The Chief Audit Executive:

Understanding the Role and Professional Obligations of a CAE

Essay Topic:

Defining Success of the Chief Audit Executive (CAE)

Describe the primary organizational stakeholders (for example, the audit committee), and the likely expectations and measurement criteria of each for the CAE, in which success is essential for the CAE. Define a successful CAE and discuss the primary knowledge, skills, abilities, and traits that the CAE must possess in order to be not only qualified for success, but also to have a high probability of success. What are the controls that could help mitigate risk and ensure success for the CAE in working with each of the stakeholders and considering organization/industry impact?

Submitted to:

The Institute of Internal Auditors

Submitted by:

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My experiences in learning from these individuals has helped shape the work in this essay. I hope any insights I can provide will benefit industry professionals in the future.
Executive Summary

The success of the internal audit profession hinges on the direction provided by its leaders in organizations every day. This essay explores the technical tools and personal attributes that allow chief audit executives to fulfill their professional responsibilities and accomplish the objectives of the audit function as well as the objectives of the organization.

The various stakeholders in an organization must have confidence that the leadership of the audit function will work to ensure that the interests of the stakeholders are protected. The audit function must maintain a level of independence and objectivity, and the attitude and actions of the CAE should reflect the independence and objectivity of the department. Part I of this paper discusses the desired qualities of the chief audit executive in fulfilling their obligations to their organization and the profession.

The success of the CAE as the head of the audit function should be regularly examined. There are various methods that may be employed in achieving this goal, which are analyzed in Part II of this paper.

Lastly, the capability of the internal audit activity is contingent upon the relationships developed with the client as well as the morale of the members of the staff. In order to attain the objectives of the internal audit activity, the chief audit executive should strive to build rapport with the different stakeholders of the organization as well as the members of his or her team. Part III offers insight on the importance of this area to the success of the CAE.
Part I: Obligations and Skills

Before delving into the necessary or optimal attributes and skills required a CAE, one must first assert that the role of a chief audit executive can vary significantly. Even a large publicly traded company can have a simple business model in which the CAE will be more involved or “in-tune” with the testing of controls or processes. On the other hand, a chief audit executive may have a need for a robust organizational structure with a number of managers and directors reporting to him or her. In this case, the skills and talents of the auditor may vary based on the professional obligations that must be satisfied.

Regardless of how directly or indirectly these areas are applied on a daily basis, the importance of objectivity and integrity is constant. The paramount characteristic of a chief audit executive is integrity. Anything less undermines the success of internal audit. In order to possess credibility in assessing the control environment of an organization, the chief audit executive must approach the leader’s role with the utmost level of professional character.

When applied to organizational structure the concept of credibility manifests itself in the idea of independence. To that end, IIA Standard 1110 pronounces that the chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities.\(^1\) The related practice advisory, 1110-2, provides a set of guidelines that should be considered when applying the standard. The IIA literature reflects that in order to create and maintain organizational independence, the CAE should report functionally to the audit committee or its equivalent. Administratively, the chief audit executive should report directly to the CEO.\(^2\) Independence goes beyond reporting lines, however. The CAE should be careful to balance the independent accountability which the professional role entails with his or her advocacy to the organization.

A primary function of the internal audit activity, and subsequently the chief audit executive’s role, is to provide assurance on the effectiveness of risk management and the strength of the control environment in an organization. Risk continues to be a highly scrutinized issue. The FBI has observed a rapid increase of fraud cases since 2007\(^3\), and the S&P has recorded a significant escalation in the proportion of companies it considers “high-risk” over the past two decades.\(^4\)

The advent of increased regulatory reform over the previous decade, including Sarbanes-Oxley and Dodd-Frank, has magnified the role and importance of internal auditing. This heightened focus is reminiscent of the way the Foreign Corrupt Practices Act of 1977 impacted the profession. As IIA board chairman Paul Sobel writes, these recent laws have uniquely positioned internal auditing for leadership in financial control: “These statutes—which, in general, require management to assess, attest to the

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\(^2\)Practice Advisory 1110-2: Chief Audit Executive (CAE) Reporting Lines.


adequacy of, and publicly report on the organization’s system of financial control—enabled our profession to showcase its control expertise.”

In his book titled *Internal Auditing: Directions and Opportunities*, Robert Mautz gives insight into the approach internal audit should take. According to Mautz, if internal audit is to provide maximum service, it needs 1) an achievable goal 2) a positive program for achieving that goal, and 3) a strong institute or other means to bring together the resources and talents necessary to develop and implement such a program. Internal audit should have a quality assessment and improvement program as part of its strategic plan, and the CAE is responsible for its implementation and maintenance.

**Managing Internal Audit**

The basic functions of management include planning, organizing, staffing, directing, and controlling. As the leader of internal audit, the chief audit executive is tasked with the responsibility of excelling in these aspects of management. Focus areas for each of these elements are offered in the table below.

<table>
<thead>
<tr>
<th>Management Function</th>
<th>Focus Area(s) for CAE</th>
</tr>
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<tbody>
<tr>
<td>Plan</td>
<td>Tactical and Strategic Planning</td>
</tr>
<tr>
<td>Organize</td>
<td>Internal Audit, Organization</td>
</tr>
<tr>
<td>Staff</td>
<td>Skill Sets</td>
</tr>
<tr>
<td>Direct</td>
<td>SOP Manual, Verbal Guidance</td>
</tr>
<tr>
<td>Monitor/Control</td>
<td>KPIs, Ongoing Discussion with Key Stakeholders</td>
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</table>

The concept of planning can be partitioned into two factors—strategic and tactical. For the CAE, strategic planning involves the longer term focus of internal audit. For instance, this concept pertains to items such as developing the internal audit charter, creating a Sarbanes-Oxley program, annually budgeting hours for staff, and matching resources with the growth and scope of the organization and its risks. Tactical planning relates more to project management and the day-to-day decisions that a CAE faces. Emphasis on either factor in planning hinges on the nature of the internal audit activity. The relative weight of strategic planning is positively correlated with the sophistication and complexity of the internal audit activity as well as the organization it serves.

The chief audit executive must also consider the organizational aspects of internal audit. He or she will base the audit department’s structure on the organization as a whole. For a publicly traded company, the CAE will need to foster coordination between the external auditor and the department he or she leads. Delegating management responsibility within the department applies to this area as well. In certain organizations, the CAE may wish to distinguish the managers of the internal audit activity based on particular areas of the risk universe; Operations, Financial, and IT auditing may all necessitate the oversight of specific management personnel for each area. The approach regarding promotion of talent will also be an essential part of the internal audit activity’s organizational philosophy.

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Staffing of the internal audit activity, which relates to both planning and organizing, will ultimately fall on the CAE’s shoulders. The chief audit executive should strive to hire the most qualified candidates possible, and base hiring decisions and staff delegation on the skill sets of the auditor. In interviewing candidates, both cognitive and behavioral skills will be carefully assessed. In allocating assignments to the staff, emphasis on specific skills, such as IT expertise for a particular staff member, may influence decision making. A model which summarizes the skill sets auditors should possess is illustrated within this part of the essay.

The chief audit executive also directs the members of internal audit in executing the work of the audit activity. A standard operating procedures (SOP) manual will provide a detailed, step-by-step guide for the completion of audits. Additionally, for smaller, less formalized departments, the CAE may offer more individual guidance on an ad-hoc basis, and perhaps play a more involved role in reviewing the work of the staff.

Finally, the chief audit executive is responsible for monitoring the performance of the internal audit activity. He or she may look to use benchmarking to analyze certain performance metrics. The CAE will also want to assess how internal audit is performing in the eyes of both the audit committee as well as management. Part II of this essay examines the concept of monitoring internal audit.

**Positioned for Success**

The goal of internal audit should be based on the value-add proposition. If the CAE is to add value in governance, risk, and control, he or she will need the requisite skills. In the *Competency Framework for Internal Auditing* published by the IIA Research Foundation in 1999, author William Birkett delineates the skills needed for internal auditors to perform their roles effectively. The “skills taxonomy” can be extended to the role of the CAE specifically, and a depiction of this idea is illustrated in Figure 1.1.

In the Skills Taxonomy Framework, the auditor’s skill set is bifurcated into two distinct groups, Cognitive and Behavioral. Both components are imperative and the chief audit executive should work to develop and maintain both with rigor throughout his or her career. As demonstrated in the figure, by possessing these skills, the CAE can comprehend information, attain knowledge, and cultivate wisdom that will allow him or her to perform effectively in the role of chief audit executive. In this way, the auditor can add value in governance, risk, and control.
In addition to these skills which encompass all members of the internal audit profession, regardless of role, the CAE has added expectations which he or she is compelled to fulfill. In *Assessing Competency in Internal Auditing: Structures and Methodologies*, the authors provide insight on the expectations of “internal auditing managers.” The first expectation they describe involves “Responsibility and Authority,” consisting of three elements:

- **Responsible for function performance**
- **Provides leadership/direction**
- **Reports to senior organizational management**

The chief audit executive is ultimately responsible for the performance of the audit activity. The CAE is obligated to the audit committee to lead the internal audit activity in accomplishing internal audit’s goals. The internal audit tactical and strategic objectives should establish goal congruence with the organization’s objectives. These objectives may be measurable; for example, budgetary considerations and other performance metrics are readily quantified and straightforwardly observed. They may also be more intangible in nature, as in providing the assurance that the control environment of the organization is strong.

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Leadership is also a fundamental aspect of the responsibility of the chief audit executive. In truth, the same concept of tone at the top, which is so critical to the health of the control environment of an organization, is also applicable to the performance and credibility of the internal auditing function. The third part of this paper briefly explores the leadership qualities of a chief audit executive.

An effective CAE must be adaptive to the shifting demands and expectations place upon the industry. The IIA Code of Ethics includes Competency as one of the four principles, stating that “Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.” In the IIA’s Global Internal Audit Competency Framework, the Institute outlines ten core competencies that enable the internal auditor to meet the requirements of the International Professional Practices Framework (IPPF). Among these, the IIA lists business acumen, highlighting the need for the internal auditor to “Maintain expertise of the business environment, industry practices and specific organizational factors.” Furthermore, the tenth core competency defined is “Improvement and Innovation: Embraces change and drives improvement and innovation.”

The framework provides several specific competency areas for the staff auditor, the manager, and the CAE. For business acumen as well as improvement and innovation, thirty areas were identified for all three levels. However, some key topics for the CAE include:

- Assesses and takes account of macroeconomic and microeconomic factors and the impact on the organization
- Maintains a current understanding of the latest global developments and regulatory and legal framework within which the organization operates
- Adjusts team priorities to new and changing priorities of the organization
- Anticipates reactions to change and adapts own style to support others

Birkett also stressed the need for adaptability for the internal audit activity: “Organizational and professional work may call on manifest and frequently exercised qualities, as well as those lying dormant or yet to be developed; and they may depend on a tacit, but generalized resourcefulness for anticipating variability treating the unanticipated—conceptually discursively, and practically.” As the leader of the internal audit activity, the CAE will be tasked with remaining flexible as the future brings about new challenges and a new era of risk. The internal audit profession is poised to assume a leadership role to meet these challenges in the future.

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10 Ibid.
11 Ibid.
Part II: Monitoring Performance

As the leader of the internal audit activity, the chief audit executive is responsible for its efficiency and effectiveness. Therefore, in assessing the performance of the CAE, an appraisal of the state of the function he or she leads is a good starting point in determining the quality of execution. This notion is also emphasized by the IIA’s Standards.

**Standard 1300** calls for the CAE to develop and maintain a quality assurance (QA) program that covers all aspects of the internal audit activity and continuously monitor its effectiveness. Per **Standard 1310**, this program must contain both internal and external assessments. The internal QAs, according to 1311, “should include ongoing monitoring of the performance of the internal audit activity and periodic reviews performed through self-assessment or by other persons within the organization with sufficient knowledge of internal audit practices.” Additionally, **Standard 1312** calls for external assessments to be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization.

Although these assessments may come at a cost, any costs are far outweighed by the benefits gained. Ahmar Azam, partner at Hargrove LLC, asserts that these reviews “bring transparency to the audit process and facilitate an increase in trust and respect of the audit function.” They also help mitigate complacency or even neglect in appropriately maintaining the health of the internal audit activity.

In 1988, the IIARF explored best practices in assessing the internal audit activity internally. Researchers led by BYU professor Steve Albrecht concluded that CAEs can position their internal audit departments for success by developing four different areas within their organizations: 1) corporate environment, 2) top management support, 3) quality of internal auditors, and 4) quality of audit work.

The first area, corporate environment, fundamentally relates to the second, top management support. As executive management drives the control environment from the top, down, support of top managers from the chief audit executive can provide valuable reinforcement in the maintenance of corporate culture. The third and fourth areas are also interrelated. The quality of audit work is only as good as the quality of internal auditors themselves. The IIARF continued this research topic in 2009, when it developed the Internal Audit Capability Maturity Model. This model can serve as a useful tool for CAEs in developing a sense of context for the internal audit activities they lead, improving their ability to assess quality and performance. Steve Randall, Managing Partner with Vonya Global, appreciates the usefulness of the IA-CM model as a tool for understanding internal audit activities. He writes that while the IA-CM model is designed for the public sector, it “can be applied to any organization, regardless of industry or sector.”

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## Internal Audit Capability Maturity Model

<table>
<thead>
<tr>
<th>Level</th>
<th>Services &amp; Roles of IA</th>
<th>People Management</th>
<th>Professional Practices</th>
<th>Performance Management &amp; Accountability</th>
<th>Organizational Relationships &amp; Culture</th>
<th>Governance Structures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 5 Optimizing</td>
<td>IA Recognized as Key Agent of Change</td>
<td>Involvement with Professional Bodies</td>
<td>Continuous Improvement in Professional Practices</td>
<td>Public Reporting of IA Effectiveness</td>
<td>Effective and Ongoing Relationships</td>
<td>Independence, Power, and Authority of the IA Activity</td>
</tr>
<tr>
<td></td>
<td>Workforce Projection</td>
<td>Strategic IA Planning</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level 4 Managed</td>
<td>Overall Assurance on Governance, Risk Management, and Control</td>
<td>IA Contributes to Management Development</td>
<td>Audit Strategy</td>
<td>Integration of Qualitative and Quantitative Performance Measures</td>
<td>CAE Advises and Influences Top-level Management</td>
<td></td>
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<tr>
<td></td>
<td>IA Activity Supports Professional Bodies</td>
<td>Leverages Organization’s Management of Risk</td>
<td></td>
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<tr>
<td></td>
<td>Workforce Planning</td>
<td></td>
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</tr>
<tr>
<td>Level 3 Integrated</td>
<td>Advisory Services</td>
<td>Team Building and Competency</td>
<td>Quality Management Framework</td>
<td>Performance Measures</td>
<td>Coordination with Other Review Groups</td>
<td>Management Oversight of the IA Activity</td>
</tr>
<tr>
<td></td>
<td>Performance / Value-for-Money Audits</td>
<td>Professionally Qualified Staff</td>
<td>Risk-based Audit Plans</td>
<td>Cost Information</td>
<td>Integral Component of Management Team</td>
<td>Funding Mechanisms</td>
</tr>
<tr>
<td></td>
<td>Workforce Coordination</td>
<td>IA Management Reports</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level 2 Infrastructure</td>
<td>Compliance Auditing</td>
<td>Individual Professional Development</td>
<td>Professional Practices and Processes Framework</td>
<td>IA Operating Budget</td>
<td>Managing within the IA Activity</td>
<td>Full Access to the Organization’s Information, Assets, and People</td>
</tr>
<tr>
<td></td>
<td>Skilled People Identified and Recruited</td>
<td>Audit Plan Based on Management / Stakeholder Priorities</td>
<td></td>
<td>IA Business Plan</td>
<td>Reporting Relationships Established</td>
<td></td>
</tr>
<tr>
<td>Level 1 Initial</td>
<td>Ad hoc and unstructured; isolated single audits or reviews of documents and transactions for accuracy and compliance; outputs dependent upon the skills of specific individuals holding the position; no specific professional practices established other than those provided by professional associations; funding approved by management, as needed; absence of infrastructure; auditors likely part of a larger organizational unit; no established capabilities; therefore, no specific key process areas.</td>
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</table>

**Figure 2.1**

**Source:** IIA Research Foundation
Within the CM model, Key Process Areas, or KPAs, are analyzed based on an ascending range of sophistication from Level 1 – Initial to Level 5 – Optimal. For example, the KPA “Services and Roles of IA” can range in complexity for established audit functions from “Compliance Auditing” in Level 2 – Infrastructure, to “IA Recognized as a Key Agent of Change” in Level 5 – Optimizing. Still, for smaller, less organized entities, the IA function may be unstructured, which aligns with the description described in Level 1—Initial.

Relating to a notion which was touched upon in Part 1, the other KPA verticals also provide insight in the immense amount of variance internal audit activities can have across different organizations. This degree of flexibility in the model supports Randall’s assertion that the IA-CM model can apply to any type of organization. As a result, the model can serve as an important resource in situational analysis for the CAE—allowing a chief audit executive or similar director to understand the current state of the internal audit activity as well as its goals for the future.

Such questions should be centered on the needs of the stakeholders the CAE and the audit function serve. Once the different stakeholders are defined and described, the expectations of each therein can be established. The following chart exhibits some of the stakeholders of an organization as well as their likely expectations of the chief audit executive. The illustration also provides recommendations in discerning whether or not these expectations are met.

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Expectations</th>
<th>Suggested Measurement Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board</td>
<td>Representation of Shareholder Interests, Ongoing Communication</td>
<td>Primary Communication with Audit Committee Members</td>
</tr>
<tr>
<td>Audit Committee</td>
<td>Promotion of Control Environment, Execution of Audit Plan</td>
<td>Feedback from Form and Informal Communication, KPIs, Efficiencies in Staffing and Budgeting</td>
</tr>
<tr>
<td>Senior Management</td>
<td>Ongoing Communication, “No Surprises”, Consultation on Control Framework</td>
<td>Surveys, Feedback from Formal and Informal Discussion</td>
</tr>
<tr>
<td>Operating Management</td>
<td>Respectful/Ethical Conduct in Engagements, Added Value in Processes</td>
<td>Surveys, Monitoring of Implementation of Recommendations</td>
</tr>
<tr>
<td>Attest Auditor</td>
<td>Appropriate Monitoring of Control Environment, Validation of Sarbanes-Oxley Compliance</td>
<td>Attest Auditor’s Opinion, Monitoring of Sarbanes-Oxley Program Completion</td>
</tr>
<tr>
<td>Staff</td>
<td>Enrichment, Opportunities, Training</td>
<td>Employee Surveys, Annual Performance Reviews, Exit Interviews, Observing Hiring of Former Staff Members</td>
</tr>
</tbody>
</table>
Benchmarking and Evaluating Internal Audit’s Performance

The quality of a chief audit executive’s work is reflected in the value added by the internal audit department he or she leads. In gauging internal audit’s performance, the CAE can either employ the standard of benchmarking, or emphasize a less formalized process which stresses the expectations and opinions of important stakeholders.

The chief audit executive may wish to benchmark the audit function for perspective on its performance. The Oxford Dictionary defines the term “benchmark” as a “standard or point of reference against which things may be compared or assessed.” This concept is widespread and often subliminally inherent in daily life, from batting averages to mutual funds.

For a framework as well as insight into benchmarking, the chief audit executive can look to a very valuable resource produced by the Institute. Every year, the IIA conducts the Global Audit Information Network (GAIN) Annual Benchmarking Study. GAIN analyzes metrics including:

- Organizational statistics
- Department staffing and costs
- Oversight including audit committee information
- Operational measures including audit lifecycles
- Performance measures
- Risk assessment and audit planning information

In particular, internal audit can enhance its understanding of its standing by establishing and monitoring key performance indicators (KPIs). In business, KPIs are used by management to understand the efficacy and efficiency of a firm in its business processes. Internal audit may also use KPIs to evaluate its performance. Leading practices from IIA Members highlight the fact that CAEs should select metrics that will best capture their internal audit activity’s performance based on the organization’s needs.  

The CAE should choose the metrics which suit his or her internal audit activity best. In its 2009 GAIN Knowledge Report, the IIA drew from the insights of industry professionals. An overview of how to approach this concept is provided in Figure 2.2.

The extent of reliance on metrics is also up to the chief audit executive and chief risk officer of SAP, offers a differing opinion on the use of formalized metrics in

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evaluating internal audit activities. In his IIA blog post “How to Assess the Effectiveness of Internal Audit,” he questions the underlying logic in using KPIs as a primary means of accomplishing this objective.

Instead, Marks asserts that the idea of assurance, one of the tenets of the very definition of internal auditing, should provide the context in which internal auditing is evaluated. Marks writes, “You don’t worry about the quality of the water you drink... because you know that the company providing the water has to comply with strict regulations, and the water is tested frequently to ensure it is safe and to standards... It’s hard to put a value on ‘peace of mind,’ but in my mind...that is the greatest value an effective internal audit function can provide.”

Though “peace of mind” may be hard to quantify, it is nonetheless important to the audit committee as well as management. In lieu of a focus on a more rigid methodology in benchmarking, Marks bases his evaluation of internal audit on the following questions he asks of both groups:

<table>
<thead>
<tr>
<th>Question</th>
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<tbody>
<tr>
<td>Do you believe internal audit has provided you with the assurance you need, in a useful way, when you need it, on what matters?</td>
</tr>
<tr>
<td>Do you have the assurance you need that management has effective and efficient processes and systems to manage the more significant risks to the success of the organization and the achievement of its goals and strategies?</td>
</tr>
<tr>
<td>Has internal audit been sufficiently responsive to changes in risk, ensuring it remains relevant and on point?</td>
</tr>
<tr>
<td>Has internal audit been an effective agent for change, improving business efficiency and effectiveness?</td>
</tr>
<tr>
<td>Are you satisfied that the cost of internal audit is less than the value of the assurance and consulting services it provides?</td>
</tr>
<tr>
<td>Are there activities that internal audit should stop performing? Have there been activities you would have preferred not to pay for?</td>
</tr>
<tr>
<td>How can internal audit improve its services to the audit committee, management, and the organization as a whole?</td>
</tr>
</tbody>
</table>

While there is no singular, infallible method of analyzing an internal audit activity’s effectiveness, one concept is immutable: the needs of the stakeholders should remain the focal point.

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19 Ibid.
Part III: Working within the Organization and Audit Function

“One of the basic qualifications of an internal auditor is the ability to get along with people.”

—John B. Thurston (1949), Basic Internal Auditing: Principles and Techniques

The independence of the chief audit executive as the head of the auditing function is nonnegotiable, due to both professional and ethical considerations. Yet, that intangible element of “being able to work with people” should not be discounted. In fact, this aspect is also obligatory. An auditor can perform his or her job more effectively if professional relationships are properly maintained. Simply developing and maintaining sincere relationships with the client can offer work-related benefits as well as personal rewards. While a partner or director from an external public accounting firm surely has incentive to sustain these relationships, this goal reaches beyond that level for a chief audit executive. In a truly practical sense, the customers or clients with whom the CAE works daily are going to be present at the same coffee breaks, corporate events, and Christmas parties that he or she or will attend.

The impact the CAE can have on the efficacy of the internal audit activity is firmly aligned with his or her ability to market the value-added role of internal audit. The chief audit executive directly meets this challenge by fostering relationships with top management and the audit committee. In CAE: Strategic Relationships, Mohammad Abdolmohammadi stresses the importance of relational coordination. He emphasizes the notion that success in this area will lead to benefits in improved performance in work processes and more job satisfaction.20

Abdolmohammadi and his fellow researchers expound on this idea by illustrating the need for informal communication with senior management. This practice can be accomplished by a number of methods. Simply having an “open-door policy” or engaging in periodic calls with the CEO can prove to be highly beneficial for both parties involved.21 As Steve Albrecht notes in Evaluating the Effectiveness of Internal Audit Departments, senior management does not like “surprises.” Instead, the chief audit executive should continuously communicate and alert top management of known potential problems before they escalate to larger issues.22

The benefits of maintaining an open and frank relationship amongst all parties is twofold. This practice aids the auditing team in understanding the expectations of the stakeholders, and it provides the stakeholders with a blueprint of how those expectations will be met. The maintenance of an open and transparent dialogue will serve to demonstrate the value of the internal audit activity to an organization.

In their 2013 Internal Audit Capabilities and Needs Survey Report, Protiviti posed several key questions for CAEs to consider in gauging relational coordination within internal audit and among the

21 Ibid.
organization. These questions can help summarize the way a CAE should evaluate the audit function introspectively:

- Does your organization, and your function, provide sufficient training and developmental opportunities for internal auditors to strengthen interpersonal skills (e.g., persuasion, negotiation, dealing with confrontation) so that they can help the internal audit function cultivate more collaborative relationships with colleagues and departments through the organization?

- Are there opportunities for increasing your and your team's external professional activities (e.g., networking, participating in professional association events, learning from internal audit thought leaders, etc.) in a way that strengthens the information network your function can tap to help improve its practices and processes?

- What specific steps are you taking to cultivate and strengthen relationships with the directors who serve on the audit committee on the board as well as other board committees?

- Are you making a concerted, sustained effort to monitor relevant technology advancements and developments in a way that helps ensure your function is leveraging technology in the most effective and cost-efficient manner?

From the Ground Up

Douglas MacArthur once said, “A general is just as good or just as bad as the troops under his command make him.” This phenomenon rings true in the workplace, and internal auditing is no exception. Conversely, the internal audit activity can be no better than its leader.

The chief audit executive should remain mindful of the fact that the long-term goals of the staff level can vary significantly at the individual level. In Internal Auditing: Directions and Opportunities, Mautz notes that in a survey conducted in the early ‘80s, seventy-five percent of respondents stated they did not plan to remain in internal auditing throughout their careers. Reinforcing this sentiment, survey results from Ernst and Young in 2007 revealed that over one in five internal audit functions has an annual staff turnover in excess of 20 percent.

In some organizations, internal auditors may view the role as a staff auditor as a means to better understand the organization and discover areas of interest. In this process, the internal auditor may spend two to three years in the audit function before moving on internally. This phenomenon can actually create added value for both the organization and the internal audit activity, as an instance of internal hiring reflects positively upon the talents and skills of the staff auditor and presents an opportunity for internal audit to promote itself within the organization. In other organizations, some of this turnover may be attributed to staffing programs oriented toward a rotational model, as an emphasis on the rotational staffing framework becomes increasingly widespread. Regardless of the

specific model employed, the CAE should work to ensure that the career needs of the staff auditor are facilitated.

The chief audit executive should also reward the talented members of the internal audit activity he or she serves. Richard Chambers asserts that CAEs should create opportunities for potential leaders and let them lead once those are opportunities are presented. “Leadership takes practice,” he writes, “and that means putting potential leaders in charge of critical, high-profile projects and important engagements.” 27 Opportunities for advancement further encourage the internal audit team’s members to contribute to the fullest, thereby increasing the likelihood of an outcome that is positive for both the internal audit team and the organization’s stakeholders.

In general, the CAE should take careful consideration of the personal needs of those working within internal audit. Staff level auditors and managers alike will want opportunities for enrichment and acknowledgement of their contributions. Expectations in the delegation of work should also be reasonable. Fundamentally, employee morale will also be affected by the manner in which the staff is treated. If team members are treated with respect, productivity and quality will ensue.

Respect should always remain the foundation. Perhaps it is self-evident, but the CAE should strive on a daily basis to remember that demonstrating a sincere level of respect for both members of the internal audit activity as well as employees of the organization is vital to the success of audit. While it is simply the right thing to do, the way the chief audit executive treats others will also help shape the future the internal audit activity. By treating other professionals with respect, the CAE will earn the respect of others, thereby enhancing the image of the internal audit activity as well as his or her role as its leader, both internally and externally. When followed, this timeless principle will allow the chief audit executive and the internal auditing profession to sustain credibility and build on its successes in the future.

List of Figures

Figure 1.1: Skills Taxonomy Framework

*This figure was adopted from Birkett’s Assessing Competency in Internal Auditing: Structures and Methodologies and was modified with two supplementary elements for added relevance to the CAE

Figure 2.1: Internal Audit Capability Maturity Model

Figure 2.2: Steps for Selecting the Right Performance Metrics