

Towards a global Code of Ethics for a global internal auditing profession

Sridhar Ramamoorti

Sridhar Ramamoorti, PhD, ACA, CPA/CITP/ CFF, CFE, CFFA, CFSA, CGAP, CGFM, CIA, CICA, CRP, FCPA, is Associate Professor of Accounting and Director, Center for Corporate Governance, Kennesaw State University, Kennesaw, Georgia, USA. From 2008-2011, Dr Ramamoorti served as Co-Chair of the IIA Research Foundation's Global Common Body of Knowledge (CBOK) 2010 study. He is currently a member of the IIA's Global Ethics Committee and was a member of the Institute for Business & Professional Ethics at DePaul University from 2006-2010.

The views and opinions expressed herein are the author's own and do not necessarily constitute the views of the IIA's Global Ethics Committee or the Institute for Business & Professional Ethics, DePaul University.

In this article the author attempts to paint with a broad brush and highlight the complications arising from viewing the IIA Code of Ethics in a global context. Language, culture and local laws and regulations can significantly impact how ethical behavior of internal auditing professionals is analyzed, understood, and when necessary, investigated for propriety. In this regard, the cultural anthropology concepts of emics (the insider's perspective) and etics (the outsider's perspective) of a culture influencing an individual's ethical stance and corresponding behavior, are discussed. Indeed, it is asserted: "How to bridge the gap in emic/etic perspectives?" might arguably be the most important question to ask when developing a global code of ethics for any global profession.

"The quality of moral behavior varies in inverse ratio to the number of human beings involved."
Aldous Huxley (1894-1964)¹

In 2010, the Institute of Internal Auditors (IIA) Research Foundation published six reports as part of a large-scale effort to formulate a common body of knowledge for the global internal auditing profession.² The second iteration follows the first global effort carried out under the auspices of the William G Bishop III

Memorial Fund in 2006. Increasingly, the rapid pace of globalisation requires internal audit professionals to possess a more sophisticated "global mindset". This mindset includes not only the traditional technical dimensions of internal audit practice, but also its ethical foundations. And as most of us know, these ethical foundations (and associated interpretations) can vary from country to country or, more precisely, from culture to culture, and from language to language. Referring back to the opening quote by Aldous Huxley, with the IIA's international membership crossing 170,000 in over 160 countries in its 70th year of existence, perhaps we do need to ask how adequate the IIA's current Code of Ethics might be in this global context.

Let us re-visit the IIA's Code of Ethics that all members of the IIA must abide by, whether or not Certified Internal Auditors (CIA). The International Professional Practices Framework (IPPF) presently features the following four basic principles within the Code of Ethics, namely: integrity, objectivity, confidentiality and competency (see Appendix). However, these principles are expressed at an exceedingly high level of abstraction. They are so general that it may be difficult to apply them effectively in a global environment. Consider, for instance, that they hardly take account of intuitive observations such as: "When in Rome, behave as the Romans do." Indeed, it is a fair question to ask: What exactly is one supposed to do in Rome? Further, is this question best asked and answered in Italian?

Understanding cultures and languages other than one's own

To help address this high level of abstraction, let us borrow some important concepts from cultural anthropology. Linguistic anthropologist Kenneth Pike drew an important distinction between the insider's view, or *emic* perspective of a social or cultural system, and that of an outsider's view, or *etic* perspective of a

social or cultural system.³ *Emic* refers to the array of categories (and their systematic relationships) through which the bearers of a particular culture perceive the world and attach culturally specific meanings to their activities.^{4,5} The *emic* perspective focuses on the intrinsic and perhaps nuanced cultural distinctions that are subjectively meaningful to the "natives" of a culture; indeed, native members of a culture are the sole judges and final arbiters of the validity of an *emic* description.

Conversely, the *etic* perspective relies on the extrinsic concepts and categories that have objectively determinable meanings for (non-native) observers. These scientific observers, or outsiders, are often regarded as the impartial judges of validity of an *etic* account; indeed, an *etic* perspective frequently trumps any *emic* perspective held by the native. As for native members of a culture, their *emic* perspective often disallows even the legitimacy of taking an *etic* perspective.

A basic understanding of the *emic* and *etic* perspectives can function as an essential starting point for internal auditors who practice in global settings. Using the field anthropologist's "participant-observer" technique, they try to participate in a foreign culture while simultaneously trying to observe themselves and others objectively, achieving a sort of double vision, viz, "the insider's view balanced by the outsider's view."⁴ Effectively using the participant-observer technique is harder than one might think. Benderly, Gallagher & Young perceptively observe: "No two people do things exactly alike, and no one lives by the rules all the time ... Thus, there are various levels of rules or systems: things people say they do; things they say they should do; things they really do; ways they bend the rules without actually breaking them; ways they break the rules and get away with it; and the ways they feel about all this."⁴

Nevertheless, by understanding the *emic/etic* perspectives gap, internal auditors who find themselves outside of their own

culture on particular engagements would likely find partnering with internal auditors native to the local culture to be quite useful. Presumably, these internal auditors would be aware of not only their *emic* perspectives as native members of their culture, but also the *etic* perspectives typically held by non-native practitioners in the broader global professional community.

There is another complicating factor: language. After all, language and culture are two sides of the same coin, and each language embodies a worldview, with different languages embodying quite different views. In other words, speakers of different languages carve up the world and its abstract and concrete contents and categories in recognizably different ways. Because local laws and regulations may be written in languages other than English, it is frequently necessary to engage local attorneys to understand and clarify the interpretation of the finer points of local laws and regulations.

The Whorf-Sapir hypothesis argues for linguistic relativism; that is, large differences in language lead to large differences in experience and thought. Consider the remarkable assertion by Whorf: “no individual is free to describe nature with absolute impartiality but is constrained to certain modes of interpretation even while he thinks himself most free.”⁶ Clearly, this statement has serious consequences when defending against any noted bias in the investigation of an alleged violation of the IIA Code of Ethics. Much depends on the specific situation in question and the contextual understandings thereof by both the actor(s) and investigator(s) involved.

Understanding ethical differences using *emic/etic* frameworks and linguistic relativism

To begin understanding cultural differences is a good first step. But, ultimately, bringing reconciliation to complex cultural differences often brings us into conflict with

deeply held ethical beliefs and practices, and their linguistic underpinnings. These ethical practices are often embedded within the context of centuries-old cultural norms and developments in local language and dialects. In this regard, Schein’s “three levels of organizational culture” can be instructive, viz artifacts (surface features; observable), espoused values, and basic assumptions and values (at a deeper unconscious level, hence difficult to discern).⁷ Ethical dilemmas which arise from these conflicts are most keenly experienced by internal auditors from non-Western cultures who hold themselves to (objective) professional codes of ethics on one hand, yet understand the historical and philosophical underpinnings of centuries-old ethical practices on the other. Despite being the most open-minded auditor possessing an “ecumenical intuition” about culture and language, actually achieving reconciliation and a consensus understanding under these circumstances can be a formidable and daunting challenge.

First we might inquire about the cultural source of professional codes of ethics. It seems that any professional code of ethics would have emerged initially in the culture, including long-standing religious traditions, from which the profession originated. Thus, the origin of the IIA Code of Ethics (the Code), for instance, would likely be traced to the United States where the IIA was founded in 1941. The historical and philosophical underpinnings would be western and Judeo-Christian for the simple reason that most early IIA members subscribed to Judeo-Christian beliefs and traditions.⁸ And everything was, of course, expressed in American English. To internal auditors native to cultures that share these underpinnings, holding to such a professional code of ethics might seem like the natural thing to do, indeed, as natural as common sense based on everyday experience. This view would be an *emic* perspective. But, when internal auditors from these cultures seek to apply the Code in a global context that involves

other cultures and languages which do not share these underpinnings, the Code will not necessarily be viewed as neutral by members of those cultures. Instead, the Code, while appearing objective to some, may appear biased to others and be viewed as an *etic* perspective and potentially subject to rejection. Anthropologists would tend to agree that “[Outsiders tend to] examine the same situation in a wider context [and] have a fuller sense of pattern, look at wider ranges of cause and effect, and hence see from different focal lengths.”⁹ Thus, it would appear that the *etic* perspective, being more comprehensive, would prevail because of its universalistic orientation in the long run.

Nevertheless, we must be realistic and recognize that while the outsider’s so-called objectivity seeks to support fairness in outcomes, it does not necessarily guarantee such fairness. The importunate question “fair to whom?” keeps lurking in the background, and the answer remains the prerogative of those most affected by the application of a presumably “universalistic code” in a specific set of circumstances. Thus: “How to bridge the gap in *emic/etic* perspectives?” is arguably the most important question to ask when developing a global Code of Ethics for any global profession. Nowhere is this challenge more evident, both ethically and legally, than in the global application of the United States’ *Foreign Corrupt Practices Act of 1977*, and more recently, the United Kingdom’s *Bribery Act 2011*. For, it is quite evident that different countries and cultures have varying interpretations of what “bribery and corruption” mean, how well the terms translate in local languages, and what sort of punishment and/or sanctions are appropriate in specific situations.

The extent to which an internal auditor can understand *emic* perspectives of another culture tends to be a function of his or her experience living within that culture by forming potentially long-term relationships with native members of the culture. But

even with extensive experience, such an individual will likely remain an outsider to some extent for one almost has to have been born and raised, or at least arrived at a very early age, to be considered native. This point is important to remember as there will always be something new to be learned about another culture. Such learning will never stop, so maintaining an open mind becomes critical.¹⁰

Sometimes people who have chosen to live within another culture and succeeded in becoming full members are described as “having gone native” by members of their former culture. There appears to be a shortage of professionals possessing unwavering integrity and capable of exercising sound judgment in globally diverse contexts. Clearly, moral courage is an essential ingredient owing to the expectation that such professionals can and will “speak truth to power”.¹¹ Such behavior can be regarded as the hallmark of a true professional.

And what about the law?

Around the world, broadly speaking, four legal systems seem to prevail: common law (British), civil or Code law (Napoleonic Code), socialist law (China today), and Islamic law (prevalent in the Middle Eastern countries). Civil law derives its inspiration from Roman law and the Code of Justinian. The most widespread system of law in the world, civil law is in force in various forms in about 150 countries. Its goal is to provide all citizens with an accessible and written collection of the laws which apply to them and which judges must follow.¹² Common law systems, in contrast, favour the concept of court precedence on the principle that it is unfair to treat similar facts differently on different occasions. Socialist law rarely derives much inspiration from religious sources, while Islamic law or Sharia relies greatly on the precepts set forth in the Quran, and the example set by the Islamic prophet Muhammad in the Sunnah. There is no question that whatever the legal system, its contents and interpretation are greatly

influenced by the language in which it is enshrined and communicated. So, the issue of “lost in translation” is a real problem, and must be considered when reviewing whether local laws trump the IIA’s Code of Ethics.

Concluding remarks

EB White playfully observed: “There’s no limit to how complicated things can get on account of one thing leading to another.” In this short article, I have tried to paint with a broad brush and highlight the complications arising from viewing the IIA Code of Ethics in a global context.

Language, culture, and local laws and regulations can significantly impact how ethical behavior of internal auditing professionals is analyzed, understood and, when necessary, investigated for propriety. In this regard, the cultural anthropology concepts of *emics* (the insider’s perspective) and *etics* (the outsider’s perspective) of a culture influencing an individual’s ethical stance, and corresponding behavior, were discussed in some detail. It was suggested that internal auditors working in global contexts might usefully adopt the field anthropologist’s toolkit, viz the “participant-observer” technique. Utilizing the constructs presented by Schein⁷ of the “three levels of culture” could be extremely useful in appreciating the surface features, and deeper, unconscious bases where basic assumptions and values reside, and are correspondingly quite difficult to discern. While appealing in theory, applying the participant-observer technique in practice could present a serious challenge to internal audit practitioners.

In the 21st century, the IIA constitutes one of the truly global professional organizations featuring representation from all major continents. So it seems to me there is a wonderful opportunity to evaluate the existing IIA Code of Ethics from different angles using the perspectives mentioned in this article, as well as others. The task seems endless, and the complexity is immense, but we have already started on this journey and

there is every promise that the efforts of many dedicated professionals around the world will make this evolving process exciting and worthwhile for future generations.

Acknowledgements

This article is submitted to honor the memory of my father, the late Mr GR Moorti, fondly referred to as the “father of modern internal auditing” in India, who passed away on 17 November 2011. I would like to thank Mr R Luke Evans, Dr George W Krull, Mr David MacCabe, and my sister, Usha Balakrishnan, for their helpful comments on earlier versions of this article.

APPENDIX: the IIA Code of Ethics

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Principles

Internal auditors are expected to apply and uphold the following principles:

1. Integrity

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

2. 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.

3. 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.

4. Competency

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

Rules of Conduct

1. Integrity

Internal auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.
- 1.3. 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.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

2. Objectivity

Internal auditors:

- 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
- 2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. Confidentiality

Internal auditors:

- 3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

4. Competency

Internal auditors:

- 4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- 4.2. Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

- 4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.

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In Memoriam

**SHRI GR MOORTI, MA, BCom, LLB, FCA
(ex-Glaxo, ex-Wockhardt, retired in Chennai, India)**

December 22, 1927 - November 17, 2011

"As rivers flowing to the sea discard their names and forms, so the person of spiritual knowledge, liberated from name and form enters into that celestial Being who transcends all." Mundakopanishad, III, 2.8



Victor Frankl, Austrian neurologist, psychiatrist, and author of "Man's Search for Meaning" observed: "that which is to give light, must endure burning." Shri Guruswami Ramamoorti was such a candle. His life illustrates the Buddhist adage: "Thousands of candles can be lighted from a single candle, and the life of the candle will not be shortened. Happiness never decreases by being shared."

Starting his career with Indian Oxygen, he soon joined Glaxo Laboratories (now GlaxoSmithKline), the British pharmaceutical giant. After spending over a decade as Branch Accountant in New Delhi, he was promoted to Chief Internal Auditor at Glaxo HQ in the early 1970s. Internal auditing was still in its infancy as a profession in India, and working with dedicated professional colleagues, he went on to establish chapters of the Institute of Internal Auditors (IIA) in Bombay, Pune, Bangalore and Chennai. For 12 years, from 1974-1986, the official address of the IIA in India was National Secretary Shri GR Moorti's home address!

He was described as the "father of modern internal auditing in India" and was greatly moved when, in 2009-2010, Mr Roderick L Winters, IIA Chairman of the Board and General Auditor of Microsoft Corporation, publicly honored him by presenting him with a plaque for his outstanding contributions to the profession. Upon retirement from Glaxo in 1986 as an experienced pharmaceutical industry veteran, Shri GR Moorti soon found for himself a management consulting opportunity with Wockhardt Pharmaceuticals. He continued to be listed as an Advisor to the Board of Governors of the IIA-Chennai Chapter at the time of his death.

IIA-Australia wishes to acknowledge the passing of Shri Guruswami Ramamoorti, may his candle continue to burn.