

Attributes of a Highly Successful Chief Audit Executive

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Agenda

- Evolution of the CAE
- “Highly Successful CAE” Defined
- Seven Attributes of Highly Successful CAE’s
- Parting Thoughts: What’s Next for CAE’s

A Decade of Seismic Changes

Evolution of the CAE



- CAE's were not always “executives”
 - Advancement was based on technical competence
 - Insulated career path
 - Limited interaction with execs, audit committees and boards

Defining the “Highly Successful” Chief Audit Executive

- Success comes in many forms
- Our definition was derived by:
 - Results of QARs
 - Interaction through the new Audit Executive Center
 - Korn/Ferry’s recruitment experience
 - Interviews with more than two dozen CAEs and audit committee members
- We sought the attributes that distinguished the “highly successful” from everyone else



Seven Attributes of the Highly Successful Chief Audit Executive

1. Superior business acumen
2. Dynamic communication skills
3. Unflinching integrity and ethics
4. Breadth of experience
5. Excellent grasp of business risks
6. Gift for developing talent
7. Unwavering courage

The Highly Successful CAE

Superior Business Acumen

- Organizations are undergoing dynamic change
- Understanding traditional risks and controls is not enough
- CAE's must leverage acumen:
 - To lead internal audit
 - To support the enterprise

“The successful CAE is somebody with real business acumen and operational experience. You need to know what it’s like to run a business and make all the decisions and operational trade-offs leaders make every day.”

- Brian Worrell, CAE
General Electric

The Highly Successful CAE

Business Acumen Abilities

1. Develop/implement plans for new business units/lines of service
2. Assess current/future staffing needs based on organizational goals and budget realities
3. Oversee allocation of financial resources, including implementation of internal controls
4. Oversee procurement and contracting processes
5. Integrate and coordinate logistical operations
6. Ensure the efficient and cost-effective development and utilization of management information systems and other IT resources

The Highly Successful CAE

Dynamic Communication Skills

- Successful CAEs:
 - Customize communications
 - Deliver messages that are clear, concise and insightful
 - Are frank, transparent and comfortable
- Communication fosters stronger relationships with:
 - Audit committee
 - Executive management

“Boards want someone who is a good communicator and won’t sugarcoat or pull punches on important issues. It’s important that our messages are delivered clearly, whether written or oral, so people can understand the magnitude of an issue; is it a rock or a pebble?”

Paul Sobel , CAE
Mirant Corporation

The Highly Successful CAE

Communication Challenges

- Reports are too voluminous or not well written
- Too many reports or too much content
- Limited/inadequate informal communication
- CAE and senior internal audit staff not effective at delivering presentations
- No synthesis of internal audit results (“connect the dots”)
- CAE reluctant to offer/issue opinions

The Highly Successful CAE

Unflinching Integrity and Ethics

- Successful CAEs:
 - Have a strong ethical compass
 - Contribute to conscience of the organization
 - Have a sixth-sense for reputational risk
- Organizational relationships and career aspirations are complicating factors.

“It is essential to have a great understanding of the business. If you don’t, your job can be pretty hard. You need systemic thinking, the ability to connect the dots and understand the implications and consequences of business decisions in order to utilize resources in the most effective way.”

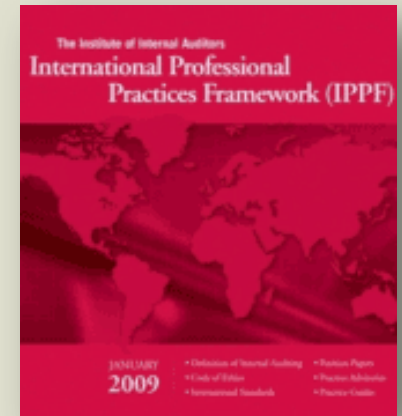
Connie McDaniel, CAE
The Coca-Cola Company

The Highly Successful CAE

IIA Code of Ethics

Internal auditors are expected to apply and uphold the following principles:

- 1. Integrity:** The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.
- 2. Objectivity:** Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- 3. Confidentiality:** Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- 4. Competency:** Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.



The Highly Successful CAE

Broad Experience

- Successful CAE's possess:
 - Comprehensive resumes
 - Hands-on experience
 - Exceptional technical skills
 - A strong grasp of risks and control
 - A deep understanding of how risks impact the bottom line
- Enhances credibility within the business and the Board

“What has changed in the last four years is that the audit committee is looking for a more complete, holistic view from the CAE. They expect the CAE to bring that view, whether it’s about risk management, enterprise risk, operating risk, regulatory interfaces, or financial reporting. They really want one picture of the enterprise so they can understand the risk better.”

-- Brian Worrell, CAE
General Electric

The Highly Successful CAE

Excellent Grasp of Business Risks

- A product of business acumen and a keen understanding of:
 - The industry/enterprise
 - Risk management
- Successful CAEs are:
 - A “player” in the company’s risk management framework
 - Sought out for insight and advice

“You need people who can look across the whole organization and IA is one of the few groups inside the company that actually has the ability to do that. We’ve become a mini-consultant to the business, almost a competitor to the professional accounting firms, and we understand the business better than someone coming in from the outside.”

Andrew Dix, CAE
Telstra Corp., Australia

Key Imperatives for the Coming Decade: Fully Embrace a Risk-Centric Strategy

Focusing on the “Real Risks”

Strategic & Business 60%

Operational 20%

Financial 15%

Compliance 5%

The Highly Successful CAE

A Gift for Developing Talent

- Successful CAEs:
 - Understand that talent is internal audit's most valuable asset
 - Understand and monitor talent needs
 - Align talent strategies with enterprise needs
 - Identify effective talent sources
 - Recruit, develop and retain outstanding talent

“We hire externally as well as rotate people in from finance. We let them know that if they are engaging with their clients, know their business, speak a language the clients understand, and are open and honest with them, there will be no shortage of opportunities when they get out of audit.”

Connie McDaniel, CAE
The Coca-Cola Company

CORE COMPETENCIES FOR TODAY'S INTERNAL AUDITOR: A Component Of the CBOK Study

- Most important behavioral skills identified
 - Confidentiality
 - Communication-sending clear messages
- Most important technical skills identified
 - Understanding the business
 - Risk analysis and control assessment techniques

The Highly Successful CAE

Building Skills for the Future

- Excellent grasp of business risks
- Boardroom presence
- Versatile (experience)
- Courageous
- Visionary
- Innovative and creative
- Team builder
- Motivational



The Highly Successful CAE

Unwavering Courage

- Cynthia Cooper's story - courage in the face of adversity
- Successful CAEs:
 - Recognize the inherent challenge of the role
 - Anticipate that ethical dilemmas will arise
 - Stand firm when required
 - Deliver difficult news without regard to consequences

“Find your courage. Most people want to be part of a team. But groupthink can be dangerous, and the team can be like a herd of bison that follow one another over the cliff’s edge.”

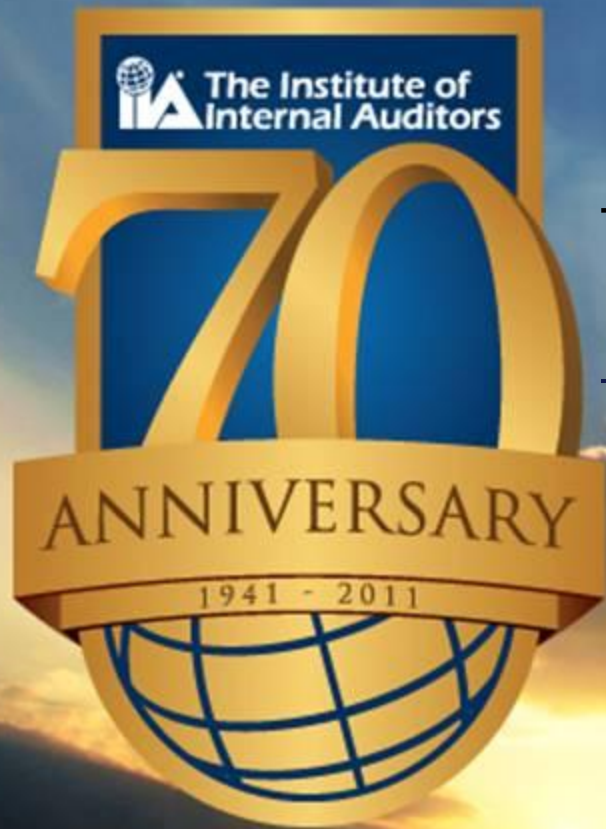
Cynthia Cooper
Former CAE, WorldCom

The Attributes for Success will Evolve

Key Imperatives for the Coming Decade

- Fully embracing a risk-centric strategy
- Customizing the portfolio of services
- Identifying and deploying capacity multipliers
- Enhancing coordination with other compliance and investigation functions
- Demonstrating a stronger commitment to quality

Questions?



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