

IPPF – Practice Guide

CHIEF AUDIT EXECUTIVES — APPOINTMENT, PERFORMANCE EVALUATION, AND TERMINATION

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Table of Contents

Introduction	1
Executive Summary	1
Appointing a CAE	1
Attributes	2
Skills	2
Evaluating CAE Effectiveness	3
Attributes	3
Skills	3
Termination of the CAE	4
The CAE Resigns, Retires, or Contract Period Expires	4
The CAE is Terminated by the Employer	5
Detailed Internal Auditor Competencies.....	5

Introduction

This practice guide discusses the types of considerations senior management and boards of directors would typically address when appointing, evaluating, or terminating a chief audit executive (CAE). CAEs may also want to have a good understanding of these considerations as they evaluate their own performance and how they support an organization in their role.

The International Professional Practices Framework's (IPPF's) *International Standards for the Professional Practice of Internal Auditing* (Standards) include attribute and performance standards that help identify the attributes and skills of an effective CAE.

Executive Summary

In today's business environment, where there is increasing focus on governance, risk management, and control, appointing a CAE is a critical undertaking for any organization. This imperative activity is one of the key responsibilities of the organization's board. The CAE will have a high degree of interaction with senior management and the board and thus needs to demonstrate the right attributes and skills for the position.

The CAE's unique role in the organization requires independence and objectivity while also demonstrating an ability to partner within the organization to add value to its operations. Independence and objectivity are fundamental to the CAE's role because the individual must be willing to raise difficult issues with both senior management and the board, even if that proves unpopular. To maintain credibility, CAEs must demonstrate the ability to escalate difficult issues to an appropriate level to ensure they are adequately addressed. In addition, a CAE exhibits the attributes of integrity, intellectual curiosity, and a focus on audit quality. Key skill categories for a CAE include

technical, business, communication, and people management skills.

During the process of a CAE's appointment and periodic evaluations, senior management and the board typically will consider those attributes and skills. A CAE may want to consider them when evaluating his or her own performance and considering his or her development needs.

APPOINTING A CAE

When hiring a CAE, the board and senior management will likely seek individuals who possess strong management and leadership skills. While strong internal audit knowledge, technical skills and experience at the time of appointment would be an advantage, they are not a requirement if the internal audit staff collectively have the requisite knowledge, skills and experience to deliver internal audit services in accordance with the *Standards*. However, it is strongly encouraged that all CAEs, either before appointment or within a reasonable time period after appointment, demonstrate a strong understanding of the roles and responsibilities of internal audit, the IPPF, and audit technical skills through attainment of the Certified Internal Auditor® (CIA®) designation. The key professional and personal attributes are likely to be detailed in the job description for the position and will generally make clear the reporting relationships with the board and senior management. The board may request to meet with the CAE candidates before making a final hiring decision.

Potential CAEs also need to demonstrate well-tuned soft skills, including the ability to:

- Accurately evaluate situations and instinctively do the right thing in the face of opposition and conflict.
- Demonstrate good judgment and strength of character and bring forth issues in a balanced way.
- Present himself or herself as an astute business person, with excellent verbal and written commu-

nication skills, a clear and analytical thinker, a good facilitator and consensus-builder, and a creative problem-solver and idea generator.

- Behave as an ethical professional who can be trusted always to operate at the highest level of integrity and to act on the strength of his or her convictions regardless of the potential consequences.

For CAEs to be effective in today's dynamic environments they must have the following essential attributes and skills.

Attributes

Independent, Objective, and Ethical.

- The CAE should be both a partner to senior management in monitoring the organization's ethical and operational environment and an independent and objective professional in assessing the results of management's work on behalf of the board.
- The CAE must balance these two responsibilities and deliver an unbiased and equitable assessment under all circumstances. Uncompromising ethics, the ability to listen with an open mind, and the strength and integrity to be firm under pressure will enable the CAE to report to the board and senior management evidence-based, objective findings of the internal audit work performed.

Intellectually Curious.

- The CAE should be a curious explorer, investigative reporter, and avid analyst whose role it is to discover, interpret, question, and challenge. This once again enables the CAE to add value and to provide independent and objective assurance and consulting to all levels of the organization.

Quality Focused.

- The CAE should have a strong focus on the quality of the internal audit activity achieving the highest level of professionalism. This includes adhering to the IPPF, which requires establishing a quality as-

surance and improvement program and undergoing internal and external quality assessments.

Skills

Solid Business, Technical, and Process Skills.

- To effectively evaluate risk, assess sufficiency of controls, identify process improvement opportunities, and effectively communicate with senior management and the board, the CAE must have a good understanding of the organization's business processes and the structures used in the delivery of these processes. Additionally, in today's environment where IT drives key business processes, the CAE needs to understand the organization's IT environment to identify and assess the magnitude of the IT-related issues facing the organization.

Communication and Listening Skills.

- The CAE must communicate in a concise, professional manner to be effective in articulating risks and opportunities to a broad spectrum of stakeholders, including the board, senior management, external auditors, and regulatory agencies.
- The CAE also must demonstrate excellent listening skills during all exchanges with the various stakeholders.

People Management.

- To build and sustain a successful internal audit team, which may include or consist of cosourced professionals from an external service provider, the CAE must be an effective leader and exhibit expert management skills. The CAE must be able to bring out the best in people, while balancing differing needs of professional growth, travel, and personal life.

Before appointment, the CAE candidate may wish to inquire whether the organization has an appropriately constituted board and determine if they have the proper safeguards in place to enable the CAE to carry out the duties of the position. This enables CAEs to fulfill their

responsibilities objectively without fear of reprisal and to know that action will be taken by the board if required. Without this safeguard, that CAE could be removed, placed under duress, censored, or have his or her scope and resources reduced inappropriately by senior management.

EVALUATING CAE EFFECTIVENESS

An effective internal audit activity will likely include the board and senior management having in place a formal evaluation of the CAE's performance on a regular (at least annual) basis. This evaluation could include criteria pertaining to the CAE's required attributes and skills. The CAE may be required to review the criteria through a scorecard, which can be tied back to the internal audit activity charter and the CAE's job description.

CAEs should be prepared for their performance evaluations to include the criteria described below.

Attributes

Independent, Objective, and Ethical.

- The CAE demonstrates objectivity in his or her actions and provides verbal and written reports that are clear, complete, and free from bias.
- The CAE communicates issues accurately and timely, even when there is opposition and conflict in doing so.
- The CAE provides a balanced perspective on topics such as organizational risks and exposures and can maintain positions in meetings even when they may be contrary to popular and forceful opinion.
- The CAE is open and direct in his or her communication with the board and candidly expresses opinions in executive sessions.

- The CAE and his or her team have no direct authority to perform operational duties for the organization that conflict with the scope of the internal audit activity.

Intellectually Curious.

- The CAE monitors the organization and its surroundings regularly, and provides proactive audit responses to changes in the risk environment (for example, new products and services, changes in regulation).
- The CAE incorporates the latest developments and new ideas related to governance, risk management, and internal controls into his or her practice where appropriate.

Quality Focused.

- The CAE ensures that work is performed in accordance with all elements of the IPPF.
- The CAE facilitates the monitoring of quality by both continuous and periodic, internal and external quality assurance initiatives and addresses performance gaps through monitored action plans.
- The CAE incorporates feedback from the board, as appropriate, to improve the quality of internal audit services provided.
- The CAE routinely collects critical feedback from stakeholders to improve internal audit service and ensure stakeholder expectations are continuously assessed and met.
- The CAE has appropriate professional credentials, preferably holding the CIA designation, and actively encourages all internal audit staff to attain and maintain such qualifications.

Skills

Solid Business, Technical, and Process Knowledge.

- Adequate audit coverage is aligned with organizational goals and documented in annual and long-term internal audit plans.

¹Executive sessions are those where the CAE meets alone with the board without the presence of organization management.

- Internal audit plans are developed and documented using a risk-based methodology to ensure they are focused on the right areas, performed on the right cycle, and with the right scope.
- The CAE has a thorough understanding of the business and related risks and ensures resources are deployed to maintain appropriate risk coverage throughout the year.
- The CAE requests appropriate board and senior management input to the internal audit plan.
- The CAE works effectively with the external auditor and other stakeholders to ensure sufficient and efficient risk coverage.
- Plans are monitored and amended as the business environment and risks change, and the board and senior management are appropriately informed of such amendments.
- The CAE allocates time for special projects and advisory services as requested by senior management and/or the board after appropriate consideration of the risks involved.
- The CAE is held accountable for achieving planned internal audit coverage.
- No major control issues come to light after audit work that indicates deficiency in the scope or quality of the audit.

Communication and Listening.

- The CAE requests regular, concise communications with the board (through formal meetings, executive sessions, and access to board members for private conversations).
- The CAE provides a balanced perspective on topics such as organizational governance, risk, and internal control issues.
- When issues requiring action are identified, the CAE works with senior management to facilitate effective solutions and encourage appropriate corrective action in a timely manner.

- The CAE candidly expresses opinions to senior management and can maintain positions in meetings even when they may be contrary to popular opinion.
- The CAE holds regular meetings with other stakeholders for purposes of debriefing, sharing information, and ensuring ongoing coordination.

People Management.

- The CAE maintains adequate resources to discharge responsibilities and manages turnover to appropriate levels.
- The CAE has available, or acquires, resources with the professional proficiency and business knowledge required to execute the audit plan.
- The CAE effectively uses expertise of other departments as necessary, such as legal, compliance, fraud, and IT.
- The CAE supports internal audit staff who rotate into and out of management and line positions to promote the importance of control awareness in all aspects of the organization.
- The CAE's reliance on and coordination with the external auditors are optimized resulting in appropriate audit coverage at a reasonable cost while minimizing duplication of effort.
- The CAE provides staff with appropriate performance evaluations.

TERMINATION OF THE CAE

The termination of the services of the CAE may be voluntary by the CAE or involuntary. Upon termination, the board would likely consider the following issues.

The CAE Resigns, Retires, or Contract Period Expires.

The CAE may resign or retire from the position at any time in accordance with the conditions of the contract

(if a contract exists) by providing appropriate notice to the employer. The CAE may wish to resign for a range of reasons, and the employer, through the board, may have in place a process, such as an exit meeting and/or a questionnaire, to identify the reasons for the CAE's resignation and determine whether there are any issues that require further attention. When a contract exists and the term expires but is not renewed, the board may desire assurance that nonrenewal of the contract is appropriate.

Questions the board might consider include:

- Did the CAE resign due to inappropriate limitations placed on the scope of his or her role and activities by management?
- Did the CAE resign due to remuneration/bonus issues, which management controlled?
- Did the CAE receive adequate support from the board and management to enable conformance with the Standards?
- Did the CAE have adequate resources to fulfill the requirements of the internal audit activity?
- Are there opportunities for future improvement that the CAE would recommend?

The CAE is Terminated by the Employer.

Generally, the board would oversee the termination of a CAE. Boards will want to determine if termination is justified and appropriate. Identifying sensitive issues or wrongdoing by management are not reasons a board would generally consider for termination of a CAE; whereas, termination that is either voluntary or due to poor performance would be considered acceptable. The board will most likely want to ensure the termination is not voluntary in appearance only, but is genuinely voluntary.

It is reasonable for the CAE to expect that the board may consider terminating his or her services when there is adequate evidence that:

- Stipulated professional performance requirements were not met.
- A material breach of either The Institute of Internal Auditors' (IIA's) Code of Ethics or the organization's internal code of conduct was committed.
- Material non-conformance with the IPPF's *Standards* exists.

When an involuntary termination is considered, the CAE needs to be prepared for the board to:

- Review the documentation related to the performance issue(s).
- Meet with the member(s) of senior management responsible for the recommendation for termination.
- Meet privately with the CAE to confirm/discuss the performance issue(s), including the questions posed above.

Detailed Internal Auditor Competencies

The IIA has developed a detailed competency framework for CAEs and all levels of internal auditors. It is available at: <http://www.theiia.org/guidance/additional-resources/competency-framework-for-internal-auditors/>.

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About the Institute

Established in 1941, The Institute of Internal Auditors (IIA) is an international professional association with global headquarters in Altamonte Springs, Fla., USA. The IIA is the internal audit profession's global voice, recognized authority, acknowledged leader, chief advocate, and principal educator.

About Practice Guides

Practice Guides embody an IIA statement to assist a wide range of interested parties, including those not in the internal audit profession, in understanding significant governance, risk, or control issues and in delineating the related roles and responsibilities of internal auditors on a significant issue. Practice Guides are part of The IIA's International Professional Practices Framework. As part of the Strongly Recommended category of guidance, compliance is not mandatory, but it is strongly recommended and the guidance is endorsed by The IIA through formal review and approval process. For other authoritative guidance materials provided by The IIA please visit our Web site, www.theiia.org/guidance.

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