Auditing Culture: Challenges and Proven Techniques

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Agenda

1. Challenges and keys to success
2. Examples: ING’s audit process, Vectren's “C-Suite” audit
3. Audit tool: audit project survey – University of Minnesota example
4. Audit tool: entity-wide structured interviews – “Culture of Compliance” example
5. Audit tool: entity-wide cultural survey – Euroclear example
6. Audit tool: entity-wide survey – Guidelines for assessing your organization’s employee survey and using its results
7. Metrics that give perspective on the risk culture
Complexity of Culture
Adding to This Complexity

• Managers create sub-cultures within their spheres of influence

• There is no “right” risk culture and no ideal risk/reward balance, even for different parts of the same organization

• Few organizations define expectations and observable behaviors that are consistent with, or vary from, these expectations

• Cultural inconsistency within the extended organization (outsourced functions, vendors, global operations, etc.)
Subjectivity of Culture

• “How we do things around here”
• “The actual values that influence everyday behavior within the organization”
Employees are the Best Source, but:

• They might not be fully candid
• They may have cultural “blind spots”
• They may be subject to cognitive bias and groupthink
• Surveys, interviews and workshops by internal auditors might be influenced by the same blind spots or their own cognitive bias
• The response to the results will be influenced by the culture

*How might we deal with these challenges?*
Keys to Success

• **Senior Management and Board Support or Buy-in**
  — How can we get this support and buy-in?

• **Internal Auditing’s Position Within the Organization (mandate)**
  — How can we enhance this position in relation to auditing culture?

• **Objectives and Scope**
  — How should they be defined?
Keys to Success

• **Skills of the audit team(s)**
  — What attributes are needed? How can they be obtained or enhanced?
  — Skills and competencies needed, per UK 2016 report
    – Professional judgement (84%)
    – Use of experienced/senior auditors to lead the work (71%)
    – Enhanced communication skills to deliver unpalatable findings (60%)
    – Influence and negotiation skills (48%)
    – Training from specialists on qualitative methods and survey design (33%)
    – Auditors already have the skills necessary to assess culture and soft controls (21%)
Keys to Success

- Relationship of internal audit to the business
- Effective tools and techniques
- IIA Practice Guides:
  - Assessing Organizational Governance in the Private Sector
  - Evaluating Ethics-related Programs and Activities
  - Auditing the Control Environment
Example: ING’s Risk and Control Culture Assessments

• **Background**
  — Internal audit wanted to expand
  — Now include observations on values and behaviors in audit reports, no overall opinion
  — Transparently express how ING lives up to the “Orange Code”

A. **Audits – risk and control indicators from:**
   1. Planning: review key cultural indicators
   2. Fieldwork, intense focus on root cause analysis
ING’s Risk and Control Culture Assessments

B. After fieldwork, audit team meets to consider culture:
   — Top-down (gut feel from interactions with management and staff)
   — Bottom-up (cultural indicators from planning and root cause analysis)

C. The team forms an opinion, which may be:
   — No significant cultural issues
   — Cultural issues to report but none that impact the Orange Code
   — Cultural issues impacting the Orange Code

D. Cultural issues are discussed with the responsible persons (and higher management)
ING’s Risk and Control Culture Assessments

E. Cultural issues in the audit report:
   — Within the text of an audit issue,
   — As a separate issue in the body of the report, or
   — In the executive summary
   — An independent person challenges and ensures consistency
ING’s Risk and Control Culture Assessments

• **Connecting the dots**
  — Audit management reviews the reports issued each quarter (about 100) for common themes and reports the results to the audit committee

• **Going forward**
  — All staff will get extensive training in this approach, using actual ING cases
Example: Vectren’s Audit of Executive Team Behavior

- **Sox discussions led to new understanding of internal control**
- **During internal audit projects**
  - Audit staff uses COSO to focus risk assessment and frame risk statements
  - Audits now assess culture and the effectiveness of risk management
Example: Vectren’s Audit of Executive Team Behavior (8-10)

• **Objective:** assess the company’s risk to an executive level scandal and the related preventive controls

• **Risk #1:** executive correspondence that could be deemed inappropriate by others
  — Inspected private and non-business emails with regulators and legislators for one year
Guidelines for Evaluating Culture Without Formal Tools

- Use a participative, risk-based audit approach
- Focus on the design of controls
- Investigate the cause of findings rigorously
- Use experienced auditors with strong interpersonal skills
- “Trust but verify”
University of Minnesota Employee Survey (12-13)

• Used on every audit

• 12 statements, e.g.:

1. Management demonstrates the importance of integrity and ethical behavior to their employees.

2. Management is open to employee suggestions to improve productivity and quality.

3. Management sometimes overrides University policies, procedures or work place rules (e.g. takes shortcuts that are contrary to policy).
University of Minnesota Employee Survey

• Employees respond on “Likkert scale”:
  — SA  A  D  SD  N/A

• Employees asked “Would you like to tell us anything else about…”?

• Signing optional, kept confidential
University of Minnesota Employee Survey

• Goes out under signature of CAE and head of the audited unit
• Area Management can add to the 12 standard statements
• #11 & 12 reported to Compliance to monitor awareness of the hotline
University of Minnesota Employee Survey

- Use Survey Monkey to administer and analyze
- Response rate usually 60-70%
- Results easily stratified
  - Won’t show management stratified results if doing so compromises confidentiality
- Auditors corroborate issues
  - If not, present as self-assessment only
University of Minnesota Employee Survey

• Every audit report says one of three things:
  — Control environment is sound, as supported by the survey
  — Survey indicated…and our testing corroborated this
  — Survey indicated…but our testing did not corroborate this
Guidelines for Using Surveys During Audit Projects

• Design survey carefully; provide clear instructions; phrase questions carefully and simply
  — HR can help
  — Field test the survey

• Ask for level of agreement/disagreement with statements; ask for specifics
  — Consider using a Likert scale
Guidelines for Using Surveys During Audit Projects

• Consider online survey tools
• Surveys measure employee perceptions; they must be substantiated
  — If not, still valuable information for the manager
• If there’s a fear of retribution, it won’t work
Guidelines for Using Surveys During Audit Projects

• More things to consider
  — Ask managers if they want to add issues they’re concerned about
  — Phrase some statements so that agreement indicates a problem
  — Stratify responses by level
  — Have Legal review the survey instrument
  — Involve the “experts” in interpreting the results
Entity-wide Structured Interview Corporate Compliance Review

- **Organization has good formal compliance program**
  - Classroom training for all new hires
  - Online refresher course; scenario-based; score of 90% expected
Entity-wide Structured Interview Corporate Compliance Review

- Internal Audit periodically audits the “culture of compliance”
  - Audit Manager interviews 65 of the 1,000 employees
  - Starts with simple questions about hard controls
  - Questions get more sensitive later
  - Questions require reflection and in-depth discussion; interviews can become lengthy
  - When the audit manager senses discomfort, he probes to determine why
Entity-wide Structured Interview Corporate Compliance Review

- Questionnaire (6-16 to 6-20)
  A. General Compliance Program Awareness
  B. Specific Compliance Program Knowledge
  C. Compliance Program Training and Communication
  D. Compliance Program Improvement
    — Quick Compliance Quiz
Guidelines for Entity-Wide Structured Interviews (21)

• Use experienced auditors with strong interpersonal skills
• Tailor your approach to the individual
• Read body language and tone of voice
• Ask questions that force people to think
• Ask for concrete examples
Euroclear’s Entity-wide Cultural Survey

- **Background**
  - 2013 Began auditing soft controls
  - 2015 expanded to entity-wide evaluation of risk culture
  - Contracted with KPMG

- **Initiation of the project**
  - 32 survey statements
  - Three 1.5 hour self-assessment sessions
    - Two with GRC, one with other senior executives
    - Used KPMG’s 8 cultural drivers, supported by 32 survey statements
    - Asked if each is in 2-3, 3-4, etc. range
Euroclear’s Entity-wide Cultural Survey

- **Survey**
  - Sent to all employees, using KPMG survey platform,
  - Responding voluntary, 61% response rate
  - Encouraged participation:
    - Invitation from GRC chair
    - Confidentiality emphasized
    - E-tV
    - Two reminders
    - Three emails to division heads and CEOs

- **Text box for comments**

- **Demographics: location, years with Euroclear, level**
Euroclear’s Entity-wide Cultural Survey

• **Focus groups**
  — Each key location
  — Discussed issues with some ambiguity

• **Reporting**
  — Presented to GRC; results consistent with their perceptions
  — Division heads wanted results for their division

• **Benefit**
  — Huge increase in understanding importance of risk culture in achieving strategic objectives while managing risk
  — Beneficial action plans
Guidelines for advising and/or assessing an entity-wide survey

• Review the content. Does it address the most important risk and control issues in your organization? If not, recommend items that do.

• Assess the survey process. E.g.:
  — Is the level of confidentiality or anonymity sufficient for employees to feel safe being honest?
  — Are employees given sufficient opportunity and encouragement to comment on issues with specifics?
  — Are the results publicized, with action plans to address issues and explanations when issues can’t be addressed?
  — Are action plans completed effectively and on time?
  — Is the response rate high? If not, why not?
Guidelines for using an entity-wide survey

• Use the results to help identify areas or topics for audit coverage
• Use the results to plan and scope audit projects
• Use the results to help identify root cause and/or support audit findings
• And always remember
  — If there’s a fear of retribution, it’s not going to work
Metrics

- **A few metrics that might provide perspective on the risk culture**
  - For effectiveness of ethical values and work environment (23)
  - For effectiveness of risk management (24)

- **Observable if Not Measureable Indicators**
  - Signs of a healthy culture (25)
  - Red flags of a toxic culture (25)
  - Some toxic leadership styles (26)
• Questions?
• Comments?
  • Insults?
• Lunch?
Thank you