

## PRESS RELEASE

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### Checking culture: a new role for internal audit

*“The Internal Audit function is increasingly seen by regulators and directors alike as a means of obtaining ethical assurance; but there are big challenges because culture cannot easily be measured,” says Peter Montagnon*

**15<sup>th</sup> July 2015:** A new Board Briefing, published today by the Institute of Business Ethics, sets out the role of internal audit in advising boards on whether a company is living up to its ethical values.

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 needs 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.

*Checking Culture: a new role for internal audit* draws on the experience of those actually involved at senior level in six companies representing 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.

This IBE Board Briefing features interviews with:

- Mike Ashley, Chairman, Board Audit Committee, Barclays Bank
- Scott Strachan, Global Head of Internal Audit, Aberdeen Asset Management
- Grazia Vittadini, Head of Corporate Audit and Forensic, Airbus
- Pedro Montoya, Group Ethics and Compliance Officer, Airbus
- Yvonne Tabron, Head of Audit, Tate & Lyle
- Alyson Corrigan, Director of Ethics, Tate & Lyle
- Marina McQuade, formerly Head of Risk and Internal Audit, NEC
- Baroness Sarah Hogg, Chairman, Audit Committee, John Lewis Partnership

(See notes for editors below for some sample quotes, or contact [k.bradshaw@ibe.org.uk](mailto:k.bradshaw@ibe.org.uk) for the full report).

Peter Montagnon, IBE’s Associate Director and author of the report, said: *“Culture and values matter to companies because they help determine how risky they are and how successful they will be in the long term. It therefore follows that boards need to know whether the culture they want is the one they have actually got.*

*This IBE Board Briefing opens up the debate and enables people to talk about what they are doing and what they have achieved and where the difficulties are, so the business community as a whole can benefit from their experience.”*

Philippa Foster Back CBE, IBE’s Director said: *“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 ethical culture. This IBE Board Briefing should be of practical help to others, as it shows that much can and is being done.”*

Kevin Hills EY Partner, Head of Integrity and Compliance in the UK & Ireland, said: *“Policymakers are increasingly focusing on the accountability of the board and senior management to both set a company’s desired culture and values, and assess that these are being delivered. 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. However, although we know it is possible measure culture, many struggle to measure or demonstrate the cultures they have.*

*“As set out in this paper, internal audit in partnership with other corporate functions, has an important part to play in helping boards and executive management to deliver on these responsibilities. But their role should go beyond just regulatory compliance. We firmly believe that organisations that address culture and values as a strategic business issue are more likely to be successful in the long term and have a better approach to risk.”* Dr Ian Peters, Chief Executive of the Chartered Institute of Internal Auditors said: *“The public is increasingly focused on how poor organisational culture has led to failures in the public and private sectors. Through a properly positioned, resourced and independent internal audit function 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 taken throughout the organisation.*

*This IBE Board Briefing is a valuable addition to the toolkit on auditing culture and complements the IIA’s own report [Culture and the role of internal audit – looking below the surface](#), published a year ago.”*

ENDS/

To obtain an advanced press copy of the report, or to organise interviews, please contact [k.bradshaw@ibe.org.uk](mailto:k.bradshaw@ibe.org.uk)

## EDITORS’ NOTES

### Checking Culture – a new role for internal audit: a board briefing

By Peter Montagnon

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Available from [www.ibe.org.uk](http://www.ibe.org.uk)

### Launch date and information

**The report will be launched on Wednesday 15th July at 6pm** at the EY Offices, 1 More London Riverside, London SE1 2AF.

The event will be chaired by **Anthony Hilton of The Evening Standard** newspaper.

Nick Land, Chair of Vodafone’s Audit & Risk Committee, who is also a member of the Board of the FRC and chairs the Codes & Standards Committee, will deliver a keynote address which will be followed by a panel discussion and drinks.

The panel will include John Sutherland, Senior Adviser to the Prudential Regulation Authority, Paul Boyle OBE, Chief Audit Officer of Aviva plc, Kevin Hills, Partner, Head of the Integrity and Compliance Practice, EY and Dr Ian Peters, CEO of the Chartered Institute of Internal Auditors.

Please email [events@ibe.org.uk](mailto:events@ibe.org.uk) if you would like to attend.

## Quotes

### Mike Ashley, Barclays Bank:

**On incentives:** “[S]ome 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 I 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.”

**On culture:** 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.

**On auditing culture:** [T]he 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.

**Pedro Montoya on bribery:** “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.”

**Marina McQuade on the NHS:** “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.”

“[...] 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?”

“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.”

“[...] 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.”

“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.”

**Baroness Hogg on industry culture:** “You’re asking [internal audit] both to detect where they think culture is weak, and possibly to detect where it’s too strong [...] So, internal audit needs to pick up behaviours that maybe have slipped in from the industry generally. [...] 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? ... You’re looking out for industrial culture that has to be kept in check. Industry culture can be very strong.”

**The Institute of Business Ethics** is a registered charity which promotes high standards of business practice based on ethical values.

We help organisations to strengthen their ethics culture through the sharing of knowledge and good practice.

[www.ibe.org.uk](http://www.ibe.org.uk)

### **The author: Peter Montagnon**

Peter Montagnon joined the IBE as 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, a member of the Corporate Governance Advisory Board of the Norges Bank Investment Management and of Board of the Hawkamah Institute for Corporate Governance, Dubai.

### **The IBE thanks the IIA and EY for their support of this project**

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.iaa.org.uk](http://www.iaa.org.uk).

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