Embedding a 'Reflexive Mindset' to Serve the Common Good:
Lessons from Reconfiguring the Internal Auditing Function

ABSTRACT

Auditors have commonly been perceived as the 'internal policemen' of organizations, primarily because of the application of a compliance-based Internal Auditing approach, coupled with a conformance mindset. This may hinder their effectiveness in auditing 'conduct risk' – i.e., behaviors that would cause problems to consumer protection, market integrity or competition. This paper presents the lessons from an action research inquiry designed to reconfigure the Internal Auditing Function of a branch of a global financial services institution. We explain the process of identifying the deficiencies in the existing compliance-based approach, culminating in the design and implementation of a new conduct-focused approach. We show how cultivating a 'reflexive mindset' becomes a critical catalyst in developing a different internal auditing approach that leads to the identification of misconduct, potential conduct risk and deficiencies in the organization's conduct risk management and governance frameworks. Practising reflexivity fosters a growth orientation and leadership that supersedes the 'conformance mindset'. A 'reflexive mindset' provides auditors with new capabilities to   navigate the unknown and deal with the complexities of tensions, dilemmas and paradoxes endemic in organizational life. Perhaps more fundamentally, a 'reflexive mindset' explains how it is possible for the Internal Auditing Function to serve the common good.

Keywords: Reflexive mindset, misconduct, compliance, internal audit

INTRODUCTION

Professional misconduct persists despite recurring sanctions, increasing regulations, ethical codes and adverse publicity. Organizations, despite being named and shamed, often appear to be unsuccessful in their attempts to reconfigure their practices (Gabbioneta, Faulconbridege, Currie, Dinovitzer and Muzio, 2019; Mohliver, 2019). Professionals' objectivity is compromised not least due to the guidelines they follow and the incentives they receive (Bamber and Iyver, 2007), which may inadvertently promote their wrongdoing despite the risk of undermining their professionalism. Such risk has been found to underpin the growing distrust accorded across the professions (Blond, Antonacopoulou and Pabst, 2015). This is a mark of the persistent difficulty in detecting and averting misconduct, be it due to weaknesses in corporate governance and structures that do not prevent conduct that lessens fiduciary obligations (Muzio, Faulconbridge, Gabbioneta and Greenwood, 2016) or by-passing systems of institutional controls to maneuver the boundaries of what constitutes right- and wrong-doing (Harrington, 2019).

Whilst legitimizing their malpractices against societal norms and industry practices and prioritizing profitability above public good appear to be amongst the explanations hitherto offered (Roulet, 2019), in this paper we focus on the mindset that may underline professional misconduct. We build on existing conceptualizations and provide empirical substantiations to earlier accounts that call for reflexivity in the practical judgments that underpin professionals' action choices (Blond, et al., 2015). We focus on Internal Auditing (thereafter IA) as a professional practice and the way it is conducted in a branch of a global financial services institution that was studied in the action research inquiry discussed here.

Responding to regulatory mandates, organizations set up 'three lines of defense' (Chartered Institute of Internal Auditors, 2017), where risk owners and managers are the first

line, risk control and compliance are the second, and risk assurance the third. As part of that third line of defense, IA represents "the last wall before external audit and regulators" (Brasseur, 2020), intended to provide independent assurance that possible risks have been effectively assessed and monitored (Daugherty and Anderson, 2012). The increased emphasis on IA's role in corporate governance reflects evidence that organizations with IA are better able to detect misconduct than organizations without this function (Coram, Ferguson and Moroney, 2008).

Being positioned as a third line of defense has contributed to the common perception of internal auditors as 'internal policemen' in organizations. Post-Enron, the training of auditors to check on compliance with the Sarbanes-Oxley Act has produced a compliance-based IA approach and a conformist mindset (Bailey, Gramling and Ramamoorti, 2003). However, this approach and mindset have been found to be ineffective in auditing 'conduct risk' (thereafter CR) – i.e., any behavior a firm engages in that would cause problems to consumer protection, market integrity or competition (Llewellyn, Steare and Trevellick, 2014).

This paper presents the lessons from an action research inquiry that was conducted in a branch of a global financial services institution to identify ways of averting the deficiencies in the existing compliance-based IA approach. This culminated in the design and implementation of a new conduct-focused IA approach, which was crafted to obviate recurrent CR and to embed reflexivity as an integral practice. Our analysis will show how practising reflexivity fosters a growth orientation and leadership that supersedes a 'conformance mindset'. The emerging 'reflexive mindset' draws on collaborative knowledge that renews auditing practices to retain the independence auditors need to uphold whilst immersing in auditees' activities to understand the dilemmas they face. A 'reflexive mindset' extends efforts to navigate complexities of tensions, dilemmas and paradoxes endemic in organizational life.

As we will show, the intervention of action research enabled recognition of the emerging trends of misconduct and CR through reflexive critique, which enhanced auditors' agility, thereby enabling them to address deficiencies in the organization's CR management and governance frameworks. There are important lessons from this transformation that can inspire the way professional education and development is supported, to foster not only responsible management practice, but also personal growth orientated to serving the common good.

We organize the paper in three sections. We first review the literature on reflexivity in support of addressing misconduct in professional practice. We explain what is distinctive and value-adding in reconfiguring IA practice specifically. We then explain the methodology that guided the design and implementation of a new IA approach. We present empirical evidence to show how reflexivity was fostered and embedded in IA practice and we illustrate the impact of reflexivity in averting CR through two specific IA assignments. We make two important contributions. First, we show how the development of 'reflexive mindset' can be a catalyst in reconfiguring IA practice. Second, we consider the management education implications for the development both of auditors and of other professional practices.

RECONFIGURING PROFESSIONAL PRACTICES: THE ROLE OF REFLEXIVITY

Professional practice is well understood to call for more than competence and compliance to codes of conduct. Professionalism calls for recursively questioning ways of seeing any given situation, cultivating the capacity to understand the dilemmas and tensions these may present and owning the responsibility for the actions taken and the impacts these actions create (Antonacopoulou, 2018). Recurring misconduct scandals continue to reveal that professionals stand on shifting sands while making decisions and taking actions that can be influenced by self-serving factors (Mohliver, 2019; Harrington, 2019). Recent evidence of professional ineptitude

has heightened the significance of embedding reflexivity in refining the practical judgments underpinning professional's action choices (Blond et al., 2015).

Reflexivity is an established practice and one that has been developed across a range of perspectives to serve as a basis for improving action. Hence it is associated with enhancing sense-making and meaning-making, improved practical judgment and learning from mistakes, leadership development, team learning and decision making where professionalism is expected to be exhibited (Antonacopoulou, 2004; Antonacopoulou and Sheaffer, 2014; Petriglieri, Wood and Petriglieri, 2011). Reflexivity opens new avenues of seeing and perceiving by broadening an appreciation of the importance of epistemic and civic renewal and this process motivates individuals to question entrenched assumptions and redraw the boundaries of extant knowledge. Practising reflexivity nudges professionals to review knowledge and practices hinged on rich experiences from past years, which may no longer be relevant in an evolving operating environment. This is why reflexivity goes beyond reflection, which is understood as a process of mulling over experience and evaluating it to reach new understanding (Boud et al, 1985).

Recurring misconduct by professionals and/or the endemic weaknesses in governance structures and systems signal the urgent need to embed reflexivity in professional practice, to restore the ethos of professionalism beyond professionals' expertise and business knowledge. This calls for attention to be accorded to practical judgment in cultivating character and conscience central to professionalism intended to serve the common good. Practising reflexivity involves critique and promotes a critical stance in assessing the impact of judgments beyond guidance provided by ethical codes of conduct. This implies the imperative role of critique in reflexively reviewing, reflecting and questioning actions and context holistically and in an interdisciplinary manner so as to assess the appropriateness of professional practices in serving

the common good (Antonacopoulou, 2010). Being reflexive raises professionals' sensitivity to the impact and implications of their actions and decisions for the organization's well-being over personal gains.

Reflexive practice guides professionals' disposition towards dilemmas and tensions that are integral to their everyday professional practices. Professionals need "to question our own attitudes, thought processes, values, assumptions, prejudices and habitual actions, to strive to understand our complex roles in relation to others" and this is being reflexive (Bolton, 2010:13). Moreover, reflexivity "questions our relationship with our social world and the ways in which we account for our experience" (Cunliffe, 2003: 985). Hence, reflexivity can act as a catalyst for professionals to go beyond fulfilling their fiduciary obligations and experience a shift in the way they restore the meaning and purpose of their professional traditions.

The essence of reflexivity is both as a way of seeing and cultivating the capacity to 'see' more deeply, going beyond what is visible (outside or superficially), as well as accepting responsibility for what 'seeing' entails. This focus on 'sight' offers another explanation why reflexivity fosters practical judgments by prompting attention to what matters, which positions reflexivity as a way of realizing the impact of professional practice to serve the common good. This is the basis Antonacopoulou (2018: 25) draws on to promote a new definition for reflexivity as *"in-sight* … the capacity to see deeply within – inside - but also to see in a fresh light/sight over and beyond – a panoramic view". Through this perspective reflexivity aligns external and internal gaze into the situation or event at hand and becomes a state of being within and outside a situation simultaneously instigating breakthroughs in the action choices. We use this framing to explain the role of reflexivity in reconfiguring professional practices like IA.

Reconfiguring IA through reflexive practice

Auditors discharge their professional duties amongst auditees, operating in an evolving environment. The emerging CR is insufficient to keep pace with new knowledge. Reflexivity is therefore necessary in IA, as it involves the questioning of the bases of auditors' interpretations that are influenced by their values, experiences and education as well as, the social realities and meanings they construct as they interact with others (Hibbert, MacIntosh and Coupland, 2010; Cunliffe, 2003). This process brings about change as auditors recursively see themselves and their actions from the inside and outside simultaneously (Antonacopoulou, 2018). To be effective in auditing CR, reflexivity cannot be compromised because it becomes a process of recursive "self-consciousness" (Anderson and Gold, 2015: 117) that heightens auditors' sensitivity to the appropriateness of their own conduct while discharging professional duties. This is crucial as auditors are normally perceived as 'above scrutiny'. Reflexivity, then, brings auditors to an awareness of how "I am experienced and perceived by others" (Bolton, 2010: 14). This process invites auditors to accept the uncertainty of how others perceive things around them and reveals the transient and situational nature of their own knowledge and perspectives, as well as the importance of context in making sense of what they know (Weick, 2002). Conversely, in its independent governance role in CR management, IA needs to exercise practical judgment to make a stance in ethically ambiguous situations, especially when misconduct has been normalized as common market practices (Manning and Anteby, 2016). Reflexivity then fosters the capacity for such a stance to be formed, demonstrating courage to form practical judgment that anchors auditors to act appropriately in the public interest.

Sources and forms of CR in activities need to be reviewed regularly in line with reported modus operandi of misconduct and changing business activities and environment (Chartered

Institute of Internal Auditors, 2017). Additionally, auditors need to reflexively critique the status quo to make sense of the operating context and concerns over professionals' conduct and character in a holistic and integrated manner to see afresh how professional practices can be reconfigured. As conduct issues cross "disciplinary, occupational, and theory/practice boundaries" (Cunliffe, 2016: 744), practising reflexivity would help auditors to acquire a transversal understanding of CR and recognize (cast a fresh gaze on) misconduct across departments and organizational hierarchies, especially when it may be camouflaged in employees' compliance with procedural requirements. The value of reflexivity is also in helping auditors to be more familiar with assessing situations and people and handling the challenges in an assignment while reflecting on their reflexive practices to also question the possibilities and constraints of reflexivity itself (Mauthner and Doucet, 2003). This meta-reflexive orientation is what forms the core of what we will explain later in our analysis as a reflexive mindset.

Reflexivity as a practice and a mindset involves a "commitment to learn and it is driven by the willingness to change" (Antonacopoulou, 2004: 49). Hence, in reconfiguring the IA practices to avert CR, auditors need to readily learn to identify new crevices where CR exists and to reveal uncharted terrains that need to be audited, including HR processes and strategic alignment of corporate ethical objectives with employee practices. Fundamentally, such learning and change would entail auditors' abandoning their conformance mindset and the linear thinking cultivated through the adoption of the compliance-based IA approach. Such a cyclical learning and changing process elevates the practice of reflexivity in auditors' ability to overcome the compromise of professional independence, and increases management's reliance on auditors' recommendations.

Loss of professional independence for auditors is synonymous to losing their professional credential (Roussy and Rodrigue, 2018). Hence, auditors' reflexivity is crucial for realizing how others perceive auditors' independence and to increase management's willingness to adopt auditors' recommendations. Carcello, Eulerich, Masli and Wood (2018) argue that senior managers increase their reliance on auditors' recommendations when IA is used as a management training ground. Hence, cultivating reflexivity in auditors can contribute to their training for management roles and wider management education as auditors' reflexivity is necessarily underscored by the practical judgment to serve the common good through its governance role in CR management.

Auditors' extensive engagements and exchanges with auditees on new developments in the financial industry and organizational practices could help them to better unveil unanticipated insights on CR (Ma'ayan and Carmeli, 2016). However, such entanglements can cause auditors to empathize with auditees' difficulties and adopt their assumptions, thereby undermining professional independence in undertaking audit assignments (Mohliver, 2018; Roussy and Rodrigue, 2018). To prevent undue empathy for auditees, auditors can exercise regular self-critique and suspend judgment to prevent impairment of their professional independence.

Practising reflexivity auditors can cultivate the responsibility to act with integrity as they become conscious of the impact of their actions. Auditors are prompted to intentionally define impactful auditing processes to arrest conceived and committed misconduct to prevent the erosion of the value of the organization. When this happens, auditors are re-oriented to act responsibly, to embrace new possibilities and to construct appropriate auditing processes to focus on unfamiliar terrain where misconduct could be breeding. Drawing from the literature on reflexivity and its appropriateness for reconfiguring the IA practice, the researcher sought to

introduce reflexivity into the IA function of the organization studied here. The objective was to prompt the other auditors to abandon their familiar IA practice of checking for compliance with policies and procedures and adopt a new focus on people and their practices to arrest the embedded and emerging CR issues. This reconfiguration of the IA practice was supported by an action research intervention, discussed next.

METHODOLOGY

An Action Research (thereafter AR) inquiry was designed specifically to address the following research question: *How can auditors' reflexivity contribute to the reconfiguration of IA practice, to strengthen CR management?*

Action Research

AR was deemed the appropriate research approach for addressing the research question, because it provided the necessary depth of engagement and intervention to form the contextual understanding of the problem of recurring misconduct and auditors' ineffectiveness in identifying conduct issues and strengthening CR management. AR was also seen as appropriate because both reflexivity and reflection are integral to the approach (Coghlan, 2011). Its cycles foster the realization of "the contingency of our knowledge claims and the ethics of our presence in the world" (Tomkins & Ulus, 2015: 595), thereby enabling co-researchers to become aware of and question their own previously unquestioned assumptions, values and actions - a process of self-reflexivity (Cunliffe, 2003; Hibbert and Cunliffe, 2015).

Action researchers are schooled to maintain both inner and outer arcs of attention (Marshall, 2016): engaging both in self-critical observation of the ways they frame, interpret and feel about a situation, as well as focusing externally, to observe what is going on and to question taken-for-granted assumptions and practices with others. For Coghlan (2011:64) the action

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researcher's relationship to their research context can be described as 'immersed reflexive' in the sense of paying attention to their assumptions and perceptions of a situation, noticing their influences on it and being transparent about their choices. Focusing on the external environment and one's place and constitutive role within it is differentiated as 'critical reflexivity' (Hibbert et al, 2019: 188). That the cycles of action and reflection and the reflexivity provoked by AR might bring about a change in professionals' construction and enactment of their professional practice can be understood in terms of Mezirow's work on transformative learning, 'generating content, process, and premise learning' (Coghlan, 2011: 62).

The complexity and changes in CR called for this AR inquiry to engage members of the IA function and other organizational members across units and levels, to create and apply new knowledge to generate IA processes to address CR issues (Coghlan and Brannick, 2014). The AR inquiry was led by the researcher on the IA function of a branch of a global financial institution, and involved a collaborative inquiry team of eight internal auditors. The emerging findings at different stages of the AR inquiry were discussed with the whole collaborative inquiry team in order to extract richer and deeper understanding on conduct issues.

AR involves extensive interactions between researchers with other organization members as research participants in situ. In this project, the study focused on interactions within the internal audit team of four with another four (non-career) auditors and eighteen other organization members, who were their auditees in past audit assignments. The AR inquiry was carried out through the four phases of an AR cycle, namely constructing (that is exploring the issue to enhance understanding), planning action, taking action and evaluating action (Coghlan and Brannick, 2014). In the tradition of AR, members of the audit team were co-researchers with the researcher in that they were fully informed of the purpose of the study and they participated

in collecting data in the form of semi-structured interviews, documents review and observations. These research-led interactions and conversations provided the basis for distilling the variations in definitions and perspectives of professional misconduct, modus operandi and root causes of CR issues and how and why professional malpractices were conducted by management and employees, including auditors themselves.

One of the innovations in the reconfiguration of the IA practice was the introduction of non-career auditors. This was deemed as a valuable adjustment because, based on their trading and sales experiences, the non-career auditors were able to share deeper appreciation of how traders and sales persons could camouflage potentially inappropriate business practices as seemingly acceptable ways of meeting customers' requests. Each assignment team comprised a career auditor and a non-career auditor, with the former trader and sales person assigned to the trading and sales assignment respectively. These assignments were used to test the robustness of the new IA practice which abandoned the compliance-based approach to focus on a conduct-based orientation. Both assignments started with one-month fieldwork, similar to regular IA assignments. During the assignments, auditors were guided by the researcher to practise reflexivity through a series of stages (see Figure 1). Entries from the researcher's journal recorded their reflexivity at the outset of the AR inquiry:

> *I recognized the typical role and practices of an auditor cultivate in us the approach to tell auditees what to do and how to do it through the issue of audit recommendations. This mindset has obstructed our openness to receive feedback, especially from auditees. Hence, semi-structured interview questions were drawn up with the intention to elicit inputs from auditees*. (Researcher, Diary entry 1.1)

-----Insert Figure 1 here-----

Constructing phase

For the constructing phase of the AR intervention, the researcher asked the following questions of members of the IA team: *How do you feel when misconduct recurs despite your performance of auditing reviews on these activities? What changes would you like to see in the IA processes and in yourself in order to be an effective contributor to CR management?* The auditees (disciplinary committee members, sales persons, traders, sales manager, trading manager) were asked: *How have auditors contributed to the identification of misconduct causes and CR management? What, in your view, needs to be done differently to instill professional practices that do not entertain CR?* These two questions were put to all categories of auditees in order to elicit comprehensive views from those who were facing ethical dilemmas in their daily business dealings and those who had to exercise judgment on the appropriateness of employees' behaviors. The responses were seen as important feedback to inform the auditors' mindset.

Responses from auditors and auditees were triangulated with the organization's conduct-related documents and combined with the researcher's own diary entries, reflections and other observations, which drew out themes on auditors' and auditees' perceptions of what needed to be changed in the existing IA approach and how to change it. Auditors' and auditees' responses and reactions to the changed IA approach were shared with the collaborative inquiry team in order to extract richer and deeper understanding on CR issues. Because conduct and misconduct are such sensitive topics, informal discussions were anticipated to be more effective than formal discussions (as was typical in conducting previous audit assignments). Having an informal channel to raise conduct issues could open more channels for dialogue on the topic. This was shared with the collaborative inquiry team, in such a way that the researcher could convey a new conduct-focused approach to performing the IA practice:

"We are to work with the business management in a collaborative manner. I don't think we should be seen as police because that would be very counter-productive. We will get far less information than if we are seen as a collaborator to add value. Being too formal like police results in people being defensive even if they have nothing to hide. They will be less willing to share the information they have or you will really have to ask every single thing so that they talk to you which of course is not helpful". (Researcher, Diary Entry – 2.5)

Setting up the new IA approach, the researcher also role-modeled asking critical questions and challenging assumptions on auditing CR traditionally, for example, querying: *"Why do we always need to have a set of pre-defined IA processes to conduct audit assignments?"* Within the collaborative inquiry team, each critiqued one another's perspectives and eventually auditors arrived at the perspective that pre-defined auditing processes might not always be useful and sometimes could be an obstacle to see beyond superficialities, as supported by this quote illustrative of the consensus in the IA team:

"a pre-set of auditing processes will give a good framework of how we conduct audit, but if we want to flush out conduct risk which in my view is one of the most complex risk, and very subjective and you need experience to be able to find them. Pre-defined auditing processes will not be able to help. In fact, they will deter and constrain the type of thinking we need when auditing conduct risk." (Non-career Auditor, A2)

Planning Action

As a result of the constructing phase of the AR study, the auditors began to plan aspects which they thought were required for a reconfigured IA process. They recognized the need to have deeper business knowledge so that they could better identify CR; they sought to create a platform to share knowledge; they determined to conduct their audits by business process and not by departmental silo, so as to assess strategic alignment of corporate ethical objectives and employees' practices; they decided to audit HR processes to explore how conduct issues were associated with HR practices; and they planned an integral evaluation of the effectiveness of audit reviews and auditors.

Taking and Evaluating Action

The new IA practice was recursively emerging through the reflexively critique of the status quo and information provided by management and employees (the auditees) to reach the root causes of conduct issues. The 'evaluating action' phase of AR served as a discipline for the IA team to pause and reflect on actions taken and to make sense of their experiences, assumptions and identified trends. The auditors' recursive questioning enabled them to delve into auditees' daily practices and their performance. In particular, they asked questions of the auditees as to how their performance was assessed and the extent to which financial rewards had driven traders/sales persons to pursue financial targets at the expense of professional conduct. Moreover, the IA team also sought to unearth why communications on conduct issues had been suppressed. The auditors were drawn into deep and systematic reflection on action, exposing their assumptions and routines as they explored why a compliance-based IA approach had previously been adopted instead of prioritizing their attention and actions on CR. This process of understanding situational complexities confronted their personal blind spots in accepting past ideas of business management's role and employee behaviors.

Engaging research participants through the different phases of the AR helped auditors to recognize the need to change the existing IA approach. Reflexive dialogue between auditors and auditees demolished mental silos and admitted insights contrary to the auditors' own perspectives. This ensured the above-mentioned changes to the IA approach were what the collaborative inquiry team asked for and not simply what the researcher might have imposed. The insights drawn from interactions with auditees challenged auditors' entrenched assumptions and extant practices to generate new perspectives for auditing CR and these became the impetus to critique the existing IA approach and shifting its focus to CR. This cyclical and critically

reflexive learning-and-investigating approach in the AR inquiry enabled auditors to uncover auditees' motivations for persistent misconduct and managers' accommodation of wrongdoing. The absence of and/or inadequacy of bottom-up communications had tainted top management's understanding of the impact of employees' practices on corporate ethical objectives. Drilling to the bottom of these issues to recommend sustainable solutions motivated the AR intervention led by the researcher to stem recurrent misconduct (Coghlan and Brannick, 2014). AR was therefore suited to explore emerging conduct issues from various perspectives, which would not be amenable to traditional scientific research approaches (Brydon-Miller, et al., 2003).

Analysis and Findings

The new conduct-focused IA approach was evaluated through the outcomes of the two audit assignments. Data from this part of the AR inquiry was accumulated in the form of notes of informal discussions and interviews and observations which were journaled by the researcher and regularly shared and discussed with auditors in the two assignments and the wider collaborative inquiry team. In addition, data included the trading and sales transaction records reviewed as part of the audits. Data were analyzed thematically. Through this process we identified the following key themes which explicate how the reflexivity embedded within this AR intervention facilitated a reconfiguration of the IA practice: the power of critique in identifying root causes; breaking silence; agility and reflexive mindset; professional independence/immersion. These thematic findings are presented below.

FINDINGS

Auditor's reflexivity

The power of critique in identifying root causes of CR. The conduct-focused IA approach required auditors to reflexively work with ill-defined decision-making criteria in

handling ethical dilemmas, handle ambiguity in the definition of prohibited business activities and embrace uncertain outcomes as each phase of the audit assignments unfolded. This called for auditors to be reflexive to overcome the apprehensions of uncertainties and question management and auditees with the aim to comprehensively understand the conduct concerns. There was some initial reluctance: *"We were not used to continually questioning auditees and information provided to us. We were uncomfortable with this style and thought that a lot of time might be wasted."* (Career Auditor, A1). However, they progressively adopted a new way of questioning auditees' practices and in doing so started to uncover and corroborate relevant information to identify misconduct, and this compensated for lost time. Insights derived from practising reflexivity enabled auditors to achieve their assignment objectives and complete investigations that prioritized CR within the allocated time. Auditors employed recursive questioning to develop layers of investigative questions to focus their examination on areas of higher CR exposure as illustrated in Figure 2.

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Consistent with Bowlin (2011), in this case auditors' reflexive questioning and critique increased their contextual knowledge and benefited the organization through the exposing of root causes of misconduct. Specifically, in the sales assignment, auditors triangulated product types, transaction volumes, and levels of customer profitability against unfavorable market conditions. In the trading assignment, auditors recursively questioned to make sense of the traders' need to maintain product inventories at levels much higher than customers' demands. Persistent questioning to identify unexpected or unusual trends and unexplored areas helped auditors to reach the foundational sources of CR and to better understand the traders' and sales persons' motives for misconduct.

Using the previous compliance-based IA approach made career auditors feel safe, because of the expected binary outcome of assessment that would indicate the works as "compliant" or "non-compliant". However, such predictable outcomes were unlikely to render preventative recommendations to enhance CR management and reduce misconduct recurrences, because emerging CR cannot be identified merely by checking for compliance with rules and procedures. Instead, when using the conduct-focused IA approach, auditors' reflexivity heightened their CR consciousness and curiosity to regularly challenge the validity of extant assumptions and understanding in a changing operating environment and this changed auditors' perspectives of the materiality of CR sources. Reflexive questioning sensitized auditors to conduct issues and their ramifications as they acknowledged they had to "*keep asking questions until [they] we reach an answer [they] we need and [they] we know what to do*" (Career Auditor, A2).

Auditors realized that the close-ended questions they had previously adopted when using the compliance-based IA approach could not help to identify persistent conduct issues. It was by recursively asking how trading/sales managers monitor traders'/sales persons' activities and behaviors that auditors could determine these managers had not fulfilled their CR management responsibility. Auditees illustrated many examples of a 'compliance mindset'. For example, the view of one of the trading managers was:

> *"These procedures have been set up to instruct traders and sales persons on what exactly they should do when taking orders, assessing product suitability, booking transactions, etc. etc. If they follow these rules, they can do their job properly. What is there to monitor?"*

Another view was:

> *"I review these reports because I am required to do so by the policies and procedures. I cursorily look at the level of transaction amendments/deletions and movements in profits/losses to see if they are similar to prior months. Then I sign-off on these reports, in compliance with procedural requirements."* (Trading Manager).

The compliance view of a sales manager was:

> *"Sales persons complied with the foreign exchange dealing policy. The foreign exchange profit margin they applied on customers' transactions were within the stipulated levels in the policy. Furthermore, the sales persons should be aware of their conduct requirements because they had all attended the mandatory conduct training sessions".*

In contrast, the auditors' new focus on people's behaviors and management supervision recognized that auditing CR goes beyond compliance with policies and procedures and they displayed greater critique of how trading/sales managers monitor and recognize professional conduct: *"whenever we find an issue, we have to look at the decision-making process behind it and therefore the conduct behind it."* (Non-career Auditor, A2). Auditors began to ask more searching, critically reflexive questions, such as: *"How do you review these reports pertaining transaction amendments/deletions and volatility of profits/losses?"* (Non-career Auditor, A1) and *"How do you ascertain that sales persons do not overcharge their customers?"* (Non-career Auditor, A2).

The experience of confronting variabilities and critiquing the status quo through reflexive questioning helped auditors to courageously work with emerging unanticipated outcomes until they identified the misconduct. Through the sales and trading assignments, the deficiencies in the CR management framework became more 'visible'. Reflexive critique became a catalyst for seeing more and speaking out as CR misconduct emerged. Auditors' critique of the sales and trading managers' lack of conduct management responsibility is illustrated in the indicative quotations below:

> *"How can you be unaware of the overcharging of customers practised in the last two years, given your experience in these types of sales activities?"* (Non-career and Career Auditors, A2)

> *"How do you monitor traders are not undertaking prohibited activities? Why do they need to maintain such high levels of product inventories that do not seem to co-relate*

with customers' transactions and demands in the past twelve months?" (Non-career Auditor, A1)

Auditors kept *"asking why and why and why and try to really get to the root causes of the root cause"* (Non-career Auditor, A2), accelerating their ability to not only critique through recursive questioning but also to recognize judgment calls by business managers that were not performed diligently.

Auditors break silence and expose emerging trends of misconduct and CR. To draw insights on conduct issues from knowledge sharing among auditors and auditees and to develop relevant IA processes, auditors could not just accept the status quo and simply check for superficial compliance with policies and procedures. Through the assignments, auditors could extract insights on conduct issues beyond the surface of what was seen, heard and even reported to business management. They recognized the need to *"ask the right questions to get the answers"* (Non-career Auditor, A2). As they reflected on the relevance of new information shared by auditees, auditors consciously suspended their judgments and governing assumptions of business managers' awareness of new regulations affecting trading/sales activities and the authenticity of management reporting that top management relied on.

Through critical analysis, the auditors identified trading/sales managers' lack of CR consciousness, which was manifested in their urge to allow financial performance to overshadow the non-financial performance metrics of upholding professional conduct. Consistent with other studies (Larker and Pierce, 2016), we find that this was fueled by the direct linkage of financial performance to team rewards. For example, as auditors came to recognize the value of auditing HR processes, one of them asserted:

> *"Auditors need to examine the set-up and alignment in organization such that people do not have the incentive to have bad practices...Incentive structures are very important as they can promote misconduct."* (Career Auditor, A2)

In another illustration, when a sales manager was confronted with the tensions and competing priorities wherein his judgment of what action to take was critical, he did not exercise the practical judgment that could lead the sales team to serve the common good. Instead, he was motivated by the team rewards and accommodated the sales persons' misconduct whilst fostering the normalization of misconduct in the team, a point that is reinforced by Palmer (2012). In planning the audits, the auditors had been consciously alerted by the researcher to observe auditees' behaviors and responses and to identify unusual/unexpected observations and practices. This approach was adopted by a non-career auditor in the assignment, who broke his silence to voice the following concern:

> "*Let's be open to talk about experiences with problematic behaviors of the sales persons when trying to sell products to customers who may not have such needs.*"
> (Non-career Auditor, A2)

This example illustrates how auditors' reflexive critique of the strategic alignment of corporate ethical objectives with employees' conduct, and their corroboration of middle managers' habitual concealment of misconduct from top management, revealed an underlying conflict of interest. Instead of simply assuming the alignment of corporate ethical objectives with employees' practices, an auditor questioned the sales manager with *"How do you ensure the effective alignment of the organizations' ethical objectives and the sales persons' practices?"* (Career auditor, A2). This critical question unveiled an unexpected underlying conflict of interest in the sales manager's role when he responded as *"I am supposed to strategize with my team to meet our targets so that we can get our team rewards. Yet, I am supposed to make sure that they did things with proper behaviors. How is it possible to do both?"* On the one hand, trading/sales managers had to role-model corporate ethical objectives in daily professional dealings. On the other hand, they were also expected to motivate employees to achieve financial targets for which, as managers, they shared in the team reward.

Practising reflexivity raised auditors' CR consciousness to identify the underlying

conflict of interest that was 'silenced,' as affirmed in a non-career auditor's (A2) remark:

> *"We always said that managers must be conduct conscious so that they can be aware of any hanky panky of their traders and sales persons. But if we as auditors are not conduct conscious, we cannot point out managers' failure in their conduct risk management."*

The narrow scope of examination in the conventional compliance-based IA approach did

not identify managers' non-escalation of unusual activities patterns that could signal

inappropriate conduct. Similarly, when existing exception reports that could reflect employees'

conduct went unreviewed, the existing organizational silence went undisturbed (Bisel and

Arterburn, 2012), thereby preventing a positive conduct culture change and public

acknowledgement of misconduct (Cayak and Altuntas, 2017).

Trading/sales managers acknowledged that they reviewed reports pertaining to

transaction amendments/cancellations, volatility of profits/losses and outstanding dormant

portfolios monthly as required by procedural requirements. Auditors re-directed their reviews of

management reports to individual traders with the aim to identify any abnormal activity because:

> *"examining these reports from a trader's perspective could inform whether there might be transfers of profits/losses to the next months when excessive cancelled transactions were reinstated, implying a manipulation of profits/losses in reporting to management"* (Non-career Auditor, A1).

Auditors in this AR inquiry no longer accepted the managers' traditional practice of

reviewing reports from the simple perspective of whether they aligned with policies and

procedures. Instead, auditors leveraged the knowledge of how the trading/sales managers

reviewed exception reports to pry into unjustifiably high fluctuations in profits/losses to assess if

traders were undertaking prohibited activities. Being motivated to identify CR concerns,

auditors' reflexivity guided them to speak out when identifying dormant portfolios that allowed

traders to hide loss-making or illegitimate transactions. This surfaced the 'conformance mindset' and entrenched assumptions which the previous compliance-based approach had nurtured.

   Developing agility and a reflexive mindset. The absence of pre-defined auditing processes compelled auditors to reflexively acquire knowledge on the business environment and activities and on potential conduct issues and to develop auditing processes and implement investigations with deeper insights that could expand, extend and enrich their perspectives on CR. This growing agility, mobilized by the dynamic learning auditors followed, equipped them to navigate the unknown in auditing CR by approaching auditing assignments with sensibility and sensitivity. Auditors became energized to pry into new modus operandi to expose wrongdoing and misconduct. Herein auditors considered the CR implications of certain new regulations that had not been incorporated into the policies and procedures used by the trading/sales teams. Instead of being bounded by pre-defined auditing processes, auditors were activated to adopt different practices to analytically question the information provided by auditees and their managers and leverage the response of one question to ask the next in order to extract meaningful responses (Goldblatt and Band-Winterstein, 2016).

   When auditors noticed that the sales manager had focused his review of business reports for profitability levels based on high profit margins approved in policy and according to procedurally required production frequency, auditors recognized the lack of focus on CR. This caused auditors to readily scrutinize their assumption that compliance with policies and procedures could assure professional conduct. Thereafter, auditors developed the agility to adopt new auditing processes to assess employees' conduct and questioned how the sales team could have made so much profit from customers despite unfavorable market conditions. Through this reflexive critique, auditors uncovered that sales persons overcharged the same customer for two

years. Auditors rationalized that although applied profit margins were in compliance with policy, the profit margins were far beyond prevailing market rates and this could not constitute fair treatment for customers. Auditors' reflexive mindset led to the invalidation of management's and career auditors' entrenched assumption of compliance with policies and procedures.

Auditors' versatility and openness were apparent as they nimbly moved beyond examining conventional processes and activities to tread on unexpected outcomes and new areas like Human Recourse Management (thereafter HRM) processes and individual person's practices to be audited. Their agility in superseding the existing emphasis on products and processes with people and their practices when auditing CR became a new aspect of the auditing practice. As auditors reflexively discussed auditees' responses, they were jolted out of their entrenched assurance that compliance with policies and procedures could assure professional conduct. As one auditor asserted:

> *"I now realized that auditing conduct risk involves…critical reflections and questioning and little of checking for compliance with policies and procedures. Our professional training during the Sarbanes-Oxley era has shaped our thinking which we now have to let go. It's quite a humbling experience to learn as I perform this assignment."* (Career Auditor, A2).

Auditors' growing ability to appropriately question and overcome their fears of uncertainties as they exposed themselves to one another's different perspectives and contrarian views on conduct issues enhanced their capacity to 'see' CR. This reduced personal blindness which had previously hindered receiving new knowledge (Cunliffe, 2003), and heightened auditors' courage to assess unfamiliar HRM processes transversally, auditing CR across departments and processes and superseding the conformance mindset and extant assumptions. This was a fundamental shift to instigating a values-driven approach to professional conduct that is not just 'regulated' but honored because it is now guided by a 'reflexive mindset'.

Coexistance of professional independence and immersion. A reflexive mindset enables auditors to uphold their professional independence while immersing in auditees' activities to understand them. Career auditors acknowledged they *"did not have sufficient business knowledge and consequently business management did not always respect them. Hence they need to engage auditees more extensively to know the business activities better."* (Career Auditor, A1). The increased interactions between auditors and auditees to acquire contextual knowledge essential for auditing CR could conceivably compromise auditors' professional independence (Roussy and Rodrigue, 2018). Deepened auditor-auditee relationships could color the auditors' professional lens as they pursued sensitive conduct-related information. Instead of adopting the conventional practice to remain detached from auditees' activities on the premise of upholding professional independence, in this study auditors' reflexivity was promoted to help balance their immersion in auditees' daily duties while also upholding professional independence. Figure 3 illustrates diagrammatically the balance of professional independence and immersion in auditees' activities when practising reflexivity in the new conduct-focused auditing approach.

-----Insert Figure 3 here-----

By practising reflexivity auditors could examine data critically and consciously disallow perceptions and experiences to interfere with their understanding and interpretation of data from a CR standpoint. This experience awakened in auditors the importance of a reflexive mindset in clarifying and reinforcing their professional mandate and responsibility so as not succumb to undue considerations while auditing CR.

In the reporting and appraisal phase, auditors reflexively evaluated their personal attitudes and practices when using compliance-based versus conduct-focused IA approaches. By

exercising reflexive critique, auditors realized for the ***first time*** that the lack of CR consciousness, which contributed to trading/sales managers' and employees' misconduct, could similarly affect auditors' effectiveness in auditing CR:

> "*if we as auditors are not conduct conscious, we cannot point out managers' failure in their conduct risk management role*" (Non-career Auditor, A2).
>
> "*to raise conduct issues and to put it down in the audit report…calls for having that awareness [of conduct risk] among us and talking about it and making sure that issues can be raised.*" (Career Auditor, A2).
>
> "*The main thing is everybody should keep in mind what is conduct risk…we always think about what can be interpreted as conduct risk.*" (Non-career Auditor, A1)

Previously, a lack of CR consciousness meant auditors were not prompted to look out for unanticipated conduct issues and challenge business management's perspectives on potential CR exposures. This contributed to auditors' past failure to address CR and arrest misconduct, including their professional "misconduct" as illustrated diagrammatically in Figure 4.

-----Insert Figure 4 here-----

Cultivating a reflexive mindset awakened their sensibility and sensitivity to CR recognizing the pertinence of practising reflexivity and the shift in their perspective, including their self-reflections, prompting their new positioning as summarized in Table 1. These new stance signals that a reflexive mindset can be defined as a positioning to surpass existing perspectives and versions of reality maintained by current practice and engage in conscious and agile ways of reconfiguring practice to serve the common good

-----Insert Table 1 here-----

DISCUSSION

The findings show how a reflexive mindset accentuated auditors' CR consciousness and contributed to a reconfigured, conduct-focused IA practice, expanding their agility to extract

corroborative evidence on employees' unusual conduct. The reflexivity guiding IA practice drew auditors closer to identifying the misconduct and CR sources, which were the objectives of the field assignments in this AR intervention. They were better placed to recognize the differences in auditor attributes within the two IA approaches and to make an informed choice in departing away from a compliance-based approach in favor of a conduct-focused IA approach. Table 2 summarizes the juxtaposition of the two approaches and provides a basis for capturing the reconfiguring of the IA function.

-----Insert Table 2 here-----

Shifting from 'internal policemen' to reflexive collaborators

Traditional audit training has produced auditors who focus on compliance with policies and procedures and are typically perceived as the organization's 'internal policemen'. They do not normally examine activities with a focus on "the behavior in governance, the behavior of management and the board, the skills, the abilities, the capabilities of the board and the non-executives" to ensure the effective identification and mitigation of CR risks (Chambers and Odar, 2015: 39). With such a conformance mindset, auditors are unable to distinguish misconduct when the definitions of right- and wrong-doing are masked by common market practices (Palmer, 2012). They tend not to perceive CR as a strategic risk in business activities (Spira and Page, 2003). Continued focus on checking for observance of rules reinforces auditees' perception of auditors as 'policemen' and thereby limits auditees' interactions with auditors to just responding to auditors' questions on whether they "comply" or "do not comply" with policies and procedures. Auditing CR with this limited level of communication does not allow auditors to earn the trust of auditees to establish collaborative relationships and draw out tangible

and intangible data from sources that may not be apparent or repeated in a changing environment (Deloitte, 2014).

In contrast, the identification of misconduct and potential CR in the field assignments of this study demonstrates the contribution reflexivity can make to effective auditing of CR. A reflexive mindset brought critique to identifying root causes. It encouraged auditors to break silence and voice CR concerns. It strengthened their agility to look beyond the familiar; to question accepted practices from auditees and to suspend their own judgments. A reflexive mindset also better enabled them to navigate the balance between immersion in the business context and sustaining their professional independence. This urged auditors to replace their formal 'policeman' approach with a collaborative orientation committed to strengthening the CR management framework through frequently convening informal and open communications with auditees. This step opens communication channels that promote transparency in sharing and positions auditors closer to auditees to earn their trust (Ma'ayan and Carmeli, 2016; Verhezen, 2010). Exploration of conduct issues through reflexive questioning facilitates the acquisition of deep knowledge of business activities and the operating environment (Bowlin, 2011) and appreciation of ethical dilemmas in employees' daily interactions with customers, better enabling analytical examination of trends that can signal where CR resides. Through reflexive critique and dialogue auditees and auditors can jointly reach insights on how organizational silence on conduct issues enables misconduct to be camouflaged, and unacknowledged.

Developing a Reflexive Mindset

Embedding reflexivity as a catalyst for reconfiguring IA practice, as the case study reported in this paper attests, can lead to breakthroughs that extend beyond revising policies and procedures. Reflexivity as part of the ongoing and systematic review and reflection of action is

not only an interventional approach to address deep seeded cultural issues. It is also, as we have found, a powerful and meaningful approach for supporting individual growth. Auditors' reflexivity was developed through the experience of working in diverse assignment teams, with peers to question them (the collaborative inquiry team), with the AR inquiry that encouraged cycles of action and reflection. In the course of leading the AR intervention that instigated reflexivity as a safe means for broadening ways of seeing, the auditors who participated in the two field assignments experienced directly the transformation of the IA approach and its impact in averting misconduct and wrongdoing, and increasing their agility to perceive and understand ambiguity and ethical dilemmas in the business. For the auditors, the contrasting outcomes derived from the adoption of a conduct-focused, rather than compliance-based IA approach reinforces the criticality of practising reflexivity in auditing CR as illustrated in Figure 5.

-----Insert Figure 5 here-----

A reflexive mindset promotes auditors' self-discipline to regularly examine their own assumptions, values and emotions for signs of compromising professional independence in conflictual situations and to overcome it to ensure the credibility of audit deliverables to prevent the loss of IA professionalism (Christopher, Sarens and Leung, 2009; Roussy and Rodrigue, 2018). We would position this key finding as an extension of the attention given in recent debates about the value of a 'growth' versus a 'fixed' mindset.

According to Dweck (2016), two types of mindset tend to characterize how people see themselves and others, depending on whether they see their current qualities and capabilities (such as intelligence, competence, etc) as static and deeply ingrained (fixed mindset) or fluid and capable of development (growth mindset).

In this study, the auditors' agility and adaptability in performing the assignments with reflexive and integrative practices reflects a "growth mindset" (Dweck, 2016), changing the IA approach to one that relevantly addresses emerging CR. Whereas a fixed mindset would induce auditors to avoid challenges by sticking to the conformance 'checklist' that characterized the old compliance-based IA approach, a growth mindset emboldened auditors to question assumptions and consider novel complexities and uncertainties; adopting a conduct-focused IA approach that went beyond the familiar sources of CR and forms of misconduct, and incorporated feedback and reflexivity as pathways for individual, team and organizational learning.

CONCLUSION AND IMPLICATIONS FOR CULTIVATING A REFLEXIVE MINDSET

In this paper, we have shown how a reflexive mindset can be a catalyst for reconfiguring IA practice towards a conduct focus and away from emphasis on compliance. Our findings raise several important implications for the way professionals – Internal Auditors – are educated to conduct themselves. Equally, we see that the implications for teaching and learning of managers more generally in their governance role to promote cultivating a reflexive mindset. Our findings encourage educators to develop a pedagogical practice, such as action research, that introduces students to collaborative enquiry and reflexive dialogue. Entry level audit education can incorporate such approaches as a means of introducing students to the ideas and practice of reflexivity. Further professional work-based learning can provide further opportunities to engage not simply in reflection on practice, but is reflexivity, so as to develop students' understanding of the distinctions between conduct and compliance focused auditing and the benefits of arresting CR. Educators will need to consider how the complexity and ill-defined situations of IA practice can be introduced to students. Also, how they can learn to see organizations systemically, such

that competing organization priorities can simultaneously require ethical behavior and incentivize misconduct.

A further practical implication of our study concerns the design of assessment. To achieve the learning outcomes of reflexivity, capacity for collaborative dialogue and ability to comprehend ambiguity, assessment tasks must include challenges which confront students with their assumptions and taken-for-granted ways of acting. They must go beyond the normative testing of factual knowledge and analytical ability, and include opportunity to practice reflexivity. There is also little so potent for developing ability to collaborate in diverse work teams as the experience of engaging in diverse student teams and having that work assessed.

Our study was located in a particular industry context, as well as the specific profession of IA, added to which the number of participants was small all prompt us to be equally reflexive in acknowledging the limitations of our research We do not pretend that the findings can be generalized empirically, however, we do suggest that they may have potential transferability theoretically to the education of manages in their governance role and other business professionals where the criterion is satisfied of 'this seems familiar and echoes my experience'. An implication for future research would be to conduct a similar participative, action research study with members of another profession, seeking to explore how a reflexive mindset might develop their professional practice.

For internal auditors to move beyond their traditional 'policeman' image, they can no longer rely on past auditing processes and experiences to identify emerging trends and motivations of unprofessional conduct. Interactions and collaboration with auditees are crucial for auditors to earn their trust to elicit sensitive information on conduct concerns and deeper

understanding of contextual insights, thus replacing their 'policemen' image with that of 'reflexive collaborators.'

Reflexivity can play an essential role in auditing CR, equipping auditors, through recursive questioning, with the strength and tenacity to stand up to questionable managerial actions and decisions. Reflexive critique equips auditors to recognize – 'see' and 'speak out' - when emerging trends of misconduct and CR are embedded in current practices. Auditors can supersede their conformance mindset and entrenched assumptions, committing themselves to introduce, influence and implement changes to extant auditing practices.

Reflexivity allows auditors to become immersed into auditees' activities, in order to better understand them, while preventing keeping such immersion from compromising the auditors' professional independence, necessary to ensure the credibility of their audit deliverables and uphold their professionalism. Cultivating a reflexive mindset awakens auditors to critique their personal attitudes and practices to uphold professionalism and enables them to become reflexive collaborators in strengthening the organization's CR management framework.

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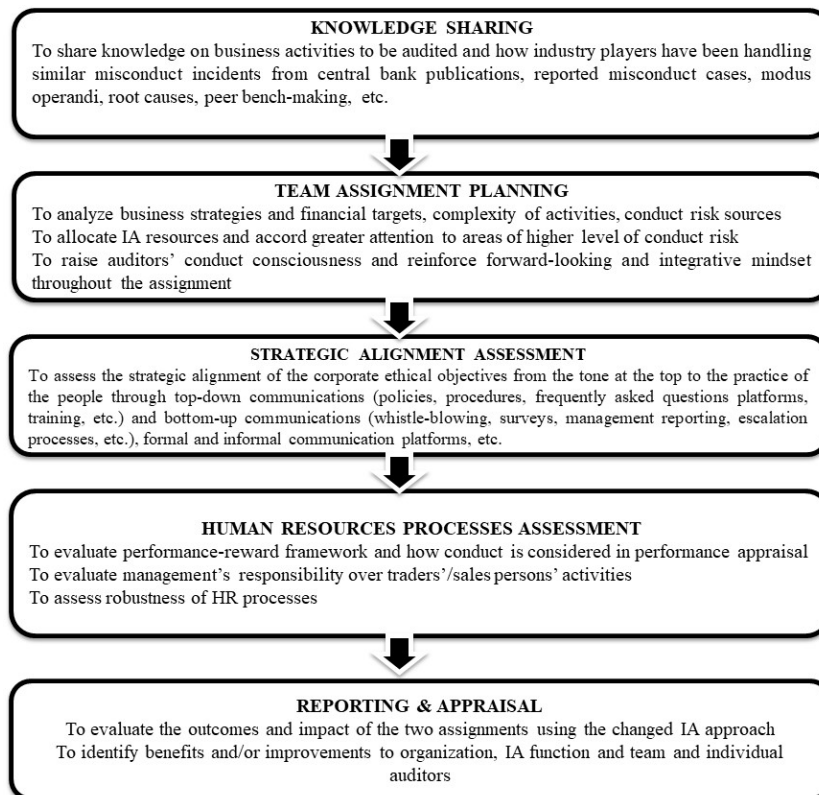
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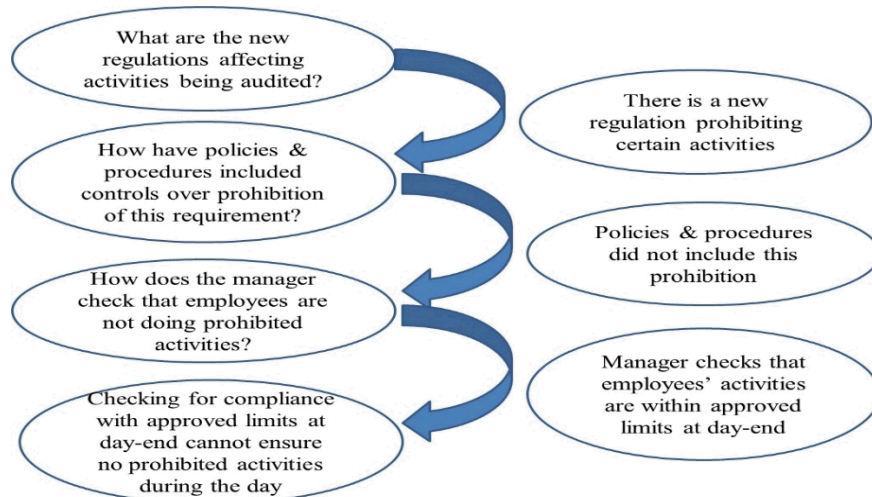
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FIGURE 1:
The five key phases of the conduct-focused IA approach

> **KNOWLEDGE SHARING**
> To share knowledge on business activities to be audited and how industry players have been handling similar misconduct incidents from central bank publications, reported misconduct cases, modus operandi, root causes, peer bench-making, etc.

> **TEAM ASSIGNMENT PLANNING**
> To analyze business strategies and financial targets, complexity of activities, conduct risk sources
> To allocate IA resources and accord greater attention to areas of higher level of conduct risk
> To raise auditors' conduct consciousness and reinforce forward-looking and integrative mindset throughout the assignment

> **STRATEGIC ALIGNMENT ASSESSMENT**
> To assess the strategic alignment of the corporate ethical objectives from the tone at the top to the practice of the people through top-down communications (policies, procedures, frequently asked questions platforms, training, etc.) and bottom-up communications (whistle-blowing, surveys, management reporting, escalation processes, etc.), formal and informal communication platforms, etc.

> **HUMAN RESOURCES PROCESSES ASSESSMENT**
> To evaluate performance-reward framework and how conduct is considered in performance appraisal
> To evaluate management's responsibility over traders'/sales persons' activities
> To assess robustness of HR processes

> **REPORTING & APPRAISAL**
> To evaluate the outcomes and impact of the two assignments using the changed IA approach
> To identify benefits and/or improvements to organization, IA function and team and individual auditors
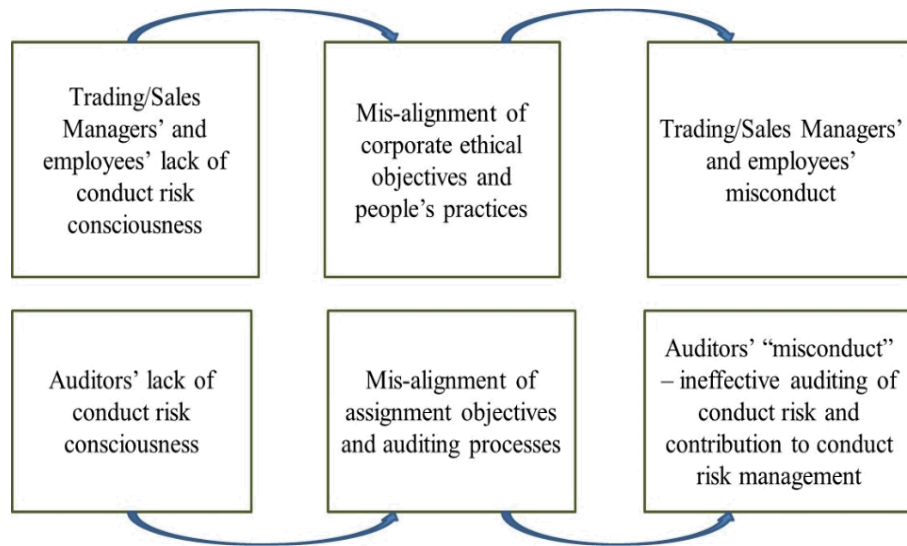
FIGURE 2:

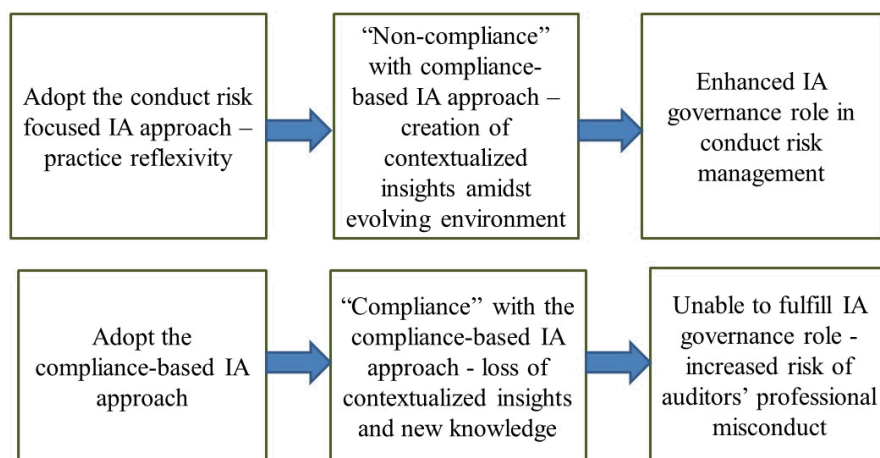Auditors' recursive questioning in response to new knowledge

FIGURE 3:

Practising reflexivity to balance the tension between immersion in auditees' activities and upholding professional independence in auditors' activities
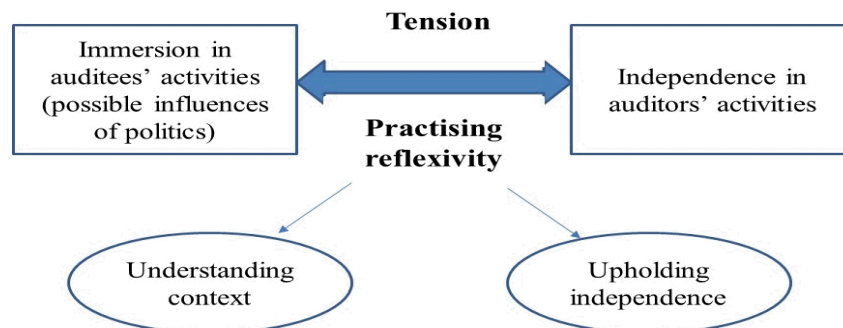
FIGURE 4:

Consequences of the lack of CR consciousness of auditors and auditees

| Trading/Sales Managers' and employees' lack of conduct risk consciousness | Mis-alignment of corporate ethical objectives and people's practices | Trading/Sales Managers' and employees' misconduct |
| Auditors' lack of conduct risk consciousness | Mis-alignment of assignment objectives and auditing processes | Auditors' "misconduct" – ineffective auditing of conduct risk and contribution to conduct risk management |

FIGURE 5:

Contrasting outcomes in the adoption of different IA approaches

| Adopt the conduct risk focused IA approach – practice reflexivity | "Non-compliance" with compliance-based IA approach – creation of contextualized insights amidst evolving environment | Enhanced IA governance role in conduct risk management |
| Adopt the compliance-based IA approach | "Compliance" with the compliance-based IA approach - loss of contextualized insights and new knowledge | Unable to fulfill IA governance role - increased risk of auditors' professional misconduct |

TABLE 1:

A reflexive mindset: accounts of positioning towards conduct risk

"If we want to flush out conduct risk which in my view is one of the most complex risk, we need to discard existing pre-defined auditing processes because they constrain our thinking" (Non-career Auditor, A2).

"Because it is very challenging to identify conduct risk, you actually need to link your knowledge and thinking critically through various angles and outcomes of your investigations and integrate findings across disciplines to reach the sources of conduct risk" (Non-career Auditor, A2).

"IA methodologies presently for the person auditing front office only reviews front office activities. The person responsible for auditing support functions only takes care of these functions. We need to go beyond and put in place an additional mindset [reflexive mindset] to actually look at front office conduct itself in the support functions. You are not just looking at how well the functions are operating" (Non-career Auditors, A1).

"There is no objective framework to assess what is conduct risk. How to quantify conduct risk? Areas where there is no guideline, these are the most difficult situations to audit. I agree that these aspects could be challenging to audit but we need to be highly reflexive to question till we reach the root causes of what went wrong or could have gone wrong" (Career Auditor, A2).

"It's really to put on a right mindset [reflexive mindset] to understand how these steps tell you about front office conduct through asking the question what does these steps tell you about trader's conduct and then put the whole picture together" (Non-career Auditor, A2).

"We were not used to continually questioning auditees and information provided to us. We were uncomfortable with this style and thought that a lot of time might be wasted" (Career Auditor, A1).

TABLE 2:

Comparison of auditors' attributes in existing and conduct-focused IA approaches

Auditors' attributes in using the compliance-based IA approach	Auditors' attributes in using the conduct-focused IA approach
Conformance mindset	Reflexive mindset and sense-making
Conventional risk focus (credit, market and operational risk)	Conduct risk consciousness
Knowledge of policies and procedures	Knowledge of business activities and operating environment
Reliance on pre-defined auditing processes and assuming stability and certainty in operating environment	Ability to collaboratively co-create knowledge to make sense of problem context and seek for solutions in changing environment
Upholding professional independence through auditing with historical data and checking on compliance with policies and procedures	Upholding professional independence through practising reflexivity and surrendering influences/biases while immersing in auditees' daily duties.