Moral Courage and Internal Auditors

Dr. Edgar Karssing
Prof. dr. Ronald Jeurissen
Dr. Raymond Zaal

The Institute of
Internal Auditors
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Content

1 Introduction

The role of the internal audit function is described as follows on the website of the IIA Netherlands: 'A properly functioning internal audit function helps management to control an organisation through a proper system of norms. The internal auditor reviews to what extent the organisation is able to control its business process and the related risks. This review encompasses the full breadth of the organisation's systems, production, technology, marketing and human resources. As a rule, the internal audit function will make recommendations for reducing risks on the basis of its findings.'[1]

In order to encourage internal auditors to perform their work according to high standards of professional practice, the IIA has issued the International Professional Practices Framework (IPPF). This international framework includes a moral compass for the professional practice of internal auditors that consists of:
•   the principles that are relevant to the professional practice of internal auditing; and
•   the rules of conduct internal auditors are expected to adhere to.

The principles are integrity, objectivity, confidentiality and competency. The rules of conduct are guidelines for internal auditors to help them interpret how the principles are to be applied in practice.

When internal auditors visibly apply this moral compass in their work, the users of their findings and recommendations can rely on these findings and recommendations and internal auditors uphold the good standing and reputation of the profession.

For a moral compass to be effective, it is necessary that the principles and rules of conduct:
•   can be identified;
•   are recognised and accepted as mandatory guidance; and
•   are put into practice.

Putting the moral compass into practice will not always be easy. It requires knowledge of the compass, as well as professional judgment. What do these principles and rules of conduct mean in practice? In which situations are they relevant and in what way? How do you deal with conflicting principles, rules of conduct and interests? A professional internal auditor must be able to carefully judge whether a specific situation breaches the relevant principles and rules of conduct.

But carefully exercising judgment is not enough. Internal auditors also have to act according to their moral compass. Only by taking action can they live up to their role of 'truth tellers'. [2] And that can be a real test. Because between making a judgment and acting on it, dangers can loom that make it difficult for internal auditors to do what may be expected of them.

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1   https://www.iia.nl/iia/vakgebied, accessed on 9 August 2017.
2   Khelil et al. (2016): 403.

Such as the danger that taking action will harm their relationship with others, or dangers to their credibility or effectiveness. Taking action may also put their position into jeopardy, or perhaps even their job and career. So it requires courage: the courage to do what your moral compass tells you to do, despite the dangers.

Studies by the IIA Research Foundation show that these types of situations regularly occur in the careers of internal auditors, and that it is not always easy to demonstrate the required courage: 'an increasing body of research asserts that internal auditors instead frequently remain silent out of fear of unpleasant personal and professional consequences stemming from organizational pressures.'[3]

Moral courage bridges the gap between making judgments and acting on them. According to the philosopher Aristotle, courage is the golden mean between cowardice and recklessness, and where that golden mean lies, depends on the specific circumstances. How do you determine that golden mean? How can you act courageously? What does acting courageously look like? And what can help you to do it?

In this report we will look for answers to these questions. Our research for this report is based on insights gained in the field of philosophy and from the practice of internal auditors.[4] In addition, we studied literature in the field of internal auditing, including the aforementioned studies conducted by the IIA Research Foundation. We also conducted empirical research in collaboration with IIA Netherlands. As part of our preparations for the IIA Netherlands Conference in June 2017, we also conducted a survey among the members of IIA Netherlands. In this report we present the findings of our research.

1.1   Data gathering

The data for our empirical research were gathered in May 2017 by means of an online survey, for which invitations were sent out to all members of IIA Netherlands by the secretarial office of IIA Netherlands. The survey was completed by 255 members, which corresponds to a response rate of 8.9%.

1.2   Background of respondents and representativeness

Research into the background of the respondents is particularly significant because it enables us to assess the representativeness of the survey sample. Table 1.1 shows a number of characteristics of the background of the research population (the members of IIA Netherlands) and the respondents (the survey sample). When we compare these two groups, we find that the survey sample is fairly representative of the research population in terms of gender, age and the sector they work in. There is one major difference, however, when it comes to the percentage of those in a managerial position, which is much higher in the survey sample (44%) than in the research population (26%). Similar studies have shown

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3   Khelil et al. (2016): 403-404.

4   In this report we refer extensively to passages taken from Karssing (2017), which can be regarded as a preliminary study for this report.

that managers generally take a somewhat rosier view of their organisation than those in non-managerial positions. [5] This has to be taken into account when interpreting the outcomes of the survey.

5   Treviño, Weaver and Brown (2008).

Table 1.1 Characteristics of background of survey respondents and all members of IIA Netherlands

	Research respondents IIA members N = 2,867 *	Sample N = 255
male	71%	76%
female	29%	24%
managerial position	26%	44%
non-managerial position	74%	56%
average age	42	47
public / semi-public sector	26%	31%
financial services	33%	35%
other services	7%	8%
manufacturing	5%	9%
trade and transport	6%	9%
other sectors	23%	8%

*Data in this column were provided by IIA Netherlands

1.3   Structure of this report

Moral courage is demonstrated by internal auditors acting according to their moral compass when faced with danger. A key issue debated in the literature is whether courage is a property of a person or of an action. [6] In this study we will relate moral courage to actions. We believe it is not the case that people *are* cowardly or courageous; instead, there are specific situations in which we do or do not *demonstrate* courage.

Moral courage starts with a moral compass. Having a moral compass is a good start but, as we will show, it is not automatically 'activated'. Furthermore, a distinction can be made between making judgments and acting on them: a judgment – this is the right thing to do – does not automatically lead to the corresponding action. What can we observe among internal auditors in the Netherlands in this respect? In section 2, we will discuss the moral compass, and a number of mechanisms that may lead to people not activating their moral compass, and we present the findings of our research into the extent to which internal auditors act in accordance with the moral compass provided by the IIA.

In section 3, we will explore the dangers faced by internal auditors in performing their work. After all, courage implies there are dangers. And the importance of courage increases in proportion to the amount of danger. We will first discuss this issue in general terms and then look at research conducted by the IIA to gain an overview of the key audit-specific dangers.

How can internal auditors act courageously in dangerous situations? How do you find the golden mean between cowardice and recklessness? How can you act courageously? What

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6   See for example Lopez et al. (2010): 33, Rate (2010): 51.

does acting courageously look like? In section 4, we will show that it helps to make courage small, by recognising that courage can involve small acts, and we will discuss what small acts of courage can look like.

In section 5, we will discuss what makes it easier to act courageously and we will look at tools that can support this.

In section 6, we will conclude our report by making an appeal. Moral courage is just like happiness: you can travel a fair distance towards it on your own, but you get much further by making your way together. So we encourage people to discuss this issue, help each other and learn from each other.
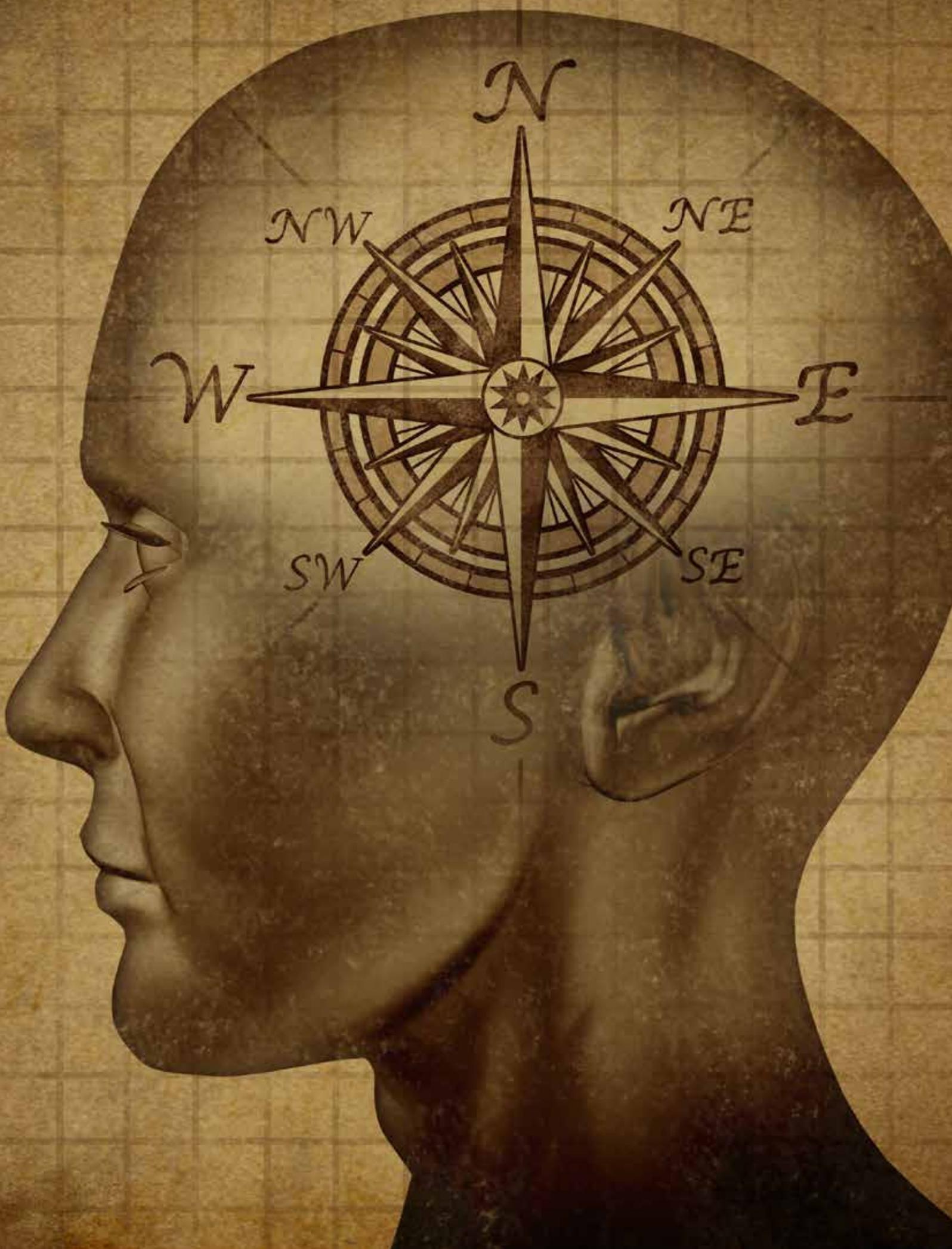
2 The moral compass of internal auditors

Professional internal auditors may be expected to perform their work in a careful, accountable and unwavering manner.[7] *Careful* means that internal auditors should continually reflect in a critical and systematic way on their core responsibilities, asking themselves questions like: Am I properly performing my work? Am I doing justice to the situation? Do I adequately take into account the rights, interests and wellbeing of all stakeholders?

Accountability means that internal auditors are able to explain how their actions fit in with their core responsibilities and core tasks, as well as the principles, rules, guidelines, laws and other mandatory requirements that apply to their profession.

Unwavering means that internal auditors stand firm when faced with temptations; they should not act irresponsibly by taking the path of the least resistance.

Carefulness refers to the process by which an opinion is formed, while accountability refers to the outcome of this process, so to the opinion itself. These two aspects together comprise the 'moral test'. Accountability relates to the moral compass. Being unwavering relates to moral courage: the courage to act morally, to do what you believe is morally just. It means taking a stand when that is called for and saying: this is not right; we are acting in the wrong. It is not enough to consider moral implications; you have to translate your judgments into actions. Courage bridges the gap between thinking and doing. Moral courage is therefore an essential core competency for internal auditors.

In section 2.1, we will discuss the moral compass of internal auditors. In section 2.2, we issue a warning. Having a moral compass does not automatically mean that it is also activated. There are all kinds of disengagement mechanisms that can lead to the compass being 'switched off' or not 'activated'. In section 2.3, we will report the findings of our empirical research into the extent to which internal auditors act according their moral compass.

2.1 Principles and rules of conduct

The moral compass of internal auditors is initially determined by their own values, norms, beliefs and convictions. These are instilled in them by their upbringing and further shaped by influences like public opinion, church, the law, the organisation they work in and their personal experiences. A second key source for their moral compass are the values and norms in the organisation that express the organisation's mission and what it can be held accountable for (often set out in the organisation's code of conduct or code of ethics). But the primary source for the moral compass of internal auditors as laid down by the internal audit profession is the IIA's International Professional Practices Framework (IPPF).

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7   Cf. Karssing (2011).

The IPPF includes the IIA Code of Ethics, which can be considered the profession's collective conscience; it expresses its acknowledgement of the ethical dimension of its activities.

> 'The Code of Ethics states the principles and expectations governing the behavior of individuals and organizations in the conduct of internal auditing. It describes the minimum requirements for conduct, and behavioral expectations rather than specific activities.
>
> The purpose of The Institute's Code of Ethics is to promote an ethical culture in the profession of internal auditing.
>
> A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about governance, risk management, and control.'[8]

The Code of Ethics consists of:
• the principles that are relevant to the professional practice of internal auditing; and
• the rules of conduct internal auditors are expected to adhere to.

The principles are integrity, objectivity, confidentiality and competency.

Integrity
The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

Objectivity
Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

Confidentiality
Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Competency
Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

These four principles are further elaborated by means of rules of conduct, which are guidelines for internal auditors to help them interpret how the principles are to be applied in practice. By way of illustration, we will look at the rules of conduct for the principle of integrity.

8   Quoted from the introduction to the IIA Code of Ethics.

Shall perform their work with honesty, diligence, and responsibility.

Shall observe the law and make disclosures expected by the law and the profession.

Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.

Shall respect and contribute to the legitimate and ethical objectives of the organization.

The introduction to the Code of Ethics states that the purpose of the Code is 'to promote an ethical culture in the profession of internal auditing'. Several functions can be derived from this purpose:
• increasing awareness of the applicable norms (orienting function);
• providing clarity about the responsibilities of internal auditors (explicating function);
• setting expectations that apply to internal auditors (steering function);
• creating checks and balances to ensure that internal auditors are accountable for their compliance with the Code (internal disciplinary function);
• stimulating the engagement and loyalty of internal auditors when it comes to upholding high standards of professional practice (enthusing function);
• stimulating activities aimed at protecting and enhancing the identity and image of the profession (initiating function). [9]

Lastly, the Code can also be used to raise the profile of the profession. This Code is a moral calling card, so to speak; it expresses what internal auditors stand for and how they want to act. By means of the Code, the profession clarifies to all stakeholders what they can expect from internal auditors, which also offers a starting point for a dialogue with stakeholders. 'To build the trust and confidence of users of internal audit reports, including those involved in governance.'[10]

2.2   Moral disengagement

The Code of Ethics formulated by the IIA is a key source for the moral compass of internal auditors. However, drawing up a code is obviously not sufficient. The members have to familiarise themselves with it and they have to be willing to recognise and accept the principles and rules of conduct as mandatory guidance for their behaviour. Therefore, the first step it to identify that a moral issue is at stake. However, identifying moral issues is not as self-evident as you might think, so they are not always noticed. This problem is vividly expressed by Treviño and Brown: 'Rarely do decisions come with waving red flags that say, "Hey, I'm an ethical issue. Think about me in moral terms!".'[11]

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9   These functions are derived from the breakdown given by Kaptein (2008).

10   Rittenberg (2016): 5.

11   Treviño and M. Brown (2004): 70.

When people don't recognise and/or accept he moral implications of activities, their moral compass will not be activated. In extreme cases, this leads to an 'amoral universe'. In an amoral universe, notions like good and evil don't apply. So this is a world without ethics, without a moral compass. In his book *Dit kan niet waar zijn: Onder bankiers* (translated into English as *Swimming with Sharks: My Journey into the World of the Bankers*), Joris Luyendijk asserts that bankers inhabit such an amoral world, which is not necessarily the same as an immoral world. 'Once you turn your ear to it, examples abound, because the vocabulary available to people in finance to talk and think about their own actions is stripped of terms that could provoke an ethical discussion. Hence the biggest compliment is the City is 'professional'. It means you do not let emotions get in the way of work, let alone moral beliefs – those are for home. In most conversations the word 'ethic' came up only in combination with 'work', referring to an almost absolute obedience to one's boss.' [12] Luyendijk stresses that amorality is not the same thing as evil or immorality. This is reflected by one of the key conclusions in his book: he discovered that bankers were certainly not the greedy immoral monsters he more or less expected to encounter. In the amoral universe of the City, all relations are reduced to transactions: 'between shareholders and the bank, between the bank and its employees, between banker and client'.[13] Whether a plan is morally right or wrong is not considered; you only look at how much 'reputation risk' it entails. [14] So does that mean there are no limits to behaviour? On the contrary: the limits set by the law still apply. 'What I do for a living is legal, period. That is the cold fish mentality and this turns morality into a private matter, or rather one of the options available to human beings – the way some choose to give money to a charity, or to follow an extra two credit point course in ethics. Or not.'[15] Luyendijk's research for the book focused on banks in the London City. But after it was published, he encountered this same amoral universe in many other places. In an interview with the Dutch newspaper *Trouw*, Luyendijk stated: 'I've been to towns like Oss, Terneuzen and Schagen, where I've met ordinary people who told have me the exact same thing is happening in their hospital, school or company. The value of work is no longer determined by its usefulness but only by the output figures.'[16]

Is that truly conceivable? Can we simply switch off our moral compass? Marc Bovens has suggested an important clue that may help answer this question: 'In the context of complex organisations, it is naive to trust in the power of moral arguments and good intentions alone. If you want to change the behaviour of individual employees, you will have to change the conditions under which they act; the material and psychological incentives they receive from the organisation. It's usually a case of structure first, morality after.' [17] Apparently, psychologically speaking, people have an astounding capacity for behaving in ways that blatantly contradict their moral compass. An important fact that helps to explain this is

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12   Luyendijk (2015): 89.

13   Luyendijk (2015): 94.

14   Luyendijk (2015): 88.

15   Luyendijk (2015): 180.

16   Trouw, 28 April 2015, Het amorele systeem waarin wij leven.

17   Bovens (1990): 301.

discussed by Albert Bandura.[18] He explains that acting morally is about more than just

a)   recognising the moral dimension of a problematic situation; and
b)   applying our moral compass to this situation to arrive at the right moral conclusion.

'A full understanding of morality must explain not only how people come to behave morally, but also how they can behave inhumanly and still retain their self-respect and feel good about themselves.'[19]

What does that process look like? 'People monitor their conduct and the conditions under which it occurs, judge it in relation to their moral standards and perceived circumstances, and regulate their actions by the consequences they apply to themselves.'[20] As children, we learn how we should behave through the punishments and rewards meted out to us in our upbringing. As we slowly internalise the standards for moral behaviour, eventually our motivation is no longer external, but instead we reward and punish ourselves. In other words: people want to be happy with themselves, so they are motivated to do things that contribute to their sense of self-respect and self-worth. People also want to avoid feelings of shame and guilt triggered by immoral behaviour. 'Moral self-sanctions keep behavior in line with moral standards.'[21]

The essence of Bandura's theory is that our moral compass is not automatically 'switched on', but has to be 'activated'. Or, to put it more precisely: 'Moral standards do not function as fixed regulators of conduct. Self-regulatory mechanisms do not operate unless they are activated….'[22] And that's where things get complicated: 'There are many psychological manoeuvres by which moral self-sanctions can be disengaged from inhumane conduct.'[23] That is to say, there are all kinds of strategies that enable people to disengage moral feelings ('self-sanctions'), such as self-respect, self-worth, shame and guilt, from immoral behaviour. Bandura defines eight strategies we use to enable ourselves to switch off (or: not to activate) our moral compass:

1.   moral justification;
2.   sanitising (euphemistic) language;
3.   advantageous comparison;
4.   displacement of responsibilities;
5.   diffusion of responsibilities;
6.   dehumanisation of victims;
7.   attributing blame to victims;
8.   trivialising, denying or misrepresenting the consequences.

Is should be emphasised that these strategies do not alter our moral compass, which remains unchanged. 'Moral disengagement does not alter moral standards. Rather, it provides the means for those who morally disengage to circumvent moral standards in ways that strip

18   For an overview of his theory, see A. Bandura (2016), Moral Disengagement: How People Do Harm and Live with Themselves, New York: Worth. In addition to explaining this theory, he dedicates 500 pages to examples of how this works.
19   Bandura (2016): 1.
20   Bandura (2002): 102.
21   Bandura (2016): xi.
22   Bandura (2002): 102.
23   Bandura (2002): 102.

morality from harmful behavior and their responsibility for it.'[24] Nor does the use of these strategies exonerate immoral behaviour. Bandura has described these strategies to *explain* how people can act immorally without compunction, but not to *justify* immoral behaviour as being somehow moral.[25]

Moral justification involves using a greater cause to justify behaviour. Bandura gives the example of the Crusades: imperialist wars of conquest that were justified by calling upon people to fight evil in the name of God. In an organisation, this strategy can focus on sales, profit, status or bonuses, for example.

Sanitising (euphemistic) language can *distance* people from feelings that behaviour is immoral. Are these terrorists of freedom fighters? Were innocent civilians killed in an attack or do we label this as 'collateral damage'? Are people enabled to pursue their career elsewhere or are they fired?

Advantageous comparison creates the impression that immoral behaviour is really not that bad because there are worse forms of wrongdoing – so why are we making such a big fuss over this?

Displacement of responsibilities is a mechanism that leads to people feeling they are not responsible for behaviour and therefore in no way to blame. 'In organisations people are more likely to consent to carrying out immoral actions if an authority figure they perceive to be legitimate (their boss, for example) accepts the responsibility for the consequences of their behaviour. As they view themselves as an extension of the authority figure, people don't feel personally responsible. In extreme cases, this leads to atrocities being perpetrated because "Befehl ist Befehl".' [26]

An extension of the previous mechanism is the *diffusion of responsibilities.* "I was only a small cog in the system". If everyone is responsible, ultimately no one is personally responsible. In other words, as a result of processes like specialisation and the division of labour – the very raison d'être of organisations! – people feel less responsible for the organisation as a whole. 'In large organisations decisions are sometimes prepared over a long period by many people from different departments. Therefore, afterwards it cannot be exactly determined which individual has which share of the responsibility.'[27]

Our moral compass is to a significant degree activated by the suffering of fellow human beings. However, if we no longer view other people as fellow human beings, it becomes easier to cultivate feelings that escalate from indifference to disgust and hatred. This involves the *dehumanisation of victims*. Extreme examples of this strategy were the Nazis referring to Jews as rats and Hutu comparing Tutsi to cockroaches that would remain a plague if they weren't exterminated down to the last egg.[28] Those who refer to their clients as 'muppets' are unlikely to feel that their clients' interest always come first.

Attributing blame to victims involves attempting to reverse the roles of the perpetrator and victim: Well, she shouldn't have worn a short skirt then. That's asking for it, really. So how can you blame the perpetrator?

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24   Bandura (2016): 3.
25   Bandura (2016): 48.
26   Van Baarda (2004): 82.
27   Van Baarda (2004): 83.
28   https://www.ziedaar.nl/article.php?id=221;   http://www.npogeschiedenis.nl/nieuws/2012/januari/Rwandese-genocide-ging-sneller-dan-Holocaust.html

Trivialising, denying or misrepresenting the consequences is also a key mechanism of moral disengagement. The impression made on us by the consequences of our actions lessens the further we are removed from the consequences. Why worry if it's much ado about nothing? Or if the suffering, the injustice, is invisible? Or, as Stalin is reputed to have said: 'The death of one man is a tragedy; the death of millions is a statistic.' The following comments should be considered red flags:

- It's really not that bad!
- No one is bothered by it!
- It won't get out of hand!
- It's just a one-off!

As a final point: immoral behaviour scars our souls. And that numbs us. 'Disengagement practices will not instantly transform considerate people into cruel ones. Rather, the change is achieved by progressive disengagement of self-censure … Inhumane practices become thoughtlessly routinised … People may not even recognise the changes they have undergone as a moral self.'[29] Practice makes perfect. As Aristotle said, our character is built by doing the same things over and over again. If you constantly give honest answers, you will develop into an honest person. Just like a flute player becomes a good flute player through lots of practice. Therefore, repeated immoral behaviour is a breeding ground for more immoral behaviour.

As we have seen, the IIA has formulated a Code of Ethics that is a key source for the moral compass of internal auditors. But drawing up a code has little effect on its own. And even if internal auditors are familiar with the code and have internalised its principles and rules of conduct, this does not guarantee that their moral compass will be activated.

2.3 Findings from our study: IIA Code of Ethics and exercising professional scepticism

To examine to what extent internal auditors exercise professional scepticism, we first analysed how they put into practice the IIA Code of Ethics and exercising professional scepticism. To this end, we applied the following breakdown in terms of the sectors the respondents worked in: public / semi-public sector; financial and other services; manufacturing, trade and transport; other sectors.

We asked the respondents for their opinion on their fellow auditors ("internal auditors in my organisation"). We did this because people sometimes give socially desirable answers about their own behaviour in surveys. This problem can be avoided by asking respondents for their opinion on the behaviour of their colleagues.

Based on previous experiences with research into ethics and organisational culture, we applied the following colour-coded scores to rate the respondents' answers.

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29   Bandura (2002): 110.

We consider scores of 4 to 4.5 to be a neutral outcome, and in evaluative terms we consider such outcomes to be 'moderate'. We recommend that the profession looks into how it can improve in this area. This rating is indicated by the colour amber.		🟧
We consider scores of 4.5 to 5 to be a positive outcome, and in evaluative terms we consider such outcomes to be 'good'. This rating is indicated by the colour green.		🟩
We consider scores of 5 and higher to be a very positive outcome, and in evaluative terms we consider such outcomes to be 'very good'. This rating is indicated by the colour blue.		🟦

2.3.1 How do internal auditors put into practice the IIA Code of Ethics?

The IIA has a Code of Ethics, which states the principles and expectations governing the behavior of individuals and organizations in the conduct of internal auditing. For our survey, we translated the principal requirements from the IIA Code of Ethics into survey questions. We asked the respondents for their opinion on whether internal auditors in their own organisation comply with the requirements set out in the Code. Table 2.1 shows the outcomes. The left-hand column shows the section of the Code to which the question relates.

Table 2.1 Compliance with IIA Code of Ethics. Percentages by answer category and average scores

Internal auditors in my organisation:		Completely disagree	Mostly disagree	Slightly disagree	Slightly agree	Mostly agree	Completely agree	Avg.
IIA 1.1	perform their work in an honest manner.	1.6%	0.8%	0.8%	4.7%	41.6%	50.6%	5.4
IIA 1.2	perform their work in a responsible manner.	0.4%	1.2%	2.0%	5.5%	55.3%	35.7%	5.2
IIA 1.3	observe the law.	0.8%	1.2%	1.2%	3.5%	36.5%	56.9%	5.4
IIA 1.3	do not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment.	1.2%	0.8%	1.6%	3.9%	46.3%	46.3%	5.3
IIA 1.4	respect and contribute to the legitimate and ethical objectives of the organisation.	0.8%	0.8%	2.0%	4.3%	45.9%	46.3%	5.3
IIA 2.1	do not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment.	0.8%	2.0%	2.0%	7.1%	47.8%	40.4%	5.2

Internal auditors in my organisation:		Completely disagree	Mostly disagree	Slightly disagree	Slightly agree	Mostly agree	Completely agree	Avg.
IIA 2.2	do not accept any gifts that may impair or be presumed to impair their professional judgment.	0.4%	1.2%	0.4%	4.3%	34.9%	58.8%	5.5
IIA 2.3	disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.	0.8%	0.8%	4.3%	11.0%	51.4%	31.8%	5.0
IIA 3.1	are prudent in the use and protection of information acquired in the course of their duties.	2.0%	0.4%	2.0%	8.6%	46.7%	40.4%	5.2
IIA 3.2	do not use information for any personal gain.	1.6%	0.0%	2.0%	2.7%	37.6%	56.1%	5.4
IIA 3.2	do not use information in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.	1.2%	0.4%	2.0%	2.0%	38.8%	55.7%	5.4
IIA 4.1	engage only in those services for which they have the necessary knowledge, skills and experience.	0.4%	2.7%	6.7%	27.1%	46.7%	16.5%	4.7
IIA 4.3	continually work on improving their proficiency and the effectiveness and quality of their services.	0.8%	2.0%	4.3%	16.9%	47.1%	29.0%	5.0
Average								5.2

Key:

	Good score
	Very good score

The outcomes are very positive. The average score provided by internal auditors for the extent of compliance with the IIA Code by fellow auditors in their own organisation came to 5.2. This can be considered a very good score. We need to bear in mind, however, that this is the opinion of internal auditors on the behaviour of their colleagues.

There was one score that was slightly lower, but still good: the score for 'engage only in those services for which they have the necessary knowledge, skills and experience'. Apparently, internal auditors have a can-do mentality and are willing to step outside of their comfort zone in terms of their knowledge, skills and experience. However, it is not up to us to express an opinion on this; that would require further research into their motivations.

Compliance with IIA Code of Ethics, by sector

We asked the respondents in which sector they work (see table 1.1). For the purposes of our analyses, we clustered the answers into four categories:
• public / semi-public sector (31%);
• financial and other services (43%);
• manufacturing, trade and transport (18%);
• other sectors (8%).

Table 2.2 shows there are few differences between the sectors in terms of compliance with the IIA Code of Ethics. The scores were very good for all sectors. The services sector generated the best score for compliance with the Code (5.4). The public / semi-public sector generated that lowest score (5.1), but this score is still very good.

Table 2.2 *Compliance with IIA Code of Ethics, by sector (average scores)*

		Public / semi-public sector	Services	Manufacturing, trade and transport	Other sectors	**All respondents**
Internal auditors in my organisation:						
IIA 1.1	perform their work in an honest manner.	5.2	5.5	5.3	5.4	**5.4**
IIA 1.2	perform their work in a responsible manner.	5.1	5.3	5.1	5.5	**5.2**
IIA 1.3	observe the law.	5.3	5.6	5.4	5.4	**5.4**
IIA 1.3	do not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment.	5.2	5.5	5.1	5.4	**5.3**
IIA 1.4	respect and contribute to the legitimate and ethical objectives of the organisation.	5.2	5.5	5.2	5.4	**5.3**
IIA 2.1	do not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment.	5.2	5.3	5.2	5.3	**5.2**
IIA 2.2	do not accept any gifts that may impair or be presumed to impair their professional judgment.	5.3	5.6	5.5	5.6	**5.5**
IIA 2.3	disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.	4.9	5.2	4.9	5.2	**5.0**
IIA 3.1	are prudent in the use and protection of information acquired in the course of their duties.	5.0	5.4	5.1	5.3	**5.2**
IIA 3.2	do not use information for any personal gain.	5.3	5.6	5.4	5.5	**5.4**

		Public / semi-public sector	Services	Manufacturing, trade and transport	Other sectors	**All respondents**
IIA 3.2	do not use information in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.	5.3	5.5	5.5	5.5	**5.4**
IIA 4.1	engage only in those services for which they have the necessary knowledge, skills and experience.	4.6	4.7	4.6	4.8	**4.7**
IIA 4.3	continually work on improving their proficiency and the effectiveness and quality of their services.	4.8	5.1	4.8	5.2	**5.0**
Total average score		**5.1**	**5.4**	**5.2**	**5.3**	**5.2**

Key:

🟩	Good score
🟦	Very good score

2.3.2 Exercising professional scepticism

Table 2.3 shows the answers to a number of questions we asked to assess to what extent internal auditors exercise professional scepticism. As defined by the Royal Netherlands Institute of Chartered Accountants (NBA), exercising professional scepticism refers to 'an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatements due to error or fraud, and a critical assessment of audit evidence'.[30] In addition to critically assessing evidence, auditors who exercise professional scepticism focus on maintaining a dialogue within the organisation on risks and control and fulfil an active role in informing and stimulating the organisation with regard to risks and control.

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30   NBA (2015). Handleiding Regelgeving Accountancy. NBA.

Table 2.3 Exercising of professional scepticism by internal auditors Percentages by answer category and average scores

Internal auditors in my organisation:	Completely disagree	Mostly disagree	Slightly disagree	Slightly agree	Mostly agree	Completely agree	Avg.
hold the organisation's management to account about setting the right example, where necessary.	1.6%	6.7%	10.6%	23.5%	44.7%	12.9%	4.4
alert the organisation to risks of fraud, misuse and improper use in the organisation.	1.6%	0.0%	3.1%	11.8%	39.2%	44.3%	5.2
stimulate the organisation to evaluate and, where necessary, adjust controls.	1.2%	0.8%	2.0%	9.8%	45.1%	41.2%	5.2
highlight the importance of exercising professional scepticism to colleagues in the organisation.	1.6%	3.9%	3.9%	23.1%	51.8%	15.7%	4.7
systematically discuss integrity risks with each other.	4.3%	5.5%	9.4%	28.2%	37.3%	15.3%	4.4
approach each other and hold each other to account about the quality of their own services.	2.0%	4.7%	5.1%	25.5%	45.5%	17.3%	4.6
ask critical questions about the operating effectiveness of the organisation's system of internal control, where necessary.	1.2%	2.0%	3.9%	10.6%	49.0%	33.3%	5.0
Average score							4.8

Key

🟧	Moderate score
🟩	Good score
🟦	Very good score

The scores show that on average, auditors have a positive opinion about the extent to which their colleagues exercise professional scepticism. The average score for this aspect is 4.8, which can be considered a good outcome. However, when we look at the individual questions, we see some variation in the scores. Internal auditors find it more difficult, for example, to hold management to account about setting the right example and to systematically discuss integrity risks with their colleagues. These questions both generated a score of 4.4, which we consider a moderate score. By contrast, the scores for some of the other questions can

be considered very good (5.0 or higher). This is the case for: alerting the organisation to risks of fraud, misuse and improper use in the organisation; stimulating the organisation to evaluate and, where necessary, adjust controls; and asking critical questions about the operating effectiveness of the organisation's system of internal control, where necessary.

Exercising of professional scepticism, by sector

All sectors show a good score for the extent to which internal auditors exercise professional scepticism (total average score of 4.5 or higher). In the category 'other sectors' the score is even very good. Unfortunately, this category is too heterogeneous to draw any definite conclusions from this. The score for internal auditors in the public and semi-public sector is lower than for their colleagues in other sectors. In addition, internal auditors in the public and semi-public sector provided the most scores we consider to be moderate. They provided moderate scores for the following three questions:
- 'hold the organisation's management to account about setting the right example, where necessary' (4.1)
- 'systematically discuss integrity risks with each other' (4.0).
- 'approach each other and hold each other to account about the quality of their own services' (4.4)

It is striking that these are the three questions that focus on holding people to account and discussing issues with each other. This appears to support the conclusion that internal auditors in the public and semi-public sector put this aspect of professional scepticism into practice to a slightly lesser extent than internal auditors in other sectors.

Table 2.4 *Exercising of professional scepticism by internal auditors, by sector (average scores)*

Internal auditors in my organisation:	Public / semi-public sector	Services	Manufacturing, trade and transport	Other sectors	**Total average score**
hold the organisation's management to account about setting the right example, where necessary.	4.1	4.5	4.5	4.8	**4.4**
alert the organisation to risks of fraud, misuse and improper use in the organisation.	4.9	5.3	5.3	5.4	**5.2**
stimulate the organisation to evaluate and, where necessary, adjust controls.	4.9	5.4	5.2	5.4	**5.2**
highlight the importance of exercising professional scepticism to colleagues in the organisation.	4.5	4.8	4.5	5.0	**4.7**
systematically discuss integrity risks with each other.	4.0	4.4	4.5	4.9	**4.4**
approach each other and hold each other to account about the quality of their own services.	4.4	4.7	4.4	5.2	**4.6**
ask critical questions about the operating effectiveness of the organisation's system of internal control, where necessary.	4.8	5.2	4.9	5.3	**5.0**
Total average score	**4.5**	**4.9**	**4.8**	**5.1**	**4.8**

Key

🟧	Moderate score
🟩	Good score
🟦	Very good score

In short, the average score for compliance with the Code is 5.2, which is a very good score, while the average score for exercising professional scepticism is 4.8, which is a good score.

3 Dangers

Ideally, auditors perform their work in a careful, accountable and unwavering manner. Like all professionals, internal auditors are in their work confronted with moral dilemmas involving conflicting principles, rules of conduct and interests. 'As expressed in well-known key words: Should auditors check, learn or lecture? Should they frustrate or contribute ideas? Manage or report? How vigorously should they express their opinion when improvements are in sight? How critical should they be of the policies of their team of directors, or of the work of their colleagues? These general questions cover a lager of number of concrete issues and dilemmas many internal auditors regularly struggle with.' [31] The challenge is to arrive at conclusions in a careful and accountable manner that does justice to the relevant principles, rules of conduct and interests.

Being unwavering highlights a very different type of problem. You know what is the right thing to do, you know what course of action would be careful and accountable, but there are dangers that make it difficult to act according to this judgment. Such as the danger that taking action will harm your relationship with others, or dangers to your credibility or effectiveness. Taking action may also put your position into jeopardy, or perhaps even your job and career. So it requires courage: the courage to do what your moral compass tells you to do, despite the dangers. And that can be a real test.

In short, the importance of courage increases in proportion to the amount of danger internal auditors face in performing their work. If there were no dangers, moral courage would not be necessary. Accordingly, this section focuses on the relevance of moral courage. We will therefore look into the dangers and threats that internal auditors may face. In section 3.1, we will look at this in a general sense. The IIA recently published two very interesting studies reports that looked very specifically into the types of dangers internal auditors face and how often they are exposed to them: *The Politics of Internal Auditing* and *Ethics and Pressure: Balancing the Internal Audit Profession*. In section 3.2, we will refer to these reports to summarise the types of dangers internal auditors face in performing their work. In section 3.3, we will look into how often internal auditors are exposed to these dangers. In section 3.4., we will present our findings about the extent to which internal auditors experience unethical pressure.

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31   Wirtz (2004): 14. Cf. Wirtz and Karssing (2015).

3.1 Facing up to danger requires courage

Doing what you believe is morally just in the face of danger requires moral courage. Dangers create fear; without fear there is no courage. 'No action that requires courage is taken without being afraid. Conversely, if no fear has to be overcome, the action is not courageous.'[32] Fear 'is, together with convenience and indifference, one of the major antitheses of courage – with fear being more existential and powerful as an emotion'.[33]

Lipsius and Claassen define four sources of fear, and therefore four types of danger. The first source of the fear is the *unknown*. 'Uncertainty is perhaps one of the biggest sources of fear. Not knowing means you don't know how to react. This relates to survival impulses. Not being able to react properly can be life-threatening in certain situations.'[34]

The second source of fear is *social exclusion.* Being liked – to be thought of as kind, fun and helpful – is a primal need. Courageously facing up to the established order puts all this into jeopardy. 'Stored in our primal brain is the message that we are vulnerable and risk our lives if we drop out of the group. Starting from our infancy, everything in our system is focused on connecting with others and seeking safety in the group. Consciously and subconsciously, we spend our entire life seeking a good position in the group. That happens in schools, organisations, on the street, in politics. In short: everywhere.'[35]

The third source of fear is the *apprehension* that you will have to endure suffering. This is not so much the fear of suffering pain today, but at some point in the future. 'Anticipating that you will endure fear or pain in the future can create fear of something that isn't a reality yet, but is suspected to occur.'[36] This suffering can consist of physical harm, but also of social harm, as with the above-mentioned fear of social exclusion.

The fourth source of fear is *loss of status.* This is about losing your job or your position in the team or in your social network. This ranges from the danger of losing your credibility or effectiveness to the danger of being demoted or fired.

Fear: the fear of doing the wrong thing, of triggering a row, a bad atmosphere, poor relationships, a poor performance assessment, or perhaps even the loss of your job. It's human, all too human. Fear is essentially a useful emotion. [37] It helps you stay alert. But, as the saying goes, fear can also be a very bad counsellor. Fear can freeze you, leaving you unable to do what is needed. So does courage require being fearless? No. That would be demanding more than is humanly possible; having no fear of danger is actually a sign that someone lacks important human traits. Instead, courage requires the ability to deal with fear: 'it is not the fear that is absent but its effects.'[38] Scarre refers to John Wayne's graphic definition of fear: 'Courage is being scared to death – but saddling up anyway.'[39] Lipsius and Claassen quote Nelson Mandela to convey the same message: 'Courage is not the absence

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32   Lipsius and Claassen (2016): 37.

33   Lipsius and Claassen (2016): 37.

34   Lipsius and Claassen (2016): 39.

35   Lipsius and Claassen (2016): 41.

36   Lipsius and Claassen (2016): 42.

37   Lipsius and Claassen (2016): 37.

38   Scarre (2010): 19.

39   Scarre (2010): 18.

of fear, but the triumph over it.' And: 'Fearlessness is stupidity. Courage is not letting the fear defeat you.'[40]

Is that possible? Yes, for as Lipsius and Claassen aptly put it, you *have* emotions and thoughts, but they are not what you *are!*[41] It is true that we are often trapped in our emotions without being aware of it: 'The daily goings-on at the office, the hassle colleagues give you, your manager breathing down your neck, family issues – they easily consume hours of your thoughts each day.'[42] That said, we are not slaves to our emotions. Courage, however, always requires a secondary action, a secondary response. That means not limiting yourself to a primary response based on your emotions. 'Everyone has the right to a primary response and everyone has the moral obligation to provide a secondary response. Your emotions need room. They are your primary response, which can be an internal one. Just saying to yourself "this hurts" or "this makes me incredibly angry" helps. Ignoring your emotions doesn't; they will then come out in other ways, in a torrent or slowly seeping out. After you have acknowledged them, there is room for your secondary response: "What am I going to do"?.'[43] And that creates room to control your fear.

Incidentally, as different people fear different things, there are differences in the role courage plays in their lives. 'For some people, just getting up in the morning and making their way through a crowd or grabbing a cup of coffee in an office space is a big victory. So that is effectively an act of courage, even though no one recognises it.'[44] You cannot simply set up yourself as the measure when it comes to judging the courage of others. In other words, what for you is the 'perfectly normal' thing to do may be a huge victory over their fears for someone else.

And lastly, we need to distinguish between acting courageously and fearlessness. However, by regularly facing up to danger, courage can grow into fearlessness: 'The successful practice of courageous behavior leads to a decrease in subjective fear and finally to a state of fearlessness. Courage grows into fearlessness. People who are learning to parachute from an aircraft display courage when they persevere with their jumps despite subjective fear. Veteran parachutists, having successfully habituated to the situation, no longer experience fear when jumping; they have moved from courage to fearlessness.'[45] And what holds true for parachuting could quite conceivably also hold true for confronting colleagues and managers with an inconvenient truth.

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40   Lipsius and Claassen (2016): 37.
41   Lipsius and Claassen (2016): 68.
42   Lipsius and Claassen (2016): 69.
43   Lipsius and Claassen (2016): 134.
44   Lipsius and Claassen (2016): 38.
45   Rachman (2010): 106.

3.2 Dangers in the work of internal auditors: what do they look like?

What dangers do internal auditors face in performing their work? The IIA Research Foundation recently published two studies exploring this issue. *The Politics of Internal Auditing* did this on the basis of in-depth interviews and focus groups with Chief Audit Executives (CAEs), a literature study and an online survey. *Ethics and Pressure: Balancing the Internal Audit Profession* followed up on this. This study was based on a survey completed by 14,518 respondents from 166 countries. In addition, interviews were conducted not only with CAEs, but also with staff and management of internal audit departments.

The primary focus in *The Politics of Internal Auditing* is on dangers created by organisational politics.

> 'Organizations are, by definition, political. They are composed of people who have different individual goals and objectives, different value systems, different approaches to accomplishing their objectives, and who are motivated by different types of reward systems. Even without the broad mission of internal auditing there would be political pressure. But given the unrestricted scope of internal auditing and the reality that internal audit results may reflect badly on some individuals—or bring attention to issues that some would prefer not be shared—the potential for political pressure on chief audit executives (CAEs) is great.'[46]

To this end, 'organisational political pressure' is defined as:

> 'The situation in which individuals in leadership positions exercise their authority to achieve a personal benefit, or to protect an organization, by attempting to manipulate the internal audit activity or internal audit reports. Such manipulation may result in actions to restrict the scope of audit activities, suppress audit findings, or undermine the credibility of the chief audit executive or the internal audit activity.'[47]

The report discusses thirteen interviews at length, exploring what issues were involved in each of these cases and what lessons can be drawn from them. Based on the interviews they conducted, the researchers distinguish four categories of organisational political pressure:
- 'Suppressing a finding or a report
- Restricting the scope of internal audit
- Directing internal audit to lower risk areas, specifically to use the audit to discredit an auditee
- Undermining the credibility of the internal audit function'[48]

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46   Miller and Rittenberg (2015): 3.
47   Miller and Rittenberg (2015): 3-4.
48   Miller and Rittenberg (2015): 25.

Top management was certainly not the only source of organisational political pressure: 'we also found that pressure can come from a wide variety of sources—the auditee, operational management, general counsel (who might not want something put into the record that could be "discoverable"), or the board or audit committee who simply do not want to hear about an issue or automatically defer to executive management over the CAE'.[49]

The ways in which pressure was exerted ranged from sometimes very directly – threatening with dismissal or demotion, or even physical threats – to more indirectly and sometimes subtle, such as no longer inviting CEAs to meetings, ignoring them, downsizing the internal audit department (reducing staff) and speaking ill of the internal audit department.

Examples of dangers mentioned in The Politics of Internal Auditing

- Personal threats
- Attempt to bully
- Corporate bullying
- Threats and insults
- Attempt to intimidate by executive director
- Threat of retaliation by CEO
- Hostile working conditions, stress resulting in health issues
- Hostile environment
- Silent treatment
- Treated as not a part of the team/not a team player
- Lack of support—tone at the top
- Continued questioning of audit methods
- Denied request for additional full-time equivalents for department
- Transfer the issue to some other function and away from the internal audit department
- Possibility of outsourcing, or actual outsourcing of, the department
- Loss of good working relationships
- Organizational promotions for similar titles and positions (from director to VP) did not include internal audit director
- Access to information restricted
- Outside consultant to review internal audit activities
- Stagnation
- Employment termination, although was quickly rehired into a demoted role
- Reduction in hours for the internal audit department[50]

Of course organisational political pressure may also have positive effects, for example by 'encouraging internal auditors to address risky areas or to push their comfort zone in addressing new and important issues for the organization'[51], but the scope of the study was limited to exploring negative organisational political pressure. The follow-up study *Ethics and Pressure: Balancing the Internal Audit Profession* includes a framework that also looks at the positive influence of pressure (see figure 3.1).

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49   Miller and Rittenberg (2015): 25-26.

50   Miller and Rittenberg (2015): 84.
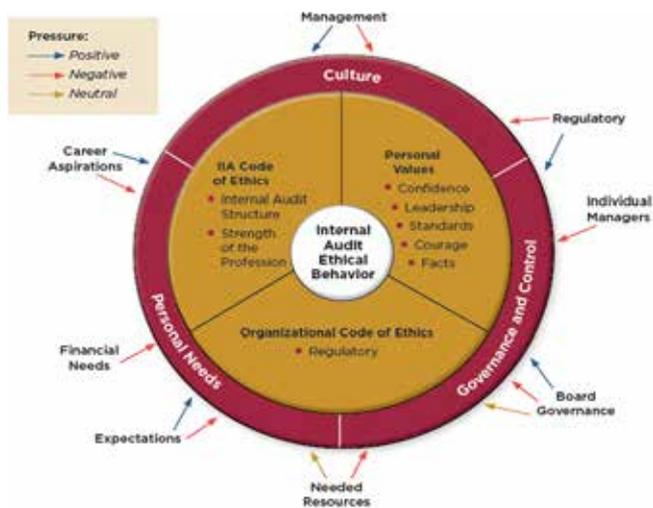
51   Miller and Rittenberg (2015): 129.

Figure 3.1: *Ethics and pressure: an internal audit framework (source: Rittenberg (2016): p. 9)*

At the centre of the framework is the behaviour of internal auditors, which is driven by their moral compass. As discussed above, the three sources of the moral compass of internal auditors are their own values, norms, beliefs and convictions, the organisation's code of conduct or code of ethics, and of course the IIA Code of Ethics included in the International Professional Practices Framework (IPPF)).

These sources are surrounded by a ring made up of personal needs, culture, and governance and control. Ideally, these elements support and stimulate internal auditors to act according to their moral compass. Examples of personal needs that have a positive influence include internal auditors who take pride take in their profession, who have self-respect and self-worth and the desire to be recognised as a professional by third parties. An open culture with a commitment to ethics and integrity in both word and deed, where people are expected to take personal responsibility for their work, can also be helpful. That also holds true for a governance and control environment that values internal audit's findings and recommendations, and where the top management is held to account for upholding the organisation's core values.

However, as noted in *The politics of Internal Auditing*, these same elements also create dangers. Personal needs, for example, also include the need to pay off your mortgage, confronting you with the 'mortgage test': can I afford it financially to risk my job or career? Or they can include the need to say what management wants to hear, in order to further your career. Another key factor here, as we saw in our discussion of moral disengagement, is the rationalisation of unethical behaviour. Dangers can also arise from a culture that prioritises short-term results at the expense of moral values, due to incentives created by the performance management system. And weak governance and control can lead to a lack for support for the work of internal audit, and a lack of the required checks and balances.

3.3 Dangers in the work of internal auditors: how often do they occur?

Doing what you believe is morally just in the face of danger requires moral courage. So the importance of courage increases in proportion to the amount of danger internal auditors face in performing their work. In the previous section, we identified the dangers faced by internal auditors in performing their work. The next question is: how often do these dangers occur, how prevalent are they? To what extent is moral courage a key issue for internal auditors?

The conclusion from the two IIA reports is clear: the dangers are omnipresent. Every internal auditor should be aware that there is a real possibility that they will be pressured, once or multiple times in their career, to suppress findings, change conclusions and recommendations, or not to deploy limited resources in areas where those resources would be used most effectively in their judgment.

However, not every difference of opinion between internal audit and management should automatically be considered a danger. Nor are all forms of influencing necessarily inappropriate. A difference of opinion can actually be a genuine dispute over facts or their interpretation, for example when it comes to estimating risks, interpreting the implications of findings, or the quality of the department. Therefore, in *The Politics of Internal Auditing* a continuum is outlined, with at one end legitimate disputes and at the other end inappropriate pressure. 'It is the part in the middle that becomes a potential problem and is a "gray area" where the CAE needs to judge whether it is a genuine dispute (over the facts or an interpretation as to what the facts imply for action) or political pressure to avoid embarrassment or a similar negative consequence. That is where the competence of the audit department, coupled with experience and judgment of the CAE, is needed.'[52]

With this disclaimer in mind, what does the picture look like? From the interviews with 500 CAEs discussed in *The Politics of Internal Auditing* it emerged that:
- '54.7% of the respondents said they were directed to omit or modify an important audit finding at least one time, with 17.2% indicating it happened three or more times.
- 49.0% were directed to not perform audit work in an area that the CAE viewed as high risk.
- 31.5% were directed to perform work in a low-risk area so that an executive could investigate or retaliate against another individual.'

So those are the findings for the CAEs. But what is the situation like for other internal auditors? As mentioned above, the research conducted for *Ethics and Pressure* had a broader scope that also included the staff members and management of internal audit departments. The outcomes are shown in figure 3.2.

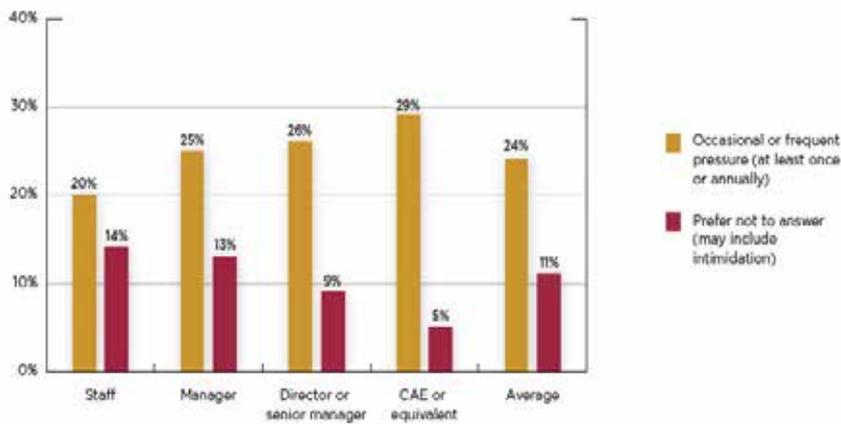52   Miller and Rittenberg (2015): 49.

Figure 3.2: Pressure to change, by staff level (source: Ethics and Pressure: p. 25)

Rittenberg was struck by the fact that the answers 'occasional or frequent pressure' and 'prefer not to answer' together consistently comprised around 34%. His hypothesis is that the respondents who preferred not to answer whether they had been pressured may have been afraid to answer this question, which suggests they had experienced pressure. This hypothesis is substantiated by the breakdown of the answers by region: 'The results from the East Asia & Pacific region are particularly interesting. Although only 15% said that they had been pressured to suppress or change important audit findings at least once, another 19% indicated that they preferred not to answer, for a total of 34%–the same average that was reported for other locations.'[53]

Those who stated they had experienced pressure to change findings were asked the follow-up questions who pressured them and why. The outcomes are shown in figures 3.3 and 3.4.

Pressure Sources	CAE Average	Dir/Man Average	Staff Average	Average
Internal audit department	9%	34%	44%	31%
Chief executive officer (CEO)	38%	24%	15%	25%
Operations management	25%	26%	21%	24%
Chief financial officer (CFO)	24%	18%	11%	17%
Other internal source	10%	16%	14%	13%
Source external to the organization	2%	3%	3%	2%
Board of directors	12%	9%	7%	9%
Legal or general counsel	6%	6%	4%	5%
Audit committee	6%	5%	5%	5%
Chief compliance officer (CCO)	3%	3%	3%	3%
Chief risk officer (CRO)	3%	4%	2%	2%
I prefer not to answer	8%	10%	15%	11%

Figure 3.3: Sources of pressure to change audit finding (comparison by position) (source: Ethics and Pressure: p. 28)
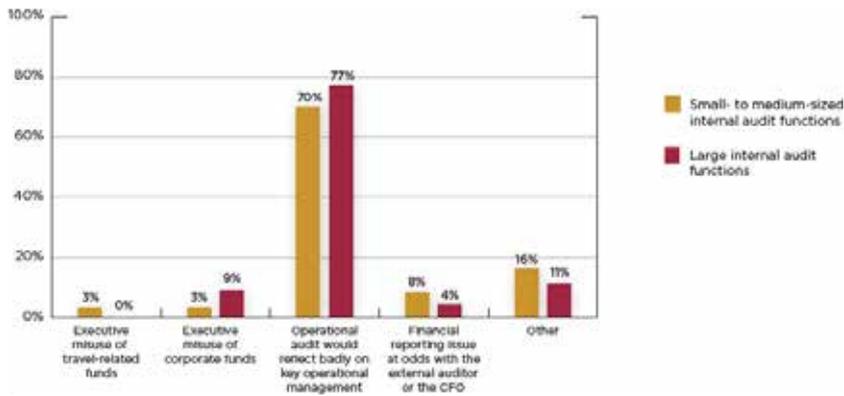
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53   Rittenberg (2016): 24.

Figure 3.4: *Reasons for pressuring internal auditors (source: Ethics and Pressure: p. 29)*

In short, the research into this issue shows that during their career internal auditors are indeed likely to be confronted with dangers that require moral courage in order to act according to their moral compass.

3.4 Findings from our study: unethical pressure

In the empirical study we conducted among members of the IIA, we also asked the respondents whether they had experienced unethical pressure. We presented them with the following statements:

- 'I have sometimes felt pressured by my manager to carry out tasks which I believe are unethical.'
- 'I have sometimes felt that I needed to act unethically in order to get a good performance assessment from my managers.'
- 'When I have to choose between doing what I believe is ethical and doing what is best for my employer, I feel pressured to do what is best for my employer.'

The answers the respondents could choose from were arranged on a six point scale from 1 `completely disagree' to 6 'completely agree'. The answers given were reversed and aggregated into a scale that indicates the extent of 'absence of unethical pressure'. Table 3.1 shows the average scores for the IIA members who participated in the survey, broken down by sector.

Table 3.1 *Absence of unethical pressure among IIA members, by sector (average scores)*

	Public / semi-public sector	Services	Manufacturing, trade and transport	Other sectors	**All respondents**
	5.1	5.3	5.3	4.8	**5.2**

Key:

	Good score
	Very good score

We can conclude that IIA members do not appear to experience unethical pressure. The scores for all sectors are good to very good. The score for the respondents in the category 'other sectors' is slightly lower, but this outcome cannot be readily interpreted, as this is a heterogeneous category.

4 Acting courageously – a behavioural repertoire

'Political pressure is a reality of any organization—large and small; public, private, nonprofit, and governmental; and across industry sectors. Effective chief audit executives (CAEs) must recognize the signs and learn how to manage effectively through political challenges if they are to be persuasive in helping their organizations navigate through risky decisions, or even in reporting audit results in the face of significant challenges. Internal audit organizations cannot fulfill their key goal of helping their organizations achieve objectives without astute internal audit leaders who can navigate the formal and informal power structures that exist.'[54]

The statement above is an important finding set out in the introduction to *The Politics of Internal Auditing*. And, as we have seen, that holds true not just for CAEs, but for all internal auditors. At one time or another during their career they will all have to demonstrate moral courage. But what does moral courage look like? How can you act courageously? What can you do? How do you find the golden mean between cowardice and recklessness?

In section 4.1, we will show that courage starts with recognising critical situations that require courage. The next challenge is to find the golden mean between cowardice and recklessness. In section 4.2, we will show that it is unwise to see courageous action as a matter of all or nothing. And that it is certainly not limited to moral heroes like Nelson Mandela or Martin Luther King. The key challenge is to make courage small: to recognise that courage can involve small acts. This will be illustrated by a study into inappropriate influencing of civil servants. In section 4.3, we will look at a number of the key findings from the report *The Politics of Internal Auditing*.

4.1   Steering the middle course between cowardice and recklessness

Courage enables us to resist and overcome our fear. 'Courage is the right response to the impulse to flee and not take up the burden of responsibility. Courage is essential because many of the things that are right and valuable in life can only be achieved if you are willing to risk something for them.'[55] There is something at stake, there are dangers, but you act nonetheless. Courage is a key factor in this, but there is more to it. Because courage cannot be understood outside of its context. People don't make courageous choices *for the sake of* being courageous. [56] They want to achieve something. And that requires courage, in order to persevere, even though you know this may have adverse consequences. Such as being seen as 'someone who is not a team player, always criticising, troublesome or even unwanted'.[57]

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54   Miller and Rittenberg (2015): vii.
55   Kinneging, quoted in Lipsius and Claassen (2016): 19-20.
56   Lipsius and Claassen (2016): 26.
57   Lipsius and Claassen (2016): 32.

Aristotle held that courage is the virtue that lies at the golden mean between the two extremes of courage and recklessness. Therefore, courage is the skill of finding the correct golden mean, taking into account all circumstances of the situation: what is the most effective solution to achieve the objective, without confronting unnecessary dangers? So gaining a good understanding of courage requires first of all gaining a good insight into the two extremes: courage and recklessness. Only then can we proceed to the golden mean, in order to better understand courage.

It all starts with recognising critical situations. You can only start developing courage if you understand in which situations 'you can or could have been courageous'.[58] Critical situations are situations where you can make a difference. 'Situations that are difficult and painful. It requires realism to recognise these difficult situations. Our first impulse is to look away, to do nothing, to remain silent or to trivialise the seriousness of the situation. Honestly acknowledging that a situation is critical inspires courage.'[59] Otherwise, the only remaining option is cowardice. So critical situations are situations where you have to choose:
• 'Do you intervene or let it slide?
• Do you speak up or keep your mouth shut?
• Do you take a stand or keep your head down?
• Do you call people to account or swallow your criticism?
• Do you fire the person responsible or muddle through?
• Do you tackle the issue or wait and see?'[60]

De Rooy mentions various warning signs that indicate that a situation is critical, such as a bad gut feeling or experiencing resistance from others and/or within yourself. Other warnings signs that a decision is critical include that the decision involves great risk or painful consequences for others and/or yourself, has a strong 'do or die' aspect, will cost a lot of money, time and energy, or has been deferred for some time already.[61]

Critical situations are therefore not trivial events, but situations where it is vital to make a difference. According to Kidder, courage is all the more important in situations where not intervening has direct tangible consequences that:
• lead to serious harm; and
• are irreparable; and
• affect a large number of people. [62]

After you have recognised that a situation is critical, you need to use your common sense to find the golden mean between cowardice and recklessness. That requires making a key distinction: 'It is not the case that we *are* cowardly, reckless or courageous; instead, we *demonstrate* cowardly, reckless or courageous behaviour in specific situations.'[63] Examples of symptoms of cowardice are indecisiveness, ignoring facts and denying reality, avoiding

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58   De Rooy (2010): 60.
59   De Rooy (2010): 46.
60   De Rooy (2010): 60.
61   De Rooy (2010): 63.
62   R. Kidder (2005): 76.
63   De Rooy (2010): 34.

feedback, being long on words but short on deeds, and avoiding confrontations. [64] And examples of recklessness are excessively displaying your status, demonstrating an attitude that means you no longer get feedback, and taking irresponsible risks. [65] How do you find the middle course between cowardice (a lack of courage) and recklessness (an excess of courage)? 'People weigh things up in each specific situation and courage plays a steering role in this process. True courage lies at the golden mean between avoidance anxiety and overconfidence. People don't want to suffer pain, so they avoid difficult situations and become cowardly. Courage involves steering the middle course between these two emotions. People who are courageous accept and bear the pain and face the painful truth. … Fear makes you cautious and keeps you on your toes. So you need both fear and recklessness to find the golden mean between the two. A healthy dose of fear keeps you alert, while a bit of recklessness is needed to sustain your momentum and face up to the opposition.' [66]

So courage requires reflection. 'Courage involves consciously deciding whether or not to take action in a critical situation. It is a process in which common sense and carefully considered action are crucial. You find the correct golden mean by observing, analysing and weighing things up.' [67] But wouldn't it be better to spring into action straight away? No, because: 'That is guts, not courage.'[68] 'Otherwise one would call all animal courageous if they defended their territory by instinct. Instinct and emotions alone are not courage.'[69] Rashly confronting dangers may of course produce good results, but those are achieved more by accident than design. [70]

However, observing, analysing and weighing things up … Is there even time for that? Can courage and reflection go hand in hand? In fact, many examples of courageous action are situations in which people rashly run into a burning house or impulsively talk back to their manager. Moberg therefore distinguishes between 'hot' and 'cool' courage.[71] Hot courage is impulsive, like a reflex. It is comparable to the way in which most people can drive their car as if they were on 'auto pilot'. Cool courage is deliberative and thoughtful; it involves reflection. In some situations, for example when there is no time for reflection, hot courage is preferable over cool courage. However, Moberg holds that this distinction must not be exaggerated and that we can reinforce our hot courage through prior and subsequent reflection. For example, by reflecting on situations beforehand and considering potential scenarios and consequences.

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64   De Rooy (2010): 34.

65   De Rooy (2010): 36.

66   De Rooy (2010): 17.

67   De Rooy (2010): 45.

68   De Rooy (2010): 51.

69   Putnam (2010): 12.

70   Scarre (2010): 1.

71   D. Moberg (2011).

4.2   Making courage small

Too often, moral courage is still seen as a matter of all or nothing. It calls up images of whistleblowers, who often paid dearly for their revelations. Or it brings to mind moral heroes like Socrates, Martin Luther King, Gandhi and Mandela. And who would dare to include themselves in that list? Moreover, their fate – the death penalty, assassination, 26 years of imprisonment – is not very encouraging. The life stories of such people can be inspirational, but the examples they set can also paralyse action. The social psychologist Zimbardo believes that many ordinary people are capable of very courageous actions.[72] Those actions may not always be great and memorable deeds, but then again, that's not always necessary. Sometimes all that is needed is to ask a critical question, or to point an executive to the organisation's core values. Everyone has the capability of becoming a hero in one degree or another. Sometimes you might not realize it. To someone it could be as small as holding a door open and saying "hello" to them. We are all heroes to someone.'[73] Accordingly, Osswald et al. organised workshops entitled 'Small deeds instead of heroism'. 'Already, small deeds (which are named and shown within the training, e.g. "call the police" or "inform other bystanders if you think something is happening") can have enormous effects, and the worst thing is to do or to say nothing. Presenting people with such knowledge promotes the probability that people will intervene in a critical situation because they are released of the pressure to act heroically or to work wonders.'[74]

Therefore, the key challenge is to make courage small: to recognise that courage can involve small acts. That starts with abandoning the conception that courage is a character trait; that some people are courageous and some aren't. Very few people are always courageous. 'People have their courageous moments – and sometimes they lack courage.'[75] Therefore, it is not the case that people *are* cowardly or courageous; instead, there are specific situations in which we do or do not *demonstrate* courage. And courage is not a matter of all or nothing. People act in ways that are more or less courageous.[76] Therefore, courage can be demonstrated in many different ways that involve taking greater or lesser risks.

But what do small acts of courage look like? This is illustrated by a study conducted in 2011 by the Audit and Advisory Unit of the province of South Holland into the resilience of its civil servants to inappropriate influencing by managers or administrators. Although this study did not refer to the concept of 'moral courage', it certainly looked at this issue and is a good example of how moral courage can be addressed in concrete terms. In addition, the terminology and research questions used in the study had key similarities with those used in the two studies of the IIA Research Foundation discussed above.

For the purposes of the province's study, inappropriate influencing was defined as civil servants feeling obliged (or forced) to implement different policies or make different policies than required by the basic values of the province, due to pressures exerted on

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72   Zimbardo. (2007).

73   Depino, quoted in Zimbardo (2007): 488.

74   Osswald et al. (2010): 161.

75   De Rooy (2014): 26.

76   Scarre (2010): 3.

them. Therefore, the study referred to these basic values (the moral compass) to define what constitutes the desired moral behaviour: public service, professionalism, independence, responsibility, reliability and due care. The study revealed that inappropriate influencing was used, for example, to manipulate information in ways that misrepresent reality, or to bend rules and policies, including those of the civil service. Therefore, civil servants had experienced danger because they had been pressured and faced the treat of conflict with administrators or managers. So these were situations involving morality and danger. What do people do in such situations?

The study looked at this by means of workshops in which the civil servants explored cases of inappropriate influencing, which were then discussed. The focus was on how the participants experienced each of the situations, what their judgment of the situation was and how they would respond to it, and to what extent they would resist the influencing.

Influencing can take many different forms, and determining how it can be effectively resisted, and how an actual violation of the basic values can be prevented, requires understanding the circumstances of the situation. Giving in to inappropriate influencing means violating one or more basic values. What can civil servants do based on their sense of responsibility? During the workshops, various forms of resilience were identified (see table 4.1). This is a good illustration of a behavioural repertoire of courageous action.

Table 4.1: *Interventions against inappropriate influencing[77]*

Categorisation	Interventions	Sub-interventions
Acting autonomously	*Sharing information*	Establishing details of information
		Mapping advantages and disadvantages
		Asking for clarification
		Setting up discussions with parties involved
		Putting yourself in the shoes of the other person
	Reasoning based on rational arguments	Pointing out contradictions with objectives of province, policy arrangements, etc.
		Pointing out risks and consequences
		Pointing out violations of procedures and processes
		Highlighting alternatives
		Persuading that a certain course of action or work method is the best option
	Emphasising duties, responsibilities and authorities	Pointing out the importance of observing the designated roles and maintaining segregation of duties
		Pouting out violations of norms and values
		Asking mirroring questions

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77   Fransen (2011): 10.

Categorisation	Interventions	Sub-interventions
Acting autonomously	*Sharing information*	Establishing details of information
		Pointing out when something cannot be justified by the requirement of loyalty.
		Documenting objections
Seeking support	*Raising the issue with colleagues*	Pointing out the issue to colleagues directly involved
		Pointing out the issue to colleagues in policy support department and other departments
	Raising the issue within the hierarchy	Pointing out the issue to your direct manager or the next manager in the line of seniority
		Pointing out the issue to the team of directors
		Raising the issue with individual administrators
		Pointing out the issue to the Provincial Executive by submitting a proposal
	Raising the issue with the confidential counsellor	Reporting the issue to the confidential counsellor

The study highlighted many examples of tools that can support courageous action. The civil servants stated that they felt supported by things like:
- the oath or promise to faithfully fulfil your duties as a civil servant;
- clear frameworks;
- the availability of confidential counsellors.

In addition, the civil servants suggested the following steps:
- more frequently discussing cases of influencing in order to learn from each other;
- practising skills by developing competencies focused on reinforcing the resilience of civil servants;
- improving the communication between the provincial administrators and civil service, so that they both develop a better understanding of the position the other party is in.

In short, in addition to drawing from their inner resources, people can also use tools provided by the organisation to find the strength to demonstrate courage in critical situations. We will return to these tools in section 5.

4.3   Lessons from The Politics of Internal Auditing

The report *The Politics of Internal Auditing* contains dozens of insights, tips and suggestions with respect to how internal auditors can deal with organisational political pressure. Without seeking to be in any way exhaustive, below we give a brief summary of what courageous action can look like, so what internal auditors can do in critical circumstances. The insights, tips and suggestions we offer may seem rather obvious. However, as stated in *The Politics of Internal Auditing*, 'somewhat like blocking and tackling in a football game, the foundational elements are important'.[78]

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78   Miller and Rittenberg (2015): 93-94.

The most important insight is that there will always be real dangers as a result of inappropriate influencing. These dangers need not necessarily be physical – although physical threats were also mentioned in the study – but they certainly include dangers to people's social and financial position: the risk of losing your job or your position in your team or in your social network. Your credibility or your effectiveness may be at stake. By acting according to your moral compass, you risk being demoted or fired. In this sense, internal auditing is a dangerous profession! These dangers cannot be managed away, but you can deal with them in different ways, some more effective than others.

Know thyself
First of all, internal auditors should not be weak-kneed. The key adage is to 'know thyself'. This is about asking yourself: Am I willing and able to share bad news? Am I willing to fight the political battle, to be disliked?

Due diligence: know the organisation
How dangerous a job is, depends in part on the context: the organisation and its culture and key figures. As the conditions you operate in as an internal auditor have huge impact on your effectiveness, it is advisable to conduct your own due diligence investigation into the organisation offering you a position before accepting it. Meet up with several managers, so not only the manager(s) you will be reporting to, and ask them things like: What are the corporate values, do you support them, and are they put into practice?

Develop the right skills
Professional internal auditors are first and foremost proficient professionals, who possess the required knowledge, skills and experience. Possessing this competency is a necessary prerequisite, but not sufficient. Because acting with moral courage also requires political sensitivity and awareness of your environment: How is the game played, who are the key players, and how do they operate? 'Understanding who is, or may be, affected by the audit findings and what their viewpoints are will be essential to handling political pressure.'[79] And it is also critical to have good communication skills: 'Learning how to communicate negative situations can be the difference between success and failure.'[80] Good communications, however, start well before the presentation of your findings and recommendations, and include much more than only writing a clear and unambiguous report. 'The tone for an audit is set with the first communication (verbal or written, formal or informal) that executives and management receive about the role and objectives of internal audit. When you announce an upcoming audit, consider the long-term benefits if the communication explains not just why the audit will be performed but also the potential advantages to everyone concerned.'[81]

Recognise the critical situations
Moral courage starts with recognising critical situations. In section 4.1, we already suggested a number of tools for this. Recognising critical situations requires judgment skills to think through issues from the perspective of various stakeholders: the audit committee as a representative of shareholders, management, the auditee, and the organisation as a whole.

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79   Miller and Rittenberg (2015): 96.

80   Miller and Rittenberg (2015): 96.

81   Miller and Rittenberg (2015): 110.

Therefore, all internal auditors (so not only Chief Audit Executives (CAEs), who are the primary target group of the IIA report) should:
- 'Know the organization's strategies and be able to get from the details to the big picture.
- Know the difference between major and minor issues, and be prepared to make such a differentiation. Such decisions require the auditor to think about relevant criteria in advance. Don't raise minor points and don't overlook or choose not to report significant, but controversial, issues.
- Stand up for the right issues. The CAE must decide which battles to fight. Many other CAEs identified this as developing your own personal criteria for how and when you will draw the line on an issue.
- Don't hide behind independence. One CAE noted that there are bigger penalties today for organizations making bad decisions, so it is important for CAEs to get involved in high-risk areas. CAEs are sometimes reluctant to get involved in emerging strategic issues or new processes because they don't want to impugn their objectivity in a future audit. This CAE views this as a wrong choice that will undermine their credibility, leaving them more susceptible to political pressures.'[82]

Be prepared
Being prepared means anticipating danger: being aware that dangers can suddenly appear. Some CAEs stated that they use specific decision-making methods to think through a critical situation. The text box below includes several examples of such methods.

Have a decision framework for stressful situations.

'Significant issues identified in audits are seldom black or white. Judgment is involved in determining the implications and significance of audit findings (facts may be objective, but implications may be subjective). One CAE we spoke with shared the ACT framework to help think through tough decisions:
- A – Identify all of the alternatives.
- C – Consider and evaluate all of the alternatives and the consequences of the choices (pros and cons), and document and challenge your own reasoning.
- T – Take action by choosing the best one.

Another CAE, who worked for a quasi-governmental entity with significant public activities, shared the following criteria to guide decisions about taking matters beyond a management team who disagreed with the significance:
- Any time lives may be in danger
- Any time there is a significant reputational risk to the organization
- Any time it is financially material to the organization

The point is, think ahead about what criteria are meaningful in your organization and to your value system, and/or have a simple decision framework to help you unemotionally think through the issue at hand.'[83]

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82   Miller and Rittenberg (2015): 50.
83   Miller and Rittenberg (2015): 109.

Prepare yourself
When you need to confront an issue, the first step is to identify your key allies and your biggest opponents. Put yourself in the other persons' shoes: what are their interests and motivations, what is at stake for each of them? In short, prepare yourself well. 'Fear is a product of our thinking and always focused on the future. We are afraid of something that may happen. So it helps to prepare well for what is to come. Preparing ourselves can give us the confidence we need to overcome our fear. During preparations, we ready ourselves. We do the work that is necessary to position ourselves to face up to what we will encounter. Preparing yourself is an activity that precedes the actual event.'[84] You can prepare yourself by visualising critical situations beforehand, by thinking through the scenarios that could occur and how you would react. That way, you bring your fear closer to the here and now. That means you need to raise less courage when the situation actually occurs, because you have already been there and you know what to do. [85] However, there can also be a downside to preparing yourself. If you spend too much time on preparations or become too invested in arranging everything beforehand, you end up in a situation where 'everything is prepared to perfection and documented in templates that lead to rigidity. That leaves no room for spontaneity and creativity'.[86] Here, too, Aristotle's maxim applies: good preparations lie at the golden mean between too much and too little preparation.

Emphasise shared objectives
When you raise an issue, emphasise your shared objectives. After all, you are all one the same team! By establishing where your shared interest lies, you can find a language that will enable you to present the problem in a way that others can understand too. Furthermore, shared objectives also create an 'objective' framework of criteria for weighing up different solutions to the problem against each other, and thus help to make choices.

Facts are your friend
In many interviews, the phrase 'facts are your friend' was used. 'The CAEs emphasized the importance of objectivity, accurate and complete data, thorough audit work and analysis, and an astute understanding of the effect of the finding on the organization.'[87]And this also requires careful judgment: 'internal audit must demonstrate judgment when determining the level of evidence to support conclusions. More substantive testing on large issues may be necessary to ensure you have the sufficient facts and persuasive information. Make the issue compelling, be clear about implications and risks, and have real data to support conclusions.'[88]

Audit charter
Another key tool is a firm audit charter. It can be referred to in discussions and can be used to point out the usefulness and necessity of internal auditing to managers who 'don't quite get it yet'. 'With the right fundamentals, as specified in the charter, internal audit can often defuse resistance and pushback from individuals who do not fully understand or appreciate the role and expectations. Periodically, reread the charter and confirm that it adequately

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84   Steeman (2014): 110.
85   Steeman (2014): 116.
86   Steeman (2014): 130.
87   Miller and Rittenberg (2015): 10.
88   Miller and Rittenberg (2015): 97.

describes the broad role and mandate of your internal audit function. If a periodic review is not already part of the standing agenda for the audit committee, work with the chair to add it to a regularly scheduled meeting annually.'[89]

Another important thing is to always stay calm. Count to ten. Understand that this is how the game is played and don't take it personally. It is not about you as a person, but about the role you fulfil.

4.4   Findings from our study: moral courage

In the empirical study we conducted among members of the IIA, we also paid attention to the theme of moral courage. We presented them with the following statements:

• 'When I encounter an ethics issue, I respond to it by acting ethically, even if that has a negative influence on how others perceive me.'
• 'I don't alter my view on ethics issues when I come under social pressure to take the opposite view.'
• 'I act ethically, even if that puts me in an uncomfortable position with my managers.'

The answers the respondents could choose from were arranged on a six point scale from 1 `completely disagree' to 6 'completely agree'.

The answers given were aggregated into a scale of 'moral courage'. Table 4.2 shows the average scores for the IIA members who participated in the survey, broken down by sector. There are no major differences between the sectors. All sectors show a good to very good score for moral courage.

Table 4.2 Moral courage of IIA members, by sector (average scores)

Public / semi-public sector	Services	Manufacturing, trade and transport	Other sectors	All respondents
4.8	5.0	4.8	5.0	4.9

Key:

	Good score
	Very good score

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89   Miller and Rittenberg (2015): 110.

Data for levels of moral courage are also available for Dutch professionals in other fields. When we compared internal auditors to these groups of respondents, we see the scores for internal auditors are about average. Internal auditors are just a courageous as controllers, and more courageous than the personnel of a Dutch insurer who participated in a recent study. But they are less courageous than the sales personnel at a large bank. However, the differences are relatively small.

Table 4.3: Moral courage of IIA members, compared to other groups of respondents (average scores)

Group of respondents	Moral courage
Sales personnel of international bank	5.2
Personnel of international bank	5.0
IIA members	**4.9**
Controllers in Dutch organisations	4.9
Dutch insurer	4.7
Dutch manufacturer	4.6

Key:

	Good score
	Very good score

5 Tools that support courageous action

In this section, we discuss a number of tools that can make it easier for internal auditors to act courageously. The behavioural repertoire we looked at in the previous section illustrated what you can *do*. The tools help you with this. In this section, too, we do not seek to be in any way exhaustive, but we want to outline what these tools look like and how they can help you.

In section 4.3, we described the findings of a study conducted by the province of North Holland among its civil servants, who mentioned various tools, including the oath or promise to faithfully fulfil their duties, clear frameworks and the availability of confidential counsellors, which made it easier for them to resist inappropriate influencing. We base our list of tools that can support internal auditors in behaving courageously on the framework set out in *Ethics and Pressure: Balancing the Internal Audit Profession*, which we already discussed in section 3.2. To assist the reader, this framework is also shown below.
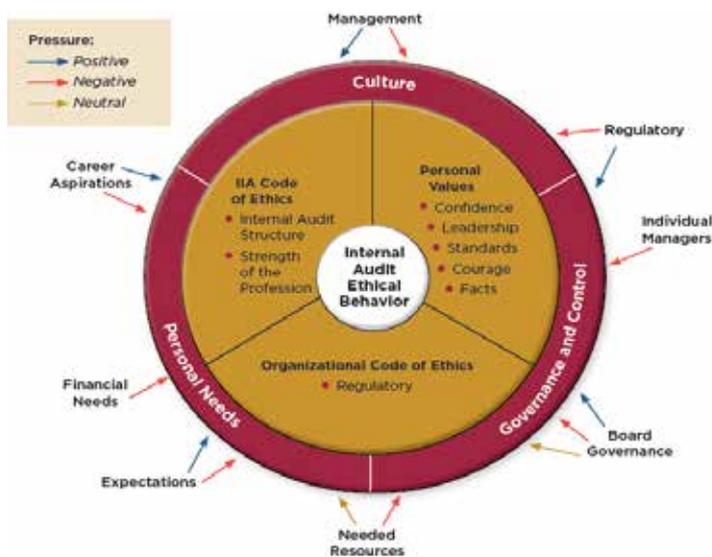

Figure 5.1: *Ethics and pressure: an internal audit framework (source: Rittenberg (2016): p. 9)*

Looking at this framework, we immediately notice that it includes a key tool we have already discussed extensively: the moral compass. The moral compass is fed by the internal auditor's personal values and norms, the organisational code, and of course also by the IIA Code of Ethics. Moral courage starts with having a moral compass (because without morality there cannot be *moral* courage). The compass provides guidance that enables you to navigate difficult issues, helping you decide what you should do. But the compass also provides guidance to others, by pointing out to them what you stand for as an internal auditor.

Based on the framework, we can distinguish three types of tools:
• Personal tools
• Governance tools
• Culture-based tools

When it comes to these tools, we should emphasise that: 'It is difficult for internal audit to be better than the underlying organizational culture and governance process.'[90]

The importance of a good audit charter is something we already discussed in the previous section. The importance of 'truly independent effective boards and audit committees' has also been spoken and written about extensively already. [91] Moreover, this issue partly lies beyond the sphere of influence of internal auditors: 'No matter how effective, internal audit cannot change governance from the bottom up; the CEO and key executives must set the right tone to create a supportive and open culture.'[92] Therefore, although we do wish not trivialise the importance of governance tools, we will not look at them in any further detail here.

In section 5.1, we will discuss the personal tools of internal auditors. In section, 5.2, we will present the findings of our study into culture, which show that the organisational culture can be a tool.

By actively making available these tools, they can be used to take measures to encourage courageous action. Ideally, this helps to create a context in which moral courage is no longer necessary because there are no longer any dangers. That seems contradictory: by encouraging courageous action, you ensure courageous action is no longer necessary. But moral courage is indeed no longer necessary in an environment where it's unexceptional to discuss difficult issues with your colleagues and to hold each other to account where necessary. In an environment where internal auditors are not pressured, moral courage is not necessary. Which then begs the question: Should you even encourage moral courage; isn't that like putting the cart before the horse? Perhaps that would be true in an ideal world. But in the real world, it doesn't hurt to reflect on how moral courage can be encouraged.

5.1   Personal tools

In discussing the behavioural repertoire, we already looked at various tools, such as political sensitivity, awareness of your environment and communication skills. These tools are skills that help you act courageously. In addition, in *The Politics of Internal Auditing* a large number of personality traits are mentioned that can help internal auditors in dealing with critical situations:
- 'Courage–a willingness to report and risk their job
- Strong ethical compass–with a clear understanding (in advance of a situation) as to what is right and what is wrong
- Excellent communication skills–coupled with proactive identification of how to use those skills
- Professionalism–both in style and commitment to the highest standards
- Calmness–although this may be viewed as a subset of professionalism, many of our participants talked about staying calm and not taking things personally

90   Miller and Rittenberg (2015): 7.

91   Miller and Rittenberg (2015): 7.

    Miller and Rittenberg (2015): 94-95; 103-104; see also e.g. Khelil, Hussainey and Noubbigh (2016).

92   Miller and Rittenberg (2015): 96.

- Personal integrity—needs to be demonstrated every day so that everyone recognizes it within the organization
- Fair minded—a willingness to be questioned and to consider alternative points of view.'[93]

This is all well and good, but we actually recommend making moral courage small (see section 4.2). That starts with abandoning the conception that courage is a character trait; that some people are courageous and some aren't. We believe it is not the case people *are* cowardly or courageous; instead, there are specific situations in which we do or do not *demonstrate* courage.

Motivation for courage
As we discussed, you should know your moral compass and have confidence in your intuition when it tells you certain behaviours violate that compass. But what can instil that confidence, and where can you find that strength to demonstrate courage in critical situations? According to De Rooy, it helps to have a motivation for acting courageously. Such a motivation gives us the strength to endure fear and pain; to demonstrate courage and to shoulder the burden that comes with it. To find your motivation for acting courageously, it helps to ask yourself questions like:
- What do I stand for?
- What am I doing all this for?
- What are my leading values?
- What do I believe in?
- What does all this accomplish for other people?[94]

Sounding board
In section 4, we saw the importance of carefully analysing critical situations. That requires having a sounding board. A sounding board is not the same thing as an ally. An ally can help you when it comes to getting things done. A sounding board helps you to reflect: What is happening here and what is the wise thing to do? A sounding board can be a colleague, but also someone outside of the organisation, such as your partner or a close friend. Given that critical situations can occur at any time, you need to organise a personal sounding board well in advance.

Credibility
Credibility serves as a foundation for respect and trust within the organisation, and is therefore an important personal resource. Internal auditors can reinforce their credibility by addressing the right issues, by listening to the arguments of others in an honest an objective way, and by presenting in-depth and fact-based findings and practical recommendations that are relevant to the business. [95] In short, by doing their work as best as possible. As stated in *The Politics of Internal Auditing*:

'To demonstrate value, earn respect, and build credibility, the CAE and the internal audit function must demonstrate a sound knowledge of the business and apply that knowledge in assessing risk. Internal audit needs to align its efforts with the

93   Miller and Rittenberg (2015): 54.
94   De Rooy (2014): 108.
95   Miller and Rittenberg (2015): 105-106.

organization's direction, while never compromising professionalism or objectivity, and demonstrate sound judgment by fairly evaluating the significance of audit findings. Effective CAEs have the ability to convey audit findings from management's perspective, rather than a narrower internal audit perspective.'[96]

Good relationships – allies
Knowledge is power, and so is knowing the right people. Having good relations with all stakeholders is therefore a key tool for internal auditors. 'A solid relationship built on quality work, demonstrated business acumen, shared objectives, reasoned judgment, and impeccable integrity means executives (and others) are much less likely to distrust or dismiss a CAE who has raised a valid concern.'[97] You need to ensure that you build up strong relationships before a critical situation occurs. The following tips can help:
• 'Meet early with key executives and middle management, and then routinely.
• Don't just talk business; get to know the individuals personally.
• Attend executive meetings/be visible (try to be included).
• Get involved in business activities even beyond what is required for your internal audit role, as long as it doesn't impair objectivity.
• Understand business strategy.
• Understand the succession plan in the organization.'[98]

In short, actively working to win allies puts you in a stronger position.

Financial independence
If internal auditing truly is a dangerous profession, internal auditors could find themselves without a job from one day to the next. So perhaps, at the end of the day, instead of the mirror test – Does this accord with my moral compass, can I still look myself in the eye? – they are more likely to apply the mortgage test: Can I afford this financially? Therefore, it is advisable to set aside savings, ranging from a few months' pay to an annual salary (depending on your employability) to ensure that financial concerns will not stand in the way of acting courageously.

Practising
We learn to act courageously by practising, by doing. 'Through action, fear is reduced and your confidence grows.'[99] As already posited by Aristotle, you become courageous by acting courageously. Just like you learn to play the flute by playing it. So if you want to learn how to demonstrate moral courage, you will have to act with courage: 'By abstaining from pleasures we become temperate, and it is when we have become temperate that we are best able to abstain from them. And so with courage: by training ourselves to despise and stand our ground against dangers we become brave, and it is when we have become brave that we shall be best able to stand our ground against dangers.'[100]

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96   Miller and Rittenberg (2015): 9.
97   Miller and Rittenberg): 95.
98   Miller and Rittenberg (2015): 52.
99   De Rooy (2014): 84.
100   Aristotle (1999): 58.

5.2   Findings from our study: ethical organisational structure

An organisational culture is the totality of the implicit expectations staff members in the organisation have about each other's behaviour. The culture sets the tone for how people in the organisation do their work and how they treat each other and people outside of the organisation. To ensure the integrity of an organisation, the culture should offer the staff members in the organisation sufficient support in acting ethically, and should not discourage ethical behaviour. If that is the case, there is an ethical organisational culture.

In our research, we focused on the following characteristics of an ethical organisational culture:
1. **Moral discussability:** Are there sufficient opportunities in the organisation to discuss issues that relate to ethics and integrity? And is action taken to address such issues?

2. **Moral support:** To what extent do respondents experience trust and respect in their working environment, and to which extent do they identify with and support the organisation's norms and rules?

3. **Sanctionability**: Is unethical behaviour consistently addressed and penalised? Is ethical behaviour valued and rewarded?

4. **Fairness:** This concerns matters like fair remuneration, equal treatment and an objective decision-making process. Scientific research has found that a positive correlation exists between the extent of fairness experienced by staff members in the organisation and the extent to which they behave ethically.
5. **Helpfulness:** When staff members are engaged with the organisation, when they help each other in their work and take a personal interest in each other, that has a positive impact on the integrity of the organisation. Conversely, when that engagement is lacking, this can put the integrity of the organisation in jeopardy because people are indifferent to the state of the organisation.
6. **Clarity** of rules and responsibilities: are the procedures and responsibilities clearly defined for the staff members?

7. **Feasibility:** Can the staff members implement their tasks in an ethical and responsible way?

8. **Exemplary behaviour by direct managers:** do the staff members' direct managers set the right example in terms of behaving ethically; do these managers keep to their word and do they act honestly, reliably and responsibly?

9. **Exemplary behaviour by team of directors:** Do the directors set the right example in terms of behaving ethically, and do they clearly and persuasively communicate the importance of ethics and integrity?

Table 5.1 shows the average scores for these nine dimensions of an ethical organisational culture for all respondents, broken down by sector. The IIA members in the survey generally expressed that they feel part of a good ethical organisational culture: the average score for all cultural dimensions combined for all respondents came to 4.6, which is a good score. The scores for each of the individual sectors were also good.

The most remarkable findings are the moderate scores reported by the IIA members for two dimensions of an ethical organisational culture: sanctionability and fairness in the organisation. A slightly lower score for sanctionability is not an unusual outcome for surveys at Dutch organisations, so this may point to a pattern in Dutch organisational culture. The slightly lower score for perceived fairness may relate to the fact that internal auditors have access to extensive information from the business, which enables them to easily identify inequalities between people. So because of their position, internal auditors may observe more unfairness in the organisation than others.

Table 5.1 *Ethical organisational culture*

	Public / semi-public sector	Services	Manufacturing, trade and transport	Other sectors	**All respondents**
Moral discussability	4.7	4.9	4.8	5.0	**4.8**
Moral support	4.5	4.6	4.3	4.3	**4.5**
Sanctionability	4.1	4.2	4.1	4.2	**4.2**
Fairness	4.3	4.6	4.3	4.4	**4.4**
Helpfulness	4.5	4.6	4.4	4.7	**4.5**
Clarity	4.8	5.0	4.7	4.8	**4.8**
Feasibility	4.8	4.8	4.8	4.6	**4.8**
Exemplary behaviour by direct manager	4.6	4.9	4.8	4.9	**4.8**
Exemplary behaviour by team of directors	4.5	4.6	4.4	4.4	**4.5**
Average ethical organisational culture	**4.5**	**4.7**	**4.5**	**4.6**	**4.6**

Key

	Moderate score
	Good score
	Very good score

6 In conclusion

The aim of this report has been to show why moral courage is important for internal auditors, what dangers they face in performing their work, how you can make courage small, and what can help you to act courageously. We hope that this report will make a contribution to:
- recognising critical situations that require courage;
- recognising dangers;
- recognising that these dangers are largely predictable;
- defining a repertoire of possible courageous actions;
- identifying tools that support courageous action.[101]

Policies, guidelines, awareness-raising sessions, e-learning, training courses and workshops are important instruments to help prioritise compliance and integrity and reinforce the moral judgment of staff members. However, if the issue of moral courage is not explicitly addressed, there is the risk that some of these efforts to counteract unethical behaviour will remain theoretical and have no effect in practice. The philosopher Iris van Domselaar even believes it is downright naive to think that the problem of unethical behaviour in organisations is solely caused by a lack of understanding of what is the right thing to do. 'Conventional enforcement tools will not be effective if organisations … do have professionals who are able and willing to personally face risks. The emphasis on conventional tools ignores the fact that organisations … have obstacles that need to be overcome. If employees or members of the Supervisory Board or Executive Board are unable to do so, their professional ethics will be toothless, an empty shell.'[102] Therefore, we need to highlight the importance of moral courage, in order to bridge the gap between making judgments and acting on them. And to translate knowledge into action in practice. That involves helping staff members expand their behavioural repertoire when it comes to saying no, raising difficult issues, and putting sensitive matters on the agenda.

As Henk van Luijk once put it, integrity is just like happiness: you can travel a fair distance towards it on your own, but you get much further by making your way together. The exact same thing holds true for moral courage. We therefore conclude our report with a recommendation: discuss this issue, help each other and learn from each other.

To this end, you can use the following intervision exercise. [103] When you do this exercise, you should emphasise from the outset that courageous action does not have to involve great and memorable deeds. In fact, the aim of the exercise is to make moral courage small.

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101 Cf. Gentile (2011).

102 Van Domselaar (2013): 33.

103 This exercise was developed by Karssing and Wirtz (not documented) for the workshop on moral leadership at the 'leadership parade' (Leiderschapsparade) on 18 June 2012.

Give an example from your professional practice where you acted courageously.
- What was the situation?
- What did you do and what did it accomplish?
- Are you happy with this?
- What made it difficult for you to take this action?
- What made it easier for you to act; what tools helped you to act courageously?

Give an example of a situation where you failed to act courageously.
- What was the situation?
- What was it you failed to do that you felt you ought to have done? (you don't have to defend yourself; the question here is what you would ideally have done)
- Why are you unhappy with this?
- What made it difficult for you to take this action?
- What would have helped you to nonetheless take this action; what tools would have helped you to act courageously?

Discuss the examples with each other. After one person gives an example, the other participants can ask factual questions and offer suggestions for how you could act differently in such a situation. The following should be identified:
- The 'dangers' that were present in the example.
- The behavioural repertoire (what can you do, what is a good approach?).
- The tools that support courageous action (what can help you with this?).

Based on the answers to the third question, you can then formulate recommendations for management regarding en-courage-ment policies.

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8 About this study

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For questions about the study, please contact:

NYENRODE
BUSINESS UNIVERSITEIT

Edgar Karssing
Nyenrode Business University
Postbus 130
3620 AC Breukelen
Tel.: +31 (0)346 291390
e.karssing@nyenrode.nl