.

In order to facilitate the smooth transition of Catalist NS companies to the sponsored Catalist regime, the SGX-ST announced on 1 September 2008 a set of transition measures applicable to Catalist NS issuers. These transition measures have been incorporated in the Catalist Rules as Practice Note 14A.

The transition measures require a Catalist NS issuer to, inter alia, submit a quarterly progress report on their transition plans to the SGX-ST Catalist Regulation Unit ("SGX CRU"). The first progress report must be submitted by 1 November 2008, and beginning 1 January 2009, subsequent progress reports must be submitted 45 days after the end of each of the first 3 quarters and 60 days after the end of the financial year. Catalist NS issuers are required to announce their progress reports via SGXNET beginning 1 January 2009. Such announcements must be made within the same periods applicable to the submission of the progress reports to the SGX CRU. The progress report shall contain the following key information:

a. details of the director or person in charge of the search and appointment of sponsor;
b. updated timetable of milestones (including estimated time periods for the search for a suitable sponsor, negotiation of terms, as well as estimated dates for board approval and sponsor appointment);
c. if applicable, description of any plans that the Catalist NS issuer will implement as an alternative to appointing a sponsor, such as undergoing a reverse takeover, merger & acquisition, or transferring to the SGX-ST Mainboard; and
d. list of sponsors approached to date.

The transition measures also require a Catalist NS issuer to, from 1 January 2009, appoint a sponsor and comply with the Catalist Rules when it undertakes any of the following corporate actions:

a. rights issue or placement of shares, company warrants or other convertible securities for cash (excluding shares issued pursuant to an employee or performance share/share option plan);
b. major transaction as defined under Rule 1013 of the Listing Manual of the former SESDAQ rules;
c. transactions that will require shareholders' approval pursuant to Chapter 9 of the Listing Manual of the former SESDAQ rules; and
d. scheme of arrangement.

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Green-Washing Anyone?

Overview

Corporate Social Responsibility has become a popular topic in recent months. Much of the media coverage is about climate change related issues like renewable energy and carbon credits. Some companies have taken up corporate communications initiatives to green a business, often viewed by CSR industry experts as 'green-washing'. Many Board of Directors are aware of social and environmental issues yet research by Qualvin Advisory Pte Ltd shows that they are not in a good position to make investment decisions (Note 1). Currently it is regarded as an operational issue. Most Boards do not have decision-making framework for these strategic and investment issues.

This article is based upon researching some global companies to determine emerging good practices for the Board of Directors. The research approach looked at public domain information such as Companies' annual reports, statements on governance of social and environmental issues, and Corporate Social Responsibility & Good Citizenship Reports. (Note 2)

The companies looked at included: Infosys, Toshiba, Sony, San Miguel, Globe Telekom, China Unicom, PetroChina, Taiwan Semi-conductor, SIngTel, Telekom Malaysia, Telkom Indonesia, Huthcinson Whampoa, China Mobile, National Australia Bank, Telstra, Timberland, Verizon, Unilver, Rio Tinto, Shell, Ricoh, GlaxoSmithKline, Westpac, Cadbury Scweppes, CocoaCola, GE, Exxon, Microsoft and GAP. Some companies were chosen because they had well established CSR policy and others from the same industry sector for comparison purposes.

From this research we have drawn some principles and guidelines for a CSR Board Sub-Committee. We recognise each company has different operating and business issues and each Board has different governance styles. The purpose of this research is to trigger awareness, discussion and mindful action.

The True Role of the Board of Directors

Let us start by providing a definition of the Board's fundamental role as the following:

a. Provide entrepreneurial leadership, set strategic aims, and ensure that the necessary financial and human resources are in place for the company to meet its objectives;

b. Establish a framework or prudent and effective controls which enables risk to be assessed and managed;
c. Review management performance; and
d. Set the company's values and standards and ensure that obligations to shareholders and others are understood and met.

We now have the context to explore the roles of: good corporate citizenships; sustainable business planning; corporate social and environmental responsibility; social, environmental ethical and governance risk management. All these could be wrapped under the banner of corporate social and environmental responsibility.

Boardroom Definition of Corporate Social Responsibility

Lets us make a Boardroom definition of corporate social and environmental responsibility (CSR). Other stakeholders may have different perspectives and definitions because they are industry consultants, NGO representatives, middle managers, customers, suppliers etc. Our perspective is the Boardroom and creating an ongoing business and sustainable wealth.

CSR in the Board-room is about ensuring the sustainability of the business in terms of the quality of ongoing future cash flow from products and services to customers and the sustainability and access to resources used by the company in providing the products and services. Key CSR stakeholders in this context include employees, consumers, investors, and governments' regulation, licensing and legislation.

This definition will surprise executives whom thought CSR was about corporate philanthropy or signing expenses for stakeholder engagement and operations risk management.

CSR at its simplest is managing the risk of a competitor achieving a better financial, social and corporate reputation.

The result of a weakening reputation is for the company to: lose sales, lose market share and customers; diminish access to capital funding; diminish access to employee talent and motivation; secure less attractive commercial terms with suppliers; and increase the risk of adverse regulatory intervention.

CSR decision scope in the Board-room is about choosing vision, setting goals and selecting strategies. These are the wealth creation activities in a company that every sophisticated investor looks at CSR in the boardroom. A secondary supporting role may be to review philanthropic choices or operational issues and stakeholder engagement.

CSR at its best has the philosophy that the purpose of the company is to create wealth for the shareholders and the world. This is enshrined in the mission and vision of great companies in many sectors like Toyota, Honda, Tata Steel and Timberland to name a few well known corporations.

The end result, either from a risk management or from a wealth philosophy is the same, a policy and process for the Company that ensures the goals, strategies, standards, systems and people required to meet the Company's social and environmental responsibilities are in place.

Therefore this report is about the principles and guidelines describing the Charter, Policy and Procedures of a Board's Corporate Social and Environmental Responsibility (CSR) Committee. This could be part of an existing standing committee coverings corporate level strategy, risks, health and safety issues.

Key Purpose of the CSR Committee

The primary function of the CSR Committee is to assist the Board in fulfilling the Company's commitment to operate its businesses ethically, responsibly and sustainable consistent with the changing demands of the society.

CSR focused considerations act to screen business strategies for their impact on multiple stakeholders in the larger environment called society. This is where a company operates and seeks to implement its strategy, mission and vision.

CSR is centred in the core duty of leadership that of goal setting, strategy formulation and risk management.

Board-room CSR should not be confused with corporate charity and philanthropy although this aspect could be included.

Key areas of CSR focus are typically centred on strengthening company's activities around physical resources, human capital, the environment, investor engagement, customer engagement, supply chain integration, regulatory issues, health & safety improvement and community involvement.

The Board Sub-Committee for Corporate Social and Environmental Responsibility (the CSR Committee) is to ensure that the Company has in place the policies, goals, strategies, standards, systems and people required to meet the Company's social and environmental responsibilities.

The CSR Committee assists the Board of Directors of the Company (the "Board") in providing the oversight, recommending goals and strategies and in reviewing the policies and conduct of the Company with respect to Corporate Social and Environmental Responsibility, which covers:

- General Business Principles
- Code of Conduct as we expect our employees and suppliers to share our standards and to operate in a legal and ethical manner.
- Employment Policy - to respect different cultures, traditions and employment practices, demonstrating commitment to good corporate values and ethical behaviour.
- Occupational Health Policy - to strive to protect the physical health and well being in the workplace.
- Occupational Safety Policy - to emphasise that safety is a core value and a major priority and to strive towards the Company's goal of zero injuries.
- Environmental Policy - to prevent, or otherwise minimise, mitigate and remediate, harmful effects of company's operations on the environment.
- Sustainable Development Policy - to ensure that Company businesses, projects, operations and products are developed and implemented in line with company's commitment to sustainable development.
- Human Rights Policy - to support and protect human rights consistent with the Universal Declaration of Human Rights throughout the world where company has business.
- Non-political Activity Policy - to ensure that businesses do not directly or indirectly participate in party politics, nor make payments to political parties or individual politicians.
- Consumer Policy - to build enduring relationships with the consumer that we do business, production and sales, that are characterised by mutual respect, proactive engagement and long term commitment. Throughout the life cycle of the company's activities by coordinating economic, technical, environmental and social factors in an integrated process.
- Community Policy - to build enduring relationships with the community that we do business, production and sales, that are characterised by mutual respect, proactive engagement and long term commitment. Throughout the life cycle of the company's activities by coordinating economic, technical, environmental and social factors in an integrated process.
- Equity and Debt Investor engagement Policy, relating to social, environmental ethical, regulatory and governance responsibility issues.
- Philanthropic and Charity Contribution Policy to build the Board's accountability for all authorized activities generating financial support on the organization's behalf on fund-raising activities and voluntary activities.

Modus Operandi of the Board CSR Sub-committee

The CSR committee will receive regular reports on the implementation of the Company's corporate policies from the respective heads of functional areas and from other executive managers as appropriate.

The CSR committee will consider periodically the future development of the issues covered by the Group's Corporate Policies and any proposed changes to the Group's policies and practices.

The CSR committee will monitor the quality, effectiveness and transparency of management

processes; and the performance of corporate social and environmental responsibility work; and on the adequacy of any standards that may be set.

The CSR Committee will review and discuss the Company's corporate social and environmental responsibility goals and initiatives in the context of the Company's agreed overall business strategy, including impact of the initiatives, relationship to business goals and creation of shareholder value.

The CSR Committee ensures the alignment of senior management and the Boards endorsed CSR goals, strategies and polices. The Committee acts as a sounding board and provides guidance to the Board and senior executives of the business. The committee provides external and independent oversight and guidance on the environmental and social impact of how Company conducts its business.

The CSR Committee chairman makes regular reports to the Board on matters it has reviewed. The CSR Committee will evaluate its performance annually. The Board will also make an annual assessment of the committee's effectiveness. The CSR Committee's Chairman shall be prepared to respond to any questions relating to the Committee's activities at the Annual General Meeting of the Company's Shareholders.

Social And Environmental Responsibility

To fulfil its responsibilities and duties the CSR Committee must:

1. Consider and review the social, environmental and ethical impact of Company's activities and set standards for social, environmental and ethical practices.
2. Review initiatives to enhance Company's sustainable business practices and reputation as a responsible corporate citizen.
3. Consider and endorse proposals from management and make recommendations to the Board on enhancements to Company's corporate responsibility policies, principles and practices, and on major strategic initiatives to enhance Company's reputation and sustainability.
4. Monitor, on a Group wide basis, compliance with Company's published policies, practices and commitments in relation to social and environmental responsibility and sustainability, including occupational health and safety, relevant matters in Company's supply chain and ethical policy relating to lending and investment activities.
5. Monitor and consider emerging social, environmental, reputation and other material business risks, and review the effectiveness of the company's policies and systems for identifying and managing material business risks.

6. Monitor management's strategic and operational response to climate change.
7. Review management's progress in enhancing Company's reputation with staff and in implementing sustainable business practices.
8. Monitor management performance in differentiating Company on the quality of customer experience and consumer protection policies.
9. Review and approve management's annual and longer-term corporate responsibility planning and review and approve the annual Stakeholder Impact Report and other leading performance reporting.
10. Review annually the adequacy of this Charter and make recommendations on required changes to the Board for approval.
11. To the extent the Committee deems necessary, retain independent legal, accounting or other advisors.

Operational responsibility for managing these matters lies with the senior management appointed for this purpose of each operating unit. The Head of each unit should have a co-ordinating role in areas of CSR to improve the sharing of best practice, collection of data and consistency of reporting.

Conclusion

In conclusion a few thought provoking questions:

How does your Board of Directors and Senior Management Teams current response to CSR?

Does the Board have a decision support process to gather information into meaningful Board papers for strategic and investment decisions?

Does your company reluctantly achieve compliance or is the Company's heart and motivated employees in the social and environmental plan?

Do you understand what your competitors are doing?

Do you know how your institutional investors and bankers evaluates your social, environmental and governance track record?

Do you know the impact on customer loyalty your social and environmental track record is having?

Do you know what the licensing body thinks about your industry and social development track record for license renewal and new license reward?

END

Note 1: Research of Boardroom perspectives on CSR & sustainable wealth based upon January 2008 survey by Qualvin Advisory Pte Ltd of Singapore and Malaysia listed companies.

Note 2: Research of Global Company CSR & Sustainability practices based upon 2007 public disclosures by Qualvin Advisory Pte Ltd

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Corporate Governance Developments From Around The World

A. United Kingdom & Europe

United Kingdom: Disclosure of Contracts for Difference

On 2 July 2008, the UK Financial Services Authority published a policy update on disclosure of contracts for difference ("CFDs"). These financial instruments are purely economic positions over shares held under a derivative contract. The FSA has decided that long CFD positions will become discloseable under the UK Disclosure and Transparency Rules. The threshold level for disclosure will be three percent of total voting rights. This is the same level as that for shares. The new rules are expected to come into force in September 2009.

For more information, please go to: http://www.fsa.gov.uk/

B. The Americas

United States: Directors and Corporate Social Responsibility

A proposal to amend the California Corporations Code has been put before the California State Legislature. Assembly Bill 2944 proposes amending section 309 of the California Corporations Code. This provides that a director must act in good faith, in the manner in which he/she believes to be in the best interests of the corporation and its shareholders.

The proposed amendment will provide that in acting in the best interests of the corporation, the director may consider:

- The long-term and the short-term interests of the corporation and its shareholders; and
- The effects that the corporation's actions may have in the short term or in the long term upon any of the following:
    - The prospects for potential growth, development, productivity, and profitability of the corporation;
    - The economy of the state and the nation;
    - The corporation's employees, suppliers, customers, and creditors;
    - Community and societal considerations; and
    - The environment.

For more information, please go to: http://www.leginfo.ca.gov

C. Asia Pacific

Singapore: Acquisitions Involving Profit Guarantees

On 24 March 2008, the Singapore Exchange Limited issued a note setting out the responsibilities of the Board and Financial Advisers of a listed company in assessing acquisitions where the purchase consideration is based on or includes profit guarantee provided by vendors. In assessing proposed acquisitions involving profit guarantees, the Board and the company's financial adviser must do the following:

- assess whether the profit guarantee provided is realistic;
- assess the adequacy of compensation should the profit guarantee fail to materialise;
- put in place proper safeguards to ensure the company's right of recourse when the profit guarantee is not met; and
- ensure that the proposed acquisitions are in compliance with all relevant rules and regulations, including the Exchange's requirements on Very Substantial Acquisitions, Major Transactions and Discloseable Transactions.

It is the responsibility of the Board to apprise the shareholders promptly of its assessment of the commercial merits of the potential acquisition. The Board is also required to inform the shareholders of the basis of its decision in relation to the proposed acquisition.

On their part, the financial advisers must provide the Board with their opinion on whether the proposed acquisition is on normal commercial terms and is not prejudicial to the interest of the company and its shareholders. They must also be prepared to fully disclose the basis for its opinion if asked by the Board, the shareholders of the company or the Exchange.

For more information, please go to: http://www.sgx.com/

Singapore: Proposed Amendments To The Listing Rules

The Singapore Exchange Limited ("SGX"), in a Consultation Paper issued on 10 July 2008, has proposed the inclusion of new rules into the SGX Listing Rules to, among others, introduce the listing of life science companies with no financial track records, and new classes of investment funds. Life science companies with no financial track record will now be able to list on the SGX if they meet several criteria including the following:

- ability to attract funds from investors such as institutional investors; and
- the intention to raise funds from the IPO to bring identified products to market and generate revenue.

The listed companies are required to provide quarterly disclosure on the use of funds to ensure transparency and timely disclosure of material information.

For more information, please go to: http://www.sgx.com/

Australia: Second Edition Corporate Governance Guidelines

The Australian Securities Exchange Limited Corporate Governance Council ('Council') released in August 2007 the Second Edition Corporate Governance Guidelines ('SECGG'). This is the first revision of the Council's Principles of Good Governance and Best Practice Recommendations since they issued in March 2003. The effective date for the SECGG is a listed entity's first financial year commencing on or after 1 January 2008. Where an entity's financial year begins on 1 January, the disclosure will be requires in relation to the financial year 1 January 2008 to 31 January 2008 and will be made in the annual report published in 2009. However, it the listed entity's financial year begins on 1 July, disclosure in relation to the financial year 1 July 2008 to 30 June 2009 will be required. The disclosure will be made in the annual report published in 2009.

The SECGG sets out a list of 'relationships affecting independent status' that a company should take into consideration when determining the independence of a director, rather than providing a definition of independence. The SECGG also requires companies to disclose their reasons for considering a director 'independent' notwithstanding the existence of one of these relationships.

In June 2008, the Council released the Revised Supplementary Guidance to Principle 7 of the SECGG ('Recognise and Manage Risk'). Principle 7 makes it clear that material business risks involve both financial and non-financial risk. The Revised Supplementary Guidance stressed that a sound framework of risk oversight, risk management and internal control underpins reliable financial reporting, compliance with

relevant laws and regulations, and effective and efficient operations.

For more information, please go to: http://www.asx.com.au/

Australia: Listing Rule Amendments

On September 2008, the Australian Securities Exchange Limited ('ASX') released the details of the Listing Rule amendments expected to take effect by year end 2008. One of the proposed amendments related to the information required to be included in Appendix 5B: Mining Exploration Entity Quarterly Report. The Listing Rules provide that mining exploration entities must complete Appendix 5B and submit it to the ASX within one month after the end of each quarter of the financial year. The mining entity must provide in Appendix 5B a consolidated statement of cash flows, including operating activities cash flows in respect of four payments for exploration and evaluation. The entity must also disclose estimates of forward cash outflows in relation to exploration and evaluation, and development. To present a complete picture of the company's likely cash flows for the forthcoming quarter and to provide a more meaningful disclosure to investors, it is proposed that Appendix 5B be amended to include production and administration (as well as exploration and evaluation and development) in the fourth section of the Appendix relating to estimates of cash outflows for the next quarter.

Another proposed amendment related to timing of reporting of all of the investments held by Listed Investment Companies ('LICs') and their child entities. The amendment will have the effect of f enabling LICs to disclose in their annual report a list of investments held by it and its child entities as at the balance date, rather than as at six weeks before the annual report is sent to security holders. The amendment will remove timing issues which make compliance with the Listing Rules problematic for some LICs.

For more information, please go to: http://www.asx.com.au/

Hong Kong: Insider Trading

A finance manager of a listed company today became the first person to be convicted of insider dealing under the Securities and Futures Ordinance (SFO) since its inception in 2003.

The charges involved the trading of the shares of Sino Golf Holdings Limited (Sino Golf) by the accused during her employment with a wholly owned subsidiary of the company.

The Securities and Futures Commission alleged she avoided a loss on her investment in Sino Golf Holdings Limited's shares using information not known to the market at the time, namely, that a major debtor of Sino Golf Holdings Limited, Huffy Corporation, which owed Sino Golf about $11.9 million, had filed for Chapter 11 bankruptcy protection in the United States. The accused had sold all of her shares in Sino Golf Holdings Limited before the market was made aware of the impact of the bankruptcy. The accused, who pled guilty, was sentenced to six months' imprisonment suspended for two years, and fined a total of $200,000 (being $50,000 for each of the four counts).

For more information, please go to: http://www.sfc.hk

SGX-SID-Ernst & Young Financial Workshops Series

The Institute, Singapore Exchange Limited ("SGX") and Ernst & Young jointly organised a series of financial workshops for directors and senior management to improve understanding of the basic skills and expertise that audit committees should be equipped with in order to discharge this responsibility effectively.

The first in the series of the workshops was held on 25 June 2008, with the theme being "External Reporting & Audit Committee: Roles, Expectation & Pitfalls". The presenter for the workshop was Mr Kevin Kwok of Ernst & Young, followed by a panel discussion was held at the end of the session involving the presenter, Mr Basil Chan, SID Council Member and Mr Ong Sim Ho, Director at Drew & Napier. The workshop was attended by 60 members and non-members.

"Appreciation of Fair Value for Directors (I): Practical Implications for Acquisitions" was the second workshop and it was held on 27 August 2008. Attended by more than 60 members and non-members. The presenter for this session from Ernst & Young were Messrs Nagaraj Sivaram & Harsha Basnayake. Mr K Venkataraman of Olam International and Mr Reggie Thein, SID Treasurer joined as panelists for this session.

The third workshop "Appreciation of Fair Value for Directors (II): Financial Instruments Valuation & Risk Management" was held on 12 September 2008. The presenters for this workshop were Messrs Patrick Hanna, Duncan Edwards and Wilson Woo of Ernst & Young. Mr Reggie Thein, SID Treasurer joined the three presenters as part of a panel discussion at the end of the talk. About 75 members and non-members attended the workshop.

SID thanks SGX and Ernst & Young for collaborating with SID in the series of workshops.

SID Luncheon Talk

A Luncheon Talk on "Lessons learned by a seasoned Board Member" was held on 13 August 2008 at Marina Mandarin. The guest speaker was Mr Robert Herbold, former Executive Vice President & Chief Operating Officer of Microsoft Corporation & Managing Director of Herbold Group LLC. It was attended by about 70 members and guests.

Mr Herbold shared his experiences about battle scars and lessons from those experiences, including problems with close friendships between board members, too many board members and uninformed board members, the agendas, the built-in fear associated with splitting up a company and a variety of other challenges.

SID thanks Mr Robert Herbold for giving the talk and all members and guests for their presence.

SGX Listed Companies Development Programme – Understanding the Regulatory Environment in Singapore

The 12th and 13th runs of the SGX Listed Companies Development Programme on "Understanding the Regulatory Environment in Singapore" were held on 25 July 2008 and 16 September 2008 respectively. The Programme continues to be very popular with listed companies, attracting 70 participants for the 12th run and 88 participants for the 13th run.

The training programme, designed by SGX and SID, covered topics on directors' duties and responsibilities, governance, risk management and compliance and SGX's regulations.

The presenters for both runs were Ms Kala Anandarajah, a partner at Rajah & Tann, Mr Ng Siew Quan, a partner at PricewaterhouseCoopers and Mrs Yvonne Goh, managing director of KCS Corporate Services Pte Ltd.

At the end of each session, there was a panel discussion involving all three presenters and representatives from SID and SGX. For the session held on 25 July, SID was represented by Mr Will Hoon while SGX was represented by Mr Tang Yeng Yuen. For the session held on 16 September, SID was represented by Mr Giam Chin Toon while SGX was represented by Ms Lorraine Chay.

SID thanks all the presenters and panelists for their kind contribution, SGX for partnering SID to conduct the training programme and all participants for attending and actively participating.

SGX Listed Companies Development Programme –

Understanding the Regulatory Environment in Singapore in Mandarin

The Singapore Exchange Limited ("SGX") held another of its Mandarin session on "Understanding the Regulatory Environment in Singapore" on 19 June 2008 at Marina Mandarin, in response to the strong demand from companies in China.

As with a similar training programme conducted in English, the Mandarin version was also designed by SGX and SID and covered topics on directors' duties and responsibilities; governance, risk management and compliance and SGX regulations. The presenters were Mr Hee Theng Fong, partner at the law firm Hee Theng Fong & Co and a practicing director, Mr Ng Siew Quan, partner at PricewaterhouseCoopers. The keynote address was delivered by Mr Richard Teng, Senior Vice President & Head of Issuer Regulation of SGX.

SID thanks the presenters for their kind contribution and SGX for partnering SID to conduct the training programme.

SID
Charity Golf Tournament

SID held its Annual Golf Tournament with a twist on Sunday 21 September 2008 at the Tanjong Course, Sentosa Golf Club. Instead of a mere gathering of businessmen to have a round of golf, given this is the tenth year of SID, the Tournament was used as a means to raise funds for charity as well. With 142 members, guests and well-wishers participating, the Tournament was successful in contributing towards SID's charity drive.

The Guest-of-Honour for the event was Mr Abdullah Tarmugi, Speaker of Parliament, who very sportingly graced the occasion despite the fasting month. The Tournament commenced with a shotgun start at 1.30pm, and ended with a post-tournament dinner which was also very well attended.

From stories and banter heard during the course of as well as post the day's events, it was evident that participants did have a fun-filled yet, competitive afternoon. A list of all winners and contributors to the event are listed in the Table below.

The Tournament organising committee was chaired by Mr Boon Yoon Chiang with Messrs Chew Heng Ching, John Lim, Giam Chin Toon, Ahmad Magad and Mrs Yvonne Goh as members.

SID thanks Mr Tarmugi, our Guest-of-Honour, all sponsors, donors, participants, management and staff of Sentosa Golf Club and all who had assisted in the success of the tournament. SID wishes to specially express its thanks and appreciation to the Sentosa Golf Club for its generous donation of a cheque for S$10,000 to the Institute's fund raising efforts. ■

Sponsors of
SID Charity Golf Tournament
21 September 2008

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Keppel Singmarine Pte Ltd
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KPMG
Lee Kim Tah Holdings Ltd
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Mandarin Oriental, Singapore
Marina Mandarin
NTUC Fairprice Co-operative Ltd
Singapore Exchange Ltd
Senoko Power Ltd
Singapore Petroleum Co Ltd
Transview Holdings Ltd
Wing Tai Holdings Ltd

Results of SID Charity Golf Tournament

Overall Winner
David Chew Tuan Dong

A Division (Handicap 1 – 18)		
Winner	-	Tony Mallek
1st Runner-up	-	Mark Wee
2nd Runner-up	-	Koh Leong Pit
3rd Runner-up	-	David Wong

B Division (Handicap 19 – 36)		
Winner	-	Raymond Ong
1st Runner-up	-	John Slaven
2nd Runner-up	-	John Lim Kok Min
3rd Runner-up	-	Neil McGregor

WELCOME ON BOARD

JULY 2008

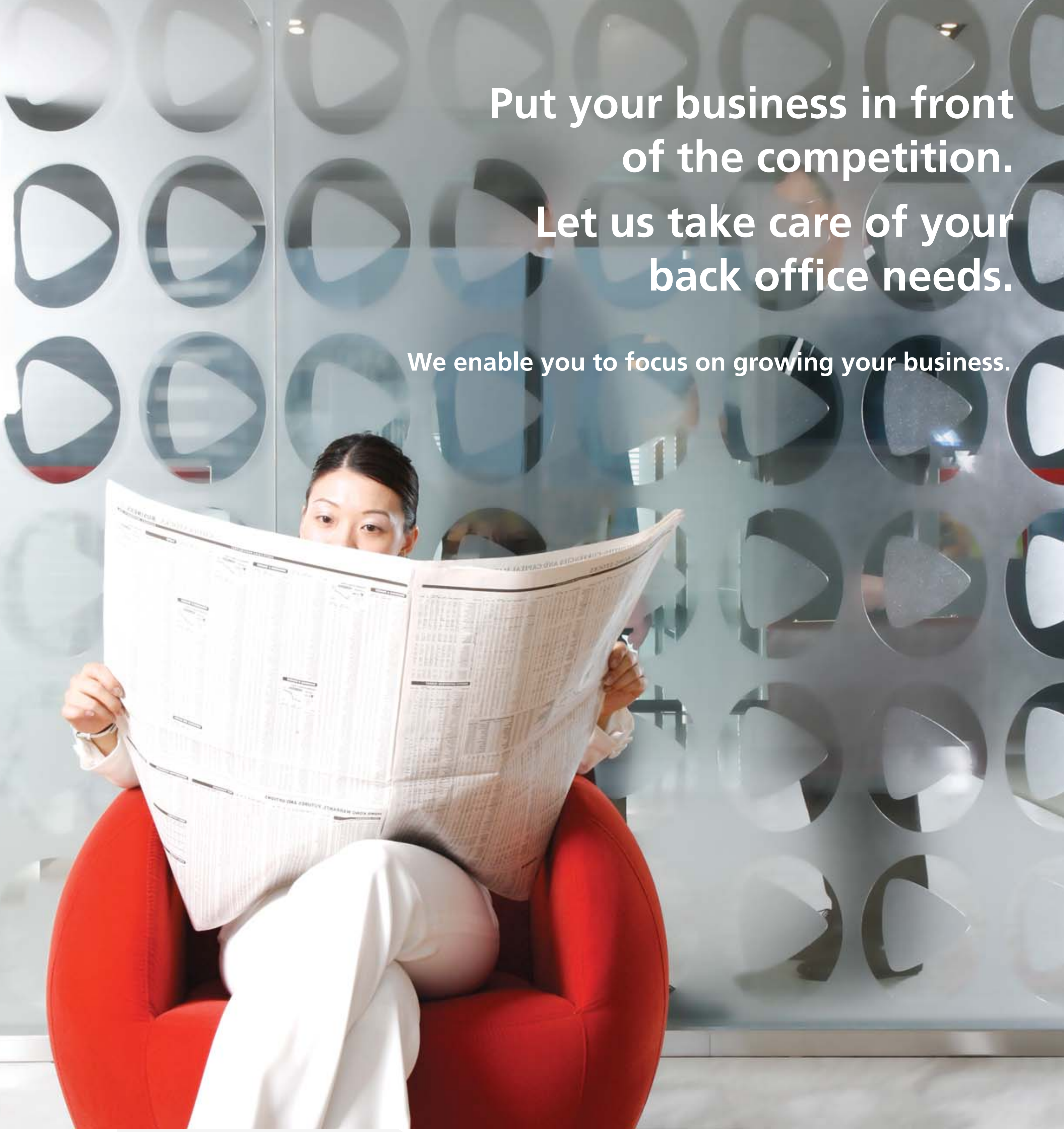
Basapa Lawrence Stephen	Hird Tim	Ng Khoon Seng
Chi Jonathan	Ho Chiu Fai Dominic	Ong Chon Tui
Choo Alvin	Khoo Choon Meng Victor	Seah Hai Yang
Chow Kin San Alan	Koh Seng Geok	Wakeford Mark
Dass Jayanthi	Krishnamurthy Vaidyanathan	Xie GuoJun Gary
Friets Nels R	Lee Wan Sing	Xie GuoYuan Andy
Giang Sovann	Ling Jih Wen Ronald	

AUGUST 2008

Benelli Clement	Hddad Aneace	Ng Chong Yew Andrew
Chng Yee Kwang Jocelyn	Hennes Pierre	Soeryadjaya A. W. Seky
Chua Seng Chye	Jol Daniel Zier Johannes	Soon Tit Koon
Foo Chew Tuck Joseph	Lee Lionel	Soon Yeow Kwee Johnny
Ganadjaja Lanymarta	Lee Soon Kie	Tan Chong Meng
Goh Emily	Liew Keow Seng	Tan Roger
Goh Yeow Kiang Victor	Lim Kim Hoe	Tang Hay Ming
Goh Yong Hock Martin	Low Kelvin	Thomson Stuart
Gupta Deepak		

SEPTEMBER 2008

Chee Teng Hsiu	Lee Kay Swee	Shee Ping Yah Willy
Eng Hsi Ko Peter	Lee Thang Chiang	Tan Boon Kiat
Hansen Thomas Preben	Lim Bee Choo	Tan Mong Geok
Horner Michael William	Lin Hung Yi	Tang Kay Hwa
Igor Kucheryavyy	Linsell Malcolm	Weigel Andreas
Jayasuriya D. Chandrajith	Loh Kgai Mun Eric	Yap Yee Hun
Koh Choon Kong	Phua Chee Meng	Yeo Chin Beng Benjamin
Lau Teik Soon	Poh Eng Kok	
Law Kah Chiew James	Quah Ban Huat	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Let us take care of your back office needs.
We enable you to focus on growing your business.