For internal auditing, a new era has begun. After nearly a decade of earth-shaking events for corporations, those responsible for reviewing internal controls, operational efficiency, and regulatory compliance are under a harsh spotlight. For the chief audit executive (CAE), business as usual is clearly over. Corporate boards and CEOs are now demanding a new profile: a CAE who understands all facets of the business and can operate as an agent of change.

The tradition-bound field of internal auditing has been undergoing a metamorphosis for some time—but the global economic crisis is pushing some of the changes into high gear. The resulting shifts may be even more deeply felt than the effects of the U.S. Sarbanes-Oxley Act of 2002. A severe recession coupled with high-profile cases of corporate malfeasance have forced companies to look inward and rethink risk management and financial practices across all aspects of the business.

“The speed of change has been greater in the last two or three years than over the entire last decade,” said Mark Arning, CAE at New York Life Insurance Company. “We need leaders in the profession to stay ahead of where the next tsunami is coming from.”
The CAE’s seat no longer is being automatically filled with CPAs or career internal auditors. Many companies view other parts of the organization as hunting grounds for leaders who can drive change in the audit function.

Audit committees and CEOs are under increasing pressure to steer organizations on a legal, ethical, and risk-aware course—while at the same time containing costs and increasing growth and profits. Not surprisingly, they are looking to the CAE for unprecedented leadership and contribution to overarching strategy. Old-line CAEs who have been entrenched solely in internal auditing may no longer fit the profile that corporate boards seek; over the past several years, many have been the victims of attrition. Today, it’s estimated that within the Fortune 500, new CAEs are recruited from outside internal auditing almost half the time. Simply put, a new set of skills is required.

Those who have the desired attributes, however, are in demand. Audit committees, CEOs, chief operating officers (COOs) and chief financial officers (CFOs) know the value of high-performing CAEs and refer to them as “game-changers.” Few senior executives today have a vantage point across the entire organization like the CAE. Those who take advantage of this lofty perch are finding themselves highly prized and poised for greater career opportunities.

One trend has emerged: the CAE’s seat no longer is being automatically filled with CPAs or career internal auditors. Many companies view other parts of the organization as hunting grounds for leaders who can drive change in the audit function. For some companies, a desired CAE resume today may include stints in controllership, divisional finance, human resources, risk, and compliance, or leadership positions in operations or other business units. “If you don’t understand the business, it’s hard to persuade someone to change what they are doing,” said Larry Harrington, CAE at Raytheon Corporation in Waltham, Massachusetts. “You need credibility.”

In order to identify the traits essential to success for today’s CAE, Korn/Ferry International and The Institute of Internal Auditors conducted a series of interviews with high-profile CAEs in the United States and abroad. From those conversations, seven attributes stood out, which will be explored in the following pages.

1. Superior business acumen
2. Dynamic communication skills
3. Unflinching integrity and ethics
4. Breadth of experience
5. Excellent grasp of business risks
6. Gift for developing talent
7. Unwavering courage
Superior business acumen
How risk is assessed, audits are handled, and reports issued has remained largely static in the past decade. Yet at the same time, the business world has been undergoing massive change. Organizations are facing restructuring, reengineering, downsizing, globalization, and unprecedented scrutiny. Every business function, under mandate from the board, is seeking ways to become more efficient.

“The challenge internal auditors face today is ‘how do we help management be successful,’’ Harrington said. Strong audit skills and regulatory knowledge are still crucial but to take on this expanded role, the CAE has to comprehend business issues well beyond the walls of internal auditing. How can the organization streamline operations, for instance, and still maintain adequate controls?

“It is essential to have a great understanding of the business,” said Connie McDaniel, CAE at The Coca-Cola Company in Atlanta. “If you don’t, your job can be pretty hard. You need systemic thinking, the ability to connect the dots and understand the implications and consequences of business decisions in order to utilize resources in the most effective way.”

Brian Worrell, CAE at GE, concurs. “The successful CAE is somebody with real business acumen and operational experience. You need to know what it’s like to run a business and make all the decisions and operational trade-offs leaders make every day.”

In fact, highly effective CAEs conceptualize internal auditing as a business unit and consider the rest of the organization’s population as its customer base. The goal then is to drive higher “demand” by increasing customer satisfaction and demonstrating the value internal auditing brings to the table. With a strong business outlook in place, internal auditing will no longer be viewed as an unavoidable irritant, but as a business partner that can help save money, eliminate weak business practice, improve efficiency, and ameliorate risk.

These skills can be difficult to acquire for those who have spent their entire careers isolated within internal auditing. “They don’t always understand HR, marketing, sales, or operations and they are used to looking at things a year after the fact,” Harrington said of internal audit lifers. “If you are a business leader, you must look at what is going to happen over the next 12 months, not the last.”

GE, Home Depot, Dell and other companies have embraced a rotational model for internal auditing that dictates executive movement around the organization, providing invaluable exposure
“Boards want someone who is a good communicator and won’t sugarcoat or pull punches on important issues. It’s important that our messages are delivered clearly, whether written or oral, so people can understand the magnitude of an issue; is it a rock or a pebble?”

Paul Sobel, CAE
Mirant Corporation

to multiple aspects of the business. More and more CAEs favor this approach. “In our group, we have a clear principle in place: You cannot have my job unless you’ve had some operational experience,” said Andrew Dix, CAE of Telstra Corp., the Australian telecommunications giant based in Melbourne. “There is no absolute set career path to CAE anymore. Now the more varied the path, the better.”

Dynamic communication skills
Career auditors who tend toward the stereotype of introverted, socially awkward accountants face a difficult if not impossible relationship with the audit committee. Given this influential seat at the table, the CAE must be able to deliver a clear, concise, and insightful message. A board expects the CAE to speak frankly and transparently and be comfortable representing the facts and circumstances as he or she sees them without concern about politics or personal perceptions.

Strong communication skills have essentially become table stakes to the game. “Boards want someone who is a good communicator and won’t sugarcoat or pull punches on important issues,” said Paul Sobel, CAE at Mirant Corporation. “It’s important that our messages are delivered clearly, whether written or oral, so people can understand the magnitude of an issue; is it a rock or a pebble? And management and audit committees are also looking for other insights—a sense of the pulse of the organization, for instance. A sign of a good leader is the ability to communicate that.”

Delivering internal messages is just one aspect of a multi-faceted mandate. Successful CAEs establish strong relationships, not only with the CEO and audit committee, but with regulators, external audit firms, business leaders, and other stakeholders inside and outside the organization.

Successful CAEs also coach and mentor their staffs on this important skill. “There are people in our profession who don’t present well,” said Jeff Browning, CAE of Duke Energy. “We don’t want our message getting lost so I try to give my staff exposure to the executive team in safe environments. I take some of my lieutenants with me to make presentations and that allows them to build more comfort with the leadership team and get battle-tested.”

Browning echoed an important theme: credibility is the profession’s top asset and that requires marketing of the profession across the organization. “People tend to only see us when a crisis happens,” Browning said. “And a lot of the time, what we do, if we do it really well, is hard for people to get their hands around. So it’s very important that we are at the table and communicate our message well.”
Unflinching integrity and ethics
Perhaps no profession has been as heavily impacted by the decade of financial fraud and corporate failures as internal auditing. The bloodbath that began in the 2000s with Enron and WorldCom, and continues today with Wall Street under fire for the subprime mortgage fiasco, has put the CAE squarely in the spotlight on ethical corporate behavior. The impact of SOX was immediate and widespread, a direct challenge to internal auditing and audit committees to reshape the playing field and restore integrity to the corporate landscape. Indeed, one of the most important events of the past decade for internal auditing was Cynthia Cooper’s courageous pursuit of fraud at WorldCom and her subsequent place as a *Time* magazine Person of the Year in 2002. As CAE at WorldCom, Cooper showed remarkable integrity and raised the stature and profile of the profession in exemplary fashion.

Given his or her role, the CAE must, like Cooper, demonstrate the utmost integrity. Serving two masters—the audit committee and management—while maintaining the necessary independence, means an auditor must walk a fine line. Nothing can taint and damage the entire profession like the media frenzy focused on a CAE getting arrested for fraud. In a worst-case scenario, such behavior could lead to new Sarbanes-Oxley-type regulations for the whole profession.

Breadth of experience
This newest generation of CAEs has a far more comprehensive resume than its predecessors. Large companies in particular are looking for a breadth of experience across organizations and industries and more are starting to embrace the rotation model favored by companies such as GE. The concept is simple but powerful: Bring in top talent, teach them the internal audit function, place them out in the business units and eventually into key leadership roles, and then rotate them back to internal auditing.

“What has changed in the last four years is that the audit committee is looking for a more complete, holistic view from the CAE,” GE’s Brian Worrell said. “They expect the CAE to bring that view, whether it’s about risk management, enterprise risk, operating risk, regulatory interfaces, or financial reporting. They really want one picture of the enterprise so they can understand the risk better.” Rather than getting this view piecemeal from individuals in different business silos, the audit committee wants to get the whole picture from the CAE.
Along with strong leadership, today’s CAE must have exceptional technical skills, a strong grasp of risks and control, and a deep understanding of how these risks impact the bottom line. Certification, including a CIA or CPA, is still required in many organizations but more and more senior leaders are looking for broad experience that supplements, if not supplants, those certificates.

For example, Raytheon’s Larry Harrington attributes his success as CAE to his lengthy and varied resume. In his 35 years in the corporate world, Harrington, who is a CIA, has spent time in several industries in a range of executive roles. He has been a vice president of human resources, operations, and finance, as well as CAE at three companies. “You sometimes learn more about internal auditing when you leave internal auditing than when you are in internal auditing,” Harrington said. “And when you come back, as I have a couple of times, you come back a very different person when you understand the business.”

**Excellent grasp of business risks**

Operating in one of the toughest business climates since the Great Depression, organizations require a CAE who takes ownership of identifying and understanding risks to the business. At the same time, given the economic of recession and globalization, CAEs must understand the importance of streamlining operations while still maintaining adequate controls.

Very few internal audit departments ever recommend taking controls out; instead they continually suggest adding more controls. In today’s environment, companies can no longer afford the additional cost such extra controls require. Thus, the successful CAE must be both disciplined and flexible enough to see beyond the audit plan and creative enough to tie business risk to market opportunities.

The visionary executive anticipates what is around the corner. That means leaving behind the traditional audit mode, which looks at processes from end to end or at individual business silos that characterize most big companies. Such methods are no longer cost effective or efficient for internal auditing. “The operating managers who run those silos tend to look within their own silo,” said Telstra’s Dix. “You need people who can look across the whole organization and IA is one of the few groups inside the company that actually has the ability to do that. We’ve become a mini-consultant to the business, almost a competitor to the professional accounting firms, and we understand the business better than someone coming in from the outside.”
Already steeped in risk identification, internal auditing is a natural partner in all sorts of strategic transformational initiatives, explained Kelly Barrett, CAE for The Home Depot. “I believe that audit committees are starting to see how big a role internal auditors can and should play in helping an organization get it right on the front end—especially when an organization is undergoing significant change.”

**Gift for developing talent**

Finding and retaining highly skilled talent for internal audit roles has not been an easy task over the past decade. The term “audit” scares away many talented young professionals who might otherwise have found the role enticing and rewarding, both in terms of professional growth and future career potential. But the demand is stronger than ever. In the years prior to the Sarbanes-Oxley Act, Korn/Ferry did just four or five executive recruiting assignments for internal auditors annually in the United States. But in the years following Sarbanes-Oxley, Korn/Ferry has done more than 550 such searches (which include risk and compliance executives).

Given the intense regulatory pressures, new job demands, and the dearth of young talent, the search for highly successful candidates can be daunting. A successful CAE can sell the value of the job to high-potential talent—and must do that in order to transform internal auditing. Still, many have to be led to internal auditing kicking and screaming from other disciplines with the promise of a quick rotation into a higher post.

“We don’t hire career auditors,” said Coca-Cola’s McDaniel. “We hire externally as well as rotate people in from finance. We let them know that if they are engaging with their clients, know their business, speak a language the clients understand, and are open and honest with them, there will be no shortage of opportunities when they get out of audit.”

Ironically, these nascent leaders often discover that the role is far more important and challenging than they anticipated, and they end up loving the job. Those who become CAE find themselves sitting in the boardroom with the audit committee, dealing with the most significant strategic corporate issues, and getting regular face time with the CEO. Being such a high-level influencer can be an enticing lure for talent. “I think IA is a great learning ground and we don’t do enough to promote the breadth of experience you get working there,” said Carman LaPointe, CAE of the International Fund for Agricultural Development based in Rome.
Recruiting is just the first step. Highly effective CAEs set up ongoing training programs to round out the experience of auditors. At Raytheon, for example, Harrington assigns a business mentor to each member of the internal audit staff. “Our team has people out in the business world mentoring them, helping them think through their careers so they can grow,” Harrington explained. Each auditor receives up to 150 hours per year of training that they must match on their own time. They are required to read business books and write summaries of the books, which are shared across the company. “They need to have a thirst for continuous learning,” Harrington stated.

A CAE’s ability to attract and retain talent, however, can depend heavily on how the company itself views the internal audit function.

“Whether internal auditing is viewed as a desirable career is dependent on how the organization views the function,” said Don Neff, CAE at AOL. “In talking to some of my peers at other companies, they really want to emulate the GE model and make internal auditing a leadership development program so that people will aspire to the internal audit career path. We’d like that to be the model at AOL.”

At GE, renowned for its executive training prowess, Brian Worrell has no trouble recruiting talent for internal auditing. Rather than seeking trained accountants, GE identifies high-potential talent, brings them into internal auditing, and puts them through rigorous training to learn how to audit, communicate effectively, lead teams, and assess businesses. “People come out the other end with an accelerated career,” Worrell said. “We do it this way because often people interested in audit don’t think they have the skill set we are looking for. We look for bright, analytical individuals from any function and then train them for audit.”

Unwavering courage

If CAEs agree on anything, it is the need for courage under fire. In the face of tremendous pressures and daunting obstacles, CAEs must steadfastly do the right thing. “You must be a person who is willing to stand up alone, when things aren’t going right, and communicate the message in a timely fashion,” said New York Life’s Mark Arning. “It takes someone who is willing to do the right thing for the company and put their own career on the side.”

Courage also means being proactive and unafraid to innovate. In this new economy, successful CAEs don’t just report to the audit committee or face off with management; they shape their thinking
by anticipating the problems, risks, and needs that lie ahead. CAEs need the courage of their vision and convictions to steer a strategic course through the current heightened risk environment that is testing the mettle of all organizations. The audit committee will enthusiastically embrace a CAE who exhibits sound judgment in selecting the critical issues that demand attention.

**Conclusion**
The reason companies today are looking outside internal auditing for internal audit/risk management executives is that they no longer see the skills they need in the people who have been in internal auditing their entire careers. While this is a great obstacle for internal auditing, it is also a tremendous opportunity for forward-thinking CAEs.

In a recent survey of 2,000 executives around the world about internal auditing, PricewaterhouseCoopers concluded that “needs and expectations are at an all-time high,” even as many internal audit organizations suffer from a “performance gap” (PricewaterhouseCoopers, *A future rich in opportunity: Internal audit must seize opportunities to enhance its relevancy* [PricewaterhouseCoopers, March 2010], 25). Internal audit organizations that don’t rethink and redefine their capabilities are at “risk of losing the stature gained through their leadership during the Sarbanes-Oxley years,” the report stated.

“As a result of the global economic crisis, I believe that the future is now,” said Bob Guido, who sits on the audit committees of Commercial Metals Company, Bally Technologies Inc., and Siena College. “CAEs have to provide the leadership in balancing compliance and value in audit plans. And, at the same time, they must continue to develop future leaders. Each CAE has an opportunity to shape the profession for years to come.”

But there is plenty of reason for optimism. The profession does have strong and visible leaders who embody the seven key attributes identified here—and already they have created models for a strategic CAE role and vital internal audit function. Following their lead, the CAEs to come can seize a place in the business hierarchy and emerge as the “game-changers” that this business environment demands. Those who demonstrate the profession’s best capabilities will shine under this harsh spotlight.
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