

SHOULD INTERNAL AUDIT ASSESS CORPORATE CULTURE?



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“I did not realise that Internal Audit is now auditing gossip?” This was the response from a CEO when a Head of Internal Audit I know mentioned that he wanted to assess the corporate culture of their organisation.

More so in our region, it is not unusual for management to still hold a view that Internal Audit should focus on financial numbers or processes. When it comes to areas such as strategy and governance, some executives are still doubtful about why this should be on Internal Audit’s radar, let alone “softer” areas such as culture.

As someone who is from this region, speaks the language, understands the culture and has been fortunate to live and work in three Gulf countries, and also to have lived and worked in Europe for many years, I can somewhat understand this uncertainty. It is because of “culture”!

One of the best (and simplest) definitions of culture is “it’s the way we do things over here”. Traditionally, Internal Audit was all about auditing the financial information and 9 out of 10 internal auditors were qualified accountants coming from external audit firms when Internal Audit started. The profession has evolved since then, in small but fast steps. What internal audit practices looked like when I

first started working, is (fortunately) nothing like what it is today. The practice continues to change. The popular expression “The only thing that is constant is change” holds true for our profession. The drivers of change have been rapid, but the actual change pace has been different across the world. In our region, I think the pace is reasonable, but we are starting from a lower base so it seems we are always trying to catch up. So the way we do Internal Audit here did not include auditing “culture”. This is why we are still having conversations on the lines of “Culture = Gossip”!

I have started my current position just over three years ago. The first year was the typical understand the company, build up the team, change processes, develop relationships etc. By the end of it, we had everything in order and even had it vetted by the global Institute of Internal Auditors. They undertook a quality review of us, and awarded us with the highest level of accreditation. We were the first listed UAE company to achieve this accolade. However, there was one thing that was always lingering through my mind though. As an auditor we tend to try to read between the lines; sometimes too much and can be in an endless search of root causes. You keep asking “But why” (like a three year old!) whenever you look at processes, numbers, systems, behaviours etc.; From things like why do my colleagues not return calls, why do they not accept the calendar invitation you send but expect you to show up, why do they answer their phone when it rings in the middle of a meeting, to more audit related matters such as why did management ignore this control, why did no one blow the whistle, why has this person not been fired, why is this policy or framework still not implemented and so on. We were always coming back to the same answer – “culture”.

We were also doing a Governance audit and found that culture underpins governance - as well as pretty much everything else in the organisation. You can have the best designed governance framework with all the checks and balances but the reality is that governance is largely people driven when it comes to implementing the framework and people are affected by the culture. They do say “Culture

eats Strategy for breakfast” and I would add “and everything else for lunch and dinner”. At that point we realised that we should be auditing culture.

I have started researching it, and whilst many internal audit teams globally have done some work around culture, and some of my colleagues and professional bodies have published papers on the subject, I was not convinced about the approaches taken. I felt the right balance between an assurance and a consultancy report had not been achieved. Most teams have been approaching it with a compliance lens and checking if boxes have been ticked (e.g. code of ethics is in place, values defined and communicated etc.). The remaining teams were largely basing their opinions on a survey they sent out to employees. I felt that we needed something more methodological yet allows you to exercise your professional judgment.

We knew the challenges we would face when auditing such a “soft” area for the first time. We also knew what skills we had in the team, and wanted to be true to ourselves and to our stakeholders; so we decided to engage a consultant to work with us on this. Our primary reasons were to have: 1) a subject matter expert to complement existing skills; 2) a robust methodology; 3) benchmarks so our findings and recommendations are practical and not text-book ideas. We went through a comprehensive tendering process and selected a consultant who offered the most diverse approach to satisfy us that the results will be methodological, yet based on evidence, benchmarks, professional judgment and expertise. We also looked at the people who could be in the project and if they would provide a fit with our organisation and with the objectives of the audit. The importance of this should not be underestimated and is often overlooked! As part of a culture audit you will interact with all levels of an organisation and will need to be a strong communicator, facilitator and not shy to challenge senior employees or deliver difficult messages in a constructive manner.

Throughout this period there was a large educational / awareness campaign to build up to the start of the audit. We had plenty of discussions with our Audit Committee and various

Management functions. We started raising the topic as a root cause to some of our top risks and as such needs to be assessed. We would bring it up whenever there is a relevant opportunity (e.g. in audit closing meetings if we see that the root cause of some issues was culture, we would have that conversation). This paid back and we had great support when it came to kicking off the audit. At no point was culture referred to as gossip or were we asked not to do it!

Because culture is not a process, per se, you need to think about where you start and end, and also about your criteria of evaluation. We were fortunate that, as an organisation, we had our values and behaviours defined. We decided to focus on assessing how far we are from living those values and behaviours. We also looked into whether these were adequate for us and if our policies and frameworks were in sync.; for example, we checked if our policies truly enable “Innovation” as one of our values.

We had a very diversified approach which included document reviews, interviewing senior leadership, running an employees’ survey and holding focus groups.

The audit went very well and resulted in many pleasant surprises for us, such as:

1. Engagement of the senior leadership team as not witnessed in any previous audit. Everyone wanted to speak to us about culture!
2. Everyone we spoke to was so candid, which helped us learn what we are good at and where we need to improve as an organisation.
3. One of the most satisfying feelings for an Auditor (I know we can be weird!) is to see that spark in our client’s eyes when you are presenting the results of your work, because you have given them insight or ideas on how to solve one of their biggest problems. We had that! This was then followed by the CEO deciding to discuss the results with the Chairman the following day!

So, should Internal Audit assess “Culture”? Absolutely! Yes it is not a process per se, but it is also not a ghost running throughout the organisation. It underpins many internal control components particularly the Control Environment areas under frameworks such as COSO. In fact, I would say in today’s world you cannot conclude on the effectiveness of the entire Internal Controls system of an organisation without looking at culture. As a CEO or an Audit Committee member, you should be demanding an opinion over culture if your Internal Audit team is not covering it.

My advice to anyone embarking on this is:

1. Education and communication – start early and do not give up.
2. Subject Matter Experts and benchmarks – involve experts for their knowledge, methodology and benchmarks.
3. Tailor the approach to your environment and build on what is in place – there is no one size fit all.

Happy auditing!