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Those Charged With Governance (TCWG) responsibilities for implementing internal controls:

TCWG have a corporate duty to maintain proper accounting records and prepare financial statements that give a 'true and fair view' of their business affairs. The Indian Companies Act, 2013 tasks the Board to prevent and detect fraud and error and prepare timely and accurate books of accounts. For any Board or executive, achieving 100% assurance against fraud and error is impossible. However, implementing sound internal financial controls may reduce the likelihood of such occurrences.

TCWG should take steps to prevent and detect fraud, and these may include:

- Creating a culture of honesty and ethical behaviour, including setting a proper tone across the organisation.
- Developing an appropriate internal control environment.
- Hiring, training and promoting competent employees.
- Requiring periodic confirmation by employees of their responsibilities and taking appropriate action in response to the actual, suspected or alleged fraud.
- Periodically inquiring whether the internal auditors are receiving good cooperation, and if there has been any hostility or wilful non-cooperation, may set the right tone. This is best done when the ACB meets with Internal Auditors one-on-one without the presence of the executive management.

In this context, it becomes significant to analyse the behavioural characteristics of Auditee Organisations (from now on referred to as **AO/AOs**) at the time of audit project onboarding, planning and execution stage, whether their behaviour is aligned to ethical values, desired outcomes and most importantly whether their attitude towards auditors is satisfactory or more than satisfactory.

Top 10 indicators for AOs to monitor

Much has been written about the behavioural attributes of a successful internal auditor. There are standards prescribed by leading professional bodies on the desired behavioural characteristics of an internal auditor. This article lays down elements and attributes expected from organisations that are recipients of internal audit activities. The writer attempts to differentiate the characteristics of an AO by using two classic words (in between) AO – Welcoming (W) or Resisting (R) to make it AWO or ARO. Taking this logic further, one may classify Auditee Organisations, into a) Audit Welcoming Organisations say AWO, or b) Audit Resisting Organisations say ARO. Indicators and characteristics that are experienced by internal auditors while performing their internal audit missions are:



SR No.	Indicator/Characteristics	Label
1.	IA scope in writing and well communicated to all stakeholders.	AWO
2.	IA team hiring style like a typical vendor onboarding process.	ARO
3.	IA agenda setting through stakeholders' consultations and consensus building on key risks that need to be assessed.	AWO
4.	Self-introspection by business managers and a reasonable level of participation in IA activities.	AWO
5.	Last moment data sharing and expecting immediate audit output.	ARO
6.	Restricting direct access to Systems & Applications and making auditors dependent on data provided by auditees.	ARO
7.	Passing trivial remarks concerning audit matters.	ARO
8.	Allocating quality time to discuss audit findings and promptly acting upon the auditor's recommendations.	AWO
9.	Management spending time to re-rate the audit findings.	ARO
10.	Irregular and delayed action taken on auditor recommendations resulting in continuing control deficiencies.	ARO

The journey from ARO to AWO: Paradigm Shift Required?

Organisation culture and mindset are complex intangibles to manage. These are further complicated on account of growing attrition rates and information expectations of internal auditors. The journey of AROs towards becoming AWOs can be chalked out in consultation with internal audit teams/heads of audit on a brick-by-brick basis, and it is a long-term project demanding investments and resources. Learning and development programmes targeted at auditee behaviour improvements, such as personal code and ethics, could be a good starting point. Further, AOs should consider internal audits as a continuous improvement journey and not a one-time event that would threaten job security and increments/promotions of employees; such actions would create discomfort for the auditees and increase their resistance towards internal audit activities. Key resistance indicators such as job loss and bonus denial due to adverse internal audit comments should be de-linked to create a more positive environment where people are encouraged to participate in the 'benefits-realisation' from internal audit activities.

The management may steadily assimilate the culture of taking the Internal Audit function as one of the key pillars for process and system improvements, which would add value to the organisation in the long run rather than considering Internal Audit as a mere compliance function.

Board of Directors and Audit Committees acknowledging any improvement in audit rating on repeat audits may encourage AOs to implement recommendations and seek the guidance of internal auditors.

Executive management ensuring that the Internal Audit team participates in Corporate HR activities, such as sports events, quizzes, festival celebrations etc., would go a long way in reducing the barriers between the IA and the AO, creating an environment of open communication, mutual trust and respect. While this opportunity is often extended to in-house IA team, it is seldom extended to outsourced IA teams, thereby keeping the "internal" auditors as outsiders.

Culture risk assessment is one of the best practices to identify gaps in the ARO and as also the root causes leading to audit resistance. Often, it may be only a few individuals driving toxic actions, and if the executive/governance teams identify such individuals early, it can lead to better cultural outcomes. From an ongoing monitoring perspective, targeted audit and risk culture surveys on a regular basis and specific information disclosures in the internal audit reports on the audit and risk culture of the organisation could go a long way in the ARO transforming itself into AWO.