

Listed companies must have internal auditors: SIAS

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DIRECTORS should not be on the boards of listed companies that lack strong internal audit functions, retail investor advocate David Gerald said yesterday at the Institute of Internal Auditors Singapore annual conference.

Mr Gerald said the Securities Investors Association of Singapore (SIAS), of which he is the president, takes the position that such a function should be required for all listed companies, and that appointments and resignations of internal audit executives should be announced to the Singapore Exchange.

Citing a study by Singapore Management University, Mr Gerald noted that one-third of Singapore-listed companies do not have a full-time internal auditor.

Internal auditors, by virtue of their intimacy with their companies, will offer crucial support to directors as new regulations raise boards' responsibilities for risk management, he said.

"Directors in these com-

panies will be hard put to discharge the duties of care as required ... if they opine that internal controls are adequate and effective relying on management and not on internal audit function," he said, according to a prepared speech. "It would be an uninformed opinion. I urge all directors not to take up positions on boards that do not have an effective and independent internal audit function."

Mr Gerald said investors should also demand internal auditors as an independent watchdog on their investments.

Investors "need someone within the organisation to be their eyes and ears", he said.

• But Singapore Institute of Directors (SID) executive director Penelope Phoon disagreed with the need for

compulsory full-time internal auditors. While she acknowledged the importance of internal audits, she thought it was more important to focus on the goals of such a function rather than having the function for its own sake.

The objectives of the internal audit can be accomplished through a variety of ways depending on the needs of individual companies, she said.

"Many boards today rely on a combination of these measures to satisfy themselves of the adequacy of risk management and internal controls," Ms Phoon said. "SID believes that boards should be allowed to decide on the measures needed rather than another 'tick-the-box' mandatory requirement for a full-time internal auditor.

"The geographical

breadth, scope and nature of the business operations of each listed company vary widely and it would be unwise to mandate a single approach that ignores the resources and demands of the respective companies."

National University of Singapore associate professor Mak Yuen Teen said internal audit can provide assurance about internal controls versus external auditors' traditional focus on financial statements.

But any move to make internal audits compulsory must be carefully thought out, he said.

For instance, if an internal auditor is made compulsory, there will also need to be rules to ensure the competency of the internal auditor.

Certain concessions may also have to be made for smaller companies.

"For them, outsourcing or co-sourcing may make more sense - for example, being able to draw on a wider range of capabilities," Prof Mak said. "However, if outsourced, it's a good idea to make someone responsible for facilitating its work."

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