Board Briefing ibe

Checking Culture
a new role for internal audit

By Peter Montagnon

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“Doing business ethically ...
.... makes for better business”

Board Briefing

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Author

Peter Montagnon joined the IBE as an Associate Director in September 2013. Prior to that he was Senior Investment Adviser at the Financial Reporting Council, which he joined after almost ten years as Director of Investment Affairs of the Association of British Insurers.

For two decades from 1980 Peter was a senior journalist on the Financial Times, including spells as Head of the Lex Column and in charge of coverage of the international capital markets. His last assignment, from 1994 to 2000, was as Asia Editor, responsible for the FT's coverage of a region stretching from Pakistan to New Zealand.

After graduating in Modern Languages from Cambridge University in 1972, he joined Reuters news agency as a financial journalist. At Reuters he completed assignments in Hong Kong, Zurich and Washington before joining the Financial Times.

Peter served on the European Commission's Corporate Governance Forum from 2005 - 2011. He is past Chairman of the Board of the International Corporate Governance Network and is also a visiting Professor in Corporate Governance at the Cass Business School of the City University, London, and a member of the Corporate Governance Advisory Board of the Norges Bank Investment Management and of the Board of the Hawkamah Institute for Corporate Governance, Dubai.

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Preface

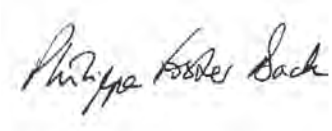
The IBE has prepared this publication on current and evolving practice in auditing culture as its latest contribution to help boards answer that all important question: *are we living up to our values?*

This self-questioning is growing in importance with the public's increasing understanding and appreciation that when a company states it is doing its business in the right way, in line with its publicly stated values, they can now be held to account. So internally, and before the company suffers from a Twitter campaign, the board must ask itself the question – because if it doesn't others surely will.

The IBE strongly believes in sharing good practice and learning from others. With this in mind the publication has taken the approach of a series of verbatim interviews. This helps give you some real practical insights and different perspectives on how a variety of organisations and their boards are trying to understand the culture, or cultures, within. The approach of internal audit, as the third line of defence, is to test whether the corporate culture supports the organisation's purpose and business model.

As ever we would welcome your feedback on this publication as the debate develops on how boards can assure themselves about their corporate culture.

The IBE is very grateful to EY for their financial support of this publication and to the Chartered Institute of Internal Auditors (IIA) for their assistance. Many others have assisted Peter Montagnon in this work, in particular those who agreed to be interviewed and so generously gave of their time and shared their knowledge, and I would like to thank you all.



Philippa Foster Back CBE
Director
Institute of Business Ethics

Supporter's Foreword

Chartered Institute of Internal Auditors

Organisational culture continues to hit the headlines. Almost every major corporate scandal of recent years can be traced back to cultural failure – either by having the wrong tone at the top, or by individuals not acting in accordance with the organisation's ethics and values.

The UK Financial Reporting Council, in its introduction to the new UK Corporate Governance Code, outlined one of the key roles for the board as establishing the culture, values and ethics of the company, setting the correct 'tone from the top'. The UK Prudential Regulation Authority has similarly recognised that boards have the responsibility to articulate and maintain a culture of risk awareness and ethical behaviour within their respective organisations.

There is an increasing focus on how poor organisational culture has impacted on failures in the corporate world and the public sector. It is increasingly expected that even an organisation's supply chain should operate under the same values, ethics and codes of conduct, even if the various players are separated by thousands of miles.

Internal audit, acting as the eyes and ears of the board but independent of management, is in a unique position to judge and advise whether the tone from the top is being adhered to across an organisation. Through internal audit, a board can satisfy itself not only that the tone at the top represents the right values and ethics but more importantly, that this is being reflected in actions and decisions throughout the organisation.

This IBE Board Briefing by Peter Montagnon gives practical examples of how key players, such as audit committee chairs and heads of internal audit, are confronting the challenge of auditing culture to the benefit of customers, staff and the organisation itself. It is a valuable addition to the toolkit on auditing culture and complements and builds upon the IIA's own report *Culture and the role of internal audit – looking below the surface* published a year ago.

Dr Ian Peters
Chief Executive
Chartered Institute of Internal Auditors

First established in 1948, the Chartered Institute of Internal Auditors (IIA) obtained its Royal Charter in 2010. It is the only professional body dedicated exclusively to training, supporting and representing internal auditors in the UK and Ireland with over 8,700 members from both the private and public sectors. Over 2,000 members of the Institute are Chartered Internal Auditors and have earned the designation CMIIA. Some 800 of our members hold the position of head of internal audit.

Members of the Chartered Institute of Internal Auditors are part of a global network of over 185,000 members in 190 countries. All members across the globe work to the same International Standards and Code of Ethics. More information is available at www.iia.org.uk.

Supporter's Foreword

EY Building a better working world

We are delighted to be supporting this IBE paper. At EY, we believe that organisations which are purpose-driven and which address culture and values as a strategic issue will be more successful in the long term. They will manage risk better and have a greater positive impact on society. In that sense, they will build a better working world.

Policymakers too are increasingly focusing on the accountability of the board and executive management to set not only a company's desired culture and values but to assess that these are being delivered.

For example, in September 2014, the UK Financial Reporting Council issued a new version of the UK Corporate Governance Code. It clearly states that company boards are responsible for 'establishing the culture, values and ethics' of their organisations.

This is a challenge. While the vast majority of boards we work with would accept it is their responsibility to create an environment that enables employees to act with integrity; to create the 'right culture', many would find it difficult, nigh on impossible, to demonstrate the cultures they have.

In order to help our clients answer questions like 'what sort of culture have we got?', EY has brought together a diverse team which includes specialists from internal audit, academia, psychology, HR, forensics, audit, etc, to develop an approach which measures an organisation's culture by focusing on the way individuals behave and make decisions.

As this excellent paper indicates, internal audit, in partnership with a number of other corporate functions, has an important part to play in helping boards and executive management to deliver on their responsibility for driving the right culture and values in their organisations.

If you are already measuring culture, we hope this paper will help you build on your existing work. If you are just at the start of your journey, we hope this paper encourages you to press on – it will be worth the effort.

Kevin Hills
Partner, Head of Integrity and Compliance Practice
EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

Introduction

Three broad conclusions emerged from the IBE Board Briefing on *Ethics, Risk and Governance* published in 2014. The first was that values and culture, which determine how a company treats its stakeholders and the way it does business, are integral to its business model and its entire operation. They are not just an overlay, and so matter to boards. The second and third conclusions follow from this. Boards have both to understand and shape what drives behaviour at all levels in the business, and also to assure themselves that the culture they think they have is the one they have actually got and that it is consistently embedded throughout their organisation.

> *As the eyes and ears of the board and senior management they are, or should be, able to point out where things are at risk of going wrong.*

This is where internal audit comes in. Can internal audit help a board understand how the firm's culture is embedded in a way that affects behaviour throughout the organisation? What needs to be done differently or better to help ensure that this is the case? Expectations of internal audit have been growing, and this Board Briefing sets out to pick up on how to tackle the issue of culture.

The timing is opportune because, principally at the behest of financial regulators and supervisors, the internal audit profession itself has begun to examine the contribution it could and should be making. Moreover, questions about corporate culture have been raised in the non-financial sector where companies have got into trouble. So the question about how a poor culture adds to corporate risk and vice versa is a universal one. The issue is a tricky one, however, because, traditionally, internal auditors have been trained to measure things and culture is a soft quality, not readily subject to formal controls. An underlying thesis of this Board Briefing is nonetheless that internal audit has the scope to do more and will find its contribution more rewarding if it succeeds.

The Chartered Institute of Internal Auditors (IIA) defines the role of its members as being *"to provide independent assurance that an organisation's risk management, governance and internal control processes are operating effectively".* This rather dry description belies the growing importance of what internal auditors are increasingly seeking – and being asked – to do. They are often thought of as control geeks, preoccupied with the niggling detail of process and reporting, and far removed from the actual running of the business they serve. In fact, internal auditors have an important and much wider role in its success. As the eyes and ears of the board and senior management they are, or should be, able to point out where things are at risk of going wrong, where the agreed strategy is not working and where the company is in danger of tripping up.

Andrew Bailey, now head of the UK Prudential Regulation Authority, sought to bolster the status of internal audit in a 2012 interview. *"We do want to see the internal audit profession taken seriously within the institutions that we regulate. We want it to have an appropriate profile and thereby bolster the standing of the profession,"* he told *Audit & Risk* magazine.

As he spoke, the Basel Committee on Banking Supervision was preparing to launch a set of international guidelines for internal auditors of banks stressing the breadth and importance of their role. [1] With the active encouragement of the regulators, the IIA produced a code of practice for the financial sector. [2] Welcoming it, Martin Wheatley, head of the UK Financial Conduct Authority said: *"Internal auditors must be front and centre of ensuring their firm acts with integrity."* While that put the audit of culture firmly on the agenda for banks, the debate is now moving out into the broader economy with the publication in 2014 of a more general IIA report, *Culture and the role of internal audit*. [3]

This IBE Board Briefing seeks to complement the IIA's excellent effort by setting it in the context of real life experience one year on. It consists of a series of interviews with people from a range of business sectors who are seeking to confront the challenge in a practical way. All are senior practitioners. All have thought about the role of internal audit in assessing culture and are pushing the envelope, though often this still remains a question of looking at cultural aspects around the implementation of controls. Most are still some way off an approach that would isolate and assess culture itself as a first stage towards mitigating the risk that comes from a flawed culture. In the belief that it helps to learn from the experience of others, they speak about their approach in their own words.

The interviews themselves were conducted in a three month period in the spring of 2015. For reasons of space it has not been possible to publish the entire transcript. What follows in the interviews are elements which cast a particular light on the challenge rather than the general comments with which most agree. Thus it is clear from the conversations that a direct reporting line to an independent board member, most probably the chair of the audit committee, is critically important, but this needs to be managed in a way that does not cut across the authority of the chief executive. A reporting line to the finance function is seen as less and less appropriate as the agenda broadens.

> *Late or grudging reporting of information, for example, is a worrying indication of a flawed culture, as is failure to complete relevant training.*

Though one firm – Aberdeen Asset Management – has made a conscious effort to audit culture, most interviewees agree that there is currently more mileage to be had in looking at the cultural aspects of what is being audited rather than in separating out culture itself. At issue is not so much the level of compliance with codes of behaviour or regulations but how that compliance is delivered. Late or grudging reporting of information, for example, is a worrying indication of a flawed culture, as is failure to complete relevant training. As Airbus puts it in the following interview, bribery is not per se a cultural issue. The way the company deals with it and the associated risks is where culture comes in.

1 Bank for International Settlements (June 2012) *The internal audit function in banks*.

2 Chartered Institute of Internal Auditors (July 2013) *Effective internal audit in the financial services sector*.

3 Chartered Institute of Internal Auditors (July 2014) *Culture and the role of internal audit: looking below the surface*.

Yet this is not just about strengthening compliance. Ideally a company should strive towards a strong culture in which compliance comes naturally. In a customer services business, for example, the ideal culture is one where people provide a great service because that is the culture of the organisation, not because they are complying with policies that tell them to do so. Looked at this way, a strong culture can help a company deliver success. The more internal audit can pinpoint where a company stands on the culture spectrum, the more it will contribute in a positive way to the success of the business. In the process it can make all involved more aware of culture, though it can never replace the board and leadership in setting values at the outset and in implementing remedies that are called for when the culture turns out to be weaker than desired.

Many practitioners mentioned the need to look at root causes for behavioural weaknesses. The question is not just what has happened in terms of compliance with expectations, but why the result is the way it is, especially when something has gone wrong. This suggests a need to look at how objectives are set and assessed and to look for intelligence in what are, perhaps, new places like staff turnover and exit interviews. If they are going to examine root causes, internal auditors will inevitably end up making judgements which still provokes resistance.

It is worth noting that internal auditors are not alone in being pressed on culture. The banking sector was criticised by the Parliamentary Commission on Banking Standards for only paying lip service to the so-called 'three lines of defence' model and is now being required to be more rigorous. In this model (explained in more detail in Appendix 2 of this Board Briefing), internal audit is the third line of defence, while the first is controls at the business unit level and the second controls and functions at group level, like risk and compliance as well as IT and HR. It should not be up to internal audit to replicate the first and second lines of defence, but it is appropriate to integrate the effort and ensure that they are doing what they are supposed to do. Leadership at board level can and should ensure that all three are working productively together.

All this means that internal audit needs to work together with others. HR is a natural ally, but these conversations also show an important interplay with those responsible for ethics and compliance. That can help with identifying risks, understanding metrics and designing questionnaires.

> *"Most interviewees said they could smell a bad culture a mile off. A vital challenge for internal audit lies in identifying and addressing the pockets where culture is weak or could easily be improved.*

Audit of culture does not mean taking a sweeping view and assigning an overall score. Some would argue that this is the job of boards and management. The greater the clarity with which boards and senior management have set and communicated their expectations of the culture they want in their organisation, the more effective internal audit can be in drawing attention to areas of the organisation which are not aligned with that culture.

Most interviewees said they could smell a bad culture a mile off. A vital challenge for internal audit lies in identifying and addressing the pockets where culture is weak or could easily be improved. Even where the culture is generally good, the danger that lies with the outliers can be extreme.

Internal auditors who can address this are making an important contribution. They have evolved from mere monitors to agents for positive change and to become challenging coaches. It will take time for the profession to complete this transformation, but the journey is now under way and the pace needs to be maintained.

Interview 1

Barclays Bank PLC

Mike Ashley, *Chairman, Board Audit Committee*

Mike Ashley

Barclays is a leading UK-based international bank and financial services company with total assets of £1,359bn at the end of 2014. It avoided the need for government assistance during the financial crisis but subsequently underwent a change of top management with the appointment of both a new Chairman and a new Chief Executive. Its current strategy attaches considerable importance to stewardship and corporate values.

Main points:

- Objectives and how they are communicated within the business unit are a critical indicator of culture.
- Internal audit should aim to understand and speak out, if necessary, about the culture of what is being audited, even if it is difficult to audit culture itself.
- Internal audit as the third line of defence should check whether the two other lines of defence – controls at the business unit and at the group level – are working effectively, and work with those responsible for the first two lines to ensure efficient use of resources. These controls are an important part of culture.
- Knowing whether culture is embedded means looking at the detail not just at the framework established at the top.
- Branch managers for example are still judged to some extent on their profits even if direct sales incentives have gone. So both their assessments and those of their staff need a strong 'how' component to provide the balance. Internal audit needs to make sure this is happening.
- Average-based reporting doesn't help. You need to know about the outliers because that's where the risk is.

What are you trying to capture when you audit culture?

You are trying to assess whether people are not only delivering results, but also that they are delivering in the right way. As Audit Committee Chair, I am looking for the comfort that we are breeding a culture where people are less likely to do things in the wrong way in the first place, and, secondly, where, if they do, they are detected by the process quickly and dealt with appropriately. And appropriately does not necessarily mean you go out and hang everybody the first time they fail to make the grade as regards culture. It is part of the balance, but an essential part. Where appropriate, however, you educate them on how to behave in the future.

I'm not totally convinced that culture is something you can audit separately. It is more that, when you're carrying out an audit, you get to understand the culture of what it is you're auditing. I encourage our internal auditors to look at what objectives have been set for the head of each business unit being audited, to talk to the person who sits above that unit, to understand what they're driving the unit to do, and the mechanisms they have got to understand how that's being interpreted on the ground. It's also not sufficient to not breach the cultural values. You have to positively reinforce them all the time.

Subliminal signals can be important, but can internal audit uncover them?

I want internal audit to watch out for those sorts of signs. I want the compliance department to watch out for those sorts of signs. Internal audit do sit in the various Executive Committees. They're there as observers/contributors, and that's very important because they can observe the behaviour.

But many say they can only look at things they can measure.

They're uncomfortable, and we're stretching them. That's one reason it's helpful if they don't audit culture per se. If they audit culture as part of a routine audit they can comment on culture in the audit report, but it's not the be-all and end-all. Where they do get uncomfortable is where it's a judgement call, which is not grounded in evidence. Not all internal auditors will step up to that plate. The better ones will.

Do they need new skills?

Not necessarily. Most auditors have an antenna for the culture. The skill is not in identifying it. The skill is in having the courage of your convictions and an ability to comment persuasively even though you don't have something that you can clearly point to as hard evidence.

"The skill is in having the courage of your convictions and an ability to comment persuasively even though you don't have something that you can clearly point to as hard evidence.

So is your role as Audit Committee Chair to empower them?

Yes. Empower them. And encourage. I don't only talk to Sally Clark, our head of internal audit. I talk to her management team as well. I tell them: if you see something, mention it. Don't just keep quiet. It's a continuous drip feed.

What new things are they looking at?

The new element is round how the objectives for each business unit are set: what sort of objectives are set, how they are appraised at the end of the year, what they get from talking to the management sitting above the business unit in terms of what they're driving that business unit to achieve.

That all enables them to build a context around the more detailed work that I don't think does change very significantly. It allows them to view things through a slightly different lens.

What about the basic financial controls?

They would still look at that as well, although again, we're starting to hear about the strong belief both in the government and in the regulators about the 'three lines of defence' model which should cover much of this ground. My view is that, if you're going to make that model work properly, then it's not sufficient for the first and second lines of defence just to perform testing and monitoring, especially when nobody's yet clear what it is they're really supposed to be doing. There also needs to be reporting coming out of that, so you can see what that's telling you about the control environment and to some extent potentially the culture as well. We need reports from the first and second line, because, if they have to report on what it is they have done, there is more chance they will actually do it and follow up on the results.

Take me through the three lines of defence.

First line would be a business unit putting in place some monitoring mechanisms around controls so that the chief executive of that business unit would be comfortable that things are happening the way that they intended them to. The second line of defence covers policies which are too important to be left totally in the control of the business unit, like credit in the case of a bank, for example. You would expect implementation of those credit controls to be monitored by a separate credit risk function, the second line of defence. The third line of defence is internal audit.

Internal audit will check up on the overall control environment – not only whether the controls are operating properly but also whether the first and second line are doing their work. I've asked Sally that, whenever she comments adversely on a control, I want her also, as a matter of course, to tell me whether the first or second line of defence should have been monitoring that control, and, if that control isn't working, what that tells me about the adequacy of the first and second line of defence.

One of the ways I'm trying to introduce a bit more rigour is by combining and understanding what the first and the second and the third line are all doing. It helps reinforce the message that if there are defects in the control environment, you don't solve them by throwing more internal audit resource at them. You solve it by getting the first line of defence to do what they're meant to be doing in the first place. Which again is a cultural thing, I suppose.

Do the regulators get the nuances of all this?

The sense I get is that they decided that culture is very important and that internal audit should have some perspective on whether it's badly right or wrong. But if a culture is egregious, you can spot that a mile off and you should be prepared to say that. I am trying to get internal audit to say if the culture could be improved and explain how.

In that respect you get much more by trying to work out what the culture is in the individual bits you're auditing, rather than trying to do some mammoth audit about culture across the whole organisation. Very few if any large organisations have a monolithic culture. Now, that's not to say internal audit shouldn't ask whether the organisation is setting the right sort of cultural framework at the top, but you get less out of that because the devil is always in the detail and the problems that emerge in embedding a culture are not at the top level or the frameworks. They're in the question: have you captured the hearts and minds of individuals down through the organisation?

"...you get much more by trying to work out what the culture is in the individual bits you're auditing, rather than trying to do some mammoth audit about culture across the whole organisation.

Can you learn about how culture is embedded from exit interviews?

Certainly that's an area where you would hope to get some intelligence. But I'm not sure I want internal audit to gather that. I would say that HR – which in my view in this respect is part of the second line of defence – should be capturing the themes which relate to culture coming out of exit interviews.

And what you want internal audit to do is not capture it but make sure HR is capturing it?

Yes, and reporting it properly.

What sort of risks are you mainly looking at?

They're more customer outcome type risks. Bad customer outcomes indicate bad culture.

Do you expect internal audit to comment on the incentives because you could say these are key to behaviour?

Yes.

And that's a real judgement?

Yes. But some of the more obvious problems, like sales-based incentives, we've got rid of those anyway. This is where it's interesting for the culture. It's very easy to say we're going to have no sales incentives for branch staff, but how do we now judge branch managers?

Presumably they're still going to be judged a bit on their profit. It's hard to say they shouldn't have any assessment of the profits that their branch achieves. Right, so how does your average branch manager take the objective that they've been given to run a P&L account and translate that into what they tell their staff? They may not receive a monetary reward for selling any more. You've removed that direct incentive. Yet, if a branch manager turns round to his or her staff and says: *"well, what's really important to me is my P&L account, we need to get out there and start selling",* you haven't achieved very much. You therefore need to ensure that everyone's assessment includes a strong 'how' component.

The danger is sending the signals down the line.

Yes. You can impress on managers as much as you like that they've got to do things the right way, but it's actually quite difficult to assess whether they're putting the right message round their staff. That's something where you can use first line of defence monitoring. This person will have a boss and that boss ought to be talking to some of the staff who work for the branch manager. You can do things like 360 degree appraisal processes. You can pick up signs. But internal audit does also have a role to play in trying to see whether or not that is happening, and indeed compliance does as well.

Don't silos make it more difficult to get a handle on culture? Isn't the investment bank different?

There are potentially pockets of bad culture across any organisation. It should be remembered, for example, that PPI mis-selling was a more systemic problem that has cost the UK banking industry more than investment banking scandals. What such cases illustrate, however, is the important part played by incentives and it probably is true to say that in certain parts of the investment bank, in particular the trading areas, the incentives in the past haven't been calibrated properly and focused too much on short term revenue generation. That is being addressed and the performance of traders is being assessed in a much more balanced way. It's certainly not, however, the whole of the investment bank. If you think about what you and I would regard as the old-fashioned merchant banker, the M&A specialist, they've probably got quite a high degree of integrity/probity because unless they did they wouldn't be trusted by their clients. And they wouldn't have any business. You can't really say the whole of any investment bank has a rotten culture.

Therefore it's difficult for internal audit to talk about the culture of the whole organisation.

That's why I want them to be calling out the culture in individual audits. The group as a whole can clearly have a culture or set of values that it aspires to and it can push all the parts to meet that aspiration. At any point in time you'll probably find the different parts are at different stages of that journey. What's useful for me is to understand where the parts are, not just where the group is. Indeed one of the things I push quite hard against is getting what I call average reporting. So in other words, the bigger the block of business you're reporting on, then the more what you're getting is the average score. What I'm interested in is not the average score but the outliers. That's where the risk is.

2

Interview 2

Aberdeen Asset Management

Scott Strachan, *Global Head of Internal Audit*

Scott Strachan

Aberdeen Asset Management is a global company with 33 offices in 25 countries and funds under management of £323.3bn at end 2014. In 2012/13 it undertook the audit of culture in recognition that culture was fast becoming a key regulatory and business focus. This step was vindicated with the launch by the Chartered Institute of Internal Auditors of a specialised code for financial services in 2013 which recognised in its scope that internal audit should form a view and assess key strategic risks including culture. The audit was also timed to align with the Aberdeen Board and FSA focus on the topic.

Main points:

- Internal auditors need to be able to present evidence about behaviours that are contrary to the desired culture, but, once the board and the executive recognise that internal audit has a track record for presenting such evidence well, they can be invited to consider concerns based on more subjective judgements.
- A lot of regular management information contains useful indicators of culture, but auditors need to ask the right questions which may be different from those the management ask about the same information.
- The critical question is to understand not only what is happening but also why. What is the root cause?
- Appraisal processes and exit interviews are a good indicator of culture, but sometimes so are more operational issues like the way different players interact with each other when executing large projects.
- A culture audit can be an important vehicle for change, but it is important to take a positive approach and avoid the creation of a blame culture.

I've always tried to get to a point where the audit reports and the regular conversations … told the whole story, and the whole story point that's difficult is probably the culture piece.

You are known as a pioneer in auditing culture, but what exactly are you trying to audit?

Some people talk about risk culture, but, fundamentally, what I was trying to demonstrate was indicators of behaviour that concerned me and concerned my board. So what we drove was change. The new controls that we put in place are to try to change behaviour.

That is quite bold.

I've always tried to get to a point where the audit reports and the regular conversations I have with the CEO and Audit Committee Chair, told the whole story, and the whole story point that's difficult is probably the culture piece. So when I heard the market saying that culture was coming on to the agenda, I thought I had enough fuel to go and do an exercise on it.

With hindsight, did I do the perfect audit? No I did not by a long stretch of imagination, but at least I started, and I'm very proud of that. I think the way we actually did the audit, trying to get the balance of gut feel, but also indicators that do tell us about behaviours, was good. I think we got the balance right. The way afterwards we got the Executive together in one meeting, putting out the facts, but the gut feel as well – the anecdotal stuff – was really quite creative.

What were the behaviours that concerned you?

A good example would be project ownership. We are involved in the project methodology at Aberdeen. We get invited along to the change process, and it became quite clear to us in some of the post implementation reviews that there was sometimes a mismatch between what was delivered and what was expected. Somewhere along the line something had broken down. Our analysis was telling us that maintaining business engagement throughout the project timeline in line with operational delivery was a challenge. This sometimes resulted in significant post project development and change. After testing, the behaviour that we found to be wrong was the business not staying engaged.

Yes, but is that really what's driving the culture debate? I thought it was concern about the culture that leads to people rigging Libor.

I think they're two parts of the same thing, the root is behaviour and having the right framework that deters the wrong behaviour and promotes the right one. Another thing that we very quickly saw through our testing was the significance of the appraisal process. You hear a lot about balanced scorecards. We have the semblance of a balanced scorecard, but it hadn't been fully embedded nor had it incorporated strategic, value or culture indicators. So again, if we aren't tracking an assessment of these and the behaviours we expect from them, how can we measure and ensure an appropriate consequence framework is in place to support the right behaviour?

So that gives you as the internal auditor something which is quantifiable?

Absolutely.

Are you auditing culture or factoring it in when looking at controls?

We audited culture. Again, I'll never say to anyone it was a perfect audit, but it really was a catalyst for change in thinking and organisation around culture. The reaction we got from our Audit Committee was: well actually we kind of like what you've done here. Why is that thinking not spreading? Why doesn't every audit you do not have a cultural element to it? Why is it that when you're looking at control design and effectiveness you're not saying what is the culture that drives it? So now, integral to each piece of audit work, we do a cultural assessment. We've got a blended model.

So now, integral to each piece of audit work, we do a cultural assessment. We've got a blended model.

Was it difficult to persuade management to let you do this?

In the traditional audit you scope out the terms of reference. You go and do the field work. You report the issues. On this audit, we did the scoping and fieldwork much the same as in any audit. In defining scope, as always, there was extensive discussion with management. We also engaged EY as support to get some understanding as to what exactly is happening in the industry.

What we did here that was quite unique, and aided our messaging on the audit and its findings, was how we finalised the audit. We basically pulled together a presentation saying: here are the terms of reference headers, here's the good practice we've seen and here's the areas where we think there's room for improvement. And it was really a combination of: here's a fact, what do you think? What are you going to do about it? And here actually I don't have the facts. I have an instinct, I have a gut feel, I have some anecdotal evidence, what do you think? The factual ones are just like any other report. The reaction is: OK you're telling me the facts. I can't disagree with them. We will do this about it. But the ones that were anecdotal gave the opportunity for debate. I wasn't saying yes or no on these points, I was saying it just feels wrong let's discuss.

Thankfully, we have an engaged Executive. There was good debate around the table. We stood back – we'd done our job. And they said: *"You're right, we've got to do something about this. And so what is the action?"* It became a meeting where there was really concentrated debate around factual data and gut feel data. And that's a key element of it. The audit concluded with a defined action plan.

You've got a presence in lots of countries? How do you manage to assess the culture over so many different markets?

It comes back to the fact that my audit wasn't everything to everybody, but I think when you put it in terms of behaviour, no matter the culture of a location, there are core values and behaviours that we can expect from every one.

Such as?

Our values include integrity. So, just because I'm sat in Asia, doesn't mean I am allowed morally or culturally to act without integrity. So if we can underpin the values and the behaviours that people expect, we go right across the group.

How do you audit integrity?

That's the hard question.

People say you've cracked it.

I think there are indicators in the business. Everyday management information that a good manager will be using anyway which can also be used to interpret the fundamentals, the values. Take the exit meetings we do when people leave the business. Obviously there's a clear effort there to get key messages from those leaving the organisation. Are we underpaying people generally? Is there a problem with line management? But you can also interpret the data to actually look at the integrity of the individual themselves: what was their attitude to how they behaved as part of a team, did they want to fly alone? If you frame that in the right way you can capture a whole suite of data. There's work for us to do on what that specific value point is.

"Everyday management information… can also be used to interpret the fundamentals, the values. Take the exit meetings we do when people leave the business."

So you're looking at this information through slightly different eyes to how the management looks at it.

Correct, but we do need to get management looking in the same way. I guess really getting to the nub of why something happens. We're doing a lot around root cause. But I still think we have to look at our values and manufacture the questions and processes where we do obtain the data and analyse it, to see if that makes sense. An exit meeting right now will be framed in a way to try and gauge, most probably, the behaviour of the team and the line manager, but if you ask different questions, it might be about the integrity of people.

But how do you know you're using the right indicators?

That's where we have to learn, and there might be different issues for different organisations. For every business there is a suite of management information that needs to be consolidated and challenged to ensure we are using it to not just run a business but also to ensure our people are running it with the behaviour and values we expect. The difficulty is balancing this with gut feel that's very subjective and a matter of experience and relationships. The latter is hard to define but no less important. Bringing it together and landing the message and making sure that the processes in the organisation allow the capture of all that. That's tricky.

Who sets the culture? If there are things you are not happy with and you take steps to draw people's attention to it, aren't you then defining culture?

No. It could help form what the culture should be but we, like any other organisation, have values and the values were perhaps not living and breathing as we would have hoped they were. If I had done an exercise eight years ago, nobody could have probably told me what Aberdeen's values were. Since our audit and the evolution of the actions arising, the majority if not all would now tell you what they are. Those values have come from a lot of intellectual debate at board level. Therefore we have that as a framework to say, right, what are the measures that tie into those values.

> *Since our audit… the majority if not all would now tell you what our values are. Those values have come from a lot of intellectual debate at board level.*

But if a single individual's breached a limit 30 times, that doesn't tell you a great deal about the overall culture of the organisation, does it?

In a number of our processes there are limits set on what is expected. An individual's compliance with those tells you a lot about the culture of individuals and the organisation (if breaching such limits has no consequence).

Because it sets expectations?

Yes, the KPI you set.

So it's a deterrent.

Yes, but we have had long discussions about whether we're creating a blame culture where people don't want to put their head above the parapet. So there's a very fine balance and I guess we're still developing that.

3

Interview 3

Airbus Group

Grazia Vittadini,
Head of Corporate Audit and Forensic **(GV)**

Pedro Montoya,
Group Ethics and Compliance Officer **(PM)**

Grazia Vittadini

Pedro Montoya

Airbus Group is a global company in aeronautics, space and defence-related technology. With strong European roots, it operates in 170 locations worldwide. In 2014 it generated earnings before interest and tax of €4bn on sales of€60.7bn. Before becoming Head of Corporate Audit, Ms Vittadini held a series of senior management positions within engineering, most recently as Chief Engineer on the high lift devices of the A380.

Main points:

- It's not sufficient to ensure that the basic frameworks are complied with. The way in which people respond to the frameworks matters, and this is where the auditors need to incorporate cultural aspects on everything they examine.
- Traditional ethical risks like bribery or fraud are not in themselves a cultural issue. The real cultural issue is how the company confronts them. Complacency is hard to measure, but the response of a division or subsidiary to an audit announcement or finding is a significant indicator.
- Audit teams are asked for their impressions of a business unit's response when they come back from an assignment. This will help decide when the team needs to return.
- It's not the audit finding which matters. It's how the business unit reacts to it.
- An objective of internal audit is preventive, to encourage continuous improvement in the way the frameworks operate. The company also does forensic investigations which are more reactive and aim to look at the root cause of why behaviour fails to meet the company's expectations.
- Internal audit works closely with the legal counsel and the ethics and compliance team.

What exactly is culture and how do you assure it?

GV No matter what type of framework, of governance model, or set of rules you put in place, it takes the right type of mindset and culture to operate these correctly. You have to be fully aware of the need for that culture to be hard-wired into the behaviours, not only of the top management but at all levels.

How do you know whether it's hard-wired?

PM We need to look beyond compliance with the processes. We know ethics and compliance are a top priority. It is important for the company that employees understand what is expected from our values about the way we want to do business and how we want them to behave.

But, Grazia, how do you demonstrate that these values are engrained in middle management where it matters?

> *No matter what type of framework, of governance model, or set of rules you put in place, it takes the right type of mindset and culture to operate these correctly.*
>
> Grazia Vittadini

GV We check! We're not only responsible for the financial type audits, we have programme and operations audits and compliance audits and forensic investigations. We have a very broad array of audits during which we have the opportunity of checking that, first of all, awareness, and the basics – the policies, the processes – are in place. In every audit, we try to create a continuous loop feeding back to the business. So there's a continuous need for them to adjust the way they operate the processes.

But we don't only do audits. We also do forensic investigations. The most direct link between audit and compliance is the forensic team.

That means looking in detail when something bad has happened?

GV Has allegedly happened.

Meaning whistleblowing?

GV Not necessarily. We have a triumvirate, let's say, between ethics and compliance, our legal counsel and corporate audit. We meet on a regular basis to assess any potential allegations coming through the press or other channels and we assess the associated risk. In certain cases we decide whether to proceed with an internal investigation. My team collects the facts. These are put into a legal perspective from the legal department and then assessed from the ethics and compliance point of view.

How often do you undertake such investigations? Are they exceptional?

GV There is no recurring pattern. Often we decide that the cases can be dealt with within the division. We take care of corporate allegations impacting more than one division potentially.

PM If we detect or there are allegations of internal fraud, like somebody bribing our teams, that does not necessarily qualify as a corporate issue. If, however, the allegation is that we bribe customers, then it is a corporate allegation. Why? Because, if the company is involved, if any of the subsidiaries of the company is involved in a bribery case, that's going to impact the reputation and the share value of the Airbus group. If, however, there is internal fraud, which is obviously a bad thing which we want to prevent, the impact will not be the same in terms of the group value. Therefore it has to be managed by each of the divisional subsidiaries.

But you would still bring that to the attention of the management of the subsidiary and the top management here?

PM We follow up. We report to the board on a consolidated basis.

So, Grazia, your job is to enquire and produce the evidence and then, Pedro, your job is to react or make sure the reaction is right. Is that the way it works?

PM It's a good way to put it. As a compliance officer, I don't want the company to be prosecuted. I want to be in the best possible position to protect the company. But by working together, we want to do more than that. We want to dig deeper, to try to understand the root cause and therefore try to take corrective action which may go beyond legal protection. It has to do with changing processes, changing people, if managers are not buying into our ethical standards.

We want to dig deeper, to try to understand the root cause and therefore try to take corrective action which may go beyond legal protection.

Pedro Montoya

But isn't this reactive?

GV Audit is preventive. Forensic is reactive.

PM Grazia already mentioned that we expect people to be trained. This is checked. In other words this type of objective is now an objective for all our leadership team. One thing we check, is whether or not this has been delivered and documented. This is not just a tick-box exercise. One of the annual objectives for managers' bonus is ethics and compliance. We will check what they have done in practice.

Another issue is prevention of fraud and bribery. We have tools to prevent bribery, like the vetting of intermediaries. We all know that the use of intermediaries in foreign trade is a risk, because these people may use part of our money to bribe the customer. So, with corporate audit, we check on a regular basis – and this is not reactive – if the vetting has been done. We check all the third parties that have been paid in business development. Have they been properly approved? If not, it needs to be explained and corrected.

What signs of weakness are you looking for?

GV Audit is based on evidence, first of all. So we have very thorough, very detailed test matrices. We look for specific factual deviations in terms of, for instance, use of company credit cards. But we also look at the reaction to our engagement letter with which we announce we're coming and set out the documents we'd like to see in advance, as well as the reaction to any eventual finding. This is definitely a measure of culture. It's not the finding. It's how the company reacts to it which is the real indicator.

Some of these indicators are not directly ethical, but they do reveal the culture and are therefore indicative of a problem you might have, Pedro, in embedding the culture.

PM Absolutely. It's hard to believe that, if we had a team where the culture was not to speak up, share issues with the management, technical issues or financial issues, that this team will do the right thing when they have to report fraud. And the other way round. That's why it's so important that corporate audit is part of the team. It can tell us when it believes a particular division is still missing something.

It's hard to believe that, if we had a team where the culture was not to speak up, share issues with the management, technical issues or financial issues, that this team will do the right thing when they have to report fraud.

Pedro Montoya

So how does this affect the internal audit plan?

GV I normally prepare a draft based on different inputs – risk maps, recurring coverage, internal control, and then through bottom-up interviews across the whole business, ending with each CEO, we stress test this plan. We take the temperature and capture the topics which may have slipped off our radar and set the priorities right. And of course a very important part of this is the check with Pedro that everything which could be on his radar is also on my plan. Then the plan is validated at group executive committee level and afterwards presented to the audit committee and to the board.

Pedro. You mentioned bribery a lot of times. What are the other big cultural risks that you're looking at?

PM I don't think bribery is a cultural risk. It is a risk, and it's possibly the most significant risk. We don't neglect other risks. I think the cultural risk could be – and this applies to all other operational risks – that the company ignores risks and does not appropriately address them. That is for me the most fundamental cultural risk.

So it's complacency?

GV Conscious or not.

> *...a question I always ask is: so what is your feeling, how did it look, how did it feel, how were you welcomed?*
>
> Grazia Vittadini

PM Take the example of safety. We make things fly. When things fly they may crash. If the company's not culturally focused on safety and they take it for granted that's a cultural risk. The company needs to maintain its attention. If we let it go, then the same thing which may affect safety may affect bribery because people are unaware.

But how do you measure scientifically when people are being complacent?

GV First of all, it's important to see if certain risks are formally recognised. Is the risk of fraud and corruption recognised in all areas of the business? Whenever auditors come back from field work, they have their risk metrics, they have their evidence and then it's a question of putting it all into the report. But a question I always ask is: so what is your feeling, how did it look, how did it feel, how were you welcomed? My questions are not about what they found, because that will be in the report. I try and capture from the auditors that type of soft message which does not, which has no evidence.

What about subliminal signals to employees that may put a different emphasis on their objectives? Do you capture those through this process?

PM This risk exists in any organisation. Certainly we've got a bad reputation for delivering products late and over budget, though Airbus is not unique. I'm not saying this is good, but culturally it tells us something. If, in this company, engineers say this product is not ready to go, that's important. This is an example of safety and quality first. I'm not saying it's the only cause [for delays], but in a sense that's telling us a lot about how powerful is the sense of belonging, the sense of responsibility, of the business and the individual companies, the manufacturing companies.

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Interview 4

Tate & Lyle PLC

Yvonne Tabron, *Head of Audit* **(YT)**
Alyson Corrigan, *Director Ethics* **(AC)**

Yvonne Tabron

Alyson Corrigan

Tate & Lyle is a global provider of speciality ingredients to the food, beverage and other industries with a turnover of £3.15bn in the year to March 2014. It operates from over 30 locations around the world and in recent years has undergone some far-reaching changes. All of this adds to the importance of corporate culture.
The Head of Audit and Ethics Director talk about how they work together and the contribution each make to the other's work.

Main points:

- By working together, the ethics team can help the audit team provide evidence of how culture and values operate throughout the company. By working with audit, the ethics team can understand more about effective delivery.
- Questionnaires need to be constructed in a way that provides usable evidence for internal audit about culture and how it operates.
- It is important to beware of stereotyping expectations about culture.
- Audit should highlight the good as well as the bad.

How do you work together on culture?

YT I see Alyson more as a second line of defence rather than delivering the culture.

AC I'm one of the assurance providers. I'm not responsible for delivering the culture, but I am responsible for understanding as much as I can, and where there are gaps, or issues, or things that need to be raised, then my responsibility, in much the same way as Yvonne's, but from a slightly different angle, is to do that.

A classic example is the whole issue of speaking up. The board is not just focusing on what goes through the hotline, but, generally, on whether people are comfortable about talking about an issue that concerns them to their line manager or to HR or to me or to Yvonne.

I've learned from Yvonne that you've got to have evidence. You might have a feeling about something and maybe that feeling is right, but, until you can act on it properly, you need to find the evidence out in the business in order to be proactive about it.

Over the years Yvonne and I have developed a programme. We sit down, look at group risk, we look at individual business risk, and then we do the third layer, which is – for want of a better phrase – gut feel.

But Alyson, you would be looking at the risks in your programme anyway? Why do you need audit to help?

> *...we said this questionnaire on compliance with policies doesn't work. We switched it to a values and behaviours basis. Now the questions are a lot more general.*
>
> Alyson Corrigan

AC Because I build on what audit's trying to do, and that sometimes requires changes. We used to send out a policies and procedures questionnaire to top management and they cascaded it down. It went down and back up...

YT ...and everybody said they were following policy.

AC Yes, they said: *"We know there's an anti-bribery policy. We know there are a lot of policies, tick, tick, tick."* But what we found was that they were out of date policies and they hadn't been revised. I have to give all due recognition here to our company secretarial department. They were working with the framework of standards and policies that we've got. They were trying to simplify – to encourage the owners of the policies to review, to monitor, to help to implement rather than just to post it on a website.

Out of that whole exercise, the three of us sat down and said this questionnaire on compliance with policies doesn't work. We switched it to a values and behaviours basis. Now the questions are a lot more general. To give an example: *"In the past year have you witnessed any behaviour that is contrary to the Tate & Lyle values and if so how did you deal with it?"*

You worked together on the questions?

YT A couple of years ago we sat down and I looked at what we were doing on compliance, and I said from an audit point of view I can place no reliance on this, I'm not going to use it.

AC After a few iterations, we've now got a new questionnaire. Last year it went to our senior management. I've now expanded the list a bit. I thought we had gaps in geography when I went back and looked at the list. It was a very senior management list and I thought: Hang on, I've got nobody in South Africa. I've got nobody in Russia answering this. We also looked at the list and from a role perspective. Then I doubled back and thought: We haven't got any production people.

Did you work together here on the detail?

AC No, Yvonne set me thinking about how we might deal with it, and then I evolved it.

YT The very practical areas that I would be highlighting are where there is a discord between the tone at the top and what's being seen on the ground.

The questionnaire is helping you evidence that. Is that your main source?

YT At every audit there are basics that we are looking for which we get from the auditors on the ground having conversations. The conversations could be with anyone, from the hands on plant guys to senior management. It could be about anything from policies' effectiveness, to having whistleblowers, to all sorts of things including the strategy and direction of travel of the business. Also, understanding the levers that are used in the performance incentives including the bonus.

You're also getting into incentives here?

YT Yes, the drivers of incentives are one of my key focus areas. We would typically have an audit that asks whether the incentives driving the behaviours are what we think they are.

Are you always critical?

YT When you talk about changing culture you sometimes forget to look at what's good at the same time as tackling the things that are not so good. If you manage to do that your change process will be quicker. If you don't, then you have more battles on your hands.

When you talk about changing culture you sometimes forget to look at what's good at the same time as tackling the things that are not so good.

Yvonne Tabron

That's another reason why you need a broad view of what's going on?

AC That was one of the reasons why I pushed the [questionnaire] list. I'm very conscious that we're a company of 4,500 employees. I can't put the questionnaire to everybody. But I learned last year that having a narrow view of who I was sending it to is not necessarily as helpful as I thought it might be. So I went back and said to myself: Who did I miss, what did I miss? If the questionnaire continues not to elicit any decent feedback, then I would be audited on that and one result might be that the way I communicated the questionnaire didn't impress upon the audience the seriousness of responding.

YT To be honest I would just say to the audit committee the process didn't work. Clearly if you're not getting any responses of any merit, it's not working. You need to revisit. We've had that discussion over the last year because of the responses to the questions a year ago.

So how did you change the questions?

AC A question I ditched was: *"Do you believe there are any roles in particular that are exposed to ethical or other breach of our code of ethics risks?"* I thought: Hang on, we know there are roles that are more exposed than others – like sales and procurement. In terms of making the questionnaire short that went, and we don't put in a question that just allows them to say yes or no. We try to turn it round so they have to give an example.

That then helps you Yvonne.

YT It does, yes.

So Yvonne, you don't suggest the solution. You just say this isn't working.

YT Alyson knows the line here. [Both laugh]

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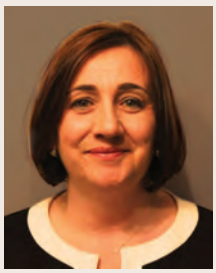
Interview 5

NEC Group

Marina McQuade,
Head of Risk Assurance and Internal Audit


Marina McQuade

Headquartered in Birmingham NEC Group owns and operates exhibition and conference centres and operates an external catering division. It was bought in January 2015 by LDC, the private equity arm of Lloyds Banking Group from Birmingham City Council. This interview was conducted before the purchase and reflects the situation prevailing at the time. Marina McQuade also chairs the Audit Committee of the South Staffordshire and Shropshire Mental Health Trust.

Main points:

- Looking at culture helps show when the control environment is not effective. It helps establish internal audit's view of risk.
- Indicators of culture can be measured quantitatively by looking at behaviour, for example whether people deliver promised work on time.
- By picking up the right issues, internal audit can be an important agent of change.

How does culture fit into the audit agenda?

Culture fits in across the entire agenda. We haven't specifically done a culture audit. I think we would find that quite hard because culture is so subjective, but we are assessing culture all the time through our internal audit work. Recently we have started to record small incidents that give indicators of cultural issues or that could impact on culture. An example is where we came across something wrong that should have been challenged. This incident was minor but the challenge hadn't happened because that individual did not feel empowered. Another example might be failure to escalate an issue.

These incidents are not necessarily an indication of culture, but each one does give us a picture of how managers are prioritising their agreed audit actions, how well they are operating within the control environment, the things they need to do to improve that control environment. We record that on our cultural indications document, and at the end of the year, when we're starting to plan our next year's audit, we use that information for planning our programme.

> *We're not just listening to anecdotes and writing them down. We are also recording evidences of weaknesses as we come across them.*

The Institute of Internal Auditor's Standards require us to establish a risk-based plan to determine the priorities of the internal audit activity. I have a very particular matrix. It uses culture as a factor for assessing the amount of audit risk there is in a particular area of the organisation. When we do the analysis, we break the organisation down into its constituent parts. At the NEC we have currently identified 270 processes, functions and areas which you can audit. We look at each of those in terms of a number of quantitative and qualitative factors. Culture is one of the more qualitative factors and we use the information we have gathered throughout the year to record heightened risk from weak culture on the analysis.

Are these 270 specifically culture questions or culture-related like whistleblowing?

The 270 parts are the systems, functions, processes and initiatives of the organisation. We look at each of those against a number of risk indicators, and one of the factors would be culture. We use quantitative factors to assess risk, such as size and span of control i.e. how many direct reports a manager has and so on. We use qualitative factors, such as the audit history, stability and complexity of the area i.e. what their labour turnover is, their sickness absence, and so on, in addition to the cultural indicators picked up throughout the year. There are all sorts of indicators of change and turmoil that can impact on the control environment. Culture is simply one further element that can impact on a control environment. The culture assessment could include whistleblowing or the HR values framework, which of course is also cultural.

So you're using culture as a tool to assess the controls rather than auditing the culture itself?

Yes. It relates to the amount of audit risk. If there are cultural issues in a given department, it can mean controls are overridden, and that improvements to the control environment are not happening.

But doesn't that lead eventually to a point where you have audited culture? Isn't this a way into that process?

Maybe. We're not just listening to anecdotes and writing them down. We are also recording evidences of weaknesses as we come across them. And sometimes that does start with an off-the-cuff comment from an individual, but we would then go and check that out and record as well as escalating it, if we feel it needs escalating at that point. But otherwise we would also be recording it as an incident for use in our assessment of risk in order to provide some rationale behind the audits that we then carry out in full.

How far are incentives used as an indicator of culture, for example how people are remunerated to generate sales?

We have just done a series of audits around sales and commercial policy. We looked at how the sales teams are incentivised and how that impacts on behaviours in the sales process. In the same way, we do a specific piece of work around the year-end on the executive bonus. So you cover off culture in terms of behaviours in different ways across the organisation.

In another organisation where I was head of audit and loss prevention, sales managers were only bonused on sales. But actually their stock and cash losses were quite big. If the sales manager is bonused purely on sales targets and is not getting bonused on profit or stock-loss, then you end up with the wrong kind of incentive and the wrong behaviour and the wrong culture.

If the sales manager is bonused purely on sales targets and is not getting bonused on profit or stock-loss, then you end up with the wrong kind of incentive and the wrong behaviour and the wrong culture.

Yes but supposing the executives or the board want to incentivise sales then you can't interfere.

No, but you can raise it with the executive board and you can expose the risks involved, and you can expose the amount of loss that is occurring as a result of incentivising on sales. We can then encourage management to change that by providing the evidence to show what the impact is on the organisation. So we can provide the evidence for change, and help to drive change by keeping on top of it, by keeping it on the agenda, making sure the change happens and closing the loops when action to change has actually occurred.

That's not because you say this is a wrong policy, but you can demonstrate that it's not working.

Yes. Or that it has an unintended consequence that nobody's particularly aware of.

What about the contrast between the public sector and the private sector. In the health service you're an audit committee chair. How do you approach this from the other side? I'm presuming that the NEC is more a commercial business.

I'm very fortunate because the Trust where I'm Audit Committee Chair is a foundation trust, so it has the ability to do more commercial type activity in terms of acquiring contracts elsewhere. South Staffordshire and Shropshire Mental Health Trust is quite successful from both a financial and corporate governance perspective. So I don't have some of the serious issues that some of the acute hospitals might be facing in terms of those cultural and operational and financial difficulties.

There's still a huge focus on targets and evidence, more so than in a commercial organisation.

Reams of it. We've just drafted five pages of targets that are driven principally by the requirements of the regulators and the Department of Health. But actually the ones that we want to pursue in order to achieve our objectives as an organisation are not necessarily the same. For example, we benchmark cost and activity across the different services we provide, but are developing measures which also compare outcomes across the different service areas. I think the challenge in the NHS is understanding which are the goals that you're pursuing as that publicly funded organisation for the benefit of those service users, that are different from all the regulated targets, and then in ensuring these are front and centre to what you measure.

> *Culture is something you would look at if you wanted to understand: are you a well-led organisation?*

But what about the question of culture? Aren't people more defensive?

Actually I have found there is a lot more self-assessment and scrutiny of you as a board running the organisation in terms of culture. Culture is something you would look at if you wanted to understand: are you a well-led organisation? Are we running this organisation in a way that means we are leading our people well? On the Trust board we recently looked at a series of questions that would indicate whether we are well led. From a culture perspective, it's all of those things we have talked about: the whistleblowing, do we engage our staff in feedback? And whether we engage our service users in feedback. Do we have a values framework? How confident are we that that is embedded?

We asked ourselves what would be the board's strengths, what would be the board's weaknesses and where's the evidence? Even where we're strong and we think we're strong, can we get that evidence? Actually in the NHS and in the public sector, I think there is more self-examination. There's certainly more scrutiny, but there's also more time given to developing the board, to running the board, to assessing yourself as a board.

But isn't the NHS pre-occupied with preserving itself. That contaminates the process doesn't it?

I guess it could be when it goes into crisis mode. No organisation would be any different to that. What was interesting for me was that when Sir Robert Francis did his Mid-Staffs enquiry, there were some quite interesting things about the board where the targets, the mortality rates that were being presented in Mid-Staffs, were extremely high and his criticism was that the board spent a long time debating whether the data was correct and not in taking action to address those higher than expected mortality rates and targets which had not been achieved.

But they've got to be sure that it's correct.

They do, but eventually. You can't debate whether the data you are looking at is correct endlessly. You have to start believing that you've got to really have a look under it and do something about it. You can examine whether we *know* everything about a situation. But I think that the reality is that when a crisis happens, people do at some level know what is wrong or that something has been wrong – people have sometimes always known there is an issue or problematic matter internally within an organisation. They therefore know what the lessons are, they know what they should be doing. The point is that you need to take action to do something about it and not just talk about the fact that the issue exists.

...the reality is that when a crisis happens, people do at some level know what is wrong or that something has been wrong...

6

Interview 6

John Lewis Partnership

Baroness Sarah Hogg,
Chairman, Audit Committee

Baroness Sarah Hogg

The John Lewis Partnership is a leading UK retailer with total sales of £10.9bn in 2014. It is owned by its 93,800 employees, who are known as partners. It describes its ultimate purpose as the happiness of all its members through their worthwhile and satisfying employment in a successful business. This structure gives it a strong culture, but also creates a different set of governance challenges compared with conventional companies.

Main points:

- Paradoxically when the culture is strong, and everybody helps each other, pinning down accountability and responsibility may be harder, and internal audit can help with that.
- Internal audit has to tread a fine line between policing controls and becoming a management consultant. Too much of the first means it will lack influence and authority, too much of the latter and it could become soft because it will be providing consultancy to divisions it is trying to audit.
- A strong industry culture means bad practices can be imported from outside. Internal audit has to watch for that.
- It can be good for internal auditors to be seconded for a period from within the business, but the process has to be carefully managed.

What do you see as culture and what is the role of internal audit in assuring it?

What I see as culture is coloured very much by the John Lewis history and experience. This is an organisation where the culture is so strong that it's driving absolutely everything else. In some ways, the role in developing internal audit at John Lewis has been not so much to assess culture or detect culture as to act as a counterbalance, as it were, to take a culture where the assumption is that everyone wants to do the right thing, and to say, yes, but we're also now an organisation of the scale and complexity where we also need to have the kind of controls that are commonly in place in large corporates.

Elsewhere internal audit may be out there trying to discover what culture is. In this case, it's pretty clear what it is, but you need belt and braces in modern organisations. That's to say it's a very good culture, a very cooperative culture, a very team-based culture, a very supportive culture.

So, it's not a blame culture. But is it too much not a blame culture? Is everybody always clear where the lines of responsibility and accountability run? The journey the Audit Committee has been on has been pinning these down.

Does this mean that internal audit is more traditionally focused?

When something happens, the role of internal audit is to try and pin down the lines of accountability and responsibility. Is that looking at culture? Yes, it is in the sense that in the historic John Lewis culture, lines of accountability and responsibility didn't really matter. So when you want to pin down who's accountable, that became really quite difficult. The system doesn't do that naturally, and the controls-based approach will pinpoint these.

But internal audit is on quite a journey. It has a new head, who is very much raising our game and aspirations.

Where did she come from?

She's been within the organisation with lots of outside, Big Four experience. I think she is going to be very good doing what I found the most difficult trick for a head of audit to bring off. This is to make internal audit tread the line between being the hostile invader and the management consultant, neither of which is the right place for it to be. I've been on the board of organisations where internal audit has simply become a management consultant operation and therefore the people they're looking at are their clients. That's soft.

> *"...the most difficult trick for a head of audit to bring off... is to make internal audit tread the line between being the hostile invader and the management consultant..."*

Do you mean like a trusted adviser of the board and management? Is that a problem?

It is a very fine line. The consultant thing, when I've seen it and it's gone too far is actually not management consultant to the board and the audit committee, but to the divisions, the parts of the business that it's looking at. I have seen organisations where it is literally the case that the institution sees internal audit as a kind of internal management consultant. Then, if you're not careful, very quickly it only comes in when it's invited.

On the other hand, if every part of the organisation sees internal audit as a totally useless policeman, then they won't engage as effectively. Some organisations start from too far this end. Some start from too far that end. You're always watching both ways. I've watched them go through cycles. They say internal audit has got too aggressive, nothing's happening that's any use. We have to make them much more user friendly ... and then whoops! You're over the other end, and internal audit isn't exactly doing its job.

What sort of skills do internal auditors need to tread this path successfully?

I very much like a situation where it's not a totally separate career path, but they come in to internal audit for a few years. There are various challenges about that. One is you need to be sufficiently well staffed within internal audit and if it's a constant revolving door, you probably haven't got people for long enough. On the other hand, if they don't feel this is a way up, you will get people who are too separate from the concept of the business, and you may not get the best people. They think it's a dead end. So I like to have people in internal audit who see themselves going on to do something different.

To come back to the cultural question. What are you asking internal audit to do? You're asking them both to detect where they think culture is weak, and possibly to detect where it's too strong.

Meaning?

Well, let's take retailing just as an example. You're always having to watch for purchasers not slipping into the kind of behaviours that either might get you into trouble with the regulators or might get you into rebate trouble [4], or those sort of issues. So, internal audit needs to pick up behaviours that maybe have slipped in from the industry generally.

> *...internal audit needs to pick up behaviours that maybe have slipped in from the industry generally.*

Let's take another industry, for example. If you take oil and gas, what is the cultural industry weakness? Well, probably oil and gas has a kind of frontier mentality, so you always have to be watching that that isn't interfering with the very disciplined approach that needs to be taken to physical risk management.

So when you talk about the interplay with culture, you immediately ask whether there is a good enough culture, but you may be looking at bits that are too strong as well as too weak. What are the normal patterns of behaviour in an industry? If you were to think about pharmaceuticals for example, you would be watching out for the culture of giving doctors nice little holidays to take your drugs.

But all these excesses are indications of a bad culture aren't they? It's a strong culture, but it's a bad one.

Absolutely. You're looking out for industrial culture that has to be kept in check. Industry culture can be very strong.

[4] See discussions around Tesco's relationship with its suppliers, cf Financial Times, 22 September 2014, Q&A: What went wrong at Tesco?

But coming back to retailing, how can you do this? What are the indicators you're looking at with the internal auditor?

Well, I think with an organisation like John Lewis, you're always starting from a position where it is true that the culture is 'we do the right thing', so the role of internal audit in checking controls is to jog arms a bit and say: yes but if you aren't operating fully in line with the controls, if we've picked up the fact that you're not documenting this properly or whatever, you are at risk of cutting corners.

There are organisations where they are documenting everything in sight but their culture is alien to that, so in a sense they are more willing to do all the documentation, whereas with John Lewis, it's absolutely the other way. You say: *"you haven't documented that"* and they say: *"but we're doing it right you know, we look after our customers."* There you have to have a different sort of conversation which is that it's not that we're disbelieving you, but we need the evidence that you are doing what you say. That's quite difficult in a culture where people expect to be trusted.

So unless you do have it documented, you won't uncover the exceptional cases where people aren't doing it right?

Exactly. You can't be sure every one of 90,000 people will always want to do the right thing.

And the one or two who don't can always do huge damage.

Huge. The other thing is it will probably, or may not even be deliberate.

Is internal audit looking at what happened or why? Isn't why more important?

The two why's that you should always look at are industry culture and incentives, because it probably goes back to one or the other.

The two why's that you should always look at are industry culture and incentives, because it probably goes back to one or the other.

That's where the vulnerabilities are, though the incentive risk must be less under John Lewis's partnership structure. But what about IT? Is that another vulnerability and does it have a cultural aspect?

IT controls are hugely difficult in a very fast developing business where on-line systems for everything from final sales to stock management are having to change all the time and where all businesses more than five minutes in age are constantly struggling with the weaknesses they have with legacy systems. That has really come home to me enormously.

There is an interplay with culture. If you have a very strong culture, which means if something goes wrong you put it right and carry on, and you put it right for the customer which is absolutely deep in the culture, what that doesn't do is solve your legacy system problem because it means you're used to overcoming problems in your system to deliver and not getting the organisation to understand quite how much needs to be done to take out the risk associated with legacy systems. It's by no means unique this. Any retail business I know which is more than five minutes old suffers terrifyingly from this.

There are also some big accountability issues with the management of data.

We've been spending a lot of time on that, because the other feature of John Lewis is that you've got two very strong divisions, so most of these responsibilities are held within the divisions. We have risk committees at the divisional level now and those risk committee minutes are very important to the audit committee at group level. Not to take the responsibility away from the division, but to ensure that the assurance process works at divisional level.

The head of internal audit now sits in on those committees. She is well-received there. That's another cultural issue, because you've got a culture of two very strong divisions which have served John Lewis extremely well but create challenges for putting in place an appropriate partnership-wide assurance process. Tying these issues up and dealing with the culture of separate divisions and saying we're not trying to take these processes away from you, but we do need the assurance that they are being executed properly.

Are we in danger of expecting too much from internal audit in extending their remit to culture? Will we revert to the old way of doing things after a year or two?

The issue doesn't arise in quite the same way as in many other organisations, but everybody has to be wary and leaving this entirely to internal audit would be wrong. This is why I slightly worry about getting internal audit to do culture. It sounds to me like someone passing on their job. My worry about the culture of a place like John Lewis is the tendency to say we're unique. You don't understand. We're different. You always have to watch that.

Conclusion

One of the main threads running through all these interviews is the sense that culture is important. Even if it cannot be measured precisely, it pays to look at the way culture within the firm affects the things that are being measured. Also some indicators are a good pointer to whether or not a healthy culture exists, even though these are not necessarily indicators that relate to obvious ethical issues. An example may be simply the approach a business unit has to filing reports on key issues. Habitual lateness indicates a cultural weakness which may have spread more generally.

> *It would be wrong for internal audit …to turn their back on culture in the belief that it cannot be measured.*

For companies considering how to develop their own approach, this is encouraging news. It would be wrong for internal audit in such companies to turn their back on culture in the belief that it cannot be measured. It would be right for the boards of such companies to encourage auditors to ask questions about the impact of culture on everything that they do measure. The key question for them to consider is why something has happened, not just to establish what has happened. By asking why, it is possible to get at the root cause and correct it. This is much better than imposing an additional layer of process around a problem issue, which is often little more than sticking plaster palliative.

> *It would be right for the boards …to encourage auditors to ask questions about the impact of culture on everything that they do measure.*

None of this will work, however, without a strong commitment from the board and senior management. Only the corporate leadership can determine the values the firm should have and take responsibility for embedding them throughout the organisation. Internal auditors cannot set culture. They can only start to look at culture if the leadership has been clear what it wants and communicated this throughout the business.

Rebuilding trust in business means that companies should aspire to a strong and positive culture. Some might argue that the work of internal auditors could move beyond the task of merely exposing cultural weakness and failure, and more into exposing situations where values are strong and culture is working well. That would take internal audit way beyond its role as a key line of defence, however, and may be a step too far for the time being. Yet internal audit can still provide valuable support for a leadership which wants to develop a positive culture and this should add to its sense of purpose.

When internal auditors do become involved in culture they need the right support of both board and top management. They cannot do their job properly if the top management sees them as purely the agent of independent board members. Yet they also need a mandate from the board, most usually in the form of a reporting line and a close working relationship with the audit committee chair.

The latter has a very important role to play in encouraging and supporting the work of internal audit. Audit committee chairs need to be firm in their commitment to using internal audit to examine culture and be willing to listen to concerns expressed by internal audit even when these are based rather more on gut feel than on documented evidence. It is clear from the interviews that a relationship of trust can build up quite quickly. Internal auditors need to base the bulk of their work on evidence, but they also develop some intimate knowledge of how their company operates and their opinions will reflect this.

Internal auditors need to base the bulk of their work on evidence, but they also develop some intimate knowledge of how their company operates and their opinions will reflect this.

The challenge for internal auditors is not necessarily to say whether the whole company has a bad culture, but more to say whether the culture that exists is actually the one to which the board and management aspire.

Besides, a bad culture is not difficult to spot. The more difficult task – and one which yields potentially valuable benefits – is to seek out on behalf of the board and management the pockets where for one reason or another the culture of individual business units may be flawed. This will not be obvious to most directors or even to top management. The simple truth is that companies can contain a lot of different cultures, especially if they have grown by acquisition. Pockets of weakness can turn out to be very destructive. After all not many bankers work on Libor, but the damage caused by a weak culture among the few has been enormous.

It is not just the constant risk of a poor culture being imported from competitors elsewhere in the sector.

Paradoxically, the experience of John Lewis suggests that a strong internal culture does not obviate the need for controls. It is not just the constant risk of a poor culture being imported from competitors elsewhere in the sector, something that affects many industries and is easy to overlook. In an organisation with a very strong sense of common purpose and team ethic, it can become impossible to assign responsibility on the occasions where things do go wrong. An effective control system is needed for this, a conclusion which tends to confirm an important natural connection between internal audit and culture.

One other conclusion from the interviews is that internal auditors do not and should not work alone. Admittedly there has to be a balance. They should not appear as mere policemen. Yet equally, if they assume more of a consultancy role, there is a risk that they will lose their objective investigative status. Admittedly, being an internal auditor can therefore be a lonely job at times. On the other hand, they can receive valuable help and support from others within the organisation, such as ethics and compliance officers and HR.

With the right framework, the right support, these collaborations can work and internal auditors can be important agents for positive change. The bottom line is that culture matters to a company's success, and internal auditors have a large contribution to make in helping companies build a strong culture. They need diplomatic skills and the ability to make judgements which command trust at senior level. Some may need to learn these skills, but good ones have them already. Companies that put them to use and encourage them to innovate will be better for it.

Appendix 1
Interviewee Biographies

Mike Ashley, Non-Executive Director, Chairman, Board Audit Committee, Barclays Bank PLC

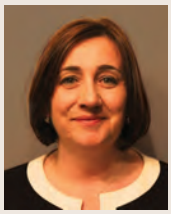
Mike has deep knowledge of auditing and associated regulatory issues, having worked at KPMG for over 20 years, where he was a partner. He was the lead engagement partner on the audits of large financial services groups including HSBC, Standard Chartered and the Bank of England. Whilst at KPMG, Mike was Head of Quality and Risk Management for KPMG Europe LLP, responsible for the management of professional risks and quality control. He also held the role of KPMG UK's Ethics Partner. Other current appointments include ICAEW Ethics Standards Committee; HM Treasury's Audit Committee; European Financial Reporting Advisory Group's Technical Expert Group; Chairman, Government Internal Audit Agency; Chair of the Audit and Risk Committee, Charity Commission.

Alyson Corrigan, Global Director Ethics & General Counsel EMEAA, Tate & Lyle PLC

Alyson joined the Tate & Lyle in-house legal team in 1994 from law firm Linklaters, doubling the team's numbers in the UK. She and the General Counsel Americas jointly manage the legal team globally. Appointed as Global Director, Ethics in 2012, she finds the joint role is effective for a company the size of Tate & Lyle and that deep knowledge of the business is essential. Over the last ten years as a result of Tate & Lyle's growth strategy much of her time has been spent supporting her clients within the Asia Pacific region on M&A and commercial matters.

Baroness Sarah Hogg, Chairman, Audit Committee, John Lewis Partnership

Sarah has worked at the highest level in media, government and business. She is currently Chairman of the Audit Committee at the John Lewis Partnership and Lead Independent Director at HM Treasury. She is a Non-Executive Director of BG Group, a National Director of The Times, a Member of the Takeover Panel, and a Trustee of the Queen Elizabeth Diamond Jubilee Trust and the Historic Lincoln Trust. She was Chairman of the Financial Reporting Council from 2010 to 2014, of Frontier Economics 1999 to 2013 and of 3i Group 2002 to 2010 – making her the first woman ever to chair a FTSE 100 company. She was Head of the Prime Minister's Policy Unit from 1990 to 1995. Before that she was Economics Editor of a number of different publications including The Economist, The Times and the Daily Telegraph. She was involved in the start-up of Channel 4 News and The Independent newspaper, and Non-Executive of a number of different companies including Carnival, P&O, GKN and Cadbury. She was made a Life Peer in the 1995 New Year's Honours List.



Marina McQuade, formerly Head of Risk Assurance and Internal Audit, NEC Group

Marina is a Chartered Accountant and Chartered Internal Auditor with experience in senior management roles in both the public and private sectors. Appointed to the NEC Group in March 2014 as their Head of Risk Assurance and Internal Audit, Marina additionally serves as a Non-Executive Director for the South Staffordshire and Shropshire NHS Mental Health Trust. Amongst other activities at the Trust, Marina chairs the Audit Committee and the Finance & Performance Committee as well as chairing Mental Health Act Appeal Hearings. She was previously at the Office of Fair Trading (OFT) for 5 years as Head of Internal Audit. In 2014 she won the OFT's Merit award for leading a new and innovative group audit service for Regulators and Non-Ministerial Departments in Central Government; and for making an outstanding contribution to internal audit services on behalf of the OFT, as one of only 11 Group Chief Internal Auditors in the Civil Service. Before this Marina worked in the field of finance and audit in both the retail and logistics sectors; and in public practice chartered accountancy.

Pedro Montoya, Group Ethics and Compliance Officer, Airbus Group

Pedro was appointed Group Chief Compliance Officer by the Airbus Group Board of Directors in October 2008. Under authority of the Board's Audit Committee, he set up the Corporate Compliance Office. Reporting to the Group CEO, he leads the Airbus Group Ethics & Compliance Programme with 190 full time employees. Pedro graduated in Madrid from the Universidad Complutense with a Master in Law by the Instituto de Empresa. He started his career in 1986 in Procter & Gamble, joined the Spanish Aerospace Group CASA in 1990 as General Counsel and Company Secretary. He actively contributed in drafting and implementing the Common Industry Standards for the European Aerospace Association ASD members. He is Chairman of IFBEC, a non-profit organisation enforcing the Business Ethics Global Principles for the Aerospace and Defence Industry under the support of the US AIA and ASD. These Principles are significant for authorities and other stakeholders as a model of industry initiative developing global business ethics standards. A frequent speaker at conferences and business schools, he represents Airbus Group and the Aerospace Industry in international compliance initiatives and promotes business integrity worldwide, including in the UN Global Compact and OECD discussions with civil society.

Scott Strachan, Global Head of Internal Audit, Aberdeen Asset Management

Scott is Global Head of Internal Audit, responsible for providing an independent control appraisal function for the Aberdeen Asset Management group (Aberdeen). Scott joined Aberdeen in 1999 from PricewaterhouseCoopers where he was audit manager within the Scottish public sector internal audit group. Scott graduated with a BA in Accounting from the University of Abertay, Dundee and qualified with the Institute of Chartered Accountants in Scotland in 1993. Earlier this year Scott attained the IIA advanced diploma CMIIA qualification.

Yvonne Tabron, Head of Audit, Tate & Lyle PLC

Yvonne joined Tate & Lyle as Vice President Group Audit and Assurance in September 2010 after a long career at Tesco plc. Her role is to provide assurance to the Audit Committee that the company's internal control processes are working, as well as providing independent assurance to the CR Committee. Amongst other activities, Yvonne is Chair of the Tate & Lyle Diversity Committee, a Chartered Accountant and a graduate of Manchester University.

Grazia Vittadini, Head of Corporate Audit and Forensic, Airbus Group

Grazia holds a Degree from the Politecnico di Milano as Doctor in Aeronautical Engineering for Aerodynamics (1998). After starting her career on the Italian side of the Eurofighter Consortium, she set herself on a path to senior management in Germany, landing at Airbus Operations in 2002. Always leading transnational teams in multiple locations, she served as Chief Engineer on the Wing High Lift Devices of the A380 in Bremen from First Flight to In-Service (2005-2009) and then contributed to securing First Flight and Type Certification of the A350 XWB aircraft as Head of Major Structural Tests in Hamburg. After a spell as VP Head of Airframe Design and Technical Authority for all Airbus aircraft, in 2014 she joined the Airbus Group Headquarters in Toulouse as SVP Head of Corporate Audit & Forensic, responsible for worldwide assurance activities across all Airbus Group divisions (Airbus, Airbus Defence and Space, Airbus Helicopters).

Appendix 2
The *Three Lines of Defence* Model for the Management of Risk

To ensure the effectiveness of an organisation's framework for managing risk, the board and senior management need to be able to rely on effective line functions – including monitoring and assurance functions – within the organisation. The IIA and the Institute of Directors endorse the 'Three Lines of Defence' model as a valuable way of explaining the relationship between these functions and as a guide to how responsibilities can be effectively divided: first line operational management controls, second line the monitoring of controls and third line independent assurance, above all by internal audit.

The first line of defence, operational management, has ownership, responsibility and accountability for directly assessing, controlling and mitigating risks. The second line of defence covers several components of internal governance (compliance, risk management, quality IT and other control departments). These monitor and facilitate the implementation of effective risk management practices by operational management, and assist senior executives accountable for managing risk in reporting adequate risk related information up and down the organisation. Internal audit forms the organisation's third line of defence.

An independent internal audit function will, through a risk-based approach to its work, provide assurance to the board and senior management on how effectively the organisation assesses and manages its risks, including assurance on the effectiveness of the first and second lines of defence. It encompasses all elements of an institution's risk management framework (from risk identification, risk assessment and response, to communication of risk-related information) and all categories of organisational objectives: strategic, ethical, operational, reporting and compliance.

The use of the three lines of defence in an organisation's risk management model should not be regarded as an automatic guarantee of success. All three lines need to work effectively with each other and with the audit committee in order to create the conditions for sound risk management.

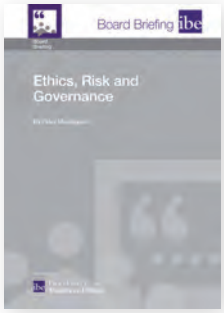
In some organisations the role of internal audit is combined with elements from the first two lines of defence. For example some internal audit functions are asked to play a part in facilitating risk management. Where that happens, boards need to be aware of potential conflicts of interest and ensure they take measures to safeguard the objectivity of internal audit.

(Source: IIA)

Related IBE Publications

IBE publications provide thought leadership and practical guidance to those involved in developing and promoting business ethics, including senior business people, corporate governance professionals and ethics and compliance practitioners.

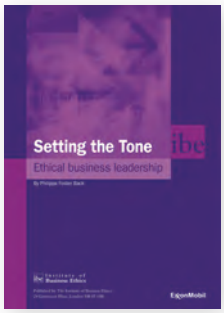
Some recent publications related to this topic which you might be interested in include:



Board Briefing: Ethics, Risk and Governance

Peter Montagnon

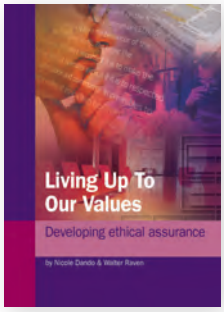
Setting the right values and culture is integral to a company's success and its ability to generate value over the longer term. The challenge for business is how to develop and embed real values. This requires leadership and is a core task for boards. Many boards acknowledge the importance of a healthy corporate culture, both because of the role this plays in mitigating risk and because of the value to their franchise of a sound reputation. This IBE Board Briefing sets out why directors need to be actively involved in setting and maintaining a company's ethical values and suggests some ways to approach it. It aims to help directors define their contribution to the maintenance of sound values and culture.



Setting the Tone: ethical business leadership

Philippa Foster Back CBE

Leadership is essential to business ethics, as ethical qualities are essential to good leadership. This IBE Report demonstrates that business leaders should consider ethical competence as a core part of their business acumen and provides guidance to those wishing to build a culture of trust and accountability and strengthen the ethical aspirations of their organisation. It includes interviews with business leaders offering practical insights into ethical leadership issues.



Living Up To Our Values: developing ethical assurance

Nicole Dando & Walter Raven

How can boards be confident that their organisation is living up to its ethical values and commitments? This IBE Report provides a practical framework for approaching the assurance of ethical performance against an organisation's own code of ethics. It is addressed to those at board level overseeing assurance that ethical values are embedded, that commitments are being met and management processes are effective. It will assist assurance professionals seeking to broaden their understanding of non-financial issues and is intended as an aid to the development of good practice.

Other IBE Resources

Investing in Integrity Chartermark

How does your corporate integrity measure up?

The IBE has developed a chartermark in association with the Chartered Institute of Securities and Investment (CISI) to help businesses and organisations know if their ethics programme is embedded throughout their organisation.

The **Investing in Integrity** (iii) Chartermark gives an assurance of trustworthiness to clients, customers, investors and other stakeholders doing business with the organisation. The real strength of the iii framework is that it tests an organisation's ethical conduct against its statements of values to ensure those values are properly embedded. It can help them identify whether or not the company is truly living up to its values, from the boardroom to the shop floor.

The testing uses a self assessment management questionnaire and third party audit by iii partner, **GoodCorporation**, whose methodology has been adapted for the iii Chartermark.

To find out more visit **www.investinginintegrity.org.uk**

Say No Toolkit

The IBE Say No Toolkit is a decision making tool to help organisations encourage employees to make the right decision in difficult situations. The Say No Toolkit delivers immediate guidance to employees on a wide range of common business issues, especially those that could lead to accusations of bribery.

Employees tap through a series of questions about the situation they face and the tool will provide the right decision to take: Say No, Say Yes or Ask. The answer also makes it clear why it is important to make that decision so your employees can have the confidence and the knowledge to respond correctly.

Organisations can use both the IBE Say No Toolkit App and website for free. The App can be downloaded on to any smartphone or tablet. You can start using it for free now. Simply go to **www.saynotoolkit.net**

The Say No Toolkit can be customised and branded to suit your organisation's needs and detailed procedures. For more information email info@ibe.org.uk or call the IBE office on +44 20 7798 6040.

For details of all IBE publications and resources visit our website www.ibe.org.uk

Checking Culture
a new role for internal audit

The financial crisis and a series of scandals at non-financial companies have prompted regulators and investors to focus on culture as a significant risk to corporate health. Boards, too, are increasingly concerned to embed a sound corporate culture to protect and enhance their company's ability to generate sustainable value.

The corporate leadership team thus need to know whether the culture they have got is actually the one they want. Internal audit can help through its work on assurance. Yet this poses some big challenges for a profession that works by measuring things and where many practitioners believe that culture cannot be measured.

This IBE Board Briefing draws on the experience of those actually involved at senior level in six companies drawn from a wide range of sectors and sizes. Audit Committee chairs, heads of internal audit and heads of ethics and compliance recount in their own words how they have approached the challenge of checking culture.

The result is a publication which should be of practical help to others. There is still a long way to go before companies and internal auditors take on board the opportunities as well as the risks inherent in the way companies build and embed their culture. This Board Briefing shows, however, that much can and is being done.

ibe Institute of Business Ethics

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