

Your journey to
success in the chief
audit executive role

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Introduction

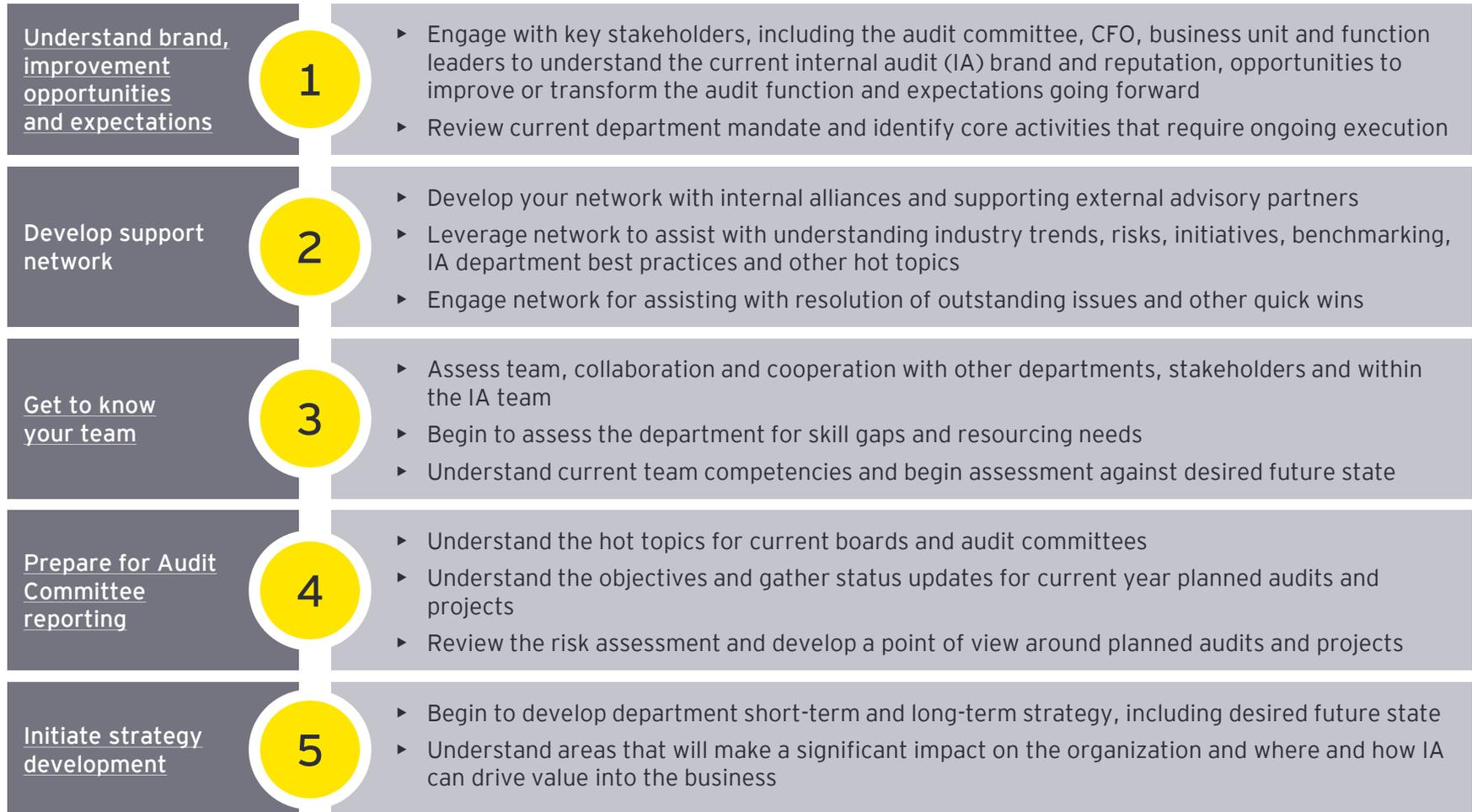
In a complex business environment that is changing faster than ever before, the chief audit executive (CAE) role is increasingly critical – and more challenging than ever.

This guide is intended to equip CAEs to lead in the Transformative Age, and includes materials to guide new CAEs through the first days on the job, as well as the development and execution of a longer-term strategy. Each journey will be different; however, these principles and approaches have proved effective for numerous CAEs, and we hope you find them valuable. Please reach out to your EY team for additional information.



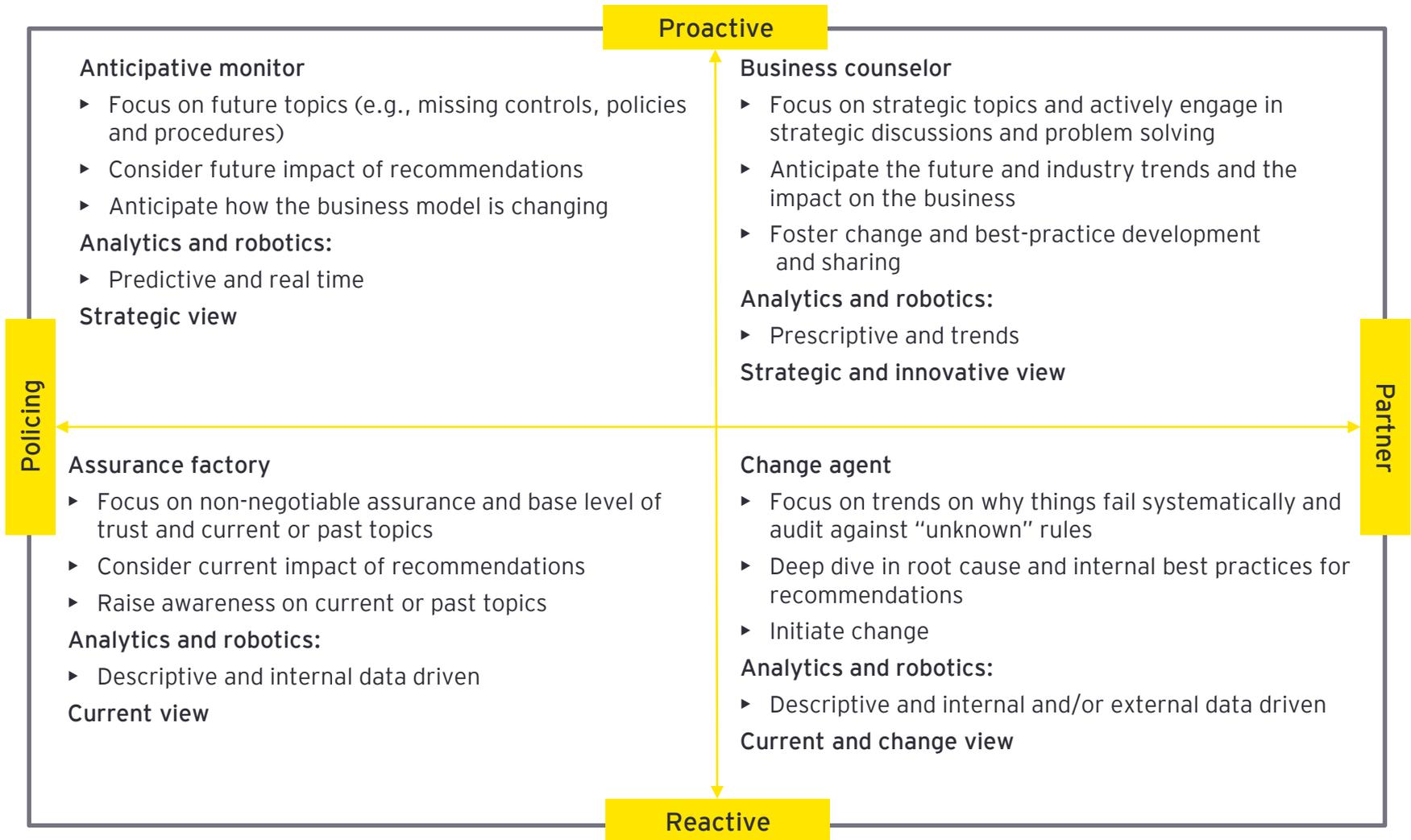
Key chief audit executive focus areas

Top five focus areas



What will the IA mandate be?

The mandate does not need to change, but there will be a better balancing of focus



Building a trusted internal audit brand



Brand elements	Considerations
Market research	<ul style="list-style-type: none"> ▶ Do we understand our customers, their preferences, motivations and buying patterns? ▶ Have we aligned our purpose to the organizational purpose and mission?
Relevancy	<ul style="list-style-type: none"> ▶ Are our services what the organization needs? ▶ Is our service one that the organization wants? ▶ Are we focused on what matters, aligned to the business and looking forward?
Differentiation	<ul style="list-style-type: none"> ▶ What does internal audit bring to the table that is different and desirable? ▶ How are we different than other “assurance” or “consulting” groups in the company?
Consistency	<ul style="list-style-type: none"> ▶ Do we deliver a high quality service every time and build trust? ▶ What is the customer experience of working with internal audit? ▶ Do we exceed expectations?
Brand presence and perception	<ul style="list-style-type: none"> ▶ Are we perceived as valuable or as a necessary evil? ▶ Are we recognized as the leading authority on risk and control in the organization? ▶ Would we know if our brand began to erode?
Promotion	<ul style="list-style-type: none"> ▶ Do we share our purpose and mission with passion? ▶ Do we tell stories of the value and benefits of our services that inspire management to hire us? ▶ Are we leveraging social media and other marketing strategies to inspire action?

Changes in the internal audit landscape



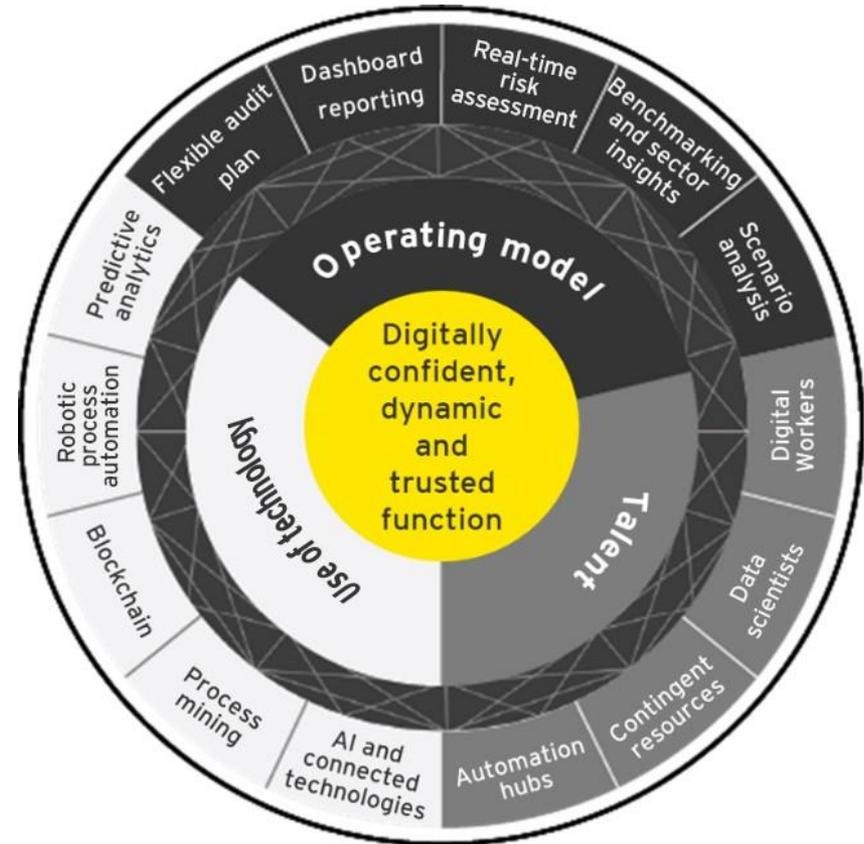
A breathtaking
pace of change
demands a new
design and
different way of
thinking.

Risk must be embedded at the
forefront of business strategy.



New emerging risks and other key factors are driving fundamental change that IA must respond to

- ▶ Look beyond downside risks
- ▶ Be connected to innovation, digital, strategic initiatives
- ▶ Provide forward-looking insights to the business
- ▶ Use methods that allow for data-driven, proactive and insightful approaches
- ▶ Challenge current methods to find new, more efficient ways to execute audits
- ▶ Embrace change management
- ▶ Embrace technology



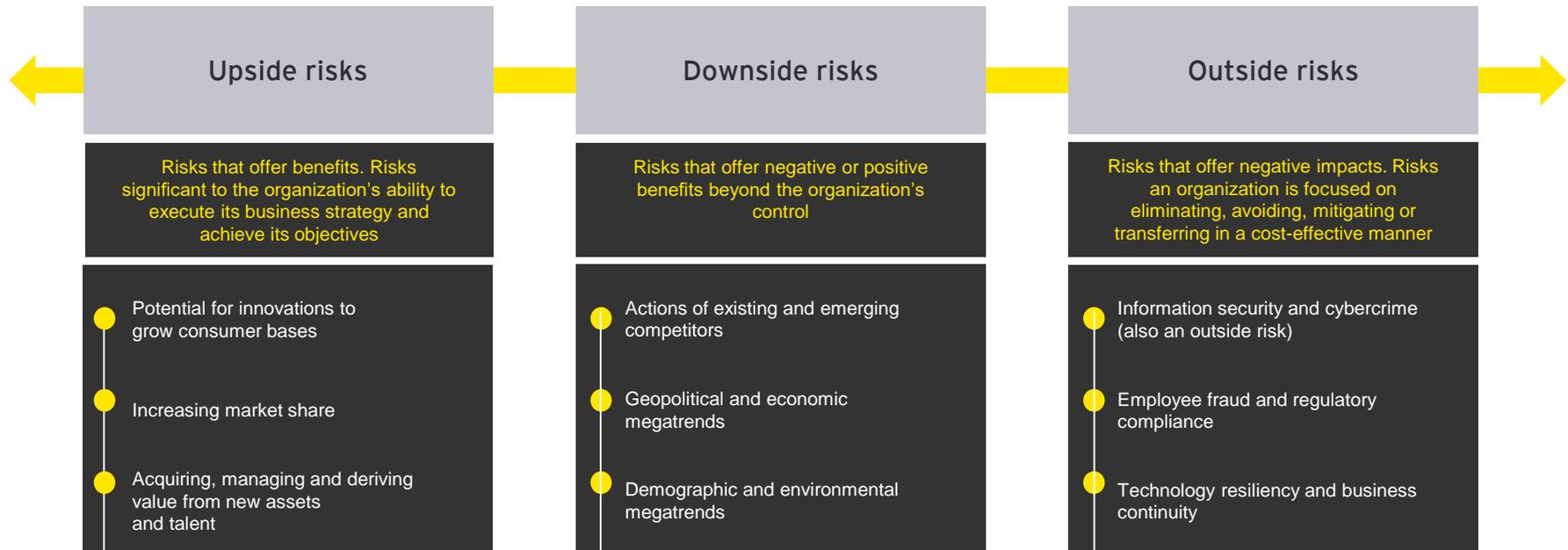
Risk management is no longer risk avoidance

Organizations must move from avoidance to optimization for better business outcomes.

To be successful, organizations will need to shift their focus from simply mitigating risk to embracing new upside opportunities.

Striking this balance requires embedding strong control into strategic decision-making within the front-line businesses and different risk management approaches for each risk type.

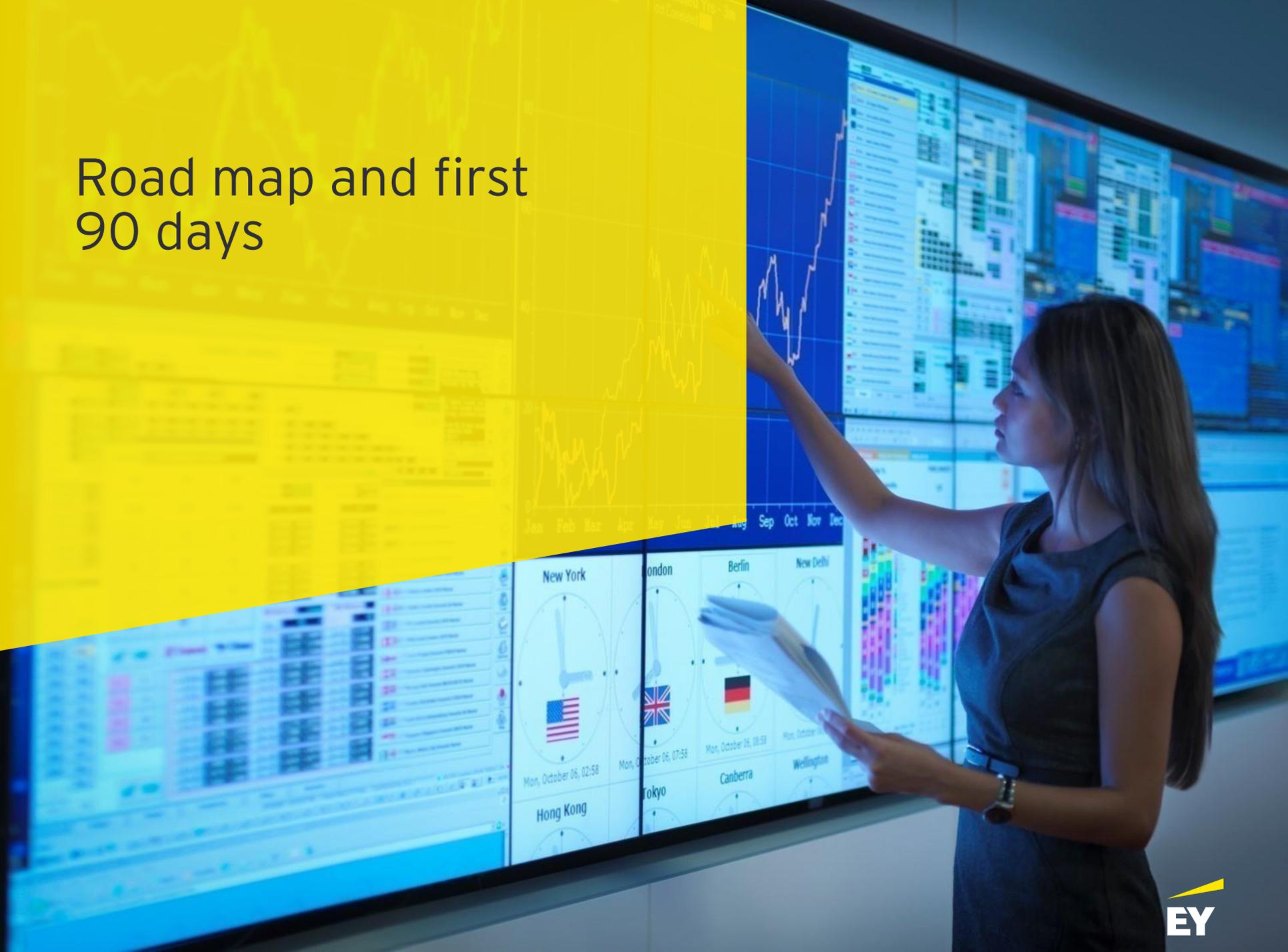
Organizations will need to develop digital capabilities that harness intelligence and deliver insights across the enterprise.



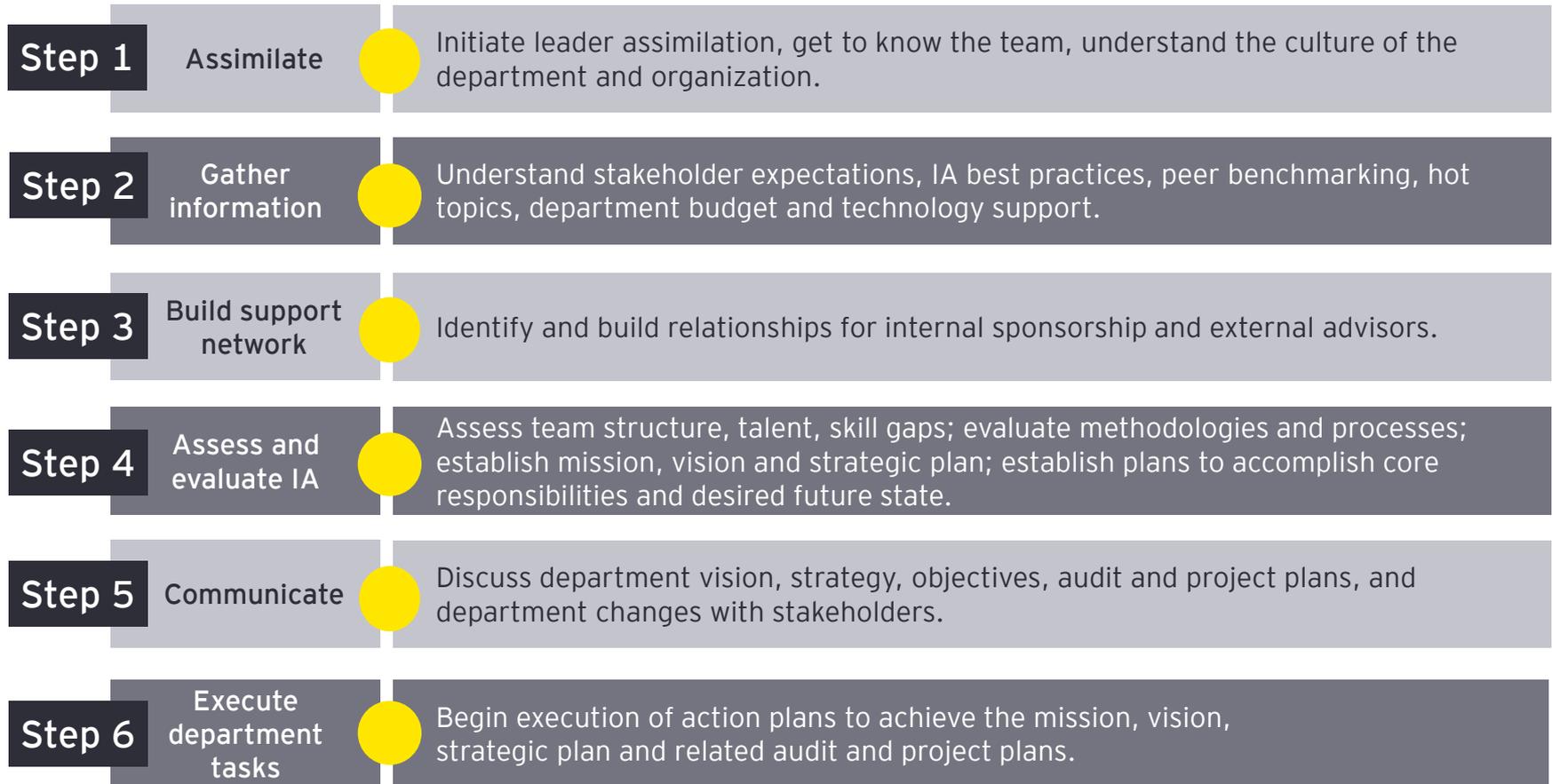
What some IA functions are doing to kick-start transformation

Assess audit needs	Develop IA plan
<p>1 Identify and assess risks beyond today's scope by leveraging predictive, historical and external data.</p> <p>2 Be flexible and agile around internal audit planning and responses based on changing assurance and reporting needs.</p>	<p>3 Deliver through advanced data analytics and visualization, enabling efficient resourcing of audit and risk resources.</p> <p>4 Digitize IA evidence and fieldwork in an integrated, digital platform to drive more insight around themes and trends.</p>
Execute IA plan	Communicate results
<p>5 Use automation to deliver large volumes of transactional and compliance internal audit areas, enhancing risk coverage and improving efficiency.</p>	<p>6 Rethink "traditional" reporting, content and format to communicate messages in new ways.</p> <p>7 Automate internal audit reporting, leveraging digitized IA evidence and fieldwork.</p>

Road map and first 90 days



Road map to success



The chief audit executive's first 90 days

Initial chief audit executive 90-day work plan

Leadership transitions represent a period of opportunity and a chance to review functional priorities and make necessary changes. These transitions can also present challenges given the lack of institutional and functional knowledge and established working relationships. Failure to bring momentum into the new role can present obstacles down the road, especially when contemplating driving significant transformation. Given this, we believe it is critical for a new CAE to:

- ▶ Get to know the team
- ▶ Get to know your customer and auditee
- ▶ Start to develop a transformation plan

One way to help facilitate the building of momentum during this critical time period is by developing and/or using a work plan – a guide to help make sure key activities, meetings or touch points occur. We have found the following work plan to be a useful tool for new CAEs as they take steps in each of the following areas:

- ▶ Governance
- ▶ People
- ▶ Infrastructure and operations



The chief audit executive's first 90 days

	Governance	0-30 days	31-60 days	61-90 days	Completed
Structure, charter and mandate	Review and document the internal audit charter, mission statement. Review the audit committee charter.	Review		Doc	
	Seek and understand any formal or informal expectations of BU management for value-add.				
	Understand the organizational structure (including legal entity structure) and IA's role (e.g., formal and informal reporting, responsibility for Sarbanes-Oxley (SOX) 404).				
Strategy	Review the company's strategic plan and strategic initiative list; cultivate detailed understanding.				
	Develop or revise a function strategy that addresses structure, system, skills and culture.				
Planning and budgeting	Review the audit plan and current status.				
	Review departmental budget.				
	Understand IA's available resources, including budget (is it sufficient to carry out its mandate?).				
Key performance indicators	Review or develop the internal audit performance scorecard or key performance indicators (KPIs).	Review		Develop	
Policies and procedures	Review or develop internal audit department policies, practices and procedures.	Review		Develop	
	Assess the status of the company's policies, practices and procedures.				
Communication and expectations of key management stakeholders	Develop frequency and level of communications with the CEO and CFO.				
	Develop internal audit's relationship with the human resources (HR) department.				
	Identify company stakeholders' expectations of IA's contribution (through interviews).				
	Align objectives and expectations with key stakeholders.				
Alignment with other risk functions	Develop a communication plan with stakeholders (monthly, quarterly reporting, information needed, etc).				
	Understand and develop IA's role in the company's governance and risk management structure.	Understand		Develop	
	Understand the method by which the business assesses its own risk.				
	Understand and participate in or lead enterprise risk management (ERM) according to mandate.				
	Assess the level of coordination between IA and other risk management functions.				
Technology	Understand data sources and analytics used by other risk functions, and opportunities to leverage or align.				
	Understand the use of technology (e.g., data analytics, robotic process automation) within IA and across the company.				
	Embed use of technology into the IA strategic plan.				
Network	Establish networking relationships with local and/or industry CAEs to share leading practices				
	Establish key relationships – build internal alliances and third-party support relationships.				

* Documentation may take place beyond 90 days

The chief audit executive's first 90 days

	People	0-30 days	31-60 days	61-90 days	Completed
People model and competencies	Review and revise, if necessary, IA organization chart.	Review		Revise	
	Review the current personnel status, open positions, in-process hires, transfers, retention rates, etc.				
	Develop a strategic people model, which may include formalized rotation to and from the business.				
	Assess competencies within financial accounting, business operations, control processes, information technology, regulatory, legal, fraud and soft skills.				
	Determine if IA is or should be viewed as a source of talent for the organization and a desired destination.				
	Develop a formal IA competency framework that helps with recruiting profiles, training needs, performance feedback standards, promotion decisions and marketing of IA opportunities to personnel elsewhere in the business. Consider nontraditional skills required to be successful in the current and future business environment (e.g., technology knowledge, adaptability).				
Staff development and mentorship	Develop training policy, current training plan and link to competency framework. Identify training needs related to use of technology.		Develop	Link	
	Develop individual performance plans and career plans.				
	Assess staff's ability (education, certifications, language skills, technology skills).				
Feedback	Review the existing appraisal and reward systems.				
	Establish clear, well-defined communication and feedback protocols to track progress and drive results.				
	Provide informal and formal feedback.				
Culture	Identify unwanted behaviors and communicate them to the audit staff.				
	Identify the company's unwritten rules of conduct.				
	Develop a plan on how to be successful within the company's culture.				
	Model staff competencies and behaviors that support the vision.				
Collaboration within and across departments	Plan team-building events to assess team chemistry.				
	Assess the collaboration and cooperation with other departments or groups. Understand individuals' relationships and confidence by business leaders.				

The chief audit executive's first 90 days

	Infrastructure and operations	0-30 days	31-60 days	61-90 days	Completed
Methodology	Review and develop IA's audit methodology and any related manuals or documents.	Review		Develop	
	Review workpaper documentation and archiving procedures and update as needed.				
	Review the department's quality process and update as needed.				
	Review the audit report format, assess its strength and weaknesses.				
	Develop the standard timeline of a single audit, from planning through reporting.				
	Assess how technology is used or embedded in the methodology.				
Project management and planning	Identify and get a status update on audit plan and projects.				
	Develop the controls to manage the timing and budget of a single audit.				
	Establish plan to complete the current year audit plan.				
	Complete a budget estimate for the rest of the year to incorporate the planned changes.			*	
Problem recognition	Identify priority problems for the company and department.				
	Develop the issue-tracking capabilities of the function and its tools.				
Technology and tools	Assess the extent to which the methodology is enabled by tools and technology across the full audit life cycle.				
	Consider available audit techniques to maximize use of technology (e.g., advanced data analytics, dashboard, continuous monitoring, robotic process automation).			*	
	Review summary of IA's technology and tools (and individuals' competencies relative to using them).				
	Develop a strategic plan for implementing technology to drive efficiency in IA.				
Communication with audit committee and external auditor	Develop frequency and level of communications with the audit committee (AC) chair.				
	Consider discussing IA's role and performance with the external auditor, if applicable.				
	Prepare for AC communications .				
Risk assessment	Communicate and train on any new expectations, changes to the audit methodology or process, quality initiatives.			*	
	Review IA's risk assessment methodology.				
	Assess IA's risk assessment process for completeness and accuracy, and assess alignment with the company's overall enterprise risk assessment (does it tap into enterprise risk as well as business unit assessments?).				

* May take place beyond 90 days

Internal audit strategic plan



Internal audit strategic plan

- ▶ As a CAE who is new to the role, the organization or looking to refresh and/or change the future state or direction of the IA department, the foundation is a well-thought-out strategic plan. A pivotal element to being successful in establishing and executing against the strategy you develop is maintaining a constant communication with your team, governing body and other key stakeholders.
- ▶ The first three months in your role as a CAE serves as an opportunity to collect inputs, understand the historical organization and department culture, and begin developing a strategic plan allowing you to cultivate the future state of your internal audit department.

Internal audit strategic plan

Gather inputs

- ▶ Internal audit charter
- ▶ External sources
- ▶ IA team
- ▶ Other key stakeholders
- ▶ Executive leadership
- ▶ Governing body (audit committee)
- ▶ Internal audit charter

Understand current state, culture and expectations

Align with the organization's purpose

Internal audit's purpose can serve as a guide in the actions and communications of the department. Identify the primary objectives of IA and outline the desired future state of the department.

- ▶ Will IA serve as a strategic advisor?
- ▶ What are the non-negotiable activities that need to be executed?
- ▶ How will IA align with and support the organization's strategic objectives?

Use inputs to create the department purpose and identify objectives

Set a strategic plan

Identify, prioritize and communicate action plans

In setting a strategic plan, foundational elements of the department need to be analyzed to understand the gap between the current state and desired future state.

- ▶ **Governance** - what is the purpose and mandate of IA? What reporting is required for governing bodies? What non-negotiable activities need to be executed? How can compliance efficiency and effectiveness be improved? How is the department aligned with and evaluated against Institute of Internal Auditors (IIA) standards?
- ▶ **People** - what is the organizational model and does it align with the company's? What gaps exist in skill sets in IA and how will they be filled? How is competency developed? Is there a need for a rotational model in or out of the business?
- ▶ **Infrastructure and operations** - what are the infrastructure and operations of the department? What policies and procedures guide the department? What tools and techniques are used to execute the mission? How is IA's impact measured? How is quality achieved? What method is used for continuous improvement?

Keys to success

- ▶ **Frequent communication** – have frequent formal and informal communications with stakeholders. Listen to viewpoints and increase awareness of IA activities (e.g., audit plans, strategy, mission)
- ▶ **Identify quick wins** – take action on low-effort items that will immediately contribute to increasing IA's brand
- ▶ **Identify keys to success** – establish plans early and begin executing first steps for actions that will be key in altering the view of IA or are necessary to set the course to achieve the desired future state

Internal audit strategic plan

Transforming internal audit into a strategic advisor

Internal audit can play an essential advisory role within the organization. It can identify enterprise-wide cost efficiencies, provide strategic insights that improve business performance and provide key insights that focus on the risks that matter. This kind of support reaps multiple benefits for the organization, including enhanced efficiency, increased trust, the ability to move more quickly and take advantage of opportunities.

For internal audit to realize this transformation, it needs to:

- ▶ Align itself with the organization's key business objectives and purpose
- ▶ Improve audit efficiency and effectiveness, and streamline processes to drive cost savings
- ▶ Offer broader risk coverage and be proactive about current and emerging risks
- ▶ Enable cost efficiencies or identify revenue opportunities across business units
- ▶ Identify and employ the right internal and external skills
- ▶ Create competitive advantage by contributing to sustainable business improvements

There are three key steps internal audit can take to enhance the function and become a value-driven strategic player for the organization.



Case studies of success



Case study A

Building trust and gaining a seat at the table

Company snapshot

Revenue	~\$5 billion
Employees	~30,000
Internal audit full-time equivalents (FTEs)	~15

What was the state of IA?

People who interacted with IA viewed it as a policing function, and those who did not have first-hand experience with IA did not understand IA's role in the organization.

Audit reports were issued with a lack of consideration as to what the organization believed was material from a quantitative and qualitative perspective, and factors such as likelihood and impact were not clearly defined. In addition, the department was viewed as using independence as a crutch to not be involved in various projects or initiatives.

As a result, the department was not viewed as collaborative and did not have a seat at the table for key transactions or initiatives.

What key initiatives drove the strategic plan?

IA identified mission-critical items and took immediate action in the first three months to make sure progress was made or plans were established to push forward.

- ▶ **Redefined the mission** - established that IA would serve as a strategic advisor and embedded this in the charter.
- ▶ **Redesigned audit reports and rating scale** - improved reports to be concise and collaboratively developed a rating scale with significant inputs from best practices in audit.
- ▶ **Held a roadshow** - made visible what IA's role and responsibility were, how the department was changing and allowed opportunities for people to ask questions.
- ▶ **Move a business initiative forward** - an impact needed to be made quickly to show that IA was not just talking about being a partner but demonstrating it. IA engaged in a large project that others did not want to tackle due to the complexity. This opened doors to allow IA to build or rebuild relationships, demonstrate commitment to helping the organization and allowing the team access to members of management who had not previously been exposed to IA.

What was the result?

By establishing a collaborative approach and making it visible throughout the organization, trust was established with executive leadership and business partners. As a result, IA was given a seat at the table and asked to be involved in top initiatives.

Lessons learned

- ▶ Talk to as many key stakeholders as early and often as possible to increase visibility to the IA plan, strategy, mission
- ▶ Understand the culture of the company and be willing to explore new ideas
- ▶ Take time to make sure you get the right skill set that will not only support but drive the strategy forward

Case study B

Transforming IA's brand and breaking down silos

Company snapshot

Revenue	~\$2 billion
Employees	~5,000
Internal audit FTEs	~5

What was the state of IA?

The department was stale and purely focused on assurance (specifically, financial audits).

Value was not being provided back to the company and a large emphasis was placed on how the department was contributing to cost savings, solely calculated based on fees saved by providing direct assistance to the external auditors. The team lacked the experiences, skill set and credibility to expand into providing compliance, operations and other advisory support to the company.

What key initiatives drove the strategic plan?

Through executive leadership onboarding discussions, it was identified that rebranding was key to the success of the IA department. Initiating change in a couple of key areas in the short term, then planning for key projects in the long term, allowed for the re-imaging of IA.

- ▶ **Took on the ERM** - initially, the implementation of ERM was taken on by another department that did not have the resources, time or risk expertise to execute the project. This provided an opportunity to capitalize on IA's risk skill sets and provided an opportunity to execute a cross-functional initiative.
- ▶ **Loaned an IA team member for a special project** - a significant issue came up related to risk and IA assigned a team member for six months to assist in quantifying the issue, identifying potential solutions and then reporting back to management. The output provided significant credibility to the IA department, and while it disallowed the individual from performing various audit-related activities, it was worth the investment. The IA department was able to tangibly demonstrate the cost savings for the time and effort put into the project.

What was the result?

IA successfully led a meaningful ERM project that helped to knock down silos and create meaningful discussions regarding significant initiatives across the organization. IA also re-established the credibility of the department by saving the company a significant amount of fees.

Lesson learned

- ▶ Find a way to help resolve significant, complex issues the company is dealing with to demonstrate value, trust and commitment.

Appendices



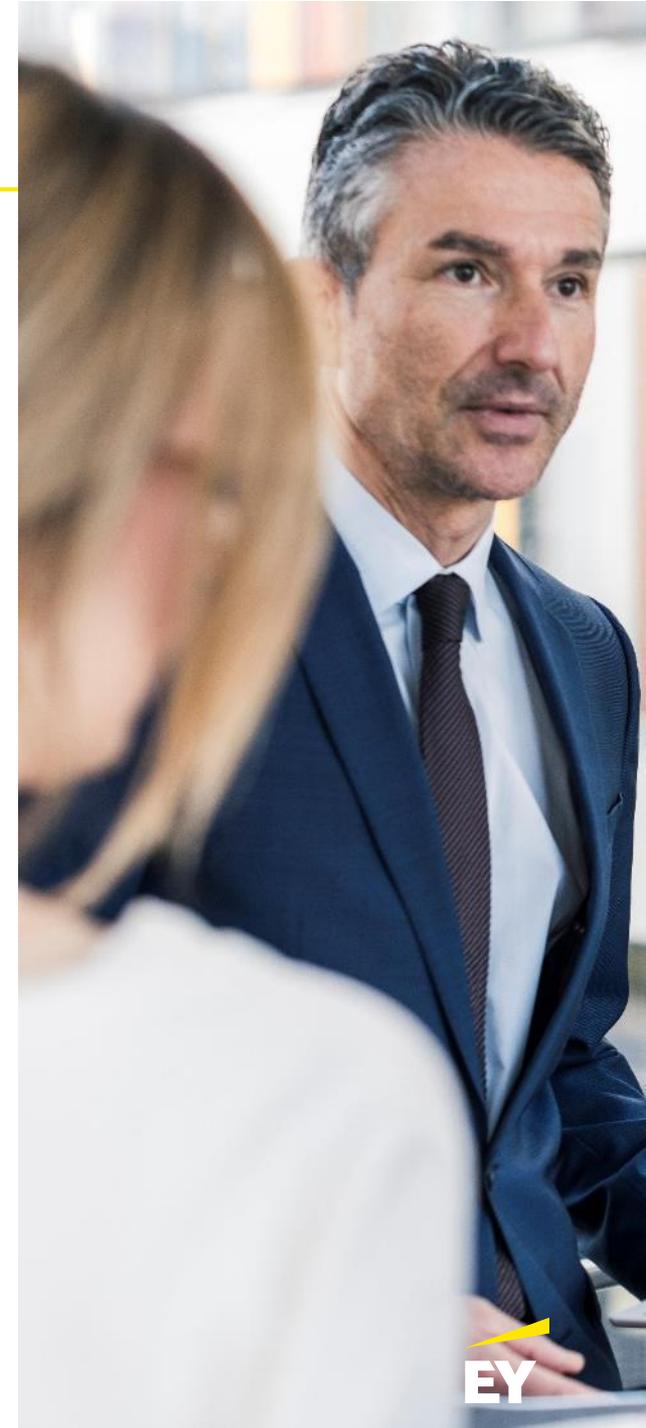
Appendix A:

Balanced scorecard and KPIs



Metrics matter

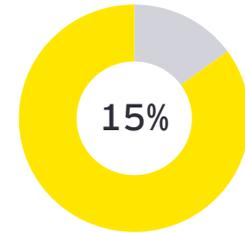
- ▶ Metrics do more than set goals:
 - ▶ *They effectively communicate priorities.*
 - ▶ *They help drive behavior.*
- ▶ Metrics that do not align with the organization's goals can make those goals harder to reach.
- ▶ Metrics should be aligned with IA's mandate to facilitate delivering value.
- ▶ Effective metrics increase employee motivation and satisfaction.



Metrics matter

Top five IA activities that bring the most value*

- ▶ Assuring the adequacy and effectiveness of the internal control system (86%)
- ▶ Recommending business improvement (55%)
- ▶ Assuring the organization's risk management processes (53%)
- ▶ Assuring regulatory compliance (50%)
- ▶ Informing and advising management (40%)



of chief audit executives (CAEs) surveyed say they have no formal measures of value.

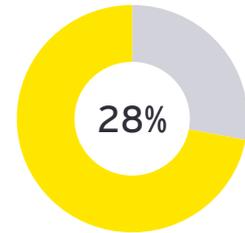
* Chief audit executive responses

Source: *Delivering on the Promise: Measuring Internal Audit Value and Performance*, Institute of Internal Auditors (IIA) Common Body of Knowledge (CBOK), 2015

Metrics matter

Top five IA performance measures*

- ▶ Percentage of audit plan complete (66%)
- ▶ Timely closure of audit issues (42%)
- ▶ Completion of mandated coverage (41%)
- ▶ Client satisfaction goals (38%)
- ▶ The fulfillment of specific expectations set and agreed to with key stakeholders (32%)



of CAEs surveyed say informing and advising the audit committee bring the most value.

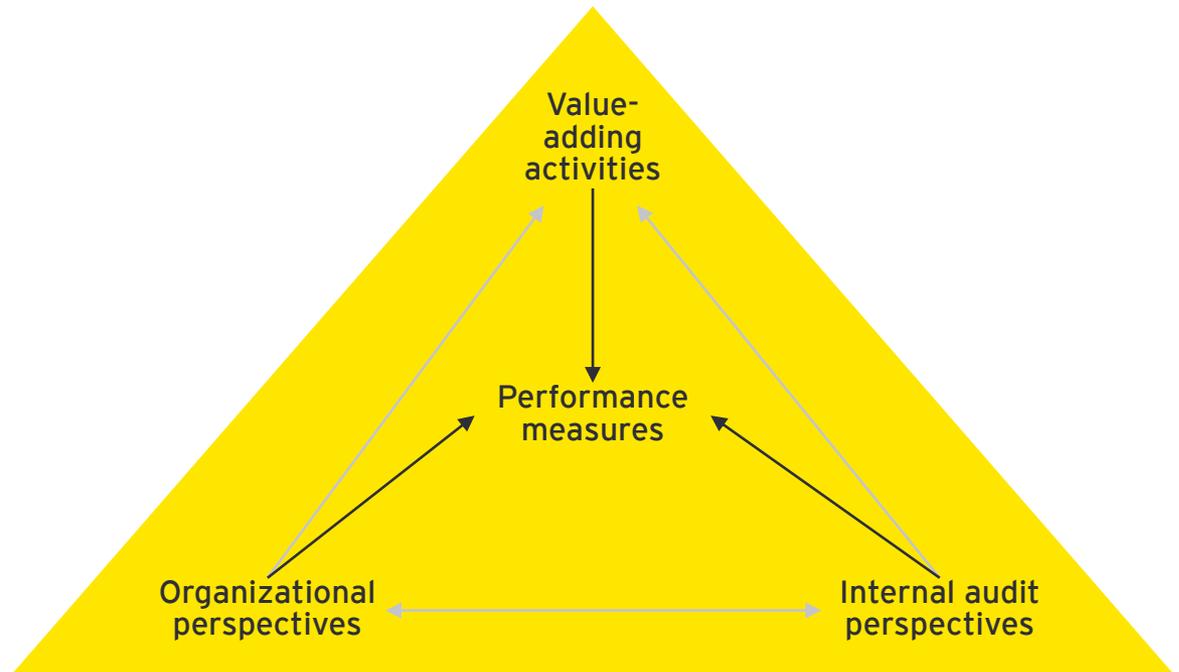
* Chief audit executive responses

Source: *Delivering on the Promise: Measuring Internal Audit Value and Performance*, Institute of Internal Auditors (IIA) Common Body of Knowledge (CBOK), 2015

Alignment and communication are key

The performance measurement triangle

Alignment among
IA and stakeholders is critical ...
... and communication, both
formal and informal, is key.



Note: IA and the organizational leadership have their own perspectives about value, so they need to collaborate in order to agree on value-adding activities and how to measure them.

Source: *Delivering on the Promise: Measuring Internal Audit Value and Performance*, Institute of Internal Auditors (IIA) Common Body of Knowledge (CBOK), 2015

Appendix B:

Resources and thought leadership



Resources and thought leadership



How a disrupted internal audit can be a stronger strategic partner

- ▶ The global risk landscape continues to change rapidly, requiring companies to direct more attention to risks arising outside of their organization. Internal audit (IA) needs to keep pace with these changes to provide strategic advice. Although no one can predict the future, the rapid pace of change in the global marketplace suggests there is one certainty for all organizations, regardless of location or sector: the status quo is no longer acceptable. To deliver more timely and strategic insights on risk to the organization, internal audit needs to embrace an entirely new operating model and talent strategy. Learn more about why the case for transforming internal audit has never been stronger.



How can the internal audit function most effectively communicate the results of its work?

- ▶ IA has a unique and important position within companies, entrusted as the eyes and ears of the audit committee, to highlight concerns and report on the operations of the organization. In addition, IA is increasingly seen as a resource to share industry insights and market trends. With this mandate in mind, IA needs to communicate results clearly and precisely to its stakeholders. Audit reporting is one of the most crucial elements of internal audit, but rating elicits strong opinions. Companies cite a number of reasons for rating audit reports, but are they necessary?



Five characteristics to disrupt the internal audit risk assessment process

- ▶ As organizations look to manage their expanding risk profile, it is becoming increasingly complex for IA functions to evaluate and monitor the breadth of the risks through traditional risk assessment activities. The importance of the risk assessment cannot be overstated – it's the critical exercise that helps set the IA plan. Highly effective and value-focused IA departments are delivering a results-oriented and value-based IA risk assessment. Learn how the use of technology and innovation in stakeholder engagement is disrupting the risk assessment process.

Resources and thought leadership



Six ways internal audit can help mitigate digital risk

- ▶ Organizations are aggressively embracing new technologies to transform their business models, drive growth and improve efficiency. This presents an opportunity for internal audit to assess the risk of these new technologies and effectively “see around the corner” to anticipate and mitigate tomorrow’s risks today.



Twenty questions to enhance your internal controls

- ▶ Many companies have not materially modified the way they manage their system of internal controls since the inception of their internal control over financial reporting (ICFR) programs as part of their Sarbanes-Oxley Act (SOX) implementation. In fact, only 34% of companies surveyed by EY teams say they have mature internal control programs. A review of an organization’s internal control program may not only identify areas requiring control enhancements in response to changes in the business and regulatory environment, but also suggest ways to improve the efficiency of the ICFR program. Find out what questions you can ask yourself to begin enacting change today.



How internal audit can help make RPA implementation a success

- ▶ Robotic process automation (RPA) is disrupting traditional business processes. Currently, it’s a race for organizations to find the next big thing that will offer cost cutting and improved efficiency and give them a competitive advantage. RPA checks all the boxes in this area, but without governance and controls, organizations may be exposed to a number of unforeseen risks. It is vital for organizations to establish an RPA strategy that includes comprehensive governance, risk and control practices, and IA can bring business, risk and internal control insights to that strategy.

Appendix C:

Board and audit committee reporting



Audit committee reporting – common topics

IA risk assessment, plans and progress

- ▶ Risk assessment process, results , emerging risks
- ▶ Coverage by segment, region, topic, key metrics, etc.
- ▶ Status of audits: issued, in process, delayed, removed
- ▶ Changes to plan or risk assessment
- ▶ Summary of issued audits and results
- ▶ Status of SOX reporting

1

Issue tracking reporting

- ▶ Detail of significant findings by audit or project
- ▶ Themes (i.e., control deficiencies)
- ▶ Summary of significant issues and management action plans that are past due, including planned resolution date
- ▶ Trending of issues (open, closed, past due, significant)

2

Department resourcing and initiatives

- ▶ Open positions, hiring and/or resourcing plans and status
- ▶ Training and/or workshops
- ▶ Initiatives update (e.g., controls optimization, IA quality assurance and improvement program, efficiency projects)
- ▶ Value scorecard, KPIs, strategy progress update
- ▶ Coordination with other lines of defense (e.g., enterprise risk management)

3

Other

- ▶ Actions needed from audit committee (e.g., charter approval)
- ▶ Required reporting (e.g., independence, budget and benchmarking)
- ▶ Investigations or hotline management update, trends and benchmarking

4

About EY

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