



Stakeholders' Advice to the Chief Audit Executive

Naohiro Mouri, CIA
Douglas J. Anderson, CIA, CRMA

STAKEHOLDER STUDY FACTS

Survey participants	1,124
Interview participants	100+
Countries	23
Languages	13

STAKEHOLDER POSITIONS REPRESENTED

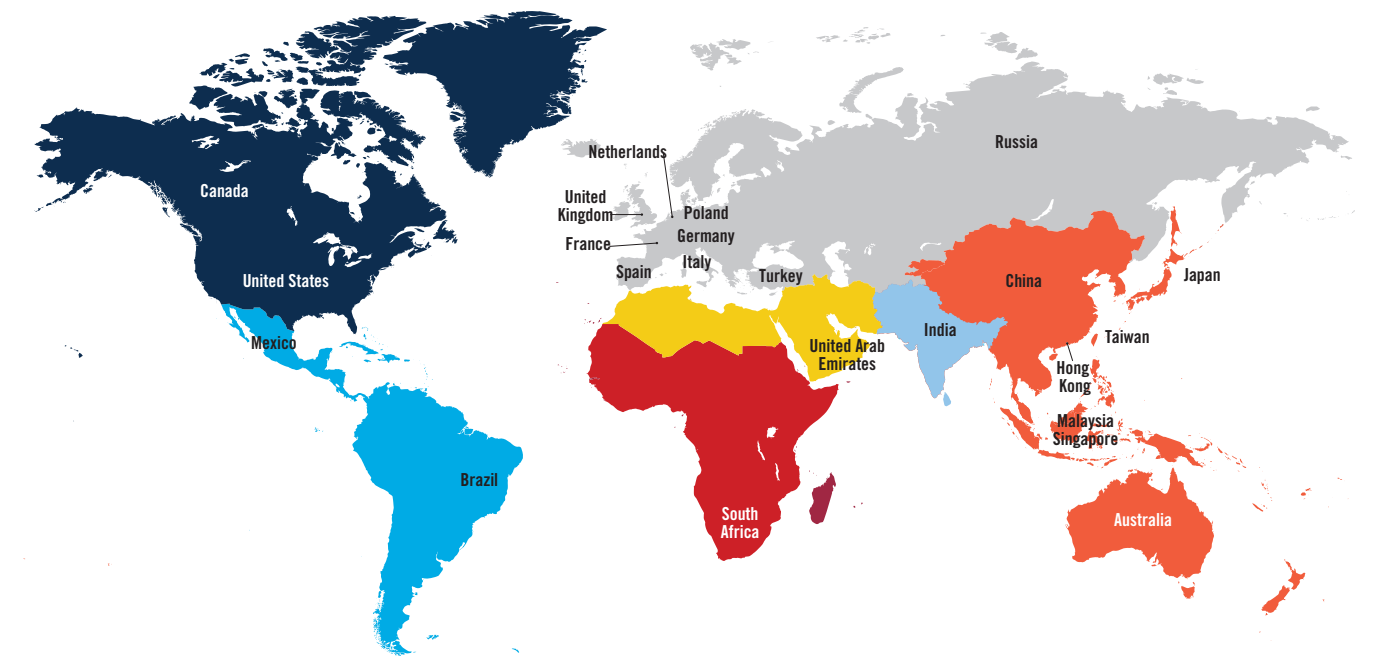
Board member	34%
Chief executive officer (CEO)	15%
Chief financial officer (CFO)	18%
Other C-suite	33%

About CBOK

The Global Internal Audit Common Body of Knowledge (CBOK) is the world's largest ongoing study of the internal audit profession. The current CBOK study has two major components: practitioner and stakeholder. The practitioner study encompasses reports that explore a variety of internal audit practices. To complement this information, the stakeholder study seeks out perspectives from stakeholders about internal audit performance. Surveys, interviews, and data analysis for the stakeholder project were conducted by Protiviti in partnership with IIA institutes around the world. Stakeholder reports focus on identifying leading practices that can improve internal audit effectiveness.

CBOK reports are available free of charge thanks to generous contributions and support from individuals, organizations, IIA chapters, and IIA institutes worldwide. Practitioner and stakeholder reports are available for download at the CBOK Resource Exchange (www.theiia.org/goto/CBOK). Stakeholder reports are also available at the Protiviti website (www.protiviti.com).

CBOK 2015 Stakeholder Study: Participants from 23 Countries



Note: Twenty-three countries participated with the Internal Audit Foundation, formerly, the IIA Research Foundation (IIARF) and Protiviti to distribute surveys and interview questionnaires to stakeholders in their region from July 2015 to February 2016. Partially completed surveys were included in analysis as long as demographic questions were complete. Questions in CBOK reports are referenced as Q1, Q2, and so on. The colors on the map show the seven global regions (based on World Bank categories) used for CBOK studies.

Table of Contents

Executive Summary 4

Business Acumen—The First Requirement..... 4

Essential Capabilities—A Personal Challenge 5

Balancing Competing Priorities—Keeping The Big Picture in Mind 7

Organizational Culture—Promoting Change 8

Conclusion10

Executive Summary

The internal audit department is an essential part of a successful organization, and the chief audit executive (CAE) has a critical role in leading that function. As internal audit becomes more visible and more essential to an organization, so does the demand for effective CAEs—audit leaders who drive high-performing teams and deliver value by consistently addressing stakeholder needs, top-down risks, and the expectations of an evolving marketplace. Boards and executive management expect CAEs to bring innovation, strategic thinking, leadership, and expertise to the internal audit function—inspiring strong and effective internal audit departments. However, while CAEs are expected to have all of these qualities, there may be room for improvement.

What advice does senior leadership have for their CAE to help them improve, continue to grow, and better serve the organization and its stakeholders? The results of the 2015 Global Internal Audit Common Body of Knowledge (CBOOK) Stakeholder Study—specifically, the results from the questions asked of executives and board members who work closely with internal auditors—reveal four key messages for the CAE on how they can perform better in their roles, lead high-performing internal audit teams, and positively impact their organizations.

The points of advice from stakeholders to CAEs:

- Exhibit strong business acumen, including knowledge of the industry, the ability to understand business strategy, and the insight to understand and assess risks.
- Demonstrate leadership skills, technical competence, innovation, and relational competence with audit staff and stakeholders.
- Manage competing priorities, demands, and conflicts within the organization, including communication with all areas of the organization with objectivity and integrity.

- Seek to influence the culture of the organization. Modeling right behavior and thinking, inspiring discussion, and acting as a change agent is crucial to helping improve organizational culture.

Business Acumen— The First Requirement

To be effective, the internal audit department must view itself as a part of the business of the organization, understanding its industry, strategy, and tactics. Through interviews of stakeholders responding to the 2015 CBOOK stakeholder survey, the most-mentioned competency needed in the CAE was *business acumen*, which can be described briefly as understanding what drives success for the organization and its associated key risks. A more complete definition:

*“Extensive experience in dealing with commercial matters that yields a prompt and appropriate response to issues that typically have a favorable outcome. One of the best characteristics to look for in a senior executive is well-developed business acumen that typically comes from the combination of experience and having the innate mental agility needed to deal quickly with business situations as they arise.”**

“The CAE must understand strategy and priorities effectively, and be able to tailor the internal audit services along these lines; but typically, internal auditors do not have enough experience to provide deep consulting expertise to the business.”

—CEO of South African company

When stakeholders were asked about internal audit’s role in strategic risks, 64% stated that internal audit

* <http://www.businessdictionary.com/definition/business-acumen.html>

should have a more active role.⁷ Business acumen is necessary for that more active role; however, stakeholders expressed skepticism that CAEs are sufficiently equipped. A board member from a university in Australia stated, “CAEs often present a theoretical perspective rather than a practical one—largely due to lack of business acumen.” A successful CAE must understand the strategies of their organization, which then allows them to step back and see what is most important. With this understanding, the CAE can best structure the work of internal audit to focus on the most important aspects and add value.

“I would expect CAEs to have hands-on experience in business before taking up the internal audit function. I believe that they can add more value if they have the business experience to leverage.”

—CFO of public company in India

How does a CAE gain the requisite business acumen? The most common response from stakeholders was that business acumen comes from experience and learning lessons. Business acumen is not taught in classrooms, but is gained through engaging with management and front-line personnel as they run the organization. One view often expressed was that CAEs should have business management experience prior to becoming a CAE. Others focused on making sure that the CAE understood the business of the organization, its industry, and its risks. In general, stakeholders emphasized having ongoing professional relationships and constant contact with all key members of the organization to learn from them and to think in a strategic fashion.

It is also critical for CAEs to interact with stakeholders on the basis of this business acumen. They should think about and demonstrate business acumen in all interactions with stakeholders. From the viewpoint of being part of the business, CAEs will be able to speak the language of

management and convey the reasoning behind the views that they express.

ACTION ITEMS FOR CAEs

- ✓ Identify the essentials to the success of your organization—its industry, the external environment, the chosen strategies and business, and the risks related to those strategies and business.
- ✓ Assess your level of business acumen based on the essentials identified. If necessary, develop a plan to spend the time and effort with those in your organization who can help you think more like a business leader.
- ✓ Engage with your stakeholders as a business leader, not a technical auditor. Address issues from their point of view, communicating with them using language that they understand.

Essential Capabilities—A Personal Challenge

While business acumen was a necessary requirement for all CAEs, the 2015 CBOK study revealed that stakeholders expect to see other, equally important capabilities in a CAE. CAE qualities may vary, and stakeholder expectations of their abilities are high. Attributes, such as being innovative, forward-thinking, relational, and able to judge quickly, were frequently mentioned by stakeholders as essential. In fact, a common opinion among many respondents was that a CAE’s poor performance can seriously impact an organization.

CAEs are expected to be leaders, but this requires a broad set of skills and abilities. The CFO of a public company in the US stated it well: “The audit executive needs to display leadership, respect in the organization, and the technical competence in the industry to bring value to the organization. They need to communicate well with all stakeholders and be proactive in their approach and the execution of their audit plan.”

⁷ Q16: Do you believe Internal Audit should have a more active role in connection with assessing and evaluating the organization’s strategic risks? *n* = 859

The general message from the comments of stakeholders in this study outline the basic capabilities required of CAEs:

- Leadership—holding and demonstrating the vision for the internal audit function and the organization as a whole
- Forward thinking—a strategic outlook, “audacious in understanding challenges and issues,” and not the mindset of a risk watchdog
- Sound judgment—in-depth knowledge, critical thinking, and the ability to assess very quickly the depth and importance of issues
- Flexibility—quick thinking, a troubleshooter, adaptable
- Balance—demonstrating a blend of general and specialized knowledge

Two other capabilities warrant attention. The first is innovative thinking. While the past history of internal auditing may not recall frequent memories of innovations, stakeholders rightfully expect CAEs to be innovative. Attributes, such as creativity, a non-conformist viewpoint, and innovative techniques, were all mentioned as necessary for a CAE. Reliance on what has worked in the past does not meet expectations. CAEs must be constantly searching out new ways that are more effective and efficient to fulfil their mission.

The second is interpersonal skills. Internal audit, by its nature, often places the CAE in the middle of differing objectives, opinions, or concerns. Being successful in helping the organization navigate these inevitably conflicting views requires that the CAE be an effective communicator and be able to establish solid professional relationships. As a CFO of a public company in China expressed, CAEs can best manage conflicting priorities among stakeholders by maintaining effective communication and relationships with stakeholders so that potentially competitive priorities can be fully discussed at the board level, and consensus can be reached.

“Of all the skills, perhaps, the most critical are those of a relational and communicative nature. We are of the opinion that they are essential; yet, they are not fully developed...”

—Stakeholder in Italy

The blend of skills and capabilities that CAEs need to be successful can appear overwhelming. Stakeholders recognize the high demands that they have of CAEs, but this does not mean that they are willing to accept mediocrity. Every CAE should be constantly striving to expand their capabilities and improve their skills.

ACTION ITEMS FOR CAES

- ☑ Perform a self-assessment of your capabilities against those expected by stakeholders. Be candid with yourself.
- ☑ Solicit input from stakeholders on your performance in the CAE role; ask them to identify the areas in which you should improve.
- ☑ Document a clear development plan to address the most important gaps in your capabilities.
- ☑ Discuss with executive management and board members your self-assessment findings and your development plans. Solicit approval and consent.
- ☑ Seek out a mentor (internal or external) who is in a senior leadership position.

Balancing Competing Priorities— Keeping The Big Picture in Mind

“[The CAE] must be strong and realize that there are competing interests between the audit committee/board and management.”

—Board member of U.S. public company

In a perfect world, the organizational objectives and priorities of individual stakeholders are fully in synch. However, from time to time there is competition, and objectives either clash with one another or are viewed differently by different stakeholders. The CAE inevitably becomes involved in these types of situations; encountering pressures, competing priorities, competing demands, and even conflict within an organization. The CAE needs to be effectual at balancing competing priorities—a necessary and delicate task. This requires planning, corroboration, and strong relationships.

Stakeholders responding to the 2015 CBOK stakeholder survey stated that keeping the big picture in mind is key to a CAEs ability to balance competing priorities. The CAE should focus on areas of true importance to the business to balance, and sometimes, unravel conflicting demands. To the point in section 1 of this report, a high

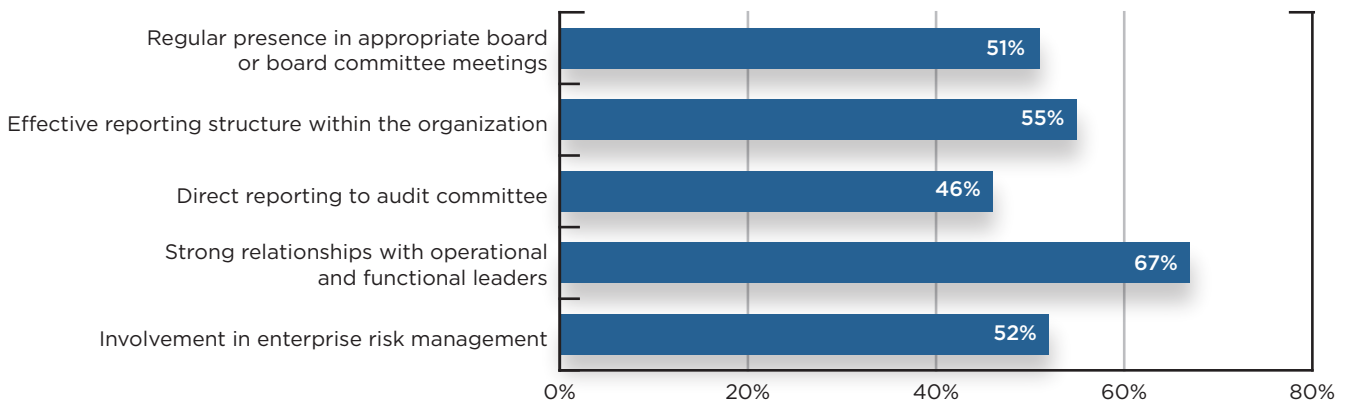
level of business acumen makes it both easier to engage in the balancing act and to gain the respect of stakeholders, resulting in the acceptance of the CAEs efforts.

Stakeholders also rated the importance of internal audit’s relationships, the quality of communication, and the frequency of communication extremely high. **Exhibit 1** shows the responses when stakeholders were asked which strategies the CAE should use in addressing competing priorities and conflicts. Strong people skills, a constant sight on risks, sufficient face time with the board and the audit committee, and active listening are included in the list of skills and abilities needed for the balancing act. Board members stated that the CAE’s regular presence in appropriate board meetings and direct reporting to a board committee are both critical to addressing competing demands.

Sometimes, when dealing with competing objectives and priorities, CAEs may find themselves in the middle of a conflict that is not easily resolved. Stakeholders can have disagreements amongst themselves and with internal audit. In such situations, CAEs would do well keeping the IIA’s Code of Ethics in mind, which states principles and expectations governing the behavior of individuals and organizations in the conduct of internal auditing, including integrity, objectivity, confidentiality, and competency.*

* <https://na.theiia.org/standards-guidance/mandatory-guidance/Pages/Code-of-Ethics.aspx>

Exhibit 1 Strategies for Addressing Competing Demands



Note: Q9: What have you found to be the three most effective strategies for a Chief Audit Executive to employ in order to prioritize and address competing demands in the organization? n = 917

“A successful auditor embeds the principles of The IIA’s Code of Ethics into their work. By following a code that represents integrity, objectivity, confidentiality, and competency, internal auditors increase value.”

—Stakeholder of U.S. public company

Many stakeholders participating in this survey recognize the position CAEs can find themselves in, and encouraged CAEs to be bold and take a stand. Responses focused on reminding CAEs not to forget their professional obligations, and that objectivity can be demonstrated by becoming bolder, being straightforward, and developing a tone that is subtle but honest with all stakeholders.

Navigating through difficult issues in the context of relationships, exhibiting objectivity and integrity, being proactive in addressing potential issues, and taking care to communicate properly, are all elements of the approach most likely to help a CAE.

ACTION ITEMS FOR CAES

- ✓ Develop strong relationships with stakeholders of all types and levels.
- ✓ Do not hesitate to take positions when they are needed.
- ✓ Stay grounded in your professional obligations.
- ✓ Build excellent interpersonal skills to be ready for use when they are critical.

Organizational Culture—Promoting Change

Boards and senior management are ultimately responsible for establishing the right organizational culture by promoting the ethics, values, and behaviors they require across the organization. CAEs are in a unique position and in a unique role; that unique role brings about opportunities to influence organizational culture. In fact, a growing number

of CAEs are performing assurance work regarding an organization’s culture.

“Internal Audit is a lever of organizational culture improvement.”

—Board member of public company in France

This focus is appreciated by stakeholders. As the CFO of a private company in the Netherlands stated, “Internal Audit should have a good antenna for the corporate culture... audit plays a role in identifying issues that may have a cultural cause.” In addition to this assurance work, other avenues are available to internal audit to positively impact the culture of an organization.

“Internal audit can certainly contribute to improving the culture of the organization by helping to raise awareness. If internal audit performs its duties effectively, it helps to make managers aware of risks. When the auditors can explain issues clearly, managers are always able to learn something new. Audit is not simply a formal and bureaucratic process to be performed without explanations. There is always an educational side to internal audit activities...”

—Board member of private company in France

The stakeholders who participated in the 2015 CBOK stakeholder study had advice for CAEs on how they could best take advantage of their unique position and add value to the organization. A common thought resulting from the survey is that internal audit can improve the overall corporate culture when the function is also about educating management and training the organization. Approximately 90% of survey respondents stated that internal audit brings value in this role as an educator.*

* Q15: How much value does internal audit deliver by fulfilling the following roles as part of, or in addition to providing assurance? *n* = 1,355

“Internal Audit cannot improve the culture of the organization if it only tries to identify criminals and punish them.”

—Board member of public company in Turkey

Stakeholders also see internal audit as a valuable change agent. In the same survey question, approximately 85% of respondents stated that internal audit brings value to organizations in this role by promoting best practices. Combining the roles of educator and change agent, CAEs are in a position to help executives and board members better understand risks and consider how to help the organization to best respond to those risks.

Stakeholders emphasized that if the focus on internal audit is on assigning blame for problems, this will impede their ability to positively impact the culture. As bluntly stated by a board member of a public company in the US, “Do not have a ‘got-ya’ approach...[internal audit] should have a proactive, coordinated, collaborative approach to help the organization, and seek to be a positive influence on the culture of the organization.”

CAEs can best position internal audit to improve culture by making sure that they model the behavior they are promoting. A CFO from an organization in the public sector in South Africa suggested that internal audit help to uplift the behavior of the organization by living the values of the organization. CAEs need to ensure that internal audit is transparent, objective, and free from political agendas. Additionally, internal audit should promote discussion of conflicting views and keep the focus on the best interests of the organization and its stakeholders.

On occasion, CAEs have the opportunity to engage with executives and board members in ways that few others in the organization can or want to. The CAE role allows them to “speak truth to power” in a way few others can. As a board member of a public company in The Netherlands stated: “[The] CAE is a sparring partner for the CEO.” The integrity and motive of the CAE needs to be beyond question so that they are not only able to discuss any topic with leadership, but are able to also improve the culture of the organization in doing so.

ACTION ITEMS FOR CAEs



- ☑ Discuss with stakeholders the culture desired for the organization to help ensure the desired culture is defined and agreed-upon.
- ☑ Assess the culture of the internal audit function to ensure it models the culture desired for the entire organization.
- ☑ Embrace the role of educator and change agent, each of which gives the ability to the CAE to improve the organization’s culture.
- ☑ Confirm with stakeholders that internal audit is viewed not only as an enforcer of rules, but also as a valued contributor to the improvement of the organization and its culture.

Conclusion

The role of the CAE is challenging. The role requires competences, motives, skills, and specific levels of integrity not often required of other executive roles. One unique feature of the CAE role worth mentioning is the reporting structure and the multitude of stakeholders whom they serve. It is important that the reporting structure include measures that will alleviate any adverse impact on the independence and the objectivity of the CAE.

The 2015 CBOK Stakeholder study elicited strong advice from executives and board members to CAEs on how they can improve their performance to better bring value in their role. The overarching assertion is that to be effective, the internal audit department must view itself as a part of the business of the organization. Their advice was not surprising:

- Understand the business and its risks.
- Continue to develop your capabilities in this demanding role.
- Keep the big picture in mind while managing competing priorities within the stakeholder group.
- Use your unique role to help improve the culture of the organization.

In closing, keep in mind that the advice extended in this report comes from a large group of global stakeholders. Each CAE should engage with their own stakeholders on these topics and others to explore where they excel and where they can improve to bring value to the role and to the organization. No one ever stops growing, and advice from stakeholders is invaluable to continue this growth for every CAE.

About the Authors

Naohiro Mouri, CIA, is an executive corporate officer and the chief internal auditor of AIG Japan Holdings. Until recently, he was the statutory executive officer, senior vice president, and chief audit executive for MetLife Japan. Over his 24-year career, he has held a number of chief audit executive positions with various organizations such as JP Morgan for Asia Pacific, Shinsei Bank, Morgan Stanley Japan, and Deutsche Bank Japan. As an active member of The IIA, he currently serves on The IIA executive committee, is the vice chairman of professional practice, and is the director of IIA Japan (2003). Naohiro was the first president of ACIIA (2001 to 2006), and is the co-author of “*This is the Internal Auditing for Financial Institutions*,” which has been published in both Japanese and Mandarin. He is also a certified public accountant.

Douglas J. Anderson, CIA, CRMA, is the managing director of CAE Solutions at The IIA. Doug was employed by the Dow Chemical Company for 22 years, departing in 2013. His roles at Dow included 16 years in internal audit (9 years as CAE), global finance director in corporate control, and finance leader for the global Dow latex business. After retiring from Dow, he was an executive in residence and assistant professor of accounting and finance at Saginaw Valley State University in Michigan. He also spent 10 years with PricewaterhouseCoopers early in his career. Doug held a variety of volunteer positions with The IIA for over 20 years before joining the organization in his current role.

About the Project Team

CBOK Co-Chairs:

Dick Anderson (United States)
Jean Coroller (France)

Stakeholder Study Subcommittee Chair:

Doug Anderson (United States)

Internal Audit Foundation Project Team:

Bonnie Ulmer (Vice President)
Kayla Manning (Project Management)
Tameca Alexander (Quality Review & Data Analysis)

Protiviti Project Team:

Brian Christensen (Executive Vice President, Global Internal Audit)
Kevin Donahue (Project Management/Data Analysis)
Lark Scheierman (Project Management/Data Analysis)
Penelope Bryan (Project Management)



Your Donation Dollars at Work

CBOK reports are available free to the public thanks to generous contributions from individuals, organizations, IIA chapters, and IIA institutes around the world.

Donate to CBOK

[www.theiia.org/goto/
CBOK](http://www.theiia.org/goto/CBOK)

About The Internal Audit Foundation

CBOK is administered through The Internal Audit Foundation (Foundation), which has provided groundbreaking research for the internal audit profession for the past four decades. Through initiatives that explore current issues, emerging trends, and future needs, the Foundation has been a driving force behind the evolution and advancement of the profession. The Foundation may be contacted at 1035 Greenwood Blvd., Suite 401, Lake Mary, Florida 32746, USA.

About Protiviti Inc.

Protiviti is a global consulting firm that delivers deep expertise, objective insights, a tailored approach, and unparalleled collaboration to help leaders confidently face the future. Protiviti and our independently owned Member Firms provide consulting solutions in finance, technology, operations, data, analytics, governance, risk, and internal audit to our clients through our network of more than 70 offices in over 20 countries.

We have served more than 60 percent of *Fortune* 1000® and 35 percent of *Fortune* Global 500® companies. We also work with smaller, growing companies, including those looking to go public, as well as with government agencies. Protiviti is a wholly owned subsidiary of Robert Half (NYSE: RHI). Founded in 1948, Robert Half is a member of the S&P 500 index.

Protiviti is not licensed or registered as a public accounting firm and does not issue opinions on financial statements or offer attestation services.

Limit of Liability

The Internal Audit Foundation publishes this document for information and educational purposes only. The Internal Audit Foundation does not provide legal or accounting advice and makes no warranty as to any legal or accounting results through its publication of this document. When legal or accounting issues arise, professional assistance should be sought and retained.

Copyright © 2017 by The Internal Audit Foundation, formerly The Institute of Internal Auditors Research Foundation (IIARF). All rights reserved. For permission to reproduce or quote, contact research@theiia.org. ID #2017-0117