

***Equipping CAEs to meet  
Internal Audit Challenges  
in Asia Pacific***



## **Preface**

This publication is a collaborative research effort by the Institute of Internal Auditors Singapore (IIAS) and the Singapore Management University (SMU). Drawing on the 15 member institutes of the Asian Confederation of the Institute of Internal Auditors (ACIIA) of which IIA Singapore is a member, the SMU School of Accountancy conducted an online survey in July to August 2010 with Chief Audit Executives from Asia Pacific.

This inaugural study provided a regional perspective on the knowledge and skill set that Chief Audit Executives would require to meet the challenges. It has also brought to light the relevant training and professional development opportunities that Chief Audit Executives in Asia Pacific would need to position themselves as key value providers to their stakeholders.

Building on this study, we intend to develop thought leadership for internal audit excellence in Asia Pacific. The key findings outlined in this pioneering report will serve as a starting point for Chief Audit Executives to act upon.

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# 1. Executive Summary

The Asia Pacific region currently accounts for more than half the world's population. More significantly, it is leading global economic recovery in the aftermath of the worse global financial tsunami.

Whilst much has been articulated on Asia Pacific corporate governance practices, little is said or known about its Chief Audit Executives (CAEs) and internal audit (IA) practices. This study on CAEs in Asia Pacific is believed to be one of the first, aimed at fulfilling this knowledge vacuum. The primary objectives were to understand the key trends affecting internal auditing; significant challenges faced by CAEs; the critical attributes that CAEs require; and the knowledge and skills needed to confront uncertainties in the ambivalent world ahead.

This study highlighted three key trends affecting the internal audit landscape in Asia Pacific. These are *increasing focus on effective corporate governance, strategic management issues and the rapid development and harnessing of information technology by many businesses*. These trends exposed companies to the risks of potential performance and conformance leakages. These are valid concerns and are proving to be more profound with growing complexities and increasing uncertainties in the business and regulatory environment.

*Aligning internal audit strategies to meet new expectations, acquiring and realigning new skills to meet these expectations and adding to corporate value* are the three key challenges

surfaced from the study. Chief Audit Executives are expected to be more proactive on corporate governance matters. Gone are the days of simple box-ticking for internal auditors. More than that, they are now expected to be strategy-savvy to align their IA strategies with corporate and IT strategies. Conformance by itself is still inadequate. Chief Audit Executives are expected, henceforth, to up the value ante by providing performance assurance.

On equipping CAEs to meet key challenges, respondents placed leadership and professional skills (which are both soft skills) above professional, business and industry-specific knowledge. This came as no surprise as CAEs have to interact with every strata of the organisation. Relationship management, innovation, clarity and persuasiveness in communication are essential skill set that CAEs are expected to be proficient and excelled in.

An overwhelming 91 per cent of respondents expressed strong interest for a leadership development programme to strengthen and prepare them to meet challenges in the new decade. This could be a result of CAEs recognising the importance of and the need to have these pre-eminent skill set to be strategy-savvy and stay professionally relevant in the dynamic governance, risk management and assurance environment.



## 2. Introduction

The world has witnessed many adverse economic, environmental and financial events that have unfolded and taken its toll on major global economies in recent years. The European sovereign debt crisis, financial meltdown from the credit crunch, environmental calamities from the Gulf of Mexico oil spill, the Icelandic volcanic ash that crippled the aviation industry and the floods that devastated Pakistan were, but some recent events, that put to test the tenacity of prevailing corporate governance, risk management and assurance practices.

Core questions that organisations have to constantly address are how to create and preserve corporate value amidst growing challenges in a highly competitive business environment. From the board of directors' perspective that provides oversight, these core questions are encapsulated into two themes: *performance assurance* and *conformance assurance*. In well-established corporations, internal audit plays a pivotal role and is an integral part of the assurance framework.

*“In today’s fast moving world, CAEs face many challenges, not only in continually upgrading their professional skills, but also in keeping up with developments in the business and financial arenas in which their firms operate so as to remain relevant. Amidst change, one thing must remain constant, however, and that is a steadfast integrity and the ability to communicate their independent assessments boldly and clearly. As in many areas of human endeavour, knowledge and character are the hallmarks of success.”*

**Koh Beng Seng**  
Audit Committee Chair  
Fraser and Neave, Limited



### 3. Survey Objectives

The global economic landscape is at an inflection point. In the aftermath of the worst global recession since the 1930's, the International Monetary Fund (IMF) reported that "Asia is leading the global recovery" (IMF, 2010, p.3). Within five years, Asia's economy (including Australia and New Zealand) will account for a third of the global output and will be about 50 per cent larger in purchasing-power-parity terms (Singh, 2010). More significantly, by "2030 Asian gross domestic product (GDP) will exceed that of the Group of Seven major industrial economies (G-7)" (Singh, 2010, p.4).

Against a backdrop of increasing global complexities and uncertainties in the business landscape, there is a corresponding pressing call for effective board oversight to preserve and enhance corporate value. In other words, there is a heightened expectation on assurance of the integrity and robustness of corporate governance and risk management frameworks and practices. Central to the assurance framework are Chief Audit Executives who provide oversight support to the board of directors. Whilst much has been written on corporate governance, little is known about internal audit practices in Asia Pacific.

This inaugural study with Chief Audit Executives in Asia Pacific aims to:

- Understand the trends affecting internal auditing;
- Identify challenges faced by CAEs;
- Establish the knowledge and skill set that CAEs need to be better equipped; and
- Determine the critical attributes of successful CAEs.



## 4. Scope, Methodology and Respondents' Profile

The scope of this survey covers Chief Audit Executives in Asia Pacific. The survey was administered with the assistance of the Institute of Internal Auditors Singapore and member institutes from the Asian Confederation of Institutes of Internal Auditors (ACIIA). A total of 108 responses were received from 13 countries. Australia and Singapore made up 68 per cent of responses. The respondents are experienced, with 57 per cent having five or more years as CAEs. They came from a diverse spectrum of industries with about 29 per cent from the finance, insurance and property sectors. In terms of size, 61 per cent had revenue above US\$500 million. Fifty per cent of respondents had internal audit departments comprising more than six or more staff members (see Appendix for more details).

Where the five-point Likert scale is used to calibrate the responses, the scores are interpreted in the following manner: (1) strongly disagree/extremely insignificant; (2) disagree/extremely insignificant; (3) moderately agree/significant; (4) agree/significant; and (5) strongly agree/extremely significant.

The survey questionnaire covered four main issues.

1. What are the emerging trends affecting CAEs?
2. What are the challenges CAEs face?
3. What are the competencies that CAEs need?
4. What are the important attributes of a successful CAE?

# 5. Key Findings

## 5.1. Key Emerging Trends

**Table 1: Key Emerging Trends Affecting Internal Audit**



Topping the list of key trends affecting CAEs is the growing demand on CAEs to provide assurance on corporate governance effectiveness (with a mean score of 4.17). Postulate this over an ambivalent environment of growing business uncertainties, this finding underscores the increasing pressure from key stakeholders on the board of directors, audit committee chair and top management to perform and conform effectively. Correspondingly, there is a call for greater reliance on CAEs to provide assurance on the robustness of the corporate governance framework and practices to prevent and detect performance and conformance leakages or failures.

An increasing focus on strategic management issues is the second key trend (with a mean score of 4.00). As market competition intensifies, CAEs are expected to be strategy-savvy by adopting a proactive mindset to assure quality performance. According to Rittenberg and Anderson (2006), CAEs are expected to operate at “more strategic levels of risk management and corporate governance” and provide advice on “emerging risk and control”. Further, “CAEs should develop visions for a more strategic internal audit process, addressing the key business strategies and risks of the organisation. Strategies should align the audit coverage from a risk perspective, including identifying and reacting to emerging risks and issues. The CAE should have a strong knowledge of best industry/peer audit practices. The CAE must be capable of operating and viewing issues at a strategic level”. The underlying message is that it is inadequate for a CAE to be tactically oriented in protecting values by focusing on conformance. The CAE must understand the organisation’s strategies and focus on value-centric issues for effective performance assurance.

Rapid development in IT registered a moderately significant mean score of 3.90. This finding is not surprising as the pervasive use of technology is now an integral part of most corporations’ DNA. New technology in systems and processes are commonly deployed as a strategic and productivity tool to drive efficiency to gain competitive advantage. While information technology proffers its benefits, IT security risk remains a constant threat confronting CAEs. These risks cover a wide spectrum of business functions such as the “protection of an organisation’s intellectual property, safeguards on data integrity of employees and customers, and compliance with widely differing global privacy laws and regulations” (The Institute of Internal Auditors, 2010, April, p. 4).

*“I am not surprised by either the three key trends or the three key challenges and when you look at the six together, they are definitely linked. I think it has been a slow dawning, however we now are realising that Corporate Governance is a changing process as well. There is no “one size fits all” model and in fact with the rapid changes in both the internal and external environments, organisations and Boards must be aware of the need to change governance characteristics as new risks present themselves. The challenge for auditors, is “how do we stay in front” to provide proactive advice about those changes?”*

**Bob MacDonald**  
Senior Director, Assurance & Risk Advisory Services,  
Queensland Government, Australia

## 5.2. Key Challenges Affecting Internal Audit

Table 2: Challenges on Internal Audit	
Challenges	Mean Score
<b>Top quartile</b>	
Aligning IA coverage to meet new expectations	4.04
Realigning IA skills to address new requirements	3.97
Demonstrating value and adding to the bottom line	3.94
Effective communication with management	3.94
<b>Bottom quartile</b>	
Increase volatility / uncertainty in the business environment	3.60
Coping with diminished resources	3.54
Fraud auditing	3.52
Managing co-partners or outsourcing partners	3.15

The top four challenges deemed by respondents were in line with growing expectations on CAEs to be more proactive in corporate governance and, at the same time, be strategy-savvy in aligning internal audit strategy with corporate strategies. The message is clear that a predominantly conformance assurance-centric framework is insufficient. CAEs are expected to partake in adding corporate value and increase performance assurance. The last challenge in this quartile is effective communication with management to minimise expectation gaps. Communication is a two-way process. If expectations are not met or proper communication channels are not in place, an unhealthy organisational climate may prevail that may be detrimental to an organisation.

The overall mean scores of challenges in the bottom quartile ranged from 3.15 to 3.60, in the moderately significantly scale. Increasing volatility in the business environment is continuously shifting and raising corporate risk profiles. From the board oversight perspective, management should have in place a risk management process to ensure that key new risks and escalating existing risks are captured by the management's risk radar. What transpired in recent years was the velocity and magnitude of these risks which often caught organisations off-guard. Another challenge that ensued from the recent global recession was the severe belt-tightening austerity measures adopted by many corporations. The internal audit profession was not spared. Inevitably, CAEs are expected to do more with less. Faced with an austere economic environment and trying business conditions, fraud detection and exposure were seen as real threats faced by CAEs in Asia Pacific. Managing co-partners or outsourcing partners are ranked last in the bottom quartile.

## 5.3. Equipping CAEs with Knowledge and Skills

**Table 3: Knowledge and Skills**



What is the knowledge and skill sets that matter most to CAEs in Asia Pacific? In essence, CAEs placed skill sets (or soft skills) above technical knowledge. CAEs must have leadership skills to communicate strategies, lead and innovate, be persuasive and able to influence key stakeholders. Table 3 shows that professional and leadership skills were ranked higher by respondents than business and industry-specific knowledge and professional knowledge. Within the knowledge domain, the acquisition of business and industry-specific knowledge is perceived to be a key enabler for CAEs to be strategy-savvy.

*“Its not surprising that both the knowledge-based expectation scores are ranked lower than the Leadership and Professional skill set because most CAEs would feel that the knowledge-based skill set are really subsets of Leadership and Professional skill set, as the latter two skill set drive ideas and actions whereas the former two are more passive in nature. Leadership and Professional skill set force CAEs to make sound decisions based on practical as well as aspiration factors of an audit function against theoretical knowledge or experience acquired over the years.”*

Derrick Lim  
Division VP IA, Singapore Airlines

### 5.3.1 Knowledge and Skills

#### A. Leadership and Professional Skills

**Table 4: Leadership Skills**



Table 4 presented the types of leadership skills that CAEs were keen to be equipped with. Seven of the eight leadership skills had mean scores of 4.02 and above, signifying their significant importance to the respondents. Cross-cultural management, the last leadership skill, was only marginally lower at 3.89. These seven key leadership skills can be generally categorised into three core competencies. These were *relationship management (with audit committee, management, IA staff and external auditors)*, *communication skill (including inspirational skill)*, *judgement and decision-making skills*.

**Table 5: Professional Skills**

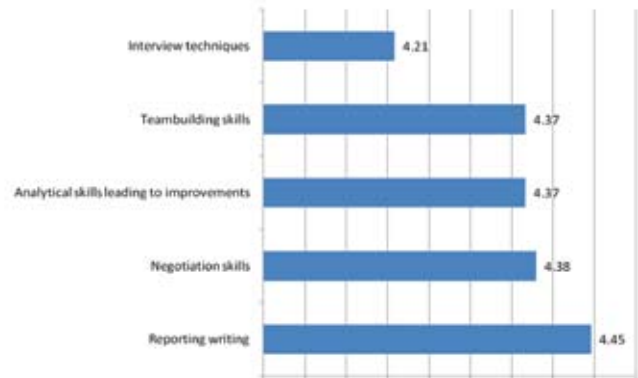


Table 5 presented the professional skills that survey respondents were keen to master in. All these five professional skills had overall mean scores above 4.00 which are of significant importance to CAEs. These are soft-skills covering analytical, report writing, negotiation and interviewing techniques which are fundamental in professional engagement.

#### B. Knowledge

**Table 6: Business and Industry-Specific Knowledge**



Table 6 presented the business knowledge that respondents were keen to have. Their overall mean scores of above 4.00 signified their significant importance to respondents. Sound business insights and innovation knowledge would augment the CAE's capability to better align internal audit activities with the company's strategy for performance assurance. Having such knowledge enables the CAEs to be proactive in advising management and the board of directors on strategic management issues. Topping the list of domain knowledge in this category is change agent capability. CAEs who are effective change enablers enhance their stature in the corporate value chain. Summarily, being conformance-centric is not adequate. CAEs must be performance-oriented if they are to remain relevant in their profession.

Table 7: Professional Knowledge	
Professional knowledge	Mean Score
<b>Top quartile</b>	
Internal control framework and processes	4.44
Risk management framework and processes	4.40
Fraud risk management	4.18
Continuous learning and updating - e.g. new developments and best practices	4.13
IT governance	4.07
<b>Bottom quartile</b>	
Management accounting & interpretation	3.69
Cyber-security and privacy	3.60
Managing the firm's ethics, compliance or whistleblower hotline	3.57
International financial reporting standards (IFRS) or local equivalent	3.40

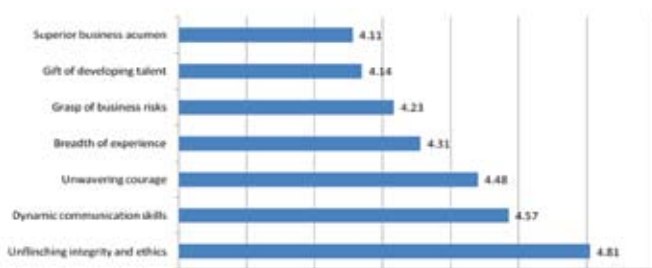
Table 7 presented the professional knowledge that respondents were keen to be competent in. In the top quartile, respondents were interested in acquiring knowledge on internal control, risk management, best practices and fraud risk management. These are all extremely important knowledge as they registered mean scores of above 4.00. One possible reason for their relative importance was their relevance in addressing corporate governance and regulatory issues highlighted in Table 1.

The knowledge listed in the bottom quartile registered moderate significance to respondents with mean scores ranging from 3.40 to 3.69. Professional knowledge includes management accounting and interpretation, cyber-security and privacy, managing the firm's ethics, compliance or whistleblower hotline, and IFRS.

#### 5.4. Key Attributes of CAEs in Asia Pacific

A recent study by Chamber, Eldridge and Park (2010) identified seven personal attributes of successful CAEs. This research extended the scope of the study by understanding the importance of these attributes through the lenses of CAEs in Asia Pacific (see Table 8).

**Table 8: Seven Attributes of CAEs**

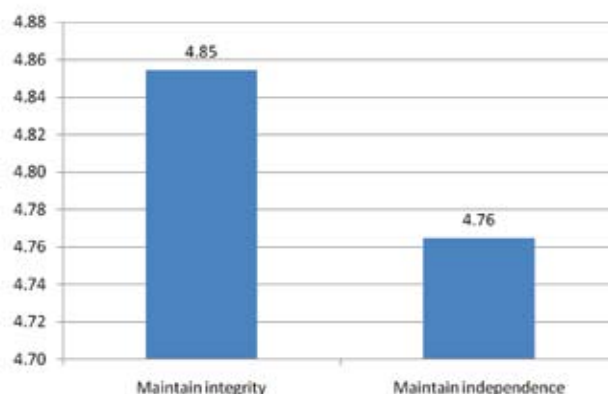


Whilst the seven attributes were considered as significantly important by respondents, Asia Pacific CAEs singled out unflinching integrity and ethics, dynamic communication skills and unwavering courage as the top three hallmarks or attributes of CAEs.

*“The results are very encouraging, but not surprising”*

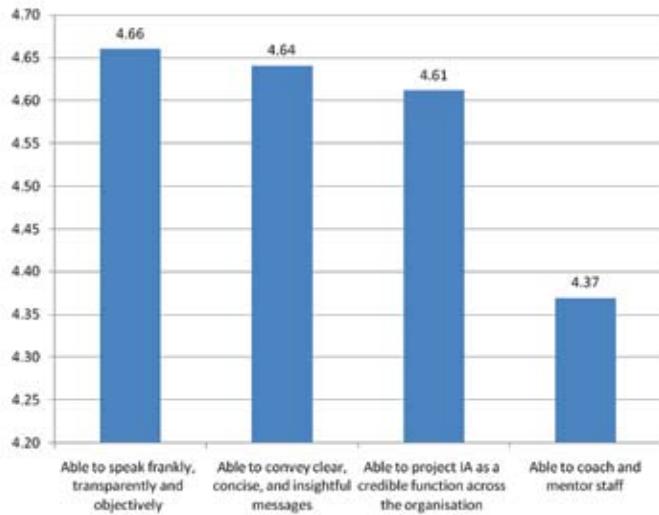
**Richard Chambers**  
President and Chief Executive Officer,  
The Institute of Internal Auditors

**Table 9: Unflinching Integrity and Ethics**



Within the integrity and ethics attribute, integrity and independence ranked extremely high. Respondents embraced these two elements as the foundation of internal assurance, without which, CAEs' credibility and the reliability of their professional activities would be negated and/or threatened (Table 9).

**Table 10: Dynamic Communication Skills**



Having effective communication skills was an essential factor for sound relationship management to exist and flourish. All the elements within this attribute were ranked by respondents as significantly important (see Table 10). The ability to speak frankly, transparently and objectively topped this attribute. This ties in with the preceding attribute of integrity and independence because CAEs must communicate and report serious unethical issues in order to be effective. The ability to convey clear, concise and objective messages and to project internal audit as a credible function in the organisation were the next two dimensions. More importantly, this would also help to enhance the stature of internal audit within an organisation as a “value contributor”. Lastly, having the ability to communicate with staff and be an effective coach and mentor are important “people developer” capabilities that CAEs should possess.

**Table 11: Unwavering Courage**

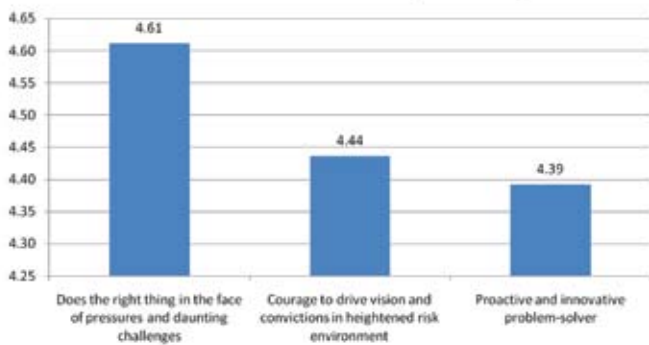
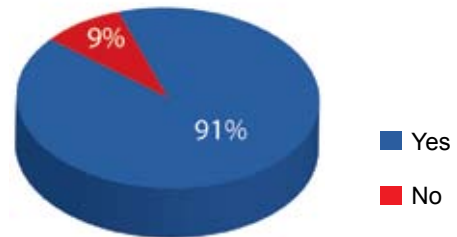


Table 11 presented the three dimensions within the unwavering courage attribute which were perceived as significantly important to respondents. Having integrity with the courage to do the right things in the face of mounting pressures and daunting challenges topped the dimensions within this attribute. Integrity without the courage to do the right things would, on the contrary, lead to ineffectiveness that may tarnish the reputation of CAEs. The courage to drive IA vision, being proactive and an innovative problem-solver were essential dimensions in enabling CAEs to better position themselves as key players in actuating towards corporate objectives.

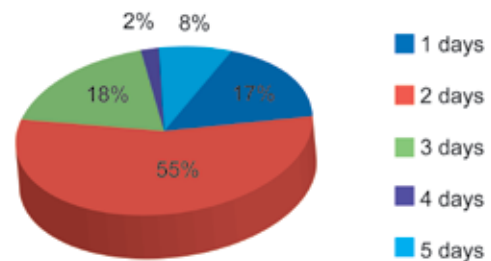
**5.5 Interest in CAE Training**

An overwhelming 91 per cent of respondents of CAEs (see Table 12) expressed interest in leadership training for CAEs. Against the trends and challenges viewed by respondents (see Tables 1 and 2), it appeared that CAEs were exceptionally keen for professional development to enable them to be more competent and relevant in their roles as CAEs. Nine out of 10 respondents preferred training duration to be between one to three days, with a greater majority opting for two days (see Table 13).

**Table 12: Interest in Leadership Training for CAE**

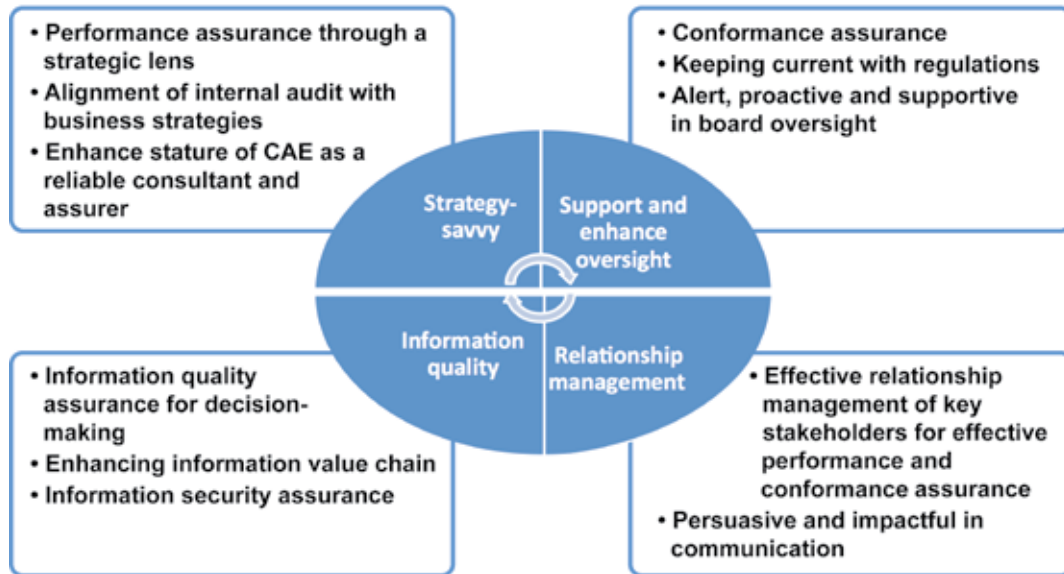


**Table 13: Preferred Duration of Training**



# 6. Implications of Key Findings

Figure 1  
Four Performance Imperatives of CAEs



Based on the above findings, four training domains or imperatives were established (see Figure 1).

The first domain involved knowledge and skill set to enable CAEs to be strategy-savvy. These would enable CAEs to provide performance assurance through a strategic lens, better align internal audit activities with business strategies, and last, but not least, enhance their stature within the organisation and business environment as reliable consultants and assurers.

The second domain involved knowledge and skill set to enable CAEs to support and enhance board oversight. These would enable CAEs to provide conformance assurance, staying abreast with regulations and being alert to their business environment and proactive in supporting board oversight.

The third performance domain relates to knowledge and skill set of CAEs to enhance their relationship management capabilities with key stakeholders for effective performance and conformance assurances. For CAEs to be effective and efficient, it is of paramount importance that they be persuasive and have excellent communication skills to share information, influence decisions and convince key stakeholders.

In the fourth and last domain, the capability of CAEs is in relation to information quality. With the proliferation of information, most CAEs have to grapple with an enormous amount of information in today's business environment. CAEs are uniquely positioned to provide information quality assurance for decision-making, enhance the information value chain and to provide information security assurance to safeguard the company.

**Strategy Savvy and Change Agent** - "CAEs must align the strategy of the Internal Audit organization with that of the enterprise. This means embracing the convergence of governance, risk management, and compliance (GRC) to provide appropriate assurance that all business processes support both strategic and operational objectives.

**Support and Enhance Oversight** - "CAEs require an Internal Audit strategy to guide their organization to one that performs risk-based assurance and consulting engagements with efficiency that focuses on higher risks to the enterprise. This means that the needs of clients are clearly understood, the audit processes are continuously improved, CAEs assess their own leadership skills, staffing models are re-examined, technology is applied to improve the capacity and capabilities of the organization, and a robust monitoring discipline is in place to provide reasonable of success.

**Relationship Management and Communication** - "CAEs need to continuously examine their relationships with the Audit Committee, Executive Management, and General Management and seek ways to gain feedback in order to understand how best to add value to the enterprise". Thoughtful relationship management leads to a more relevant internal audit organization properly positioned for influence.

**Information Quality and Resiliency** - "CAEs are challenged to continuously test the information value chain to ensure that management decisions are based on trusted data, the currency of the realm. This requires a single-minded approach to change-control disciplines that apply to all spreadsheets, applications, and programs that provide information to management."

**James C. Key**  
Managing Partner  
Shenandoah Group and The IIA Inc's Vision University educator for experienced CAEs

# 7. Conclusion

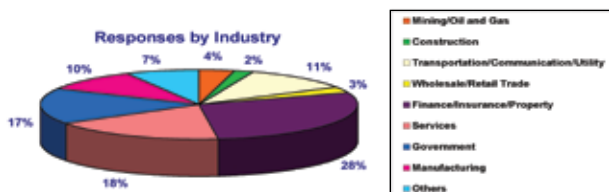
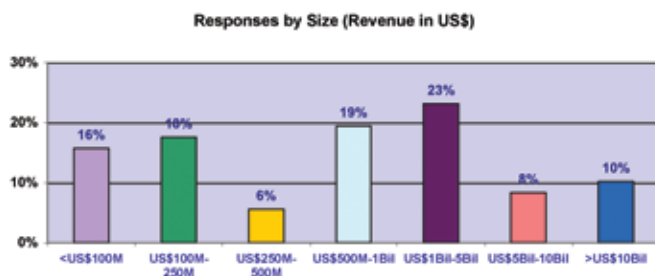
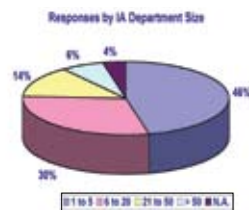
With Asia Pacific growing in global economic significance, this inaugural study shed light on the trends and challenges facing CAEs. It provided an Asia Pacific perspective on the knowledge and skill set that CAEs would require to meet these challenges.

More importantly, this research study shows the potential for capability building and professional development opportunities for internal audit excellence in this region, with an overwhelming endorsement from CAEs in Asia Pacific for a leadership programme.

“The role and expectation of the internal auditing function has evolved from compliance assurance towards a performance-assurance, value-added role. I support the view that to fulfil this role and expectation, chief audit executives have to raise their professionalism and standards through development and education.”

Magnus Böcker  
CEO, Singapore Exchange

## Appendix: Respondents' Demographics



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8. Melinda Sam, Executive Director, IIA Singapore
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10. Richard Lee, Accountancy student, Singapore Management University
11. Tan Peck Leng, Immediate Past President, IIA Singapore
12. Uantchern Loh, President, IIA Singapore

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