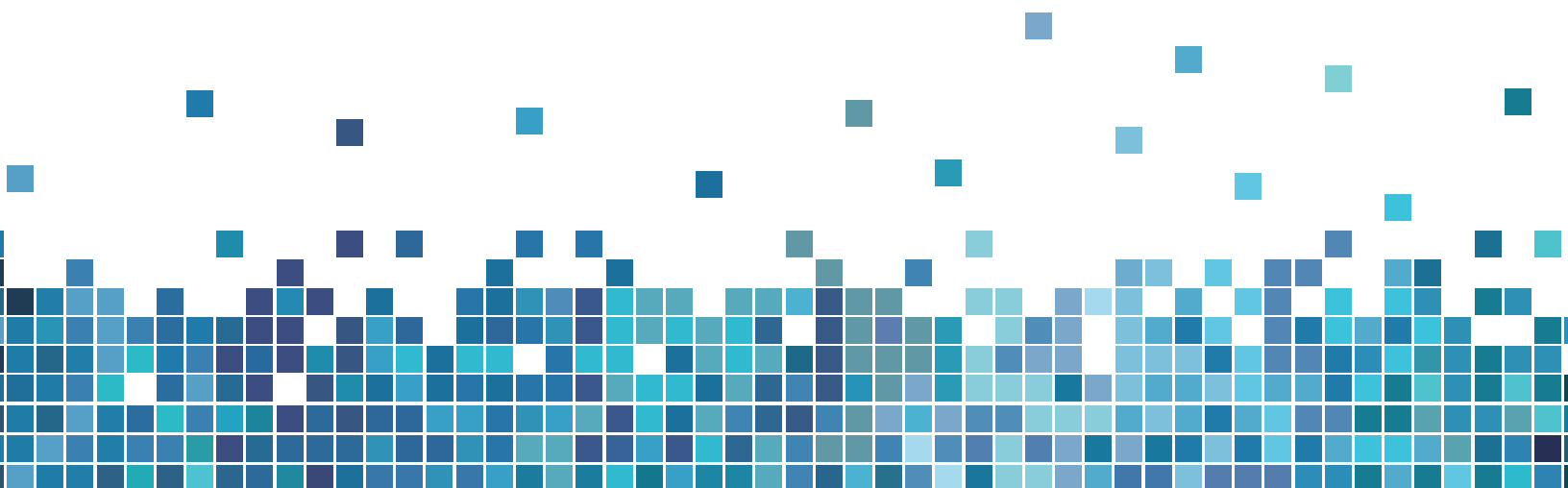


THE IIARF WHITE PAPER

The Audit Committee and the CAE

Sustaining a Strategic Partnership



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THE AUDIT COMMITTEE AND THE CAE:

SUSTAINING A STRATEGIC PARTNERSHIP

The Institute of Internal Auditors Research Foundation (IIARF) and The IIA's Audit Executive Center recently partnered with the National Association of Corporate Directors (NACD) and PricewaterhouseCoopers LLP (PwC) to identify and assemble almost 25 prominent audit committee chairs and chief audit executives (CAEs) for wide-ranging roundtable discussions of how these partners in good governance can best accomplish the formidable tasks before them, support each other, get and stay in alignment, and improve their communications. The results should be instructive for directors and CAEs alike.

Introductory remarks by Douglas Peterson, president of Standard & Poor's (S&P's) Ratings Services and former chief operating officer and CAE of Citibank NA, established the tone and key themes of the half-day event at The IIA's 2012 International Conference in Boston, even before the roundtable discussions commenced. Peterson counseled audit committee participants to voice strong support for their organization's internal audit activity, especially the CAE.

He recalled that during his years as Citibank's chief auditor, he and his team were able to grow their value to the organization in substantial part because they had the full support of the audit committee and then-CEO Sanford "Sandy" Weill. He said the message topmost leaders of Citibank sent to business unit management never wavered: internal audit is independent and competent and highly valued by this organization. "When resistance to audit came from business unit executives, they were forewarned that I, as the CAE, had the full backing of the board and the CEO," Peterson said.

He cautioned CAE participants that such respect must be earned. CAEs who want to participate in high-level strategy and risk discussions first need to assemble a highly competent internal audit team with cutting-edge skills, no matter what it costs, Peterson advised. "By now at least some staff should have data mining and analysis activities up and running," an audit committee chair elaborated. This may involve hiring some Millennial-generation auditors "who have working with computer applications and data in their DNA," Peterson responded.

The S&P president noted he "has a bias toward" rotational staffing of internal audit—with auditors periodically moving in from and out to various business units—plus the selective use of "guest auditors" from throughout the organization. This model, he said, tends to give internal audit fresh perspectives on recurring engagements and facilitates the transfer of industry and business knowledge from business management to internal audit. An IIA participant noted that recent surveying by the Audit Executive Center indicates about 60 percent of large organization CAEs now have some form of staff rotation program in place.

Peterson noted a paradox for successful CAEs: those who achieve positive reputations tend to be called on by the audit committee and management to devote audit resources to noncore activities. He said although such work is generally valuable to the organization, CAEs should not lose sight of audit’s principal role, which is providing independent, objective assurance. “No matter what else you may be called on to do, you still need to do analyses, make risk assessments, and get approvals” to audit high-risk areas, Peterson urged CAEs. “And in my view, if you as auditors smell something smoking—regardless of its perceived risk—you need to look at it carefully, despite any possible resource shortages,” he said. “Where there’s smoke, there’s fire.”

Finally, Peterson urged audit committee chairs and CAEs alike to communicate frequently and candidly. Peterson advised CAEs not to hesitate to disclose knowledge gaps to the audit committee and the board “because this usually will trigger a good, open conversation.” Similarly, he encouraged CAEs to ask their audit committee members what they do not fully understand and then provide “tutorials” for the committee on those things. “Don’t assume board members know everything about the business,” he said. “That’s simply not true.” Often these understanding gaps also can be identified by examining the board’s most recent self-evaluation, an audit committee chair commented.

THE RELATIONSHIP BETWEEN THE AUDIT COMMITTEE AND THE CAE

In spring 2012, when nearly 500 Canada- and U.S.-based CAEs and audit directors participated in a survey underlying the Audit Executive Center’s *Pulse of the Profession* report (PDF), most CAEs described their relationship with their audit committee in highly positive terms. Based on their high levels of agreement with a series of statements, CAEs and audit directors acknowledged there is open dialogue and a two-way flow of communication (76 percent); the audit committee clearly communicates its support for the internal audit activity to the full board and senior management (72 percent); the audit committee looks to the CAE for advice and counsel (50 percent); and the audit committee communicates to the external auditor that it expects a high level of communication and interaction with the CAE (42 percent).

ENSURE THE CAE HAS THE RIGHT SUPPORT

Such support involves getting the right attention from management, being kept up to date on critical initiatives of the organization, and ensuring the audit budget is appropriate.

When asked what activities the internal audit activity performs on behalf of the audit committee, the leading responses were:

- Providing ongoing assessments of the risks facing the organization (75 percent).

- Educating the audit committee on new developments related to its ongoing activities (72 percent).
- Assisting in the development of meeting agendas and presentation materials (71 percent).
- Conducting confidential investigations as needed (71 percent).
- Providing opinions on the performance of management in relation to controls and the adequacy of corrective actions (70 percent).
- Providing input on the performance of the external auditor (42 percent).

Audit committee chairs participating in the roundtables supplemented this enlightening—but for some CAEs still aspirational—data with their expectations of the personal qualities CAEs should possess. Foremost are unimpeachable integrity, healthy skepticism, dogged determination, and the courage to make a stand when deemed necessary. Also essential are effective resource-management skills, the ability to build and maintain trust relationships, and refined interpersonal and communications skills.

On the important topic of CAE-audit committee communications, participants agreed it is essential to establish mutual expectations at the beginning of the relationship. For example, the parties should agree on the types and severity of events—credible allegations of material fraud, for example—that should trigger a special audit committee meeting. “Think through and discuss where the line is,” an audit committee chair said. “Then document it clearly and explicitly and apply it consistently.”

DISCUSS EXPECTATIONS

Audit committee chairs and CAEs must have a clear understanding of expectations for internal audit. Have a detailed discussion of the personal expectations for the CAE and those for internal audit overall—and address all expectations in the audit charter.

The roundtable participants also agreed that it is important to decide up front the ground rules for periodic reporting—how much, how often, in what form, and so forth. An audit committee chair counseled CAEs to make their reports “concise and visually impactful” through the use of dashboards, heat maps, and other summary graphics. He also advised CAEs to “keep asking audit committee members about their satisfaction with audit reporting and to keep making improvements in this regard incrementally.”

For their part, audit committee members should listen very carefully to what CAEs have to say in their verbal and written reporting. “Focus on it. Believe it. Encourage it,” an audit committee member exhorted. “Remember, the CAE has thought [his message] through carefully for three months.”

LISTEN

A strong CAE is a tremendous asset to the audit committee and the chair. This value can be more fully realized if the audit committee chair listens carefully to what the CAE has to say.

Conversely, one thing audit committees should not tolerate is CAEs who make reports without doing sufficient preliminary work, such as gathering all the relevant facts. “Be very candid about your displeasure” if such a circumstance arises, an audit committee chair advised his peers. “Use instances of minor lapses to reinforce the message” that this is unacceptable.

In general, however, audit committee members should “discourage fear” by CAEs. “Never jump on the CAE. This person is on your side,” an audit committee chair counseled. “You have to be sure not to growl when bad news comes.”

Participants agreed it is mutually beneficial for CAEs to send audit committee members tidbits of information such as The IIA newsletter *Tone at the Top* and newspaper articles germane to the organization and its industry. CAEs also should prepare on-boarding packages for new audit committee members. Information contained in these packages could include the audit committee charter with any mention of internal audit highlighted; the internal audit charter; an organization chart of the internal audit activity; descriptions of major internal audit processes; specimen audit reports; and trending and benchmarking information relative to audit findings. “On-boarding, whatever the process entails, should be consistent over time,” an audit committee chair observed.

Participants said it is vitally important that CAEs and their audit committee chairs have open, trusting relationships. Among the means of developing these positive interactions are:

- Attending training programs together.
- Sitting in on webcasts targeted at both CAEs and audit committee chairs.
- Getting together for open-ended discussions on an ongoing basis, perhaps even during the evening or on a weekend.
- Jointly visiting business sites to foster mutual understanding of operations and business issues.

Sixty-five percent of respondents to the Pulse of the Profession survey expected their staffing to remain relatively constant during 2012, and 21 percent expected their staffing to increase. But in these

volatile times, participants said it is extremely important for CAEs and audit committees to stay in continuous alignment about the appropriate level of internal audit staffing and other funding. “It is easy for the CAE to get into resource conflicts with the [chief financial officer] CFO nowadays,” a CAE participant observed.

**CRITICALLY CHALLENGE COVERAGE
OF CRITICAL RISKS**

CAEs should take a hard look at the organization’s strategies and business objectives. Is internal audit’s coverage of critical risks to those strategies and objectives adequate?

The risk-based internal audit plan is a good starting point for resource discussions with the audit committee. A CAE participant said his tried and true approach to getting “on the same budget page” with the audit committee is “showing in our audit plan not only the audits we will do but those we cannot do due to budget and the associated risks.” He said this approach gives the audit committee choices, which include authorizing additional staffing, increasing the budget for co-sourcing, and accepting additional risk by deferring audits to next year. The internal audit resource discussion also should include a review of the CAE’s broad internal audit strategic plan and technology strategy, an audit committee chair said.

However, even if internal audit is well resourced, “things will come up during the year, so the full audit plan probably will not get done,” an audit committee chair said. He encouraged CAEs to budget unallocated time—“practically speaking, about 15 to 20 percent of the year.” However, he added, unallocated time “has to be as professionally managed as anything else.”

Staffing flexibility can accrue from using guest auditors from elsewhere in the organization and by co-sourcing, which a CAE participant noted can be especially efficient “in instances of one-off engagements such as foreign exchange audits.” Co-sourcing also is extremely useful for audits of operations outside the United States, where foreign language skills and knowledge of local laws, regulations, and business customs often are useful. An audit committee chair reminded, however, that “when you outsource, it is vital to have very clear, explicit service level agreements” that spell out in detail what will be delivered and when.

BE PROACTIVE

Audit committee chairs should be actively involved in CAE hiring decisions, performance goal setting, and performance reviews and compensation.

Because audit committee needs, as well as management wants, are factored into CAEs' objectives, the audit committee should participate in annual performance evaluations and their compensation consequences. "In our organization, performance feedback is continuous, so at the end of the year there are no great surprises" for the CAE, an audit committee chair noted. However, another audit committee chair admitted that although he periodically talks with senior management about the CAE's performance, "it has never occurred to me to talk directly with the CAE." He said he would begin doing this in future years.

Audit committees should expect internal audit succession plans to be in place that consider candidates across the enterprise—not just those in internal audit. "This plan can be developed by the CAE, but the CFO and CEO need to be involved," an audit committee chair said. "In short, succession planning needs to be done and done well." He believes the CAE and the next level of internal audit management down should be career internal auditors. "But we don't always live in an ideal world," he admitted.

ALIGNING RISK AND RISK MANAGEMENT EXPECTATIONS

Most CAEs in North America have had at least some success of late in realigning their audit plan to the changing risk profile of their organization. "Internal audit plans are reflecting much more balanced coverage among operational, financial, and compliance risks than was in evidence for much of the past decade," says the *Pulse of the Profession* report. To wit, 27 percent of survey respondents' 2012 internal audits are slated to be operational in nature. This percentage is higher

BUILDING A SOLID FLOOR FOR INTERNAL AUDIT

PwC's survey-based report *Aligning Internal Audit: Are You On the Right Floor?* describes the firm's formula for elevating the stature of internal audit in today's challenging business environment. Attaining the higher "floor" for internal audit performance established by stakeholders will require CAEs to:

- Navigate the new risk landscape by thinking and acting strategically, aligning resource allocations appropriately, and leveraging the work of the organization's "second line of defense" risk management and compliance functions.
- Provide stakeholders deeper insights by fully understanding the business, leveraging specialists as required, and delivering advice and best practices.
- Cut through the communications clutter by building stakeholder trust through ongoing dialogue, simplifying reporting, and "connecting the risk dots," in part by conducting trend analyses.

Eight steps CAEs should take to achieve these objectives, the report concludes, are focusing on critical risks and issues, aligning the internal audit value proposition with stakeholder expectations, matching the internal audit talent model to the value proposition, engaging and managing stakeholder relationships, enabling a client-service culture, delivering cost-effective services, leveraging technology efficiently, and promoting quality improvement and innovation.

than budgeted coverage of general financial risks (16 percent); compliance risks (15 percent); and the U.S. Sarbanes-Oxley Act of 2002 testing (12 percent).

The 2012 edition of PwC's annual state of the internal audit profession report, *Aligning Internal Audit: Are You On the Right Floor?*, says the 15 specific risks within those broad categories currently deemed most critical by the approximately 900 CAEs and 700 audit committee members, chief executive officers, and CFOs who participated in the underlying survey are, in rank order:

- Economic uncertainty.
- Regulations and government policies.
- Competition.
- Financial markets.
- Data privacy and security.
- Talent and labor.
- Reputation and brand, especially as it relates to social media.
- Commercial market shifts.
- Energy and commodity costs.
- Government spending and taxation.
- New product introductions.
- Fraud and ethics.
- Business continuity.
- Mergers, acquisitions, and joint ventures.
- Large program risk.

Roundtable participants largely affirmed this list and added four others. They are:

- Complacency, which participants defined as slowness to respond to events internal and external to the business as well as hesitation to evolve the business model—assuming strategies that worked in the past also will be effective in the future.
- Maintaining intellectual property value in an age when a gargantuan amount of high-value content is becoming available free of charge via the Internet.
- Foreign Corrupt Practices Act (FCPA) compliance.
- Overall business risk and the successful implementation of evolving business strategies.

“There is a huge opportunity for CAEs to rise in importance by increasing their focus on risks that now matter most to the board and senior management,” an audit committee chair exhorted. Determining these risks, which will differ by industry and organization, and getting buy-in from stakeholders should start with careful examination of the organization’s strategic plans.

ENHANCE RISK KNOWLEDGE

CAEs have a great opportunity to help audit committee members better understand the organization’s key risks. This should be a specific CAE objective.

Although directors and occupants of the organization’s C-suite—not internal audit—are responsible for determining appropriate strategies for the organization, internal audit should have a “seat at the meeting table” when these discussions take place. “Internal audit is responsible for asking the right questions at appropriate times about potential risks during these meetings,” an audit committee chair said.

PwC’s *Aligning Internal Audit* report warns that CAEs should be concerned: one-fifth or more of participating stakeholders believes 12 of the 15 consensus critical risks—some strategic in nature, others operational—still are receiving too little audit attention. Chief among them are talent and labor (33 percent), followed closely by competition (32 percent) and new product introductions (31 percent). Also receiving insufficient internal audit work in the view of respondent stakeholders are mergers, acquisitions, and joint ventures (29 percent); commercial market shifts (29 percent); economic uncertainty (25 percent); large program risk (25 percent); energy and commodity costs (23 percent); data privacy and security (22 percent); reputation and brand (21 percent); government spending and taxation (21 percent); and business continuity (20 percent).

To avoid these troublesome perception gaps, it is vital that CAEs get explicit audit committee buy-in for their draft audit plan. “We evaluate the audit plan by seeing if it addresses all the company’s strategies and the risks we’ve discussed and disclosed externally,” an audit committee chair said. He counseled CAEs to keep in mind during audit plan development their responsibility to “follow the money” by periodically assessing elements of the organization’s procure-to-pay process.

Participants expressed concern that CAEs typically do not provide sufficient assurance about the adequacy of the organization’s crisis management and disaster recovery plans. An audit committee chair suggested that CAEs should periodically ask responsible management to answer the question, “Who will be the organization’s ‘voice’ to regulators, media, employees, investors, and others if an adverse event occurs?” If the answer does not seem appropriate, the CAE can oversee an audit of the current plans and, if indicated, recommend how to improve them.

ENHANCE COMMUNICATIONS

Audit committee chairs should critically assess and enhance communications with their CAE to grow the relationship and develop mutual credibility and trust. As one audit committee chair noted, “If anything, over communicate.”

During audit strategy discussions with the audit committee, CAEs should not only communicate their assessments of the organization’s critical risks and how well those risks are being managed but also risks they do not fully understand and risks they believe are not critical enough to warrant coverage. “This sort of dialogue and transparency is great for engaging and building credibility with audit committee and other board members,” a CAE observed.

S&P’s Peterson also suggested CAEs nudge directors, if necessary, to have periodic discussions about the board’s risk appetite—that is, the amount of risk the organization has decided it can afford to take on to achieve its desired results. “Sometimes it can be challenging” to coax the board into having this discussion, even though it may take as little as five minutes, he says. However, he notes, “It is an incredibly important conversation to have.”

“Risk is the flip side of strategy. If there is one thing every board should be responsible for, it is strategy/risk, including risk appetite,” an audit committee chair affirmed. However, he reminded others that “The ‘administration of risk’ can be delegated to the audit committee.” Moreover, participants agreed that CAEs can and should use their risk management knowledge to add value to the organization by undertaking activities such as helping directors, senior executives, and business unit managers develop a common language for discussing risk, mapping identified risks to facilitate their discussion and disposition, and, of course, developing and executing a risk-based audit plan.

DISCUSS THE AUDIT STRATEGY WITH THE AUDIT COMMITTEE CHAIR

CAEs should look at the strategy of their audit coverage and consider some macro issues. Is the time devoted to auditing controls compared to the time allocated to risk management and governance appropriate?

CAEs can add value by periodically rendering an opinion on the effectiveness of the organization’s overall risk management process. However, fewer than 5 percent of CAE respondents to the Pulse of the Profession survey plan to do the requisite audit work in 2012. “One lesson learned from the financial

services mess is various risk and control units of organizations were operating in silos. They were not sharing risk information and using very different risk frameworks and languages across the organization,” said a CAE who had formulated an opinion on his organization’s risk management program. “If this is going on in your organization now, you should address it” with the audit committee.

OTHERWISE INCREASING THE VALUE OF INTERNAL AUDIT

Some event participants were tasked with exploring other strategies internal audit could adopt to maximize its value to the organization. These CAEs and audit committee chairs agreed that a common impediment to achieving this goal is the relatively mundane nature of some engagements that must be included in the audit plan.

Although audits of low-risk activities have some value to the organization—most notably, they can help keep management enterprisewide on their toes and internal audit assess the extent to which risk profiles are changing—they do not add great value in the larger scheme of things, participants lamented. The consensus was that CAEs need to be cognizant of this situation and take pains to appropriately balance “have to do” low risk and regulatory and other compliance audits with high-value engagements. If such a balance cannot be struck appropriately, CAEs should discuss the issue with the audit committee and senior management. “Internal audit should not be content being drawn into a second-line-of-defense role of ‘doer’ of internal controls testing,” an audit committee chair warned.

One risk arising from taking on too many “must-do” audits is assigning high-value staff to these engagements, therefore overpaying for the work and creating flight risk. “Check-the-box exercises are best left to management and the external auditors, because the value of an internal auditor’s time is best spent on more substantive matters,” an audit chair said.

One “foundational,” nonnegotiable internal audit activity is practicing in accordance with the elements of The IIA’s International Professional Practices Framework (IPPF). This includes gaining audit committee approval to contract for periodic external reviews of the quality of the internal audit activity, as mandated by the 1300 series of the *International Standards for the Professional Practice of Internal Auditing (Standards)*. CAEs should certify their compliance with the *Standards* in their audit reports, a CAE reminded participants.

The Pulse of the Profession survey found the top five skills sought by respondent CAEs for auditors they plan to hire this year are analytical and critical thinking (73 percent); effective communication (61 percent); data mining and analytics (50 percent); general IT knowledge (49 percent); and business acumen (46 percent). Roundtable participants agreed assembling a top-notch, well-rounded team embodying these skills will not be easy in today’s environment.

“A talent war is underway and escalating for the limited supply of trained internal audit personnel,” a CAE observed. “Knowing where and how to find or develop staff that adds value to the function of internal audit, particularly in the area of data analytics, is increasingly challenging.” Another CAE

FIVE WAYS TO FULFILL STAKEHOLDER EXPECTATIONS

CAEs would be wise to allocate most of their resources to assessing major strategic and business risks while making sure that they are delivering the organization “value for money,” IIA President and CEO Richard Chambers observes. They need to stay in tune with how a wide range of stakeholders view their work, and develop their general “relationship acumen.” Many CAEs perceive that “finding time” is the biggest obstacle to meeting these challenges, according to a report by The IIA’s Audit Executive Center. *Meeting Stakeholder Expectations* details five steps CAEs can take to address this obstacle and thereby “avoid disconnects that could distract, or even derail, internal audit departments from effectively executing on their mandate.” The five steps are:

- **Revisit the internal audit charter.** The *International Standards for the Professional Practice of Internal Auditing (Standards)* requires periodic review and approval of the audit charter, which defines the department’s mission, the scope of its assurance and advisory services, and its role as part of the organization’s governance, risk, and control structure. Periodic discussions on the focus of internal audit are a great way to validate the audit charter by continuously aligning upcoming audit activities with stakeholder needs and expectations.
- **Identify and understand stakeholder needs.** The audit committee and executive management are not internal audit’s only stakeholders. Having a clear understanding of issues that are important to secondary as well as primary stakeholders is critical. So too is learning about the organization’s and individual business units’ goals, as this effort can yield insight into the industry and the organization’s risk profile. This insight, in turn, can help CAEs develop a value-added audit plan. To successfully accomplish these tasks, CAEs must invest adequate time and resources on communications and listen to stakeholders carefully.
- **Develop a comprehensive stakeholder management strategy.** CAEs should develop a formal or informal mechanism for capturing insights gained from the multitude of planned and unplanned interactions among members of the internal audit team and stakeholders. This will yield, over time, a big-picture view of each stakeholder’s unique expectations and a collective, integrated view of all stakeholder wants and needs.
- **Establish effective communication protocols.** CAEs and their constituencies should establish formal communication protocols that strike a balance between content and style to encourage the effective flow of information to and from each stakeholder. The report counsels CAEs to consider each stakeholder unique and modulate the medium and frequency of interactions consistent with their style, not yours.
- **Promote frequent, informal communication.** Although internal auditors primarily are in the business of assessing governance, risks, and controls, they also are in the “business of people.” Therefore, the human element should reign supreme in all interactions and exchanges. CAEs would be well served by getting to know their key stakeholders personally as well as professionally before they have to initiate tough conversations with them. Being able to draw on an established relationship will make it easier for both parties to have such a conversation.

reminded his peers to look throughout the organization—not just within internal audit—for potential talent, whether through a formal staff rotation program or on an ad hoc, as-needed basis.

CRITICALLY REVIEW INTERNAL AUDIT STAFFING

As a CAE, do you have the right staffing, skills, and talent on your team to address the organization's strategies and objectives? Consider whether to hire staff with nontraditional backgrounds.

Overall, participants agreed that CAEs should embrace the business credo, “Know Thy Customer.” “The face of the customer may change internally from time to time, but to the audit committee, internal audit's customer is always the same. That customer is the corporation or other entity internal audit works for,” an audit committee chair said.

Participants mused about how internal audit will know when it is viewed as valuable throughout the organization. One CAE said he felt validated recently when a senior executive of a foreign subsidiary called him unsolicited to volunteer that “something is not right” and to ask for an investigation. The CAE said this outreach ultimately enabled the organization to quickly and effectively address a situation that otherwise could have blown up and put the organization's assets and reputation in peril.

PROMOTING THE INTERNAL AUDIT BRAND

PwC's 2012 assessment of the state of the internal audit profession report says establishing a positive “brand” organizationwide can be a major aid in building a high-performance internal audit activity. Roundtable participants said the most important attribute of a high-value audit brand is being trusted by myriad stakeholders. Other key characteristics include being perceived as objective, fair, and a “true partner.”

The characterization of internal audit as “the eyes and ears of management” seems to have fallen out of favor. “This makes it sound like internal audit is a spy,” a CAE said. Contemporary branding of internal audit should not be “the police” or being “too picky,” participants widely agreed. Instead, they said, it “should always be about adding value.”

Willingness to collaborate on solutions to the oft-changing problems challenging the organization is an essential component of adding value, and CAEs should be mindful of positioning themselves as available for advice as resources permit. In fact, audit committee participants agreed, one brand value metric they watch closely is the number of times internal audit is called on for counsel. “I want the CAE to be a strategic partner and to earn respect for the value he provides,” an audit committee chair said. It is a good senior management practice, he added, “to incent business managers to use internal audit for facilitation and consulting.”

Another good measure of internal audit's brand value is the CAE's presence—or lack thereof—during the organization's strategic planning sessions. “What does it say about how the organization feels about internal audit if the CAE does not have a seat at the planning table,” an audit committee chair asked rhetorically. However, participants noted, asking for this seat will not necessarily result in getting it. “You have to earn it,” they agreed.

ENSURE INTERNAL AUDIT HAS A SEAT AT THE RIGHT TABLES

CAEs must remain up to date on the organization's emerging business initiatives and strategies. Are there committees or meetings you should participate in to stay current?

Yet another important step internal audit can take toward building a strong, positive brand is to communicate, communicate, and communicate. One tactic for doing this is facilitating education and awareness “brown bag lunches,” during which staff can tell peers across the organization at one time what internal audit actually does. Participants said internal audit also should consider developing a “marketing brochure” and distributing it to customers before opening conferences.

Adopting a rotational staffing program not only will provide the organization a breeding ground for talented business unit managers but also help the internal audit brand immensely. “Executives who have done a stint in internal audit almost always become strong advocates,” a CAE observed.

Senior management can enhance the internal audit brand by developing a visibly supportive relationship with the CAE and culturally supporting the values and practices internal audit recommends in its reports. Participants added that the audit committee chair can help in brand enhancement by:

- Making sure the CAE attends all audit committee meetings.
- Meeting with the CAE face to face outside of scheduled meetings.
- Providing the resources the CAE needs to be effective.
- Setting a strong tone at the top and emphasizing the importance of adequate controls.

“The next three to five years will be the most important in the history of internal audit,” observed Jason Pett, leader of PwC's U.S. internal audit services practice. He noted that internal audit is “coming off SOX [Sarbanes-Oxley] and being asked by the audit committee to do more than ever before” in identifying emerging risks, providing assurance on the adequacy of the organization's enterprise management processes, assessing the adequacy of governance practices, and more.

“Internal audit will either step up to this challenge and be viewed as a true value-added partner of the board or go back to the role of historical checker, a function that tells us what went wrong,” he said. “Organizations know they are not managing risks terribly well. Internal audit needs to help.”

