



Strategic relationships



At the poker table, everyone knows that a royal flush beats a full house. One of the challenges for chief audit executives is knowing who holds the top business cards when it comes to building strategic relationships. This briefing paper provides insight into the special relationship between internal audit, senior executives and the audit committee.

Imagine the scenario ...

The CEO becomes aware that the CAE is investigating a potentially serious fraud and calls her in. They discuss the findings confidentially. The CEO calls the CFO. The CFO then tells the CAE that she should have warned him that one of the overseas divisions had an issue. Trust is broken. If the relationship became untenable who holds the ace? Performance aside, which has the stronger relationship with the CEO and audit committee?

Political astuteness

Power and authority are aspects of an organisation's culture. Political acumen is regarded as a key part of emotional intelligence, gone are the days when politicking has negative connotations of underhanded behaviour. It is about understanding the goals, priorities, and agendas (open or hidden) of stakeholders; a way to securing collaboration or resolving differences to help deliver organisational objectives.

UK research across private, public and voluntary sectors found that 76% of managers considered political skills to be critical when working with influential people within their organisation. It is considered to be an experiential skill, learned from mistakes or observing traits both good and bad in others. A useful framework of competences was derived from the research. How many would your strategic stakeholders recognise in you? These are consistent with the IIA Global's competency framework which positions fundamental personal skills as communication, critical thinking, persuasion and collaboration.

Chartered Management Institute's framework of political astuteness skills

Personal skills

- Self-awareness of one's own motives and behaviours.
- Having a proactive disposition (initiating rather than passively waiting for things to happen).
- Ability to exercise self-control, being open to the views of others, ability to listen to others and reflect on and be curious about their views.

Interpersonal skills

- Analysing or intuiting the dynamics which can or might occur when stakeholders and agendas come together.
- Recognition of different interests and agendas of both people and their organisations.
- Discerning the underlying not just the espoused agendas.
- Thinking through the likely standpoints of various interest groups in advance. using knowledge of institutions, processes and social systems to understand what is or what might happen.
- Recognising when you may be seen as a threat to others.
- Understanding power relations.

Reading people and situations

- Detailed appreciation of context, players and objectives of stakeholders in relation to the alignment goal.
- Recognising differences and plurality and forging them into collaborative action.
- Working with difference and conflicts of interest, not just finding consensus and commonality.
- Actively seeking out alliances and partnerships rather than relying on those already in existence.
- Ability to bring difficult issues into the open and deal with differences between stakeholders.
- Knowing when to exclude particular interests.
- Creating useful and realistic consensus not common denominator.

Building alignment and alliances

- Strategic thinking and action in relation to organisational purpose.
- Thinking long-term and having a road map of the journey.
- Not diverted by short-term pressures.
- Scanning: thinking about longer-term issues in the environment that may potentially have an impact on the organisation.
- Attention to what is over the horizon.
- Analytical capacity to think through scenarios of possible futures.
- Noticing small changes which may herald bigger shifts in society.

- Analysing and managing uncertainty.
- Keeping options open rather than reaching for a decision prematurely.

Strategic direction and scanning

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Source: *Chartered Management Institute*

It is not always hierarchy that dictates power. Take time to observe the group dynamics in meetings; why do people sit in particular seats - who builds on the thoughts of others rather than offering an opinion - are advocates reciprocal or independent? There are many questions to consider when seeking an understanding of the psyche.

A unique relationship

Reporting directly to the audit committee chair, a CAE holds a unique position in the organisation, this also leads to a unique set of relationships that other senior leaders do not automatically have access to. There will be some who do not appreciate its necessity and feel usurped or undermined; CAEs need to be confident that all senior stakeholders understand the rationale and value of internal audit's independence. Care must also be taken that access to the board is not exploited by senior managers trying to promote their own agendas through internal audit activity.

Anyone can find themselves overawed in certain situations and a CAE attending board meetings is only human after all. The right to attend board meetings for a CAE is a privilege of position but a position that has been earned through competence and professionalism.

Meaningful relationships

For a relationship to be meaningful it must be nurtured like a plant in order to grow; analogous to soil and water is respect and understanding. Without these nothing can grow.

Respect

Understanding

- Treat one another as equals regardless of seniority/hierarchy
- Share knowledge and experience
- Appreciate the efforts of others
- Be honest, keep promises/commitments
- Use introductory meetings to set expectations and begin a rapport
- Find a common ground, shared purpose/objectives
- Use active listening
- Know someone's strengths and when to use them

These qualities are important in all relationships and particularly between a CAE and audit committee chair where a strong foundation of mutual respect is needed. A first meeting should provide a clear understanding of the chair's expectations for internal audit, those personal to the CAE and overall for the function; the basis of an internal audit charter. Standard 1000 of the IPPF stipulates the requirement for an internal audit charter, [Chartered IIA guidance](#) is further supported with an example of an [audit committee charter/terms of reference](#). The relationship between these documents is the basis of the relationship for the CAE and audit committee, not just the chair.

Time is the adversary of workplace relationships. Non-executives and trustees work only a few days a month, senior executives, including CAEs all have busy schedules so where do CAEs find the time to develop a relationship into anything more than pleasantries. Guidance on good corporate governance stresses the importance of board members understanding the business they have oversight of and CAEs can support them in this regard:

- Scheduling training programmes at the same time, organisations often have mandatory events at the very least including annual refresher training e.g. data protection, anti-bribery and corruption
- Arranging a joint visit to understand a specific part of the business
- Time is habitually protected for external networking activities and the same should be applied internally, arrange a networking session for 'open discussions' on a regular basis, ideally off-site in an informal setting.
- Organising to watch a webinar targeted at audit committees or boards with them rather than sending a link.
- Understand peoples 'pet topics' and share insights with them.
- Ask for advice, even when you don't need it, busy people will make time available when they feel valued (care must be taken not to appear incompetent!).
- Be approachable, have an open-door policy on your time and that of the team, encourage non-execs to drop-in unannounced when they are in the building or to join team events.

An orchid does not grow overnight, nor does a gardener achieve a successful bloom without losing a few plants while learning the craft. Commitment, patience and a willingness to try are important qualities too in building strategic relationships.

Expectations

There is an old saying that you can't please everyone, and it is true. A CAE should not build relationships to court favour but to be effective in the provision of assurance which can entail difficult messages, challenging debates and subjective judgements.

A CAE that is not respected will find their role arduous. A certain amount of respect comes with a role, but genuine respect has to be earned by managing expectations. Successfully balancing different expectations can make the difference between being a good or an exceptional C.

For example, a CAE has prepared a risk based audit plan but the audit committee requests assurance on a part of the business that has been the topic of a discussion. Resources are limited. The CAE must balance expectations seeking a win/win solution. Explaining clearly the rationale for the risk based approach, that there is an assurance gap due to resourcing, empathising with their position, discussing their concerns and advising that as soon as there is capacity the request will be undertaken as a priority. Obviously if their concerns highlight risk exposures previously unknown to the CAE then the decision may be to reprioritise the audit plan.

Internal audit's unfettered right of access can be disconcerting to management including senior executives, even those not doing anything underhand. It is normal to be sceptical about being audited, ask any auditor who's been on the receiving end of a visit from a regulator! Couple this with the requirement for internal audit to disclose when risks are being accepted outside of risk appetite (IPPF standard 2600) and it is easy to see that the expectations of internal audit may need influencing to a more positive position; McKinsey's influence model is a useful tool.

- **Capability:** explain what they need to know
- **Aligned:** consequences need to resonate, use examples of fines, personal reputation, disbarments to highlight poor governance/risk and controls
- **Role model:** be a role model, use & cultivate advocates
- **Understanding:** audits need to tell them something they didn't know, avert a crisis, save costs ...

Ultimately the expectation of senior executives is often one of no surprises; give them the opportunity to discuss an adverse audit observation or risk attitude first before reporting it up the hierarchy. It should be part of the audit process to discuss findings and the integrity of internal audit is dependent upon following the standards outlined in the IPPF. Unless the finding relates to an illegal activity then there are no reasonable circumstances for a CAE to break management's trust and report directly to the board without 'fair warning'.

It does not follow that the CEO/CFO can prevent information from being presented to the board or edit reports; no surprises is about awareness not right of edit.

Upholding the expectations of management makes it easier for a CAE to manage the overriding expectation of the board, to protect them. Compared to full-time employees, non-execs and trustees have relatively little engagement with the organisation and discharge their oversight duties over a short period of time. Whilst asking insightful questions and being proactive in their approach, they will also require their CAE to work collaboratively with them, informing them of anything material they need to know without necessarily being asked.

Aside from regular reporting mechanisms and discussion, the audit committee has the right to private sessions with internal and external audit, as detailed in their charter. These sessions allow for a candid two-way discussion, airing concerns for example about unhealthy risk appetites, pressure to meet targets or external audit effectiveness. The pre-requisite for this is trust. To alleviate concerns it should be regarded as a standard element of good governance, major concerns should be infrequent although even when there is nothing to discuss the session should be held so as not to draw attention to when something is being

discussed. Closed sessions by their nature lack transparency and actions should be agreed as to how the discussion points will be sensitively aired for resolution.

A unique employee

Notwithstanding the independence argument, a CAE is ultimately an employee; and a human being with a reputation, a career plan and financial responsibilities. Humans are sociable animals and it would be unnatural not to make personal connections with some colleagues. However, unlike other employees that build alliances and deep friendships, CAEs must be mindful of how friendships rather than relationships can be perceived. Getting to know colleagues in a social context undoubtedly strengthens relationships although care must be taken not to tarnish personal integrity. Would it be considered kindly or inappropriate to invite a colleague to an informal dinner at home?

CAE should find ways to 'soundboard' in safe environments, perhaps utilising their external network to develop relationships with other CAEs or engage a coach, being mindful to agree Chatham house rules.

Warning signs

CAEs need to be alert to when a relationship is deteriorating. Early indicators could be calls not being returned as timely, meetings cancelled more often, less open sharing of opinions, greater justification of actions or withholding information. Loss of trust is a serious issue for a CAE with the relationship becoming risk-averse as the other party withdraws. If more time is spent working out the implications of doing something than just doing it, relationships need rebuilding.

Without rebuilding trust any assurance provided becomes meaningless and erodes the value of the function. It is important to address the issue and acknowledge it, being accountable for actions and supporting the other parties to do the same, perhaps using the support of a mediator or executive coach. It is important for all parties to then move forward learning from the experience.

Closing thoughts

In the pursuit of building strategic relationships it is easy to lose sight of why particular relationships are important. Take a moment to put three columns on a piece of paper, in the first write down the top three priorities for your organisation, in the second your top three career priorities, in the third the three things you spend most of your time doing or worrying about. Do they align? Have you found yourself with a royal flush or are you politically naive?

"There is only one way to avoid criticism; do nothing, say nothing and be nothing"

- Aristotle

Further reading

Chartered IIA: Sample audit committee charter

Chartered IIA: Implementation guidance

Chartered Management Institute, Leading with political awareness: Developing leaders' skills to manage the political dimension across all sectors

The IIA Global Internal Audit Competency Framework

Leading with political astuteness - a white paper

McKinsey: The psychology of change management