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Discussion paper Soft controls

What are the starting points
for the internal auditor?



The Institute of
Internal Auditors
Netherlands

Members of IIA Netherlands Soft Controls work group:

- Janine Combee
- Mandy Dijkman
- Giulio Ockels
- Theo Verzijlbergen
- Bernard de Vries
- Heiko van der Wijk - project leader
- Raymond Wortel

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Preface

Over the past decade, media coverage of fraud and corruption scandals has helped to highlight the importance of soft controls for the governance and internal control of organisations. Inadequate soft controls have a major impact on the realisation of business objectives. Supervisory and regulatory authorities are also increasingly calling for soft controls and for the financial sector this has already led to legislation and regulations. We can expect similar developments in other sectors.

Organisations are responsible for an adequate integration of soft controls into their internal control framework. The internal control framework is a key audit subject for the internal auditor. Consequently, as soft controls are as an essential part of governance and internal control, the internal audit function should include their assessment into its audit planning and audit procedures.

In the International Standard for the Professional Practice 2110, the Institute of Internal Auditors explicitly focuses on business ethics as a part of governance.

This standard stipulates that the internal auditor must explicitly pay attention to soft controls. The following question is crucial here:

“How can the soft controls audit best be structured and what guidance is available to the internal auditor?”

A work group from the IIA Netherlands Professional Practices Committee explored this issue further. This work group comprised participants from various sectors. The high response rate to the survey sent out by the work group clearly shows that this is a hot topic in our profession.

This manual, which has been prepared based on a study of the relevant literature, the results of the survey and experience gained in practice, formulates a pragmatic approach to soft controls audits.

This publication will undoubtedly not be the last word on the subject. We hope that this manual will also lead to further discussion and therefore contribute to the further development of soft controls audits.

The Professional Practices Committee would like to thank the soft controls work group, the interviewees, the internal audit functions who responded to the survey and all other colleagues who helped to make this manual possible.

Leen van der Plas,
Chairman of IIA Netherlands Professional Practices Committee

1 Introduction

Soft controls are about culture and the behaviour of management and employees and their impact on achieving organisational objectives. Given the relevant laws and legislation (and due in part to the recent scandals, such as at Vestia, Imtech, Rabobank, SNS Reaal and SBM Offshore), soft controls are a topical issue for businesses, supervisory authorities and internal auditors.

Internal auditors have devoted a great deal of attention to standards frameworks and hard controls in terms of design, existence and operating effectiveness. But behavioural and cultural aspects, the soft side, are less frequently addressed. This is strange, considering the influence of controls on people's actual behaviour. Not including the soft side in the standards framework results in an incomplete picture of the extent to which the subject of the audit is "in control".

A large number of publications have already appeared on soft controls. Discussions with peers however, have shown that within the profession there is, above all, a need for practical guide on performing soft controls audits, including lessons learned that can be incorporated into the audit. To meet that need, the work group seeks to answer the following questions with this manual:

1. What is the state of affairs with regard to soft controls audits:
 - a. On what scale are internal audit functions (IAFs) in the Netherlands performing soft controls audits or planning to do so in the future?
 - b. How are soft controls audits performed, for example in terms of scope, frame of reference and employee type?
2. What can we learn from IAFs that perform soft controls audits?
3. How can soft controls audits be approached in practice?

To answer the first question, in March 2014 a survey was distributed to 150 IAFs in the Netherlands. 72 responses were received, providing a good picture of the state of affairs for soft controls audits by IAFs in the Netherlands.

The results of the survey speak for themselves:

- **40% of respondents said they already perform soft controls audits;** of the remaining 60% a large majority (55%) said they planned to perform soft controls audits in the future. On the basis of this information, we can expect that 75% of IAFs will be performing soft controls audits within a few years' time.
- **Those performing soft controls audits:**
Half of the IAFs performing soft controls audits examine behaviour and culture as an integral part of audits, 11% perform specific soft controls audits and a quarter perform both integrated and specific soft controls audits¹.

Most respondents (39%) use the eight dimensions of M. Kaptein & P. Wallage (2010) as a theoretic frame of reference. In second place are the corporate values as a frame of reference (15% of respondents), followed by the culture house of the Dutch central bank ('De Nederlandsche Bank' - DNB) (2009) (11%).

¹ For a detailed description of the concepts used here, see section 3 "Approaches to Soft Controls Audits - Possible Types".

- **Those not yet performing soft controls audits:**

Of those respondents not yet performing soft controls audits, more than half said they were planning to do so in the future. Reasons for not yet performing soft controls audits at the moment are:

- the IAF has insufficient experience or skills (44%);
- there is no requirement within the organisation, or the organisation is not yet ready (20%);
- hard controls have priority (18%).

The results of the survey are presented in separate inserts throughout this manual. For quantitative information on the results of the survey, please refer to Appendix A.

In order to answer the second and third questions, various publications were studied and a number of IAFs were interviewed. The information gained from these interviews (good practices and bottlenecks) was anonymised and has been included in separate sections throughout this manual.

The manual comprises the following sections:

- *1. Introduction*
- *2. Explanation and Definition*
The concepts of behaviour and culture and the difference between a soft controls audit and a behavioural audit are briefly addressed here.
- *3. The Approach to Soft Controls Audits - Possible Types*
This section describes a number of possible approaches to a soft controls audit.
The 'what' and 'how' are dealt with here.
- *4. Audit Tools & Skills*
This section describes the audit techniques important for a soft controls audit. It also gives a concise overview of the desirable personal skills for auditing soft controls.
- *5. Presentation and Reporting*
This section addresses in more detail how the findings of a soft controls audit can be usefully reported.

Auditing soft controls is not always easy. There are several possible approaches and the effectiveness of the chosen approach depends on factors over which the IAF does not always have direct influence. As a work group, we had many discussions about this issue. We hope that this manual will serve as input for the further development of soft controls audits.

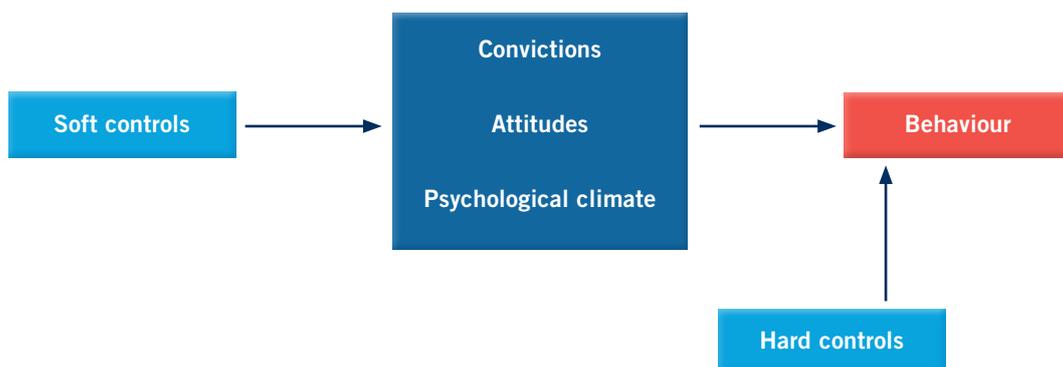
2 Explanation and definition

This section explains the term soft controls as opposed to the definition of a hard control. It also explains the concepts of behaviour and culture and how they relate to a behavioural audit.

Soft controls generally concern less concrete or less directly visible measures that indirectly contribute to achieving organisational objectives. For a good understanding, below we describe a number of the terms used in this publication. We should add, however, that there is no generally accepted definition of soft controls (Bos & de Korte, 2008)². As Bos & de Korte rightly conclude, the added value of soft controls lies not so much in the concept of hard controls versus soft controls, but primarily: *“in consciously looking at the same reality through different eyes”* (2008: 10). That being said, to enable the reader to better understand soft controls, we would like to present a popular definition of the difference between hard and soft controls by de Heus & Stremmelaar (2000). They state the following:

Hard controls: *“lead to directly visibly changed behaviour or actions”* (p. 20). Here, we are therefore talking about employee behaviour being directly influenced. Key elements of hard controls are planning and control, tasks, responsibilities and authorisations. Hard controls can be clearly observed and are therefore relatively easy to test.

Soft controls: *“A soft control is a (control) measure that - more than hard controls - intervenes in or appeals to employees’ individual performance (conviction, personality). Soft controls can be regarded as measures influencing employees’ motivation, loyalty, integrity, inspiration and standards and values”* (p. 22). This concerns employee behaviour that is indirectly influenced through convictions and attitudes. In addition to examining the soft controls themselves, it can also be important for an auditor to examine the convictions, attitudes and psychological climate. After all, these are the predictors of whether the employees will ultimately exhibit the desired goal-oriented behaviour.



What do we mean by behaviour? Wijsman (2004) defines behaviour as: *“observable actions and forms of internal activity that can lead to observable actions”* (p. 24). One of the most important indirect behaviour influencers within an organisation is the organisational culture. The organisational culture is expressed in the values and behavioural standards a specific organisation considers important. These values and behavioural standards are used to encourage employees to exhibit a specific behaviour. If that behaviour is constructive and contributes to achieving the organisational objectives, then the organisational culture (or parts of it) can be seen as a soft control.

² Bos & de Korte, 2008. Soft controls: if you understand it you haven't thought about it hard enough. Audit Magazine, no. 4, pp 10 - 13

For the concept of culture, we used Schein's definition (2004): *"A pattern of shared basic assumptions that was learned by a group as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think and feel in relation to those problems"* (p.17). From Schein's definition we can deduce that he sees culture as the learning of basic assumptions, aimed at solving problems in order to adjust to the environment and thereby facilitating integration with the group. Based on the above definition of soft controls and the accompanying diagram, culture is a soft control if new group members adopt assumptions from the existing group that lead to convictions and attitudes contributing to goal-oriented behaviour.

Another important indirect behavioural influencer is the behaviour of managers, including their leadership style and exemplary behaviour. By leadership style, we mean: *"the way in which a manager offers guidance to employees and obtains their voluntary commitment to following that guidance"* (Bloisi, Cook & Hunsaker, 2003: p. 568). Exemplary behaviour ('tone at the top') focuses on the behaviour of a manager that matches the desired behaviour within the organisation. This can be their behaviour in relation to integrity or working hours, the motivation they show and suchlike.

In addition to the term 'soft controls audit' there is also the term 'behavioural audit'. A behavioural audit can be defined as: *"a neutral and thorough investigation aimed at gaining insight into the behaviour of organisation members and reporting on that behaviour with the aim of influencing the socio-psychological climate and organisational culture"* (Otten & van der Meulen, 2013, p 33). Based on this definition, a behavioural audit can be seen as a specific type of soft controls audit. A behavioural audit, as outlined by Otten & van der Meulen, is primarily characterised by the 'open standard approach' and the methodology used. This is based on the qualitative research tradition and the 'action research' approach.

Appendix B "Theoretical Guidance" further elaborates on the frame of reference.

3 The Approach to Soft Controls Audits - Possible Types

3.1 Key questions

Internal auditors are becoming increasingly aware of the importance of soft controls in achieving business objectives. Actually, it is not really possible to audit the governance and internal control of an organisation, process or activity without considering the people in the people/process/system triangle. Organisation management are also increasingly demanding that soft controls be integrated into activities.

In the financial sector, the Dutch central bank (DNB) explicitly requires attention to ethical business practices and the associated soft controls.

The survey shows that the respondents working in the financial sector are already performing soft controls audits or planning to do so in the future. Within the next few years, virtually all IAFs in the financial sector will be performing soft controls audits.

Soft controls audits are also a topical issue with the other respondents, but 36% of these IAFs do not expect to perform soft controls audits.

Before initiating or taking subsequent growth steps in a soft controls audit, it is important to gather further information by answering the following questions in relation to the IAF's environment:

- Is the organisation ready for this (what is the organisational structure, including the state of the internal control? Is senior management open to the idea and what response do you expect to the results of a soft controls audit)?
- What are the societal expectations with respect to the organisation's behaviour?
- How is the achievement of organisational objectives supported by soft controls audits?
- What expectations do the Audit Committee or senior management have of a soft controls audit?
- What external regulations apply to the soft controls within the organisation?

The following questions are of supplementary importance to the IAF:

- What is the approach for such an audit type?
- What audit techniques does the proposed approach entail?
- Does the IAF have the necessary knowledge and skills or are investments necessary?
- In a situation in which soft controls audits have already been performed in the organisation, what have the experiences/bottlenecks been and what advice has been given?

The IAF should answer these questions within the context of its own organisation. Depending on the outcome, the IAF can define follow-up steps, preferably in consultation with management.

The survey shows that 39% of the IAFs who do not yet perform soft controls audits say they have insufficient knowledge or skills; for 18% there is no requirement or the organisation is not yet ready and for 11% soft controls audits are not yet accepted within the organisation.

3.2 Types of approaches to soft controls audits

A soft controls audit can be conducted in various ways. The answers to the questions in the previous subsection and how they interrelate can help the IAF select the approach to be used for soft controls audits. Depending on the maturity of the organisation, it can pay off to start with examining the state of affairs with regard to soft controls in the organisation. This increases the awareness of management and the rest of the organisation and the IAF gains experience that is essential for performing a proper soft controls audit.

Without being exhaustive, we describe a number of basic forms that, depending on the context of the organisation, can be used in a growth/development process in the approach to soft controls audits. Generally, the following basic forms are available to the IAF:

- A. Exploratory research
- B. Testing the results
- C. Cause analysis
- D. Integrated audit
- E. Thematic audit
- F. Behavioural audit

These basic forms are elaborated below.

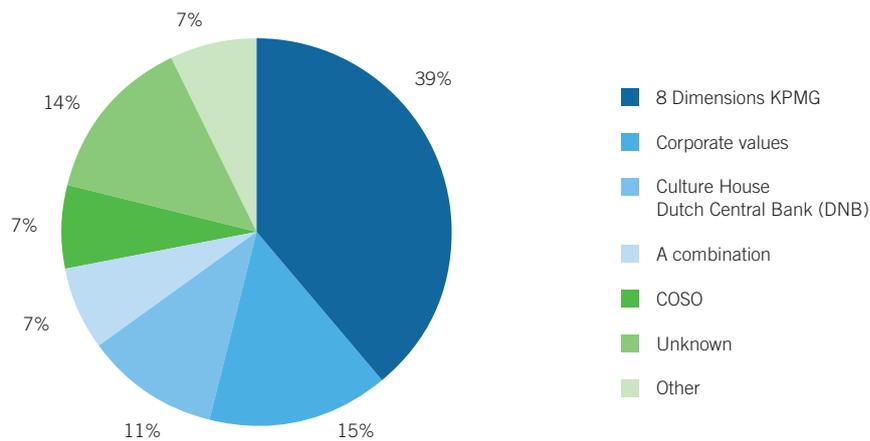
A Exploratory research

Not in all organisations management is sufficiently conscious of the influence of soft controls on achieving organisational objectives. IAFs play an important role in improving internal control. In this situation, it is therefore useful to provide guidance to management in exploring the importance of soft controls.

These activities do not constitute an audit.

In an open dialogue session facilitated by the IAF, management indicates which aspects of behaviour and culture are important for the organisation. To ensure a fruitful discussion, it is important that it is based on a frame of reference that is familiar to management. The discussion can then focus on identifying the key elements of these aspects. The frame of reference can consist of values and organisational principles formulated by the organisation or more generic models, such as DNB's culture house and the 8 soft controls used by KPMG (see also appendix B "Theoretical Guidance").

What is the most important reference framework for your approach?



Management is asked to clearly formulate their expectations of the behavioural and cultural aspects and the current status, in their view, of their implementation within the organisation. That creates an internal framework of standards for behaviour and culture.

During this session, the IAF uses its knowledge of the organisation, the sector and the operation of the various management layers and processes to encourage top/senior management to establish the organisation's framework of standards. This can limit the risk of a suboptimal decision-making process, as all management members are given sufficient opportunity to give their own input so that it is actually taken into consideration. The dialogue session helps determine whether management's assessments are sufficiently substantiated and not overly influenced by possible prejudices or tunnel vision. The process should ultimately produce a correct picture of the organisation's desired framework of standards for behaviour and culture.

Using an approach comparable to that just described for senior management, it is also possible to perform the exploration at other levels in the organisation. The key objective is to gain insight into the perception of soft controls in the organisation as a whole. Participants are asked to clearly formulate their expectations of the implementation of behavioural and cultural aspects and the current status, in their opinion, of their implementation within their (part of the) organisation.

In summary: The IAF receives input from senior management on the required controls (design, existence and operating effectiveness) and then from lower management (existence).

Practice example - Establishing framework of standards

The IAF of a financial institution establishes the framework of standards through discussions with senior management. The most important question during these discussions is "which business criteria are relevant to this audit?" Examples of business criteria:

- *Learning organisation*
- *Focus on client's interests / client satisfaction*
- *Cooperation*
- *Internal communication*

The auditor makes the business criteria specific by continuing to ask questions and giving examples. One important question is: “Does the behaviour exhibited contribute to achieving the objectives?” Criteria are also linked to the chosen frame of reference to arrive at a framework of standards for the audit.

B Testing the results

The results of the exploration constitute a description of what the organisation’s management considers to be the organisation’s desired framework of standards for behaviour and culture. Having in place control measures is not an end in itself for an organisation, but supports an effective operational management, as do governance and management controls. This holds true not only for ‘hard’ controls but also for ‘soft’ controls. So it is important to establish that the perception and application of the controls are the same throughout the organisation. Everyone within the organisation must not only be familiar with and able to find the framework of standards, but also be willing and able to apply it.

The IAF can establish the existence of this desired framework of standards within the organisation. To put it another way: The IAF verifies the existence of the desired controls with lower management and on the work floor, based on input received from top management.

In follow-up meetings (workshops) with the various hierarchical levels in the organisation, the internal auditor monitors the extent to which people are aware of the expectations of top/senior management and the soft controls are implemented by the other management layers and on the work floor. Alternatively, the internal auditor can use a survey for the meetings.

The above approach results in a better picture of the existence of the desired framework of standards and can provide input for any follow-up action by the IAF.

C Soft controls as part of cause analysis

During the exploration, it may emerge that management requires recognisable examples of the impact of soft controls on operational management. One possibility is for the IAF to include soft controls in the usual cause analysis of findings. This includes the human factor in the root cause analysis. Although in this approach soft controls are included in the hard controls audit, this form is less comprehensive than the integrated approach described below in section 3.2 - D. However, this approach can also provide insight into the internal control awareness within the company.

When performing regular audits, aimed at hard controls, the auditor examines to what extent the findings are (partly) caused by ineffective behavioural and cultural aspects chosen by the organisation. In consultation with the management, the internal auditor established the behavioural and cultural aspects relevant to the organisation.

For each finding, the auditor conducts a cause analysis that considers the behavioural and cultural aspects. The IAF also includes these behavioural and cultural aspects in the conclusions and recommendations.

One major advantage of this approach is that it fits in with the existing audit approach, so that it can be gradually introduced with sufficient guidance from the IAF management. An additional advantage is that this approach lends itself to further exploration with regards to soft controls for the IAF itself.

This approach leads to better insight into the influence of behavioural and cultural aspects on operational management and it improves how they interrelate. It can therefore also provide further insight into possible new patterns and/or risks.

The drawback of this approach, though, is that soft controls are only considered if there are ineffective hard controls, meaning that ineffective soft controls may be overlooked.

So even in situations where the operating effectiveness of hard controls is adequate, it is still advisable/necessary to integrate behaviour and culture into the audit. Incidentally, the trend of including soft controls in the audit is expected to take off in the next few years.

D Integrated audit

With an integrated approach, soft controls are in principle included in all phases of the audit. Depending on the risks identified in the control environment, the hard and soft controls to be examined during the audit are defined. In practice, this means that attention is devoted to soft controls in all audits.

Appendix C “Practice Example of a Soft controls Audit Integrated into a Hard Controls Audit” further explores the balance between soft and hard controls. This is illustrated in that section and in the following example. Appendix C also includes a figure illustrating the relationship between hard and soft controls. The presence of effective soft controls can reduce the number of necessary hard controls³.

When performing an integrated audit, the topic of soft controls must be open for discussion within the organisation (this is discussed in more detail in Chapter 5, “Presentation and Reporting”). Appendix C defines moments during the performance of the audit when soft controls need to be discussed with management and the employees.

Practice example - Impact of soft controls

An administrative department applied the hard control that services provided had to be reported daily in a prescribed format. The team consisted of members with a great sense of responsibility. They promptly reported peculiarities and action was effectively taken without prior instructions.

The audit showed that, with these positive soft controls actually in place, reporting could change from daily to weekly.

³ It should be noted, however, that this positive conclusion on soft controls may change due to changing circumstances, such as employee turnover in the department or a change in management. This point obviously also applies in other situations.

Practice example - Good practice - Integrated audit

With an integrated approach, the combination of hard and soft controls in place is already examined in the exploration and risk analysis (planning) phase of the audit. This can be done by comparing the performances of departments and examining the various causes of differences in performance. Core values and business principles defined by the organisation are also examined.

Based on the results of the exploration and risk analysis, the auditor compiles the work programme to be used during the audit. Specific attention is paid to both the hard controls and the soft controls. During the audit phase, the auditor establishes the effectiveness of the control measures set by the management.

Already defining the soft controls to be tested in the planning phase means that attention is paid to soft controls throughout the process. This also makes it easier to draw conclusions in the evaluation phase and establish the effect in terms of whether the audited business unit achieves the business objectives.

E Thematic audit

In addition to the abovementioned ways of paying attention to soft controls, the IAF can perform an audit that specifically looks at the effectiveness of one or more soft controls. This provides additional insight into the effectiveness of the organisation's control framework. The core of a thematic audit is, therefore, that the IAF examines the design, existence and operating effectiveness of one or more specific soft controls or their implementation.

This approach starts with establishing (in consultation with management) the specific behavioural and cultural aspects to be included in the audit by the internal auditor. Alternatively, the decision can be made to focus the audit on one or more specific business units. In that case, management also specifies its expectations with regard to the implementation of these aspects in the departments to be audited (framework of standards).

The internal auditor then examines to what extent the auditee is familiar with the aspects in question:

- What does this entail according to the auditee?
- What importance, in the auditee's opinion, does management attach to this?
- What is the auditee's own opinion?
- How does the company implement this and what improvements are needed (if any), in view of the desired behaviour and culture that management has defined?

Examples of these types of audits include examining how conflicts of interest are handled and the extent to which they can be discussed, and examining the effectiveness of a whistleblower scheme.

This approach gives management better insight into the effectiveness and implementation of behavioural and cultural aspects in the organisation and employees a better idea of management's expectations. The greater depth of these specific audits places additional demands on the auditor, especially as it entails explaining people's behaviour rather than the results of that behaviour and because the standards are not always perceived to be sufficiently explicit.

Practice example - Thematic audit

The IAF can perform a thematic audit independently. The example below, however, is a collaboration between a number of parties within the organisation.

Within the financial services sector, specific laws and legislation demand that client files comply with certain requirements. In addition to formal requirements, material quality requirements also apply. Earlier studies have shown that these quality standards are not always achieved. To identify the obstacles and counterproductive incentives that encourage this undesirable behaviour, the 2nd (Compliance) and 3rd (IAF) lines of defence in a financial institution work together in this example. Compliance and the IAF have jointly formulated a plan of action and submitted it to the Management Board.

All phases of the audit are conducted jointly, with the two parties maintaining their independence. Clear prior agreements are made in this respect.

The audit results in a joint report to the Management Board

F Behavioural Audit

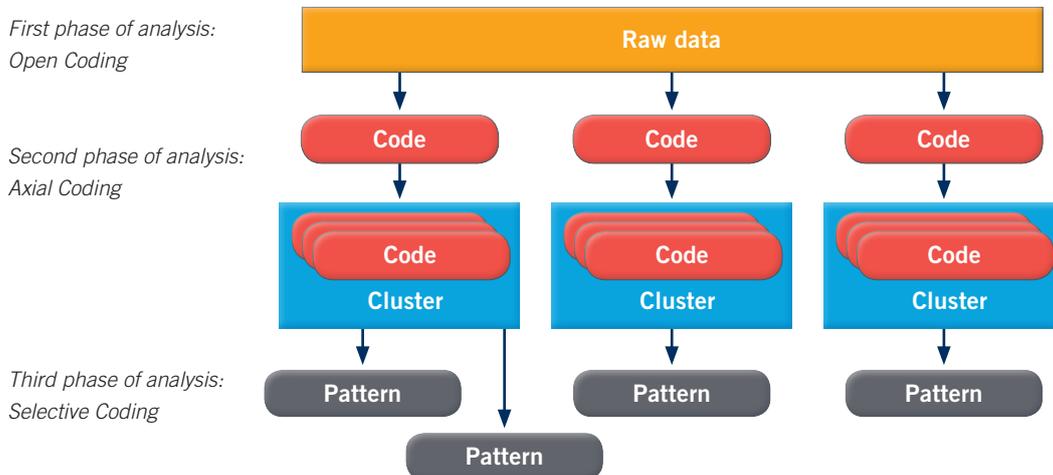
A behavioural audit is a form of qualitative analysis focusing on the mental and relational processes in the organisation. The audit questions highlight issues concerning the way in which people give meaning to their social environment and how they behave accordingly. Research methods are used that enable the auditor to gain familiarity with the topic from the perspective of the auditees, with the aim of describing and, where possible, explaining it.

A behavioural audit is an open standard approach in which no fixed frame of reference is chosen beforehand. A number of sensitising concepts may, however, be determined in advance. These provide a theoretical framework that can act as a starting point for the audit. Sensitising concepts provide direction without prescribing the route and act as an exploratory tool for auditors during the field work. As the audit progresses, though, other terms and concepts may prove better suited to the results of the data collection and analysis.

The real research work begins with identifying 'remarkable facts and events' that are of importance for the audit. These are directly observable factors that are concrete and measurable (quantifiable). Everyone is agreed as to their existence, but opinions can vary as to their significance. These facts and events are the starting point for reflective, investigative discussions. They steer the interviews towards the most relevant aspects, while ensuring that the interview remains grounded in the factual and current context. The objective of these discussions is to allow the auditees to talk in all openness about their experiences. The way in which the auditors pose the questions encourages auditees to explore their assumptions and interpretations. These are questions they usually never or no longer ask themselves. Through the process of reflection this sets in motion, they become aware of links of whose existence they were never or are no longer aware. These discussions almost always provide unexpected or sometimes completely new insight for auditees. Advanced interview techniques and strategies combined with a strict interview protocol help the auditors achieve the desired depth.

The discussions are recorded and detailed in full transcriptions. In accordance with the qualitative research tradition, the texts are analysed in a three-tiered approach:

- Open coding: data reduction
- Axial coding: forming concepts
- Selective coding: forming theory



The results of the analysis are then turned into a story using quotes from the auditees. The organisation tells its own story, as it were. The auditors add comments and questions to the story. The reporting forms the input for the concluding validation workshop, in which all the auditees involved participate. During this workshop, they are invited to discuss the results with one another. This generates a dialogue that adds additional depth to the insight in the report. This can lead to a disqualification of the current situation and bring about lasting change.

Practice example

The organisation has a lot of problems with implementing projects. The project part of the work package has increased substantially in recent years. Many projects have to be partly or entirely re-implemented. To tackle the problems, a number of measures have been taken, including the implementation of a 'light' version of Prince 2. The problems are not disappearing, though; in fact they are being compounded. The management is therefore wondering why working with Prince 2 is not being accepted and what the possible solutions might be. It is decided to perform an audit, with the aim of gaining insight into what drives those involved to resist the proposed project approach.*

Approach

Once a number of sensitising concepts have been established in consultation with the client (achieving objectives, rules and procedures, cooperation, balance between regular and project work), remarkable facts and events are identified. A number of reflective discussions are then held. The results of the analysis were reported in the form of a story, which was the input for a dialogue on the driving forces and underlying conceptions in the organisation with respect to the approach to projects. This has given those involved insight into each other's motives and behaviours and a list of proposals for lasting improvement.

* A conceptual framework to guide and monitor a project.

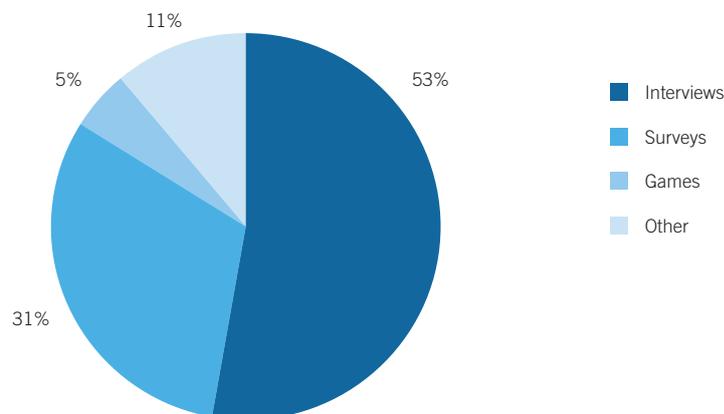
4 Audit Tools & Skills

4.1 Techniques specifically for performing a soft controls audit

Internal auditors have a number of techniques at their disposal when performing a soft controls audit. Before choosing from these techniques, it is important to stress that knowledge of research or audit methodology is indispensable. That knowledge is important because it provides auditors with insight into how to correctly arrive at a valid answer to the research question. Internal auditors need to be aware that different types of questions should lead to different techniques and then to appropriate analytical methods and reporting formats. As there are post-initial internal audit courses that address the research and audit methodology in detail, and it is too broad a topic for this manual, we will only discuss the techniques. This includes a number of traditional techniques with specific applications and a number of more recent techniques. The effectiveness of the audit depends in part on the type of technique that is applied.

Well-known techniques include holding interviews and carrying out document analysis. Examples of techniques that are relatively new within the internal audit discipline are: conducting surveys, facilitated workshops, behaviour observation and games.

Key Audit Techniques



Survey question 14:

What are the key audit techniques used during soft controls audits?

The survey underlines the fact that behaviour observation and document analysis are important audit techniques for soft controls audits. The relatively new techniques are also already being applied to soft controls audits. On the next page, figure 2 presents an overview of the techniques and their specific features.

Figure 1: Overview of techniques with their specific features as deployed when auditing soft controls. Includes examples that came to the fore in the audit.



Practice example - Audit of an Agile project by means of observation

For one of the IAFs interviewed, an important project (both financially and within the framework of operational management) was carried out using the Agile project approach. One feature of this approach is that decisions are made by means of interactive consultation decisions; the involvement of the project team and manager is essential. These factors cannot, however, be audited without being recorded or reported on.

During the audit of this project, the IAF therefore primarily used local observation; during the consultation sessions, but also of the (more informal) discussions amongst the project team, plus interviews with the project teams

Practice example - Surveys

The risk management department of an international business facilitates workshops with the aim of explaining and reinforcing the culture and soft controls within the organisation. Surveys are distributed to prepare for the workshops.

The major objective of the surveys is to gain insight into the existence and quality of the soft controls within the entity. Furthermore, the results of the survey are used to evaluate the relationship between hard and soft controls and assess the entity level controls.

The survey consists of questions and a number of dilemmas are described, accompanied by questions.

Important success factors for conducting a survey:

- *The surveys are tailored to each individual entity, including by taking into account the job grades applicable to the entity*
- *Management commitment*
- *Entity structure and culture*

Practice example - Facilitated workshop following up on audit findings

Just after the soft controls audit, the IAF, part of an international company, organises a facilitated workshop to discuss the follow-up of important audit findings with the auditee and experts from the organisation (from another location or department, for example).

During the workshop, a solution to the audit finding is proactively sought, using the expertise within the company.

4.2 Knowledge and skills

The use of the techniques in figure 1 (Overview of the relatively new techniques and their specific features in soft controls audits) requires specific knowledge and skills.

Theoretical knowledge

- The auditor's knowledge must extend beyond the required knowledge of hard controls. The auditor must also have a basic knowledge of behavioural sciences and, specifically, social psychology, organisational psychology or organisational behaviour. The auditor also has to have knowledge of soft controls. This means knowing not only what is meant by soft controls, but also which controls are relevant to the audit subject in question. Knowledge of how to interpret and process data and how to present the results in a clear way is also required.
- Being more effective as an auditor in performing soft controls audits requires specific knowledge of discussion skills and interpretation, the theory of decision-making processes, possible frameworks of standards for soft controls, cultural differences (employees from different countries), and the performance of surveys (compilation, analysis, statistics).

Skills

There are a number of important factors for performing the audit:

- The audit team
 - Diversity in the audit team to enable the interpretation and analysis of the information received.
 - The deployment of experts in the audit process, such as auditors with a background in sociology, psychology, anthropology or, for instance, someone from the company's HR department. This can make analysis easier and provide more of a foundation.
 - Execution and analysis in a minimum of pairs. In interviews or workshops, both auditors can play an active role, but alternatively the role division can be that one auditor takes the role of interviewer or facilitator and the other acts as observer and records.
 - Suggestion: consider involving a relative outsider in the evaluation in order to gain a holistic picture. In other words, the main aim is to gain a good picture of the cohesion of the things.
- Involvement

Determine the hierarchical layers in the department being audited. Depending on the subject and scope of the audit, you can examine all the layers or, for instance, just the management level (in the subsequent evaluation, this aspect also helps to achieve an efficient traceability of findings and conclusions).
- Lead time

The use of surveys requires extra time for preparing the audit. In the experience of one of the IAFs interviewed this proved to double the preparation time. That time is spent formulating the questionnaire with questions that are not open to various interpretations and therefore produce reliable information. Testing the correct interpretation of the questions (beforehand), compiling the distribution list, sending reminders and analysing the answers are other time-consuming factors.
- The auditor
 - Being able to establish trust in the relationship with the discussion partner in order to get to the heart of the question together.
 - Related to the first point: a soft controls audit demands specific interview skills. The main aim is to ask questions, but not too mechanically and not like checking off a list. Asking open questions is more effective and it is essential to keep questioning until a link is established with, for example, one of Kaptein's 8 dimensions. The auditor must also have the ability to interpret non-verbal behaviour and know how to deal with it.

- The auditor must have a certain knowledge of and sensitivity to behavioural aspects. That sensitivity is necessary for observing behaviour properly. Observation entails a high degree of personal assessment. Knowledge is necessary for clearly identifying what is observed and putting it into context. Structured observation lists are available for behavioural observation.
- The auditor must be not only able, but also willing to perform soft controls audits. The auditor must be prepared to want to take the step. IAFs who already perform soft controls audits said that gaining experience gives them more confidence in their ability.
- The auditor's integrity determines the auditee's cooperation. What is the auditor's reputation and, in a broader sense, what is the audit department's image?

Practice example - Audit team knowledge and skills

Interviewees feel that auditors need specific knowledge and skills for auditing soft controls properly:

- *Training time can often be reduced if auditors involved in a soft controls audit have a social sciences background. During their studies, they have often gained sufficient tools for analysing soft controls. Auditors with a different background can also be coached in this aspect, though.*
- *It is important for auditors to be prepared not to restrict themselves to the paradigm that a thorough foundation can only be gained on the basis of hard controls. The auditor must be prepared to explore the reliability of the information gained from other research methods (such as a survey). If the information this produces is not accepted by the auditee or the management to serve as a solid foundation, there is no point in the auditor following up the soft controls audit without first giving further explanation and discussing the information.*
- *If audit findings are based on soft controls, it is important for the auditor to have a certain maturity. The ability to continue questioning and persevere are important, as discussions are often held with senior or higher management.*
- *It can happen that management disagrees with the findings. There are sometimes even negative feelings towards the findings. In such cases, it is important for auditors to stand their ground.*

Practice example - Good practice - Integrated audit

An auditor was engaged to audit a complaints procedure. Complaints were handled at various locations and by a large group of employees. In addition to including hard controls in the framework of standards, the auditor also examined the following soft controls:

- *Employees' quality awareness when handling complaints*
- *The degree of collaboration by employees to ensure that complaints are handled promptly*

The workload experienced in handling complaints in combination with other work was also included in the audit. The soft controls were made transparent by means of a survey. Based on existing scientific measuring tools (such as previously-developed questionnaires), propositions were included in the survey that provided insight into the soft controls. Various analyses (such as the calculation of analyses) could be used to clarify how the various locations score on the soft controls and whether there were any significant differences between the locations.

⁴ Guides for such observation lists are available on the internet. Another possible source is Scholar.google.com. Various specialised external consultants have also developed specific observation lists.

5 Presentation and reporting

Soft controls are seen as a sensitive issue, as they target/trace people's behaviour to a great extent than process/hard controls. They concern people's actions and behaviour, such as the implementation of the leadership role. Soft controls are also less tangible and there is often no strict standard against which they can be tested. It is therefore important for the results of the audit to be communicated in a careful, transparent manner⁵. Additionally, investigations focusing specifically on how the organisation influences culture and behaviour are often more sensitive because there is less experience of them.

The auditor must be capable of gaining insight into the subject of the audit and must make arrangements on how the results are presented.

The results of the survey show that this is not that simple. Not all respondents have explicit reports on soft controls.

It is important that the risk of ineffectively operating soft controls is brought to the attention of top/senior management and that the issue is made open to discussion in the organisation. As with hard controls, ineffective soft controls can impede the achievement of organisational objectives.

It is generally more difficult to link a judgment of correctness/incorrectness to a soft controls audit. While hard controls can often be labelled as correct or incorrect (in terms of design or operating effectiveness), soft controls lend themselves more to a representation of the extent to which they are present or a qualitative description of what has been observed. It is therefore easier to give the score or the description than to state whether it is correct or incorrect.

The communication method depends on the effect that management and the IAF wish to achieve. Possible reporting methods are:

- written feedback (with or without a judgment)
- oral feedback
- no feedback

The effect is more important than following the standard reporting process.

The IAF will often report in the form of a written audit report. Oral reporting can also be an effective way of sharing the audit findings. Sufficient commitments must be included in the file to ensure that quality requirements are complied with. In the last case, the assumption is that the execution of the audit and the discussion of the observations will already bring about the move towards the desired development.

⁵ The 2400 group of the IIA standards addresses communicating the results in more detail:

- 2400 - Communicating Results: "Internal auditors must communicate the results of engagements".
- 2410. A1: "Final communication of engagement results must, where appropriate, contain the internal auditors' opinion and/or conclusions. When issued, an opinion or conclusion must take account of the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information".

The IAF is bound by these standards, but will adjust their application to the specific situation. The standards offer the flexibility to do so.

The reporting can establish links with the chosen frame of reference or framework of standards (see introduction). The analysis of the results of soft controls audits can be used again in the risk analysis for selecting audit subjects in the audit planning.

As we already mentioned, the sensitive nature of the audit findings requires that great care is taken in reporting them. Careful reporting is primarily a matter of:

- **Formulation**
Behaviour that can be effective in achieving objectives in a certain situation can actually be counter-productive in another. Seek to establish this connection in the report.
- **Judgment**
The judgment must be substantiated. The development of the content of judgments has not crystallised yet. Having in place standards for this will help to make the judgment more recognisable to management. If it is not possible to arrive at a judgment, then a summary of the work carried out and the associated findings can be given.

Section 3.2 (Types of approaches to soft controls audit) explored the characteristics of the types of approaches we have considered. The following overview presents possible reporting formats for each type.

	Activity	Reporting
A	Exploration with organisation's management	Framework of standards for behaviour and culture.
A	Exploration with other layers in the organisation	Overview of the status of / insight into the implementation of the behavioural and cultural aspects according to the organisation.
B	Testing the results of the exploration(s)	Overview of the status of the implementation of the behavioural and cultural aspects according to the auditor.
C	Cause analysis as an integrated part of a regular audit	The ineffectiveness or partial effectiveness of hard controls is linked to the effectiveness of soft controls. This can be clarified by explaining the soft controls. In principle, improvement proposals are linked to the explanation.
D	Fully integrated hard and soft controls audit	The results of the soft controls audit are part of the totality of the audit findings and included in the reporting process. Due to the sometimes very sensitive nature of the results, the way in which the auditor communicates them (including the findings) can differ from the findings for 'hard' aspects.
E	Thematic audits of soft controls	Specific reporting focusing on the behavioural or cultural aspects.
F	Behavioural audits	Reporting in conjunction with a validation workshop

The effectiveness of soft controls has an influence on whether organisational objectives are achieved. So the IAF will have to consider the findings on ineffective soft controls in its final assessment of the organisation's control framework (Governance, Risk Management and Controls), as it does for ineffective hard controls.

In its final assessment, the IAF will therefore consider both hard and soft controls. In many cases, the IAF will seek to reconcile this with the regular audit ratings it applies, and which have also been agreed with the organisation's senior management.

In the absence of a clear framework of standards for behavioural or cultural aspects, it is up to the IAF to establish the extent to which the achievement of the organisational objectives can be impeded by the ineffectively operating soft controls. The IAF will then take that into account in its final assessment and recommendation.

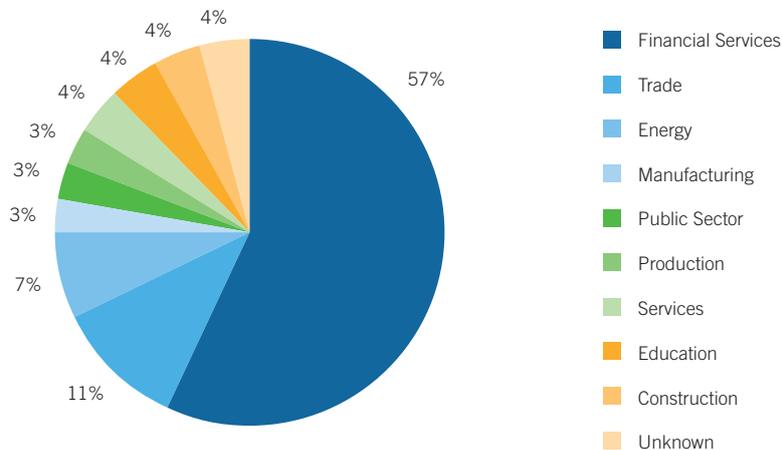
Appendix A

Internal audit functions questionnaire

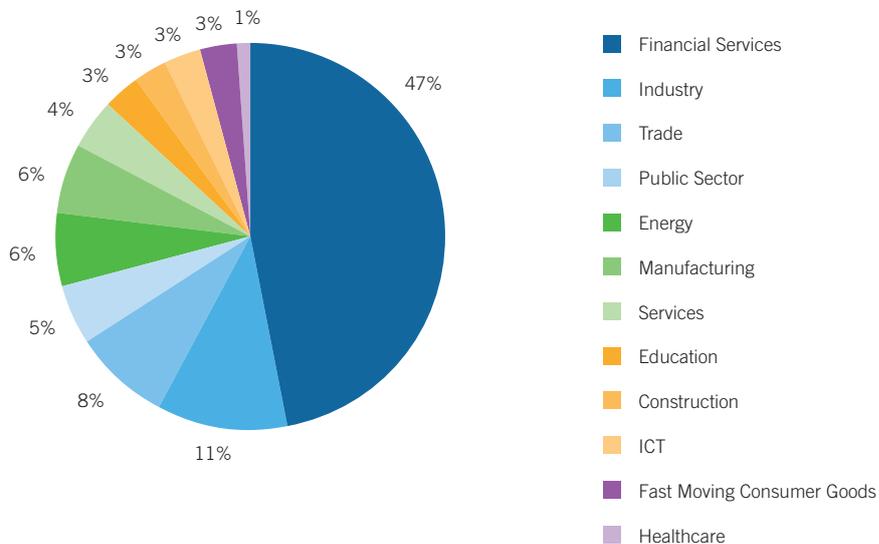
In March 2014, the soft controls work group distributed a survey to around 150 audit functions in the Netherlands. 72 responses were received. It was not the intention of the survey to take a representative sample. Nevertheless, the responses gave a good picture of the state of affairs with regard to soft controls audits by internal audit functions in the Netherlands.

The average size of the internal audit functions providing input was 19 FTE and 40% of the respondents already perform soft controls audits.

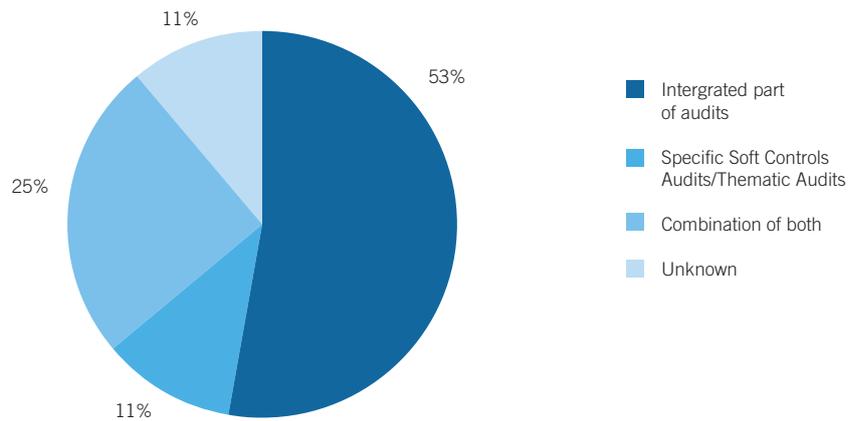
03 Performing Soft Control Audits - What is your organisation's the type of industry?



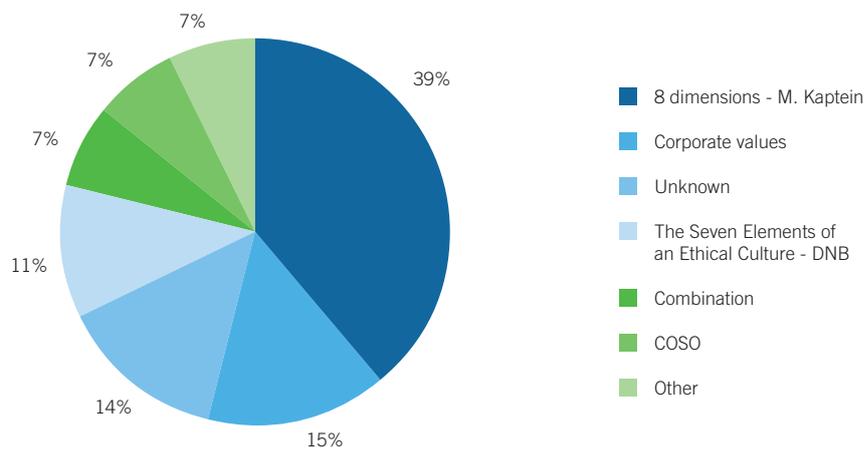
04 All respondents - What is your organisation's the type of industry?



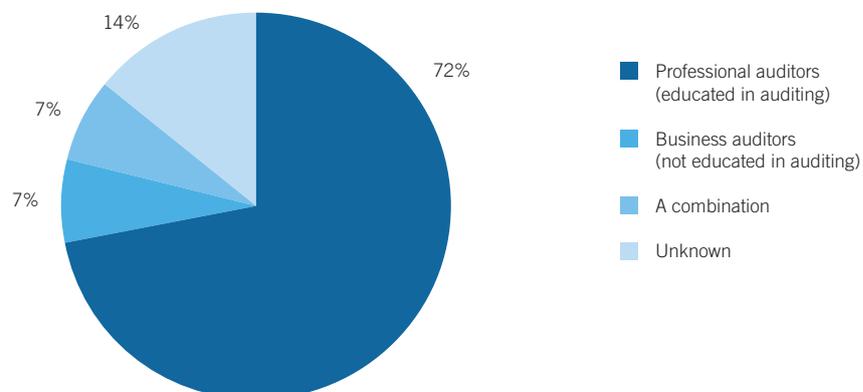
05 What is the Scope of Soft Control Audits



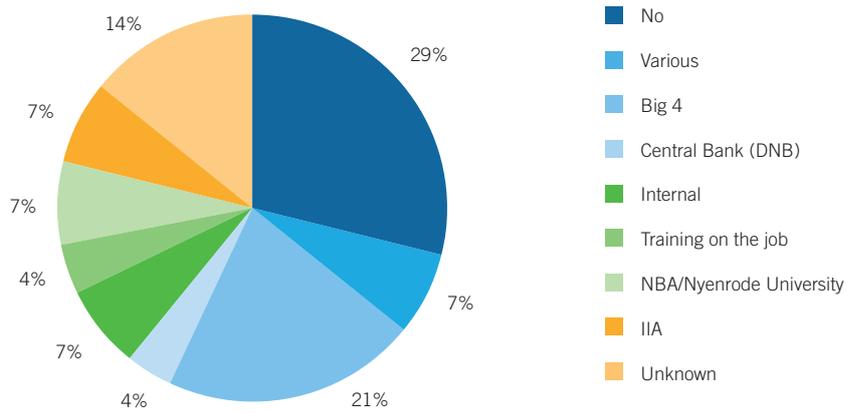
06 What is the most important theoretical reference framework for you approach?



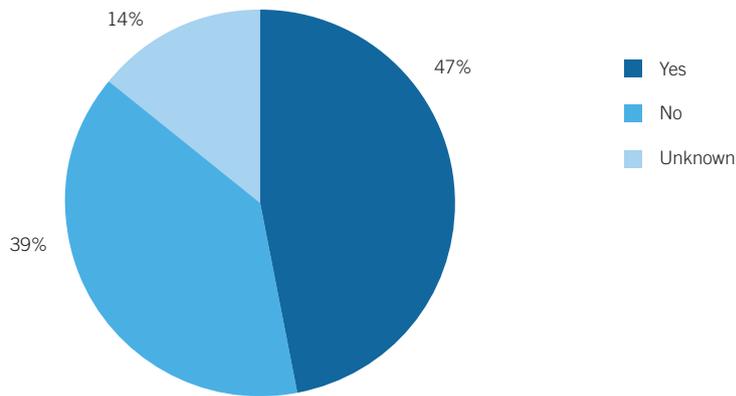
07 What type of auditors perform soft controls audits?



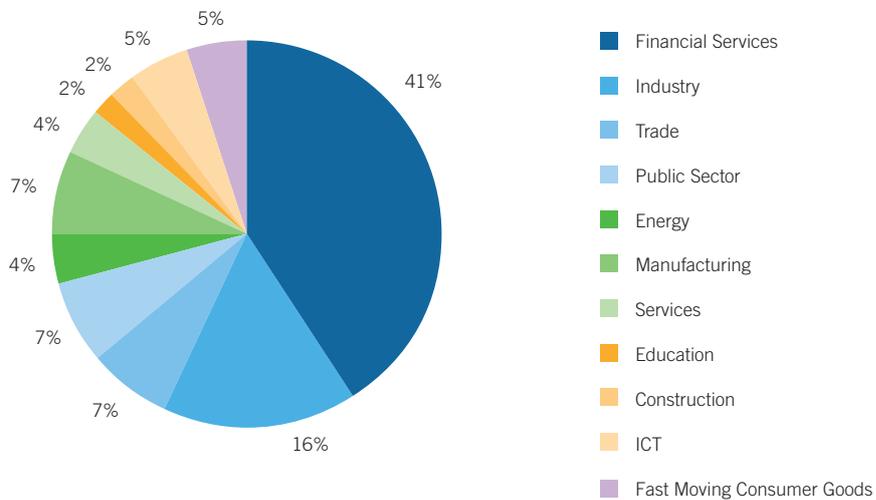
08 Did these auditors receive additional training?



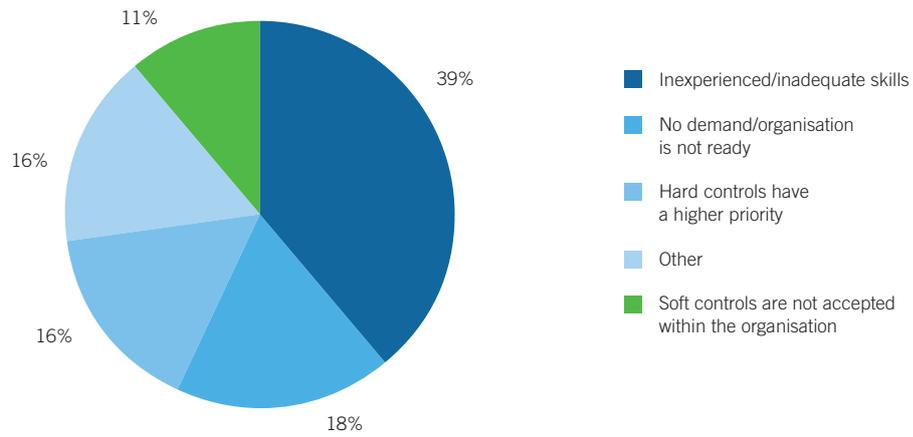
09 Do you report soft control findings similar to other findings?



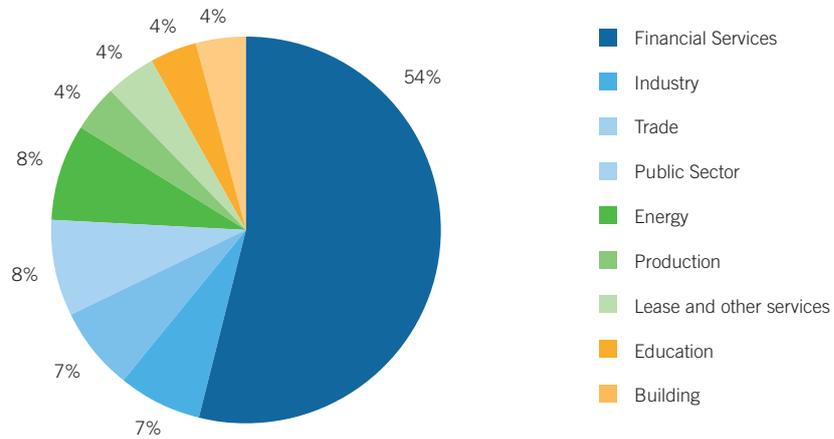
10 Not performing soft control audits - What is your organisation's the type of industry?



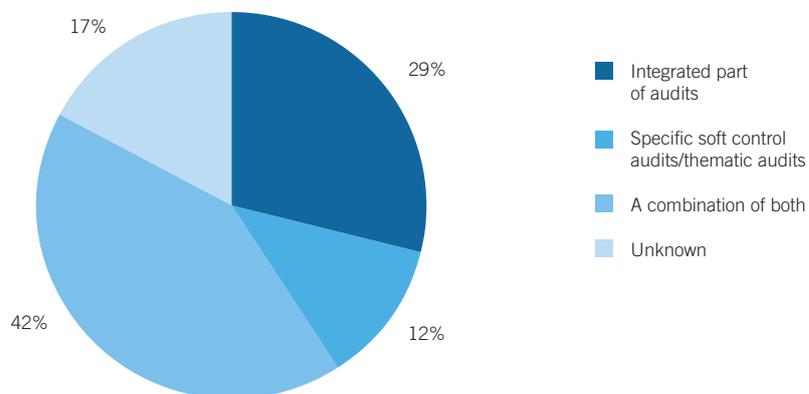
11 Why don't you perform soft control audits?



12 Do you plan to perform soft control audits in the future?



13 What is the intended scope of these soft control audits?



Appendix B

Theoretical guidance

For each audit the auditor seeks guidance. A number of IIA standards are important for auditing soft controls:

2110 - Governance:

The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- *Promoting appropriate ethics and values within the organization;*
- *Ensuring effective organizational performance management and accountability;*
- *Communicating risk and control information to appropriate areas of the organization; and*
- *Coordinating the activities of and communicating information among the board, external and internal Auditors, and management.*

2110.A1 - *The internal audit activity must evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities.*

The IIA standards may not explicitly employ the concept of soft controls, but they do employ the concept of governance. As part of governance, soft controls can be defined as control measures aimed specifically at influencing factors such as culture, behaviour and communication.

But what is the standard against which they can be tested? This standardisation has been crystallised for various audit types. That does not apply to soft controls audits, though. Various guides have now been published (also partly depending on the sector). This is a development that is still ongoing. In addition to the theoretical backgrounds and examples, in a number of cases the publications also mention characteristics/elements that help determine soft controls and the underlying culture. This publication includes a list of sources (Appendix E, Literature Consulted). This publication is a snapshot of the current situation, as soft controls are a hot topic that will be explored in ever greater depth in future publications.

A number of known sources:

KPMG: (Muel Kaptein and Philippe Wallage): they recognise eight factors that influence employees' behaviour: clarity, exemplary behaviour, involvement, feasibility, transparency, discussability, accountability and enforcement.

AFM: The characteristics the AFM* defined for culture are:

- A balanced set of organisational objectives.
- A strong focus on the long term.
- The will to concentrate on quality.
- A natural tendency to behave in accordance with the objectives of law and legislation and to anticipate social developments.
- A consistent and open method of management.
- A governance or management structure aimed at balance and counterweight.

* Autoriteit Financiële Markt - The Dutch regulatory body for financial markets

DNB: Culture house. According to the Dutch central bank, the DNB, 7 elements determine a sound culture:

1. Weighing up interests/acting in a balanced fashion: recognising all relevant interests and demonstrably taking account of them.
2. Acting consistently: Acting in line with objectives and choices.
3. Discussability: encouraging a positive critical attitude on the part of employees and giving room for discussing decisions, other views, errors and taboos.
4. Exemplary behaviour from management: 'tone at the top' (personal integrity, including (apparent) conflicts of interest).
5. Feasibility: setting realistic targets and eliminating perverse incentives and distractions.
6. Transparency: establishing objectives and principle choices and communicating them to all stakeholders.
7. Enforcement: non-compliance has consequences.

COSO: The Internal Control - Integrated Framework (2013) states that for a judgment on the quality of internal control, not only the hard controls but also the soft controls have to be considered. Examples of soft controls in COSO: tone at the top, feasibility, involvement and commitment, transparency, discussability, accountability and enforcement, clarity, cooperation and relationships, internal competencies, HR policy and application. Other control models such as CoCo (Canadian Criteria of Control) and EFQM demand attention to soft controls.

In 2011, the IIA Netherlands issued the publication "Auditing Social Controls". This publication outlines the backgrounds to a number of important social controls as described by various scientists in papers. It also lists techniques for measuring them. As such, it contains guides for measuring Entity Level Social Controls.

Well-known authors from within the IIA who pay attention to soft controls in their publications include: Merchant (1985), Simons (2000 - four levers of controls) and de Heus and Stremmelaar (2000).

Various sources from psychology and adult education practice.

The list of the literature consulted includes various references to the other publications.

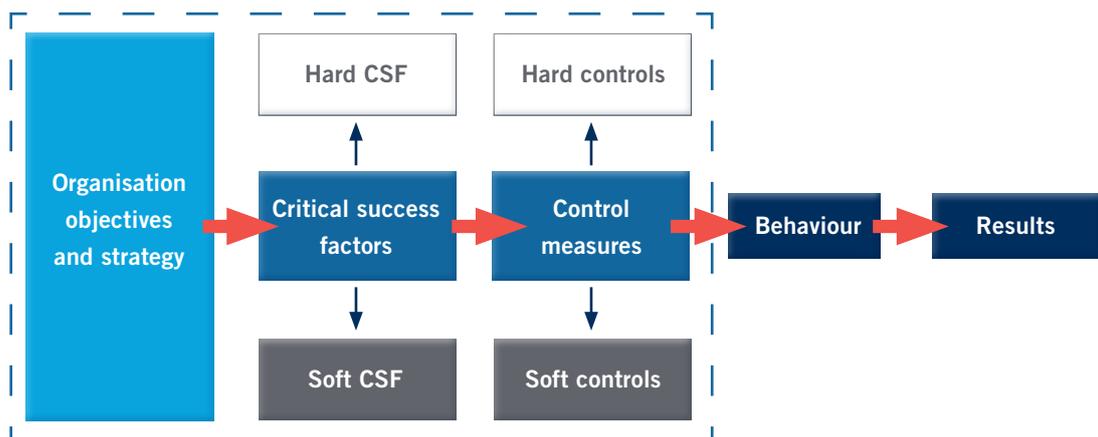
Appendix C

Practice Example of a Soft Controls Audit Integrated into a Hard Controls Audit

Introduction

The practice example for the approach to an integrated audit in which both soft and hard controls are considered is derived from an audit conducted by the IAF of a financial institution for a number of its product lines. This is based on the flow chart shown below, which has been elaborated upon where necessary. This flow chart (figure 1) is derived from the approach developed by KPMG⁶ for combining the soft controls and hard controls audit.

Figure 1: Model design for soft controls audit



Risk Analysis (audit preparation phase)

A risk analysis is carried out prior to performing the audit. In this analysis, the key risks of the audit subject are identified and established by looking at both hard and soft controls. Based on this risk analysis, the decision is made whether to pay attention to soft controls.

Top and senior management consider it essential that clients trust the company. To gain trust, you have to begin to give trust and be reliable. Core values have therefore been established for the company: personal, accountable, own and real.

These core values generally constitute the standards for desired behaviour within the organisation. The core values are translated into the personal objectives that form part of the periodical employee appraisal. The personal and general behavioural objectives serve as standards.

6 Featured by permission of KPMG.

In the risk analysis, the difference between the expected actual behaviour and the behavioural objective plays an important role in answering the question of whether attention should be paid to behavioural characteristics.

With an integrated approach to audits in which attention is paid to both hard and soft controls, it is also important to consider the relationship between hard and soft controls. Past experience with the integrated approach has shown a strong link between hard and soft controls. With complex organisations and processes with little change, the IAF places more emphasis on hard controls in its audits. With dynamic organisations and processes that are less complex, however, the emphasis in audits is on soft controls.

Preparation (audit preparation phase)

The first step in the preparation is to talk with management, explaining what is meant by soft controls or behavioural characteristics. During that discussion, it is important to stress the role of behavioural characteristics in achieving the objectives of the department or process. Plenty of time needs to be allowed for this discussion. Not all managers and employees will immediately be convinced of the usefulness of soft controls. This therefore requires some 'missionary work' on the part of the IAF.

The next step during this discussion is to gain an overview of the soft and hard key success factors for management.

Let us for example look at an audit with the objective of *"gaining insight into the hard and soft controls that contribute to client trust"*. The audit was conducted in a specific department with virtually continuous client contact.

The key soft key success factors that came to the fore in interviews with management were:

- demonstrating expertise and professionalism;
- empathy;
- showing integrity;
- communication (open, honest, personal);
- visibly acting in the interest of the client;
- giving clients trust and loyalty;
- living up to expectations;
- taking responsibility for the client;
- client satisfaction;
- learning from experience.

The key hard key success factors were:

- clear, supported case for change;
- sticking to agreements;
- clear priorities/objectives;
- well-trained personnel;
- high rate of 'first time right';
- focusing on responsible approach to client;
- high client satisfaction;
- products meet client requirements;

Workshop (audit field work phase)

The objective of the following phase is to involve the employees in the examination of behavioural characteristics. This is done by having a number of employees who are not managers participate in a workshop. The objective of the workshop is to prioritise and specify hard and soft controls that have been identified by management in the initial interviews.

At the beginning of the workshop, the concepts of soft and hard controls and the importance of both groups of controls for the effective operation of the organisation are explained in detail. The question is posed which behavioural characteristics the employees feel are decisive for actually achieving the objectives of the department or operational process.

The following emerged from the ('identifying') workshop as being considered the most important soft controls:

- appreciation;
- sense of responsibility;
- cooperation;
- involvement and loyalty;
- accountability;
- clarity;
- respect for each other;
- feasibility.

The above soft controls have been included in the audit scope. Past experience had taught the IAF that eight is a feasible number. Certainly in the beginning, it is advisable when performing soft controls audits to focus on the soft controls seen as important for achieving the organisational objectives.

In these workshops, participants are put into groups of 3 employees. This workshop approach focuses mainly on expanding on the soft controls defined. Each group is allocated three soft controls.

Three questions are asked for each soft control:

1. Give a more detailed description of the soft control: what exactly is meant by this behavioural characteristic?
2. Why does this soft control contribute to the objective that has been set for the audit? In our example, the objective is to work in a more client-oriented way.
3. Are these soft controls already being measured by means of an engagement scan, for example, or a team barometer?

If the soft control is already being measured, then the results of the earlier measurement can obviously be used in the soft controls audit.

An example of elaborating on the three questions concerning the soft control "*cooperation*" could be:

Question 1 > Describe cooperation:

- Mutual trust
- Honest and open communication (no hidden agendas)
- Respect for each other

Question 2 > Why does it contribute to the business objective?

- It is motivating.

Question 3 > Already measured within the organisation by means of

- Engagement scan.

Assessment of the selected soft controls (audit field work phase)

The objective of this phase is to establish to what extent the 8 soft controls identified are in place and how they are perceived. To this end, an online questionnaire is prepared with statements on the selected soft controls. An example of a questionnaire is included in appendix D. The questionnaire is sent to a large number of employees with the request to answer the questions.

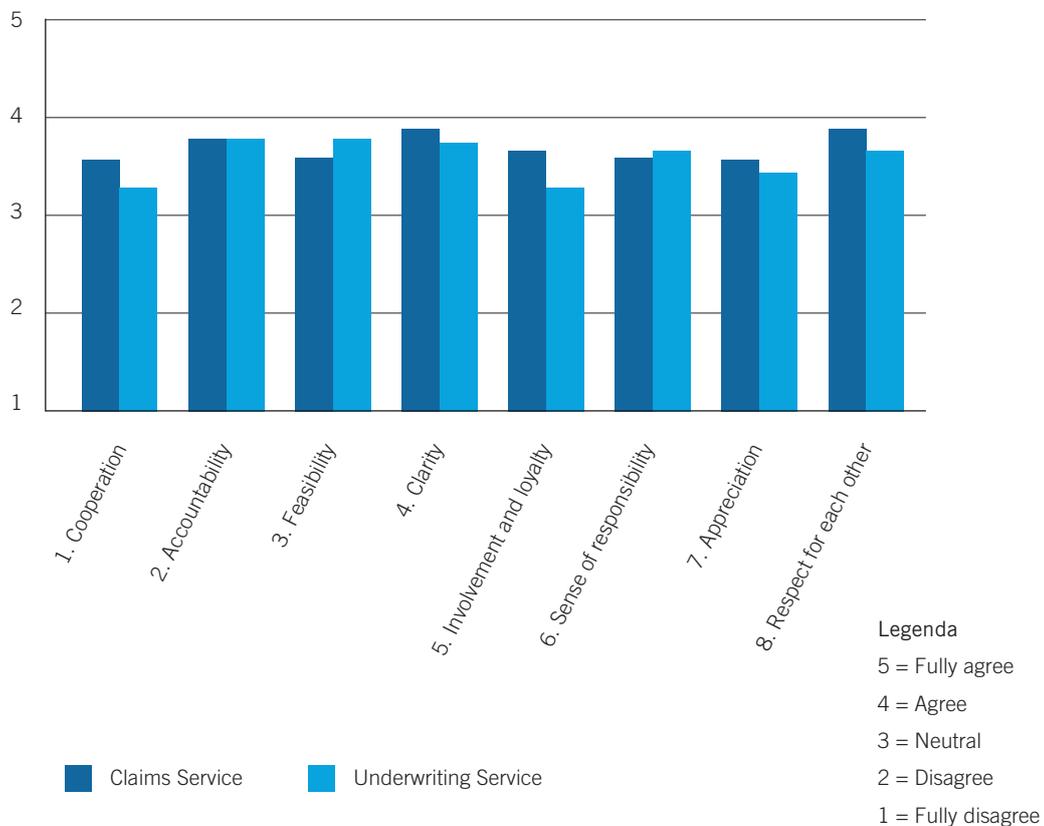
The questionnaire consists largely of closed questions and/or statements plus a number of open questions. The advantage of the closed questions is that the answers can easily be processed and presented. The analysis of the answers to the open questions requires more time and attention and leads to follow-up interviews. Experience has shown that these generate extremely useful results and encourage action.

Examples of open questions:

- What behavioural changes do you consider necessary for regaining client trust?
- What, in your opinion, are the main obstacles to working in a more client-oriented manner?

The results of the closed questions are set out in a 5-point Likert⁷ scale. The desired standard can be shown on the x scale; for example level 4 as shown in the diagram below.

Figure 2: Results of closed questions



⁷ Likert scale: A Likert scale is a scale on which the respondents indicate to what extent they agree with a statement. The Likert scale is generally seen as a scale that generates cardinal data.

Figure 2 shows that none of the behavioural characteristics score the target of 4. This means that the respondents feel the existing soft controls are still not adequately in place to restore client trust. The soft controls “clarity” and “respect for each other” score highest. “Cooperation” and “appreciation” score lowest, with one sub-department generally scoring lower than the other. The results show which soft controls require attention to help achieve the corporate objectives.

The report with the audit findings is then drawn up.

Feedback to management (audit reporting phase)

This phase consists of feeding back the findings to management. The effectiveness of the selected soft controls is discussed in detail. It is up to management to discuss the results with their team and establish how the soft controls that score below the target can be improved. The audit team can make suggestions, but the responsibility for detailing these measures lies with management.

In the discussion, there is a big risk that the audit team will be tempted to take charge of the follow-up. As with a hard controls audit, however, the IAF should only make recommendations for soft controls; it is management's task and responsibility to follow them up.

During the discussion with management, the influence of the formulated behavioural characteristics on the hard controls and hard success factors identified during the audit is also established. Soft controls can have either a positive, reinforcing impact or (in the event of the absence or inadequacy of a soft control) a negative impact on the observed operating effectiveness of the hard controls. The hard control segregation of duties, for instance, can be reinforced by a high sense of responsibility, meaning that access rights are dealt with cautiously. On the other hand, the effectiveness of the segregation of duties will diminish if access rights are not cautiously dealt with due to a reduced sense of responsibility. This analysis can provide guidance for management in selecting the most effective soft controls and prioritising them in the follow-up.

Discussing results with the Management Board and the Supervisory Directors (in the Audit Committee and/or the Supervisory Board) (audit reporting phase)

The results of the integrated soft and hard controls audit are discussed with the members of the Management Board and Supervisory Board with the help of a presentation. The advantage of a presentation is that the entire context can be explained again. Questions on the role of the IAF in soft controls audits and the added value can be explained by referring to the results of the audits that have been performed. This can be supported by explicitly including the key findings of the soft controls audits and a summary of the findings. The relationship with the findings from the hard controls audit should be explained where possible.

Suggestion: Use the periodical bilateral discussion with the chairman of the audit committee to explain in detail the reasons for the soft controls audit, the approach and the findings. Also show a clear example of the impact of soft controls on hard controls.

Growth path for the development of soft controls in the organisation

Assessing the degree to which soft controls achieve the established objectives and correspond to the desired behaviour is difficult and requires some guidance. This is provided by using a growth path or maturity model for the soft controls. The maturity level of each identified soft control can be described in a growth model. This helps to qualify a soft control as inadequate, barely adequate, adequate, good or excellent (or another description).

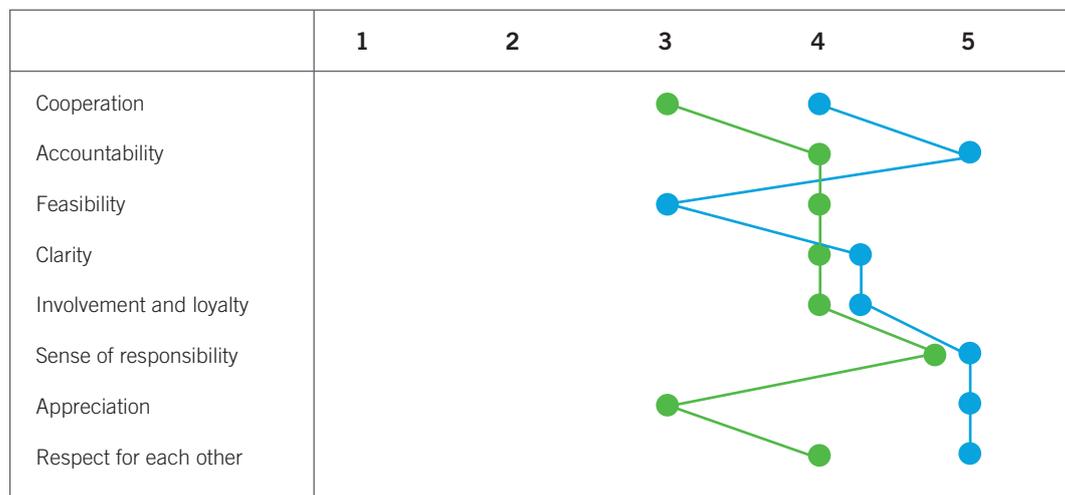
The soft control “*sense of responsibility*” is taken as an example.

- Employees do not feel responsible, they do their thing, but others are responsible.
- Employees feel responsible for reporting on their work, but they consider management or others to be responsible.
- Employees feel responsible and assume their responsibility. They have not made this visible, though. Others cannot be certain that the aforementioned employees are assuming their responsibility.
- Employees feel responsible and set down that responsibility clearly and visibly.
- Employees feel responsible, document this adequately, and explicitly let the organisation know that they are responsible.

A similar growth path can also be developed for other soft controls.

The growth path can help with rating in a soft controls audit or an integrated soft/hard controls audit. The growth achieved for each soft control can be set out on a timeline. It is also possible to illustrate the growth phase achieved for all identified soft controls in a diagram. This gives a good picture of the strong and weak soft controls in a business unit.

An example of this is shown below:



1 = weak and 5 = excellent

● Perception of management ● Perception of employees

The diagram illustrates the relationships between the soft controls in a business unit and the observed behavioural culture, showing the perception of both employees and management. A striking aspect in this diagram is the difference in the perception of appreciation, respect for each other and cooperation between management and employees. By contrast, employees are more optimistic than management about feasibility. With this information, management and employees can set about improving the culture and therefore the effectiveness of the organisation.

Appendix D

Questionnaire for the Practice Example

In our discussion of the practice example of a soft controls audit integrated with a hard controls audit, we addressed the use of a questionnaire in the audit field work phase. Below are two examples of such a questionnaire.

Questionnaire 1

#	Question
---	----------

- | | |
|-----|--|
| Q1 | Which department or label do you work for? |
| Q2 | What is your function within the organisation? |
| Q3 | I consider the cooperation with my colleagues to be good, which enables me to strive for a high degree of client satisfaction. |
| Q4 | I hold my colleagues to account when I feel they are not handling the complaint in the interest of the client. |
| Q5 | I am open to criticism of my behaviour towards the client when handling complaints. |
| Q6 | I handle complaints within the set deadlines. |
| Q7 | I am capable of handling a complaint independently. |
| Q8 | I record the complaints received in the Complaints Management System. |
| Q9 | I have sufficient expertise in the subject matter to handle the complaint. |
| Q10 | I believe complaints are handled to the satisfaction of clients. |
| Q11 | I feel that the points for improvement reported every quarter are adequately implemented in the organisation. |
| Q12 | I know exactly what is expected of me in the way of tasks, authorisations and responsibilities with regard to handling complaints. |
| Q13 | I feel I am involved because I am being motivated and encouraged to handle complaints in accordance with the company's guidelines. |
| Q14 | I feel I am involved because I do my utmost to handle the complaint in the interest of the client. |

- Q15 I feel responsible for handling client complaints.
- Q16 I feel responsible for accounting for my own work and performances in the Complaints Management System.
- Q17 I feel responsible for open and honest communications to the client on issues relating to the complaint.
- Q18 I receive appreciation from my superior when I visibly in the interest of the client with regard to the complaint.
- Q19 I receive appreciation from my superior when I visibly act in the interest of the company with regard to the complaint.
- Q20 I feel that the client is treated with respect when handling their complaint (by email/letter/phone).
- Q21 I feel that the client is treated with respect when they are called back in the context of quality control.
- Q22 I feel that the tone at the top (exemplary behaviour from management) with regard to handling complaints is good.
- Q23 My colleagues are appreciated by management for their work when handling complaints.
- Q24 My colleagues are treated with respect on the job.
- Q25 My colleagues are given sufficient time to understand the client complaint.
- Q26 I feel that there is good cooperation throughout the chain in handling complaints.
- Q27 The cooperation between my superior and colleagues in handling complaints is good.
- Q28 I tackle my colleagues about their behaviour if a complaint is handled wrongly.
- Q29 I am tackled by my colleagues about my behaviour towards clients when handling complaints.
- Q30 The tasks, authorities and responsibilities are clearly coordinated within the department.
- Q31 The objective of our department contributes to restoring client satisfaction after a complaint.
- Q32 The lessons learned contribute to a better complaints handling.
- Q33_A1 Which behavioural changes do you feel are necessary within the company to improve the way complaints are handled?
- Q34_A1 What, in your opinion, are the main obstacles to handing complaints correctly, promptly and to a high quality standard?
- Q35_A1 Do you have any other comments or anything to add with regard to complaints handling within the company?

Questionnaire 2

#	Question
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| Q1 | I feel the cooperation between the complaints coordinators and client complaints handlers is good. |
| Q2 | The complaints reports correspond with the picture I have of the complaints procedure within the departments for which I am responsible. |
| Q3 | I feel the role and the allocation of tasks between the central team and my complaints team is clear. |
| Q4 | I hold my colleagues to account when I feel they are handling the client's complaints incorrectly. |
| Q5 | I sometimes handle complaints. |
| Q6 | I periodically discuss the results of the complaints reporting with the complaints coordinator. |
| Q7 | I feel that employees have sufficient time to handle complaints to a high quality standard. |
| Q8 | I feel that client satisfaction has increased thanks to good complaints handling. |
| Q9 | I feel responsible for handling client complaints. |
| Q10 | I appreciate it when my colleagues have handled complaints well and express I this. |
| Q11 | I feel that my colleagues treat clients with respect. |
| Q12 | I feel that the Management Board is actively involved in handling complaints. |
| Q13_A1 | What behavioural changes do you feel are necessary within the company to improve how complaints are handled? |

Appendix E

Literature Consulted

Author	Title	Date	Source
AFM			
Bloisi, W., Cook, C., & Hunsaker, P. L.	Management and organizational behaviour	2003	McGraw-Hill Education
Broek, S. van den	Organisatie Cultuur: Het verschil tussen SOLL en IST	2013	Blommaert Business Academy
COSO	Integrated Framework	2013	
De Nederlandsche Bank	De 7 elementen van een Integere Cultuur	2009	DNB
Heus, De, R.S. & M.T.L. Stremmelaar	Auditen van Soft Controls, Serie: Auditing in de praktijk,	2000	Kluwer, Deventer
IIA Werkgroep	Auditing Social Controls	2011	IIA Netherlands
Kaptein, M. & Wallage, P.	Assurance over gedrag en de rol van soft-controls: Een lonkend perspectief	2010	KPMG
Merchant	Modern Management Control Systems	1998	New Jersey: Prentice Hall
Otten & Van der Meulen	Behavioural auditing: het onderzoeken van gedrag in organisaties - 1	2013	Audit Magazine
Schein, E.	Organizational Culture and Leadership	2004	San Francisco: Jossey-Bass
Simons	Levers of Control: How Managers Use Innovative Control Systems to Drive Strategic Renewal	2000	Boston: Harvard Business School Press.
Workgroup	Discussie rapport "Toon aan de Top"	2012	NBA
Wijsman, E.	Psychologie & Sociologie	2004	Groningen: Wolters - Noordhoff.