

# **Session 5B**

## **Auditing culture – Can you do it?**

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# Auditing Culture: can you do it?

**Stephen Horne, Principal**



# Auditing Culture



# Good Business Sense *community confidence* - public sector -

“Accountability and transparency are fundamental to the work of public organisations and officials.”

“The Public Sector Ethics Act establishes the following fundamental ethical obligations:

- ✓ respect for the law and system of government
- ✓ respect for persons
- ✓ integrity
- ✓ diligence
- ✓ economy and efficiency.”

(Queensland Purchasing: Ethics, Probity & Accountability in Procurement)

# Good Business Sense *community confidence* - private sector -

“.. the question is how organisations can create value for shareholders in a way that serves the best interests of customers.

The answer to this question goes to the heart of the company - and its culture.”

# Good Business Sense *community confidence* - private sector -

## Culture:

- ✓ is about doing the right thing
- ✓ is about actions not words
- ✓ starts at the top
- ✓ means owning and fixing your mistakes
- ✓ emanates from a strong social purpose
- ✓ involves balancing competing stakeholder interests.

(Address by AMP Chairman Simon McKeon AO to the AMP AGM, 12 May 2016)

# Good Business Sense *Reputation*

- Greatest asset not on the balance sheet
- Needs to be managed and protected
- Consequences of loss of reputation easily outweigh the costs of protecting it

# Control Environment

- Hard Controls
- Soft Controls
- Is culture perhaps THE KEY CONTROL?



# The role of Internal Audit

“Boards and senior management have the prime responsibility for defining and analysing culture by promoting their ethics and values and the behaviours these require across their organisations.”

“Internal audit can be a key player in giving confidence to boards (and Audit Committees) that measures put in place to change culture and thus behaviour are actually working, and that the tone at the top is reflected at all levels.”

(Culture and the Role of Internal Audit, Chartered Institute of Internal Auditors (UK))

# Approaches to Auditing Culture

- Direct assessment
- Review of management arrangements
- Indirect (integrated) assessment

# Approaches to Auditing Culture

## Direct Assessment

### Examples

- Direct testing of culture
- Thematic reviews across the organisation
  - Risk culture
  - Cyber culture
  - Fraud culture
  - Safety culture
  - Codes of Conduct
  - Conflicts of interest
- Organisational psychology flavour
- Specialist methods and assistance usually engaged
  - ✓ surveys
  - ✓ mystery shopper
  - ✓ root cause analysis
  - ✓ complaints and grievance analysis.

# Approaches to Auditing Culture

## Review of Management Arrangements

### Examples

- Performance audit
  - ✓ normative model (what is “best practice”?)
  - ✓ compare to actual
  - ✓ evaluate relevance/impact of gaps
- Post-implementation review
  - ✓ difficulties, impediments, success factors
  - ✓ unintended side effects
- Compliance audit
  - ✓ perhaps by component (ongoing program)

# Approaches to Auditing Culture

## Indirect (integrated) Assessment

### Examples

- Embedded into every audit
- Some standard criteria and data reviews
  - Search for “culture issues” or “culture indicators” for your audit subject or system
    - Recruitment and selection
    - Payroll
    - procurement
- Some judgement components based on observations
- Maturity model approach
  - ✓ oral reporting initially (to management & ARC)
  - ✓ written reporting when confident

# Approaches to Auditing Culture

## Blended Approach

### Examples

- Direct testing
  - ✓ is an advanced approach. Perhaps initially work with HR and encourage them and engage with their data and processes
- Performance audit
  - ✓ useful but depends on your maturity
- Post implementation reviews
  - ✓ gives good visibility. Useful starting point?
- Embedded
  - ✓ Just modify existing scopes and methods

The Australian Securities and Investments Commission (ASIC) continues to focus on corporate culture because, in the words of Commissioner John Price, “we see the very real impact of poor culture through misconduct, scandals and poor outcomes for investors and consumers”.

Commissioner Price recently confirmed that while not seeking to regulate culture with black letter law, ASIC expects boards to “play a role in setting the tone, influencing and overseeing culture, and ensuring the right governance framework and controls are in place.”<sup>4</sup>

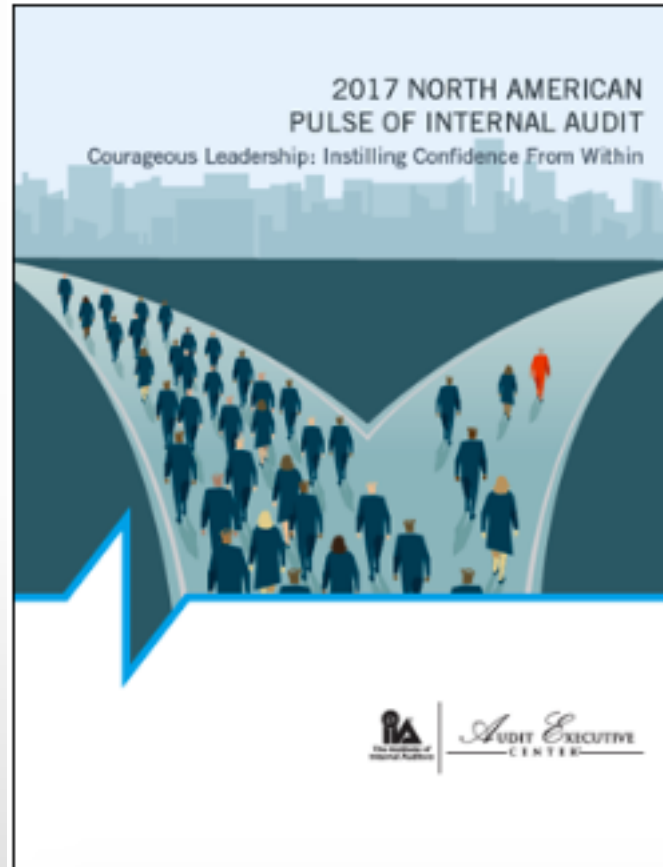
To gain insights into a company’s culture and to encourage positive conduct, ASIC suggests that boards consider the following questions:

- Has the culture of the organisation been independently assessed? Do the firm’s stated values match the actual experiences of customers, employees, suppliers, etc.?
- Is culture a regular feature on the board and audit committee agendas?
- Do directors have broader interaction across the organisation (for example, not limiting themselves to the chief executive officer and executive management)?
- Do directors have relationships with key employees (for example, line managers) to gather insights about the company’s culture and issues?
- Does the board engage with external stakeholders such as customers, suppliers, and regulators?
- Is data captured on key indicators (for example, employee feedback and surveys, customer complaints, progress on employee training on culture issues)? Is this data monitored to see how the various indicators change or move together?
- Is the information in internal and external audits being fully used?<sup>5</sup>

J Price, “Outline of ASIC’s approach to corporate culture”, AICD Directors’ Forum: Regulators’ Insights on Risk Culture, Sydney July 19 2017.

# Auditing Culture: Will you?

- Many chief audit executives (CAEs) aren't even trying
- In a recent (IIA North America) [Pulse of Internal Audit](#) survey, 58 percent of CAEs reported a culture audit is not on the audit plan





# Guidance from the Institute of Internal Auditors

## **Evaluating Organisational Ethics**

2-day workshop

Global syllabus

Delivered via IIA Australia

## **Culture and the Role of Internal Audit**

Chartered Institute of Internal Auditors (UK)

## **Providing Ethical Assurance to Boards**

Chartered Institute of Internal Auditors (UK)



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