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# **Concurrent Session-2B**

## **Auditing Culture: A hard Look at the Soft Stuff**



**SPEAKER:**  
**Gopinath Menon**  
**Technical Advisor**  
**PricewaterhouseCoopers Indonesia**

# SPEAKERS

- Speaker A :
  - Rizky Rangkuti – Insight Consulting
- Speaker B :
  - Gopinath Menon – Technical Advisor, KAP Tanudiredja, Wibisana, Rintis & Rekan, PricewaterhouseCoopers
- Speaker C :
  - Michael Parkinson – Chairman CBOK Committee

# Auditing Culture: A Hard look at the Soft Stuff



## *What is culture*

Culture refers to the **cumulative deposit of knowledge, experience, beliefs, values, attitudes**, meanings, hierarchies, notions of time, roles, spatial relations, concepts of the universe, and material objects and possessions acquired by a group of people in the course of generations through individual and group striving.

Work culture is the environment created by the concepts established and embraced by the firm and the employees alike. Working culture involves **the principles and ideologies associated with the business, company or firm itself**, and on the employee side, working culture is thought processes, attitudes and beliefs of the workers

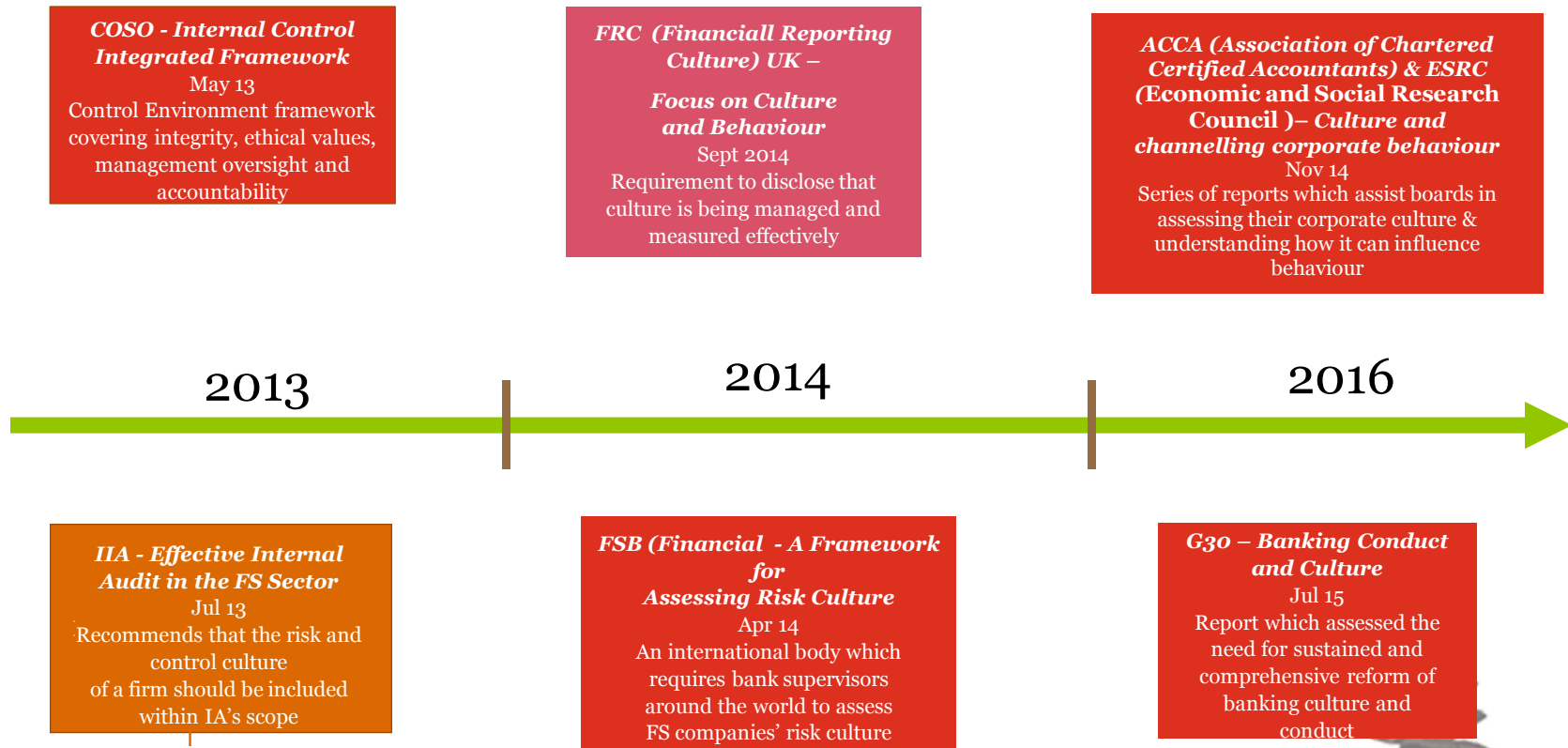
A simple definition of culture is that it is:  
***"the way we do things around here."***



# Auditing Culture: A Hard look at the Soft Stuff



## Global culture regulation and guidance: a timeline



*Indonesia: PerMen BUMN 01/2011: Good corporate governance, stated internal control system which include control environment, philosophy and management style.*



# Auditing Culture: A Hard look at the Soft Stuff

## *Culture – Alignment of Behaviour is key*



### *Intended – What we want*



- Purpose
- Vision
- Values
- Behaviours
- Customer outcomes

### *Expressed – How we set ourselves up*

Behavioural reinforcers



### *Actual – What we get*

The behaviour displayed by employees, driven by the reinforcers but also intrinsic motivation and personal alignment to PVVB



# Auditing Culture: A Hard look at the Soft Stuff



## *The story so far of Internal Audit's role in culture*

01

### **Dual Rating**

Introduction of a managements awareness and approach to risk rating on internal audit reports – the creation of the dual rating system

02

### **CIIA Guidance**

July 2013 – CIIA publish Culture and Behaviours guidance which states 'for an internal audit function to be deemed effective there is an expectation to audit culture'

03

### **Challenge and debate**

This guidance has generated debate regarding the multi-disciplinary skill sets and how to approach training / recruitment

04

### **Shift in Market**

Rise in blogs, case studies, publications and thought pieces about the role of IA in culture remediation especially in FS. Mixed and varied approaches apparent across the market

05

### **Institute of Business Ethics July 2015**

The role of IA is becoming more strategic, 'evolving from mere monitors to agents for positive change'



# Auditing Culture: A Hard look at the Soft Stuff



## *Why culture should be part of every engagement?*

- Auditing culture supports the delivery of stakeholder value by enabling organizations to proactively manage risk and reactively correct internal control failings before things go horribly awry.
- To serve that critical “early warning” function, culture audits or **assessments cannot (with few exceptions) be relegated to once-a-year exercises.**
- **They must be incorporated into every audit engagement,** providing the organization a continual baseline of monitoring by enabling internal auditors to look for and establish meaningful trends and commonalities.



# Auditing Culture: A Hard look at the Soft Stuff



## *Strategic framework to audit culture*

Developing a strategic cultural framework for the Internal Audit allows the function to consider culture in every audit to give breadth and discrete reviews to give depth across the organisation.



### **Annual Consolidation Review**

Annual consolidation of emerging cultural themes and findings from culture assessment ratings across internal audit reviews and discrete culture reviews to give a view on culture and behaviours across the organisation.

### **Discrete Business As Usual Reviews – Sub-division, Division and Group**

Discrete business as usual reviews included in the audit plan to assess culture and behaviours in each sub-division and division as well as Group.

### **Culture Change Programme Review**

Reviews may also consider the effectiveness of culture change programmes as appropriate.

### **Culture Assessment**

On every internal audit, a high level culture assessment is made this may include measures such as the source and severity of issues raised, attrition, turnover of leadership. This could lead to a deeper assessment in this specific area. These ratings will be consolidated to create a divisional culture assessment with the discrete review.



# Auditing Culture: A Hard look at the Soft Stuff



## *What is the value to audit culture?*

Internal Audit functions have started thinking about how they can assess culture and behaviours, and their wider organisations goals will be at various stages of defining, changing and monitoring culture. The value that Internal Audit can bring is clear:

**01**

### *Utilising the function's position*

Existing access to culture data and insight across the business. This insight can add huge value to understanding and assessing cultural strengths and areas for improvement.

**02**

### *Behavioural root causes*

Allows Internal Audit to add value by getting to the root cause of issues – these are often cultural or behavioural and may not have been explored further. Internal Audit has a privileged vantage point of how culture manifests throughout the business.

**03**

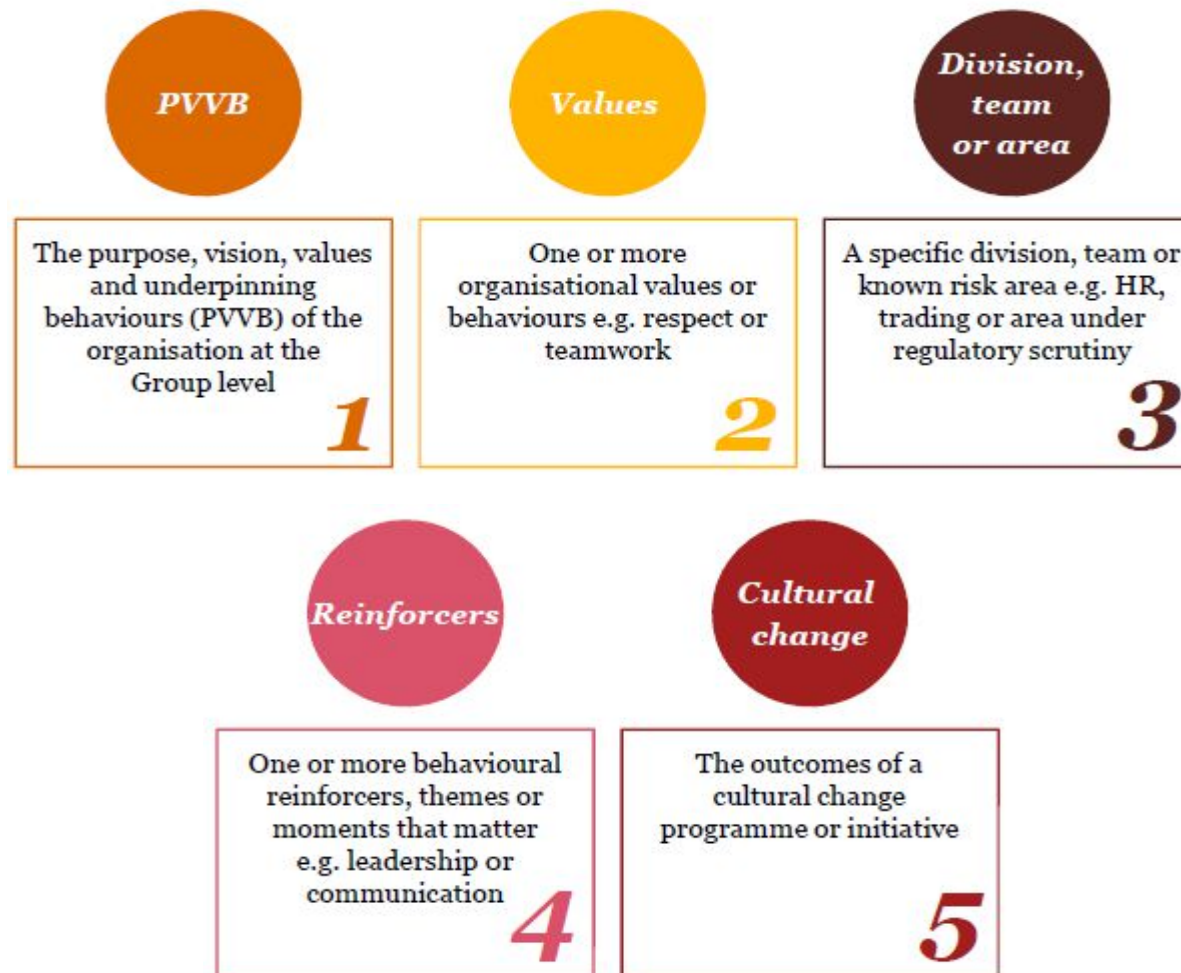
### *Enhancing Internal Audit's value as a function*

Facilitates the shift of Internal Audit to a more strategic function which is able to test and comment on areas of importance to the organisation; looking at the 'why', not just the 'what'.



# Auditing Culture: A Hard look at the Soft Stuff

## Scoping an internal audit – example areas of focus



*It would be unrealistic to suggest that a single review could audit the whole culture.*

*Scoping an Internal Audit review should involve identifying the potential risks within the organisation, consideration of its purpose, vision and values, and determining which reinforcers and themes should be areas of focus.*

# Auditing Culture: A Hard look at the Soft Stuff



## *What are the moments that matter*

It is impossible to examine all behaviours at all times. Auditor need to have a focus. This can be achieved by looking at ***the 'moments that matter'*** – explicit interactions and decision points where behaviours have a disproportionate effect on outcomes.



# Auditing Culture: A Hard look at the Soft Stuff



## *Key techniques – how to audit culture?*

- As a regular part of assurance and advisory engagements, assessing culture calls on internal auditors to ***exercise the same good practices they exercise throughout any audit***: adherence to appropriate standards and principles, use of insightful interview techniques, application of focused investigation procedures, and reliance on objective evaluation.
- ***Credibility and trust*** are paramount in encouraging employee open participation. And ***good communication*** – especially with the management of any troubled areas – is necessary to effect change in, at least hopefully, a non-confrontational and collaborative manner.
- Internal audit cannot effectively assess culture without a ***profound and deep understanding of the organization's values*** and expected behaviors coupled with a thorough appreciation of how they influence the organization's priorities in relation to good governance, risk management, and control.



# Auditing Culture: A Hard look at the Soft Stuff



## *Key techniques*

Use a mixture of quantitative and qualitative evidence. The following techniques can be employed when auditing culture:

*Desktop reviews*



*Walkthrough*



*Interviews and focus groups*



*Observations*



*KPIs and data*



*Inspection*



*Surveys*



*Psychometric testing and other tools*



# Auditing Culture: A Hard look at the Soft Stuff



## *Focus in auditing culture*

- Focus on behaviour. Whereas culture itself is often difficult to grasp, it manifests itself as visible behaviours, which can be measured and assessed.
- Focus on alignment. Assessing whether a culture is ‘good’ or ‘bad’ isn’t helpful – culture is unique to each organisation and what may be a healthy culture for one may not work for another. Instead, assess whether the actual behaviours displayed are in line with those that the organisation wants and that they support its strategic objectives
- Focus on the ‘moments that matter’. Whatever the scope of the audit, there are likely to be key interactions where having the right behaviour is absolutely essential and will have a significant impact on other behaviours. Examples of these may be Board or other decision making meetings, interactions with key customers or regulators and responses to a critical event. Without this, you will find yourself spending time on low priority areas.
- Focus on behavioural reinforcers. As well as looking at actual behaviours, you can get great insight from looking at ‘behavioural reinforcers’ – the mechanisms the organisation uses to encourage the right behaviours from people. They include policies, organisational structures, recruitment practices, performance management and indeed leadership action or ‘tone at the top’. Understanding any misalignment between these ‘espoused behaviours’ and intended behaviours can help pinpoint root causes for behavioural issues and highlight to management what needs to be fixed.
- Focus on the core audit skill set supplemented by specialist skills. We are often asked whether auditors need any specialist skills to audit culture. There is some new methodology to get to grips with, and SMEs are a valuable source for sharing insight and experience, particularly when looking at some of the behavioural reinforcers. However, the core audit skill set – sound enquiry skills, analysing large quantities of evidence and exercising unbiased judgement, dealing sensitively but firmly with audit findings and robust, independent report writing is particularly important when dealing with the subjective nature of behaviours and culture.

# Auditing Culture: A Hard look at the Soft Stuff



## *Focus in auditing culture*

**01**  
Focus

### *Focus on behaviour*

Whereas culture itself is often difficult to grasp, it manifests itself as visible behaviours, which can be measured and assessed.

**02**  
Focus

### *Focus on alignment*

Assess whether the actual behaviours displayed are in line with those that the organisation wants and that they support its strategic objectives.

**03**  
Focus

### *Focus on the 'moments that matter'*

Whatever the scope of the audit, there are likely to be key interactions where having the right behaviour is absolutely essential and will have an significant impact on other behaviours.

**04**  
Focus

### *Focus on behavioural reinforcers*

'behavioural reinforcers' is the mechanisms the organisation uses to encourage the right behaviours from people. They include policies, organisational structures, recruitment practices, performance management and indeed leadership action or 'tone at the top'.

**05**  
Focus

### *Focus on the core audit skill set supplemented by specialist skills*

'the core audit skill set' – sound enquiry skills, analysing large quantities of evidence, dealing sensitively but firmly with audit findings and robust, independent report writing is particularly important when dealing with the subjective nature of culture.

# Auditing Culture: A Hard look at the Soft Stuff



## *Closing thought*

- Internal audit's annual work plan already includes many facets of the organization. Why should culture be added to the workload? Because auditing culture helps the organization manage it.
- Given the overwhelming importance of culture to organizational success, a company's failure to audit it on a consistent, continuous basis sends a clear — and likely unwelcome — message to stakeholders about its values and priorities.





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# *Thank You*

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