

Being more successful with Soft Controls

Culture and Behaviour
on the IAF/AC Agenda



The Institute of
Internal Auditors
Netherlands

Royal Netherlands
Institute of Chartered
Accountants

NBA

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About this Study

Title

Being more successful with Soft Controls
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Commissioned by

IIA Netherlands
NBA's Members' Group of Internal and Government Auditors (NBA LIO)

Working group

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**The Institute of
Internal Auditors
Netherlands**



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Foreword

This report contains the findings of a study into the extent to which Internal Audit Functions (IAFs) conduct audits focused on culture and behaviour (C&B), the extent to which C&B is discussed in the meetings between the IAF and the Audit Committee (AC) and the ambitions of IAFs in this area.

C&B is an important component of the internal control of organisations. It is high on the agenda of Management Boards. The importance of a constructive culture is also underlined by the Dutch Corporate Governance Code (the 'Code').

Principle 2.5 Culture

The Management Board is responsible for creating a culture focused on long-term value creation for the company and its affiliated business. The Supervisory Board should supervise the activities of the Management Board in this regard.

Principle 2.5 of the Code defines the responsibilities of the Management Board and Supervisory Board for C&B. The IAF is a logical party to support them in this.

The priorities of the Supervisory Board /AC strongly influence the agenda and effectiveness of the IAF. That is why our professional organisations regularly organise knowledge exchanges with Supervisory Board members, including the annual Supervisory Board members' symposium. Recently, we learned from the Supervisory Board members that they not only want C&B to receive more attention, but that they also need more in-depth insight into these topics. This report is an important step forward.

Much has been published about C&B in recent years. This publication occupies a unique position in the literature on this topic. It does not focus on the importance of the topic, the possible role of the IAF or the research methods, but on the state of affairs, the ambitions and the tools to achieve these ambitions. In a careful process, the working group defined a practical theoretical framework for this, conducted a survey among Chief Audit Executives (CAEs), discussed the survey results in interviews with a number of Supervisory Board members, and reflected on them in a roundtable meeting with participating CAEs.

The report contains a number of key insights and tools, which are elaborated step by step and summarised in a clearly structured way in a concluding section. What is striking in the findings in any case is that many IAFs want C&B to receive more attention, and that the IAF is the main internal supplier of C&B-related audits and the Supervisory Board / AC is seen as an important sponsor, but also that CAEs need to take the initiative on this and 'pitch' such audits.

The report is an excellent tool for (even) further integrating C&B in management, auditing and supervision. In addition, it provides CAEs with an excellent point of reference for benchmarking their own situation and ambitions and entering into discussions with their Management Board and Supervisory Board / AC. It would be good if the publication also triggered a further professional debate in which the following question can be raised: How can the increasing

attention paid to C&B deliver not only effectiveness, but also efficiency for audits that currently still rely primarily on hard controls?

We would like to thank the working group¹, the respondents and all others who have contributed to this study.

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1 Introduction

Background and reasons for the study

It is a widely recognised fact that culture and behaviour are essential factors in the management and control of organisations. Interest in these so-called 'soft controls' has surged in recent decades, also within the internal audit profession. This has for example taken the form of various studies, publications, courses and other meetings.² Questions that have been discussed include:

- What is the significance and importance of soft controls for organisational control?
- Should and can an internal audit function (IAF) audit the 'soft side' of organisational control?
- Which reference frameworks and research methods are applied by IAFs for this purpose?
- What other reference frameworks and research methods could be useful?

One of the parties that influences the duties performed by the IAF is the Supervisory Board. The Supervisory Board supervises the management of the organisation and is accountable for this to the stakeholders. In this supervisory task, too, there is an increasing focus on culture and behaviour. In fact, many Supervisory Board members already paid attention to this, but in recent years the importance of this has been further underlined by the Dutch Corporate Governance Code and by various publications and meetings where Supervisory Board members were asked for their views.^{3, 4}

We expect that the extent to which Supervisory Boards and especially their Audit Committees (ACs) pay attention to culture and behaviour influences the extent to which the IAFs do so, and vice versa. These bodies may request the IAF to conduct audits focused on certain topics, for example, or to raise broader awareness about such topics, whereupon the IAF translates this into concrete audit proposals. Conversely, IAFs can also submit proposals for audits related to culture and behaviour, bring the findings of such audits to the attention of the Supervisory Board / AC, or specifically relate other topics that are being discussed to culture and behaviour.

2 The appendices contain a number of publications by the NBA and IIA on this topic.

3 See the text box in the foreword containing principle 2.5 (culture) of the Code.

4 See, for example, *Allies in Governance 2.0* (IIA NL and NBA LIO), *Voorkom toezicht met een dode hoek* (Janssen Groesbeek et al.) and *Internal auditor en rvc: waarheen?* (IIA NL and Board in Balance BV), which called for giving more attention to culture and behaviour. But also the annual Supervisory Board members' symposium of IIA NL and NBA LIO, which concluded that more in-depth insight into these topics is needed.

Because of this expected reinforcing effect, it is relevant to know which aspects of culture and behaviour are discussed in the working relationship between the IAF and the Supervisory Board / AC, and to what extent and how these are discussed, what ambitions there are in this area, and which tools and points for attention may be important. With this information, the internal audit profession can anticipate developments, and individual IAFs can in consultation with their AC benchmark their own situation and give shape to their ambitions. This study aims to contribute to this.

Purpose and target group

The purpose of this study is to provide insight into:

- the 'place' of culture and behaviour in the audits of IAFs, in ACs and in IAF/AC meetings;
- the ambitions of IAFs in this area;
- tools to give shape to these ambitions.

The findings of this study are primarily intended for IAFs and their ACs, but can also be used by Management Board members:

- *Audit functions:* Auditors can use the findings of this study to evaluate and improve their services in relation to culture and behaviour. The study provides them with a point of reference for benchmarking their own situation, a basis for discussion with the Management Board and the AC, and tools to give further shape to their ambitions;
- *Supervisory Board members:* Supervisory Board members, in particular AC members, can use the findings to give further shape to their supervision of the management of the organisation and their accountability for this to the stakeholders;
- *Management Board members:* Management Board members can use the tools from this study to ensure that culture and behaviour is (even) more explicitly part of the management and control of the organisation.

Research question

This study is based on the following research question:

1. How much attention is paid to culture and behaviour in the audits conducted by IAFs?
 - a. What audits related to culture and behaviour do IAFs conduct?
 - b. Who initiates these IAF audits?
 - c. What are the reasons for conducting audits focused on these topics?
2. How much attention is paid to culture and behaviour in the ACs and in the IAF/AC meetings?
 - a. Which culture and behaviour topics are discussed in IAF/AC meetings?
 - b. From whom do the ACs receive (research) information about culture and behaviour?
 - c. To what extent is behavioural expertise represented in the AC?
3. How much attention do IAFs want to see paid to culture and behaviour in the future; what are their wishes and ambitions in this area?
4. What are useful tools for giving shape to the ambitions and what points may require attention in this respect?

General research approach and structure of the study

Our research started with mapping possible topics related to culture and behaviour and possible classifications of these topics. On this basis, we defined a theoretical framework. We then conducted a survey among a group of Chief Audit Executives (CAEs). The results of this survey were processed and analysed, and discussed in interviews with four experienced Supervisory Board members. Lastly, a roundtable meeting was held where we reflected with participating CAEs on the overall picture.

Section 2 sets out the theoretical framework. Section 3 provides a more detailed description of the research approach. The research findings are described in sections 4, 5 and 6. Section 7 presents a summary of our conclusions and recommendations. The appendices include the following: the survey, an overview of the organisations that contributed to this study and an overview of previous IIA and NBA publications on culture and behaviour.

Scope and limitations of the study

The study focuses on organisations that fall into the direct and indirect target group of the Dutch Corporate Governance Code. In other words, Dutch listed companies and similar organisations that comply with the Code on a voluntary basis.

The survey is a survey of perceptions among CAEs. Hence the survey results represent their perception of reality, which is not necessarily the same as that of the ACs. Nor have the results been compared with documentation, such as IAF audit programmes and AC reports. To compensate for these limitations, the survey results were presented to the aforementioned Supervisory Board members and their responses were then explicitly discussed in the roundtable meeting with the CAEs. The research findings in this report present the final overall picture.



2 Theoretical Framework: Categories and Examples

Culture and behaviour or soft controls?

In recent years, the term 'culture and behaviour' has become popular, partly because of the way in which this is worded in the Dutch Corporate Governance Code. In the broader theory and terminology around organisational control, however, the term 'soft controls' or similar terms are also used, usually as an addition to the so-called 'hard controls'.⁵

Given the reasons for our study, in this report we frequently use the term 'culture and behaviour' but, where useful, also the term 'soft controls'.

Categories of controls, broken down by audit object

In our study we distinguish three categories of audits of culture and behaviour. These categories are based on the relevant literature, lecture materials from the Dutch internal/operational auditor programmes and practical audit experience.

The distinction between the categories is based on the audit object and is visualised in Figure 2.1 and explained below.

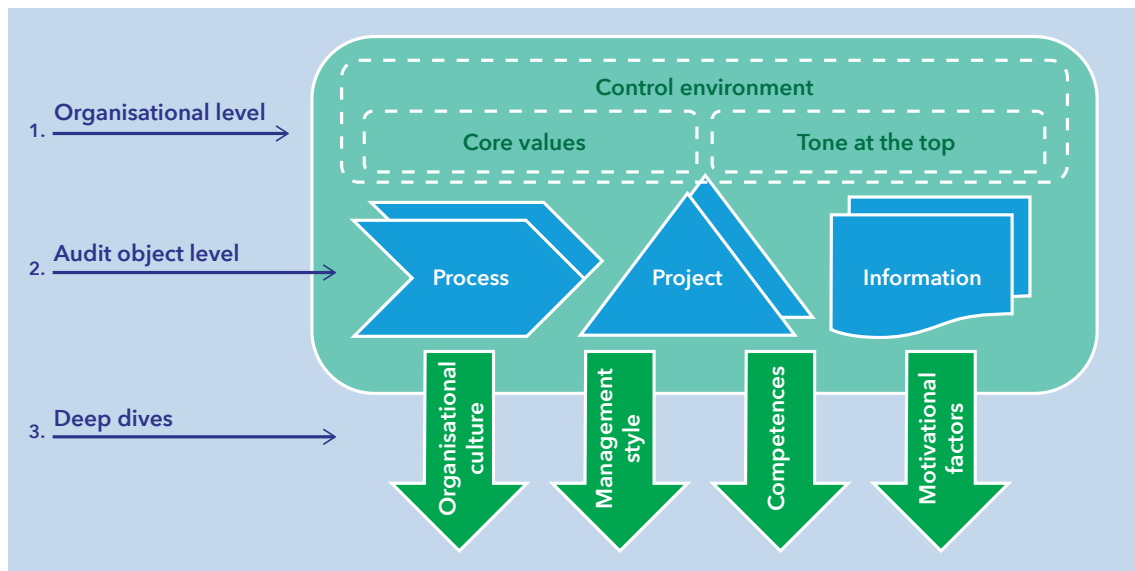


Figure 2.1 Categories of soft controls, based on the audit object

5 See for example Roth (1998, 2010), Kaptein (1998), Kaptein et al. (2005), De Heus and Stremmelaar (2000), Bos and De Korte (2008), V.d. Meulen and Otten (2013, 2014) and Lückerath-Rovers (2010, 2011).

Explanation per category:

1. **Culture and behaviour (as part of) the organisation-wide internal control environment.**
This includes such characterisations as ‘an ethical culture’, ‘a risk-aware culture’, ‘an open culture’, etc.⁶, but also the ‘tone at the top’ and familiarity with and effectiveness of ‘core values’, which may or may not have been laid down in a code of conduct.
2. **Culture and behaviour in the context of the control of a specific audit object**, such as a process, project or information product⁷. Here the focus is not so much on ‘soft controls’ but on object control, of which the soft controls are part. For example, an audit of the control of a project where not only the application of a particular project management method is assessed, but also matters such as adaptability and the culture of the change team.
3. **Culture and behaviour as the focus of a deep dive audit of a specific soft control**, such as the culture in a certain entity, the leadership style of the management involved or the motivational factors and competencies of the employees involved. This specifically looks into whether the soft control is adequate, such as whether it is appropriate to the strategy, the management principles or the process characteristics⁸. This can be done by means of a ‘regular’ audit, based on the research question of whether the soft control is adequate, or as part of a root cause analysis (RCA).

In this study we apply the three categories described above. Each of these categories is further specified in the discussion of the research findings in section five.

6 For the purpose of this study, we therefore apply a broad definition of the ‘internal control environment’. This definition includes, for example, the COSO’s control environment and the applications derived from it, such as described by IIA Inc. and J. Roth, as well as the various ‘risk culture’ surveys from the accountancy and risk management professions (IFAC, NBA, IRM), but also applications in the area of integrity, trust, openness and learning ability.

7 We define an information product (in the object-oriented approach) as including both financial and non-financial information, as well as external accountability information (such as financial statements or sustainability reports) and internal management and accountability information.

8 Accordingly, a deep dive audit is not so much based on a generally applicable ideal situation. Rather, what constitutes the ideal depends on the specific organisational characteristics or circumstances. As an example to clarify this, a ‘rules-based culture’ could be appropriate for a Finance department, but for the Sales department a ‘market culture’ often tends to be more appropriate. The same applies to variables such as leadership styles, motivational factors and competencies. The in-depth nature of such audits means that one often has to look deeper than the organisation-wide norms, with a more explicit focus on the situational aspect.

3 Research Method

This study is based on the following research model.

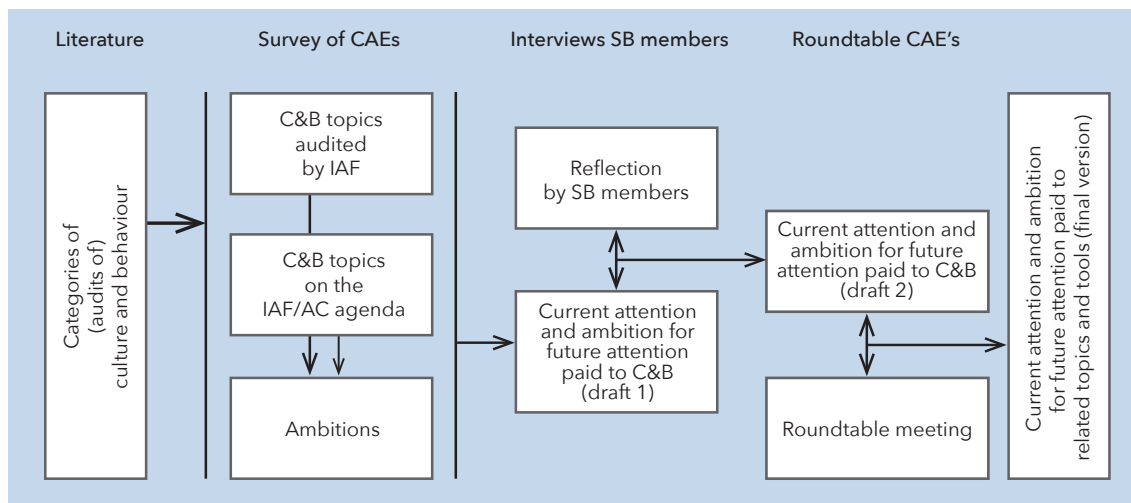


Figure 3.1 Research model

For the field study described in the following sections, we drew up a questionnaire based on our research design and theoretical framework. A survey was then conducted among CAEs of Dutch listed companies and similar organisations that comply with the Dutch Corporate Governance Code on a voluntary basis. The survey first asked them about some general characteristics of their organisation, the IAF and the AC. Subsequently, they were presented with a number of subcategories (topics) per category related to culture and behaviour and asked for each of these C&B-related topics to what extent the IAF conducts audits of the topic, whether it is discussed in the meetings with the AC, and how much attention the IAF wants to see paid to it in the future (ambitions). By working with categories and offering options to choose from, we not only gained insight into the topics that already get (a great deal of) attention, but also into which topics receive no or little attention at present. Lastly, the survey asked questions about the initiators of and reasons for the C&B audits, as well as how much attention the AC pays to culture and behaviour in general in the opinion of the respondents.

The survey results were then presented in an aggregated form to four experienced Supervisory Board members by means of semi-structured interviews. They responded to the survey results from their perspective on the topic. Finally, the overall results were further interpreted and explored in more depth in a roundtable meeting with eight CAEs who had stated in the survey that they wanted to take part in it.⁹In addition, both the Supervisory Board members and the CAEs reflected on the question of what would be useful tools for giving shape to the mapped ambitions and what points may require attention in this respect.

9 In a few cases, the CAE was represented by a senior employee.



4 Respondents: Organisations, IAFs and their Audit Committees

This section describes the characteristics of the study group. It first describes the sectors to which the organisations concerned belong, the size of these organisations and the size of the IAFs. It then describes the contacts between the IAFs and their ACs¹⁰, distinguishing between the IAF's attendance of AC meetings and bilateral meetings between the IAF and an AC member.

4.1 Organisations and their IAFs

86 CAEs were approached, which resulted in 30 useful responses. That corresponds to a response rate of 35%. Experience shows that this is a reasonable score for this type of survey.

Figures 4.1 to 4.3 show some characteristics of the participating organisations: the sectors they belong to, the size of the organisations and the size of their IAF.

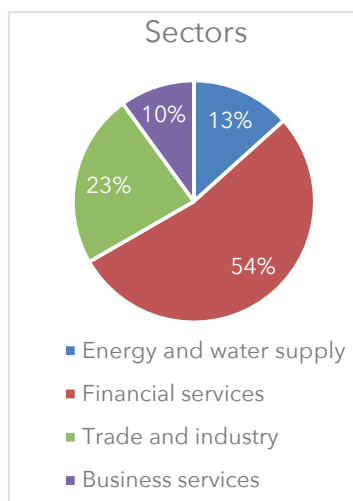


Fig.4.1 Respondents' sectors

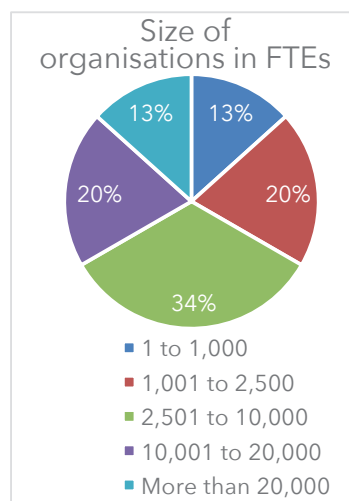


Fig.4.2 Size of the organisations

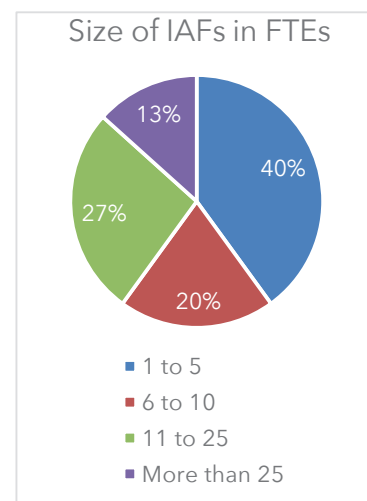


Fig.4.3 Size of the IAFs

Explanation

- More than half of the CAEs work for an organisation in the financial sector. Almost a quarter work for an organisation in the trade and industry sector. The rest work in the business services sector or for an organisation in the energy and water supply sector.
- Two thirds of the organisations have a size of more than 2,500 FTEs. The average size is 13,000 FTEs. The smallest organisation has a size of 280 FTEs. The largest has 155,000 FTEs.

10 Almost all respondents work for an organisation with an Audit Committee. For this reason, no distinction is made in this report between organisations with and those without an Audit Committee.

- 40% of the IAFs are a small IAF, i.e. an IAF with no more than 5 FTEs. The average size is 26 FTEs. The smallest IAF has a size of 2 FTEs. The biggest has 300 FTEs.

The results show that the size of the organisation and the size of the IAF correlate with the extent to which the IAFs audit the internal control environment. This can be explained by the fact that larger organisations have a relatively great need to pay special attention to ensuring a uniform, organisation-wide internal control environment, including core values and the tone at the top, and that larger IAFs have relatively easy access to the necessary expertise.

4.2 Contacts with the Audit Committee

Our study looks into the consultation between the IAF and the AC and the extent to which culture and behaviour are discussed in IAF/AC meetings. By IAF/AC meetings, we mean not only the occasions when the IAF attends a meeting of the AC, but also bilateral meetings between the IAF and a member of the AC. Figure 4.4 shows the estimated number of meetings as reported by the respondents, in the form of a box-and-whisker plot.¹¹ It shows the average number of times a year the IAF attends an AC meeting, the average number of bilateral meetings a year, and the sum total of these two forms of consultation a year.

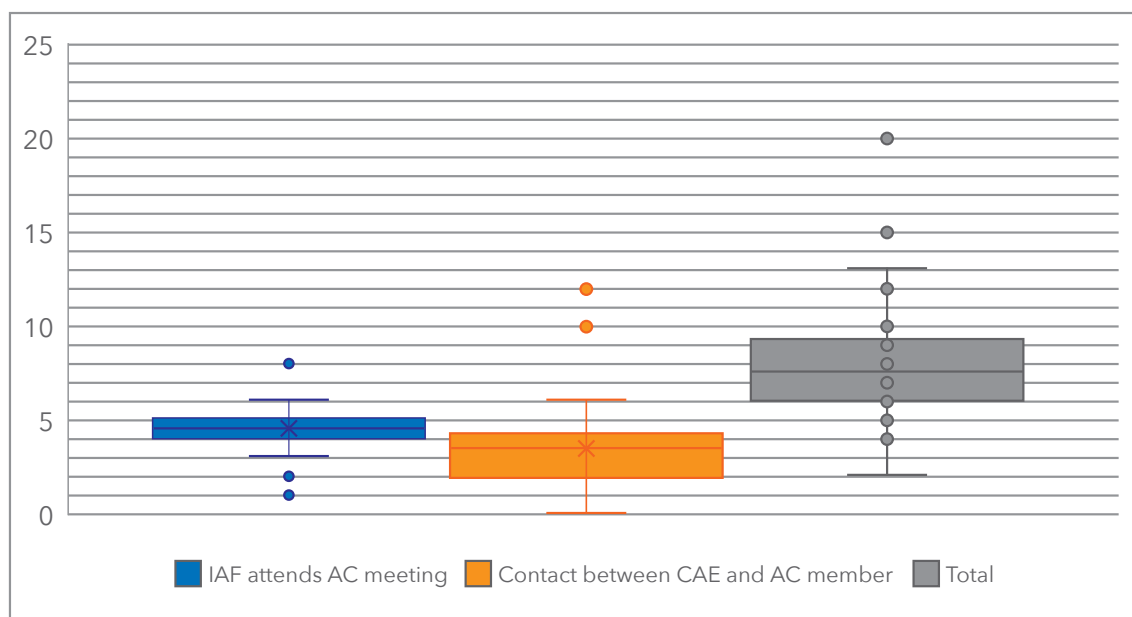


Figure 4.4 Number of contacts a year with the Audit Committee

11 In a box-and-whisker plot, the 'whiskers' indicate the spread of the 'normal' scores. The box contains the second and third quartiles, representing about half of the normal scores, within which lie the median (indicated by the horizontal line) and the average of the scores (indicated by the X). The points plotted beyond the whiskers are outliers.

Explanation

On average, the IAFs attend four to five AC meetings a year. The IAFs have bilateral meetings with an AC member three to four times a year on average. However, the spread is wider: from zero to six times a year, not counting outliers. When we add up both forms of consultation, the average number of meetings between the IAF and the AC comes to almost eight a year.

Preliminary discussions are also (important) bilateral meetings

A few respondents added the comment to their scores that some of their bilateral meetings with an AC member are actually preliminary discussions (with the chair of the AC) of a formal meeting of the AC in which the IAF will participate. From this perspective, the average total number of contacts with the AC of almost eight a year might be considered somewhat of an overestimate. On the other hand, however, such preliminary discussions also give the IAF the opportunity to raise issues that are not necessarily also discussed in the subsequent IAF/AC meeting. For this reason, we have included the preliminary discussions in the calculation of the number of bilateral meetings.



5 Culture and Behaviour: IAF's Auditing, Discussion and Ambitions

This section presents our findings with respect to the IAF's auditing of C&B, the discussion of this topic in the AC/IAF meetings and the related ambitions of the IAF.

Section structure

The structure of this section is based on the categories outlined in the theoretical framework in section 2:

1. culture and behaviour as (part of) the organisation-wide internal control environment;
2. culture and behaviour in the context of the control of a specific audit object; and
3. culture and behaviour as the focus of a deep dive audit of a specific soft control.

We start subsection 5.1 with a summary of the research findings at the level of the three main categories. The resulting overall picture already gives rise to some interesting observations, which we discuss in this subsection. However, many patterns only fully emerge after zooming in on the subcategories. These are therefore discussed in subsequent subsections 5.2 to 5.4, each of which explores one main category in greater depth.

Structure per subsection

The above-mentioned subsections have a fixed structure:

- Introduction of the C&B topics (the category and what falls into it).
- Set of three diagrams (a, b and c) with the survey results:
 - a. the extent to which the IAF audits these topics;
 - b. whether the topics are discussed in the IAF/AC meetings;
 - c. how much attention the IAF wants to pay to it in the future (ambition).
- Explanation of the survey results.
- Reflection on the survey results.

The reflection texts are based on the responses given in the comments fields of the survey, the interviews with the Supervisory Board members, the roundtable meeting with the CAEs, and analysis and synthesis of the overall research findings, including the correlations we found in the survey results.

Ambitions illustrate the usefulness of guiding tools

The results show that many IAFs want to see more attention paid to culture and behaviour. These ambitions illustrate the usefulness of benchmark information and other guiding tools. This study contributes to this.

5.1 Overall picture

This subsection presents the research findings at the level of the three main categories:

- culture and behaviour as (part of) the organisation-wide internal control environment (*organisational context*);
- culture and behaviour in the context of the control of a specific audit object (*object-oriented*);
- culture and behaviour as the focus of a deep dive audit of a specific soft control (*deep dive*).

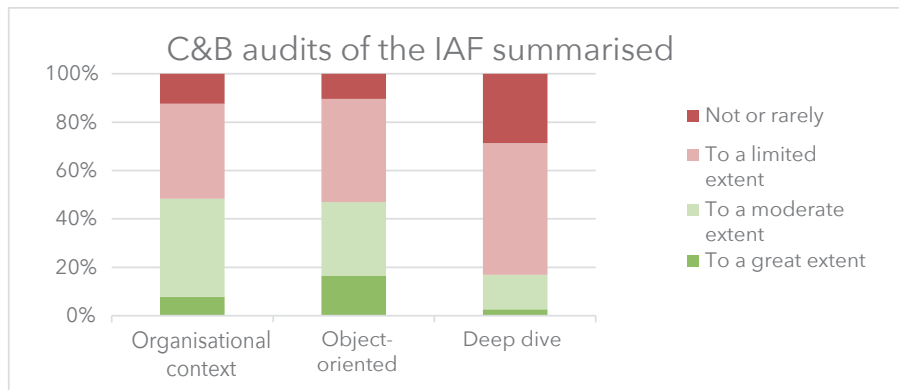


Figure 5.1a C&B audits of the IAF summarised

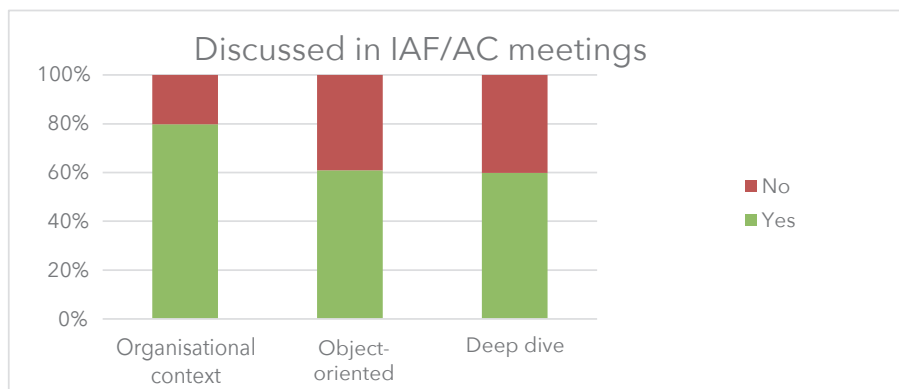


Figure 5.1b Discussion of C&B in IAF/AC meetings

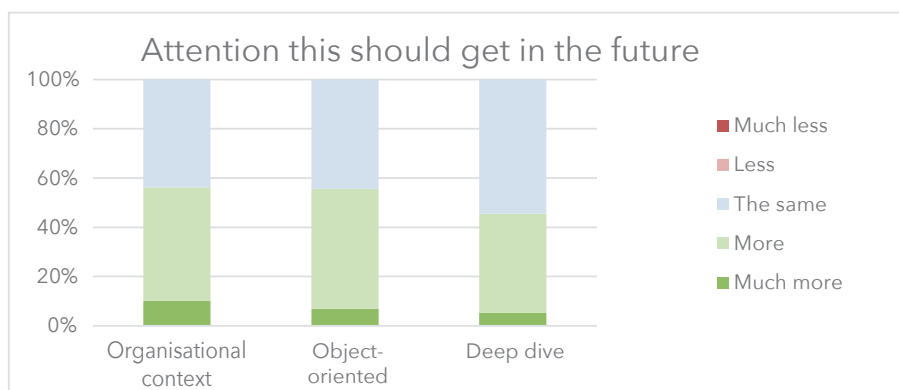


Figure 5.1c IAFs' wishes for attention to C&B in the AC

Explanation

- 48% of IAFs stated that they audit culture and behaviour as (part of) the organisation-wide internal control environment (*organisational context*) to a great or moderate extent. For culture and behaviour in the context of the control of a specific audit object (*object-oriented*), this is 53%. For culture and behaviour as the focus of a deep dive audit of a specific soft control (*deep dive*), this is 17%.
- 79% of the IAFs discuss culture and behaviour as (part of) the organisation-wide internal control environment (*organisational context*) in the meetings with the AC. For culture and behaviour in the context of the control of a specific audit object (*object-oriented*), this is 61%. For culture and behaviour as the focus of a deep dive audit (*deep dive*), this is 60%.
- 56% of IAFs have the ambition to give more or much more attention to culture and behaviour as (part of the) organisation-wide internal control environment (*organisational context*). For culture and behaviour in the context of the control of a specific audit object (*object-oriented*), this is also 56%. As the focus of a deep dive audit (*deep dive*), this is 46%. The other IAFs want the same level of attention to be paid to these matters in the future. None of the IAFs would be content with less attention being paid in the future.

Discussions without underlying IAF audits: useful, but need to take place in the right context

An initial observation on the overall picture is that culture and behaviour are more often the subject of discussion in the AC-IAF meetings than the object of IAF audits. This may raise the question of whether these discussions are sufficiently well-founded or whether the IAF is exposed to risk in this respect. According to the Supervisory Board members, it is important that the IAF sometimes shares impressions, without everything having been audited and documented. The IAF can also respond to signals from other staff functions, such as Compliance or Human Resources (HR), or from the external auditor. According to the Supervisory Board members, there should be room for this because the IAF is in touch with many parts of the organisation and oversees a great deal, which sometimes allows them to shed light on signals from a broader perspective. The CAEs confirm the usefulness of such discussions, but are of the opinion that the associated risks should be minimised. In their view, this can be done by limiting such informal exchanges as much as possible to bilateral meetings, by being cautious about having such discussions in formal AC meetings and, above all, by always clarifying the applicable context.¹² According to the CAEs, an added advantage of such contextualisation is that it can give rise to follow-up audits by the IAF (supported by the AC).

Deep dive audits of C&B lag slightly behind

The IAFs conduct relatively few deep dive audits focused on aspects such as the culture, leadership style, competencies and motivational factors in a particular entity. Where IAFs do conduct such audits, this often takes the form of a root cause analysis (RCA), as the detailed results below show. Further ambitions in this area are limited. The reasons given for this are that the above-mentioned aspects are also typical focus areas of functions in the second line of defence, such as HR and Management Development (MD), and that the further investigation and resolution of identified points for improvement are primarily the responsibility of management itself.

Encouraging correlations for ambitious IAFs: to be known is to be liked

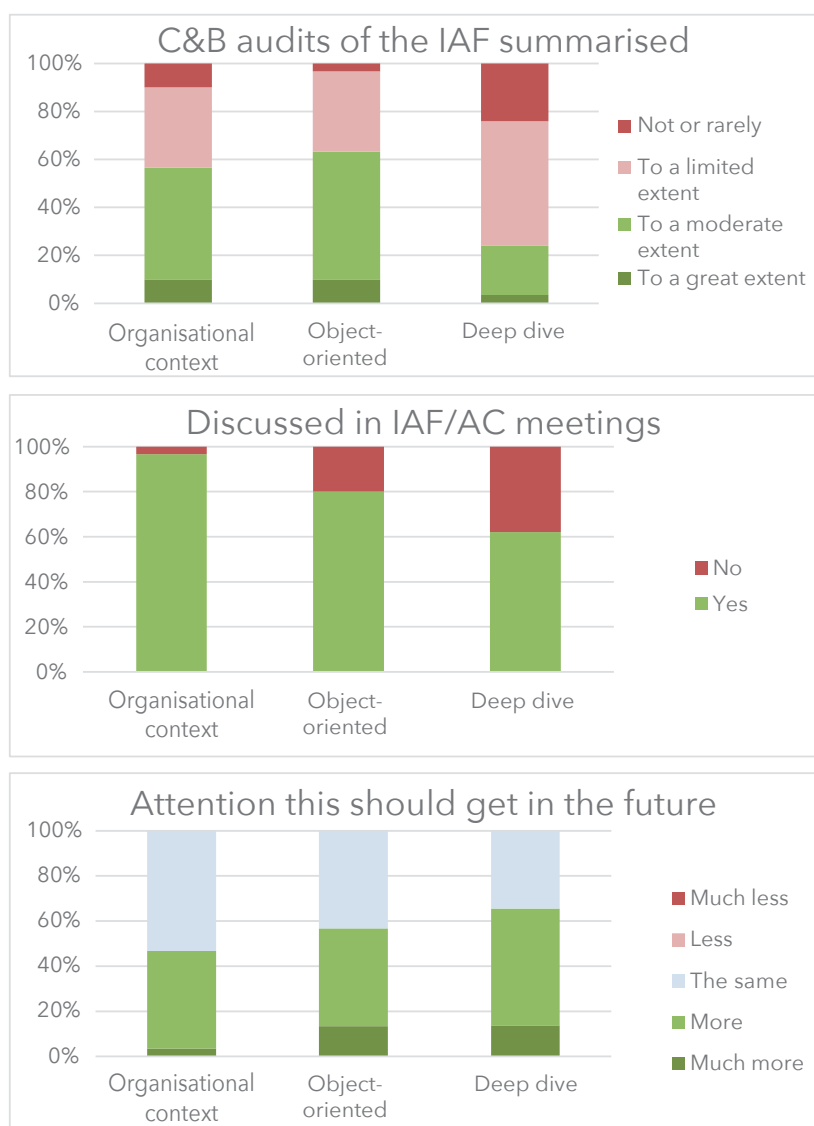
Audits of the organisational context correlate with the ambition to pay more attention to this topic. A deep dive audit in the form of an RCA (subsection 5.4) correlates with all types of C&B audits. According to the CAEs, these correlations illustrate that to be known is to be liked and that IAFs do not need to be reluctant.

¹² One respondent illustrated the context in question by commenting: "It needs to be clear to the person(s) you are talking to that the opinion of a professional is not the same as a professional judgement."

5.2 Cat.1: culture and behaviour as (part of) the organisation-wide internal control environment

The first category is culture and behaviour as (part of) the organisation-wide internal control environment. This socio-organisational context is seen as setting the framework for all business activities and the prerequisites for the operating effectiveness of lower level controls. Three subcategories are distinguished in this respect:¹³

- the *internal control environment* in the broadest sense, which includes aspects referred to by terms such as 'control environment', 'ethical culture', 'risk-aware culture', 'open culture' and 'safe culture';
- the familiarity with and effectiveness of 'core values', which may or may not be set out in a code of conduct or be related to practical dilemmas;
- the 'tone at the top', i.e. top management setting the right example in their behaviour.



Figures 5.2a, b and c C&B as internal control environment: IAF's auditing, discussion in IAF/AC meetings and IAF's ambition

¹³ The three subcategories are derived from, among other things, COSO and the Dutch Corporate Governance Code.

Explanation

- 57% of IAFs stated that they audit the internal control environment to a great or moderate extent. For the auditing of core values, this is 63%. And for the auditing of the tone at the top, this is 24%.
- Almost all respondents, namely 97%, stated that the internal control environment is discussed in the meetings with the AC. 79% of respondents stated that the core values are discussed. 62% stated that the tone at the top is discussed.
- 47% of IAFs want more or much more attention to be paid to the internal control environment in the future. 57% want this for the core values. And 66% of IAFs want more or much more attention to be paid to the tone at of top. The other IAFs want the same level of attention to be paid to these matters in the future.

IAFs' implementation of Corporate Governance Code is adequate, but there is room for improvement

The Dutch Corporate Governance Code states that culture, including core values and the tone at the top, is an important part of corporate governance. The CAEs are of the opinion that the IAFs generally implement the Code adequately by means of their audits. They note that the Code draws attention to culture and behaviour in general terms, and that it does refer to the IAF or to another party as having primary responsibility for auditing this. Nevertheless, the CAEs are of the opinion that the implementation of the Code in relation to culture and behaviour can be improved, and that it would be helpful if the ACs were to clearly express their expectations of the IAF in that context, for example when the Management Board is reluctant to do so.

In particular, more audits focused on the tone at the top are needed

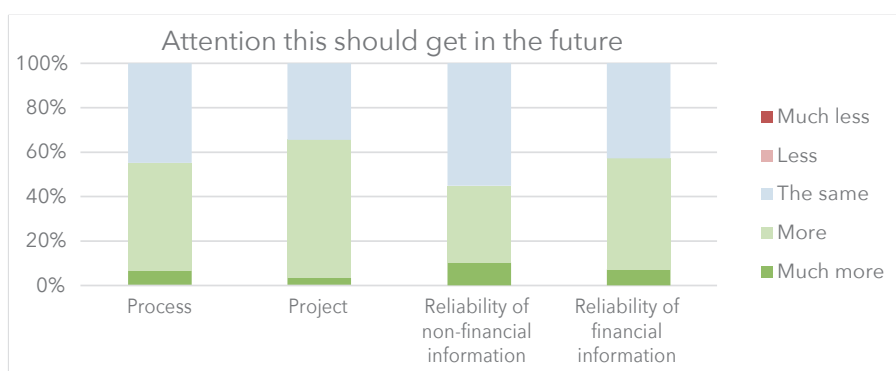
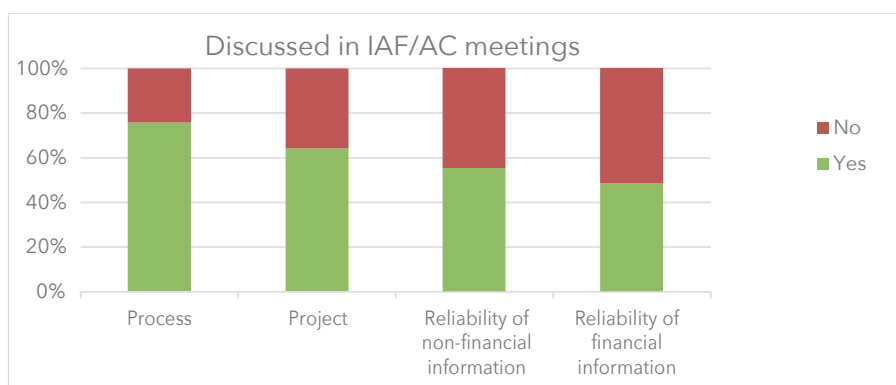
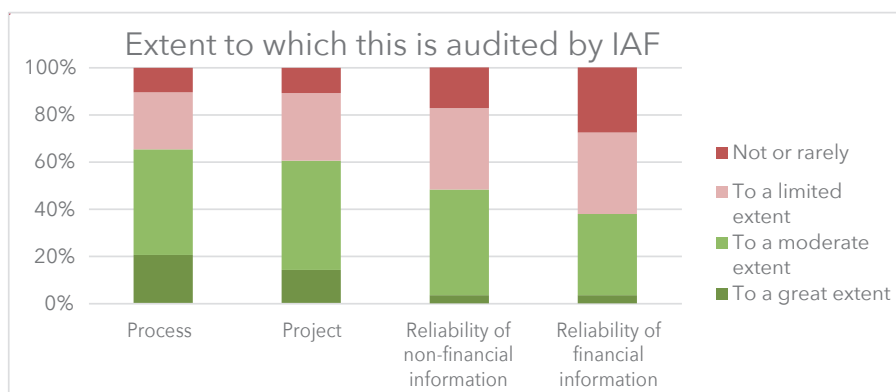
The IAFs have the ambition to give more attention to all the subcategories distinguished here, but particularly to the tone at the top. The Supervisory Board members endorse this and encourage the IAFs to report more on this subject. According to them, the IAFs should ensure that they have the necessary (constructive) relationship with the Management Board, while demonstrating their seniority and independence. With regard to how audits are conducted, the Supervisory Board members advise the IAFs to audit primarily concrete issues, such as cases and exit interviews, and to focus on the question of what can be learned from this. However, they note that the AC is not the only point of contact for this purpose, as the tone at the top is also a focus area of other committees, such as the Remuneration and the Selection & Appointments Committee. Lastly, the Supervisory Board members stated that their expectations of the IAFs are not unlimited. Because if things become too 'tense' for an internal function, the Supervisory Board / AC involves an external party.

The CAEs supplemented the suggestions made by the Supervisory Board members with the recommendation to link the tone at the top to other aspects. This includes, for example, linking this to audits focused on an organisation's core values or to an aspect such as diversity. In addition, the tone at the top can be included as an aspect in (the assessment of) organisation-wide risk management (ERM) or the control of business processes and projects. Lastly, audits focused on the consistency between matters such as strategy, organisational design, operational management and redirection, i.e. the consistency and functioning of the management cycles at the various organisational levels, are also a good way to incorporate the role of the tone at the top.

5.3 Cat.2: culture and behaviour in the context of the control of an (audit) object.

The second category is the object-oriented approach: culture and behaviour in the context of the control of a specific object. Here, the focus is not so much on the 'soft controls' themselves, but on object control, of which the soft controls are part. We distinguish four subcategories, namely culture and behaviour in the context of the control of:

- a business process;
- a project;
- the reliability of specific financial information;
- the reliability of specific non-financial information.



Figures 5.3a, b and c C&B as object control: IAF's auditing, discussion in IAF/AC meetings and IAF's ambition

Explanation

- The majority of the IAFs stated that they include cultural and behavioural aspects to a great or moderate extent in their audits of the control of business processes and projects. 66% include these aspects in audits of *process control*, and 61% include them in audits of *project control*. When auditing the reliability of information, less than half of the respondents do so. 38% do so when auditing the *reliability of financial information*, and 48% when auditing the *reliability of non-financial information*.
- In a large majority of the IAFs, the IAF/AC meetings on the control of processes and projects also include a discussion of their cultural and behavioural aspects. 76% stated that these aspects are discussed in relation to *process control*, and 64% that they are discussed in relation to *project control*. Cultural and behavioural aspects are discussed to a slightly lesser extent in the IAF/AC meetings in the context of the reliability of information. 48% stated that these aspects are discussed in relation to financial information, and 55% in relation to non-financial information.
- 55% of the IAFs want more or much more attention to be paid to culture and behaviour in the context of *process control* in the future. 66% want this for culture and behaviour in the context of *project control*. For culture and behaviour in the context of the *reliability of financial information*, 57% of the IAFs want more or much more attention to be paid to this in the future. 45% want this for the *reliability of non-financial information*. The other IAFs want these matters to receive the same level of attention in the future.

Including cultural & behavioural aspects is becoming normal in process and project audits

When auditing the control of processes and projects, cultural and behavioural aspects are relatively often included in the assessment. The explanations we have recorded for this are quite consistent. It is increasingly considered 'normal' to also look at the behavioural side when assessing the control of processes and projects. The IAF stakeholders (including the AC) increasingly expect this. The professional methodology to conduct such audits is increasingly widely available. And IAFs frequently share experiences. Various IAFs now even state that they aim for a situation where it is standard practice to include cultural and behavioural aspects in process and project audits.

But not (yet) in audits of the reliability of information

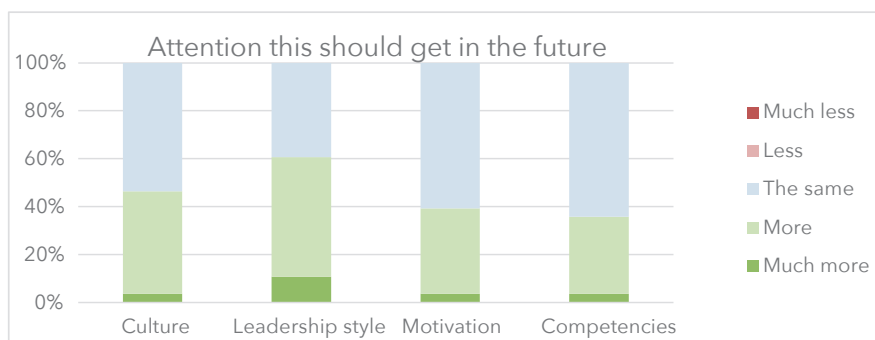
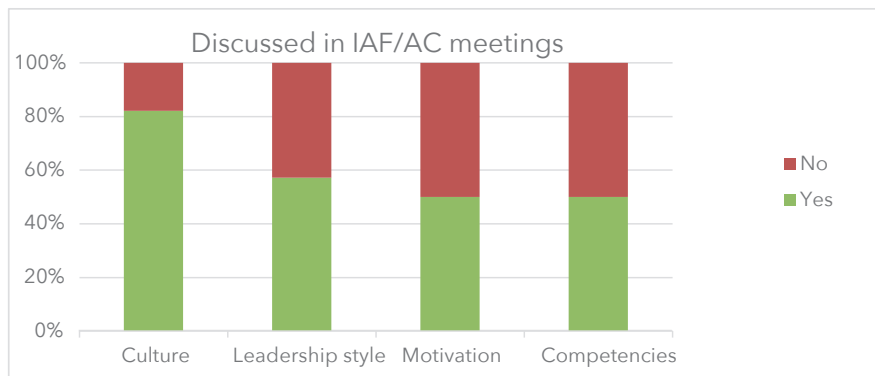
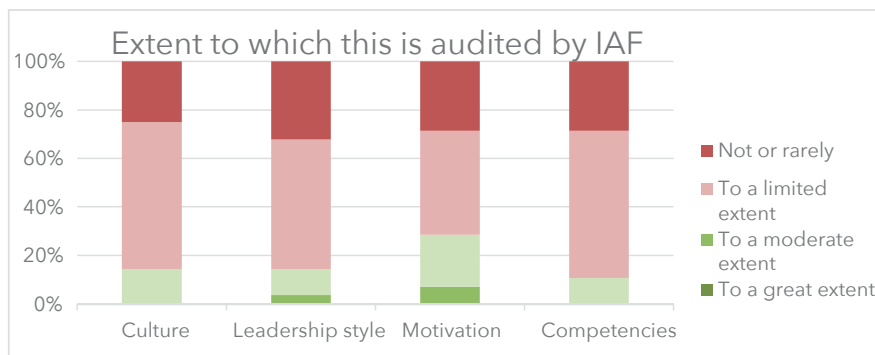
Cultural and behavioural aspects (i.e. soft controls) are included to a slightly lesser extent when assessing the reliability of information. However, what is particularly striking is that the scores for this aspect show a fairly wide spread, and that the explanations given for this also vary widely. For example, at one end of the spectrum there is the opinion that information, especially financial information, should be 'hard' and should therefore be audited and assessed as such. At the other end, it is said that information originates from the operational management and is presented by the organisation, and that it is therefore logical and advisable to include the soft controls in the assessment of this information. How this can be given shape in a sound professional manner was beyond the scope of this study.

For the ambitious IAFs, our research findings also contain encouraging insights in this area. The extent to which IAFs include cultural and behavioural aspects in the above-mentioned types of audits correlates with the extent to which these aspects are discussed in the IAF/AC meetings. This correlation supports the picture that it is becoming increasingly normal to include the behavioural side in both the audits (or at least in the process and project audits) and the discussions about them.

5.4 Cat. 3: culture and behaviour as the focus of a deep dive audit of a specific soft control

The third category concerns culture and behaviour as the focus of a deep dive audit of a socio-organisational control aspect, i.e. a specific soft control. Here, the focus is especially on examining whether the soft control is adequate, such as whether it is appropriate to the group strategy, the management principles or the process characteristics. This can be done in an 'regular', standalone audit, but also as part of an RCA, where the soft control is audited in response to (and to determine the possible cause of) an identified control issue. We distinguish the following four subcategories:

- *culture* in a particular entity (for example, culture in a particular department);
- *leadership style* of the management involved;
- *motivational factors* for the employees involved ('willingness' of the members of the organisation);
- *competencies* of the employees involved ('ability' of the members of the organisation).



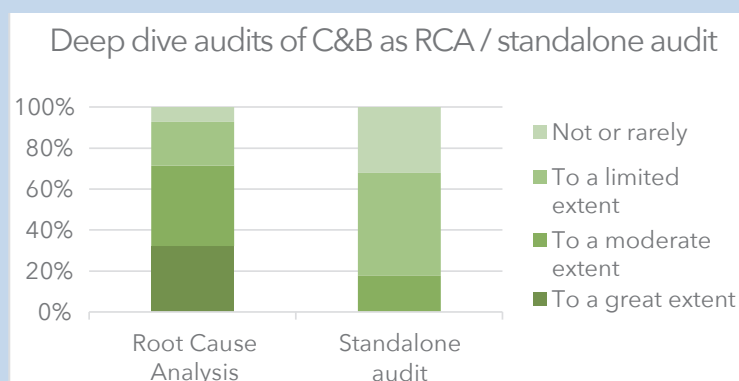
Figures 5.4a, b and c C&B as the focus of deep dive audits: IAF's auditing, discussion in IAF/AC meetings and IAF's ambition

Explanation

- Only a small number of the IAFs stated that they conduct deep dive audits focused on the above-mentioned aspects. The scores for this are as follows: *culture*: 14%; *leadership style*: 14%, *motivation*: 29%; and *competencies*: 11%.
- In at least half of the IAFs, these deep dive aspects are discussed in the meetings with the AC. The *culture* of a particular entity is discussed at 82% of the IAFs, while the *leadership style* is discussed at 57%. And the *motivational factors* and *competencies* of the employees are discussed in consultation with the AC at 50% of the IAFs.
- The ambitions of the IAFs in this area are relatively limited. 46% of IAFs want more or much more attention to be paid to the *culture* of entities in the future, 61% want this for the *leadership style* of the management involved, 39% want this for the *motivational factors* of the employees involved, and 36% for their *competencies*. The other IAFs want the same level of attention to be paid to this in the future.

We also asked the respondents to what extent the deep dive audits are root cause analyses prompted by identified control issues, and to what extent they are standalone audits focused on the assessment of an aspect / soft control, which are not prompted by a control issue. As audits may have characteristics of both these types, we asked the respondents to distinguish between these two types in the survey. Figure 5.5 shows the results.

71% of IAFs stated that the deep dive audits are to a great or moderate extent conducted in the context of a root cause analysis (RCA). Only 18% stated that the deep dive audits are to great or moderate extent conducted as a *standalone audit*.



Figuur 5.5 Types of deep dive audits: RCA and standalone audit

Deep dive audits of C&B: number is limited for a reason, which provides insight into the usefulness of cooperation

In subsection 5.1 we already discussed that the IAFs conduct few deep dive audits focused on C&B, that these audits often take the form of an RCA, and that the ambitions are limited. The reasons given for this are that the above-mentioned aspects are also typical focus areas of staff functions, such as HR and MD, and that the further investigation and resolution of identified points for improvement are primarily the responsibility of management. In other words, the IAF is often not involved. In summary, the data and reflections provide insight into the following two points:

- As a rule, the IAFs limit their deep dive audits to audits for which there is a concrete and sufficiently serious reason (such as an identified control issue) and where it would not be more appropriate for others to take up the matter;¹⁴
- the IAFs need to maintain good relationships with other staff functions so that, where necessary, source information can be gathered, cooperation is possible, or an issue identified by the IAF can be transferred for (in-depth) follow-up.

14 The correlations in our research data support the picture that the IAFs are cautious when it comes to conducting deep dive audits, and often look for significant underlying (behavioural) patterns in such audits (RCA). This is evident from the fact that the extent to which deep dive audits are conducted correlates with the extent to which this is discussed in the IAF/AC meetings, and the extent to which RCAs are conducted correlates with all types of C&B audits.

6 Auditing Culture and Behaviour: Reasons, Suppliers and the AC

This section discusses the research questions that are not directly related to any one of the categories of C&B audits. They underly these categories and further contextualise them.

In subsection 6.1 we address the question of what reasons there are for the IAF to conduct C&B audits and who the main initiators of such audits are. As part of this, we discuss in more detail the (initiating) roles of the Management Board and the Supervisory Board / AC and how these roles can be optimally supported and utilised by the IAF. In subsection 6.2 we acknowledge that the AC also deals with C&B audits conducted by other parties. We identify the suppliers of these audits and discuss some of the consequences for the applied points of reference, working methods and the coordination of roles. In subsection 6.3 we once again focus on the AC and examine the question to what extent behavioural expertise is represented in the AC and to what extent ACs (according to the CAEs) pay attention to culture and behaviour. This is followed by a reflection on the possible links between these factors, how behavioural expertise can be promoted in Supervisory Boards in general, and how IAFs, but also the professional organisations, can contribute to this.

The structure of the subsections is the same as in the previous sections: first the survey results are presented, followed by an explanation and reflection.

6.1 Reasons for and initiators of the IAF's C&B audits

The IAFs were asked what the substantive reasons are for their C&B audits and who initiates these C&B audits. The results are shown in Figures 6.1 and 6.2.

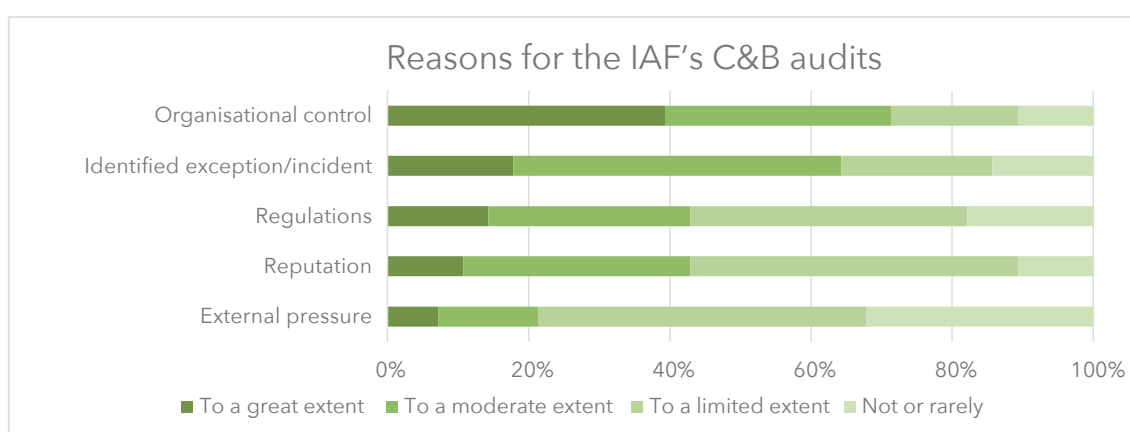


Figure 6.1 Reasons for the IAF's C&B audits

Explanation

The main reasons mentioned for the IAF's C&B audits (scores 'to a great extent' and 'to a moderate extent' respectively) are the conviction that cultural and behavioural aspects and the attention paid to them through audits contribute to *good organisational control* (71%) and identified *exceptions and incidents* (64%). Slightly less frequently mentioned reasons for C&B audits (both 43%) are the expected contribution of such audits to conformity with regulations (*compliance*) and to a good *reputation*. C&B audits conducted by the IAF are only to a limited extent (21%) prompted by external pressure, such as opinions in the media.

Reputation and external pressure are only an indirect factor; operational management and compliance are the drivers

The results illustrate that, according to auditors and Supervisory Board members, culture and behaviour is basically an 'internal matter'. Reputation and external pressure play a role, but are only of secondary importance. For example, if wrongdoing persists, it may become known to the general public. This can then impact an organisation's reputation and possibly even lead to pressure from external stakeholders. In such cases, it is felt that the best thing to do is to stay ahead of external pressures. And this can be done by focusing on the (internal) levers, namely good organisational control, compliance and problem solving.

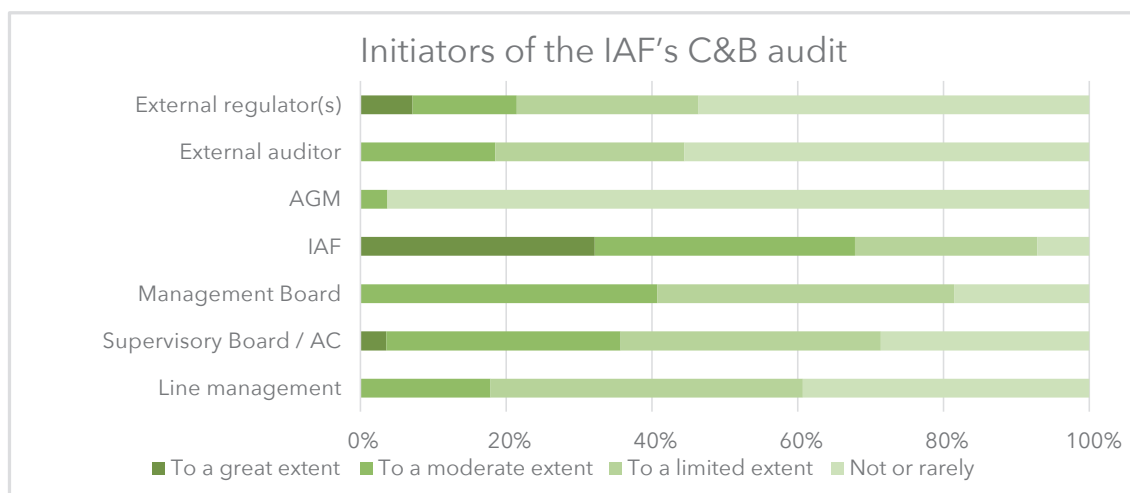


Figure 6.2 Initiators of the IAF's C&B audits

Explanation

In the perception of the IAFs, external stakeholders play only a minor role in initiating C&B audits conducted by the IAF. According to 21% of IAFs, the *external regulator* plays a role in initiating C&B audits to a great or moderate extent. For audits initiated by the *external auditor*, this is 19%. In the perception of the IAFs, the General Meeting of Shareholders (AGM) rarely (4%) initiates such audits.

When it comes to the internal parties, the IAFs mainly see *themselves* (68%) as the party which to a great or moderate extent initiates the C&B audits they conduct. Accordingly, they often take the initiative. The Management Board is a distant second (41%) and the internal supervisory body, the *Supervisory Board / AC*, takes third place (36%) as initiators of the C&B audits conducted by the IAF. Only 18% of the IAFs mentioned the *line management* as a party that initiates such audits to a great or moderate extent.

IAF is the main initiator, but relies on input from other parties and asks for approval

It is notable that the IAFs see themselves as the main initiator of their C&B audits. Both the auditors and the Supervisory Board members explain this by pointing out that the IAF relies on the input from other parties, including the Management Board and the Supervisory Board / AC. It is then important to submit the proposed audits to them and to ask for support, for example by having an audit year plan approved.

Many ACs rarely or never give the IAF direct instructions to conduct an audit. Instead, they ask, for example, for attention to be paid to a specific aspect, such as cooperation or compliance. It is then up to the IAF to translate such signals into concrete audit proposals.

Convincingly linking C&B audit proposals to priorities of the AC

- However, there is a need among the IAFs for a slightly more active, supporting role on the part of the AC. In other words, an AC that acts as a supporter or sponsor of (in this case) C&B-related audits. The Supervisory Board members stated that they are not opposed to this, provided that the IAFs convincingly link their proposals to the aspects that ACs usually prioritise, such as:
 - the quality of the operational management in the broadest sense;
 - conformity with the relevant regulations (compliance);
 - ongoing or recurring problems.

It is striking that these aspects correspond to the IAF's three main reasons for their C&B audits (see subsection 6.1). Confronted with this, the CAEs stated that it is therefore important to define the requested link in sufficiently explicit terms, not only at the level of the individual audit, but also in the IAF's overall planning (audit programme, audit calendar). This could be done, for example, by applying a risk-based approach and visibly taking culture and behaviour into account from the outset. In this way, culture and behaviour explicitly become a standard component of the IAF's working method, instead of something that is apparently added 'on top' and which may therefore be perceived as an expendable luxury.

To be known is to be liked, also with the ACs

The research data also contains encouraging correlations and insights in this respect, as the extent to which both object-oriented audits of C&B and deep dive audits of C&B are conducted correlates with the extent to which they are discussed in IAF/AC meetings. So even with types of C&B audits that (still) lag slightly behind, the IAFs can (in a general sense) count on the necessary participation of the ACs and they do not have to adopt a wait-and-see attitude.

6.2 Other suppliers of C&B audits

The audits related to culture and behaviour that are discussed in the AC are conducted not only by the IAF, but also by other parties. Therefore, in the final phase of our study we asked the CAEs who participated in the survey to identify the suppliers of the C&B audits discussed in the AC. The results are shown in Figure 6.3.

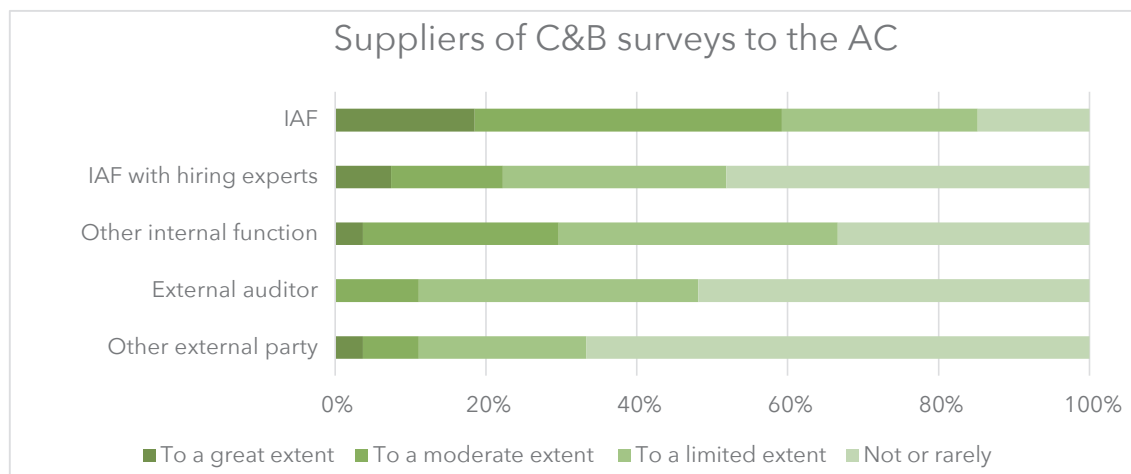


Figure 6.3 Parties conducting C&B audits for the AC

Explanation

According to 59% of CAEs, the C&B audits discussed in the ACs are in large part (i.e. to a moderate or great extent) supplied by their IAF. 22% of respondents stated that such audits are also to a moderate or great extent supplied by the IAF together with experts called in for this. However, according to 30% of respondents, the C&B audits discussed in the AC are also in large part audits conducted by other internal functions. Examples of these other internal suppliers are Compliance and Ethics, Personnel & Organisation (P&O), HR and Communications.

According to the respondents, external parties are only to a limited extent suppliers of C&B audits for the AC. The external auditor and other external parties, such as external regulators, consultants or experts, are mentioned by only 11% as important suppliers.

Internal parties are basically the most logical suppliers of C&B audits

The large share of internal suppliers of C&B audits is explained by the aforementioned statement that culture and behaviour is basically an internal matter, which may or may not be addressed with the support of external parties. Even C&B issues that are reported by external parties, such as the external auditor, are often further investigated by internal parties. An important boundary here is when things become too 'tense' for an internal party and/or start to have an external effect. In addition to expertise, greater independence is required in that case, and as a rule an external party is then engaged.

Coordination to ensure uniformity in language and points of reference, while also sticking to one's own role

If multiple parties provide C&B audits, including to the AC, it would seem advisable for these parties to coordinate this with each other. The Supervisory Board members confirm this and called on the IAF to cooperate, where appropriate and possible, with other internal parties such as Compliance, Risk Management and Internal Control, but also with parties such as

HR/P&O and Communications. The arguments for this are as follows:

- combines audit expertise and other subject matter expertise, for example, in the area of HR (win-win);
- reduces the burden on the organisation, and
- ensures that more uniform information is provided to the Management Board and the Supervisory Board / AC.

The auditors affirmed the advantages of better coordination between the internal parties and stated that uniformity in particular is important to the users of audit reports, such as the Management Board and Supervisory Board / AC. They stated that the most important measures to ensure this internal coordination are:

- using high-level frameworks, such as strategy and core values, as shared points of reference; and
- coordinating the language used.

For the sake of completeness, the auditors also noted that the functions in the second line of the defence and the IAF should simply stick to their own role. Using more uniform language actually ensures that users are better able to identify any differences in approach, results and/or conclusions, and to weigh up matters based on their own considerations.

6.3 The AC: behavioural expertise and attention paid to culture and behaviour

In our survey we asked the CAEs about their perceptions of several aspects with respect to the AC. The results are shown in Figures 6.4 to 6.6. These diagrams show:

- whether one or more members of the AC has a degree in a behavioural science, such as psychology, sociology, anthropology or pedagogy;
- how much attention the AC pays to culture and behaviour in general;
- how much attention the AC pays to culture and behaviour in the IAF/AC meetings.

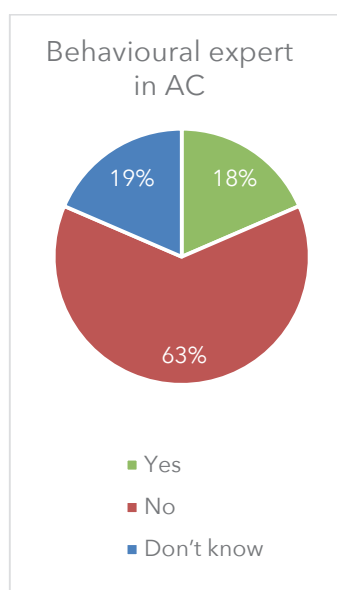


Fig.6.4
AC member with behavioural expertise

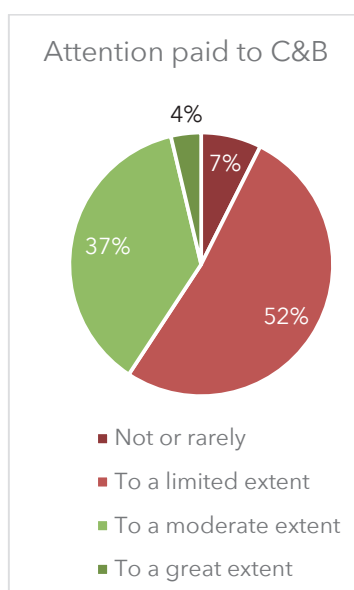


Fig.6.5
Attention paid to C&B by AC in general

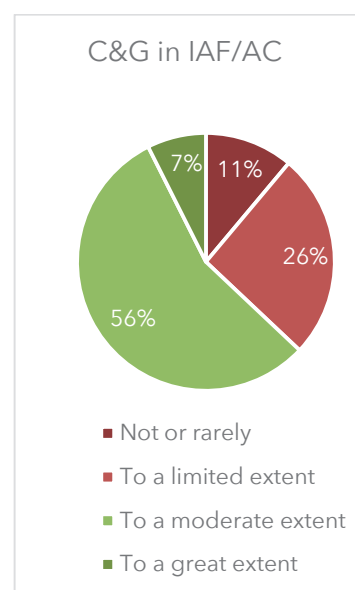


Fig.6.6
Attention paid to C&B in IAF/AC meetings

Explanation

According to the respondents, only a minority of the ACs (41%) pay attention to culture and behaviour to a great or moderate extent. 63% of respondents feel that this aspect receives slightly more attention in the meetings between the IAF and the AC. A large majority of the respondents stated that the AC does not include a behavioural expert as far as they are aware (63%) or that they do not know (19%). Only 18% stated that a member of their AC has a degree in a behavioural science.

Not necessarily a behavioural expert in the AC, but always sufficient knowledge of behavioural aspects on the Supervisory Board

The data from our study shows that the presence of a behavioural expert in the AC correlates with the extent to which the AC pays attention to culture and behaviour in general and in the IAF/AC meetings¹⁵. According to the Supervisory Board members and the CAEs, this does not necessarily mean that more behavioural experts are needed in the AC. While having a behavioural expert in the AC is certainly useful, ACs require a wide range of expertise, for example in accounting, finance, reporting and IT. The number of experts that can become AC members is, for practical reasons, limited. The Supervisory Board, however, is larger than just the AC and often has other subcommittees. The Supervisory Board as a whole should always include sufficient behavioural expertise. But a similar consideration also applies to the Supervisory Board. While it is good to have a behavioural expert on the Supervisory Board, such knowledge can also be provided by other Supervisory Board members who have a great deal of insight into behavioural aspects based on their experience on Management and/or Supervisory Boards, often gained over years and in several organisations. In addition, diversity on the Supervisory Board can be conducive to the discussion about culture and behaviour. According to the Supervisory Board members and auditors involved, having this practical knowledge and diversity is important, but this could also be supported by including the aspect of culture and behaviour in Supervisory Board programmes and similar training opportunities.

However, support is also useful...

The difference in the scores in Figures 6.5 and 6.6 indicates that according to the IAFs, their presence has a positive impact on the extent to which the AC pays attention to culture and behaviour. The Supervisory Board members confirmed that support from an internal party with relevant expertise can be helpful. However, they also qualified this endorsement by making two comments and stipulating a condition. These two comments have already been mentioned:

- there are also other internal parties that can provide support (see subsection 6.2); and
- the Supervisory Board as a whole, including its subcommittees, need to be looked at in this context (see the paragraph above).

15 In addition, these matters correlate with each other, i.e. the extent to which the AC pays attention to culture and behaviour in general correlates with the extent to which the AC does so in the IAF/AC meetings.

The condition the Supervisory Board members stipulate when it comes to accepting support from an internal party is that this person should have sufficient expertise, the ability to act as a discussion partner with respect to culture and behaviour, and should know how to appropriately audit and advise on this. The Supervisory Board members pointed out that their discussion partners at the IAF do not always meet these criteria. According to the auditors, it would therefore be good if IAFs recruited personnel with a degree in a behavioural science, such as psychologists, sociologists, anthropologists and pedagogues, but it is also advisable that these behavioural experts receive additional training in internal auditing.

... also by the professional organisations

In conclusion, the auditors stated that the professional organisations can support this by, for example:

- promoting the auditing profession to students in behavioural science programmes and alumni of such programmes;
- putting the aspect of culture and behaviour on the agenda in contacts with Supervisory Board members, such as during the annual Supervisory Board members' symposium of IIA and NBA LIO;
- supporting attention to culture and behaviour in the training programmes for Supervisory Board members.



7 Summary of Conclusions and Recommendations

Findings per C&B category

1. Audits of internal control environment: sufficient but room for improvement, especially in audits of the tone at the top

With their audits of the internal control environment and core values, the IAFs fulfil the expectations stated in this respect in the Dutch Corporate Governance Code. However, this focus can be intensified, particularly when it comes to the tone at the top.

According to the respondents, in order to sufficiently audit the tone at the top, it helps when IAFs:

- *ensure that they have the necessary professional relationship with the management, demonstrating seniority and independence;*
- *link the tone at the top to other issues, such as by:*
 - o *evaluating concrete cases, such as exit processes, aimed at identifying useful lessons with regard to the tone at the top;*
 - o *linking the tone at the top to other aspects such as core values or diversity;*
 - o *including the tone at the top as an aspect in (the assessment of) organisation-wide risk management and the control of processes, projects and IT;*
 - o *making the role of the tone at the top visible in audits of the consistency between strategy, organisational design, operational management and redirection, i.e. the management cycles at the various organisational levels.*

2. Object-oriented audits:

- a. *it is becoming normal to incorporate C&B aspects in process and project audits*
- b. *opinions differ on whether to include this in audits of the reliability of information*

Cultural and behavioural aspects (i.e. soft controls) are relatively often included in audits of the control of *processes and projects*. This is becoming more or less 'normal'.

When it comes to assessing the reliability of *financial and non-financial information*, however, these aspects are included to a slightly lesser extent. Not only is the spread of the scores greater, but opinions differ about whether this is advisable and feasible, ranging from the opinion that information, and hence its assessment, should be hard, to the opinion that information is a product of the (human) organisation and that its assessment should therefore also include the soft controls.

When it comes to including soft controls in the assessment of information, given the significant divergence in the scores and opinions, further research by the profession is advisable, with attention also being paid to the question of how and to what extent this can be given shape in a sound professional manner.

3. Deep dive audits of C&B: conducted only to a limited extent, and also a focus area of the 1st and 2nd line

The IAFs conduct relatively few deep dive audits focused on aspects such as *culture, leadership style, competencies* and *motivation* within a particular entity. And when they do, this is often because of an identified control issue (RCA). This reluctance is partly due to the fact that the aspects mentioned are also typical focus areas of functions in the second line of defence such as HR and MD, and that the further investigation and resolution of identified points for improvement is primarily a management responsibility.

The IAFs can support management and the staff functions by always asking themselves, when reporting on identified control issues, whether these issues could be linked to underlying behavioural patterns and, if so, by drawing attention to this in the follow-up.

4. Reasons for and initiators and suppliers of C&B audits: mainly an internal matter with relevance, support and internal coordination as key success factors

- The main reasons for the IAF's C&B audits are the expected contribution to good organisational control, identified exceptions and incidents and regulations (compliance).
- The IAFs themselves are the main initiators of their C&B audits. The IAF does, however, draw on the input of other parties, including the Management Board and the Supervisory Board / AC. They are subsequently also asked for support, for example by having an audit plan or audit year plan approved.
- Most of the C&B audits received by the AC originate from the IAF and other internal parties, such as Compliance and Ethics, P&O, HR and Communications.

From these results, it can be concluded that culture and behaviour is basically an internal matter and that a relevant reason for and support and internal coordination of the audit are key success factors. These factors are discussed below.

Consultation, cooperation and support

5. Consultations with the Supervisory Board / AC: also utilise 'preliminary discussions' and 'other contacts within the Supervisory Board'¹⁶

On average, IAFs have meetings with the AC or an individual AC member eight times a year. These meetings provide an opportunity to raise the issue of C&B in various forms. However, this finding needs to be qualified for two reasons:

16 Conclusions 4 (C&B is mainly an internal matter) and 5 (utilising contacts and looking beyond the AC) are in line with Klaassen et al. Based on a survey among Supervisory Board members and auditors, they found that Supervisory Board members and Management Board members prefer statements from the IAF over those of the external auditor when it comes to matters such as corporate culture and compliance with the code of conduct, and that Supervisory Board members also like to have bilateral meetings with the IAF. And they raised the question of whether the orientation of the IAF should develop towards a broader scope of focus areas, whether the IAF should also make statements about the top management and whether the IAF should (partly for this reason) develop closer relationships with the Supervisory Board as a whole instead of just with the AC (A. Klaassen, D. Klaassen and H. Rijken, Internal auditor en rvc: waarheen?, Board in Balance and IIA, 2019).

- Auditors often consider preliminary discussions of formal IAF/AC meetings and similar consultations to be IAF/AC meetings, as issues may be raised in such consultations that are not necessarily also discussed in the formal meeting. *Hence it is important to define 'consultations' in broad terms and to use them effectively.*
- Within the Supervisory Board, the AC is not always the sole or most logical discussion partner for the IAF when it comes to sharing/discussing C&B topics. Depending on the topic, other Supervisory Board members or Supervisory Board committees may also be appropriate 'contacts'. For example, the Remuneration Committee and the Selection & Appointments Committee also consider the 'tone at the top' to be part of their focus area. *Hence it is important that IAFs look beyond the AC in terms of 'contacts'.*

6. Sharing 'C&B impressions': needs to take place in the right setting and always in the proper context

In the IAF/AC meetings, quite often impressions related to culture and behaviour are shared, or responses are made to audits conducted by other parties, without this being based on an audit by the IAF itself. The respondents consider this useful because the IAF has an organisation-wide overview and can therefore often provide insight into signals from a broader perspective. *However, they recommend limiting such informal exchanges as much as possible to bilateral meetings, being cautious about having such discussions in formal AC meetings and, above all, always clarifying the applicable context. An added advantage of such a contextualisation is that it can give rise to follow-up audits by the IAF (supported by the AC).*

7. Preferably relate C&B audit proposals to priorities of AC¹⁷

Many IAFs feel the need for a more explicit sponsor role on the part of the AC. This requires that the IAFs convincingly link their audit proposals to the AC's priorities, such as:

- the quality of the operational management in the broadest sense;
- conformity with the relevant regulations (compliance); and
- ongoing or recurring problems.

These priorities are also mentioned by the IAFs as the three main reasons for their C&B audits. *Both observations together imply that the IAFs should in particular ensure that the requested links are sufficiently explicit and recognisable, both in the individual audit proposals and in the overall IAF planning, for example by using a risk-based approach in which culture and behaviour are explicitly weighed in.*

17 The reluctance when it comes to conducting audits focused on C&B aspects, such as audits of the tone at the top (conclusion 1) and deep dive audits focused on culture, leadership style, motivation and competencies (conclusions 3) and the call to link C&B aspects to other aspects and priorities (conclusions 1 and 7) are in line with Schein, an authoritative author in the field of organisational culture. Schein states that audits of cultural aspects have little value, unless they are linked to another concrete issue, such as the manner in which culture contributes to the goals and strategy of the organisation or to a problem that requires a solution. (E.H. Schein, *De bedrijfscultuur als ziel van de onderneming*, Scriptum, 1999-2006)

8. Improving the uniformity of C&B audits through coordination

The IAF and the other parties reporting on C&B, such as HR and Compliance, should coordinate any C&B audits, with each sticking to their roles. Besides possible synergies and a lower organisational workload, this can contribute to greater uniformity for the Management Board and the Supervisory Board / AC, and thus help to improve their overview and effectiveness. *Important measures to increase the requested uniformity are:*

- *applying organisation-wide frameworks, such as strategy and core values, as shared reference points; and*
- *coordinating the language used.*

Behavioural expertise in the Supervisory Board / AC and in the IAF

9. Supporting behavioural expertise in the Supervisory Board

According to the IAFs, the ACs do not pay a huge amount of attention to culture and behaviour, but having a behavioural expert on the AC could be conducive to this. However, the Supervisory Board comprises more than only the AC. Culture and behaviour is also the focus of other members and committees of the Supervisory Board. Hence, behavioural expertise does not necessarily need to be represented in the AC, but it should always be represented on the Supervisory Board. *This can be supported in a number of ways by the following parties:*

- *Supervisory Board members: including culture and behaviour as an aspect in the training programmes for Supervisory Board members and continuing professional education offered to Supervisory Board members;*
- *auditors: ensuring that the Supervisory Board receives targeted support from a behavioural auditor (and/or other internal party) who knows how to audit and advise on culture and behaviour;*
- *organisations representing the audit profession: promoting the audit profession in behavioural training programmes and promoting culture and behaviour among Supervisory Board members and in their training programmes.*

10. To be known is to be liked; encourages insight into how C&B ambitions can be achieved

The research findings contain various correlations between the extent to which C&B is audited, the extent to which it is discussed and the level of ambition. These correlations indicate that the more people know about C&B audits, the more they like them. The respondents confirm this picture and they see it as an encouraging insight and an inspiration to proactively achieve ambitions. In addition, most IAFs want to see more attention paid to culture and behaviour. Hence, ambitious IAFs are not on their own in 'audit country' and can make optimal use of the initiatives and experiences of fellow IAFs.

Appendix I. Questionnaire

This appendix contains the questionnaire. The questions could be answered by choosing from the answer categories and optionally providing an explanation.

GENERAL

1. In which sector does your company operate?
2. How many FTEs does your organisation have?
3. How many FTEs does your internal audit function have?
4. Does your company have an Audit Committee?

CONTACTS WITH THE AUDIT COMMITTEE

5. How many times a year does the IAF attend a meeting of the Audit Committee?
6. How many times a year does the IAF have a bilateral meeting with a member of the Audit Committee?
7. Space for explanation

CULTURE AND BEHAVIOUR AS (PART OF) THE ORGANISATION-WIDE INTERNAL CONTROL ENVIRONMENT

8. To what extent does your IAF audit culture and behaviour as part of the organisation-wide internal control environment?
 - a. Internal control environment
 - b. Core values
 - c. Tone at the top
9. Is the topic discussed in the meetings with the AC / Supervisory Board?
10. And how much attention do you want this topic to receive in the AC in the future (ambition)?
11. Space for explanation

CULTURE AND BEHAVIOUR IN THE CONTEXT OF THE CONTROL OF A SPECIFIC AUDIT OBJECT

12. To what extent does your IAF audit culture and behaviour in the context of an audit of the control of:
 - a. a business process
 - b. a project
 - c. the reliability of specific financial information
 - d. the reliability of specific non-financial information
13. Is the topic discussed in the meetings with the AC / Supervisory Board?
14. And how much attention do you want this topic to receive in the AC in the future (ambition)?
15. Space for explanation

CULTURE AND BEHAVIOUR AS THE FOCUS OF DEEP DIVE AUDITS OF A SPECIFIC SOFT CONTROL

16. To what extent does your IAF audit a specific soft control, such as:
 - a. culture in a particular entity?
 - b. leadership style of the management involved?
 - c. motivational factors for the employees involved?
 - d. competencies of the employees involved?
 - e. other, namely
17. To what extent does this concern:
 - a. A root cause analysis where the soft control may be an explanatory factor for an identified control issue?
 - b. An audit focused on the assessment of the relevant soft control itself?
18. Is the topic discussed in the meetings with the AC / Supervisory Board?
19. And how much attention do you want this topic to receive in the AC in the future (ambition)?
20. Space for explanation

INITIATORS OF AND REASONS FOR AUDITS OF CULTURE AND BEHAVIOUR

21. To what extent are audits of culture and behaviour initiated by the following stakeholders?
 - a. IAF
 - b. Management Board
 - c. Line management
 - d. Supervisory Board / AC
 - e. AGM
 - f. External auditor
 - g. External regulator(s)
22. To what extent do underlying reasons play a role in auditing culture and behaviour?
 - a. due to regulations (for example, a governance code)
 - b. due to external pressure (for example, opinions in the media)
 - c. creates a good reputation
 - d. due to an identified exception or incident
 - e. contributes to good organisational control
23. Space for explanation

CULTURE AND BEHAVIOUR IN THE AUDIT COMMITTEE

24. Does one or more members of the AC have a degree in a behavioural science, such as psychology, sociology, anthropology or pedagogy?
25. How much attention is paid to culture and behaviour in general:
 - a. in the Audit Committee (in general)
 - b. during the IAF/AC meetings
26. To what extent are the audits of culture and behaviour that are discussed in the AC conducted by the following parties?
 - a. IAF itself
 - b. internal auditors called in for this (under the responsibility of the IAF)
 - c. Other internal function, namely ..
 - d. External auditor who audits the financial statements
 - e. Other external party, namely ..
27. Space for explanation

Appendix II. Organisations that Contributed to this Study

This appendix contains the names of the organisations whose CAEs participated in the survey and/or in the roundtable meeting.

Of the Supervisory Board members we interviewed, only those in organisations whose CAEs took part in the survey are mentioned. Any other Supervisory Board members have not been included.

ABN-AMRO	Eneco	Q8
Achmea	Flow Traders	Rabobank
Aegon	Fugro	TenneT
Allianz	De Goudse Verzekeringen	Triodos
ANWB	Ingka (holder Ikea group)	VGZ
Arcadis	Mammoet	Vion Food
ASR	Menzis	Vitens
Atotech	Monuta	De Volksbank
BAM	Nuon	WoltersKluwer
Boskalis	PGGM	
Dela	ProRail	

Appendix III. Previous Publications of IIA and NBA on Culture and Behaviour

There are numerous publications on culture and behaviour. The following are examples of publications published by the professional organisations themselves in recent years.

IIA Netherlands, *Auditen van cultuur en gedrag: een overzicht*, report on IIA YP event 2018
www.iaa.nl

IIA Netherlands and NBA LIO, *Cultuur en gedrag en de rol van de internal audit functie*, report on Supervisory Board members' symposium 2017
www.iaa.nl

IIA Netherlands, *Soft Controls, wat zijn de aanknopingspunten voor de interne auditor?*, discussion paper, 2015
www.iaa.nl

NBA, *Accountants en Toon aan de top, Een hulpmiddel voor accountants om de Toon aan de Top bij opdrachtgevers te bespreken*, 2014
www.nba.nl

NBA, *Het boegbeeld als voorbeeld, accountant over de toon aan de top*, 2012
www.nba.nl

The IIA, IPPF - Practice Guide, *Evaluating Ethics-related Programs and Activities*, 2012
www.iaa.nl

The IIA, IPPF - Practice Guide, *Auditing the Control Environment*, 2011.
www.iaa.nl

IIA Netherlands, *Auditing Social Controls – Handvatten voor het meten van Entity level social controls*, 2011.
www.iaa.nl



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