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Evaluating Not-for-Profit spending

SMU Professor of Accounting and former Auditor-General of Singapore Lim Soo Ping shares why performance auditing plays an increasingly important role, especially in non-profit organisations

ASK Singapore Management University (SMU) Professor of Accounting (Practice) Lim Soo Ping why the undergraduate accounting course that he teaches is important, and he says: "Remember the gold-plated tap?"

Ever since the National Kidney Foundation (NKF) went to court with Singapore Press Holdings (SPH) in 2005 over a story involving a gold-plated tap, the faucet in question has become a memorable symbol for extravagance.

In the case, revelations of the non-transparent way in which NKF conducted its financial affairs outraged Singaporeans. Eventually, the case resulted in the downfall of the old board, and civil suits brought by the new board against the old board to recover funds lost due to financial mismanagement.

Prof Lim, who served as Singapore's third Auditor-General, asks: "Must we wait for such a case to come up before taking action to examine how funds are used? And at the cost of time and legal fees, not to mention collateral damage to the organisation's reputation?"

"While the relevant regulators would have laid down conditions and requirements pertaining to the spending, such controls cannot in themselves ensure that the spending is prudent in terms of delivering the expected outcome in an economical and efficient manner," he says. "With the huge, unwise and wasteful spending that may occur in some organisations, who needs fraud?"

Auditing for Wise Spending

To that end, performance auditing could help the boards of non-profit organisations review their spending in activities and projects, says Prof Lim. He thinks that such auditing can become more pervasive in auditing practices. In an era when accountancy and auditing jobs are being replaced by computers, performance auditing which deals more with evaluation management practices has the potential of being a sunrise area.

Commonly used in the government sector to evaluate spending, Prof Lim says that performance auditing can be incorporated into the mandate of internal audit departments of non-profit organisations such as charities, foundations, and publicly-funded programmes. These are organisations that are, by nature, less subjected to the brutal forces of market competition to ensure good cost management and effective spending practices.

Prof Lim believes that a performance audit into their spending would help to provide greater assurance to stakeholders, in particular the donors and benefactors, that the money they contributed has been wisely spent in achieving the mission and objectives of the organisations.

"Of course, boards of various foundations and welfare organisations do exercise due diligence when considering spending proposals but funds can still be imprudently used at the implementation stage as a result of poor planning, ineffective administration, poor project management, or misuse of financial authority. This may not be evident from the regular spending reports submitted to the board," he says.

Even for a for-profit company, having such a capability in its internal audit department may have a salutary effect. It provides an added dimension supporting the company's cost management efforts. For example, it can be used to review the spending of a company's cost centres.

"Three Es" of performance audit

Well-known as Singapore's Auditor-General from 2007 to 2013, Prof Lim has published hard-hitting reports on lapses in spending processes of public sector agencies. Today, his vast experience in the field is distilled into a 13-week undergraduate course on public sector auditing.

Principles discussed in the course include the "Three Es" of performance audit: economy, efficiency and effectiveness.

The principle of economy refers to whether assets and services were specified and acquired based on need. The performance auditor scrutinises the quality and amount of goods and services procured to guard against excess or waste. "If you need a tap, you need it to deliver water, you don't need a gold-plated tap," says Prof Lim.

Efficiency, meanwhile, refers to getting the best possible deal when making a procurement, like through a competitive bidding process.

Meanwhile, effectiveness refers to whether an expenditure has produced its intended outcome (which may be long term and of a socio-economic nature).

"And even if a programme or project produces the expected outcome, is there not a less costly way to execute it? Is it run by too many staff when

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— Prof Lim Soo Ping, Professor of Accounting (Practice), School of Accountancy, SMU

outsourcing would be less costly? Does the building that was constructed have costly design features which are not essential? These are just a few of the typical questions that a performance auditor might ask," Prof Lim shares.

Common sense

What Prof Lim teaches, perhaps, is common sense in spending as one would exercise when spending one's own money. "But when you're using public money, you must exercise the same care. When you have a budget for a project or procurement, it doesn't mean you have to use it all," he says.

In class, he discusses a number of cases, both real and imagined, to show his students how wastages and losses can occur without proper spending practices and good management scrutiny. Unsurprisingly, given his background, Prof Lim is a fount of stories about public spending.

In a case that happened over 10 years ago, a contract worth more than S\$20 million for the construction of an exhibition gallery was awarded, without competitive bidding, to the designer of the gallery on grounds that, inter alia, the work was deemed a "creative work of art" and that there was a limited number of contractors with the relevant track record to execute the project. The price was deemed fair and reasonable as it was within budget. However, these were reasons which the Auditor-General's Office disagreed with as they were not compelling enough to justify the waiver of competition. Without competitive bidding, there was no assurance to the public of value-for-money in that major expenditure.

Prof Lim says: "Keeping within budget per se also does not necessarily mean that there would not be over-spending or extravagance."

"If there is no proper management scrutiny, fundamental principles on prudence in spending can be breached even when the procedures for the approval of spending were followed. There was another case, in which the adequacy of management scrutiny in the bulk purchase of office furniture was called to question. The tender evaluation report, which recommended going with the highest of over 20 offers, was accepted even though in it, cost should have been but was not, factored into the comparison of bids."

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part of the core values of those who are custodians of money from the public, donors and benefactors," he says.

Auditor, economist, lawyer

Unlike financial and compliance auditing, performance auditing requires a different set of skills. "A performance auditor has to see things from an economist's perspective while arguing his case like a lawyer at times," Prof Lim says.

He explains that this is because in performance auditing what constitutes lack of economy, efficiency or effectiveness is not precisely defined. Such audit criteria have to be developed by the auditor taking into account the nature and circumstances of the spending. In performance auditing, the auditor typically deals more with the management than with the accountants of the organisation being audited. Depending on the area of spending being audited, he may also have to work with technical advisors.

At SMU, Prof Lim hopes that his students will acquire instincts that are useful not just in auditing, but in management in general. Instincts are important as things that are going, or have gone wrong, may not be intuitively obvious.

He tells another story: In a factory in the US, workers' bags are checked by security when they leave. Every day, the security guards would notice an old employee pushing out a wheelbarrow with a lunch box and fishing rod, instead of carrying a haversack like the other employees. A few weeks later, the old man no longer appeared. "Security found out that he has since retired. A few weeks later, the factory manager found 50 wheelbarrows missing!"

Prof Lim says: "All too often we take things for granted or as given. Losses, be it through misuse, inefficient or ineffective use of funds are typically not obvious."

"Auditors must, as Sherlock Holmes would say, be able to hear the dog that didn't bark," he sums up.

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