

## WHAT CAES SHOULD KNOW ABOUT STAKEHOLDER EXPECTATIONS

Executives, boards, and audit committees often receive helpful advice on what to expect from, what to provide to, and how to work effectively with internal auditors. However, guidance going in the other direction — from senior leadership to CAEs — may not always be quite so plentiful. At least, not until now, with the release of the Internal Audit Foundation’s Common Body of Knowledge (CBOK) report, *Stakeholders’ Advice to the Chief Audit Executive*.

The CBOK study asked a large group of global executives and board members who work closely with internal auditors to indicate how CAEs can improve their performance in the role, lead high-functioning internal audit teams, and contribute more positively to their enterprises. Their advice reinforces activities that are probably on the to-do list of every conscientious CAE who aspires to be a trusted advisor:

- Know the business.
- Be a leader.
- Understand and manage priorities and demands.
- Inspire ethical behavior.

This advice was not couched as “nice to have” suggestions. On the contrary, many of the survey respondents made it clear that, in their opinion, a CAE’s performance can make or break an organization. With organizational success at stake, every CAE should take their words to heart.



### Know the Business

Mastering this skill depends on the CAE and the internal audit department viewing themselves as an integral component of the organization’s business. They must develop a keen understanding of the business’s strategy, industry, key risks, operations, and culture. This often starts, as does most business knowledge, with an understanding of what drives executive management and the board. What are their needs? What pressures and goals shape their thinking? The astute CAE and his/her department place those hot buttons as their highest priority and determine how they can help meet the needs, alleviate the pressures, and achieve the goals.

## About The IIA

The Institute of Internal Auditors Inc. (IIA) is a global professional association with more than 190,000 members in more than 170 countries and territories. The IIA serves as the internal audit profession's chief advocate, international standard-setter, and principal researcher and educator.

## The IIA

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So important is this mindset of being integrated with the business that CBOK stakeholder respondents identified business acumen as the CAE's most-needed competency. One respondent from Australia called business acumen the trait that enables a CAE to present practical perspectives, rather than theory.

Business acumen is a broad term that can cover many skills, but it commonly entails an understanding of what drives organizational success and the associated key risks. Dealing with risk is often considered internal audit's natural comfort zone, a view echoed by nearly two-thirds of stakeholders who responded to the survey. However, those stakeholders also suggested that internal audit could do even more — play a more active role in assessing and evaluating strategic risks.

As desirable as business acumen is, it is not easily acquired; it cannot be picked up by completing a class or two. It requires the CAE, with the support of management and boards, to gather as much experience as possible (business management experience is considered especially valuable), and observe and learn from all those who manage and/or run the organization. Learning from mistakes is a critical input into building business acumen.



## Be a Leader

Like business acumen, leadership is a broad term encompassing many individual attributes, and CBOK survey stakeholders said they expect CAEs to demonstrate a broad, representative number of them.

CAEs should have a firm vision for the internal audit function, constantly looking ahead, taking a strategic view of challenges and issues, and facing them with audacity and courage. They must use sound judgment based on critical thinking, quick analysis, and adaptability. And they need to demonstrate balance — between current challenges and future opportunities, between general and specialized knowledge, between technological competence and the human touch.

Innovation is also a strongly recommended trait for CAEs, as is being a change agent. They should look for ways to be creative and consider information and issues with a nonconformist viewpoint. With stakeholder expectations of CAE performance so high, CAEs cannot afford to rely on “how we’ve always done it.” Current problems require current solutions.

And, of course, because leaders, by definition, require followers, CAEs must be adept at building relationships, not only with audit staff, but also with other employees, senior executives, the audit committee, customers, and other stakeholders. This necessitates an ability to foster discussion and a willingness to listen to other points of view. And keep in mind that relationship-building works in both directions.

## Understand and Manage Priorities and Demands

Every organization faces an array of priorities and demands, and they are seldom in perfect harmony. Internal audit, by its nature, tends to be in the thick of such disparities. As internal audit’s leader, the CAE has the double task of weighing the priorities and determining how to ensure everyone understands the decisions made.

Respondents to the CBOK stakeholder survey were adamant that the CAE’s evaluation of conflicting priorities should be in the context of the big picture: What is most important to the business and what are the risks? This unwavering focus is greatly assisted by the CAE’s establishment of an internal audit function that is transparent, objective, and free from political agendas.

Still, not all will agree with the decisions made. Many stakeholders participating in the survey recognized the difficult position in which CAEs find themselves, and encouraged them to respond by taking a bold stand, being straightforward, and using a professional tone with all stakeholders.

Other interpersonal skills also come into play in difficult situations. Previous efforts to develop open, respectful relationships with employees at all levels of the organization will facilitate having the right conversations with the right people. Once those conversations begin, CAEs must communicate often and frankly, support recommendations with facts and reason, use the language of the business, and drive toward consensus.

CAEs must also be prepared to communicate equally frankly and often with the audit committee and the board, which should be receptive to this input. Not only is this integral to maintaining an independent internal audit function, the CBOK survey stakeholders identified such interactions as critical in supporting the CAE’s efforts to address competing demands. The board members among the survey respondents went so far as to

## Taking a Skills Inventory

Stakeholders should be gauging the CAE on whether their portfolio of attributes is up-to-date and relevant, and whether the internal audit department is functioning optimally.

- Is the CAE intimately familiar with the elements that are essential to the success of the organization, such as its industry, its strategies, its core business, and the risks related to those strategies and business?
- Does the CAE have the skills required to contribute to the organization’s success?
- Does the CAE know what stakeholders expect, and do stakeholders adequately communicate those expectations?
- Is the CAE speaking to stakeholders in language that is meaningful to them?
- How does the CAE — and how do stakeholders — characterize their relationship?
- Does the CAE have the professional and technological knowledge required of the role?
- Does the culture of the internal audit function model the culture desired for the entire organization?
- Have stakeholders discussed their perception of the internal audit function? Is it viewed as an enforcer of rules or as a valued contributor to the improvement of the organization and its culture?

*Source: Adapted from Stakeholders’ Advice to the Chief Audit Executive, Internal Audit Foundation*

characterize the CAE's regular presence in appropriate board meetings and their reporting to a board committee as necessary for success in managing the balancing act.

## Inspire Ethical Behavior

Ethical behavior within an enterprise is often described as being set by the “tone at the top.” CAEs are among those at the “top” and are expected to model ethical behavior. One way they can do so is by maintaining independence and objectivity. CAEs must ensure that enterprise reporting structures support — at least, do not negatively impact — their ability to remain independent and objective. Only then can internal audit provide assurance and advisory services that deliver full and expected value.

Assessing organizational culture is a growing focus for internal audit. The CBOOK survey stakeholders appreciate these activities, but point out that internal audit's approach can sometimes be detrimental to sustaining the very culture such assessments are intended to build. Specifically, stakeholders noted a “gotcha” mentality and assigning blame as ways internal audit can negatively affect culture.

On the other hand, internal auditors can uniquely add value by acting as an educator for the enterprise. Approximately 90 percent of survey respondents suggested that internal audit can improve the overall corporate culture by educating management and training the organization.

CAEs should be expected to acquire, nurture, sustain, and enforce a wide array of skills. Improvement cannot be entirely self-defined, however, and stakeholders should expect the CAE to not bypass any opportunity to ask key questions such as those posed in the CBOOK stakeholder survey: “What do you need from internal audit? And how can I make that happen?” Finding and applying the answers can lead to a trusted relationship.



### Quick Poll Question

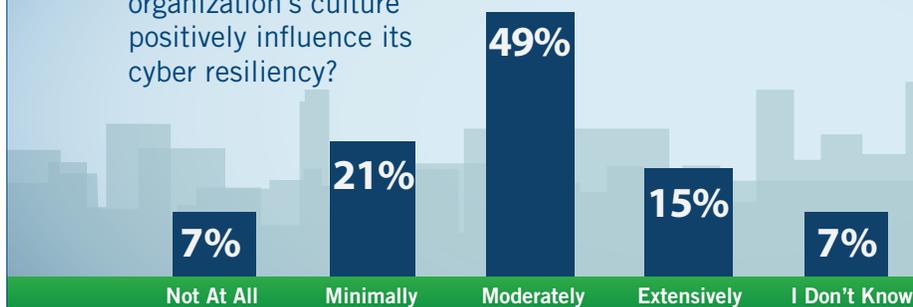
How well-equipped is the internal audit department for functioning at an optimal level?

- Fully equipped
- Well equipped
- Moderately equipped
- Minimally equipped
- Not at all

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## Quick Poll Results:

How well does your organization's culture positively influence its cyber resiliency?



Source: *Tone at the Top* June 2017 survey. Results do not equal 100 due to rounding.

