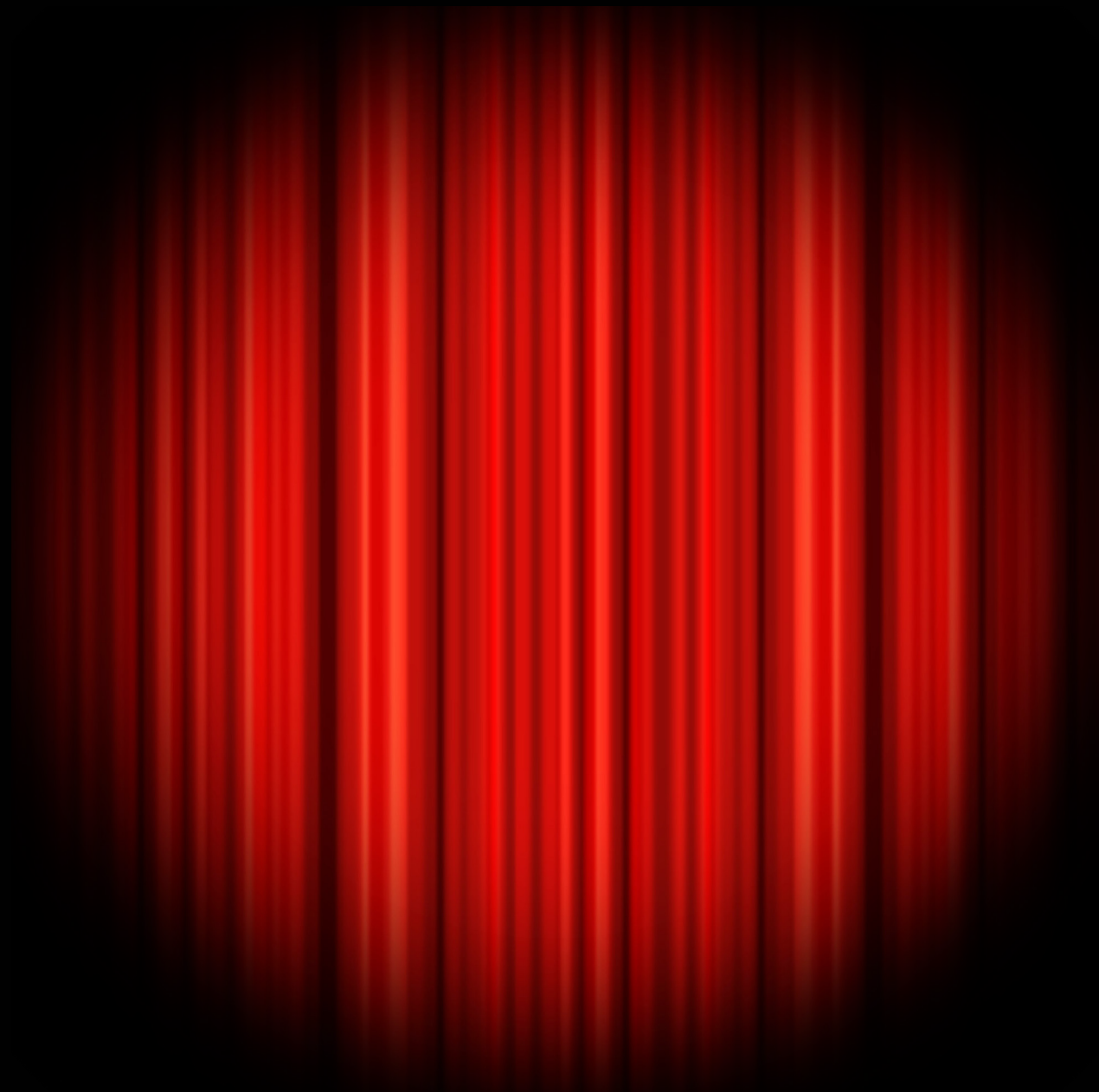


Deloitte.



Chief audit executives
Ready for the spotlight?

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If you are a Chief Audit Executive (CAE), you may be feeling the glare of the spotlight—now or in the near future. In many organizations a growing audience of stakeholders is expecting more from internal audit and from the CAE. They expect you to align internal audit with business strategies, chart a course forward, and launch efforts that will fulfill existing and emerging needs.

Stakeholders want internal audit to assure, advise, and anticipate. They want you to provide assurance that controls are working properly, to advise them on enhancements and operational issues, and to anticipate and provide insights on risks to the organization.

However, stakeholders won't tell you how to do these things. Which is great because you get to write your script, develop your talent, create new relationships, and further your professional goals and those of your staff, while moving the organization forward.

Given the current risk environment, disruption across industries, and mounting pressures on organizations, this much is clear: Internal audit is headed for a leading role on a bigger stage in a brighter spotlight than ever before.

It's time for you—the CAE—to prepare, to pitch, and to perform.



Lessons from the Labs

Over the past three years, Deloitte Advisory has delivered over 50 CAE Transition Labs. These innovative, immersive, individualized one-day working sessions assist internal audit leaders in assuming new roles and transforming their internal audit programs.

The labs were created in response to increased demands on internal audit stemming from new strategies, regulations, practices, technologies, and risks in most organizations. As noted in *Adapt or disappear*¹, the CAE must take the lead or lend a strong hand in addressing these demands.

In preparing for CAE Labs, we have interviewed hundreds of audit committee chairs, CEOs, CFOs, and other C-suite leaders and stakeholders.

Here is a summary of what they had to say:

- We want more from internal audit than compliance, assurance, and the usual reports.
- We want advice on risks and risk management, and insights into business operations and processes.

- We'd like internal audit to anticipate risks and issues—not just to help everyone stay out of trouble but also to point out opportunities and emerging trends.
- Internal audit needs to ratchet up its analytical game, communicate with stakeholders more clearly, and proactively manage change.
- We want internal audit to partner with leaders in the business and with compliance, enterprise risk management, and other functions.

Many CAEs tell us they're hearing mixed messages when it comes to stakeholders' expectations. That's understandable, given that disruption in industries, organizations, business models, and technology never lets up. Nor does the drumbeat of doing more with less or demands to upgrade internal audit talent, tools, and practices.

What an opportunity!

To help you make the most of it, the following pages present eight key lessons learned from the CAE Labs.

¹ Adapt or disappear: To navigate inevitable upheaval, internal audit must lead the way, deloitte.com, Deloitte, 2015 <http://www2.deloitte.com/content/dam/Deloitte/na/Documents/risk/na_ZA_Risk_AdaptorDisappear_120815.pdf>

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Lab lesson 1: Get in character

To help CAEs grasp each facet of their evolving roles, Deloitte Advisory has defined the four the faces of internal audit leadership: Operator, Steward, Catalyst, and Strategist (Exhibit 1).

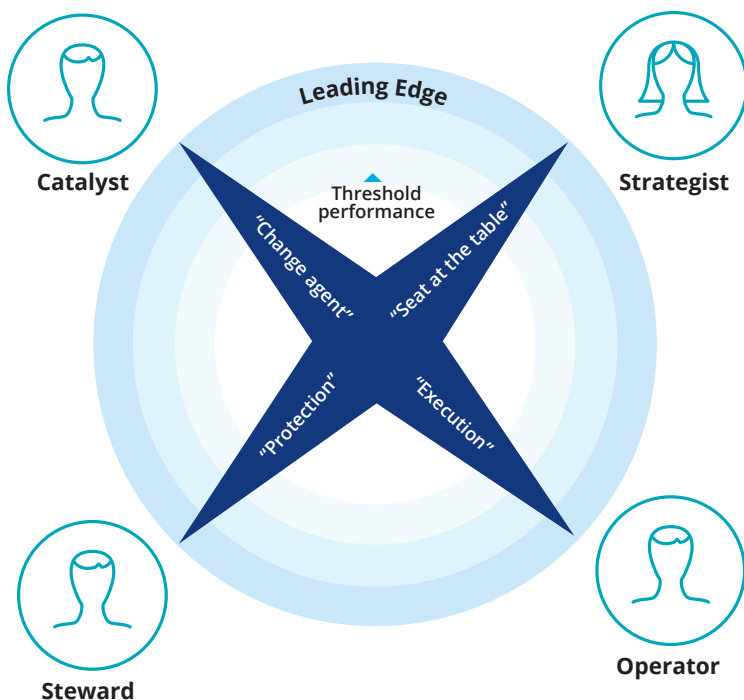
In these roles the internal audit leader acts as:

- Catalyst when serving as a change agent to influence behaviors and bridge silos across the organization, to solve problems and achieve strategic objectives
- Strategist when aligning internal audit's focus with business strategies and partnering with the business to anticipate risks and provide advice to support achievement of business strategies

- Steward when providing objective, independent assurance, compliance, and insight to the audit committee and management and when protecting value
- Operator when balancing capabilities, talent, costs, and service levels to fulfill internal audit's responsibilities

To elevate their roles and the role of internal audit, CAEs might reflect on ways in which they can refresh their approach, allocate their time, and pursue innovation. The considerations and the course of action will vary among CAEs, depending on the organization, the internal audit function, stakeholder expectations, and the individual CAE.

Exhibit 1 : The four faces of internal audit leadership



Lab lesson 2. Sharpen your focus

In many companies, stakeholders want internal audit not only to cover assurance activities but also to add strategic value, understand the culture, help address risks, and get things done. How can a CAE focus on all these “asks?”

One opportunity is for CAEs to enhance coordination with functions such as enterprise risk management and compliance. This calls for proactively connecting internal audit with these groups to focus a wider lens on risks, foster a dialogue about risk, and improve risk-based decision support. This means building relationships, which in turn may call for shutting the laptop, getting out of the office, and visiting managers in the business and functions.

The need to provide assurance will certainly continue, and assurance will likely remain a foundational internal audit activity and source of credibility. The challenge is to avoid getting completely caught up in assurance activities to allow time to expand into the Catalyst and Strategist roles.

CAEs also need to build a strong supporting cast, and apply talent and technology, to execute assurance activities with maximum efficiency to free up time for advising and anticipating. Developing—and empowering—a strong team to lead Operator and Steward activities can enable CAEs to meet organizational as well as professional aspirations.

Questions to consider:

- How do I now focus my time in terms of the four internal audit leadership roles?
- How should I allocate my time between forward-looking, value-creating activities versus backward-looking, value-preserving activities?
- How would the audit committee chair or CEO allocate my time across these activities?
- How can I go about reconciling conflicting expectations?



Lab lesson 3: View reporting through a new lens

In interviews before the labs we often, in various forms, hear the message, “We’ve got to stop auditing the past and be more relevant to what is happening now and what is likely to happen in the future.”

Historically, internal audit has been focused on reporting on the past. But delivering hindsight using only backward-looking methods will no longer meet today’s needs. Shifting to a forward-looking orientation may entail challenging existing methods of reporting.

Business leaders and audit committee chairs also expect internal audit to make the complex simple and to move faster as a function. Yet many CAEs in our labs note that they often race to generate lengthy reports that are heavy on details but light on insights. These reports are sometimes negotiated at length with management and often based on rigid audit plans. As CAEs move forward, they will need different reporting tools, including those that enable dashboards, continuous auditing and reporting, and dynamic internal audit plans.

Questions to consider:

- What do stakeholders value about the reports and information we now produce?
- What do they see as less valuable or useful?
- Which activities and decisions in the business would most benefit from the advisory skills and insights that internal audit can provide?



Lab lesson 4: Develop the talent

Major Hollywood studios once spent considerable resources locating and developing talent. Today that happens through film and acting schools, talent managers and coaches, and aspiring artists working in small clubs and basement theaters and through online video forums.

Internal audit must be equally resourceful about developing talent, an effort that the C-suite is looking to the CAE to participate in and in many instances, direct. Stakeholders want to see internal audit skills and viewpoints applied more broadly. They know that internal audit possesses the organization-wide perspective, professional objectivity, and analytical rigor to assure, advise, and anticipate in ways that are now needed.

C-suite leaders are seeing experience in internal audit as highly beneficial and want internal audit to serve as a talent development pool for future leaders. Increasingly, organizations are bringing internal audit leaders and staff into the function from operational areas, and internal audit leaders are taking operational and other roles within the business. By the same token, people with experience outside of internal audit are moving into internal audit leadership roles.

Ongoing disruption demands that internal audit continually update and upgrade its knowledge and skills. What's needed? Knowledge of business and strategy, technological expertise, analytical capabilities, and communication skills, as well as more specialized skills.

For example, cyber risk and cyber security skills are now in high demand. In many regulated industries, executives expect internal audit to support compliance with expertise in specific regulatory issues. And most organizations need help designing, validating, and assessing nonfinancial processes.

CAEs can leverage internal audit's unique position to acquire resources and develop talent. The first step is often to look up, learn what the organization truly needs, and then develop ways to meet those needs—even before senior leaders fully acknowledge them.

Questions to consider:

- What skills do I need to address the most important risks that internal audit must assist in addressing?
- Do I have the right people in the right roles? Who will I develop and who should I replace? Who will succeed me?
- How can I acquire new—and retain current—talent?
- How can internal audit best go about developing talent for the rest of the organization?

Lab lesson 5: Embrace new technologies

Feature-length films are now being shot on smart phones. (We are not making this up, nor are we vouching for the films' entertainment value.) But while these works are not about to push studio blockbusters out of the multiplexes, they show the power of today's technology.

What does this have to do with internal audit?

Today's technologies place powerful analytical tools in the hands of internal auditors—tools useful for audit planning, auditing entire data sets instead of samples, monitoring certain transactions or accounts continuously, and other applications.

Fortunately, these tools have come on stream just as traditional internal auditing and reporting methods have become inadequate to fully support stakeholder needs. Yet findings from our labs indicate that many internal audit groups often resist new tools and technologies because they underestimate the benefits and overestimate the complexity. Some simply resist change or believe the business will resist change.

These tools have improved dramatically in their simplicity, training requirements, and ability to interface with existing systems. It is now realistic for internal audit to train a few people in one or more of these tools and put them to use.

But success will not be found in just knowing how to use these tools. Creativity and imagination are also needed to exploit new technology for value.

The results are worth the effort. For example, internal audit groups that adopt analytics often see enhanced focus, efficiency, and effectiveness and become more attuned to what's going on in the organization.

Questions to consider:

- How do we foster a creative and imaginative environment in which we can exploit new technologies?
- Where in the organization do we see applications that leave us feeling out of our depth? What can we do about that?
- What are internal audit professionals in our peer organizations doing to adopt new methods?
- How can we accelerate our adoption of new analytical and reporting technologies?
- What is our strategy for utilizing new technologies?

Lab lesson 6: Show, don't tell

Okay, you still have to tell. But your audience is clamoring for clear, crisp, compelling communications.

Relevance is the watchword. Where internal audit groups may once have targeted completeness of coverage as their chief goal, communications must now zoom in on insights and stakeholders' concerns.

Audit committee chairs want CAEs to focus on what the committee most needs to know. While detailed information can still be included (say, in appendices), audit committees value clear, concise communication focused on key risks and how management is addressing them. Audit committee time for the CAE is limited and precious. CAEs must therefore go beyond the mere reporting of findings to "connecting the dots" in order to provide insights from the mass of data points that emerge from internal audit work.

Stakeholders want less content and more value. They expect CAEs to use technology to provide visual analysis of the risk and control environment. They want communications that reflect the CAE's knowledge of the business and provide insights on emerging risks and trends.

Serious preparation goes into effective communications. Establishing a communication strategy early in a CAE's transition can build confidence within internal audit (and the CAE) and with stakeholders. Focusing from the outset on using communications to build relationships will likely create a context for working collaboratively with stakeholders.

Picture this!

Visualization tools can add clarity and value to internal audit communications.

For example:

- Dashboards can help organize information to assist internal audit in streamlining assurance services
- Heat maps and bubble charts can depict risks, issues, and trends in ways that grab audience attention
- Warning flags, "amber lights," and "red zones" can relate risk levels to thresholds in ways that tables and line charts cannot
- Also, you can avoid "special effects fatigue" by first understanding what the audience needs to know, then using visualization tools to communicate that.

Lab lesson 7: Cultivate relationships

Earlier in this document, we mentioned that many CAEs hear mixed messages from stakeholders and that senior leaders typically want the CAE to have a seat at the table. To address each of these challenges, CAEs need to cultivate relationships.

The CAE can best clarify stakeholders' expectations and internal audit's role in the context of relationships. To cultivate relationships, CAEs should develop a cadence of communications with stakeholders to keep in touch and show consistent progress in executing the transition strategy.

Most CAEs want a seat at the table. We believe that CAEs need to—and can—earn that seat and that planning and implementation are the keys. CAEs coming out of our labs clearly understand who their stakeholders are and have focused plans to periodically communicate with them to develop relationships. Those plans specify ways to learn about stakeholders' needs and to deliver advice, anticipate risks and issues, and provide insights they will value.

Finally, don't even attempt a unilateral transformation. To become more service-oriented, the CAE must understand stakeholders' true needs. To partner with the businesses, he or she must gain their trust. To further the relationship with the audit committee he or she must foster agreement and buy-in on internal audit's mission, vision, and plan for the future.

In other words, it's all about relationships.

Picture this!

Visualization tools can add clarity and value to internal audit communications.

For example:

- Who are my key stakeholders and what do each of them want?
- What are these stakeholders now getting that they don't want?
- Which strategies can I use to positively influence them?
- How can I adapt my communication style to specific stakeholders' personalities?



Lab lesson 8: Start with a strategy

Successful actors and directors who once spurned television as a second-class medium now compete for airtime. Long-form television dramas seduce binge-watching viewers while streaming services crowd out once-entrenched networks that failed to evolve.

How did this happen? Once a few pioneers in cable television charted the path to success in the early 2000s, others found they could follow.

What's the path to success for internal audit?

There is no formula. Yet our CAE Labs have demonstrated that successful transitions begin with a clearly defined, practical strategy focused on three elements—time, talent, and relationships.

- **A strategy for time** enables CAEs to decide where they and internal audit should focus attention and effort. A sound transition strategy identifies areas to apply technology to assurance activities to free up time for advising and anticipating. And it defines a timeline, with objectives and milestones, for the transition plan.
- **A strategy for talent** enables CAEs to learn which knowledge, skills, and capabilities are needed to move to the next level and beyond. The goal here is twofold: to fulfill the organization's need for the talent that internal audit is uniquely qualified to deliver, and to provide audit committee and C-suite visibility into key internal audit staff and how the CAE intends to develop their talent.

- **A strategy for relationships** enables CAEs to clarify expectations, earn a seat at the table, and allocate efforts to the Operator, Steward, Strategist, and Catalyst roles. A plan for learning about needs and priorities, aligning divergent expectations, and delivering advice and anticipating risks vastly improves the chances of a successful transition or transformation.

This much we know: Keep doing more of the same, and you will keep getting more of the same. Transforming internal audit calls for a new vision of the function and for CAEs who can formulate, produce, direct, and deliver on that vision.



Lessons from the CAE Labs

By way of summing up the key lessons from our CAE Transition Labs, we would say that to ready yourself and internal audit for the spotlight you should:

01. **Get in character.** Strive to strike a better balance between your Steward and Operator roles and your Catalyst and Strategist roles.
02. **Sharpen your focus.** Dispatching assurance activities as efficiently as possible can free up more time for advising and anticipating.
03. **View reporting through a new lens.** Shifting reporting from a primarily backward-looking focus to a more forward-looking one can support efforts to advise and anticipate.
04. **Develop the talent.** Organizations know they need the expertise and skills that internal audit is uniquely qualified to provide, so it's up to the CAE to provide them.
05. **Embrace new technologies.** New analytical tools are not only useful but necessary to updating methods, improving communications, and providing insights.
06. **Show, don't tell.** Information overload, limited time, and the ubiquity of visual media all indicate that dashboards and other means of visual communication may best meet stakeholders' needs.
07. **Cultivate relationships.** Rather than offer only critiques, internal audit must partner with the business and functions in order to credibly provide advice and anticipate issues.
08. **Start with a strategy.** A strategy that addresses the elements of time, talent, and relationships can enable a CAE to navigate a transition to new roles and transform the internal audit function.



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