



Assessing Corporate Culture

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The corporate world has witnessed a series of high-profile scandals over the years from Enron, Toshiba to FIFA. These are likely due to weaknesses in corporate culture. We cannot deny that corporate culture plays a critical role in the governance of organizations. Culture is a key driver of conduct and values. It reflects the mindset of an organisation. By not managing it well, the outcomes of the organisations can lead to undesirable consequences.

In Singapore, the Code of Corporate Governance¹ recommends that the board sets the company's values and standards (including ethical standards). The board bears the responsibility of setting the corporate culture of the organisation. By getting the culture right is critical as poor culture will drive poor conduct.

IA should play a role in providing independent assessment on culture to the board and management. By doing so, Board and management would be apprised on the health of the culture and the early warnings would enable organisations to quickly address the potential risks to forestall erosion of its value.

However, assessing culture is complex and challenging. Culture itself is intangible, subjective and not easily quantifiable for monitoring. Furthermore, even within one organization, culture can differ by business units, departments and teams. In the [2016 North America Pulse of Internal Audit² report](#), 42% of internal auditors who responded indicated that they are addressing culture.

What are some of the Challenges in auditing Culture³ ? They are:

- Internal audit has to gather evidence to demonstrate how a statement of values is translated into concrete actions.

¹ Code of Corporate Governance 2012, Guidelines 1.1 (e)

² The IIA, Audit Executive Center, 2016 North American Pulse of Internal Audit: Time to Move Out of the Comfort Zone

³ Report by Chartered Institute of Internal Auditors: Culture and the Role of Internal Audit, 2014

- In the use of surveys and interviews, there are limitations when the culture is not one that speaks openly and honestly.
- Internal audit needs to upskill in more qualitative methods such as surveys and interviews.

In internal auditing, where can IA position itself to assess culture? In fact, assessment of culture can be done through every IA engagement. We do not need to have a standalone audit focusing only on culture. Barclays and Aberdeen Asset Management integrate culture as part of their audit engagements. During the IA engagement, internal auditors can undertake root-cause analysis to identify cultural weaknesses. It goes looking beyond non-compliance but into why things happened, positively as well as negatively. It will look at whether there is a cultural driver to any of the issues that arise. It could be that the root cause points to tone at the top, where ethical behavior is lacking and ambiguous and the board and senior management does not walk the talk; people management and incentives, where poor conduct is condoned and incentives create unethical resourcefulness; escalation policies, where staff are not notified timely on incidents for sharing purposes; and recruitment and training, where hiring standards are less stringent and training lack ethical education.

Given below are some considerations⁴ that can be taken into account when auditing culture.

<p>Satisfaction/Opinion Considerations</p> <ul style="list-style-type: none"> ▪ Employee and customer survey results. ▪ Customer Complaints. <p>Training</p> <ul style="list-style-type: none"> ▪ The existence of a comprehensive training program for new and existing employees, customised for the employee's role in the organisation. ▪ Frequency of training and documentation of attendance. <p>Compliance</p> <ul style="list-style-type: none"> ▪ Protection of whistleblower status and rights ▪ How frequently the organisation faced legal problems. ▪ Timeliness and effectiveness of corrective actions. <p>HR Practices, Incentives, and Enforcement</p> <ul style="list-style-type: none"> ▪ How frequently the organisation received negative media coverage (including social media). ▪ Appropriateness and consistency of penalties for violating policies. ▪ Appropriateness of how honest mistakes are dealt with. ▪ Employee turnover. ▪ Whether exit interviews are conducted and whether those exit interviews include questions to assess whether the departing employee was aware of the potentially unethical events taking place at the company. <p>Evidence of Soft Controls</p> <ul style="list-style-type: none"> ▪ Competence – being adaptable and willing to learn. ▪ Trust and openness – teamwork, helping and relying on one another to solve problems. ▪ Strong leadership – direction and leading by example. ▪ High expectations – striving to improve, to raise the bar. ▪ Shared values – doing the right thing in the right way, ▪ High ethical standards – honesty, equality, and fairness.

⁴ The IIA Global, Global Perspectives and Insights Issue 3: Auditing Culture – A Hard Look at the Soft Stuff, 2016

Concluding words

Healthy corporate culture is key to good governance and to a company's success. History has revealed a number of high business failures linked to unethical values and practices. Thus, internal audit needs to be mindful to include auditing culture in its work plan as culture is the overwhelmingly important contributing factor to business sustainability and continuity.