

Internal Audit Information series

Behavioural Assurance

March 2021



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- 01 How is culture defined?
- 02 Recent regulatory and market guidance on culture
- 03 Our point of view
- 04 The role of Internal Audit
- 05 What are Internal Audit functions doing?
- 06 What do you need to do?
- 07 Q&A



Introductions



**Rahul
Verma**
Partner



**Katy
Waterhouse**
Director



**Laura
Cumiskey**
Manager



1

How is culture defined?

What do we mean by culture?

“

Culture can be described as ...a system of **shared values** (that define what is important) **and norms that define appropriate attitudes and behaviours** (how to feel and behave).

“

Culture is the way we do things around here”

Drennan (1992)

“

Culture is the glue that binds individuals to an institution; it creates a consistent framework for behaviours and business practices”

G30, Banking Conduct and Culture: A Call for Sustained and Comprehensive Reform (2015)

“

Culture is often likened to personality – an engrained mindset, values and beliefs which are difficult to change.”

Sandhya Johnson

“

Risk culture can be thought of as the impact of organisational culture on risk management... Risk culture is the application of this concept to the way an organisation takes and manages risk. Risk culture is therefore not separate to organisational culture, but reflects the influence of organisational culture on how risks are managed”.

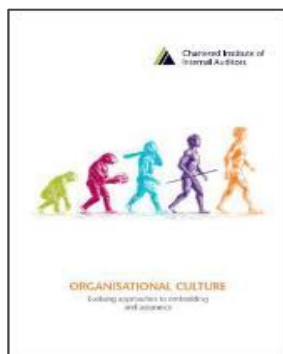
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Recent regulatory and market guidance on culture

Recent regulatory and market guidance on culture

IIA UK

Culture: Evolving approaches to embedding and assurance (July '16)



<https://www.iaa.org.uk/media/1591840/FINAL-0885-Culture-report-17-5-16-v4.pdf>

APRA

Information Paper: Risk Culture (October '16)



<http://www.apra.gov.au/CrossIndustry/Documents/161018-Information-Paper-Risk-Culture.pdf>

IIA Australia

Managing Culture – a good practice guide (Dec '17)



http://iaa.org.au/sf_docs/default-source/default-document-library/424_managing-culture-a-good-practice-guide_v8.pdf?stfrsn=2

AICD ASCI

Governing company culture - Insights from Australian directors (Dec '20)



<https://aicd.companydirectors.com.au/-/media/cd2/resources/about/pdf/AICDACSIS%20Governing%20Company%20Culture%20reportDec20.ashx?on-Paper-Risk-Culture.pdf-Risk-Culture.pdf>



3

Our point of view

Our point of view: Alignment of behaviour is key

Intended

What we want



Purpose



Values



Strategy



Vision



Behaviours



**Risk
Appetite**

Expressed

How we set ourselves up using behavioural reinforcers



**Leadership
action**



**Performance
and Reward**



**People
practices**



Communication



**Organisational
structure**



**External
environment**

Actual – What we get?

The behaviour displayed by employees, driven by the reinforcers but also intrinsic motivation and personal alignment to purpose, vision and values



4

The role of internal audit

The role of internal audit: An opportunity in assessing culture

There is an **increasing expectation** from the board and senior management for Internal Audit functions to provide behavioural assurance to the organisation. The value that Internal Audit can bring is clear:



What do you need to do to deliver meaningful behavioural assurance?

As culture is pervasive and covers the whole of the organisation, it may not be feasibly possible to cover everything in one audit. Therefore a combination of approaches is required to provide both breadth and depth. We believe there are three key elements to an effective framework for providing behavioural assurance.

Behavioural Assurance Framework

1 Deep dive reviews

A standalone review focusing specifically on culture



2 Component reviews

Consideration of culture built into reviews as appropriate

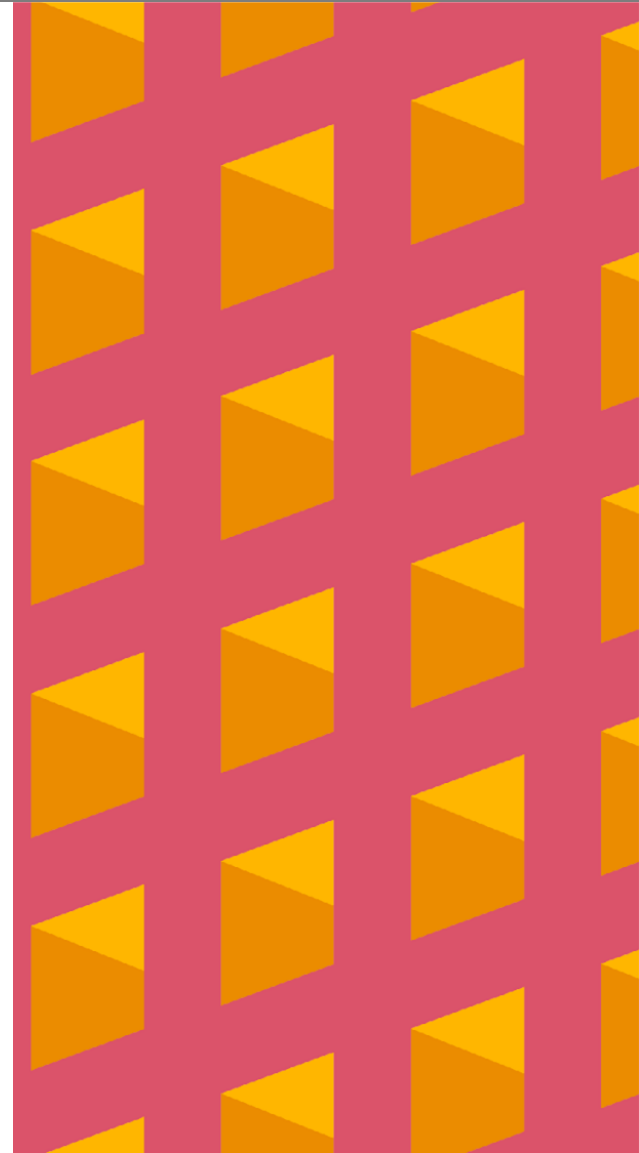


3 Consolidation

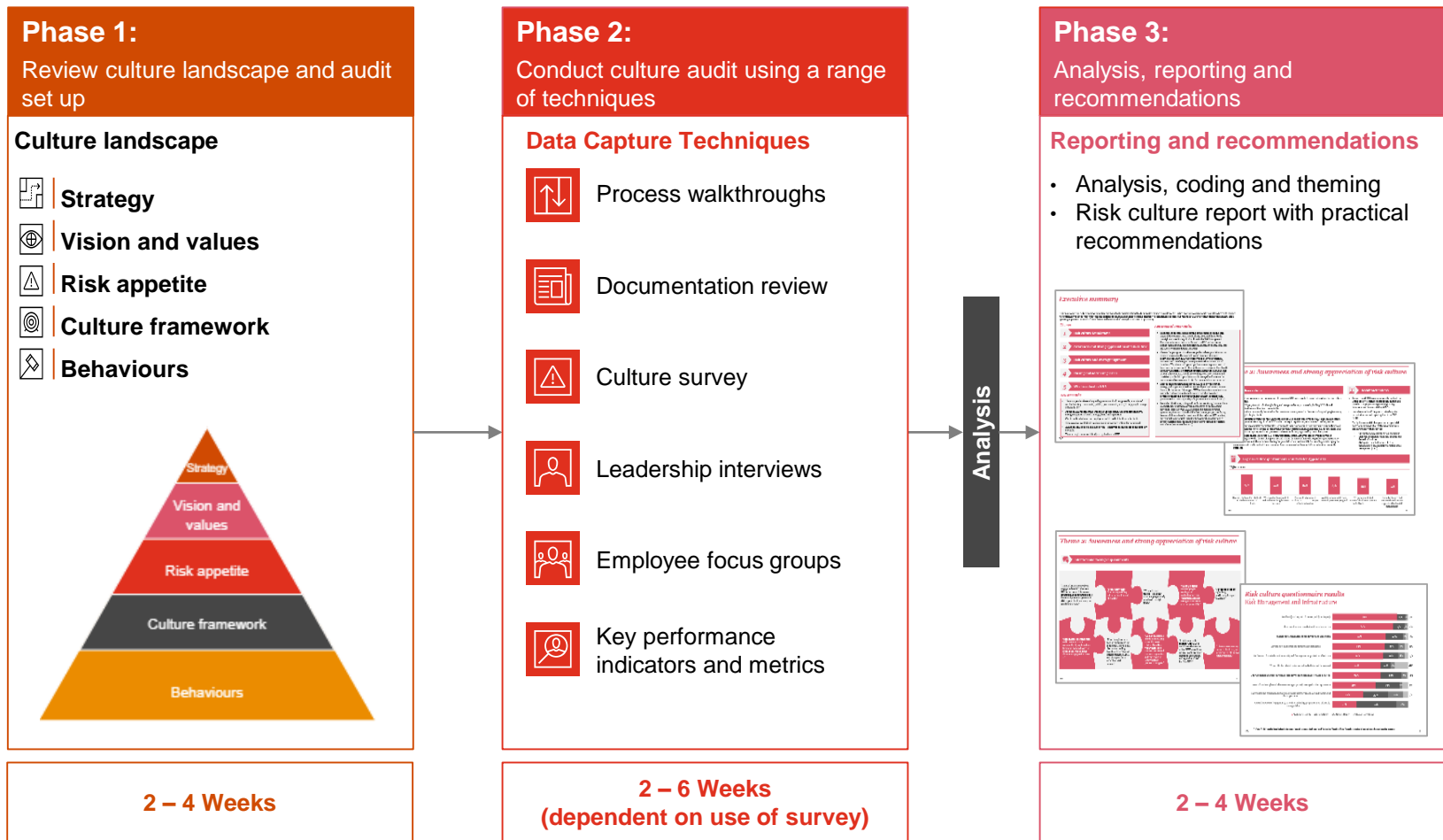
Thematic analysis of the outputs from the discrete and component reviews



Polling question



What does a 'typical' culture audit look like?



PwC's Behavioural Insights Framework

PwC has developed a 'Behavioural Insight framework' which is incorporated into our internal audit methodology and can be applied to any Internal Audit review. The framework provides the audit department and stakeholders with deeper insights by identifying the behavioural traits that are contributing to issues or findings and alignment to the organisation's values.



Culture considerations in practise

Below is an example of cultural insights that can be considered throughout the lifecycle of an internal audit engagement:

Lifecycle	Culture Dimension	Internal audit consideration
Planning	Strategy	The business area was engaged with the proposed scope for the review and looked to expand the scope to gain further coverage and insights. They were curious when asking questions on the scope/area of focus.
	Leadership	Senior stakeholders (such as the Audit Sponsor) were engaged and interested in the review (e.g. attended key meetings). (NB – should be considered throughout the review)
	Communication	During the scoping of the review was the the business area open and transparent in disclosing where the problems/issues are.

Culture considerations in practise (continued)

Below is an example of cultural insights that can be considered throughout the lifecycle of an internal audit engagement:

Lifecycle	Culture Dimension	Internal audit consideration
Fieldwork	Leadership	The business area was fully prepared for the review as senior management had communicated the review was taking place and set expectations.
	Environment	The auditee was able to provide documentation/evidence easily.
	People	The auditee had sufficient resources and capacity to perform the role (e.g. are they able to take leave).
	People	The auditee has been provided with training opportunities relevant for their role.
	People	Does the auditee has an understanding of their role and responsibility, and what is expected of them in their day-to-day role?
	Communication	The auditee was willing and able to respond to follow up queries and questions and provide further information.
	Environment	The auditee was aware of, and understood the relevant policies and procedures and/or controls in place.
Reporting	Leadership	How did the business area respond to the findings? Did the business area try to challenge and push back?
	Leadership	The business area took responsibility/ownership for the findings raised and did not defer blame to others.
	Communication	The business area provided management comments in a timely manner and were at an acceptable standard.
	Leadership	The business area took action to remediate previous issues, in a timely manner and to an acceptable standard.

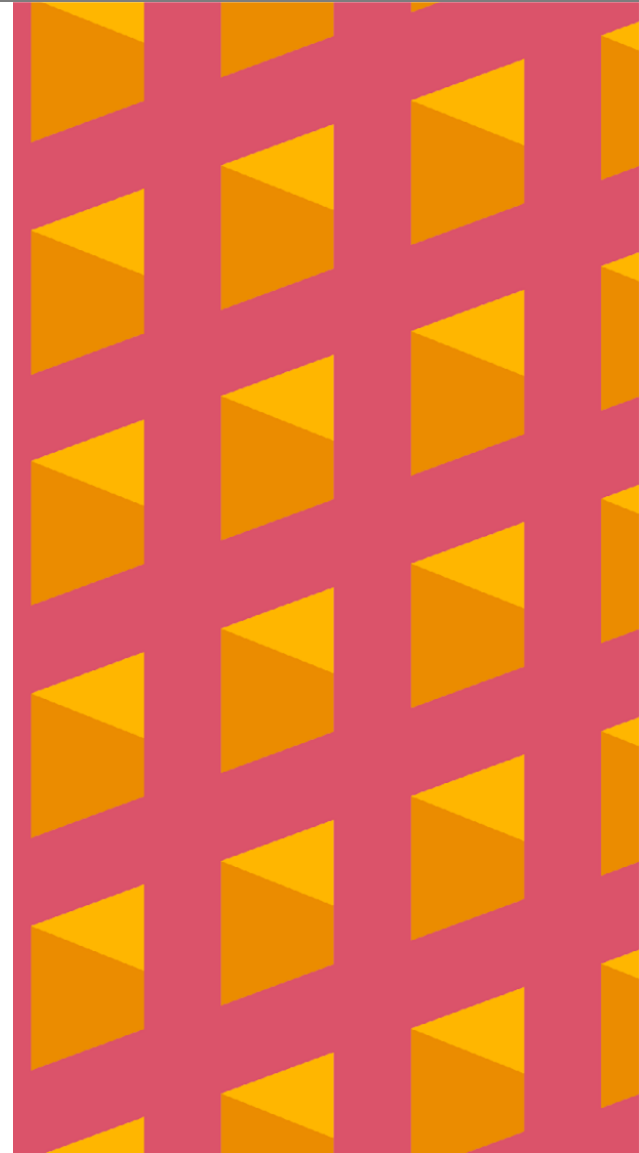
Culture considerations in practise (continued)

An example of a rating system for each cultural consideration is shown below:

Rating System	1	2	3	4
	Not observed	Partially observed	Generally observed	Always observed
	The behaviour/action was not observed at all throughout the audit.	The behaviour/action was occasionally observed during the audit.	The behaviour/action was often observed during the audit.	The behaviour/action was observed at all times throughout the audit.



Polling question



A large, bold, black number '5' is centered within a white square. The square is positioned on the left side of the slide, overlapping a dark grey horizontal band.

What are internal audit functions doing?

How are other Internal Audit functions assessing culture?

Below are some examples of how Internal Audit functions are approaching auditing culture.

Big 4 Bank

- Developed framework to audit risk culture
- Performed pilot review to road-test framework.
- Expanded to perform multiple reviews across areas of the bank.
- Periodic reporting to the Audit Committee on cultural themes.

Small government agency

- Board wanted assurance that risk culture was considered.
- Asked IA to conduct a review comprising survey and workshops.
- Key themes were workshoped with management and actions agreed

Superannuation business

- Risk culture review involving roll-out of a risk culture survey to all employees. Conducted interviews and focus groups to explore behavioural root causes.
- Led to creation and roll-out of a business-owned action plan to address behavioural gaps.

Multinational consumer manufacturing business

- Risk culture review assessed employees' attitudes and perceptions towards risk management, within the Australian business.
- Combination of qualitative and quantitative provided a baseline of current the risk culture which can be monitored over time.

University

- Risk culture review targeted to a sample of campuses.
- Conducted interviews and focus groups and asked attendees to complete questionnaire to gather quantitative data.

Financial services organisation

- Roll out culture survey as part of each audit
- Correlate audit findings with survey results to identify any themes
- Report cultural observations in the Executive Summary
- Periodic reporting of survey results to AC.

Small bank

- Framework focused on bank's strategic priorities
- Culture metrics collected during planning of each audit
- If metrics were above threshold, trigger a deep dive culture audit

Global pharmaceutical

- Dedicated Values Assurance Programme and team within IA.
- Defined a framework to assess the maturity and embeddedness of the values in different parts of their business.
- Gathered global coverage.

A few practical considerations to consider...

Culture is strategic and complex, and so it takes a deliberate and considered approach. Here are some key practical considerations to maximise an effective and tangible outcome.





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What do you need to do?

Wrap up

01 The focus on culture is here to stay.

02 Board and management are expecting more – they are looking for you to provide behavioural assurance.

03 There is no ‘one size’ fits all approach to auditing culture – do what works best for your organisation.

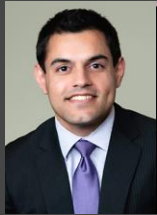
04 Work with management to establish the audit mandate and obtain buy in and support.

05 Understand cultural initiatives/ data that already exists across the organisation.

06 Consider what skills you need and identify any shortages.

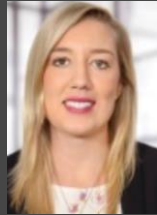
Q&A

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