

# The Auditor<sup>1</sup>

Mohan Gopinath, Edwin L Castelino, and P Janaki Ramudu

'If seven maids with seven mops  
swept it for half a year,  
Do you suppose,' the Walrus said,  
'That they could get it clear?'  
'I doubt it,' said the Carpenter,  
And shed a bitter tear  
The Walrus and the Carpenter  
*Through the Looking Glass, 1871*  
Lewis Carroll

## The Setting

Taiwan International Bank (TIB) is one of the biggest international banks in existence. The bank is headquartered in Taiwan. The bank has its presence in over 70 countries and has marked a strong presence in South Asia, Europe and the United States. It has around 300,000 employees on its rolls. It is an amalgamation of many large and medium sized banks. Over the years all acquisitions made by TIB have proved both strategically important as well as profitable. The bank is now moving from its traditional core banking areas into insurance, broking, factoring, private banking etc. The main focus is on retail and the bank is planning for growth of 18% in the coming year.

The executives in TIB fall into two cadres - international officers and regional officers. The international officers are recruited from reputed universities and are subjected to intensive training program. Being international officers, they are rotated across the countries in every 2 years. The regional officers are mainly recruited to serve in a specific country. Usually they are the graduates from reputed universities of the country. However, they may be cross posted to different countries if and when a requirement arises; these postings would be for periods of two to three years.

Initially, international officers were recruited from the UK, but this trend has been gradually changing. The bank now recruits international officers based on intake procedures from other countries in which it has a presence. The practice of the bank to have only international officers to head a region, is gradually changing.

## The Chief Executive Officer

In India, TIB has been a player for over 140 years. Initially, the bank had three independent entities under different names, but in 1980, all of them merged as TIB. It is now one of the largest international banks in India and is headed by a Chief Executive Officer (CEO) who is based in Mumbai. The four regional heads in Delhi, Kolkata, Chennai and Mumbai report to the CEO directly. David Turner, the CEO was a tough, no nonsense, extremely intelligent banker with around 25 years of international experience behind him. He was highly respected in the banking community. Because of his initials, he was also known as 'Difficult Turner' especially to those lesser bankers who had crossed his path.

Turner was an expert in both foreign exchange dealings and credit, which was an unusual combination. From a practical point of view this meant that he could independently hold his own with almost anyone without having the support of aides. The four regional managers were believed to be petrified if they receive a call from Turner as invariably he would pick relevant holes in the proposals they had sent to him for approval.

Turner had been in the position for slightly over two years. Prior to his Indian posting, he had served in almost all the major countries in which the bank operates. He had left behind an extremely good impression in all the countries. His resemblance to Stewart Whitman, the Hollywood actor stood him in good stead in the cocktail circuit.

1. This case was prepared by Dr Mohan Gopinath, Professor Edwin L Castelino and Dr P Janaki Ramudu of Alliance Business School, Bangalore, and is intended to be used for class discussion rather than to illustrate either effective or ineffective handling of the situation.

A man of strict principles, upright, and with the bank's best interests always in mind, he was one of the best CEOs the bank had sent to India. For him the quality of work delivered is of paramount importance; and personal equations are secondary.

TIB's global operations were controlled out of Head Office by the Department of Overseas Operations, later renamed as International department. This department was run by three General Managers who monitor the global operations and were completely accountable, including the profitability. A General Manager in International Departments a much sought after post as it commands a lot of respect and wields plenty of clout.

The norm was that after serving as the CEO for India, the next posting would be the General Manager in International Department? In most cases, this would be the last posting for the officer as he would have reached the age of retirement. There were only two levels above a General Manager; Deputy Chairman or the Chairman of the TIB Group.

Turner's equations with his regional managers and other senior officers were at times troubled because of the way he treated them. He could not stand slipshod work and made it a point to rub it in if he came across any type of slackness. He used to say often, that he was not doing the job to win a popularity contest.

Perhaps because of this abrasive side of his character, he was sent as Assistant General Manager - Group Audit in Taiwan after his stint as the CEO for India. This was the highest position in the audit function globally, but fell short of being a General Manager. This move surprised quite a few in the bank as Turner was a 'natural choice' for taking over as a General Manager. If Turner felt anything about the move, he did not reveal it to anyone in the bank; at least no one had heard of any reaction from him.

Because of his intellectual and functional skills, Turner was an ideal choice for the audit job. He soon got rid of the deadwood in the section and brought in young, highly qualified people. Till then audit had been a parking lot for the unwanted, and this image was hurting the function. Within six months under Turner's

leadership, all this had changed and Group Audit became a destination for all the young and ambitious bankers in TIB.

TIB had earlier termed the department as 'fuddy duddies'; this image was cleaned up as they were either eased off, or wherever possible, relocated to back office functions. Most of them were glad to go as they knew that working under Turner would not be an easy task. He would have driven them hard and it was possible that he would have made them put in their papers if they did not perform up to his standards.

Turner's second in command in Group Audit was WS (Willie) Allen. Allen had also served a stint in India in Mumbai and could therefore relate to Turner at a personal as well as professional level. Allen, a hardnosed Scottish, usually gives attention to details. Although short tempered and known for his outbursts, he was hardly vindictive. According to legend, he could be heard two floors below, but this was perhaps an exaggeration. Allen made a superb auditor being meticulous with details and along with Turner, perpetrated the new image of Group Audit.

Group audit transformed from being avoided by new recruits, to be the most challenging function. Now it has to pick and choose from the large pool of applicants who showed a preference for this function. Apart from being considered to be among the chosen few, the audit function also gave a steep learning curve to its staff and they quickly obtained an international perspective of the bank.

### **Mobile Inspection Teams**

In countries where TIB had more than 20 branches, the bank maintained a team of auditors within the country, which was called the Mobile Inspection Team. In India, the Mobile Inspection Team was based out of Hyderabad and had 40 audit staff to cater to the needs of its 25 branches. Hyderabad was chosen because of its central location.

The auditors were essentially bank officers with 10 to 15 years of banking experience and possessed the ability to independently handle various banking functions; this

made them efficient and effective in the audit work. Being a sensitive function, the members of the audit team, based out of India were chosen with great care; they were people of integrity and high ethical standards. They were posted on a fixed tenure for three years and on completion of their term they were reverted to the parent branch from where they were drawn. They were rewarded with a posting of choice and given priority in promotion.

### **Deployment of the Mobile Team**

In order to preserve objectivity, an officer would be deployed for audit to all the branches in the country except his parent branch. This naturally ensured that the auditor maintained his independence and did not come under any undue influence or pressure from the branch managers under audit.

Such a system of drawing auditors from within the country was cost effective but the disadvantage was that, at times, the India based audit staff would succumb under pressure or the influence of the local branch manager. Most often, the branch manager would be a very senior person compared to the India based auditor and hence becomes vulnerable. So, the audit team was invariably run by a lead auditor who came from the Group Head Office (GHO) in Taiwan and was senior to the branch managers of various stations in India.

### **The Audit Function - a few key points**

A bank in India is subject to a variety of audits, both internal and external. The external audits are conducted by the Reserve Bank of India (Department of Banking Supervision) and external auditors, the latter for certifying the annual accounts. Internal audits are from various functions - IT, Credit etc. The most important audit for an international bank (including TIB) would be the operations audit conducted by GHO.

While a bad audit report was a blot on the branch and its staff, one from a GHO audit could mean the end of a career for those indicted. Many officers broke down completely when their departments received a bad audit report.

### **A Typical Audit of a Branch**

The Audit Headquarters based in Taiwan would draw up the annual inspection calendar and also nominate the lead auditor for each branch. Allen was designated as the lead auditor to inspect the Mumbai branch and as per the usual practice he picked up a supporting team of four to five auditors out of the India based mobile inspection staff.

One of the auditors chosen by Allen for the Mumbai branch audit was A. Ramakrishna. He was with the Hyderabad branch and had been with the Mobile Inspection Team for quite some time. He was looking forward to his repatriation back to Hyderabad as he had almost come to the end of his three year tenure. Ramakrishna had initially worked as a clerk in the Chennai office for a period of five years and was promoted as an officer about 10 years back and posted to the Hyderabad branch.

Ramakrishna was a hardworking, diligent and ambitious individual. He was in his late 30s and was looking forward to a steady upward climb in the bank. His superiors and other officers were quite impressed with the quality of his work. In fact, during the inspection of the Hyderabad branch, a couple of years back, Allen had observed how diligent and methodical Ramakrishna was in his work and he had encouraged him to join the Mobile Inspection Team.

The audit team from Taiwan took care of their hotel bookings and travel arrangements, themselves. The branch would only get to know about the audit when the team - usually about six people for a large branch such as the one in Mumbai - came and announced its arrival to the manager. A branch of the size of the Mumbai branch, could take nearly a month to audit. The audit report, once finalized, would arrive in the audited branch within three weeks of completion. The arrival of the reports would have a significant bearing.

When it comes to the theoretical perspectives under which the auditor works, independence will be the chief trait. Independence will ensure that the internal auditor functions objectively; without bias, he evaluates controls, operations, and the overall condition of the function

being audited, and the bank. This critical attitude or disposition of independence can be impaired and even destroyed if:<sup>2</sup>

- The auditor allows himself or herself to become involved in making management decisions or become part of the operations of the bank.
- Management requires that the auditor makes management decisions or become part of bank operations.
- Management edits the contents of the audit reports requiring the auditor to make deletions or alterations favorable to management.
- The auditor reports to someone in management rather than reporting to the Board by means of the Audit Committee.
- The Audit Committee does not support the audit function or fails to adequately supervise it.

In June 1999, the Board of Directors of the Institute of Internal Auditors approved the following definition of internal audit:

'Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.'

In addition to generally accepted auditing standards, the internal auditor also determines compliance with internal guidelines - board approved policies, procedures established by management to implement the board approved policies, and systems of internal control, and external guidelines - national or state banking laws, federal banking regulations, and sound fiduciary policies.

In short, the audit is one of the most important functions in a bank.

### **Audit of Mumbai Branch**

To go back to TIB, a team of GHO auditors led by Allen, arrived at 11.00 am on a Monday morning in early December, 2005. The Manager of the main branch was

Simon Wong, originally from Hong Kong but now settled down in Taiwan. He had been in the branch for slightly over two years. Wong was considered by most of his colleagues as a conscientious banker. His only weakness was that he tended to over delegate; this was essentially because he expected his colleagues to have the same commitment as he himself had. This tendency seemed to backfire at times.

His Head of Operations was Ajitabh Bannerjee who had over a year ago moved into the position as a lateral hire from one of the private banks. He had been in the job for around a year and had been a banker for 12 years. He was a product of one of the lesser known B schools. He had also brought with him a junior, V. Warriar, who had worked with him in a private bank. Warriar functioned as his unofficial news gatherer, or to put it bluntly, his spy in the organization.

Bannerjee was not a popular person as he had the habit of carrying tales to his superiors, especially about his junior officers. He also put down people who were potential threats to him; this was done in a very circumspect way but everyone soon came to know about Bannerjee. He just did not fit into the culture of TIB which was characterized by support and friendliness. There were rumors that Bannerjee was not averse to bending or breaking the rules of the bank if it so suited him. Though nothing had been proved against him, some of whom he had offended were trying their hardest to get some evidence to nail him down.

One of his favorite statement was if a, complaint was made against me or my area, 'I deflect it, deny it or delay it.' He used to call this his 3D approach to problems. This was totally against the culture of TIB where officers acknowledged mistakes, and took efforts to see that they were rectified. They also ensured that systems were in place to avoid repetition of the mistakes.

Unfortunately, Bannerjee had not bothered to understand the new values or the ethical culture in which he was now working. He particularly did not know that an audit team from GHO was sacrosanct and consisted of men and women who were dedicated, incorruptible and had a passion for their work-a value shared by all the auditors of TIB.

<sup>2</sup> Source: <http://www.bankaudit.net/Internal%20Audit/IA-Role.html>

This was Bannerjee's first GHO audit. Wong received the team and introduced them to Bannerjee who was asked to co-ordinate the entire audit. Wong had already been acquainted with some of the members of the audit team. In fact, one of the pleasures of the GHO audit function was one gets an opportunity to meet old colleagues in the most unlikely places. Bannerjee appeared shaken when the team walked into his office, but soon appeared to regain his composure. He immediately called his second in command in Operations (Warrior), and started drawing up a schedule for the auditors. Meanwhile, one of the auditors had 'hit' Cash Department, and two others had started counting Travelers cheques and revenue stamps on hand. This was standard operation procedure and no staff of the bank could leave for the day until all these had balanced.

It was a long day at TIB's Mumbai branch and it was close to 10:00 pm when the auditors were ready to leave. Allen was completely at home as he had worked in the very branch and personally knew most of the staff. He spent quite a bit of time talking to them and catching up since the last time he had met with them.

### **The Audit Findings**

The next day Allen and his team started the full audit of the various departments in the bank. He started to go through the Register of Clearing Cheques, which contained details of all the cheques deposited by customers. The register hardly bore any significance. Typically an auditor would not devote more than 15 to 20 minutes for scrutinizing and signing it. What attracted Ramakrishna's attention was a clearing cheque value of Rs 6 crores. It was deposited in favor of Vijay Trading Company, one of the customers of the Mumbai branch. The fact that it was an exact rounded amount, a high value cheque, and was deposited for clearing on the very day the audit commenced made Ramakrishna suspicious. A round amount was a rarity in business transactions.

Ramakrishna walked up to Bannerjee and casually asked him, "What is the business of Vijay Trading?" Instead of answering, Bannerjee responded with a question "Why do you ask?" Ramakrishna replied: "I was going through the clearing cheques register and I happened to see a

cheque deposit of Rs 6 crores. They must be VIP customers of yours and therefore I would like to know something more about them. Can I see their account please?" Ramakrishna could see Bannerjee getting distinctly uncomfortable.

It was well into the fourth day of audit and Bannerjee by then had quietly dug some personal details of each of the auditors. Bannerjee had discovered through his contacts that Ramakrishna was from the Hyderabad branch and that he was quite ambitious and wanted to be on the right side of his superiors. Bannerjee also knew that he was due for repatriation to his parent branch in two months' time and that he was looking forward to a good posting.

In terms of hierarchy, Bannerjee was much senior to Ramakrishna and decided to order him around. Bannerjee said, "Listen, Ramakrishna. I know you are due for repatriation to Hyderabad branch in two months' time. I shall not only expedite that; I shall also ensure that you get a posting of your choice in the Credit Department. Alok Mukherjee, the Manager of Hyderabad branch is my close relative. He is my maternal uncle and I can fix things for you. In return, I want you to forget that you ever saw the clearing register and not to discuss this question with Allen."

Ramakrishna was an ambitious person. He was tempted. He did not want to let go of an opportunity to get a posting in the Credit Department although it meant a compromise on his part. A posting in the Credit Department was all that was necessary for a fast track move in the bank. The price to pay- was to turn a blind eye, about the clearing cheque. Bannerjee "won" the deal and Ramakrishna went back to his desk to continue with his audit work.

Ramakrishna was however disturbed and uneasy, as in his entire career, he had always done the right thing. By keeping quiet about the clearing cheque, he had compromised on his values. That day Ramakrishna did not sleep well. He knew that he had to put the institution before himself. He decided that he would report this incident to Allen the first thing next morning.

Ramakrishna briefed Allen about the whole incident not withholding the "offer" that Bannerjee had made him. He also apologized for not reporting the incident earlier.

Allen was shocked. His first impulse was to confront Bannerjee immediately. But he thought it through and decided that the best course of action was to ring up his superior David Turner in Taiwan and apprise him of what he had discovered. He caught Turner in the office, just as he was about to step out for lunch. Turner recognized the urgency in Allen's voice and gave him a hearing immediately.

'Bannerjee's been squirreling,' said Allen without preamble. 'One of our auditors, while making a scrutiny of the clearing cheques, came across a high value deposit in a customer account on the day the audit commenced. What attracted his attention was that the cheque was for a round amount of Rs 6 crores, which he thought was very unusual.' Allen then recounted the conversation between Ramakrishna and Bannerjee.

Allen further reported that the scrutiny of the account revealed huge excess drawings that were not reported to the Area Office. The account was brought to credit balance just to hoodwink the audit team by depositing a high value cheque on the day the audit team landed. This cheque naturally bounced but Bannerjee managed to physically retrieve the returned instrument from the Clearing Department, through Warriar. The customer account was therefore not debited. Neither was an entry passed into Clearing Suspense Account.

'As it is a clear intent to hide something,' Allen mentioned to Turner, 'I have called for a meeting tomorrow morning at 7: 00 am with Simon and my team. Obviously, the account of Vijay Trading Company is closely linked to Bannerjee.'

'I want that..... nailed to the wall,' was Turner's immediate reaction. In moments of stress his language was quite colorful. 'I will be telling this to the Chairman and the General Manager responsible for India. I want you to call me in the morning immediately after your meeting. I want our reaction to this to be a lesson to all our branches. In fact, I plan to tell the Chairman right now.' Turner asked a few more questions and hung up but Allen could sense the anger in his voice.

### The Reactions

The meeting the next day commenced sharply at 7: 00 am. Allen narrated the findings to Simon Wong who was

outraged. 'This has put my branch in a fix and has shown me in a poor light,' he said. 'Firstly the unauthorized withdrawals went unnoticed, and secondly a senior officer has compounded this by trying to influence an auditor. I am more concerned about the branch than what happens to me. Willie, can we go and meet Bannerjee?'

Allen agreed and the two of them went directly to Bannerjee's office. Bannerjee's face paled when he saw the two senior bankers walking into his office. 'Good morning,' he managed to say but his voice shook. 'Is the audit going on plan?' Bannerjee's first reaction on seeing his superiors was to recall his earlier conversation with Ramakrishna. He took comfort in the fact that Ramakrishna had agreed to his suggestion.

'No, it is not,' snapped Allen. 'I too would like a posting in the Credit Department in Hyderabad branch, along with Ramakrishna. Could you fix it up for me?'

Bannerjee realized that Allen and Wong were privy to the entire conversation he had with Ramakrishna. He made a last ditch attempt, 'Gentlemen, we are men of the world and I am sure we can find a way out..... Why don't we have a quiet talk?'

Wong's reaction was immediate. He turned to Allen and said, 'This chap is offering us a bribe to hush things up. I have just about had enough. I shall warn the security people to see to it that he and his friend Warriar do not leave the premises. Let's lodge a complaint with the police. I will also have to meet the Reserve Bank of India on this and God knows who else. This is one unholy mess and will take months to clear up.'

'Right, Simon. You get things rolling and I will investigate further on our friend. I will keep David informed of the latest - I am sure he will come down today or tomorrow. And the audit is indefinitely extended; though it will really throw a spanner into our schedule for the rest of the year. But we realize this is priority.'

TIB Audit team walked away with another feather to their cap.

### Note

An earlier version of the case was presented at the International Case Conference, November 2010, Goa, India.

---

**Mohan Gopinath** holds a BA (Hons) degree and a Masters degree in English from St. Stephen's College – Delhi University, where he later joined as a faculty. After a two years stint in the college, Dr. Gopinath joined the Hongkong and Shanghai Banking Corporation, and worked as a senior level banker for over 20 years in India, UK and Hong Kong. Subsequently he left the industry and worked for a Ph.D. degree which he obtained from Omani University. He has worked as a management consultant in India, Middle East and as a lead consultant for a World Bank funded Institutional Development Study conducted for the Andhra Pradesh Forest Department. Currently Dr. Gopinath is working at Alliance Business School, Bangalore, as the Registrar and Professor in the Department of Human Resources. He has presented and published papers in national and international conferences in his areas of specialization as well as on Indian dance and music.

---

**Edwin L. Castelino** has completed his PGDM from IIM Ahmedabad and an advanced management program from the Wharton Business School, University of Pennsylvania. He has over 25 years of work experience in the area of Financial Markets, Mutual Funds, and Derivatives. Prof. Edwin has worked with SBI Capital Markets, SBI Mutual Funds, SBI New York and the India Magnum Fund, a joint venture of Morgan Stanley Asset Management, USA. Prof. Edwin has worked as a consultant to Inter Commercial Bank Ltd, Trinidad. Prior to joining ALLIANCE, Prof. Edwin was Professor of Finance at St. Joseph's College of Business Administration, Bangalore for a period of 10 years which included a term of 4 years as Dean Academics.

---

**P. Janaki Ramudu** is a doctorate in finance, a post-graduate in Management and a graduate in commerce from Sri Venkateswara University, Tirupati. He has seventeen years of experience in teaching, research and administration in the field of Management Education. Dr. Ramudu has served as the chairman and member on academic boards of many Universities such as Madras University, Periyar University and Bharathiar University. Dr. Ramudu is the life member of AIMA, NHRDN, Research Development Association (RDA), ISTD and Consultancy Development Cell. Dr. Ramudu also served as the secretary of NHRDN-Hosur Chapter for a period of three years and rendered yeomen services to the same. Dr. Ramudu also conducts Management/Executive Development Programmes for various organizations. Dr. Ramudu strength lies in continuous rapport and interaction with the industry and bringing the same to class room discussions for effective and practically oriented learning process.