

# Auditing culture and risk culture in financial services firms

Making the intangible, tangible and auditable





# Auditing culture in financial services firms

Restoring trust in the financial services industry to its former level is still some way off, but the regulators remain determined to achieve it. The publication of the FCA’s 2017/18 business plan still sees culture and governance as one of their top six cross-sector priorities.

The FCA are expecting organisations to effectively manage the complex and seemingly elusive web of culture that pervades their business, with boards taking on full accountability.

During his speech on ‘Culture in financial services – a regulator’s perspective’, Andrew Bailey (then CEO of the PRA) highlighted that regaining customer trust and confidence is reliant on good culture. Moreover, the regulator will continue to exercise its influence over firms on all the elements that contribute to defining culture.

Culture is also a prominent feature in the Chartered Institute of Internal Auditors’ (CIIA) Financial Services Code which requires internal audit to include in its scope the risk and

control culture of the organisation. This includes assessing whether business activities, behaviours and ‘tone from the top’ properly reflect the values, ethics, risk appetite and policies of the organisation.

With heightened regulatory focus, CIIA requirements and the basic reality that poorly managed cultures lead to poor customer and business outcomes; a clear understanding of your organisation’s culture is therefore required and our internal audit services team can help.

“There is a clear link between poor culture and poor conduct and the industry must continue its work to achieve and embed cultural change.”

## FCA 2017

### The FCA will be looking at firms:

To develop	To proactively identify	To ensure	To demonstrate
<ul style="list-style-type: none"> <li>ethical leadership where the tone is set from the top</li> <li>a culture of accountability at all levels and to ensure senior individuals are fully accountable for defined business activities and material risks</li> </ul>	<ul style="list-style-type: none"> <li>risks in their strategies, business models and cultures that might prevent delivering good market and consumer outcomes</li> <li>ways to address those risks using appropriate systems and controls</li> <li>appropriate use of/response to whistleblowing intelligence</li> </ul>	<ul style="list-style-type: none"> <li>drivers of culture (strategies, business models, systems and controls) align to values and support good outcomes</li> <li>behaviours fall within an established risk appetite through use of appropriate incentives</li> <li>the creation of a culture supports the long-term interests of the firm, its customers and market integrity</li> </ul>	<ul style="list-style-type: none"> <li>principles of good conduct towards customers and markets and incorporate them throughout their business, producing better consumer outcomes</li> </ul>

# Understanding, maintaining and changing culture

In the absence of active management, a culture will develop which may not align to the aims of the overall business.

It is often felt that culture is intangible and therefore there is little an organisation can do to create or amend culture. However the culture of an organisation should not be an accident of who works there, it should be owned and managed by leaders across the organisation. Aspects of cultures can be created or changed through a structured programme of integrated interventions which are then monitored.

We have found that creating a consistent programme across the organisation with the active engagement of all leaders and managers can help to align sub-cultures, drive firm's cultural aspirations and help achieve business goals. Culture

can be a real differentiator in today's fast paced and complex interconnected world where business models can be easily replicated by competitors. Real and lasting competitive advantage can be achieved by implementing a culture that is consistent and aligns with the business strategy.

Culture manifests itself in two main areas. The first is formal – how we as organisations articulate, govern and manage the culture. The second is informal – how individuals and teams engender, perceive and shape the formal culture within the organisation. We will discuss how we audit these two areas in more detail in the following pages.

“Internal audit, acting as the eyes and ears of the board but independent of management is in a unique position to judge and advise whether the tone from the top is being adhered to across an organisation. Through internal audit, a board can satisfy itself not only that the tone from the top represents the right values and ethics but more importantly that this is being reflected in the actions and decisions throughout the organisation.”

**Dr Ian Peters, Chief Executive, CIIA, July 2015**

“Culture is the product of a number of different drivers within firms and is shared by many influences that drive the behaviour of everyone in an organisation.”

**FCA Business Plan 2017/18**



# Understanding the drivers of culture

Culture is primarily created by formal drivers which in turn impact the core beliefs and assumptions of your organisation. We demonstrate how these formal drivers are influenced by informal aspects which affect business culture.

The formal aspects of your organisation's culture are structural in nature and are the drivers to maintaining and changing it. Through our audits and reviews, we recommend that you assess your culture aspirations by reviewing the formal drivers and your employees' informal perceptions of it. This ensures the drivers are positively aligned to your strategy and values.

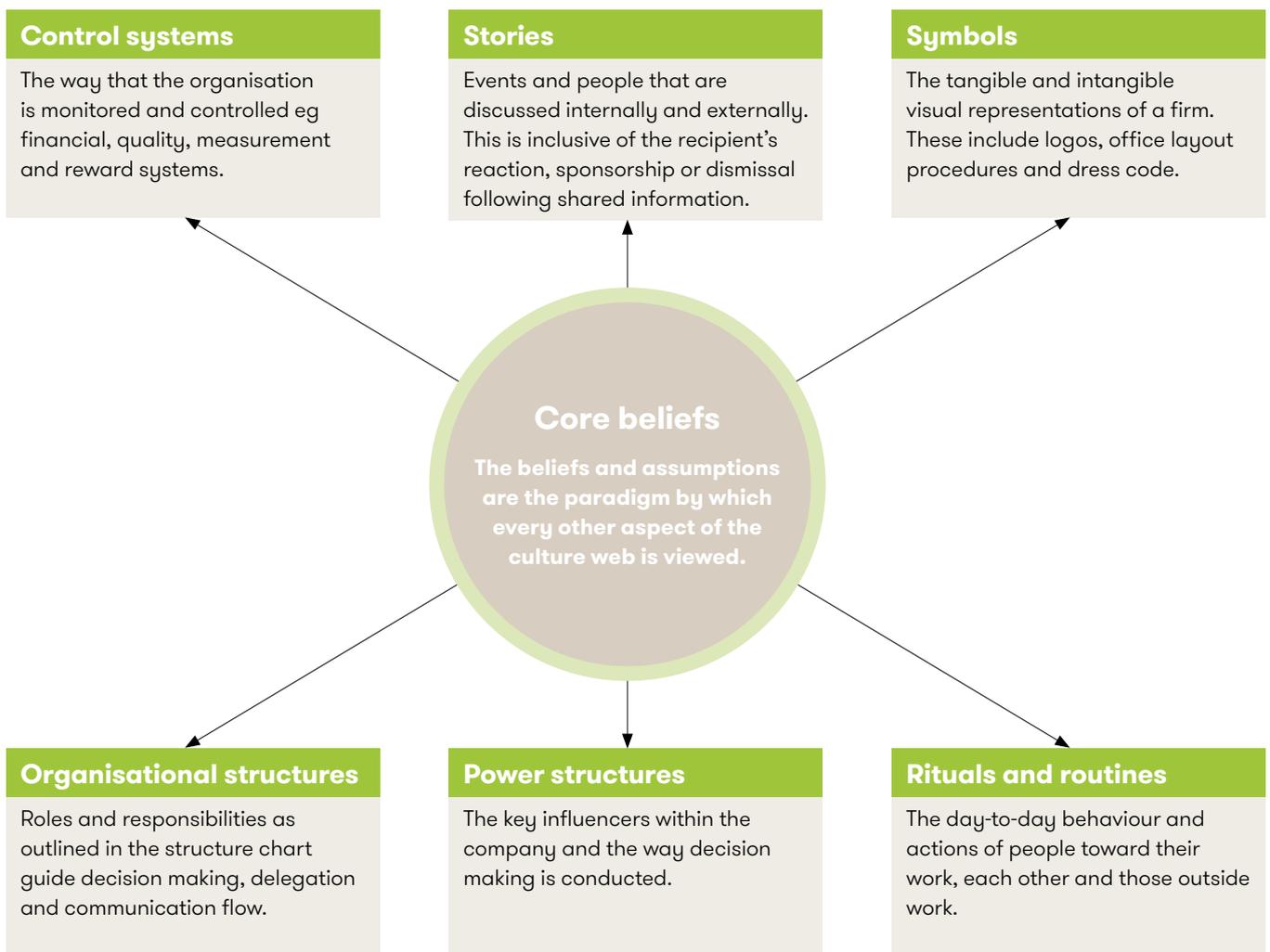


## Auditing risk culture

When auditing risk culture the base document is the risk strategy – the framework and appetite set by the board, to which alignment across the other culture drivers is tested.

Your people are your culture. A simple statement, however your culture is characterised by how your employees informally understand and represent your organisation. Our review of the intangible aspects of your culture utilise an academically proven model to explore this with employees.

Johnson and Scholes describe how to understand the informal aspects with a model called the culture web which depicts a paradigm of the working environment. We use the culture web to understand how the individual and collective perceive the formal drivers of culture in an organisation and to determine where the gaps and risks exist. These areas include:



# Audit methodology

The following model takes you through our approach for assessing and understanding culture in organisations.

The best way to audit culture is to begin with the formal drivers of culture:

- leadership
- strategy
- corporate responsibility
- people management
- resource management
- process and change.

The formal drivers and their outcomes are understood through both a design and operational effectiveness evaluation and then validated against the informal perceptions of your employees by conducting interviews, workshops and potentially surveys. Through engagement with our clients we have found a series of recurring themes which should be considered by any organisation looking to drive success through culture:

- 1** Structured design across all drivers is critical. To choose one or two will lead to organisational confusion and a lack of buy in.
- 2** Alignment across functions and geographies is critical.
- 3** When transforming your culture you should be looking to keep the speed and momentum of change consistent across business lines and geography.

## Assessing the informal drivers of culture

Culture should never be an accident of the individuals who work for your organisation, or of its history. When we review and assess the informal drivers, we are looking for consistency of message from the top through to your front line employees. We are looking for the following in three populations:

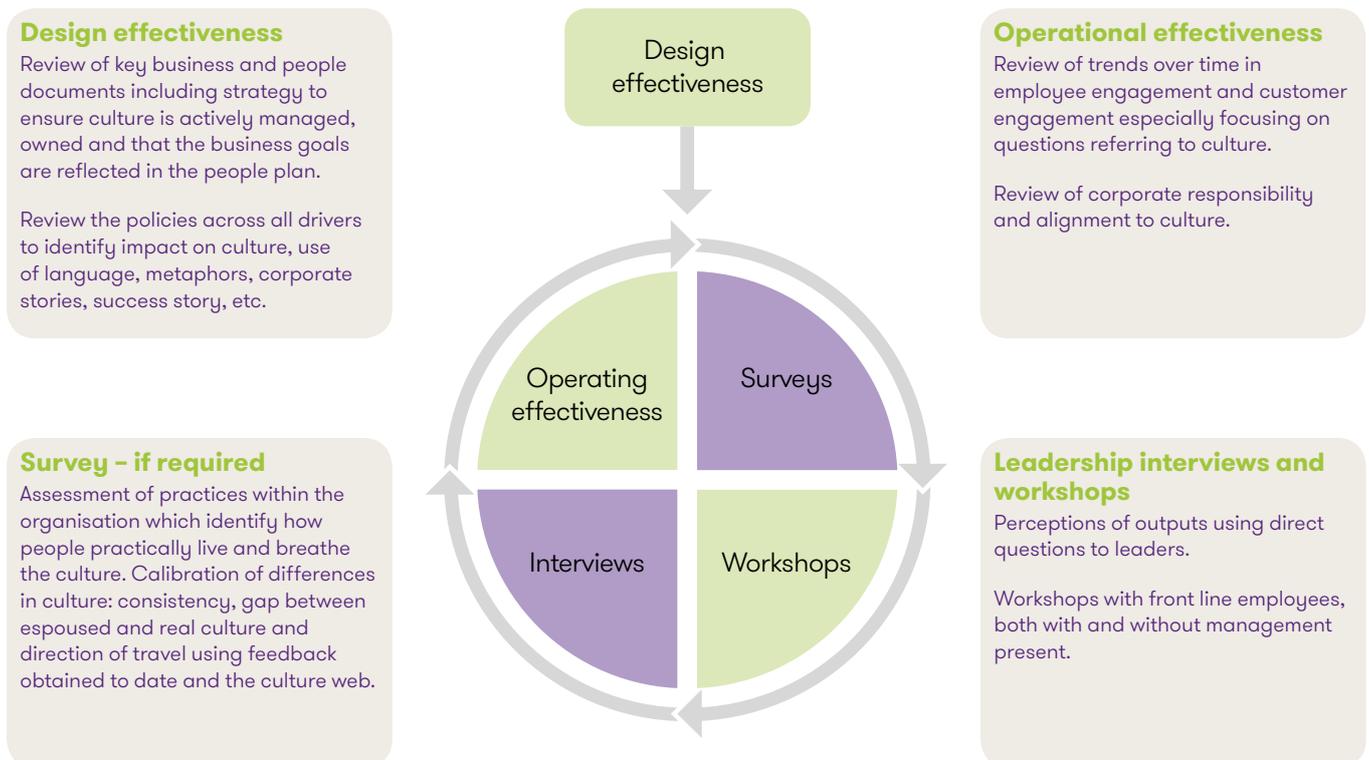
- **Top of house** – Leaders set the direction of travel for culture and should be able to consistently demonstrate your cultural aspirations
- **Middle management** – This population reinforces the tone from the top. Are they aligned and delivering the right message consistently?
- **Frontline** – Do your employees understand and embody the firm's culture with customers and each other?



## How we approach auditing each driver or outcome

Drivers						Outcomes	
Leadership	Strategy	Corporate responsibility	People management	Resource management	Process	Customer, employees and stakeholder engagement	
<b>Approach</b> Is the approach to each driver defined, communicated and integrated? For each driver is there a link back to business strategy? Is the approach to all of the drivers aligned and consistent?	<b>Deployment</b> Is the approach to each driver implemented systematically and evenly across all areas of the business? Are any variations to approach understood, agreed and documented?	<b>Assessment</b> Is there a defined way of measuring the impact of each driver? Are change projects assessed for the impact on culture as well as value to the business?	<b>Refinement</b> Is there evidence of an understanding of the impacts of each driver on culture? Is there evidence of learning, improvement and innovation?	<b>Relevance</b> Are the outcomes consistent across the business? Is the strategy effective? Are the right questions asked to the right sample of customers, employees or suppliers?	<b>Performance</b> What are the trends? Are targets being met? What do external comparisons show? Are the drivers clearly impacting on the outcomes?		

## Design and operational effectiveness are assessed and information supplemented



## Leading to a structured outcome

### Final report

Utilising all of the information and analysis, present a holistic review of the current and espoused culture including a gap analysis as well as an assessment of the implications of the current approach to drivers.

# How we can help

Grant Thornton is one of the world's leading organisations of independent advisory, tax and assurance firms. We help dynamic organisations unlock their potential for growth by providing meaningful, forward looking advice.

Our underlying purpose is to build a vibrant economy, based on trust and integrity in markets, sustainable growth in dynamic businesses and communities where businesses and people thrive.

**Before you embark on your culture journey, we can help you establish which area of your culture framework requires most attention.**

There are many structured tools to assess, change and measure culture. The more we understand your needs the better our culture experts can assess exactly which tools to use to help you achieve your goals. So whether it is business transformation, a merger, assurance or an internal audit of all or part of your culture, we can help. With culture having a significant influence on customer and business outcomes and featuring high on the CIAA agenda, gaining assurance over it is vital.

## Auditing Culture – your challenges

- Obtaining a clear picture over the positioning of your organisation's culture together with an actionable audit report
- Overall understanding of your culture and more effective and active management of it

## How Grant Thornton can assist you

- Provision of a tangible audit report on culture to the audit committee and other senior stakeholders
- Examination of your transformation projects and identification of particular pockets or sub-cultures that are not aligned to the firm's values
- Identification of both lead and lag indicators
- Examination of design, deployment, internal measurement and improvement mechanisms in your organisation

## Our other Culture offerings

- Measurement and analytics
  - Measuring your culture and recommending KPIs
- Cultural Alignment
  - Maintaining culture through M&A and realigning subsets of the organisation
- Culture Transformation
  - Transforming the whole organisation towards an aspirational culture





"Assessing culture is a challenging area, the Grant Thornton team brought great insight, experience and empathy to their approach. They addressed the tangible and intangible aspects of culture and their approach was well received by the business. The quality of their work was outstanding and has been valuable to us. The team was extremely high calibre and I was comfortable having them engage with the CEO and Executive team."

**Group Head of Internal Audit, FTSE 100 group**

## Contact us



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