

# Factsheet: Internal Auditor in Trouble

Internal Auditors have a more difficult job than most people realise. There is difficulty in being independent when you are part of the organisation. And the dilemma of looking for weaknesses within an organisation, while at the same time collaborating and partnering with management.

Then there is the difficulty of having two masters – reporting functionally for operations to the Audit Committee and administratively to the Chief Executive Officer. In some instances, the Chief Audit Executive (CAE) might reach a different conclusion from management, through their broader perspective of issues in the context of the organisation's strategic direction.

In some situations, these pressures can be job-threatening. It may be pressure applied by management or the Audit Committee. It may be an ethical question where an Internal Auditor needs to consider their future in the organisation. Or the internal auditor may discover something contrary to the organisation's values or something illegal is occurring. Sometimes Internal Auditors are blamed for shortcomings of management, for example: 'Why didn't Internal Audit find the fraud?'

The result can be an Internal Auditor losing their job, on a number of pretexts, whether it's a redundancy because of an 'organisational change of direction', or based on an ethical matter forcing an Internal Auditor out.

This Fact Sheet seeks to provide practical guidance to Internal Auditors facing this situation.

## What to do?

### 1. Have a strong Internal Audit Charter and associated delegations

Many contemporary Internal Audit Charters reflect dual reporting lines for the CAE, including to the Audit Committee, and have clear provisions that require Audit Committee endorsement for any changes to the CAE (including dismissal). CAE delegations should be broad enough to undertake the Internal Audit Plan, and clear when the approval of others is necessary.

### 2. Work within your authority

In conducting your audits, operate within the mandate and safeguards provided in the Internal Audit Charter, the Internal Audit Plan approved by the Audit Committee, each audit engagement plan approved by the CAE, and delegations of authority.

### 3. Comply with the organisation's policies and values

Understand the organisation's policies and values associated with your work, and obtain appropriate clearance for any activities that may breach the policy (actual, perceived or potential), or which may be inconsistent with organisational values. For instance, undertaking physical or logical surveillance of individuals (assuming that this is lawful in the State or Territory in which the Internal Auditor is based) might be consistent with an audit objective or process, but might not be permitted without prior delegated approval.

### 4. Try to recognise where a matter may be unfolding

This may sound easier said than done, but Internal Auditors are generally attuned to uncertainty, and often have a 'radar' that can pick up signals. But don't blow a perceived issue 'out of proportion', particularly if your team leader, CAE, or other stakeholder provides well-reasoned feedback.

### 5. Try to anticipate the 'politics of the matter'

The Internal Auditor may be morally 'in the right', but that doesn't mean it will be well-received when the Internal Auditor brings it to the attention of management. Understand and respect the 'chain of command', and seek CAE and / or Audit Committee guidance (or perhaps IIA–Australia guidance if you are the CAE), before navigating around 'an obstacle' within that command structure. Be smart about the politics and think before you act.

### 6. Gather evidence

Collect and retain relevant evidence about the matter, including hard copy documents, electronic documents, and e-mails. Keep evidence in a safe location, ensuring that you take demonstrable steps to comply with the requirements of

the organisation's confidentiality provisions which may apply to you. Be aware that, in the event of a sudden dismissal, you might be 'marched out' of the building immediately, with no time to collect your personal possessions, which would then be sent to you separately. In these circumstances, note that you may be required to return the organisation's property, which may include the evidence that you have collected. This may be at the request of the organisation, or it may be an automatic obligation under your contract of employment.

### **7. Keep written notes of discussions**

Keep written notes of all meetings and discussions, including dates, times, people involved, what happened, what was said, and what was agreed. Be reasonable, objective and unbiased in your notetaking. Try to always have another person with you for meetings and discussions and, if possible, have them sign your written notes or provide their own notes.

### **8. Do not sign anything**

If management ask you to sign anything, do not do so until you have had sufficient time to review what you're asked to sign, and ideally it has been independently reviewed, for example by a lawyer. Management may ask you to sign a record of a discussion immediately after a distressing meeting. Although you may have a duty to comply with the organisation's lawful and reasonable directions, you cannot be compelled to sign certain documents unreasonably so it is advisable that you seek legal advice.

### **9. Keep a chronology of events**

Maintain a timeline of all interactions – record the dates, times, people involved, what happened, what was said, and what was agreed. Cross-match to authorisations / approvals and other evidence gathered.

### **10. Understand your rights**

Read your employment contract, the organisation code of conduct, and the whistleblowing process. Read up on your employment conditions and entitlements – understand your rights and the organisation's obligations under the grievance process, dismissal and appeal processes, and especially any mandatory reporting requirements of staff. Likewise, understand your obligations to the organisation so that you can ensure that you are in a position to comply with what will be required of you as an employee of the organisation.

### **11. Get ready**

Get your CV in order, obtain up-to-date references, research the job market, and start to network with Internal Audit professionals.

### **12. Use neutral communication methods**

If discussing the matter, be mindful that the organisation will likely own the work-related IT and telecommunication systems, so any of your communications using these means may be accessed by them (subject to their policies and surveillance legislation in the relevant State or Territory).

### **13. Talk only to people you trust**

Even when there may be designated reporting mechanisms within an organisation, be aware that Internal Auditors have come unstuck when using a prescribed approach. One potential option may be the organisation's external auditor.

### **14. Find support**

At a difficult time, it is generally helpful to talk with someone – if you know someone who has been through something similar, start there – or contact the IIA–Australia, who may be able to connect you with someone who could share their experience. The Ethics Centre has an Ethicall service and may be able to provide advice. For severe crisis support, free help is available through specialist services like Lifeline.

### **15. Reporting to authorities**

It's a big step to report a matter to authorities such as ASIC, APRA, Ombudsman, independent corruption bodies, or professional bodies. In many cases, reported incidents may take a long time to be investigated, if at all. Understand it won't be over quickly.

### **16. Contacting the media**

It's an even bigger step to contact the media which has had an adverse effect on many people, even when they believed they were 'in the right'. Most organisations have strict confidentiality or secrecy provisions that require compliance, even after you leave their employment. Be aware contacting the media may not be the most sensible course if you have been dismissed and may constitute a breach of your ongoing employment obligations. Seek legal advice first.

### **17. Due process and procedural fairness**

In the event of dismissal or other sanction, ensure your rights to due process and procedural fairness have been provided. You usually have the right to respond to specific allegations and to know who made them, and to comment on any proposed sanctions before they are finalised. Speak to the Audit Committee chair.

### **18. Important documents**

If dismissed, make sure you request any relevant documents, which may include warning letters, termination letter, a copy of any investigation reports and decision documents, calculation of termination payments, group certificate payment summary, statement of service, reference if it will be given. You may also ask colleagues if they will provide a reference. Note however that some organisations will not provide all of these documents (e.g.: investigation reports and references), and they may not all be relevant to your circumstances.



## **19. Legal options**

Consult with your union and / or legal representative to determine your options to take the matter before the courts, to the Fair Work Commission, or through other legal avenues. Be aware that strict time limits can apply to bring certain claims so make sure you seek legal advice promptly.

### **IIA–Australia Assistance**

IIA–Australia financial members at the time of a matter can have one free 30-minute consultation with a specialist employment lawyer from Mills Oakley.

For an appointment, contact the IIA–Australia on 02 9267 9155 or [IAassist@iaa.org.au](mailto:IAassist@iaa.org.au)

### **Other Assistance**

Fair Work Commission 1300 799 675 / [www.fwc.gov.au](http://www.fwc.gov.au)

Fair Work Ombudsman 13 13 94 / [www.fairwork.gov.au](http://www.fairwork.gov.au)

The Ethics Centre 02 8267 5700 / [www.ethics.org.au](http://www.ethics.org.au)

Whistleblowers Australia <http://www.whistleblowers.org.au/>

Lifeline Australia 13 11 14 (24 hours)

