Culture: An Auditor’s Role

Auditing Culture in a COVID-19 Environment
Tracey Keele & Ric Kimball
Helping You Understand Culture & Risk

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Make it Clear
What culture is and why it matters

Make it Real
Internal Audit’s role in culture – in context

Make it Happen
What you can start doing today to audit culture
Did you know...

— That acts of goodness can weaken ethics?
— That stress and tiredness make us more vulnerable to ethical lapses?
— That cheating is contagious?
— That compliance programs can increase the rate of non-compliance?
— That only 4 percent of issues are reported through hotlines?
— That the “soft stuff” can feel really hard?
What is culture?

Culture is how we do things around here.

It is the combination of big and small actions we commit to every day and the underlying systems supporting how work gets done.

And it is everyone’s responsibility.

How intentionally are you shaping...

Signals/Symbols of Desired Culture
“Hard stuff”
- Purpose & Values
- Codes / Policies, SOPs
- Systems

Indicators/Drivers of Actual Culture
“Soft stuff”
- Mindsets
- Behaviors
- Informal Norms
Why culture matters

Culture drives performance and risk, for good or for bad.

- Financial Returns
- Risk Mitigation
- Workforce Performance
- Customer Experience

Everyone plays an important role in shaping and sustaining the desired culture.

Good culture = Good business

Source: Forbes and HBR
Culture eats strategy for breakfast

Peter Drucker
Understanding Risk

Focus of many organizations

Formal values, governance, and management practices

“Say / Do” Gap

Behaviors, norms, and mindsets

Often missed
Drivers of Culture

KPMG Soft Controls – Fundamental organizational culture drivers
Adversity does not build character …it reveals it

James Lane Allen
Crisis

An organizational moment of truth
Root causes of misconduct

Rating “Sometimes”, “Often” and “Almost Always”

<table>
<thead>
<tr>
<th>Cause</th>
<th>Rating</th>
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<tbody>
<tr>
<td>Are seeking to steal or bend the rules for their own personal gain</td>
<td>65%</td>
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<tr>
<td>Believe policies and procedures are easy to bypass or override</td>
<td>62%</td>
</tr>
<tr>
<td>Lack resources to get the job done without cutting corners</td>
<td>61%</td>
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<tr>
<td>Fear losing their jobs if they do not meet their targets otherwise</td>
<td>60%</td>
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<td>Believe they will be rewarded for results, not the means used to achieve them</td>
<td>60%</td>
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<tr>
<td>Do not understand or are not familiar with the standards that apply to their jobs</td>
<td>59%</td>
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<tr>
<td>Believe the code of conduct isn’t taken seriously</td>
<td>59%</td>
</tr>
<tr>
<td>Feel pressure to do &quot;whatever it takes&quot; to meet business targets</td>
<td>52%</td>
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Source: KPMG 2019 Integrity Survey

<table>
<thead>
<tr>
<th>Factor</th>
<th>Rating</th>
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<tbody>
<tr>
<td>Commitment</td>
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<tr>
<td>Information Flow</td>
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<tr>
<td>Enabling Environment</td>
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<tr>
<td>Reward &amp; Enforce</td>
<td></td>
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<tr>
<td>Clarity</td>
<td></td>
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<tr>
<td>Role Modeling / Enforce</td>
<td></td>
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<tr>
<td>Enabling Environment</td>
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Elevated Risk:
Many are finding it difficult to adjust to the new normal and deal with uncertainties.

Over the past four months…

- 41% say their happiness at work has worsened
- 35% say their team’s ability to collaborate has worsened
- 35% say their organization’s culture has worsened
- 35% say their level of engagement with their organization has decreased
- 30% say their relationship with their coworkers has worsened

Source: KPMG 2020 American Worker Pulse Survey
Elevated risk - COVID

Uncertainty & change
Unclear expectations
Organizational distraction

Decreased happiness at work
Decreased engagement & connection
Worsened organizational culture

Key Soft Controls:
- Clarity
- Information Flow
- Speak Up
- Reward & Enforce

Key Soft Controls:
- Clarity
- Role Modeling
- Commitment & Engagement
- Enabling Environment

Uncertain environment
Stress, burnout and fear
Financial distress

Key Soft Controls:
- Clarity
- Enabling Environment
- Ability to Discuss
Diversity, Equity & Inclusion

- Is the vision clear? Expectations?
- Roles, responsibilities & accountabilities?
- How are leaders showing up?
- How have employees been engaged to play a role?
- Capabilities?
- Infrastructure enabled?
- Oversight? Measurement? Reporting?
- Goals tied to compensation, promotions, recognition? Behavioral accountability?
- Comfort in speaking up? Management of escalated issues?
- Open, courageous conversations? Lessons learned?

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How can Internal Audit help?
Practices for auditing culture – making it stick

### Difficulty and impact

- **Low**
- **High**

<table>
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<th>Practice</th>
<th>Description</th>
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<tr>
<td><strong>Culture root causing</strong></td>
<td>A deeper level of examination of the causes underlying audit results or other risk signals.</td>
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<td><strong>Observed behaviors</strong></td>
<td>Auditors provide perspective on behaviors observed through the audit process.</td>
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<td><strong>Expanded universe</strong></td>
<td>Perform new or deeper audits of areas not historically covered to get clearer view of culture. Pay attention to the “soft stuff”.</td>
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<tr>
<td><strong>Direct measurement</strong></td>
<td>Audits of culture against defined measures that look across qualitative and quantitative data points to assemble a picture.</td>
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**Greater use of tools such as surveys, maturity models, and workshops.**
Techniques

Tools that internal auditors can use to conduct culture related assessments include the following:

— Documentation review – charters, policies, SOPs that outline the company’s expectations
— Surveys – with key stakeholders at all levels of the organization
— Data analytics – compliance, financial, and operational reports
— Focus groups – open, honest discussion for stakeholders to raise concerns
— Interviews – present opportunity for confidential discussion
— Facilitated workshops – identify root cause and ideas/solutions that work for the organization to help minimize risk
— Systems reviews – is access to company data (including customers) appropriate with the legitimate business need
What can you do

1. Don’t let perfect get in the way of progress – make a start
2. Update your risk assessment process
3. Engage your leaders and Board on culture and risk
4. Adapt skillsets, procedures, and expand your audit universe
5. Positively influence your organization’s culture
Thank you!
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