There is mounting evidence that heads of internal audit increasingly are coming from outside the ranks of internal audit. According to the Institute of Internal Auditors’ (IIA) Audit Executive Center’s annual global Pulse of the Profession survey, 48% of heads of audit/chief audit executives (CAEs) held a position outside internal audit immediately prior to assuming their current role. While it is likely many have prior internal audit experience, it is notable that such a large percentage report that their most recent organisational assignment was outside the profession.

The changing face of audit leadership raises considerations about the risks and benefits associated with CAEs having career paths predominantly outside of internal audit. In examining this, we need to look at how the profession has changed over the years and the factors that may have led us to this possibly evolutionary inflection point.

One key factor is the growing practice of rotating those with executive potential through internal audit. This seems logical and reasonable; diverse work experiences can make for better leaders. Moreover, exposing future organisational leaders to internal audit affords them the opportunity to gain intimate knowledge of various business units as well as a broad view of the organisation, its challenges, risks and opportunities.

Furthermore, critical thinking and analytical skills can be developed and refined during a meaningful stint in internal audit.

However, a number of concerns arise when individuals with little to no previous internal audit experience are tasked with leading the function. Beyond obvious questions about skillsets, there are considerations about independence, objectivity, bias and adherence to certain key professional tenets, as well as conformance to a well-vetted, globally embraced set of standards.

Can the requisite integrity and courage hold strong if a chief audit executive views his or her current position as a temporary assignment?
Management and boards rely on the CAE’s experience for professionalism, adherence to standards, adequacy of processes to support observations and conclusions, and mitigation of the risks to objectivity. A solid CAE must understand business objectives, the risks and challenges that may hinder achieving them, and the controls, policies and practices to mitigate those risks. He or she must possess the skills to develop effective risk-based audit plans, assure compliance, craft audits that get to the root causes, and clearly communicate recommendations to improve the business. These skills can take years to develop and may not necessarily be present in a novice internal audit leader, even one who has shown success and ability in other organisational areas. A strong audit staff can help, but only if the rotational CAE knows how to leverage and learn from that staff’s experiences.

SHIFTING FOCUS
Audit’s evolving role could further compound the risks. Defining the role has become particularly challenging after one of the most volatile decades in corporate finance history. Internal audit leaders have had to adapt quickly to profound changes. Deft navigation through this period has produced a new crop of highly talented and seasoned CAEs who have shattered historically limiting stereotypes. The challenge is for CAEs to expand their base of experiences. Having a broad perspective on the organisation’s various functions boosts credibility – but balancing new and traditional roles has not been easy. KPMG’s 2014 Global Audit Committee Survey suggests a significant expectation gap may exist. According to the survey, 80% of respondents believe internal audit’s role should extend beyond financial reporting and controls to include other key risks – something the IIA has always advocated. However, only 50% said internal audit currently has the skills and resources to be effective in that role. I would hypothesise that maybe more strategic and selective rotational assignments could help to bridge this gap over time.

SUCCESSFUL AUDIT LEADERSHIP
Two distinguished Korn/Ferry International partners and myself identified essential traits for audit leadership in the 2010 white paper License to Lead: Seven personal attributes that maximise the impact of the most successful chief audit executives. Among those attributes were superior business acumen and breadth of experience. These two traits serve as obvious benefits that a rotational model offers for developing a varied or expanded business resume. Three other traits – dynamic communications skills, excellent grasp of business risks and a gift for developing talent – also can be honed from a career progression that includes diversity of experience. The final two attributes, however, raise questions about which career path can best serve to develop them: unflinching integrity and ethics, and unwavering courage. As we wrote, ‘Serving two masters – the audit committee and management – while maintaining the necessary independence, means an auditor must walk a fine line.’ That daily demand on the internal auditor builds the necessary integrity and devotion to ethics to face tough situations when the time comes – as it will in every CAE’s career – to stand up for what is right, even in the face of adversity. Extreme situations can bring out the finest examples of unflinching integrity and courage under pressure. For example, Cynthia Cooper, the former WorldCom vice president of audit, led a team that often worked after hours to avoid scrutiny to uncover a US$3.8bn fraud. The challenges and adversity that had to be navigated to elevate the issues in this particular situation have been well chronicled. Rhetorically, we should ask ourselves, can the requisite integrity and courage hold strong if a CAE views his or her current position as a temporary assignment? For example, an audit head who plans to rotate back into operations may be less inclined to be critical of work in that area. Could that CAE, consciously or unconsciously, develop a blind spot and overlook, miss or simply ignore red flags if a future relationship is in play?

PROTECTING THE INVESTMENT
I conclude with some prudent considerations and safeguards that can help if your organisation decides a rotational CAE’s perceived benefits outweigh the risks:

- Be mindful of reporting relationships and avoid having the rotating audit leader report directly to the area where he or she previously worked or expects to return.
- Exercise professional scepticism over risk assessments around areas where the audit leader worked or expects to return.
- Lean towards requiring that the CAE not return to their previous organisational area.
- Strive for rotational assignments of sufficient duration – for as long as five or six years – to lessen the risk of perceived or actual reporting bias.

Ultimately, leadership’s consideration of the rotational CAE dilemma must include a healthy and informed debate of the risks and opportunities before determining its suitability for an organisation.