



Global Knowledge Brief

Social/Human Capital/Culture

Part 2: A Culture Audit Roadmap



The Institute of
Internal Auditors

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About the Experts

Mary Ann Khalil, CIA, CRMA

Mary Ann Khalil has more than 20 years' experience in internal audit and risk assurance. Khalil is the founder of Knowbility Consultancy, a boutique consulting firm specializing in tailored governance solutions in Kuwait.

Robert Lamp

Robert Lamp is a senior client partner at Korn Ferry in Atlanta, serving as a core member of the Financial Officer Practice where he leads many of the firm's marquee chief audit executive search assignments. Lamp has been with the firm for 11 years.

Bryant Richards, CIA, CRMA, CMA

Bryant Richards is an associate professor of accounting and the director of the Center for Intelligent Process Automation at Nichols College in Dudley, Mass. Before joining the college, Richards spent more than 20 years in industry, mostly internal audit and compliance.



Introduction

Enhancing culture audits

Not so long ago, many people questioned the viability and value of auditing culture, but those attitudes have changed. Today, there is wide acceptance that internal audit can and should contribute to understanding the impact culture can have on everything from diversity to resilience and efficiency.

Internal auditors certainly recognize the risks related to culture concerns. In The IIA's [2024 North American Pulse of Internal Audit](#), 71% of audit leaders describe the risk level associated with governance and culture as moderate to high or very high. However, the survey also finds that only 3% of audit plans are allocated to governance and culture issues, the third lowest level of allocation, despite the importance of culture and its critical role in governance.

While progress has been made on culture audits, it appears many are not yet being done proactively. Robert Lamp, who leads many of Korn Ferry's CAE search assignments in Atlanta, says audit leaders he works with say culture audits are "more of a reactive process to put out a fire."

At the same time, essential buy-in from the CEO, board, or audit committee may still be hard to come by, and stakeholders may see culture audits as nice to have rather than a necessity. This brief will examine what internal auditors and their organizations have learned about culture and how internal audit can help enhance the effectiveness of culture audits going forward.

Audit Focus

The IIA Global Practice Guide on Auditing Culture defines organizational culture and the conduct that occurs within that culture this way:

"Culture represents the invisible belief systems, values, norms, and preferences of the individuals that form an organization. Conduct represents the tangible manifestation of culture through the actions, behaviors, and decisions of these individuals."



Understanding Culture

Culture-related Risks

Accepted practices and assumptions

Culture can impact an organization greatly. “Culture is one of the best indicators of future risk,” says Bryant Richards, associate professor of accounting and finance at Nichols College in Dudley, Mass. “Managing and monitoring culture can help organizations significantly minimize risk while appreciably improving future operations.”

Culture is embedded in the accepted practices and assumptions that affect decision making, especially when an organization faces uncertain circumstances. “These underlying beliefs are not in the organization’s procedures or policies or in its mission,” Richards says. “But they are the things that can trigger or prevent risks.”

Cultural norms shape employees’ attitudes toward risk, governance, communications, and accountability, says Mary Ann Khalil, managing partner of Knowbility Consultancy in Kuwait. For example, there can be culture-related risks in companies or functions that overvalue unwavering loyalty and trust, she notes, because this mindset may normalize turning a blind eye to problems. However, failure of oversight, at leadership levels or within a specific department, may make it easier for employees to commit fraud or engage in other unethical behavior. Other culture-related risks, Khalil notes, include:

- **Misalignment between values and practices.** Examples include overworking employees while emphasizing work-life balance, permitting ethical misconduct lapses, not linking rewards to results but still anticipating high performance, and offering employees rewards for aggressive targets, which can pressure them to cut corners and lead to compliance failures or fraud.
- **Accountability and trust issues.** Examples include blame-shifting, information hoarding, lack of cooperation/collaboration, consistent missed deadlines without consequences, deferring decisions to superiors or committees to dilute responsibility, and punishing employees for speaking up.
- **Inconsistencies in communication and decision-making.** Examples include important information not cascading down, across, or up the organization; different standards applied across the organization; and concentrated power.
- **Resistance to change and lack of innovation.** Examples include new initiatives consistently failing to gain acceptance, new ideas being shot down, and persistent risk aversion.
- **High turnover, stress, compliance issues.** Examples include excessive sick leave, burnout, turnover, compliance breaches, and customer complaints and a toxic or abusive work environment.

Organizations may fail to attract top executive talent because of these types of culture issues, Lamp says. Just as companies evaluate prospective hires, he has found that CAE candidates do their own due diligence about a company, including assessing not only its financial health, but also its culture.

In addition to considering what their instincts tell them about the company, prospective leaders may assess information from their own professional network, details on the organization’s reputation in the market, and insights from the audit committee and external audit partner. In addition, “increasingly, CAE candidates ask to meet with operations leaders to assess how receptive they are to audit and whether internal audit is seen as a partner,” he explains. If the candidate takes the job, initial impressions should shape how the CAE designs and approaches future culture audits.



Digging deeper

Even when organizations have embraced culture audits, Richards says many remain focused on cultural behavioral flags, with internal auditors attaching them to operational and compliance reviews. That can leave organizations without a thorough understanding of root causes and trends.

“We have all the tools already, we just haven’t necessarily had the framework to tie it all together,” he says. The recently released second edition of the IIA Global Practice Guide on [Auditing Culture](#), provides valuable guidance on how to go deeper, he adds. Among other items, it describes the role of internal auditing, lays out a step-by-step overview of planning and performing a culture audit engagement, and offers sample culture monitoring and reporting formats.

A framework provides internal audit with a roadmap to follow in determining where culture is having a positive or negative impact. With the practice guide as a starting point, internal audit can then work to understand a company’s unique framework. “Any organization that is serious about culture tends to have a culture leader,” Richards says, such as a chief culture officer or human resources vice president. Those leaders should be able to inform internal audits about the culture elements that are important to the organization. Internal auditors can use those elements to identify risks, as they would in any risk assessment.

Internal auditors will face challenges when organizations have not already examined or defined their cultures or developed a cultural framework like those used in process or operational reviews. That puts internal audit at an extreme disadvantage because, instead of reporting on culture based on the organization’s established standards or expectations, auditors may feel pressed to recommend those standards themselves, Richards explains.

In the absence of an existing internal framework, to understand an organization’s cultural mechanisms, internal audit typically will begin with the human resources process, including how people are hired or trained and how their performance is managed. “Every organization tends to have a significant amount of formality around those areas, and they have a huge impact,” according to Richards.

The next step is to examine what is shaping the cultural mechanisms but may not be immediately obvious. For example, he recommends exploring the steps that led up to a problem, including the fears or misunderstandings that might have driven it, and why those steps occurred. For additional insight, Richards points to *Organizational Culture and Leadership*, by Massachusetts Institute of Technology professor Edgar Schein, whose Iceberg Model divides culture into three layers: artifacts, espoused values, and underlying beliefs. Richards references the model in his article, [“Under the Surface”](#) in *Internal Auditor* magazine.



Establishing Internal Audit's Value

Educating Clients

Speak-up vs. closed cultures

Internal auditors are well-equipped to audit culture. “We actually know culture really well,” Richards says. “We sample events all the time.” Because of their extensive knowledge of the organization, internal auditors are aware of groups that have an overbearing leader or areas where people follow longstanding practices that no longer make sense. They know which ones have an inherently strong positive culture or excessive turnover.

Based on feedback from employees, internal auditors also can quantify facts such as how many workers report being apprehensive about bringing a boss bad news and gather similar information that can be compared to past data or company expectations (see “Documenting the Culture Audit”).

However, internal auditors also should be aware of how culture will affect the reaction to, or acceptance of, their own work. An open or speak-up culture values insights about potential problems or risks and welcomes the assurance and advice that internal audit can offer.

In a more closed culture, the internal audit team may be seen as a police force that exists to punish teams or individuals for their mistakes. At the same time, clients may not understand internal audit's ability to perform culture audits because they associate internal auditors with financial measures. Employees may fear retribution for reporting issues and clients also may not appreciate culture as a key driver of business outcomes.

As a result, “educating clients is fundamental in overcoming cultural barriers and resistance to culture audits,” Khalil says. At the beginning of her audits, she asks company leadership to attend open meetings with the group being audited to endorse internal audit and confirm there will be no retaliation. At these meetings, she also discusses the importance of a healthy culture and the consequences if there are cultural risks.



Documenting the Culture Audit

The IIA Global Practice Guide on [Auditing Culture](#) identifies documents that internal auditors may review in a culture audit:

- Any value statements (may be labeled mission or vision statements or contained within these documents) published by the organization. Many times, these are public and appear on the organization's website.
- Top-level, business-line level, and process-level strategies, objectives, and business plans.
- Risk appetite statements.
- Organization charts (high-level and business units) and related reporting lines.
- Roles, responsibilities, and accountabilities of control functions (for example, compliance, risk management) and senior management.
- Governance framework.
- Tone at the top and leadership communications with employees.
- Products/services approvals and selling processes.
- Risk-escalation protocols. Exceptions and management overrides.
- Codes of conduct/ethics, including policies and procedures on speaking up, nonretaliation, and treating customers fairly.
- Ethics hotline information and training materials.
- Results of culture-related training and testing programs (for example, sexual harassment, ethics, code of conduct).
- Employee survey results.
- Exit interview data.
- Board and relevant committee meeting minutes (for example, governance, risk, nomination and remuneration, and ethics committees).
- Management's risk and control self-assessments including management's action plans and their status.
- Relevant culture-related and risk management policies, including incentives and compensation policy, requirements, reports, and expectations.
- Recruitment, onboarding, performance management, retention, and exiting processes.
- Status of issues raised by internal auditors or other control functions, external service providers, and regulators considering repeated and long outstanding issues and root causes that may be related to culture.
- External auditor's report on the audited financial statements and letter of representation.





Conclusion

A cultural barometer

During the last decade, internal auditors have continued to advance their understanding of culture risk and the value of culture audits, but there is still work to be done. Twenty percent of organizations do not assess culture, according to AuditBoard's 2023 [Organizational Culture and Ethics](#) survey. At organizations that do, internal audit teams use root-cause analysis in individual audits (41%) and behavioral observation (40%), but few use more complex methods such as standalone audits of culture (10%) and audits against ethics and compliance federal sentencing guidelines (8%).

Internal audit functions in some industries or jurisdictions are required to assess and regularly report on their organization's culture and the effectiveness of conduct risk management activities, according to The IIA's practice guide. "However, even without regulatory guidance, internal auditors can add value by objectively assessing and reporting organizational culture and conduct risk management," it says.

Those organizations that are not regulated can make their own decisions about culture audit frequency. Based on the rapid pace of change, in an ideal future, more organizations will perform annual risk assessments on culture, Richards says. Companies also could create quarterly heat maps on how culture is faring in various areas. Because of internal audit's deep interaction with departments throughout the organization, "we are literally cultural barometers already," he says. "We can do this, and we can do it well."



About The IIA

The Institute of Internal Auditors (IIA) is a nonprofit international professional association that serves more than 245,000 global members and has awarded more than 195,000 Certified Internal Auditor (CIA) certifications worldwide. Established in 1941, The IIA is recognized throughout the world as the internal audit profession's leader in standards, certifications, education, research, and technical guidance. For more information, visit theiia.org.

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The Institute of
Internal Auditors

Global Headquarters

The Institute of Internal Auditors
1035 Greenwood Blvd., Suite 401
Lake Mary, FL 32746, USA
Phone: +1-407-937-1111
Fax: +1-407-937-1101