

Auditing culture

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Overview

- What is culture?
- Why does culture matter?
- Establishing culture
- Embedding culture
- The need for assurance and the role of internal audit



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What is culture?

“the taken-for-granted assumptions and behaviours that make sense of people’s organisational context and therefore contributes to how groups of people respond and behave in relation to issues they face”

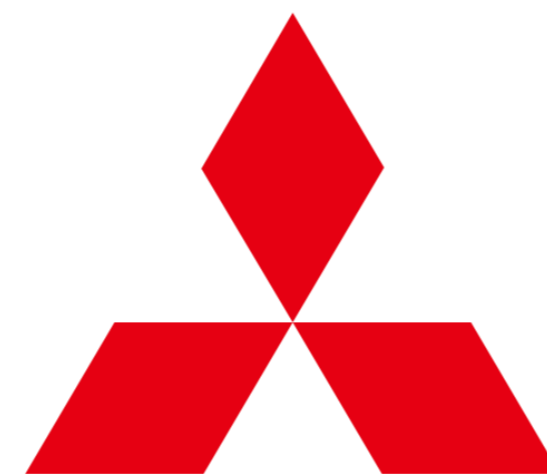
or

“The way we do things around here”



Why does culture matter?

- 2008 financial crisis: underlying issue: **culture**
- Not just financial services:
 - BP
 - Volkswagen and Mitsubishi
 - Olympus and Toshiba
 - FIFA





Importance of culture: FS Code

- Response to the regulators
- Developed concept of auditing culture
- Relevance beyond financial services
- As much for executives and non-executives as internal audit

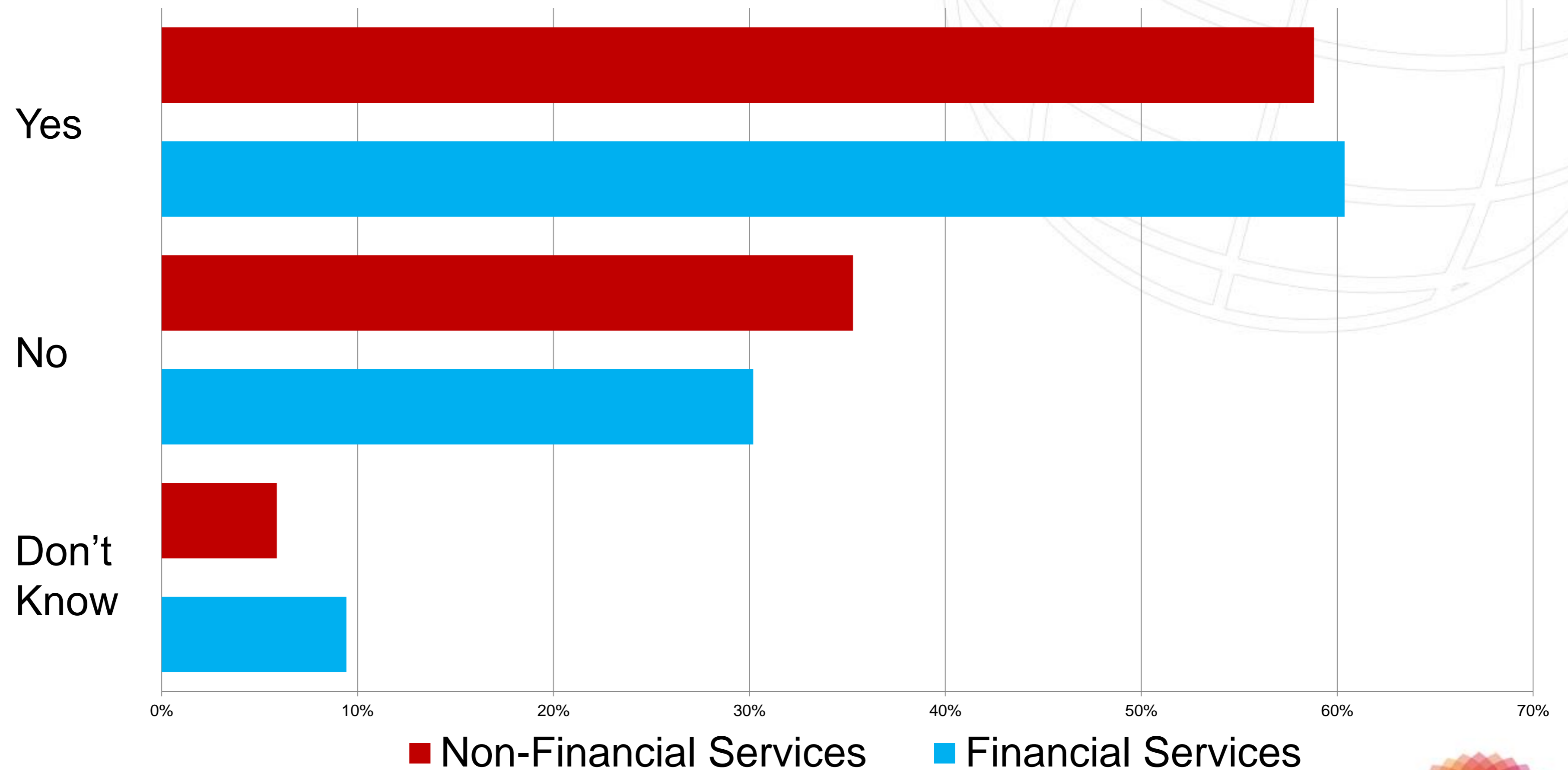


Establishing the right culture

- Tone at the top: culture must be analysed, defined and disseminated by the board, and what is expected must be explicit
- There must be appetite and support from the top of the organisation



Has your board established and articulated what culture it wants?





Approaches to culture

“Employees of Alphabet and its subsidiaries and controlled affiliates should do the right thing – follow the law, act honorably, and treat each other with respect.”

– Alphabet, Code of Conduct

Alphabet



“To succeed requires the highest standards of corporate behaviour towards everyone we work with, the communities we touch, and the environment on which we have an impact.”

– Unilever, Corporate Purpose



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Approaches to culture cont.

“As officers and employees of Enron Corp., its subsidiaries, and its affiliated companies, we are responsible for conducting the business affairs of the companies in accordance with all applicable laws and in a moral and honest manner.”

- Enron Code of Ethics, 2000





Embedding culture

- Ensuring values are being lived by all employees at all levels of an organisation:
 - Remuneration and incentives
 - Recruitment policy
 - Training and development
 - Internal audit's own position in the organisation

Embedding culture cont.

- Rewarding learning
- Open and just culture, moving away from blame culture
- Using data analytics to identify problems and solutions



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Embedding culture: just culture

- “Just culture” is a fundamental element of aviation safety culture
- Unsafe behaviour is dealt with appropriately, and safe behaviour is rewarded appropriately
- Just culture distinguishes between:
 - Simple mistakes or errors
 - Risky behaviours
 - Reckless behaviours





Embedding culture: use of data

Aviation industry also uses data to monitor pilots



- Flight data is analysed after each flight to detect events that deviate from the normal
- Any issues identified, even minor ones, can then feed into the pilots' training programme
- Supported by just culture -ground and crew staff encouraged to report safety-related issues



Embedding culture: rewarding learning



Paul O'Neil, CEO at Alcoa focus on safety culture:

- Identify one measure, days lost to injury, as a proxy for the health of the company
- When there's an employee injury (cue), superiors must be informed within 24 hours with a plan to remediate (response)
- Those who embrace this system and use it to improve safety outcomes get promoted (reward)
- Alcoa went for 1.86% lost work days to 0.1%. Profits grew from \$264m to 1.4bn.



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**Could you apply these techniques to
other sectors?**

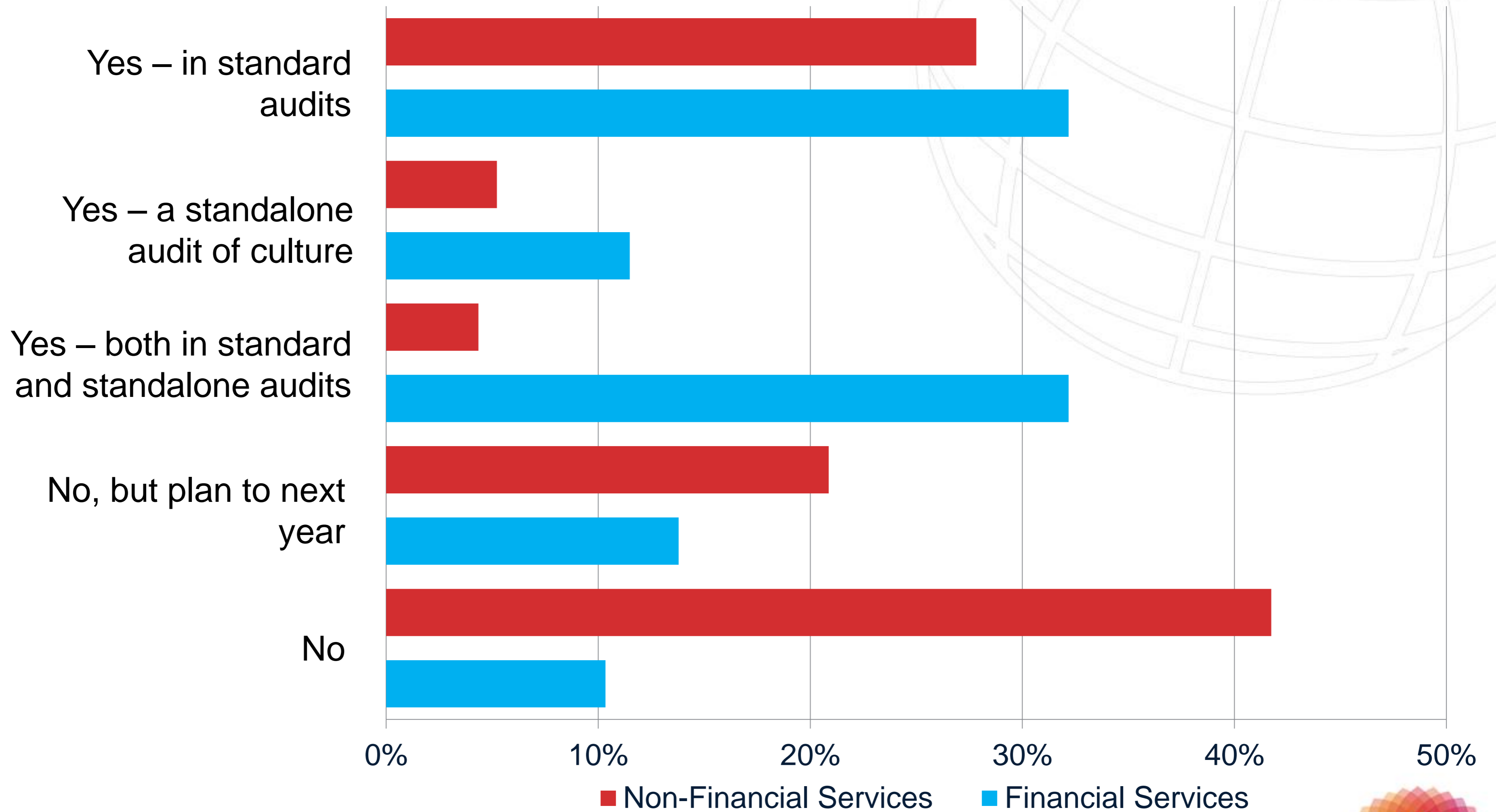


Role of internal audit

- Giving assurance to the board and senior management that the culture they want actually exists in practice
- Providing well-informed perspectives on practices right across an organisation
- Insight into “how things are”
- Indirectly helping to embed culture through audit activity

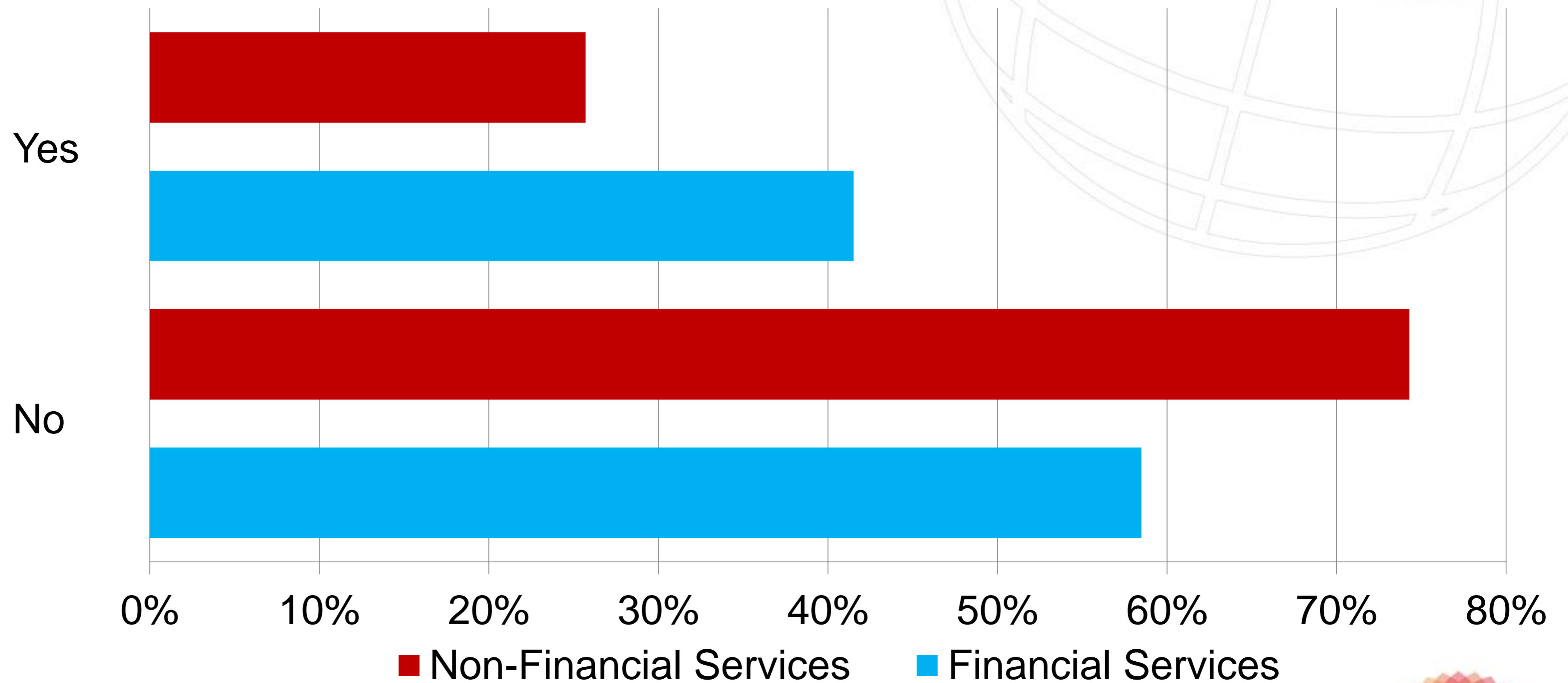


Survey – do you audit culture?





Have you been asked to assess whether staff are 'living' the company values?





The Developing role of internal audit

- Greater use of observation and work shadowing
- Use of multidisciplinary teams
- Auditors should use qualitative and quantitative methods and be willing to make subjective judgements
- Auditors' views on "soft" indicators like trust, openness, and adherence to ethical standards are inherently subjective
- It may be possible to use data mining and analytics to supplement these opinions



Recommendations

- The board should articulate the expectations around values and behaviours and should seek assurance that staff are effectively 'living the values'
- The board and the Chief Audit Executive should review whether it is appropriate to incorporate into the audit plan the better use of available data and technology in relation to culture assurance, in addition to traditional surveys, interviews and observations
- Boards should try to embed a just culture



Recommendations

- The board and the CAE should review the skill set of the internal audit function, and make provision for any deficiencies to be addressed, as required by the CAE and the audit plan
- The audit committee should encourage the CAE to sit as an observer on various senior-level boards and committees in order to allow the CAE insight into organisational behaviour and culture
- CAEs and boards should agree to make space for a 'meta-audit', taking account of what standard audit activity says about culture



Recommendations

- Internal audit needs to be conscious of its own culture and behaviours and how it is perceived by the rest of the organisation
- CAEs, with the support of the board and senior management, should engage with those functions that are involved in the embedding, enforcing and assessing of culture to reduce the risk of gaps or duplication of work



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