

Design of 'Management-Level Control Questionnaire' based on insights from Vālmīki Rāmāyaṇa

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Abstract:

Management controls, also called 'Entity-Level Controls (ELC)', represent the 'tone at the top' of an organisation. Existing questionnaires used by auditors to assess the effectiveness of Management Controls do not include essential cultural aspects. This qualitative inductive study explores the Indian Knowledge System (IKS) to obtain insights into the Management Controls' assessment. Based on a systematic textual study, the 100th Chapter from Ayodhya Kanda of Vālmīki Rāmāyaṇa has been selected as the pilot source for developing the questionnaire.

Initial findings provide 158 questions spanning well-being, happiness, deep competency, finance, legal, and sustainability. These leading enquiries help initiate an open-hearted conversation between the auditor and the managing executives. This would help auditors to determine the nature, timing, and extent of audit procedures and to form an audit opinion.

Keywords: Entity-level controls, Finance Governance, Rāmāyaṇa, Indian Knowledge Systems, Arthaśāstra, Rāmarājya.

1.0 Context and Introduction:

The Indian banking system has been hit with four major corporate fraud cases, viz., the ABG Shipyard's INR 22,842 crore loan fraud, the INR 11,400 crore Nirav Modi scam, Vijay Mallya's INR 9000 crore money laundering scandal, and the IL&FS group fiasco, which cost INR 9900 crore. As per the 'Occupational Fraud 2022: A Report to the Nations' by the Association of Certified Fraud Examiners, organisations lose 5% of their revenue to fraud yearly, projecting a global loss of \$ 4.7 trillion. With technological advancements, accounting and auditing have become more complex, making it challenging to detect anomalies. Within the gamut of

Internal Controls, the 'Management Controls' are significant since they represent the top-level controls. Strong entity-level controls can mitigate downstream inherent risks (Premuroso, R.F. and Houmes, R. 2012). Weak entity-level controls can lead to material misstatements in the company's financial statements (Controller's Report, 2015). Existing auditing questionnaires do not extensively cover areas like well-being, happiness quotient, respect, Dharma, personal practice, personal traits, scriptural knowledge, confidentiality, etc. Hence, there is a need to supplement existing questionnaires with insights from time-tested civilisations which took pride in successful empires and large organisations. Vālmīki Rāmāyaṇa contains the wisdom and evidence of Rāmarājya, considered the benchmark of good governance based on social justice, non-violence and self-reliance. (Desai Meghnad, 2011). Hence, insights from such governance may be helpful to existing knowledge and practices. In this study, the authors explore the conversation between Rāma and Bharata in Vālmīki's Rāmāyaṇa, where Rāma discussed Management Governance aspects through 70+verses. Around 158 questions are derived from these verses, which would be helpful for the Management Control discussion between auditors and chief executives. These are coded into various functions and categories. Compared to current questionnaires, these questions use simple language, explore new topics, and are appropriate for a thorough conversation. Such conversations would help the auditor to qualitatively assess the 'tone at the top' and determine the nature, timing and extent of audit procedures.

2.0 Importance of Management Controls (a.k.a Entity-Level Controls-ELC):

The US Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB) directed companies to follow a top-down, risk-based approach to compliance with a strong emphasis on entity-level management controls rather than transactional controls. (Gerkes J et al, 2007). As per paragraph 22 of the Auditing Standard 2201 issued by PCAOB, 'the auditor's evaluation of ELC can result in increasing or decreasing the testing that the auditor otherwise would have performed on other controls.'

3.0 Problem & Research Gap:

Existing questionnaires are technical in their approach and are less human-oriented. They are filled with risk management jargon and are prescriptive in nature. They do not cover the cultural setting in which the Indian Businesses operate. Hence, the existing questionnaire must be supplemented with aspects of the Indian Knowledge System (IKS) while addressing the above challenges.

4.0 Research Methodology and Approach:

The first step in this qualitative inductive study involves a 'textual analysis' of Vālmīki's Rāmāyaṇa. Through this, the 100th chapter of the second section (Ayodhyā Kāṇḍa) is selected. This chapter has around 76 verses, which are converted into 158 questions based on authentic commentaries and translations. This avoids any translation or interpretation bias by the authors. In the second step, these questions are conceptually abstracted through open, axial, and selective coding using the Grounded Theory technique. At the end of this task, the 158 questions are scaled into 8 functions (open coding) consisting of 21 categories with 49 overlapping, interrelated sub-categories (axial coding). The third step involves applying principles of hermeneutics. In this stage, the questions and the categories are tailored for Management control assessment by following the principles of the 'hermeneutic circle' and 'fusion of horizons' methods.

Table No.1: Main categories and number of questions abstracted from the verses of Chapter 100 of Ayodhyā Kāṇḍa of Vālmīki's Rāmāyaṇa

Function	Main Category	Total Questions
1. Finance	Finance	25
	Finance Total	25
2. Human Resources	Respect	9
	Happiness	6
	Workforce comfort	5
	Deep Competency	5
	Well-being	3
	Workplace Comfort	3
	Whistleblower Facility	3
	Staffing	3

Human Resources Total		37
3. Leadership	Board Of Advisors	10
	Leadership presence	4
	Character of Leader	3
	Independence	2
Leadership Total		19
4. Legal	Justice-Legality	12
Legal Total		12
5. Operations	Operations	2
Operations Total		2
6. Security	Security	18
	Confidentiality	14
	Beware of Mischief	7
Security Total		39
7. Sustainability	Sustainability	12
Sustainability Total		12
8. Vision & Mission	Dharma	9
	Balancing the Puruṣārthas	3
Vision & Mission Total		12
Grand Total		158

4.1 Illustration of finance-related questions extracted from verses of Chapter 100 of Ayodhyā Kāṇḍa of Vālmīki's Rāmāyaṇa

Out of 25 questions relating to Finance, 14 are given below as a sample.

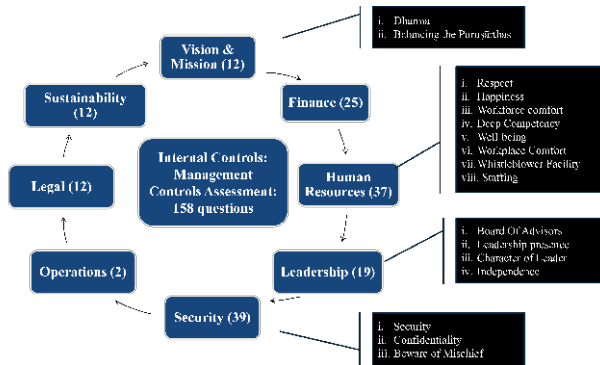
Sl No.	Question	Verse Reference	Overlapping Category	Extremely Unlike	Unlikely	Neutral	Likely	Very Likely
52	Does the finance team have experts in Finance, Accounts, Audit, and economics? (viśārada)	VR.2.100.14 ¹	Competency					
53	Do these experts also have good knowledge about defence, international affairs, foreign policies, global matters of concern, etc.? (astrasampanna)	VR.2.100.14	Knowledge, Competency					
54	Does the Senior advisory team or the finance leadership necessarily know multiple, inter-connected śāstras and not pure money matters only? For example, knowledge of Dharmasāstra (law), Nītiśāstra (ethics, values) and Arthasāstra (finance, economics) - (śrutavantaḥ)	VR.2.100.15	Knowledge, Competency, Dharma					

55	Is the finance workforce equipped with high values, ethics, and integrity with absolute incorruptibility? (jitendriyas)	VR.2. 100. 15	Dharma, Attributes, Code of Conduct						
57	Does the finance leader prioritise strategic finance stewardship during the early hours of the day? (aparātri)	VR.2. 100. 17	Timetable, Discipline						
59	Isn't the organisation practising the 'Minimum investment or efforts, with Maximum benefits or returns' principle in all aspects? (Cost Benefit Analysis, Return on Investment analysis: lāghumūlam mahodayam)	VR.2. 100. 19	Decision Making						
61	Is the project cost overrun always at zero?	VR.2. 100. 19	Non-Procrastination						
62	Hope the salary is paid on time every time to the workforce.	VR.2. 100. 32	Non-Procrastination, Salary Management						
67	Does the company have multiple sources of funds/capital and is not just dependent on unpredictable sources? (Rain-water vs Sarayū river water)	VR.2. 100. 45-46	Business Continuity Planning, Going-concern						
69	Are the income always multiple times more than expenditure? (āya > vyaya)	VR.2. 100. 54	Operations						
70	Is there a list of approved spending and prohibited spending? (satpātra)	VR.2. 100. 54-55	Operations						
71	Does the finance team ensure there is no amount spent on prohibited spending? (apātra)	VR.2. 100. 54	Operations						
74	Is the organisation aware of 20 types of leaders/ organisations with whom they may not have associations, amalgamations, etc.?	VR.2. 100. 68-70	Beware of mischief						
76	Are portions of profits distributed to all stakeholders and well-wishers and not enjoyed by the management alone? (Dividend distribution)	VR.2. 100. 75	Distribution of wealth						

Note: The entire questionnaire for 21 main categories with 158 questions is available in the complete thesis and can be obtained by requesting the author at vishvanathan@gmail.com.

5.0 Discussion Points:

The Rāmarājya Management-Level Control (RMLC) framework contains 8 functions, with 21 main categories and 49 overlapping categories. There are 158 questions that the auditor can discuss with the Chief Executives. **Picture No.1** shows the schematic diagram of the Rāmarājya Entity Level Controls Framework:



The various advantages of the RMLC questionnaire over existing Management questionnaires are summarised below:

(i) Simple language – Ease of implementation: The language in this questionnaire is simple without 'technical risk management or control framework jargon.'

(ii) Suggestive vs Prescriptive: The questions in the RMLC questionnaire are suggestive rather than imposing, which can create anxiety and dislike. The above two features help reduce potential Socially Desirable Responding (SDR) bias while answering the questions.

(iii) Ownership Assignment: The questionnaire is organised by the departments, which helps assign ownership of control activities to individual teams like Finance, Human Resources, Legal, Operations, etc.

(iv) Part of work' and not an additional job: Employees would comply with these controls as part of their routine jobs by assigning the underlying activities to the functional roles. They would not complain about additional work faced with existing frameworks.

(v) Metrics: These questions can also be converted to metrics and tracked over a longer period. For example, based on the sample finance questions, the following metrics may be derived and measured:

a. $\text{Income} > \text{expenditure}$ by multiple times. i.e., $\text{Income} =$

- Expenditure * X ($X \geq 2$). (VR 2.100.54)
- b. Returns > Investment. i.e., Returns = Effort * X times. ($X \geq 2$). (VR 2.100.19)
- c. 100% on-time disbursement of wages and distribution of food provisions. (VR.2.100.32,33)
- d. 100% satpātram spending (prescribed). (VR.2.100.54,55) (vi)

Potential solution for existing auditing challenges: Through these conversation-based questions, auditors can perform corroborative enquiry with multiple stakeholders to address contemporary challenges like (i) identifying potential collusion and (ii) ascertaining any management overrides. (vii) **Value-centric & people-oriented framework:** Dharma is the core principle of this framework. For example, Rāma asks, 'Do you share the profits with friends and well-wishers?' So, it is not just the investors and shareholders who get dividends. Recognising the role of friends and well-wishers who pray for the organisation's success is not envisaged in current business models. Rāma also lists 20 leaders with whom prudent businesses don't associate. Similarly, human values, ethics, confidentiality, happiness quotient, and well-being are also assessed. Focusing on these areas helps meet the profit (Artha and Kāma) motive and ensures compliance.

With the above advantages, the RMLC questionnaire presents a compelling case to be included in existing knowledge, methods, and practices of auditing internal controls.

6.0 Next steps and conclusion:

- (I) The RMLC questionnaire can be customised to suit different stakeholders, depending on the specific purpose they wish to evaluate. For example, the Board of Directors may modify the questions and review the organisation's Control Environment.
- (ii) Similar concepts and questions can be unearthed from other relevant chapters of the Vālmīki Rāmāyaṇa and other IKS texts like Mahābhārata, Manusmṛti, Yājñavalkyasmṛiti, Pañcatantra, Kauṭilya's Arthaśāstra and Kāmandakīya Nītisāra. These can be included in the internal audit checklists and applied suitably.

- (iii) An indigenous Internal control framework, based on Indic principles, can be formed and tested with a representative sample of small, medium and large companies. This can be included in corporate circles and academia for getting feedback and making suitable modifications.
- (iv) Thus, the best of the West and East can be combined to enhance the existing auditing experience.

7.0 References

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