Introduction

As the internal audit function continues to evolve, we are seeing a transformation in the skills and attributes required for professional success.

Technical skills remain absolutely necessary, but they are no longer sufficient on their own. The most effective “Internal Auditor of the Future” possesses a broad range of non-technical attributes in addition to deep technical expertise.

This shift is evident in recent surveys of the internal audit profession (see “Top 5 IA Skills Sought by Global Recruiters” sidebar on page 3 and “CAEs Also Target Personal Skills for Improvement” sidebar on page 4). This research indicates that chief audit executives (CAEs) place growing value on attributes such as business and risk acumen, analytical skills, communications savvy and the like. Yet, these insights beg further inquiry. What, exactly, does “business acumen” consist of in practice? What methods do the best internal audit communicators commonly use? What are some of the key components of critical thinking that internal auditors apply in the field?

To address these and related questions, we conducted in-depth interviews with a collection of leading chief audit executives at global companies across several industries, including financial services, manufacturing, defense and retail. The intent of these discussions was to gain a deeper, more comprehensive understanding – one based on the qualitative insights of top practitioners – of the non-technical attributes and sub-attributes that chief audit executives seek to recruit, retain and develop.

Throughout each of the discussions conducted for this paper, the CAEs continually expanded our understanding of general non-technical attributes by detailing the numerous and distinct dimensions that comprise seven commonly sought-after qualities (see “7 Prized Attribute Areas” above). For example, while recent internal audit surveys indicate that business acumen qualifies as a crucial
attribute for internal audit professionals to possess, conversations with leaders in the profession indicate that this general attribute area consists of numerous equally important dimensions, including:

• Natural inquisitiveness;
• Persuasiveness;
• Change management proficiency;
• A service orientation;
• An ability to recognize and respond to diverse thinking styles, learning styles and cultural qualities; and
• A global mindset.

A second theme materialized throughout the interviews. Chief audit executives emphasized that they view non-technical attributes (once considered “soft skills”) as competitive differentiators in terms of the performance of their functions. As Raytheon Chief Audit Executive Larry Harrington so passionately puts it, “Soft skills are the new hard skills, believe me.”

It is the intent of this paper to explore this idea further with insights, experiences and details gained from actual experiences in the field. After briefly characterizing the current state of internal audit’s evolution, the paper shares these field insights for the purpose of helping future internal audit managers and executives understand how they can strengthen their capabilities in the coming months and years.

**Internal Audit’s Current and Future Role**

The “annual” audit plan offers a jarring glimpse into the pace and magnitude of change affecting internal audit functions.

Not long ago, internal audit would submit the annual plan to the audit committee. Once approved, the document would guide the function’s activities during the subsequent 12 months. “Today that just doesn’t happen,” reports Kelly Barrett, Home Depot Vice President-Internal Audit and Corporate Compliance. “Your audit plan can change in the middle of the current quarter now, and sometimes it even changes on a day-to-day basis.” Although these changes rarely qualify as complete overhauls, they still require sudden shifts and a high degree of flexibility.

The drivers of this volatility are well-known. The pace of global regulatory changes has remained swift since the passage of Sarbanes-Oxley and similar legislation and regulations around the world more than a decade ago. The Dodd-Frank Act in the United States, Solvency II in Europe (and possibly in China,
which is considering a similar framework), the European Union (EU) Data Protection Directive, among many other new and emerging rules changes, represent only the latest compliance challenges. More rules changes are inevitable.

The pace of change also has intensified as the business world has grown more global and more interdependent. “If what is happening in Greece occurred 15 years ago, it would not have the impact on the emotional mindset of the U.S. consumer that it exerts today,” notes former Dow Chemical Company Chief Audit Executive Gregory Grocholski, who now serves as the company’s Business Finance Director for New Business Development. “If somebody sneezes on the other side of the world today, it can cause the price of oil to jump $5 overnight.”

Regulatory changes, economic headwinds and the interconnectivity of business require most companies to operate in a more agile manner so they can quickly dodge threats and exploit opportunities. This dynamic forces internal audit – which is responsible for providing assurance on internal controls, risk management and corporate governance as well as consulting services to the business – to remain vigilantly informed of the latest global developments affecting the company and how the company intends to respond to external drivers of change.

Internal audit professionals are expected to operate with the same agility that their companies need to exhibit amid ongoing external volatility. On a professional level, this agility has two dimensions, according to Barrett:

1. The intellectual ability required to constantly absorb new information; and
2. The flexibility that enables them to switch priorities and projects quickly and comfortably in response to rapidly changing business conditions.

Part of the balancing act includes managing both assurance and consultative (which many are referring to as “advisory”) work. The CAEs interviewed for this paper emphasize that more of their function’s work qualifies as advisory. This is the case because their functions have managed to adapt to the dizzying pace of business and regulatory change while demonstrating credibility as a business partner.
“If you’ve developed a brand as a great audit function, your phone is going to ring off the hook from people in the business who want your help,” says Harrington. “At the end of the day, we’re not paid by the audit report or by the audit finding. We’re paid by how we can make the company better.”

**Seven Secrets of Success**

If internal auditors are to help improve the company, their most important capability may be understanding (and responding to) the reality that the world, and its companies, are changing constantly and quickly as new risks emerge virtually overnight. Given the pace and magnitude of change, agility and flexibility are far from the only attributes leading audit executives seek. Other highly valued non-technical capabilities include the following:

CAEs Also Target Personal Skills for Improvement

Each year, Protiviti’s Internal Audit Capabilities and Needs Survey Report identifies the personal skills and capabilities internal audit professionals want to improve. In the 2012 survey report, chief audit executives (a subset of the larger respondent group) identified only one technical area among the top personal skill areas they want to improve:

1. Presenting (public speaking)
2. Developing board committee relations (beyond audit committee)
3. Persuasion
   - Using/mastering new technology and applications (tie)
4. Negotiation
   - Dealing with confrontation (tie)

1. **Integrity**

Even the most successful internal auditors contend with push-back. Similarly, even the most thoroughly researched, rigorously supported and fairly presented audit reports can generate disagreement.

This is only natural: anger and denial represent natural reactions when human beings receive difficult news, or a disappointing “assessment” on an internal audit report.

All of the CAEs interviewed for this paper identify personal integrity as a must-have quality at all levels of the function. Grocholski asserts that internal auditors have a “professional mandate” to exhibit integrity as well as trust, independence, objectivity and similar qualities in all of their work. When hiring, developing and promoting internal audit professionals, Grocholski and his managers evaluate the degree to which internal auditors demonstrate the ability to fulfill this mandate.

Resiliency represents another facet of integrity. Regardless of the strength of a company’s business processes and organizational culture, there will be times when managers cringe when internal audit calls them. “People may push back on you or they may not be completely forthright, especially in situations in which someone has not done a good job,” Barrett says. “You have to be tough and resilient in those scenarios so that you can push through all of the resistance and then work with people in a constructive manner.”
Integrity requires confidence, as well as balance. CAEs say their hiring processes are designed to determine the extent to which integrity is part of a candidate’s personal fabric. For example, Home Depot’s rigorous selection process requires internal audit candidates to solve a problem in a group setting and complete a real-life business case; both exercises help Barrett and her team assess the candidate’s integrity, among other important attributes.

“You cannot perform this role well by simply relying on technical skills and communication skills,” Grocholski asserts. “You’ve really got to integrate this professional mandate – not in an egotistical or overly authoritative way, but in a balanced manner – with your technical skills and your communication skills.”

2. Relationship-Building
One of the most pervasive objectives across all internal audit functions consists of cultivating trust and respect with other professionals throughout the business.

Doing so, CAEs say, helps build productive, highly collaborative and mutually beneficial relationships. Achieving this objective requires the laying of groundwork. As Harrington notes, there is no such thing as “just-in-time networking.”

The need to develop healthy, deep relationships with all levels of the business takes time. The most successful internal audit professionals invest countless hours building trust throughout the organization. Fostering this credibility helps:
1. Reduce resistance during the auditing process;
2. Increase the speed and volume of information that business partners can deliver in response to internal audit requests; and
3. Encourage the business to understand and embrace internal audit’s consultative role.

“If you have a trusting relationship with someone, it’s much easier to have the kind of conversation necessary to get their rating from an 88 to a 93,” Harrington explains. “Internal auditors often think along the lines of, ‘OK, I have an audit with Scott coming up in two months, so I better go meet Scott and get friendly with him.’ That doesn’t work. Internal auditors, many of whom are introverts by nature, need to go out and invest the time necessary to build genuine relationships well in advance of ‘needing’ them.”

Effective relationship-building requires several other attributes, including business acumen, knowledge of the company (and its risks), persuasion and empathy. Internal auditors should be able to walk in the shoes of the business people they audit. MetLife Senior Vice President and General Auditor Karl Erhardt emphasizes that business acumen includes company and risk knowledge in the form of “end-to-end process understanding.” For example, an internal auditor should understand the product offerings, the related assets and liabilities, how transactions are processed, the data, the systems and the risks end-to-end.
“Persuasiveness also is vital,” Harrington adds. “Internal auditors should possess the ability to convince people that they are there to add value to the business.”

3. Partnering

“Partnership” represents another broad ideal that CAEs prize, and they seem eager to distill the concept into more tangible descriptions and examples.

For Erhardt, effective partnering hinges on a service orientation (a key measure in the performance management framework used for all MetLife internal auditors). “Service-oriented refers to the ability to go out and execute via partnership with the business and operational leaders,” he explains. “Being service-oriented absolutely requires internal auditors to know, and keep current on, what’s going on in the business. As an internal auditor, I need to know what these leaders’ projects are, what they’re spending their money on, their top risks and their emerging risks. And I need to bring that understanding into my audit plan because this is proactive risk coverage and the business leaders see value. At the same time, I need to remain balanced between providing customer service and meeting all of my regulatory requirements.”

Effective partnering (and CAEs emphasize that the objective of effective or “good” partnering is to ensure the best outcomes for the business) also requires the ability to spot and share best practices. Inspiring partners to adopt best practices requires change-management skills.

Change management requires an understanding of the current state of a business process as well as clear guidance to business partners regarding how they can think through the systems, processes, and/or people changes they need to institute to achieve a best-practice state.

“Managing change to effect organizational improvement in a company is difficult,” Harrington points out. “It’s also important, and an area in which internal audit can add tremendous value by improving operational efficiencies, identifying potential risks and, ultimately, making the company a better company.”

4. Communication

While effective communication has long qualified as a valuable internal audit attribute, the nature of organizational communication is changing rapidly. Driven by the emergence of social media (and the shorter bursts of more immediate information social media users expect) as well as the ever-increasing
supply of organizational data and information, this transformation places fresh demands on internal audit professionals. It is important to note that effective communication skills extend beyond well-written reports and into verbal communication. CAEs indicate that their functions and people need to maintain an ongoing and two-way (i.e., talking and listening) dialogue, both formally and informally, with the rest of the enterprise. Written communication also rates as critical. “Very few people in the company look at anything internal audit writes other than the audit report,” Harrington notes. “The audit report is the only document depicting a 1,000 hour audit, so we need this document to sing a beautiful song.”

Making the audit report hum requires sharp written skills that convey a crystal-clear message in as few, well-chosen words as possible. Some audit reports are too lengthy at a time when most managers are inundated with a need to read dozens, or even hundreds, of emails, blog entries and tweets on a daily basis. Harrington routinely advises his staff to prune the length of their drafts (often by having them read their work aloud to more easily identify any opportunity to present crucial information more efficiently and in a more compelling fashion).

Internal audit’s reports also represent an extension of its brand. Besides conveying factual information, the tone should inspire trust and credibility, as well as demonstrate a service orientation (i.e., an understanding of the impact of the report’s findings and recommendations on the specific part of the business).

There also exists an increasingly valuable, and often overlooked, communication skill internal auditors should focus on sharpening. Grocholski refers to this attribute as “visual analytics.” As the use of continuous auditing and monitoring grows steadily, internal audit functions have massive amounts of information to support their conclusions and guidance.

“We have instantaneous access to powerful information that can help us show our partners trends, tolerance, concerns and much more,” Grocholski says. “If you put this information in a spreadsheet with 40 columns and 2,000 rows and ask partners to digest it, their interest will be, at best, subdued.

However, if you inject that information into the right visual analytic – I’m talking about something beyond a pie chart – it can inspire a compelling reaction right away.”

The visual presentation of powerful analytical insights remains a neglected facet of the internal audit function’s communication capabilities. It will only grow more valuable. “Think about all the tech-savvy employees who want to turn on their tablets and launch an app,” Grocholski says. “Why can’t internal audit enable them to touch their tablet screen and see an image showing that we looked at 40,000 transactions their function performed in the past three months and they are within the tolerance of .003?”
5. Teamwork

The same partnering attributes that internal auditors apply while serving their customers also help foster better relationships with internal audit colleagues. This is crucial, and it explains why leading CAEs identify teamwork as a top competency.

“I don’t want someone here if they cannot function on a team,” Erhardt notes. The highly integrated nature of the business processes internal audit examines requires intensive collaboration among internal auditors with different areas of technical expertise. Consider the derivatives process, for example. Internal audit must apply knowledge of the back-office end (e.g., accounting), the middle of the process (e.g., IT systems) and the front end of the process (e.g., math models, capital markets and liability knowledge). These areas of expertise typically reside in several different internal auditors who must collaborate to deliver seamless service.

The ability to thrive on a team requires emotional intelligence, notes Barrett, who points to the skills to influence, lead and empathize (supported by sharp business acumen) as key components of this attribute set.

“We work on developing a lot of different leadership skills in our internal auditors,” she reports. It is important for Barrett’s staff to learn how to wield influence in a culturally appropriate context at Home Depot; this ability has become a highly sought-after competency throughout the enterprise. “Internal auditors with that capability are the types of people who get promoted throughout the business because of their ability to influence others,” she adds.

6. Diversity

Some internal audit functions cultivate stronger teamwork via diversity, another frequently mentioned quality that possesses a number of dimensions, according to leading CAEs.

Changing demographics and the accelerating pace of globalization require internal audit functions to influence and consult with a larger variety of ethnicities, nationalities, ages, cultures and subcultures within their companies. Chief audit executives emphasize the need to manage diversity in a comprehensive sense – one that also addresses different thinking and learning styles.

Erhardt also stresses the importance of seeing challenges through as many different perspectives as possible. He uses the term “global mindset” to describe one of the attributes his function seeks when hiring internal auditors. “A global mindset will mean something different to each company,” explains Erhardt, whose company operates in nearly 50 different countries. “In our case, we certainly need to think globally and act locally with a consistent view of problem-solving. This requires understanding
different cultures and ways of operating, but I think a global mindset still applies to a domestic company because it refers to broad thinking.”

Home Depot’s internal audit function constantly discusses diversity issues. These talks cover gender, ethnicity and cultural tendencies. “Our discussions also cover much more,” says Barrett. “Diversity is about perspectives, experience and skills, too. We try to do as much cross-pollination as possible to expose internal auditors to diversity in its holistic sense.”

Raytheon’s Harrington agrees. “Diversity is much more than ethnicity or male/female,” he says. “Diversity of thought, experience and generational differences are also critical. Internal auditors could be working with four generations, and must learn how to flex their styles to communicate with each person they interact with to recognize those differences. Developing diversity competencies is critical today. As an auditor, you need to make sure you have the sensitivity and flexibility necessary to understand and adapt to so many different kinds of thinking and learning styles in the global workforce.”

Harrington believes that tomorrow’s internal audit leaders will be those professionals who flex their management styles to a diverse set of audiences to encourage these audiences to make the changes they need to make for the good of the business.

7. Continuous Learning

When discussing the non-technical skills she values the most, the first phrase Barrett mentions is “naturally inquisitive.” Home Depot seeks internal auditors who refuse to accept a “surface explanation,” she notes. “We want people who have a passion for truly understanding the business and a knack for remaining inquisitive within environments that can change on a weekly or even daily basis.”

Harrington expresses a similar desire for intensely curious internal audit talent. This passion for discovery and education should sustain throughout one’s career. The need for this “continuous learning gene” makes perfect sense given the accelerating pace of business change. A dynamic in which a decision in Greece, China or the Middle East can reverberate around the world and affect U.S. businesses and consumers means that internal auditors must constantly refine and update their business knowledge. This is accomplished through a combination of formal training and development programs, certifications, rotational assignments, stretch projects, self-guided learning, and voracious reading. Raytheon internal auditors read at least two business books each year and write summaries of the books that they share with colleagues.
The average internal auditor receives roughly 40 hours to 80 hours of training annually, an amount Harrington believes is insufficient. “I contend that you are becoming obsolete with 40 to 80 hours of training,” he asserts, noting that internal auditors should amass four or five times as many training hours to keep pace with changing business trends and issues. (Raytheon internal auditors receive 200 hours of internal training annually and generally match that on their own time while studying for the CIA or other professional certifications.)

“There is so much you need to learn simply from a business standpoint, never mind from a technical standpoint, and never mind from a leadership or interpersonal standpoint;” he continues. “The internal audit leaders of the future will be sponges for knowledge – people who are willing to supplement the training they receive from their organizations by investing some of their own dollars in training. As internal audit leaders today, I believe it is our duty to convince people that they must become lifelong learners.”

Final Thoughts: How to Hone Non-Technical Attributes

If they are to succeed as internal auditors in the future, lifelong learners also will need to be agile, flexible, resilient, empathetic and diverse learners.

As Erhardt emphasizes, “An internal audit department must possess a combination of broad and deep capabilities.”

These capabilities will always include technical skills; and, given the pace of technological and business change, it is safe to note the need for internal auditors to update existing technical skills and acquire new technical skills also will remain constant. Yet, these deep areas of expertise qualify as table stakes.

The executives who preside over leading internal audit functions understand the difference between table-stakes skills and attributes that truly differentiate their staffs. These internal audit functions strive to attract and develop the non-technical attributes described in this paper in numerous ways, including:

1. The establishment of a compelling internal audit “brand” that attracts top talent;
2. Rigorous selection processes that identify a candidate’s propensity to develop these valuable attributes;
3. Training programs that target the skills within these attribute areas;
4. Innovative development activities; and
5. Performance review programs that reward proficiency in specific non-technical attributes.
To thrive in the future, internal auditors should understand the attributes and skills that leading internal audit functions value and then seek out assignments, projects and development opportunities (both formal and informal as well as inside the company and on their own time) that enable them to cultivate these qualities. In short, internal auditors should apply as much effort and precision to the acquisition and development of non-technical attributes that they currently apply to the enhancement of their traditional internal auditing expertise.


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