Internal Auditing “Rotational” Programs:
Opportunities for Internal Audit to Add Value

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ESSAY TOPIC

Many organizations have implemented "rotational" programs within the internal audit activity as part of their management development plan. These programs often offer career opportunities in the organization's business units after spending two to three years in internal auditing. Often internal auditors rotate back into internal audit after a short rotational assignment to acquire business knowledge. Some Chief Audit Executives (CAEs) believe rotational programs make it more difficult for internal auditors to continue a career in the profession of internal auditing.

a) Under what circumstances is a rotational program beneficial to the internal audit activity?
b) Does a rotational program model impact auditor independence and objectivity?

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Rachel completed the Certified Internal Auditor (CIA) exam and will be certified pending the necessary work experience. She received the Cynthia Cooper Professional Integrity Scholarship in 2009 as a student in the LSUCIA program. While at LSU, Rachel has been involved with the Institute of Internal Auditors by serving as a non-voting student member on The IIA Academic Relations Committee from 2009-2011. She also served as a student liaison representative on the Institute of Internal Auditors local Baton Rouge Chapter board.

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Executive Summary

Chief Audit Executives are faced with the challenge to build and maintain an internal audit staff with the competencies necessary to fulfill their responsibilities to the organization. This includes the business and audit knowledge needed to add value by enhancing the risk management, control, and governance processes.

The IIA Code of Ethics\(^1\) states that internal auditors should be able to “apply the knowledge, skills, and experience needed in the performance of internal audit services.” The increasing complexity of business due to technology and globalization makes this task even more critical.

One way of improving this “competency challenge” is through the use of rotational programs. This paper will discuss various approaches, including rotation into and out of the internal audit function. Additionally, the applicability of rotational programs will be listed including the advantages and limitations. The critical point is the selection of a program that best satisfies today’s staffing challenges.

\(^1\)Source: The IIA’s Code of Ethics Rule 4.1 states “Internal auditors shall engage only in those services for which they have the necessary knowledge, skills, and experience.” The IIA’s Code of Ethics Rule 4.3 states “Internal auditors shall continually improve their proficiency and the effectiveness and quality of their services.”
Objective

The purpose of this essay is to explore the origins and growth of rotational programs, and evaluate the potential effect on the organization, the participating individuals, and the internal audit activity. The body of this essay explores under which circumstances rotational programs are beneficial to the organization. There are several factors that CAEs and the organization should consider in planning the design and implementation of an effective rotational program. This paper also evaluates the potential impact of rotational programs on internal auditor independence and objectivity. The content of this paper is based on research applicable to a multitude of industries, staffing levels, and classifications. The framework is based on numerous interviews with Fortune 500 company executives, employees, and individuals with specific internal audit knowledge and experience regarding rotational programs.
Introduction

The 21st century brought many changes to the business environment, providing the internal auditing profession with many challenges and profound growth opportunities. Several of the changes impacting business organizations and the internal auditing profession include technological advances, an increase in the availability of information, the evolving role of the internet, the fast-paced nature of communication, a complex regulatory environment, and globalization. Organizations have also undergone significant changes in their governance, risk, controls, and compliance processes to manage the globalized and sophisticated business environment. This rapidly changing and dynamic business environment has enhanced the evolution of the internal auditing profession and their role in adding-value to business organizations over the past few decades.

Staffing has always been a challenge for organizations, and their internal audit departments. The International Standards for the Professional Practice of Internal Auditing (Standards) of internal auditing delineate the responsibilities of the Chief Audit Executive (CAE) with reference to staffing and career development. Maintaining compliance through adherence to these standards has become a multifaceted goal for CAEs. One of the major challenges for CAEs is to find, maintain, and continuously enhance the skill sets of the internal audit staff.

A frequent topic in internal audit circles is the “war for talent,” also referred as the “talent gap.” In the past decade, the internal auditing profession demand has outgrown the availability of qualified talent. There is often a gap between the skill sets desired and the skill sets available in the market. In response, CAEs have looked to rotational programs into and out of internal audit to acquire the necessary knowledge and to enhance career development. In developing a comprehensive and well-designed rotational program, many organizations are using the internal audit activity as breeding grounds for management development and future leadership. For example, companies may follow the “GE Model,” where talented employees rotate into the internal audit activity for two to three years and then rotate back out into the business organization into a management position. Rotation also includes internal auditors rotating out into business areas, gaining experience, and then returning to internal audit.

According to The IIA’s Global Internal Audit Survey, the extent of value-added by the internal audit function is derived from its ability to deliver change and improvement to meet the organization’s needs. The IIA’s CBOK study on “Core Competencies for Today’s Internal Auditor” provides that the internal audit activity must stay updated with the profession, while ensuring staff have the adequate knowledge, skills, and experience to provide business organizations with recommendations for change. In the past few years, the economic global recession has pushed internal audit practitioners to cope with budget and resource constraints, essentially learning to do more with less. The IIA’s report, “A Glimpse Ahead: CAEs Look Beyond the Recession,” roundtable participants have indicated that rotational programs and “guest auditors” are two useful strategies for coping with the downturn of the economy, bringing experienced staff with a wide variety of skill sets to the internal audit table.

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2 Source: The International Standards for the Professional Practice of Internal Auditing (Standards)
4 Source: A Glimpse Ahead: CAEs Look Beyond the Recession (April 2010)
Part I: History of Job Rotation

Perhaps an overview of generic rotation would be beneficial before drilling down to the use of rotational programs within the internal audit activity.

Organizational Behavior

The industrial revolution promoted the division of labor and job specialization to maximize production efficiency. This scientific management approach (job engineering) emphasized standardization, specialization, and job simplification to improve production. Frederick W. Taylor was the chief proponent of scientific management. This approach was successful with routine jobs and specific tasks and still has application today in certain industries. However, internal auditing requires broad-based cognitive and behavioral skills to address unstructured assignments. Accordingly, this led to the interest in job design incorporating job rotation, job enlargement, and job enrichment. Figure 1-1 illustrates the evolution of job design over the years, starting with low levels of standardization and specialization for general craft jobs. As scientific management approaches originated, the degree of specialization increased. However, most recently job rotation and sociotechnical systems have provided medium levels of job specialization.

Figure 1-1: Evolution of Job Design

In organizational behavior, job rotation is classified as a subset of job design and is related to motivation theory. The motivation theory formula is:

\[ \text{Performance} = \text{ability} \times \text{motivation} \]

Employee motivation can be enhanced through job enlargement, job enrichment, and job rotation. Increased motivation will increase employee satisfaction and related performance. These three can also enhance ability as greater knowledge and decision-making skills are acquired. The synergistic impact of job rotation is to elevate ability and motivation to drive performance. See Figure 1-2 for the hierarchy of organizational behavior and job rotation.

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Source: Reproduced modified version of graphic based on (Kreitner).
Job rotation overlaps with job enrichment and job enlargement and these three will be discussed briefly to establish a foundation. Job design includes both the structural and interpersonal aspects of a job. Job design is fitting people to the job as opposed to fitting the jobs to the people.

**Job Enlargement**

In essence, job enlargement is the reversal of the division of labor approach and enlarges the job description to include a wider variety of tasks. Job enlargement consists of horizontal integration of several tasks but does not specifically change the nature of the tasks. Enlargement creates variety and thus higher levels of satisfaction, motivation, and performance.

**Job Enrichment**

Job enrichment consists of vertical integration of tasks that require higher level brain functions. Job enrichment is also referred to as “vertical loading” of a job, where employees are given more responsibility. For example, an individual may increase his or her responsibility from planning a project to executing a project. This approach results in vertical integration and employee empowerment. Jobs requiring higher mental capacities may provide greater satisfaction and resulting increased performance.

Job enrichment is based on Frederick Herzberg’s two factor theory. The motivator-hygiene two factor theory states that the job environment (hygiene) can prevent dissatisfaction while the challenges of the job (motivators) can create satisfaction. Job satisfaction results from an increase in motivator factors, such as, achievement, recognition, challenging work, responsibility and advancement. Alternatively, employees do not have job dissatisfaction if hygiene factors are present, including good company policies and administration, technical supervision, salary, and working conditions. Interestingly, this research was based on a survey of accountants and engineers. Job enrichment probably receives

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more exposure than the other elements of job design since it focuses on satisfaction, motivation, and performance.

**Job Rotation**

Job rotation involves shifting employees from one position to another position with the goal of sustaining or enhancing satisfaction, motivation, and performance. Job rotation adds new challenges and has elements of both job enlargement and job enrichment since it may include both horizontal and vertical integration. Job rotation models have been used throughout history to rotate executives and employees, and a variety of models are found in the workplace today.

**Sociotechnical Systems**

Sociotechnical systems include job optimization through the best combination of people and technology. The influence of competition, suppliers, customers, and regulation in the environment place significant pressure on organizations to comply with rules and structure in certain forms. As the economy fluctuates and society changes, organizations must continually innovate their products and adapt to new processes for survival. There are several other guiding principles that organizations should consider when designing a sociotechnical system, such as:

- Job design allows for high quality of work-life balance
- Designing subsystems around self-contained and recognizable work units
- Support systems must align with organizational goals

**Goal Setting**

Goal setting aligns the goals of the individual with the organization. Goal congruence increases the level of involvement and performance. The balance scorecard is an approach used by business organizations, including their departments and divisions, to measure performance and achievement of strategic goals. Performance evaluation tools are useful for organizations when aligned with the organization’s mission. Employees set individual performance goals at the beginning of the period, and are evaluated on the achievement of these objectives at the end of the period to determine if compensation increases or promotional opportunities are necessary.
Why Do Organizations Use Job Rotation Today?

Throughout this evolution of organization structure and job design, job rotation is beneficial to the enterprise in several ways. Whether job rotation is an advantage or disadvantage to an organization depends on factors such as industry type, size of organization, the duration of the rotation, and the experience or skill level of the individual being rotated. Table 1-1 includes a list of identified pros and cons that have been noted as direct or indirect impacts of job rotation.

### Table 1-1: Pros and Cons of Generic Job Rotation

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase job satisfaction</td>
<td>Time consuming to implement</td>
</tr>
<tr>
<td>Promote career development</td>
<td>Costly to implement</td>
</tr>
<tr>
<td>Promote leadership development</td>
<td>Technological constraints</td>
</tr>
<tr>
<td>Lower attrition rates</td>
<td>Decrease management flexibility</td>
</tr>
<tr>
<td>Increase individual performance</td>
<td>Often negatively affects supervisory roles</td>
</tr>
<tr>
<td>Provides job enrichment</td>
<td>Planning and implementation difficulties</td>
</tr>
<tr>
<td>Provides job enlargement</td>
<td>Radical approach to work organization</td>
</tr>
<tr>
<td>Maintain good customer relations</td>
<td>Disruptive on careers</td>
</tr>
<tr>
<td>Increase worker flexibility</td>
<td></td>
</tr>
<tr>
<td>Increase knowledge</td>
<td></td>
</tr>
<tr>
<td>Decrease degree of specialization</td>
<td></td>
</tr>
</tbody>
</table>

### Rationale for Job Rotation

The business environment is becoming increasingly challenging due to complexity, globalization, and technology. Broad general skill sets are often needed and typically lead to greater advancement. Based on Table 1-1, it is obvious that the list of positive impacts of job rotation outweigh the negatives. Job rotation can stimulate interest and provide a broader perspective of the organization.

“Learning in an organization can be considered seventy percent (70%) experience, twenty percent (20%) mentoring, and ten percent (10%) classroom training,” says Steve Casazza, Vice President of Nestlé Market Audit—North America. Job rotation, in its entirety, is a remarkable learning experience for many individuals, providing career and personal development. Job rotation gives employees a first-hand experience and wholesome idea about the organizations’ service offerings, lines of business, and processes, which is why it is used as an effective training tool in many organizations.

Although the remainder of this paper will cover the current and future application of job rotation in the context of the internal auditing profession, it is a widespread practice amongst many other professions as well. For example, government jobs practice rotation to stimulate employee enthusiasm and initiative. Another prominent example is the military, which rotates officers around various occupations before they can “rise in the ranks.” Job rotation is even practiced in the medical field, where hospital nurses are rotated around different wings to gain experience in more than one area, reducing boredom and preparing for contingencies. In the internal auditing profession, job rotation benefits the internal auditing department, the individual, the process owners in each business sector, and ultimately the entire organization.
Part II: Evolution of Internal Auditing Rotational Programs

This section will explore the core competencies and skills needed for an effective internal audit function. Often, clients and customers feel that auditors lack a true understanding of the business. In addressing client perceptions, internal auditors must find a way to broaden their business knowledge of the organization. Rotational programs provide an excellent venue for internal audit to address these client and customer concerns.

Richard Chambers, President and CEO of The Institute of Internal Auditors, says that there has been a “proliferation of rotational staffing models in recent years, similar to that of the GE Rotational Model.” The GE Rotational Model is used in a number of companies where individuals are typically given the opportunity to learn about the audit function for two to three years typically. This rotation into internal audit includes how to plan, scope, and execute an audit. Chambers adds that the “whole movement of rotational staffing has taken on a new momentum in the last decade. Some of this movement has stemmed from the desire of notable companies to use internal audit as a source of talent for the business.”

Staffing and Sourcing the Internal Audit Function

The Standards designate the CAEs responsibility for staffing with regards to ensuring that the internal audit function has sufficient resources and the appropriate mix of knowledge, skills, and other competencies needed to optimize the achievement of the resource plan. Performance Standard 1230, states that internal auditors must continually enhance their knowledge, skills and other competencies through professional development.7

Staffing Plan

Internal auditing departments should have a tactical and strategic staffing and development plan. An example of a competencies program is presented in Figure 2-1.

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7 Source: The International Standards for the Professional Practice of Internal Auditing, (Jan. 2011)
The design of the rotational program should articulate with the tactical and strategic staffing plan.

**Business Knowledge**

A vast array of internal audit research has indicated that business knowledge is perhaps the most important competency for internal auditors to add value. Several references are listed below.

One of the recommendations of the Report of the National Commission on Fraudulent Financial Reporting (NCFFR)\(^8\) was as follows:

> “Public companies should maintain an effective internal audit function staff with an adequate number of qualified personnel appropriate to the size and nature of the company.”

Qualified typically includes business knowledge to add value by improving governance, enhancing the risk assessment process, and evaluating controls.

The IIA’s Audit Executive Center report, “A Glimpse Ahead: CAE’s Look Beyond the Recession,”\(^9\) identified the internal audit skill sets that CAE’s desired. Business and industry-specific knowledge ranked number one.

The IIA’s Global Internal Audit Survey “Core Competencies for Today’s Internal Auditor”\(^10\) ranked competencies and skills. “Understanding the business” ranked number one as the most important overall technical skill in both the 2006 and 2010 surveys.

The 2010 Healthcare Internal Auditing Survey\(^11\) indicated that staffing was one of the key ingredients for a quality internal audit department. In this survey, many of the challenges and opportunities related to industry-specific knowledge. Rotational assignments can assist in developing business knowledge and a broad understanding of the business.

According to Cynthia Cooper, CEO of The CooperGroup and 2002 *Times Person of the Year*, rotational programs are beneficial to the organization and the internal audit function. Cooper adds that “rotational programs provide an excellent opportunity for a professional to gain insight on how the organization functions as a whole, while developing different skill sets and experiences in the process. This enhanced understanding of the business also enriches the individual’s audit skill set. On the other hand, employees who rotate from internal audit into the business bring with them a better understanding of the control environment and are typically better managers. In both cases, the enterprise benefits through the production of better managers and better auditors.”

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\(^8\) Source: Report of the National Commission on Fraudulent Financial Reporting


Methods of Knowledge Acquisition

There are several situations in which organizations formally, or informally, incorporate the internal audit activity into their rotational programs in pursuit of acquiring and enhancing business knowledge.

Rotating Into Internal Audit

This rotational model is formally and informally used in organizations where employees are rotated into internal auditing for a tour of duty from other business areas. Sometimes these individuals decide to stay in internal audit, but in more formal rotation programs, they might be placed back out into the business in the same or another management role. Often, these short term rotations turn into permanent placement opportunities for the individual in the internal audit department. For example, Amber Miller, Senior Audit Manager at AIG Enterprise Services, says “AIG does not currently have a formal rotation program in place, but is currently researching what other organizations are doing.” Miller adds that “through her experience in internal audit, she has found that many individuals rotate into internal audit from 5-6 other areas of the organization and if the employee is a good fit for internal audit, the department may ask the employee to stay.

Rotating Out of Internal Audit

This rotational model is used formally and informally when individuals rotate out of internal audit into other business areas, such as operations, finance, or supply chain management. Depending on the formality of the rotation, the individual may or may not return to internal auditing.

Source of Talent

Internal audit is often viewed as a source of talent for management positions and business process positions in the organization. This rotational model is used informally, but mainly formally, whereby employees are temporarily placed in internal audit for a short period of time to enhance their business knowledge and leadership skills. Typically, at the end of the rotational assignment the individuals are placed in a leadership or management position. This model is most often used in organizations that have an internal audit department primarily comprised of purely rotating positions.

The internal audit function is also considered a credible place to educate fresh talent to the organization, including entry level hires and employees with limited years of experience. Often internal audit shops are regarded as a “breeding ground” for enterprise-wide knowledge and career development. Timothy F. Kenny, SVP and General Auditor at Freddie Mac, says that one of Freddie Mac’s annual goals is for the internal audit department to serve as a “source of talent” for the organization. The CEO and the Board support this goal, as the internal audit department demonstrates continual success in bringing top talent into the Enterprise.

Steve Goepfert, VP of Internal Audit at United Airlines, explains that individuals frequently rotate out of internal audit into all different portions of the company, such as the Controller’s group, the airport operations group, marketing, and even sales. For instance, a former internal audit individual is now the Sales Director for national accounts. Goepfert recalls that executives of the company have remarked that “you hire really good people,” which meant the executives have observed people that have successfully moved into the organization. For internal audit to be effective in the organization, it must first build leadership within the internal audit department. Ultimately, there must be mature leaders in the organization to produce a product of value for
the organization because at the end of the day, the organization still needs a valuable product to succeed.

**Career Internal Auditors with Limited Rotation**

This type of rotational model, whether formally or informally implemented, is used when the internal audit department’s main source of staffing is “career internal auditors”. However, these “career auditors” may be encouraged to rotate out into other business areas temporarily to enhance their business knowledge and then rotate back into internal audit.

**Rotation within the Internal Audit Department**

Many organizations incorporate a rotational program within the internal audit department, in which audit staff members rotate amongst the various audit services or divisions.

**Guest Internal Auditor (“Loaned Staff”) Programs**

An individual from the customer’s unit joins the audit team for a specific engagement to provide subject matter expertise in the unit under review. Often internal audit shops do not have a formal rotational program to bring individuals into internal audit from the business areas, but other means of rotation are used to bring similar benefits of rotation to the internal audit group. For example, Susan L. Rudolph, Head of Group Internal Audit and Risk Management at Pearson plc., finds that the use of guest auditors and short term “secondment” rotations are beneficial for the internal audit group. Rudolph says that “guest auditor programs work well where people from the business can join the team for one engagement at a time.” The term “secondment” is interchangeable for “loaned staff” models, which refers to bringing in people from the business organization for subject matter expertise or sending auditors out to the business to work on special projects. She adds that “secondments” of varying lengths, generally 3, 6, or 12 months are helpful in seeding control experience across the business and important to keep the alumni network of auditors within the business alive.”

Microsoft also uses a formal “loaned-staff” program where vacant internal audit positions are replaced by drawing people from the business or drawing external audit expertise (“loan auditor”), says Rod Winters, former CAE and current General Manager of Finance at Microsoft. He explains that the “loaned-staff” projects are typically short term, where someone comes from the business into audit, providing the internal audit group with an acquisition of company knowledge.” Winters expressed that the objective of the “loaned-staff” model is based on “attrition and hiring to fill fixed positions.

**Rotational CAE Model**

Many organizations design the CAE role in essence as a rotational seat. Richard Chambers shares his insights and reflections on the rotational CAE model in an article published by the Internal Auditor magazine, titled “The Rotational CAE Model: Is it Good for Internal Auditing?”

In this article, Chambers comments on the widespread use of this rotational model, addressing the pros and cons. He says that “recent students indicate that as many as 40 percent of Fortune 500 CAE positions are now considered rotational.” Chambers claims “there are many benefits accrued to the profession in general—and corporate audit functions in particular—by virtue of the proliferating rotational CAE model.” However, the downside of this model occurs when the position is designed to be short in duration (less than three years) because it creates an

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obstacle for the CAE to achieve the level of effectiveness that comes with tenure and experience. In this article, Chambers also provides several safeguards that should be considered in the design of rotational CAE models.

Glyn Smith, Principal of The CooperGroup states that “one trend we have seen emerging in Fortune 500 companies is to fill the CAE role with an individual that does not have the traditional internal audit background. Many organizations would rather fill the CAE position with an individual that is familiar with the organization, industry, and that can spend a few years in internal audit to enhance their understanding of controls and the importance of the control environment, and then rotate individual to another management position in organization.” A variation of this structure is filling the CAE role with a traditional “career internal auditor” that embodies the knowledge, background, and understanding of internal audit. Smith adds that “this individual will typically rotate through more junior positions in preparation for a management position in the organization. This provides an upper level knowledge bank and structure that is consistent and stays put.” CAE involvement is critical to ensure that the internal audit department has adequate resources, knowledge, and skill sets to accomplish its mission and fulfill its duties.

Succession Planning
Rotational models are often viewed as a form of succession planning within organizations. Succession planning helps safeguard the continuity of the internal audit function, ensuring adequate institutional knowledge and that experience stays within internal audit to facilitate in training new auditors. Rod Winters says that Microsoft “implements formal succession planning into the organization to facilitate leadership amongst the audit team.

Job Shadowing
Job shadowing consists of an internal auditor working with another business unit individual for a short period (3 days) to build up an understanding of the business unit. Individuals that are given this short term exposure opportunity may decide to expand their horizons in the future to other business areas of interest.

The Advantages and Limitations of Rotational Programs
A few of the possible advantages and potential disadvantages of rotational programs are briefly delineated below.

The Upside: Benefits of Rotational Programs
As discussed in the previous section, the rotation of internal auditors into other business areas and the rotation of operational individuals into internal audit provide several benefits for the internal audit function, the individual, the other business area, and the entire enterprise. Several circumstances in which rotational programs are beneficial to one or more of the participating parties are listed below.

The rotation of internal auditors into other business areas provides the following benefits:
- Exports an appreciation of governance, risks, and controls throughout the organization
- Acquisition of more in-depth knowledge of the respective business area
- Cultivation of better customer relations
- Heightened awareness of organizational sensitivity and business acumen
- Improvement of personal and career development
The rotation of operational individuals into internal audit provides the following benefits:

- Infusion of fresh ideas and perspectives
- Creates an appreciation of the role of the internal audit function
- Enhancement of specific internal audit skills and competencies
- Evolving view of internal audit as a potential source of talent for the enterprise

**The Downside: Challenges of Rotational Programs**

Although there are many benefits that come along with rotational models, there are also many disadvantages, challenges, and limitations for organizations, the internal audit function, the participating individual, and the participating operational areas. Several challenges and issues that arise with the use of rotational programs are listed below.

The rotation of internal auditors into other business areas may present the following challenges:

- Disruption of an individual’s career path
- Potential loss of chargeable hours
- Creation of independent and objectivity concerns
- Cost prohibitive
- Difficult to plan, forecast, and implement rotational model properly
- Resource demands limit potential rotation opportunities

The rotation of operational individuals into internal audit may present the following challenges:

- Selection concerns arise due to the demands for cognitive and behavior skills
- Difficulties concerning recruitment of individuals
- Management must provide continuous support of the program
- Individuals may struggle to adjust from a line mentality to a staff philosophy
- Difficult to provide the necessary training for the individuals
- Resource demands limit potential rotation opportunities

**A Collection of Personal Experiences from Rotational Participants**

**Lyn Beaty, VP of Internal Audit and Controls at Halliburton**

Lyn Beaty has been with Halliburton for over 25 years in various financial positions. Her experiences with Halliburton range from SAP design and implementation responsibilities, Assistant Controller in Accounting Services, to her current responsibility as CAE over the internal audit function for the past five to six years. Her financial background ingrained a “process-focused mindset” that she brought with her to internal audit, which she feels is “necessary in an audit position because processes are about controls.” She expresses that “the rotational experience has been good for her because it provided the company-wide knowledge needed to lead the internal audit group. At the same time, she continues to grow and learn in this role, not only from an audit competency level, but also about the business from a broader perspective than most financial or accounting roles.”

**John Carroll, VP of Internal Audit at Merck & Co., Inc.**

John Carroll has rotated numerous times throughout his career. He started his career in external audit (public accounting) where he spent eight years before moving to internal audit. After spending four years in internal audit, he rotated to the operations side of the business, where he spent about seven years in financial management roles. He eventually moved back to the VP of
Internal Audit role at Schering-Plough Pharmaceuticals for four years, until two years ago when Schering-Plough merged with Merck, where he is currently the VP of Internal Audit. Carroll feels that throughout his career, “rotation has been a great experience because it has given him the opportunity to sit on both sides of fence. One side of the fence has enhanced his ability to assess business operations and processes, and make the call as to whether these processes are well-designed and appropriately handled.” On the other side, he has gained a “very good perspective on what it feels like to be the audit client,” which has made him “think about the key things to consider in managing the operational side of the house.” Carroll adds that “understanding how the linkage of audit controls and business processes come together has benefited him in numerous jobs in the past.” In numerous positions, through evaluations and interviews, he has been probed regarding his experiences stepping outside of audit. Overall, he feels that “rotation has been a key element in his career that has helped him get to where he is now.”

**Rod Winters, General Manager of Finance and Former CAE at Microsoft**

After spending a significant portion of his career as the CAE of Internal Audit at Microsoft, Winters recently rotated into a General Manager role over Financial Operations at Microsoft. He says that “this experience has benefited him in several because he is learning a lot of about running a business and managing high accuracy and high resiliency utility operations, and at the same time learning a lot about transformation and how to drive big change processes across the company.” Winters adds that his rotational experience has been “a great development opportunity for him and if he goes back into an audit role in the future, he will be better at that role then he would be otherwise.”

**David Neary, VP of SOX & Internal Audit at Calpine Corp**

David Neary shares his personal experience temporarily rotating out of internal audit into an operational area at a previous employer in the utilities industry. At this organization, individuals were forced to move out of internal audit into operational areas and back into internal audit. Neary explains that at that time the experience was “somewhat frustrating as a person in internal audit that had always viewed internal audit as a career path.” Although his experience in operations was great, he eventually rotated back into internal audit. Looking back at the experience; however, Neary says that “he would not trade this experience because now he knows firsthand what it is like to be on the other side of an audit.” He says that “this experience provided him with a better operational perspective than if he never stepped outside of audit.”
Part III: Considerations

In part two, the benefits and challenges were discussed with respect to the evolution of internal auditing rotational programs. Whether job rotation creates benefits or challenges for the organization depends on several factors, such as the perspective, the individual, the size of the internal audit activity, and many others.

Factors to Consider in the Design of Rotational Programs

After a cost-benefit analysis, organizations should be cautious when implementing a rotational model and consider various factors. This section will provide an in-depth discussion of these “considerations.”

Knowledge Goal

The first step in designing a rotational program would be the identification of the goal. Typically this goal involves knowledge acquisition and career development. The second step would be to identify the types of knowledge to be targeted. The knowledge goal would impact the individual to be selected and the duration of the rotation. Figure 3-1 below explains the breakdown of knowledge that should be considered with respect to rotation of the internal audit function.

Figure 3-1: Knowledge Goal—Types of Knowledge to Target

An issue can often arise when information technology individuals are rotated between internal audit and the business areas. If the purpose of rotation is to enhance information technology skills, consideration should be given to duration of the rotation and the level of technical competence already acquired by the individual. For example, highly technical people rotating out of internal audit to other technological business operations may experience an increase in his or her skill level. Alternatively, highly technical people who rotate from the business into internal audit can experience a decline in skill sets over time given that the nature of audits in general does not focus on the same level of technical detail as the business or IT support infrastructure.
Industry
Rotational assignments may be more relevant in certain industries. The complexity of the organization would be a factor. Organizations that have technical trading, deal in futures, or have derivation transactions may require greater expertise in internal auditing. Many employees hired into financial services organizations, such as Freddie Mac, already possess the necessary accounting, finance and audit knowledge and experience, thus they are quick learners when it comes to grasping internal audit methodologies and applying these concepts to their business knowledge. This is a typical attribute of the financial services and banking industries, with regards to the internal availability of employees already possessing the necessary qualifications and skill sets to understand internal audit concepts. Timothy F. Kenny, SVP and General Auditor of Freddie Mac, says “Freddie Mac’s internal audit group does not currently use a formal rotational model, but informally rotates people into internal audit from other business areas and out of internal audit into the business, such as into finance, enterprise risk or information technology.” He adds that “rotational programs would benefit the internal audit department at Freddie Mac due to the nature of the skills that many Freddie Mac employees already possess.”

Alternatively, some industries have a steeper learning curve when it comes to rotating employees into internal audit from the business areas. It often takes longer for individuals to “catch on” to the nature and methodologies of internal audit in some organizations. Keith Dickey, Director of Internal Audit at FedEx Services, says FedEx doesn’t have a formal rotational program in place and does not operate under that scenario.” He adds that “it has its merits, but it’s just not what we do here.” The internal audit activities at FedEx are structured based on each of the company’s operation lines, such as FedEx Freight or FedEx Express. Dickey explained that at FedEx, “it takes a significant level of experience to navigate the audit environment and identify the high risk areas, even someone tenured at FedEx may not be experienced as to how an internal auditor operates.”

Size of the Audit Shop
Another factor that impacts the feasibility of rotational assignments is size. A Chief Audit Executive (CAE) with five internal auditors probably cannot afford for a staff member to take a six month tour of duty in the supply chain management department. The CAE would lose ten percent of production. In contrast, a CAE with 100 internal auditors could afford to assign a staff member for a six month rotation.

Dennis Johnson, Head of Vanderbilt University’s Internal Audit Group, does not have a formal rotational program, but does have people in internal audit that have rotated out to an operational role and then returned to audit. Vanderbilt’s internal audit group consists of 12 professionals on staff. Mr. Johnson comments that smaller audit departments may not provide a great deal of upward mobility, so individuals may need to rotate out of internal audit into operational roles to enhance his or her career path.

Steve Casazza, Vice President of Nestlé Market Audit North America, ran a forty-person audit shop in 2010. Casazza says that “thirteen of the forty audit staff members rotated into the business operations during 2010, and on the backside, three people rotated into internal audit from the business operations during the same year.” Given the size of the audit shop, the internal audit group at Nestlé is able to trade staff members with the business operations through rotation, but this is “not a one-for-one swap,” claims Casazza. He adds that “the goal of the internal audit department is to place a quarter of the internal audit staff into the business areas, so that once every four years on average, they are able to turn the entire audit team over, adding fresh talent and perspective to the group.”
Compensation

One factor to consider is which party absorbs the compensation expense during the rotational assignment. If an internal auditor rotates into the supply chain management (SCM) department for three months, which department budgets for the related compensation? Internal auditing benefits by developing expertise, while the SCM department benefits in the same sense as if they had just hired a new employee. Although management benefits from the flexibility of labor provided by the rotated employee, the employee expects an increase in compensation from learning new, broader skill sets.

Selection of the Individual

The selection of the right individual to rotate out into the business unit is critical. An adequate skill level is needed for the benefits of job rotation to outweigh the costs. A few selection factors are listed below:

**Participation:**

Organization behavior suggests that involving the employee in the decision process enhances successful job rotation. The selection should be made from a pool of volunteers. Keith Dickey, Director of Internal Audit at FedEx Services, recently surveyed the internal audit department staff on career development options. The results revealed that the employees do not want a forced rotational program, but they would like to participate in loaned-staff opportunities and more travel. He says that “FedEx is able to honor these requests given the broad organizational structure and many international operating companies.” Within an individual’s respective career development, many organizations, like FedEx, help individuals meet their career objectives through intradepartmental loan staffing and travel opportunities. Dickey adds that “trading staff within internal audit to keep employees teaches them more about the parts of the organization that they do not know.”

**Match Experience Level**

A good match is needed between the internal auditor and the rotational assignment. The individual selected for the assignment is considered a good match if there is an opportunity for advancement or placement at the end of the rotational assignment. This results in a win-win situation for the individual and the enterprise investing in training for individual.

According to The IIA’s Global Audit Information Network (GAIN) 2009 survey on “Recent Impacts on the Staffing and Sourcing of North American Internal Audit Activities,” 31 percent of CAEs that use rotational models were asked to identify source of professionals rotating into internal auditing, the length of the rotation, and the opportunity for advancement within the internal audit activity at the end of the rotation. A common theme found in this survey was that new internal auditors have an average minimum two to three years of audit experience or two to three years of general professional experience upon hiring. When hiring from within the business organization, the CAE should consider the experience level of these individuals relative to the qualifications and experience level of individuals hired from outside the organization.

**Position Type:**

The internal auditor skill and experience level should be matched to the rotational assignment. The benefits and challenges encountered in rotating staff depend on the level of skills and experience an employee has with the respective organization. In October 2009, The IIA’s Global Audit Information Network surveyed CAEs and other internal audit practitioners on the effects of rotating staff in and out

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of the internal audit activity for various position types. These position types are grouped in Figure 3-2 below, indicating the percent of individuals rotating in or out of the internal audit activity.

**Figure 3-2: Position Types Rotated In and Out of the Internal Audit Activity**

Note: These percentages are based on 1) 31% of all survey respondents who work in internal audit activities with a rotational model in place and 2) Fortune 500: 64% of respondents that indicated use of a rotational model in their internal audit activity; 58% blend career internal auditors and rotational positions; 8% have internal audit activities with pure rotational positions; and 34% hire career internal auditors

**Personal Skills:**
The individual selected for a rotational assignment should have positive personal skills. Figure 3-3 depicts the individual personal skills that should be considered when selecting individuals for rotational experiences. Several of these person skills include a certain level of integrity and an optimistic attitude. Passion for a job can enhance an individual’s success, productivity, and motivation. Individuals should “own their career with a level of passion for the job and the organization,” says Keith Dickey, Director of Internal Audit at FedEx Services. Lastly, an individual must have an ingrained work ethic to be successful in rotating to other business areas.

**Figure 3-3: Positive Personal Skills to Consider in Selecting the Individual for Rotation**

Source: GAIN Survey “Recent Impacts on the Staffing and Sourcing of North American Internal Audit Activities” (Oct. 2009)
Interpersonal Skills
Internal auditors that rotate out into operational areas are ambassadors (champions) for the internal audit department and should possess good interpersonal skills, including, but not limited to teamwork skills, networking skills, congeniality, and the ability to create a favorable first impression.

Other Factors
The following factors would also influence the selection of the individual for the rotational assignment.

- Organization sensitivity and attitude: If individuals positively promote themselves then executive management will see the benefit in rotation.
- Understanding of line versus staff roles and positions
- The individual selected should be able to export an appreciation of governance, risk, and controls.
- The individual should assist in embodying the audit mind set in the business process
- The rotational assignment should provide sophistication and career development. The CAE should select the individual that would maximize the experience. Steve Goepfert, VP of Internal Audit at United Airlines, provides that “if the first goal for an organization is simply to implement a rotational program, then the program is driving the organization, not the people developing at different stages.” In trying to develop leaders, an organization must help these leaders progress in life.

Duration
The duration of the rotational assignment should be based on several factors. A few of these factors are listed in Figure 3-4.

Figure 3-4: Factors to Consider in Deciding Duration of Rotational Assignment

PwC’s 2010 State of the Internal Audit Profession” PwC’s study of Fortune 500 companies, specifies that the common duration of a rotational program is 2-3 years. Additionally, in October 2010, The IIA’s Audit Executive Center published “A Peer’s Perspective on Rotational Programs,” in which CAEs discussed aspects of their rotational model, including two to three years as a typical duration for a rotational assignment. Often this short term duration is meant to give employees extensive training and the “hands-on” experience, but it must be quick enough to ensure employees can add value to the internal audit function as soon as possible.

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16 Source: The IIA’s Audit Executive Center, A Peer’s Perspective on Rotational Programs (February 2010). This issue was based on interviews with CAEs from Coca-Cola Enterprises, The Home Depot, and General Electric (GE), regarding the use of rotational programs.
The Internal Audit Charter
Organizations seeking to implement rotational programs should first perform a cost-benefit analysis to decide whether such a program would align with its organizational goals and mission. The decision to use the internal audit activity as part of the rotational program must be formed around the internal audit charter. The role of the internal audit function is defined in the internal audit charter, which states the internal audit departments’ purpose, authority, and responsibility. The charter will provide insight as to the Board and senior management’s understanding of the role for internal audit. Often, the leadership of some organizations place more emphasis on the internal audit activity’s credibility and the potential to add-value than others.

The Corporate Culture (Tone at the Top)
Many organizations implement rotational programs as part of a corporate leadership development strategy. While effective, caution must be taken not to allow the internal audit function to stray from its purpose. Furthermore, often the organization will pull the audit shops most high performing and talented staff members out of internal audit into other areas. The incentives behind using a rotational program as part of a corporate leadership development program must be examined.

The support of executive management is a crucial component for the success of rotational programs. Steve Goepfert, VP of Internal Audit at United Airlines, says that “hiring from internal audit into the business has always been viewed as a good thing.” Mr. Goepfert has 20 years of experience as the CAE at Continental Airlines, and now as VP Internal Audit at United Airlines, which recently merged with Continental. He claims that the “former CFO of Continental was always a big advocate of hiring auditors and certified individuals with finance background into the organization, considering their background in public accounting.” Goepfert adds that “it always helps to have the support of executive management—it is a push from an internal audit perspective, but from a promotional standpoint, there has to be a pull from the organization demanding auditors in the business, if not, internal audit can only push so far.” According to Steve Goepfert, it depends on the organizational attitude, and if internal audit individuals are out in the business positively promoting themselves, then senior management will believe it’s a good match.

The Value of Rotational Programs on Risk Management
Rotational programs can build informal employee relationships amongst various sectors of the organization. These relationships are beneficial to the organization by providing a channel of communication, or a “grape vine,” thus enhancing the enterprise risk management system. Sherron Watkins, former Enron VP of Corporate Development, provides leadership and ethics training to organizations across the globe based on her experiences with the collapse of Enron. In considering the positive impacts of rotation on an organizations risk management and fraud prevention system, Watkins provides a great example included below.

“Internal audit is a key check and balance to financial fraud and it works primarily because it is internal. Typically large companies operate a rotation program at the entry level; Enron certainly did. Rotation programs beef up a company’s risk management. Why? The trust that exists between two employees that worked alongside one another but now are in separate departments is the driver preventing many would-be frauds. The scenario goes something like this, “Hi Steve, glad your internal audit review is coming up next month. You didn’t hear this from me, but when your group reviews our sales policies, be sure to look into the xyz transaction with particular attention to 123.” Employees are a company’s best line of defense against fraud; they want to work for ethical companies, and they will do all in their power to stop behavior they feel is cutting corners to achieve short term results, but will likely have devastating long term effects on the company.” – Sherron Watkins
Impact on the Internal Auditing Profession

Education is the foundation of any practicing profession, whether medical, legal, accounting, or even internal auditing. As a profession, we must consider the impact of rotational models on students when selecting a career path.

Richard Chambers, President and CEO of The Institute of Internal Auditors, states that “from an educational perspective, internal audit can very much still be a profession.” He adds that “there are a substantial percentage of organizations that consider the rotational model within the internal audit function to be a career model, including the public sector, private sector, and government. It is a career path rather than just a source of talent to business models.” Chambers does not anticipate that the rotational model will be predominant model globally or for the profession. However, a profession can still have individuals who practice in the profession for a shorter period of time. In clarifying his case, he provides the example of external audit firms, whose employees are considered “professionals,” yet very few of them spend a career in those firms. A lot of talented young individuals come out of college, spend a few years there, and go to other aspects of the industry with the knowledge they have gained. Chambers says he “doubts people would claim those individuals are not practicing a profession” in the years they spent in the audit and accounting industry.

“In order to be a 21st century audit leading practice, we must be able to accommodate multiple career paths, dealing with those individuals whose goal is to spend a couple of years learning “what they want to be when they grow up,” but also consider those without the intention of making a career out of internal auditing,” says Steve Casazza, Vice President of Nestlé Market Audit—North America. “A progressive thinking audit group needs to find ways to source the best talent – and that requires some consideration to design roles in the audit team that appeal to a changing workforce. This may require some non-traditional approaches such as designing a faster pace rotation for candidates that want to see wider sections of the organization as they determine what direction to pursue in their career. This can be done in tandem with developing a longer term progression model for auditors that want to remain in the audit function on a longer term basis. There may also be opportunities to design job requirements around continuous audit development, data analysis, or other audit activities that reduce the need for specific team members to travel at typical audit staff levels. This could open new opportunities for the audit team to benefit from the skills of employees that may have travel restrictions or other factors that limit their ability to perform in a traditional high travel audit role.

One of the goals for internal audit practitioners around the world is to establish and maintain the field of internal auditing as a credible and competent “profession” in the business environment, globally, in academics, and through the Certified Internal Auditor (CIA) certification. Many milestones have been made since the beginning of the profession, where auditors were viewed as “the police in black suits” and stuck in the basements. Today, the internal auditing profession is credited for adding value and providing a source of talent throughout the business organization. The perceived role of internal auditing has changed dramatically in recent years with a heightened ability to provide valuable solutions to organizations. At the heart of the profession, the educators, students, and practitioners strive to obtain a true understanding of the business world today and maintain a collection of institutional knowledge. These efforts have led the internal auditing profession to its unique position. “In looking at individuals who have had the opportunity to participate in an audit program, you will find many CFOs and CEOs who have had the opportunity to refine their analytical, general business and leadership skills in an Audit Rotation program,” says John Carroll, VP of Internal Audit at Merck & Co., Inc.
Part IV: Independence & Objectivity

Independence and objectivity are topics that merit significant consideration and an in-depth analysis with respect to implementing effective rotational programs within the internal audit activity.

Independence and Objectivity Concerns

Rotational programs are beneficial to the internal audit activity and the organization in the sense that they help the staff broaden their understanding of the business. If an internal auditor looks at a business function objectively, they can apply their rotational experience to audits of other business areas. This increase in business knowledge is beneficial to the extent that independence and objectivity are not compromised. What level or extent should the internal audit function understand business functions of organizations to properly assess risk? The Standards listed in Figure 4-1 are relevant to independence and objectivity concerns that exist for rotational programs within the internal audit activity.

Figure 4-1: Standards on Independence & Objectivity

<table>
<thead>
<tr>
<th>IPPF Standards</th>
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<td>1120 Individual Objectivity</td>
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The Standards state that internal auditors must have an impartial and unbiased attitude and avoid any potential conflict of interest situations. The Standards define a conflict of interest as a “situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest.” Often times, these competing interest could make it difficult for the auditor to fulfill his or her duties with an impartial attitude.

Objectivity and auditor independence are often discussed at each opening meeting. Independence is typically established through the organizational status. Objectivity is not being predisposed relative to an audit unit.

In complying with the Standards, internal auditors must be independent and objective, in fact and appearance. In avoiding potential conflict of interest situations internal auditors must refrain from assessing specific operations for which they were previously responsible.

Internal audit departments in various organizations have a policy requiring that individuals who rotate into internal audit from another department not be allowed to audit that previous area of responsibility for an appropriate duration of time. The purpose of such policies mitigates the risk of bias or prejudices for the internal audit staff that transfer from other areas of the business.

17 Source: (IPPF) Attribute Standard 1120-Individual Objectivity.
18 Source: (IPPF)-Attribute Standard, 1130-Impairments to Independence and Objectivity.
Practitioner Insight on Independence and Objectivity

This section is based on discussions of internal auditing rotational programs with several organizations’ chief audit executives and other internal audit service providers. The valuable perspective and insight provided on independence and objectivity concerns accompanying rotational programs is referenced below.

“Independence is a State of Mind”

According to Steve Casazza, Vice President of Nestlé Market Audit—North America, “independence is a state of mind.” By maintaining an independent state of mind, the internal audit function could report to the audit committee, board of directors, or senior management and still be in compliance with independence standards. Casazza refers to this as a “conflict of interest problem more than independence.” For example, in rotating a person into internal audit from another operational area, internal audit might be cautious of that individual performing an audit of their previous area of responsibility. A two to three year “cooling-off” period is normally required before that person is able to audit the prior area they rotated from, depending on the individual and his or her skill level. However, at Nestlé, Casazza claims “enough diversity is present in its organizational structure and the nature of audit assignments to avoid the ramifications associated with conflict of interest issues.” Hence, the appropriate assignment of auditors to a specific audit can solve objectivity concerns.

Rotational Program Structure Implications

Lyn Beaty, Vice President of Internal Audit and Controls at Halliburton, also believes that individuals rotating into internal audit should not be allowed to audit areas they have previously worked in or previously had responsibility. Beaty claims that, “in contrast, there may be less risk associated with individuals auditing areas that they may potentially be responsible for in the future.” At the end of the day, most respected organizations desire committed and dedicated employees. According to Lyn Beaty, “if the individual is not fulfilling his or her responsibility in auditing a particular entity due to future potential rotation opportunities into that entity, then senior leadership would not consider the individual a desired member of their team.”

Joyce Vassiliou, Director of Internal Audit at Coca Cola Hellenic in Athens, Greece, claims that one of the main challenges for internal auditors is to have a balanced approach; one that incorporates a sound understanding of the business coupled with the compliance and control aspects of the internal audit role. Mrs. Vassiliou adds that “rotational programs in our operations allow individuals to enhance their business knowledge and be better able to add value when circling back into an internal audit role”. For individuals joining internal audit from a business unit, these individuals must adapt their approach to objectively evaluate the business. Mrs. Vassiliou states that “this can sometimes be a challenge, but the key element is to remain independent and objective whilst considering the business challenges.” More specifically, it is a change in mind set from “this is the way it has always been done” to “is there a more effective and efficient way to perform this process?” At Coca-Cola Hellenic, the more organizational experience an individual brings, the more value that individual can add, not only to the internal audit function, but to the overall organization.

According to Glyn Smith, a seasoned internal audit professional and Principal of The CooperGroup, the structure of the rotational program has implications that organizations should consider with respect to auditor independence and objectivity. Smith provides a good example, where an individual understands he or she is rotating into the internal audit department for two years and will then seek a position in the inventory control department in the future. During the internal auditing rotational assignment, the individual is asked to participate on the engagement team for the inventory control department. This
scenario presents a significant objectivity concern in which the individual could potentially compromise his or her objective state of mind when finding issues and providing recommendations to the inventory control managers. In this situation, the individual may refrain from surfacing key findings to prevent damaging any relationships with the process owners and management.

**Mitigating Recommendations**

How can the internal audit department mitigate the risk of potentially compromising auditor independence and objectivity?

**Monitoring**

Regarding Glyn Smith’s example scenario in the paragraph above, where an individual is up for rotation into the “inventory control department” in the future, but is still needed as a resource on the audit team, Smith suggests the use of monitoring. For example, an auditor-in-charge could supervise the individual to ensure that if he or she finds any issues, the auditor-in-charge could take the lead in resolving the issues with management. Monitoring the individual throughout the engagement reduces the risk of bias, mitigating any potential conflict of interest or compromise of the individual’s objectivity.

**Subject Matter Expert for Audit Engagement**

David Neary, Vice President of SOX and Internal Audit at Calpine Corp, says that individuals who rotate into internal audit from another area of Calpine must wait a year before auditing that area to meet independence and objectivity requirements. Moreover, the rotating individual would not be allowed back into the prior business area for an appropriate length of time if they participate in an audit engagement of that area. An alternate solution would involve the individual participating on the audit engagement during the planning phase as a “subject matter expert,” thus providing valuable knowledge and insight on the area of interest. This helps mitigate independence and objectivity concerns, and provides for an efficient and effective use of staff resources.
Concluding Remarks

Strategically Positioning Internal Audit for Future Changes

Innovation is often regarded as an indirect and unintentional benefit of job rotation. Given the emerging risks in business organizations today, internal audit practitioners have ample opportunities to add value and increase the credibility of the profession by keeping with the changes in the economy and recommending ways to mitigate the impact of these risks.

Around the world, internal audit must continue to add-value to organizations, enhancing its credibility and reputation. With a proven track record of success, management will rely on internal audit as the breeding grounds for talent. The internal auditing profession must continue to set high goals to raise the stakes in the business environment, and strategically position itself for an innovative role in the future.

The rotational model provides internal auditors priceless opportunities and valuable experiences within their respective organizations to develop broader business and leadership skills. The job rotation model is not only used in the internal auditing profession, but currently also being used in the external auditing and public accounting firms. Both internal and external auditors are held to market expectations of being competent in business knowledge. The public accounting profession incorporates a similar model of rotation, where various levels of staff are rotated amongst the different service offerings of the firm. Alternatively, the degree of specialization is still present in public accounting as the Big 4 firms address client needs to “understand the business.” Partners and entry level hires are often spending more time on specific clients or certain industries for longer periods of time, thus accumulating more client specific knowledge, building strong customer relations, and providing more valuable solutions.

The final verdict remains—there is no right answer as to which rotational method is best. It is whatever works best for the entire enterprise. In some organizations, it is better to have a pure formal rotational staffing model, but in others it may be best to have a team of “career internal auditors,” or even a blended variation of the two. At the end of the day, a balance of institutionalized and business knowledge of the organization is needed to increase the value placed on the internal auditing function irrespective of countries, cultures, industries, size of organizations and internal audit. However, there is room for both and should be if the desire is to be a 21st century leading audit profession. As a leader, the profession should be able to accommodate multiple career paths. Internal auditing is in a position to do this best.
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# Appendix A

## Organization Profiles and Rotational Program Attributes

This section provides profiles of the practitioners interviewed and their respective organizations, including several attributes of these organizations’ rotational models. The following table is based on personal conversations held for research with organizations’ CAEs and other experienced Internal Audit professionals from a variety of position and industries, many of whom work for Fortune 500 companies. A considerable amount of the content and context of these interviews is incorporated into the body of this essay. The primary goal of this appendix is to serve as a convenient reference for the sources of information integrated in the body of this essay.

<table>
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<tr>
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<th>Professional Source</th>
<th>Preferred Rotational Model</th>
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<tr>
<td>1</td>
<td>Lyn Beaty, CPA</td>
<td>At Halliburton, there is currently a formal rotational program within the finance group, but they are trying to implement a program within the IT audit function. With regards to implementing a rotational model, they are working with the finance, supply chain, and IT groups. Lyn plans to build success upon this vision by incorporating the formal rotation of operational leaders into internal audit for development.</td>
<td>Rotational programs within internal audit allow individuals in the organization with an understanding of internal controls and risk management to spread their competencies throughout the organization in leadership positions. It also brings experience and knowledge from the business to internal audit.</td>
<td>Training is typically a challenging issue for organizations when it comes to rotational programs. Internal audit functions must be able to train new individuals to ensure they have the necessary competence and skills as defined in the Standards. Lyn stresses the importance of assessing whether or not the audit staff obtains the core auditing skills and competencies that are required for the audit function to carry out its responsibilities. In rotating operating individuals into audit, the organization’s ability to release highly demanded engineers for a rotation into audit presents a challenge.</td>
<td>Organizational planning is necessary for a formal rotational program to be successful, which is not something that occurs by accident, but rather through discussion and influence on the operations side of the business. Lyn says this “happens naturally with a variety of experience in the organization and the promotion of internal audit within the organization. It is important for internal audit to be valued in the organization, but for internal audit to be valued, internal audit must bring value in helping the company meet its objectives.</td>
</tr>
<tr>
<td>2</td>
<td>John Carroll, CPA</td>
<td>Rotating individuals into internal audit for a 1-4 year window, but at least 2-5 years gives people adequate time to appreciate culture differences and business models, and further refine auditing and analytical skills. However, this does not mean that individuals cannot stay in audit for a longer duration of time.</td>
<td>The opportunity to spend time in internal audit provides individuals with exposure to various cultures, processes, and business models around the world. Twofold benefits: Individuals are well-trained analytically and have a good appreciation of differences across the world from a cultural and business standpoint. Also, this produces a good population of individuals in the company with an understanding of governance, risk, and controls.</td>
<td>Not Applicable</td>
<td>In looking at individuals who have had the opportunity to participate in an audit program, you will find many CFOs and CEOs who have had the opportunity to refine their analytical, general business and leadership skills in an Audit Rotation program. Rotation has been a key element that has helped John’s career success.</td>
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| 3 | Steve Casazza, CIA, CISA, CFE  
VP of Nestlé Market Audit—North America  
Nestlé  
Food & Beverages Industry  
20 Years of Experience |
|---|
| Nestlé currently has a formal, yet loosely structured rotational program for new college hires. Three models provide a matrix of paths to rotate into the internal audit function, including:  
1. Financial Operational Program  
2. Manufacturing Finance Track  
The objective is to develop audit team members and managers that know audit and about the organization. Nestlé loads the organization with young individuals at a professionally mature level, from universities and public accounting firms. The duration of these rotational programs spans five years total, with 12-18 months spent in each of the business roles.  
Goal for internal audit is to place a quarter of the internal audit group into the business areas, so that once every four years on average they are able to turn the entire audit team over, adding fresh talent and perspective to the group. Internal audit provides a great track for students to come to an organization and see what the entire organization is about, thus providing a great launching point to other careers that may be more of a match of passion and talent. The direction of the profession is to bring in high potential and aggressive young talent, even if only for 4 or 5 years, rather than only focus on maintaining a practice comprised of lifelong career auditors that perform at a mediocre level.  
In order to be a 21st century audit leading practice, we must be able to accommodate multiple career paths, dealing with those individuals whose goal is to spend a couple of years learning “what they want to be when they grow up,” but also those without the intention of making a career out of internal audit. Given the huge changes in the demographics of the workforce, there are other wrinkles to be aware of. The internal auditing profession must look at factors that affect talent management. As a profession, we would be mistaken to only guide individuals down one career path for internal auditing. |
| 4 | Richard F. Chambers, CIA, CGAP, CCSA, CFE  
President & CEO  
The Institute of Internal Auditors  
Professional Organization  
30+ Years of Experience |
| There has been a proliferation of rotational staffing models in recent years similar to the GE model. The GE rotational model is used in a number of companies where individuals are given the opportunity to learn about the audit function for about 2-3 years, including planning the scope and execution of an audit.  
In many respects, rotation teaches individuals about the organization as they are rotating through and learning about the business operations and what else is out there. Part of this learning process allows individuals to see what other areas may be of his or her interest, where their strongest aptitude is, potentially leading to career opportunities in other areas of the business.  
Challenge for internal audit function to maintain the accumulation of institutional knowledge about risk and controls. If everyone is flowing through internal audit, but no one is around for a steady period of time, then it becomes more difficult for the internal audit department to develop and retain the knowledge of high risk areas and reported controls. A constraint exists when management wants internal audit to be a source of talent for the business, but also wants internal audit to understand the business through time and experience. The typical duration for rotations should be considered to provide the adequate exposure to each area of the business.  
The whole movement of rotational staffing has taken on a new momentum in the last decade. Some of this movement has stemmed from the desire of notable companies to use internal audit as a source of talent for the business. If properly implemented, this set-up provides a good model to develop talent for the business. In his opinion, a “blend” of career internal auditors and rotational staff is best. Thus, ensuring the continuity of institutional knowledge, rotation compliments internal audit by contributing business knowledge, experience, and skills. |
|   | Cynthia Cooper, CPA, CFE  
The CooperGroup, LLC  
Chief Executive Officer  
Professional Services  
12 Years of Experience | Not Applicable | Excellent opportunity for professionals to gain insight into the organization’s overall function, while developing various skill sets. Enhances the audit skill sets due to increased business knowledge, and manager performance by bringing risk and control mindset to the business. | Not Applicable | Internal audit and the organization, including the individuals rotating in or out of internal audit mutually benefit from the production of better management and better auditors. |
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<td>FedEx doesn’t have an official rotation program and probably will not implement a required rotational program. There is approximately 20% turnover in the audit department, and approx. 85% of that stays within FedEx. Rotation informally occurs in placing great people out into the operations of FedEx. Internal audit really does matter and the staff place value on their work as a direct contribution to helping FedEx. From a career development perspective, FedEx helps schedule and facilitate intradepartmental loan staffing and travel opportunities to meet an employee’s career objectives. When audit individuals come and go after a certain period of time into business units or corporate functions, they are productive employees and these audit skills are useful to another area of work that they are passionate about. They have experienced an understanding of control awareness, including knowledge of what needs to be done to ensure things turn out according to plan. When individuals rotate into other operating companies it is a “win-win for the enterprise.” FedEx recently sent out an internal survey on career development options within internal audit department and the results revealed that employees do not want a forced rotational program, but they would like to participate in loaned-staff opportunities and more travel. FedEx is able to honor these requests given the organizational structure and many international operating companies.</td>
<td>Rotational Models may not work with complex internal audit structures and business operations. The way audit is structured at FedEx requires a significant level of experience to achieve the goals of the audit program and identify the high risk areas. The most tenured employees at FedEx are not experienced with the navigating as an internal auditor. FedEx is a very diverse business, with multiple lines, unlike some manufacturing and oil and gas organizations. It takes time to become acclimated with the environment and wired to the interdependencies of the operating companies. Hence, rotation is just not something they have entertained. Individuals need to truly understand the complexities of the environment to really understand the overall operations.</td>
<td>Some individuals come into internal audit as an intern and move to other areas. When these individuals come back to audit, they realize that they like audit and perhaps want to make a career out of it. The added value employees feel they contribute to the organization is what keeps them coming back to audit. Individuals who decide to rotate are taking ownership of their respective career development. Training is available to help employees develop into whatever it is they want to develop into, whether inside or outside of audit, or even more travel--there are plenty of opportunities. Many organizations, like FedEx, are concerned about the individual’s wellbeing, even if that means somewhere other than internal audit, and will help these individuals get where they want to go as fast as they can because this ultimately adds value to the entire organization.</td>
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| 6 | P. Keith Dickey, CIA, Director of Internal Audit  
FedEx Services  
Transportation Industry  
26 Years of Experience | | | |
| Steve Goepfert, CIA, CPA  
**VP of Internal Audit**  
**United Airlines**  
30+ Years of Experience  
(Former CAE of Internal Audit at Continental Airlines, recently assumed role of VP Internal Audit at United after the recent merger.) | Continental used an informal rotational program where individuals with 2-3 years of audit knowledge would explore other areas of interest. Operational areas exposed to internal audit individuals often try to hire the internal audit staff into their designated areas. Internal audit employees have successfully branched out into all sorts of positions of the business, including, the international controllers group, the airport operations group, marketing, and sales. The new United is exploring the possibility of implementing a stronger rotational program, but talent selection is the first order of business. Best model is whatever works for the organization to build leaders.  
Benefits are two-fold:  
**Organization** benefits from internal audit hiring leaders and training these individuals on how the organization works together. The beauty of internal audit is seeing how all the pieces fit together, as opposed to fixed asset accounting where individuals only see the bits and pieces of the company, but not the whole picture. **Internal audit** benefits from the promotion of the internal audit function throughout the organization. The individuals that leave internal audit are spread amongst the organization and succeeding in what they do. Their co-workers see their success and begin to consider internal audit as an opportunity for career advancement. | The support of executive management is critical. It is a push from an internal audit perspective, but from a promotional standpoint, there has to be a pull from the organization wanting auditors out in the business, if not, then internal audit can only push so far. It depends on the organizational attitude, but if people are out there promoting themselves then senior management believes it is a good match. If the first goal of an organization is simply to just implement a rotational program, then the program is driving the organization, not the people that develop at different stages. In trying to develop leaders, an organization must help these leaders progress in life. | Organizations don’t just “build a rotational program to build one, but should build leaders first for the organization, whether in internal audit or not. The first step is to hire really good people and develop leaders, and then building a rotational program will take care of itself.” Goepfert says that the “more the organization cares about people and builds motivation, the more valuable thoughts and skills people can add to the organization.” Goepfert adds, “there’s a carrot at the end of the road for individuals to progress his or her career, and this is where people are genuinely happy with what they do, ultimately hiring good people who do the same thing.” |
|  | From an auditor’s perspective, this demonstrates that management values the skills of internal auditors by recruiting them to fill more senior management positions. Rotation allows the individual to see the organization from a “bird’s eye view.” After gaining this broad exposure, the individual can go out and specialize in their preferred functional area. It facilitates the promotion and “championing” of the internal audit activity within the organization. Prior auditors rotating into other areas and then coming back into audit now have a broader awareness, allowing auditors to consider the most ideal recommendations, given the resources a particular operating unit has available. | Any audit department, with or without a rotation process, must be of a critical mass or certain size to be an effective internal audit function. Mr. Johnson stated that “upward mobility in smaller internal audit departments may pose a challenge. To increase the opportunity for promotion, it is often necessary to step out into operational roles.” | Individuals that rotate from audit to other areas have a broader awareness of the organization as a whole, rather than solely detailed knowledge of one functional area. Individuals who have rotated from audit into an operational role and then back bring valuable skills and operational knowledge that is useful in future audits. |
| Dennis Johnson, CIA, CPA  
**Associate Vice Chancellor**  
**Office of Internal Audit & Institutional Risk Management**  
**Vanderbilt University**  
30 Years of Experience | Vanderbilt does not have a formal rotational model, but recruits individuals from other areas of the organization and also experienced auditors from outside the organization. |  |  |
|   | Timothy Kenny, CPA, CIA Candidate  
SVP & General Auditor  
Freddie Mac  
Financial Services Industry  
Former KPMG Audit Partner  
25 Years of Experience | No formal rotational program in place, but plans to implement one in the future. Informally, rotation into and out of the internal audit department (IAD) from the business occurs. There is a formal rotation program with the IAD where new internal audit hires rotate amongst the various audit teams every 6 months for the first 2 years spent in internal audit. | A required rotation into internal audit for 2-3 years benefits organizations by bringing in people with strong business knowledge. For strong performers who spend a few years in internal audit, they have the opportunity to gain more experience in different functions of the company and then go back to their original role or a different role—enhancing the individual’s career opportunities and returning with a heightened sense of control consciousness. | A typical issue with other rotational programs is internal audit skill deficiency and the cost of training transferred employees; however, this does not present as much of a issue for Freddie Mac, a financial organization, which is staffed with many CPAs, former auditors, or accounting and finance professionals somewhat rooted in risk and control concepts. | Goal of Freddie Mac is to be a source of talent for other company areas. The Audit Committee & Board support the IAD as a source of talent if they are able to transfer strong resources to other parts of the company, helping improve the control consciousness of the entire enterprise. |
|---|---|---|---|---|
|   | Roger McDaniel  
Audit Services  
Professional Services  
30+ Years of Experience | Mr. McDaniel has experience with internal audit functions providing external quality assessment reviews to many Fortune 500 organizations over the years. Based on his experiences, Roger provides insight on the potential benefits and challenges for internal auditing rotational models. | CEOs view the rotational model as a benefit to their organization because individuals came back into the organization with an ability to better understand the organization and to broaden their perspective of what makes an organization tick. | Sometimes audit shops don’t believe in rotational programs for various reasons. | Management in the organization with a sense of internal audit “awareness” may be able to add value from a different perspective. |
|   | Amber Miller, CIA  
Senior Audit Manager  
AIG Enterprise Services  
Insurance Industry  
26 Years of Experience | AIG does not currently have a formal rotational program, nor have they really explored the idea of implementing one. Informally, encourages individuals to rotate into or out of internal audit from and to other areas. | Encouraging individuals from other parts of the organization to give internal audit a try may lead to future career opportunities in internal audit provided the individual is a good match for the department. | Not Applicable | If an employee is not satisfied with their current job, but has valuable skill sets, then many organizations would rather relocate employees within the organization than with a competitor. |
Calpine does not currently have a formal or “forced” rotation program, but they encourage rotation informally. Quite a few team members have left internal audit and gone out into the organization. Calpine sees value in the perspective individuals’ gain by knowing how well the components of the company interact with each other. Although these individuals may not bring the detailed skill sets with them, they are able to catch on rather quickly. Calpine has evaluated the option of implementing a formal rotational program.

Rotating employees into various areas of the business adds value to the entire organization. Rotation brings value to the organization by bringing in new folks to replace the old. If done correctly, rotation offers the advantage of cross training employees. However, heavy seniors with experience and a solid business understanding need to be available in audit to train new individuals.

If individuals rotate from an operational role into internal audit and then back out, there may be issues in matching the compensation level with the individual’s former title. Often times, internal audit “managers” are not able to obtain the same salary when rotating into internal audit from operational areas. Rotational models move away from the IIA framework and standards and towards risk management. In addition to this viewpoint, if a person moves out of audit for 3 years, and then back into internal audit, it may take some time to readjust back into the internal audit profession and the changes that have occurred with the framework and the ability to assess risks objectively.

There are benefits from rotations in both directions. When we recruit, train and promote auditors and then move them into the business, it sends a message that Internal Audit is a very good place to start your career and learn the business inside out. Brining in people from the business and having them work with Internal Audit prepares them faster for roles that they may not otherwise have had the skills for.

Bringing in people from the business helps the Internal Audit team understand the practical challenges of balancing risk and governance with the day to day revenue generating activities. Internal Audit is regarded as a talent pool by opco management. Internal audit has a broad view of all businesses and can share best practices amongst the group. It’s also important to keep the alumni network of auditors within the business alive.

Senior ranked classifications are based on certain skills that need to be mastered for managing people and engagements. In progressing to a financial role, all the processes that have been audited in the financial cycle have enhanced the skill sets of that individual from being in audit. However, this may not prepare the individual for an operation role at a hospital. Overall, from a financial role rotation offers a great view of the organization.
| Glyn Smith, CIA, CCSA, CPA  
**Principal**  
The CooperGroup, LLC  
Professional Services  
20+ Years of Experience  
(Former Director of Internal Audit at MCI WorldCom) |
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<td><strong>Perspective on Rotational Programs</strong> that interviewed the Coca-Cola Company’s internal audit director in Atlanta is similar to Coca-Cola Hellenic’s rotational model. The corporate audit department of Coca-Cola Hellenic is comprised of individuals that possess audit and operational experience. Typically, individuals start in an audit role and then roll out into a business unit’s operations. Some auditors later return as an audit manager. For more tenured employees, the duration of rotations is usually 3 to 5 years, but for the less experienced internal auditors, rotation is typically 2 to 3 years. This model includes employees rotating out of corporate audit into the business and eventually returning to corporate audit.</td>
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<td>The IIA’s article —Peer’s Perspective on Rotational Programs— that interviewed the Coca-Cola Company’s internal audit director in Atlanta is similar to Coca-Cola Hellenic’s rotational model. The corporate audit department of Coca-Cola Hellenic is comprised of individuals that possess audit and operational experience. Typically, individuals start in an audit role and then roll out into a business unit’s operations. Some auditors later return as an audit manager. For more tenured employees, the duration of rotations is usually 3 to 5 years, but for the less experienced internal auditors, rotation is typically 2 to 3 years. This model includes employees rotating out of corporate audit into the business and eventually returning to corporate audit.</td>
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<td>As the former Director of Internal Audit at MCI WorldCom, Smith understood that WorldCom did have a formal rotational program. WorldCom brought people into the organization fresh out of college with promising management potential and essentially assured them a management position in one of the various departments. In return, the individual would benefit from rotation. Several people were moved through the internal audit function to get to the management role through this program.</td>
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<td>Several considerations include looking at the internal audit charter, the profile of the existing internal audit department regarding size and complexity, the structure of the rotational programs, and implications for the structure with regards to independence and objectivity concerns. Internal audit shops that are larger in size might contain a nice mixture of “career internal auditors” and rotated auditors. This type of internal audit profile tends to work well with the rotational program and models because the internal audit department is constantly bringing in employees to internal audit, but always have a subset of auditors that can provide oversight and training.</td>
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<td>In instances where employees are rotating through a department and have been guaranteed a fixed position and offer, then the company bears the risk that they will be able to honor this position when the fixed period of time ends. Formal implementation of a rotational program can often go wrong with inaccurate forecasting and planning. Issues arise when internal audit constantly brings in new people from other areas that have a significant learning curve to embody the institutional knowledge of internal audit risk and control methodologies.</td>
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<td>Smith has experience in working with various internal audit departments and is familiar with the use of rotational models in these organizations. Based on his experiences, if an organization is considering implementing a rotational program, there are several factors that influence the viability of a rotational program. Monitoring the individual throughout the engagement reduces the risk of bias, mitigating any potential conflict of interest or compromise of the individual’s objectivity.</td>
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| Joyce Vassiliou, CIA, CCSA  
**Director of Internal Audit**  
Coca-Cola Hellenic  
Food & Beverages Industry  
15+ Years of Experience |
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<td>Rotational programs in our operations allow individuals to enhance their business knowledge and be better able to add value when circling back into an internal audit role. At Coca-Cola Hellenic, the more organizational experience an individual brings, the more value that individual can add, not only to the internal audit function, but to the overall organization.</td>
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<td>One of the main challenges for internal auditors is to have a balanced approach; one that incorporates a sound understanding of the business coupled with the compliance and control aspects of the internal audit role.” For individuals joining internal audit from a business unit, these individuals must adapt their approach to objectively evaluate the business. Mrs. Vassiliou states that “this can sometimes be a challenge, but the key element is to remain independent and objective whilst considering the business challenges.” More specifically, it is a change in mind set from “this is the way it has always been done” to “is there a more effective and efficient way to perform this process?”</td>
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<td>A strong understanding of the business provides the auditor with a better perspective when analyzing the root cause of a control deficiency and further enables them to provide sound recommendations to management. These recommendations incorporate an understanding of the deficiency and the associated potential impact on the business. A good recommendation may sometimes change certain processes and cross functional action plans. In the end, appropriate recommendations will assist the business and improve the overall control environment.</td>
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<td>Sherron Watkins, CPA</td>
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<td><strong>Owner</strong></td>
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<td>Sherron Watkins &amp; Company</td>
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<td>Accounting, Finance, &amp; Consulting Industries</td>
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<td>30 Years of Experience</td>
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<th>Rod Winters, CIA, CPA</th>
<th>Microsoft has a formal talent development program for college grads that rotates them into various parts of the business (including internal audit) for 4-6 months at a time over a 2 year period. Microsoft also has a formal &quot;loaned-staff&quot; program where vacant positions are temporarily replaced by drawing people from the business. Informal rotation occurs with a high proliferation of director rotation into and out of internal audit from the business and into the business. Microsoft implements formal succession planning into the organization to facilitate audit leadership team.</th>
<th>Microsoft implements formal succession planning into the organization to facilitate audit leadership team.</th>
<th>Former CAE of Microsoft's internal audit group. The objective of Winters rotation was to take the control, compliance and risk management perspective and embed it deep into the financial operations that he is currently responsible for running. The role of internal audit is continuing to evolve. Internal audit organizations are transitioning from SOX, controls, and compliance orientation to a broader orientation focusing on governance and risk management issues. The demand for internal audit skills, experience, and competence continues to dial up. From a broad perspective, the best internal auditors tend to be individuals with experience in running the business with management responsibilities.</th>
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<td><strong>General Manager</strong></td>
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<td>28 Years of Experience</td>
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Rotational programs within the internal audit activity are evolving, where individuals with strong internal audit orientation stepping out of audit into other management roles at several different points in their career. CAE's rotating out of internal audit into other business areas gain more experience, coming back to internal audit to ensure audit programs are aligned to business risk and strategies. Audits in operational areas managed by a former internal auditor tend to be "boring," lacking significant audit findings.

Typically large companies, like Enron, operate a rotation program at the entry level. Rotation programs beef up a company's risk management. The trust that exists between two employees that worked alongside one another but now are in separate departments is the driver preventing many frauds.
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