

QARs – A Seat at the Table

By Mark Ruppert, with Renee Jaenicke, Dr. Sridar Ramamoorti and Ron Ridell

The IIA Research Foundation is gathering data on the relationship between the Chief Audit Executive and the C-suite by sampling CAEs, CEOs and CFOs in various industries around the world. The effort responds to many recent IIA and social network discussions regarding the concept of internal audit leadership, its organizational status, independence and objectivity, and about the CAE having “a seat at the table.”

Anecdotal evidence suggests that whenever the CAE does not have a healthy, robust and trusted relationship with C-suite members, the internal audit effectiveness is considerably diminished.

What remains uncertain is the definition of “seat” and “table” and how having “a seat at the table” relates to compliance with the current International Professional Practices Framework (IPPF). Having a seat at the table is typically discussed in the context of a CAE’s interaction with the C-suite, so understanding The Standards in this context is a good place to begin.

Attribute Standards

The Attribute Standards is the logical source for defining internal audit position within the organization.

Current Attribute Standards that provide guidance include 1010, 1110, 1111, 1130, and Interpretations 1130.A1 and A2. The guidance is clear that *internal audit is expected to be organizationally positioned to have a direct relationship with key organizational leadership* relative to at least four expectations:

- Internal audit must be organizationally independent. If internal audit has any operational responsibility, full disclosure and the use of another assurance mechanism for the compromised operational area is warranted.

- CAE and internal auditor objectivity must be maintained in accordance with the first expectation.
- While remaining independent, internal audit must have a direct line of communication with some level of senior management and the board.
- Relative to the direct reporting line, the CAE must annually report on internal audit’s continued ability to maintain independence and objectivity. The CAE must also educate senior management and the board on the key components of the IPPF.

From a leading practice view, the IIA clearly suggests that a direct reporting relationship is: 1) functionally to the audit committee chair, and 2) administratively to the CEO (Practice Advisory 1110-1). It is clear from the seat-at-the-table discussions that just establishing the right reporting structure may not be enough. Interaction at the table is also important.

Performance Standards

With respect to interaction while at the table, the Performance Standards set forth expected CAE table manners. Current Performance Standards that provide guidance include 2020, 2060, 2100, 2110, 2120, 2450 and 2600.

The guidance clarifies what internal audit must report to the board and senior management; the relative scope and nature of internal audit activities; and how internal auditing affects the governance, risk management and controls of the organization.

The Performance Standards fall short of defining the venues within which the reporting must occur; again, *seat* and *table* are not specified or implied. In this regard, because The Standards are international, they are meant to be directive on essential

aspects of internal audit while recognizing that specifics will vary based on national cultures, organizational and industry structures, governmental oversight and other influences.

The IPPF summation provides an important context for current professional dialogue that seems to suggest having a “seat at the table” may be a new view of leading-practice CAE reporting lines or a new target for internal audit.

The definition of internal auditing envisions assurance and consulting activities; assurance activities are of greater interest to the audit committee, while the C-suite is more enamored with internal audit competencies and skill sets in partnering and consulting roles.

In an assurance context, a seat at the table could appropriately reflect an active role by the CAE at the audit committee and other board meetings instead of a passive one. In a consulting context, the CAE takes on an advisory role for management and strategic issues, a situation that raises at least two important questions:

- Is holding an advisory role sufficient, or must the advice be provided directly through membership in key C-suite strategy sessions and C-suite interactions?
- At what point does securing a more active role or presence at the C-suite table inappropriately conflict with holding an active seat at the board table?

Balancing these differing stakeholder expectations (serving two masters) has been and will continue to be one of the CAE’s greatest challenges. In view of this, it is critical for the CAE to maintain credibility by maintaining the optimal balance of assurance and consulting activities in meeting the needs of the organization.

If a seat at the table is a new internal audit target that involves more C-suite membership, then identifying the proper target and path to achieving this membership is extremely important. If the target and path are not well defined, positioning for C-suite membership could compromise the core role of internal audit of being independent and providing objective feedback to the board and management.

Where does that leave us in terms how to move forward while maintaining IPPF compliance? Perhaps the following four considerations are sufficient:

- We should not suggest the IPPF sets forth more than appropriate reporting lines for a CAE.
- If there are effective reporting lines in accordance with The Standards, a CAE should not be concerned with noncompliance even if he or she does not have a presence at the table.
- The IIA may need to update the IPPF; it is clear from current research that analysis is occurring.
- If you're using the seat-at-the-table concept to place yourself in a higher organizational position to gain better compensation, promotional opportunities, etc., take care not to set a wrong example and thereby hurt the credibility of our profession by compromising independence and objectivity in the process.

Finally, when questions arise regarding your seat at the table, revisit the five

R's of quality assurance and IPPF compliance:

Read and Know – The CAE should read and understand the entire IPPF and how it relates to or supports his or her board and senior management relationships. Clearly, the table at each organization must be set to accommodate the CAE in a manner that does not compromise internal audit independence and objectivity.

Respect – In pursuing personal career goals, don't forego a career advancement opportunity that helps achieve a different level of organizational responsibility and compensation. However, an internal auditor should not compromise the credibility of the internal audit profession in pursuit of personal aspirations. While this may work in some career areas, an internal auditor's commitment to the Code of Ethics will provide appropriate direction.

Require – Requiring functional and personal compliance with the IPPF is important. CAEs should remind their teams of their humanity and the unique and conflicting pressures to which a CAE is subjected. If internal audit team members believe the CAE is inappropriately modifying an audit plan, approach, report, etc., they are expected to call it to the CAE's attention without retribution and for the benefit of all.

Review – The internal audit team should call out possible lapses in independence or objectivity. The audit function should

Want more details or to share your ideas related to the internal audit quality concepts discussed here?

Send a note to Mark.Ruppert@cshs.org and/or use these sources:

- The IIA website: www.theiia.org. All IPPF and Standards information used here is under "Guidance & Resources."
- Just Google the topic. There is a world of resources at your fingertips. Otherwise, check the "Works Cited" for this column for some favorites.

be subjected to periodic internal and external review to assure that you are achieving this goal while maintaining an appropriate seat at the right table.

Report – The Standards are clear: you must report, at least annually, on how you are doing in the area of independence and objectivity. If there appear to be no compromises, state this to your direct board and senior management reports.

If you find yourself taking on operational responsibilities or pursuing goals that could compromise your organizational independence or personal objectivity, your duty is to make that clear to your direct board and senior management reports.

Until next issue, mind your table manners and The Standards! **NP**

Mark P. Ruppert, CPA, CIA, CISA, CHFP, CHC, is Director of Internal Audit and Conflict of Interest Administrator at Cedars-Sinai Health System in Los Angeles, Calif. Mark has been subjected to three QARs at his current and former employers, and came out with flying colors in each of them. He has also led and participated in several QARs over the past five years.

Renée Jaenicke, CPA, CIA, CFE, is Director of Internal Audit at Renown Health in Reno, Nev.

Dr. Sridhar Ramamoorti, ACA, CPA/CITP/CFE, CIA, CFE, CFFA, CFSA, CGAP, CGFM, CRP, CICA, FCPA, CGMA, is an Associate Professor in the School of Accountancy, and Director, Center for Corporate Governance, at the Michael J. Coles College of Business at Kennesaw State University in Kennesaw, Ga.

Ron Ridel, CISA, is Managing Partner of The Rand Group LLC and a consultant to the IIA. He has performed over 70 Quality Assurance Reviews worldwide.

WORKS CITED

General References:

Various Linked-In online group conversations.

The Institute of Internal Auditors. *The IIA's Quality Assessment Manual*. 6th ed. Print.

The Institute of Internal Auditors. *The International Professional Practices Framework Promulgated by The Institute of Internal Auditors*. Print.

Abbott, Lawrence J. Abbott; Parker, Susan; and Peters, Gary F. *Accounting Horizons*, "Serving Two Masters: The Association between Audit Committee Internal Audit Oversight and Internal Audit Activities" (2010)

Ernst & Young. "Unlocking the Value of Internal Audit" online article: www.ey.com/GL/en/Services/Advisory/Risk/Internal-Audit/Unlocking-the-value-of-Internal-Audit--Three-steps-to-transformation

Ramamoorti, Sridhar. *Internal Auditing: History, Evolution and Prospects*. (2003). Print.

"Standards and Guidance - The Institute of Internal Auditors." *The Institute of Internal Auditors (IIA) - Welcome - The Institute of Internal Auditors*. Web. 19 Mar. 2011. www.theiia.org/guidance/Standards-and-guidance/.

Swanson, Dan. *Swanson on Internal Auditing: Raising the Bar*. IT Governance Pub, 2010. Print.