

# What do lemmings have to do with auditing culture?

## An interview with James Paterson

By Hilde Tanggaard, Advisor, NIRF



On 22 April we had the pleasure of welcoming James Paterson from the UK to Oslo to hold a course entitled "Auditing Culture". IIA UK & Ireland developed this new course in 2014 and NIRF were glad to have the opportunity to present it to our members.

The course was held in a high rise office block in Bjørvika with fantastic views both over the Oslo fjord and the city centre to the Royal Palace on what was a beautiful sunny day. My impression was that the course was well received and that the participants left with food for further thought in a number of areas.

For SIRK's readers we asked James some questions on this new and hot topic.

### Can you say something about how you became responsible for doing training for the IIA UK, and consulting on this topic?

*I was the Head of Internal Audit of AstraZeneca PLC and also had done a master's degree on organizational behavior. I have always been interested in the softer side of risk and assurance issues, so this is something I have already been working on extensively in the 4 years I have been a consultant.*

### How should one understand culture, and subcultures in an organization?

*Culture is often described as "the way we do things round here". It is a word to describe the overall pattern of behaviours in an organization. Of course there are sub-cultures in an organization – depending on department or geography. In addition culture cannot pin down specific behaviours one individual might do.*

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### In what ways does culture interact with processes for governance, risk and control, and compliance?

*It's a way of talking about the attitude to accountabilities, risk management etc. Culture is the thing we are talking about when we say: "Managers only do the minimum actions after an audit" or "Managers don't co-operate with the audit process" or "It's always hard to pin down who is responsible for something".*

### IIA UK's Financial Services Code, published in July 2013, recommended to include risk and control culture in the audit's scope. What areas would this typically cover?

*Yes, I would recommend this publication to auditors in financial services in Norway and also auditors who are just interested in making more of a difference to their organisations. It is asking audit to look at attitudes to risk and control, remediating issues and also disciplines around setting and adhering to risk appetite.*

### The Financial Stability Board (FSB) has been concerned about risk culture, and published in 2013 the document entitled "Principles for an Effective Risk Appetite Framework".

### What, in your opinion, was the motivation behind this development?

*Everyone knows that it's not rules that will stop companies generally and financial institutions in particular from running into difficulties, it's the attitudes and behaviours of the company and staff and that is why risk culture is becoming seen to be so much more important.*

### In the "Principles for an Effective Risk Appetite Framework" they write about internal audit's role and responsibility in regard to risk culture and organizational culture. What do you believe internal audit can and should bring to the table in this area, and what limitations should there be to their involvement?

*I cannot speak for the FSB but I can say that my work with the IIA UK highlights two things: 1) we should make a contribution to moving things forward through assurance and advice and 2) we must stay independent and let management take the lead, so we can challenge cultural blind spots.*



The report by Lloyds of London: Bear, Bull or Lemming is a good summary of risk issues that can happen. It reflects some people who are optimistic, some who are pessimistic and some who just follow along without thinking – the lemmings.

**Can you say something further about the Lloyds report you referred to in your course?**

*Yes, the report by Lloyds of London: Bear, Bull or Lemming is a good summary of risk issues that can happen. It reflects some people who are optimistic, some who are pessimistic and some who just follow along without thinking. It has some great case information and is free on the intranet.*

**Culture may be seen as something tangible and hard to measure. How do we as internal auditors approach this?**

*Culture is hard to measure, some think it can be done through employee opinion surveys and interviews, but it's actually a bit more complex than that. In my opinion we should approach an area that is important (i.e work on culture will make a difference) and where we can combine soft and hard measures.*

**Does auditing culture require a new set of skills?**

*Both Yes and No. One skill that should be there but typically needs to be enhanced is Root Cause Analysis, since the root cause of many risk and control issues often has a cultural dimension, especially where there is repetition.*

**How would you recommend approaching a cultural audit?**

*Carefully. The problem is that cultures often like to move at their own pace and are quite subjective, so one of the biggest challenges is that no matter what facts the auditor finds, there is a good chance the organization will say – “well it's not such a problem really”. Another way of seeing this is that the culture and the risk appetite of the organization are often two sides of the same coin.*

**How would you suggest I should include auditing of risk culture into the audit plan? Should it be organized as a separate audit project?**

*I would start by stepping back and getting the audit team to look at root causes and themes from past audits. I would then select one or two areas and consider how to tackle these. I would personally avoid tackling the topic head on without a clear sense of the way the audit will be assessed and also the potential political issues that will emerge.*

**Can you recommend any specific guidance to auditors on how to audit risk culture?**

*Read the IIA UK guidance and attend a course to start with. The IIA asks us to ensure we have the skills to do audits, so I think it's important that we develop these before we get in too deep.*

**In the Auditing Culture course you spoke about identifying root causes. Why is a root cause analysis relevant to an audit of culture? Do you see root cause analysis as a new type of audit tool or a supplement to existing methodologies?**

*As mentioned earlier, culture is “the way we do things round here”. When you find root causes, and common themes, it is telling you something about the culture. One of the challenges is to create a set of categories that helps audit to persuade management that there is something to be done.*

**What can and cannot be inferred from staff surveys? Would for example an employee survey give me good evidence of the true state of the organisation's risk culture?**

*You cannot ignore staff surveys, in fact why not check these for the areas being audited, but often these surveys don't always ask the right questions and also it may be hard to connect the survey results to an issue of importance. In the future I think audit might help HR improve the quality and usefulness of these surveys.*

**From your presentation I understand that culture has an almost innate resistance to change, if internal audit is not to risk going out on a limb who in the organization should internal audit ally itself with?**

*Yes a culture has a degree of self-preservation within it and will not just change because audit says so. I think audit needs*

*to work with both senior managers and the board to make progress in this arena, starting with getting them to take these issues much more seriously.*

**Finally I asked James for his closing remarks on the subject and he wished to emphasize the following three matters:**

*– My personal experience is that organizational effectiveness models (e.g. the Jay Galbraith STAR model and the Burke-Litwin model) can be very good for analyzing cultural issues, and so audit should learn about these since they are less abstract than cultural models.*

*– It is very easy for audit to underestimate how easy it would be to miss something important in relation to risk culture, it's like a fish in a blue fish tank, because it is in the fish tank it doesn't realize its blue. Likewise, audit can easily be deceived because audit is part of the culture and must operate within the culture to be successful.*

*– Don't be tempted to fully outsource this task – co-source at the most. I have seen this in the UK and one head of audit I spoke to who had outsourced this review completely now acknowledges that he had no clear plan for moving forward since he had built no capability in the audit team for the future.*

*It is my hope that this interview gives some insight into the subject for those who were unable to participate. We at IIA Norway wish to play our role in communicating developments and stimulating further discussions and good practice sharing among our members on this new subject area. Indeed we are considering a repeat of this course to attract those who were unable to partake in May 2014 – let us know what you think.*

**Audit needs to work with both senior managers and the board to make progress in this area, starting with getting them to take these issues much more seriously.**