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Auditing The Organization Culture

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..... ————— **Enhancing Communication & Collaboration: Learning From The Pandemic** —————

Organization Culture Overview



Culture represents the invisible belief systems, values, norms, and preferences of the individuals that form an organization. Conduct represents the tangible manifestation of culture through the actions, behaviors, and decisions of these individuals.

Practice Guide Auditing Culture, IIA, 2019

why is it important?

Culture is the reason why great organizations have sustained success. ***Culture drives expectations and beliefs. Expectations and beliefs drive behavior. Behavior drives habits. Habits create the future.***

Jon Gordon

When The Culture Failed



BlackBerry



Volkswagen



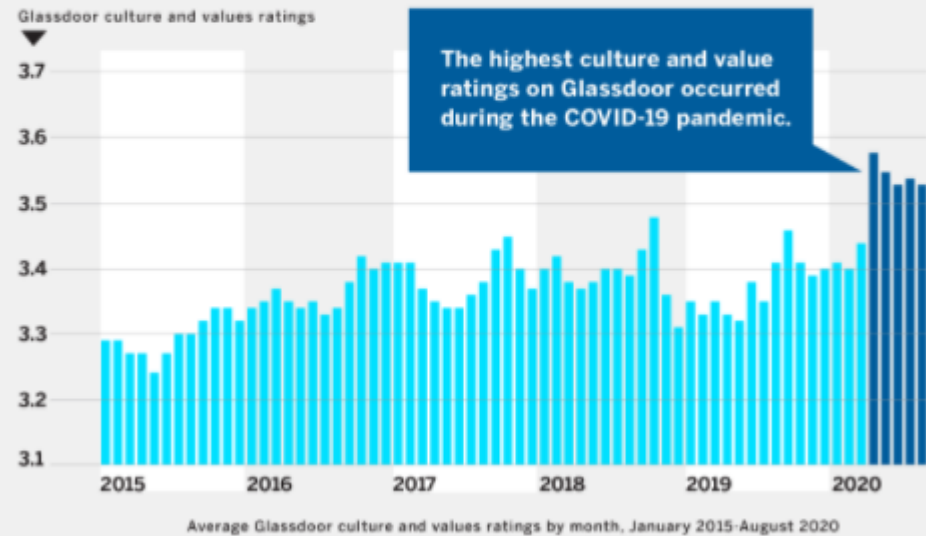
UBER

Most Corporate Failures do not Start in the Boardroom, but Stem from Deep Inside the Company, Its Culture

Covid19 Impact on Corporate Culture

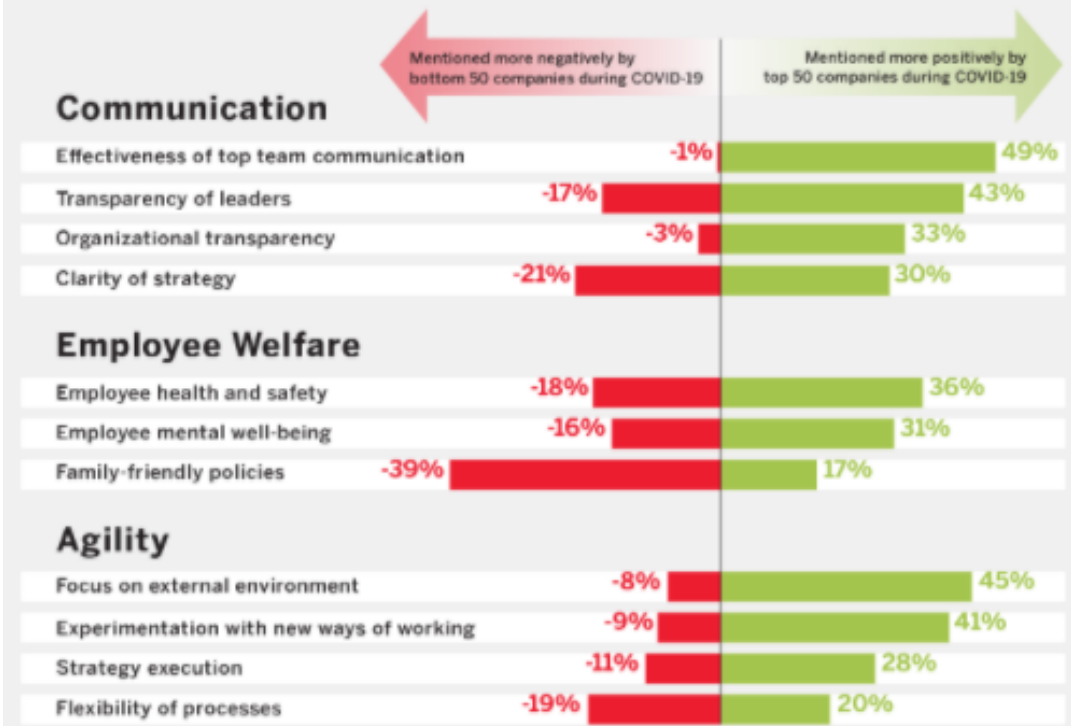
Company Culture and Values Ratings Before and During COVID-19

The average culture and values rating across the Culture 500 companies spiked during the early months of the COVID-19 pandemic in the U.S. (April-August 2020), and those five months occupy the top five spots in terms of average culture and values ratings for the preceding five years.



Culture During COVID-19: Companies With the Biggest Gains Excelled at Communication, Employee Welfare, and Agility


We compared the 50 companies that saw the biggest jump in their culture and values rating during the first six months of COVID-19 (top 50 companies) with the 50 companies that saw the biggest overall drop in the same rating (bottom 50 companies). This chart shows the topics that had the biggest bump in sentiment (how positively it was discussed in reviews) in the top 50 companies and the biggest decreases in sentiment among the bottom 50 companies. The top 50 companies distinguished themselves in three main areas: clear and effective communication, increased attention to employee welfare, and ability to deal with environmental changes in a flexible manner without losing sight of their strategic priorities.



Donald Sull and Charless Sull, MIT Sloan Management Review, October 2020

IA Role in Auditing Organization Culture

Management and Board are responsible for culture and conduct risk management. However, the internal audit activity may advise them in many ways, such as:


Practice Guide Auditing Culture, IIA, 2019

Mission of Internal Audit

To enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.

International Professional Practices Framework (IPPF), 2017 Edition

- Identifying root causes not only for areas that have received observations and recommendations from internal audit regarding culture but also for areas judged as operating with best practices. Identifying and analyzing root causes from both perspectives results in powerful tools to gauge frequency and assess how cultural elements are drivers of results in improvement of affected areas.
- Assessing the **governance** structure (roles and responsibilities) related to culture and conduct.
- Assessing the organization's programs for communicating values, strategies, and objectives.
- Assessing the effectiveness of culture-related trainings including code of conduct, ethics, sexual harassment, etc. (e.g., How seriously do employees take the training? Are the delivery methods effective?)
- Performing internal audit engagements that consider employee incentive and hiring programs, disciplinary actions, and escalation protocols, treatment of "whistleblowers" or employees that speak up and escalate issues and other key performance indicators (KPIs) or key risk indicators (KRIs) that may be relevant to the organization's culture.
- Analyzing information related to culture gathered for other purposes in the organization (e.g., analyzing and trending employee survey data).

Challenges in Auditing The Organization Culture

01

Soft controls are more difficult to audit (Culture, Tone at the Top, Leadership, Trust, Openness, High Expectations, Shared Values, High Ethical Standard)

02

Auditing a culture is intricate and the concept is currently vague

03

Need more judgments, and judgments are more challenging to discuss with audit client

Three Line of Defenses and Auditing Culture



Collaboration and Communication of All Lines

Source: Global Perspectives: Auditing Culture – A Hard Look at the Soft Stuff; © 2015 The Institute of Internal Auditors, Inc.

Auditing The Culture Process

Type of Approach in Auditing Culture

1. **Integrated** : Integrating cultural risk factors into all engagements
2. **Targeted** : Selecting a set of key processes and controls related to culture, developing an engagement workplan, and performing targeted testing on the selected areas.
3. **Top Down** : Start with tone at the top and move down through all layers of the organization to individual employees

Practice Guide Auditing Culture, IIA, 2019



Cultural Risk Assessment

Gather information, assess cultural risk factors



Audit Planning

Integrated, Targeted, or Top Down



Performing Audit

Integrated, Targeted, or Top Down



Reporting

Perhaps need a special reporting format than a regular audit

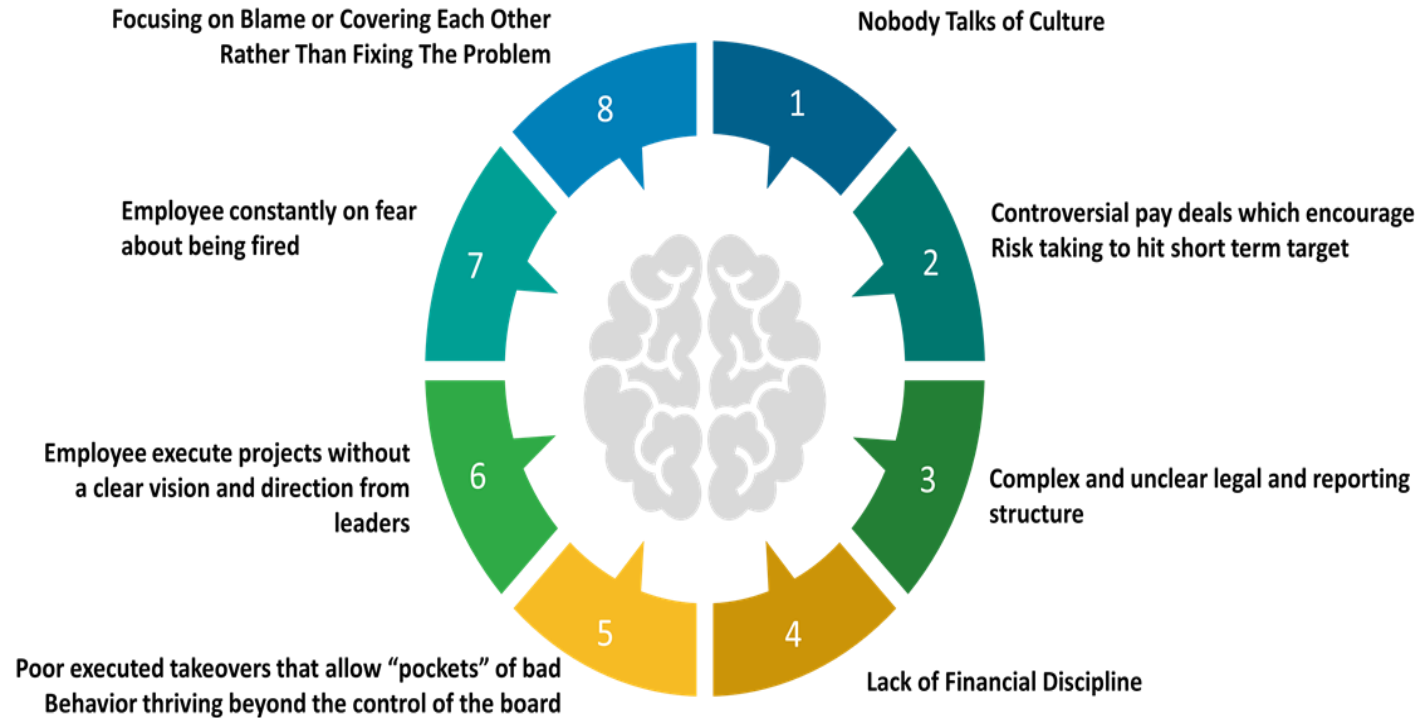
Communicating Results of a Culture-focused Audit

Aggregating results is challenging. How do you report results when it's a more conceptual, less tangible audit?

Internal auditors might conduct a session with the board to discuss culture-related observations once a year. This session could be an informal discussion, but CAEs should preview results with management before any discussion with the board.

Cultural Risk Factors and Red Flags of Toxic Culture

Toxic Culture Red Flags



Source : IIA Uncharted Territory of Auditing and Organization's Culture

- Unreasonable expectations including deadlines, profitability, or levels of efficiency.
- Incentives not aligned with values.
- Employees (including internal auditors) lack knowledge of key risk management activities and potential risk impacts.
- An inflexible hierarchy impeding the flow of information up, down, and across the organization.
- A pervasive environment of mistrust toward auditors and regulators including a lack of understanding of the role of controls in achieving business objectives.

Source : Practice Guide Auditing Culture, IIA, 2019

Example of Cultural Risk Factors

- An attitude of hubris (e.g., "That will not happen here." or "That has never happened to us before.")
- Lack of accountability, especially at senior levels of the organization.
- Failure to enforce codes of conduct and related policies and procedures.
- Management (and, in some cases, the board) refusing to acknowledge information contrary to their opinions.
- Disregard of laws and regulations if they are not conducive to the organization achieving its objectives.

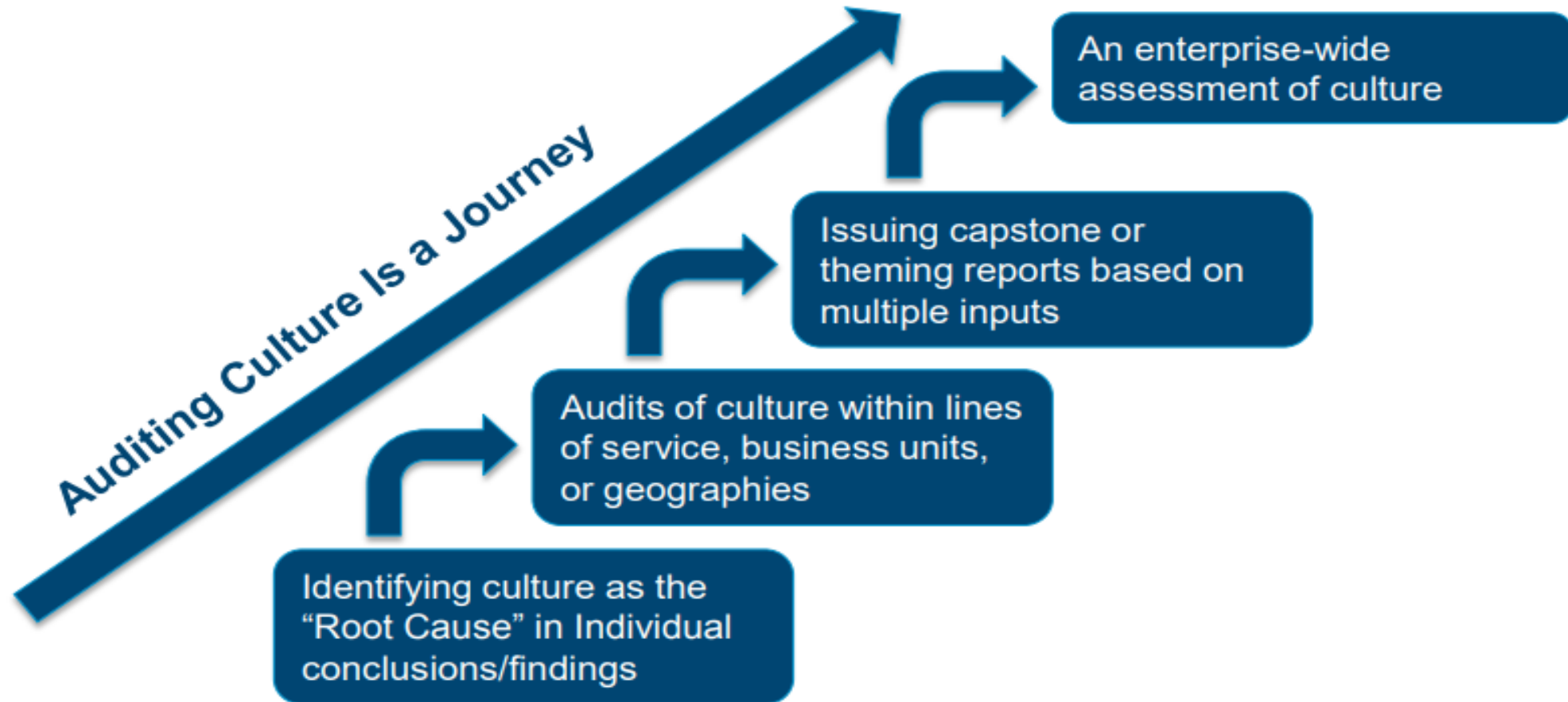
Cultural Audit Enablers



What If We Don't Have Those Complete Enablers?

Source : IIA Uncharted Territory of Auditing and Organization's Culture

The Journey of Auditing Culture



Concluding Remarks

- The root cause of many problems we found in audit is a Culture Related Things. We start auditing culture from a small things. Take a step by steps approach.
- Don't rely on the audit result only. Use a multi perspective on assessing culture.
- Beware of Toxic Cultures. A strong culture can take a long time to establish, but It takes less time for elements of a toxic culture to take over.
- Culture is dynamic, not static. Everyone in your organization creates your culture by what they think, say and do each day. Culture is lead from the top-down but it comes to life from the bottom-up.
- The Covid19 pandemic may change some of our cultures. The positive side Covid19 bring to us is the enhancement of Communication and Collaboration, even though we are a part. By enhancing the communication and collaboration among all lines in the Three Line of Defenses model, we can strive for a positive culture in organization.

If you focus on the fruit of the tree (outcomes and numbers) and ignore the root (culture), your tree will die. But if you focus on and nourish the root you always have a great supply of fruit.