



Leveraging internal audit to help monitor and assess culture

Audit Committee Institute

Part of the KPMG Board Leadership Centre



As boards and audit committees sharpen their focus on corporate culture, many are turning to internal audit to help them better understand and assess the company's culture. Recognising that internal audit's skills, capabilities, and stature within the organisation will vary widely by company, the following questions should be helpful in tackling this critical and timely challenge.

Have the board and management agreed on the behaviours and values that are key to executing the strategy?

There is no one "right" culture; rather, there is a spectrum of desired behaviours which companies might encourage depending on their strategy and corporate values. Behaviours encouraged at a disruptor company will be different than those encouraged at a heavily regulated company, and culture will need to evolve as the strategy evolves. However, with regards to 'good customer outcomes' most jurisdictions (e.g. for insurance industry, GL 21 in Hong Kong and Guidelines on Individual Accountability and Conduct in Singapore) now defined some baselines that are non-negotiable. Internal audit can help reinforce the importance of clarity regarding the desired culture and related behavioural expectations, which can then be assessed and monitored over time.

How can the board gain a better line of sight into the culture throughout the organisation?

One of the biggest challenges boards face in overseeing and assessing culture is *visibility*. While the tone at the top is often apparent, the culture in the middle and throughout the organisation is more difficult for boards to assess. Directors can improve visibility by visiting company facilities and engaging employees, walking the halls of headquarters and monitoring social media – and they can also turn to internal audit to deepen their understanding of what is really happening and improve their line of sight at all levels of the organisation. Through their work, internal audit can

provide insight on the existence, quality and strength of existing cultural aspects which are key to effectively embedding and driving desired employee behaviour.

Is it time for a culture dashboard?

One of the ways internal audit can help give the board better visibility and a more holistic view of culture at all levels is by taking the lead – together with the ethics and compliance and human resources functions – in developing a culture dashboard containing metrics based on the organisation's desired behaviours which are driven by strategy and corporate values.

All three functions already have culture related data – survey results, customer satisfaction data, employee data, as well as ethics and compliance data – which can feed into a culture dashboard and provide a snapshot of the company's culture at a certain point in time but also provides for trend analysis over time.

Similar to cyber risk dashboards, culture dashboards will evolve over time. Boards need to hold management accountable for developing an integrated picture of the organisation's culture, and a regularly updated culture dashboard can be a helpful tool and serve as the basis for management's discussions about culture with the board. Insights can be further enhanced by comparing data driven culture dashboards against culture trends observed through internal audit's culture audit work.

What approach to auditing culture makes sense?

In developing a culture audit approach, internal audit has several options to explore with the audit committee.

One option is to add culture considerations to *existing* audits – for example, by using a cultural overlay tool consisting of a defined set of test steps to identify desirable and detrimental behaviours (e.g. poor communications, leadership style) and their impact on procedures or controls. This approach can help to identify patterns and trends of potential cultural problems. Another option is to expand the audit universe to *include systems that influence culture* (e.g., whistle-blower reporting, incentives and performance targets, training, health and safety, etc.). A third option is to perform a *stand-alone culture audit*, tailored to the organisation's culture maturity and internal audit's capabilities. Some organisations are using entity wide culture surveys based on behavioural science techniques to identify the drivers of behaviour and customer outcomes.

Regardless of the approach chosen, it is critical that auditing and measurement be continuous in order to identify trends and gaps, quickly adjust course, and avoid major cultural blind spots and failings.

A few guiding principles may be helpful as the organisation sharpens its focus on culture:

- Don't be complacent. The view at the top is often too rosy, making visibility into the middle and lower levels of the organisation vital.
- Be ready to face hard truths. Digging deeper into culture may uncover some unpleasant realities that need to be addressed.
- Dashboards can offer valuable signals, but they are not the end of the story. Be ready to dig deeper.
- Focus on behaviours, not just results – and don't let bad behaviours slide because of good results.
- Leverage Internal Audit's unique position across the organisation to assess the existence, quality and strength of existing cultural aspects.

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