

2023

Organizational Culture and Ethics Report

Internal Audit's Role in Unlocking Culture as
Catalyst and 21st-Century Differentiator

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Introduction

For too many years now, we have witnessed untold numbers of self-inflicted failures at organizations around the world. Enron, WorldCom, Volkswagen, Carillion, WireCard, Theranos, FTX — the list goes on. These failures have devastating impacts. Key stakeholders including employees, investors, customers, suppliers, and communities suffer. Trust in the capital markets is damaged, jobs and retirement savings lost, reputations ruined, employee retention and recruitment squashed, and revenue, profit, and shareholder value irreversibly squandered.

One critical common denominator? **A troubled culture that lacks the tone at the top and constructive environment essential to support an organization in achieving its strategy, goals, and objectives in a healthy and ethical manner that values key stakeholders and long-term sustainable success.**

Much has been researched and written on culture as a critical component of organizational success. The news is not good. A 2022 Duke University and Columbia University research paper, [Corporate Culture: Evidence From the Field](#), found that only 16% of 1,348 North American executives surveyed believed their organization's culture was where it needed to be, even as 92% understood that improving culture would increase organizational value. What's more, in a clear echo of Peter Drucker's warning that "**culture eats strategy for breakfast**," PwC's [2021 Global Culture Survey](#) of 3,200 leaders and employees worldwide found that 66% of C-suite executives and board members believed culture was more important to performance than strategy or operations.

Despite the headlines and increased scrutiny by stakeholders and regulators alike, many organizations still aren't assessing their culture. [Cultivating a Healthy Culture](#), a 2022 report by AuditBoard and the Chartered Institute of Internal Auditors, found that, while 71% of senior internal audit executives in the UK and Ireland said their boards had established or articulated the culture desired for their organizations, more than half of respondents hadn't been asked by the board or audit committee to provide reports on culture and/or inclusion, equality, and diversity initiatives.

The adage holds: You cannot manage what you do not monitor. **Boards and executives cannot know how healthy a culture is — or is not — without actually assessing it.** In addition, boards and executives cannot know whether an organization's culture aligns with expectations without assigning ownership and accountability for continuously monitoring key culture risk indicators, performing independent, robust assessments of the culture against healthy culture guiding principles, and providing regular assurance reports.

The concept of organizational culture can feel nebulous and subjective, but that doesn't mean assessment is unattainable. To fully grasp and measure culture, an organization must (1) monitor culture over time, creating trend lines, and (2) take point-in-time, data-based snapshots — report cards, if you will — on different elements of culture, compare them to widely accepted best practices, and identify the corresponding challenges, risks and opportunities. This is where internal audit can play a crucial role. Internal auditors are highly skilled at breaking down systems into more manageable and discernable components that allow for a clearer view and improved

understanding. **Internal auditors have an opportunity to provide executives and the board with assurance, strategic recommendations, current trends, competitive benchmarking, and independent assessment reports on the health of the culture.**

To be sure, the mandate for internal audit to provide assurance on culture has been emerging for more than a decade. However, involvement remains sporadic.

This report tackles the challenge head-on. **What role can internal audit leaders play in helping to foster a healthier and more cohesive culture within their organizations?** What are internal auditors doing now, and where are the gaps? How can the internal audit profession use what it has learned to provide more concrete and comprehensive education, guidance, and tools that will make performing assessments and providing assurance ubiquitous — as well as less difficult to understand, analyze, and explain? What key culture risk indicators and healthy culture guiding principles can be developed to assess against and support internal audit processes?

The results of AuditBoard's 2023 Organizational Culture and Ethics Survey of more than 350 internal audit leaders across industries offer critical insights and opportunities for assessing and providing assurance on organizational culture. First, let's address the challenges:

- **Executive and employee behavior is seen as a major indicator of culture risk.** Respondents asked to identify the top five risk indicators for organizational culture see executive behavior as a critical indicator: 68% selected “poor tone at the top/executives don't live values,” and the next three top-ranking risk indicators (profit at any cost mentality, poor communication, unethical/illegal conduct) relate to behaviors that show that executives and employees are not living the values of a healthy culture.
- **Many organizations don't understand the many aspects of culture, including its benefits and risks, key elements, drivers, risk indicators, and the principles of a healthy culture.** For example, while respondents readily see obvious benefits (e.g., higher employee well-being, increase in organizational value/performance, support for ethical values/decisions/behaviors), they don't always take into account critical risks such as lost competitive advantage, increased attrition, reduced organizational resiliency, and potential fraud.
- **Internal audit may be reluctant to tackle culture.** Thirty-seven percent of organizations do not formally audit or assess culture in any way. Almost 1 in 5 do not assess any aspect of culture — or, when they do, they tend to employ piecemeal, ad hoc approaches and limited, narrowly focused assessment methods (e.g., root-cause analysis, behavioral observation) rather than more comprehensive approaches such as standalone culture audits, culture risk assessments, and culture assessment questionnaires.

- **Many organizations don't prioritize culture assessment.** Many organizations — aside from internal audit — may feel uncertain about how to proceed, or anxious about what they'll uncover. They may underestimate the risks or face resource constraints. But when internal audit findings reveal that controls fail, risks aren't managed, and laws and regulations have been violated, culture is often a root cause.

A company's most powerful differentiator can also be its biggest risk. No organization can afford to ignore the impact of culture on success. A healthy, ethical, and high-performing culture is a sustainable competitive advantage within an organization's control.

With this report and toolkit, we hope to take some of the mystery out of organizational culture and shine a light on internal audit's all-important role in helping to elevate how culture is viewed, understood, and assessed. We also offer a clear call to action for internal auditors: **Stop waiting to be asked. Internal audit can lead the way by helping organizations understand the urgent and far-reaching impact of culture.** Even as formal assessment and assurance or a direct mandate from the board or C-suite may be lacking, there are immediate steps you can take to begin addressing culture in risk assessments and individual internal audit engagements.

Read on for further insights, best practices, guidance, and tools to help you elevate your practices and advance your maturity — and ensure you have a seat at the table when organizational culture is being discussed.

Top Takeaways From the 2023 Organizational Culture and Ethics Report

TAKEAWAY #1

Executive behavior is seen as a major indicator of culture risk.

When asked to identify the top five risk indicators for organizational culture

68%

of respondents identified poor tone at the top/executives don't live values.

The next three highest-ranking results indicate that executives and employees are not living the values of a healthy culture.

51% of respondents identified **profit at any cost mentality...**

46% of respondents identified **poor communication...**

46% of respondents identified **unethical/illegal conduct without accountability...**

...as a top indicator of culture risk

TAKEAWAY #2

Organizations identify employee behavior as the most valuable benefit of a healthy culture, but may overlook long-term strategic benefits.

38%

of respondents selected **higher levels of employee engagement, satisfaction, and well-being...**

2%

of respondents selected **competitive advantage or organizational longevity...**

3%

of respondents selected **driving innovation and overall economic growth...**

...as the most valuable benefit of a healthy culture

TAKEAWAY #3

Many organizations are not prioritizing culture assessment.

~1 in 5

organizations **do not assess culture at all.**

37%

of organizations undertake **no formal assessment of culture.**

Benchmarking Culture and Current Trends: Taking the Mystery Out of Organizational Culture

There are many reasons that boards, executives, and internal auditors fail to prioritize culture. Many organizations simply don't recognize culture's risks and benefits. But healthy cultures are critical to long-term sustainable success — and toxic cultures often serve as a common thread across organizational failures.

From an internal audit perspective, teams are often pulled in many different directions. The increasing complexity of the audit universe, along with emerging threats such as artificial intelligence and cybersecurity, are placing increasing demands on audit teams, and expectations such as SOX support work can require significant resources. In some cases, executives may want to avoid exposing or disseminating culture failures or weaknesses and try to thwart internal audit's efforts. This may help explain, in part, why the opportunity to assess culture has lingered for so long without significant action at many organizations. **It's time for that to change. We must look critically at the current state of culture assessment and identify ways to rise to the challenge.**

Identifying Culture Challenges and Opportunities

From audit scoping and risk assessments to resource and skill set limitations, the 2023 Organizational Culture and Ethics Survey results help us to more deeply understand why culture remains on the back burner at many organizations. Organizations that don't assess or audit culture often don't consider it a key risk or even part of the risk universe. Out of all the respondents surveyed,

- 42% indicated that culture wasn't scoped in for the audit team.
- 36% said that it wasn't assessed as a high enough risk.
- 33% cited insufficient resources.
- 19% identified insufficient auditor skill sets.

Many organizations also lack a clear understanding or agreement on what culture is, why it matters, and how it can be measured.

What Is Organizational Culture?

Think of organizational culture as a puzzle comprising several distinct pieces, including an organization's shared values, beliefs, and assumptions; the personality of the organization (e.g., conventional vs. innovative); and a perception of "how we do things around here," something [echoed by Gallup](#) and others. Culture is sometimes referred to as the glue that provides cohesion within an organization. As the [Harvard Business Review](#) explains, "Great culture should provide continuous alignment to the vision, purpose, and goals of the organization."

Culture is also dynamic, as different forces, both external and internal, influence one another in ongoing interplay. One element or sub-element of culture may serve as a driver or influencer of another (e.g., employee well-being influences employee engagement and vice versa). Culture elements have differing levels of influence, so it's important to determine which ones might pose the greatest inherent and actual risks and opportunities to the organization. Elements of culture are like building blocks: Organizations can use them to construct strong ethical foundations — or, like dominoes, one unhealthy block of culture can knock over the next, resulting in culture-induced failures.

Nearly every part of the organization impacts culture. Figure 1 offers a high-level illustration of how different elements of culture can interact and influence one another.

Elements of Organizational Culture

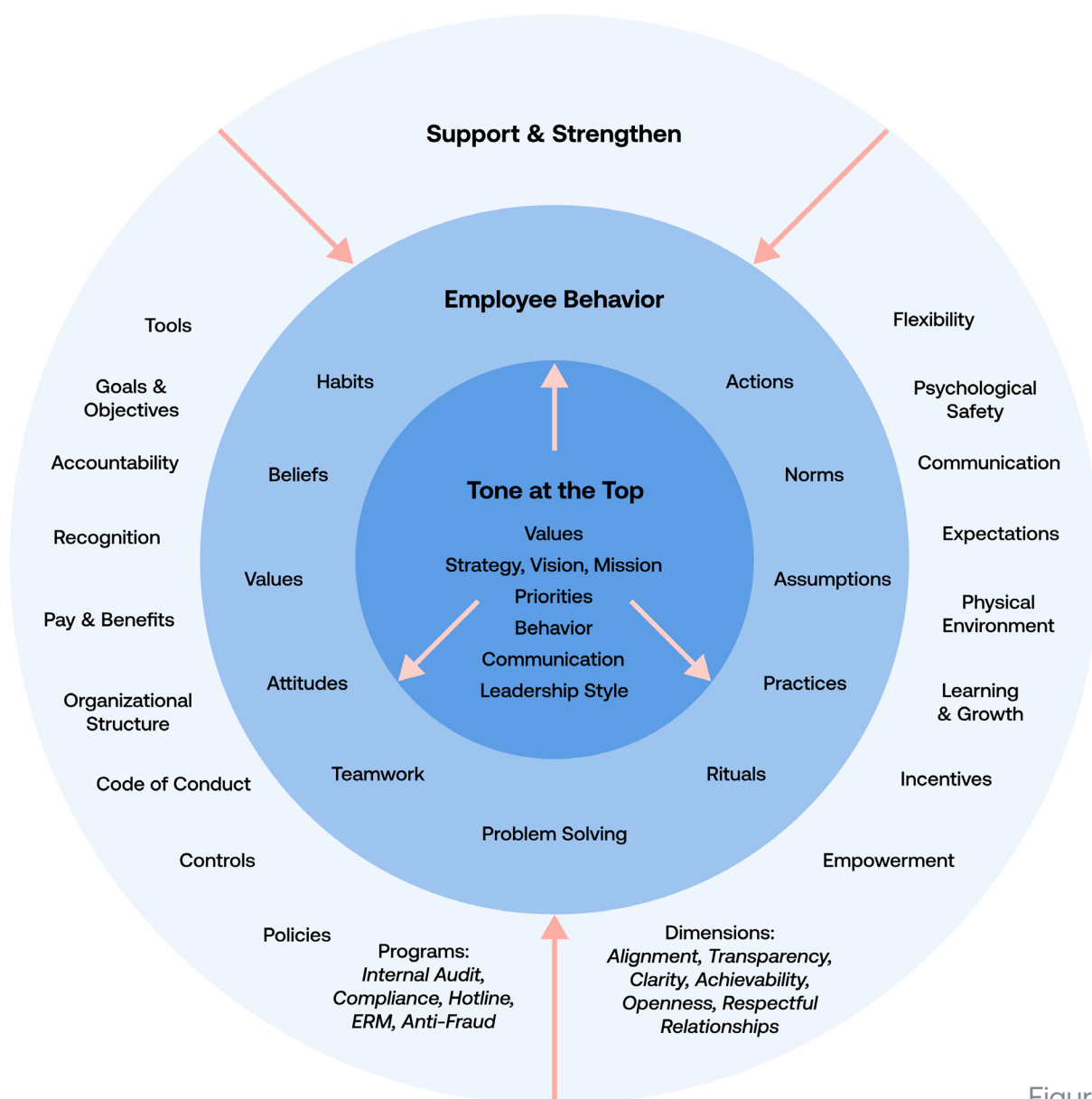


Figure 1

Organizational cultures, however, are human systems made up of individual people. As the 2018 Organization for Economic Cooperation and Development (OECD) Global Anti-Corruption & Integrity Forum paper [Organizational Culture Drives Ethical Behavior: Evidence From Pilot Studies](#) states, “Culture is a complex phenomenon that both drives employee behavior (through formal systems) and emerges through mindsets and behaviors of employees (by learning and emulating others).” In other words, individual decisions shape organizational culture, but individuals also can be shaped by organizational culture and pressures. An ethical person placed in an unhealthy culture may face pressure to make unethical decisions. Additionally, there may be individuals who have the opportunity to collude or bypass controls and guidelines.

It is critical to recognize that no organization is immune from culture failure. Every organization — even (or perhaps especially) those that have achieved significant success — must remain vigilant when it comes to culture. WorldCom, Enron, HealthSouth, and many others were once highly celebrated, admired, and successful companies. However, fast-growing, successful companies are particularly vulnerable to intense levels of pressure.

While Enron was known for having formalized ethics and compliance guidelines and well-defined core values, including integrity, communication, respect, and excellence, executive actions did not align with the propagated values. Ironically, a quote widely attributed to Martin Luther King Jr. was circulated at Enron: “Our lives begin to end the day we become silent about things that matter.” Similarly, in the introductory statement to Enron’s 2000 Code of Ethics, then-CEO [Kenneth Lay](#) wrote, “As officers and employees of Enron Corp., its subsidiaries, and its affiliated companies, we are responsible for conducting the business affairs of the companies in accordance with all applicable laws and in a moral and honest manner.” The world witnessed a very different outcome.

CHALLENGE QUESTIONS

Does your organization’s culture reflect its values, vision, mission, purpose, and strategy? Are they the right values, vision, mission, purpose, and strategy? Are changes needed to promote alignment and ensure they are clear and understood? What do you believe are the most important elements and influencers of culture? How healthy is each element of culture as depicted in Figure 1 within your organization?

What Are the Most Important Attributes of a Healthy Organizational Culture?

As we look at some of the common attributes shared by healthy organizational cultures, there are several important points to make:

- **Culture isn't one-size-fits-all.** Every culture exists on a continuum, with both weak and strong aspects that evolve over time. The goal is to forge a healthy culture that best fits and supports the organization's goals and objectives.
- **It's a false and unrealistic notion that a large organization will have a single cohesive culture.** Companies may have several cultures. For example, perhaps the product development team's culture values creativity, innovation, and risk-taking, whereas the accounting and finance team's culture places a higher value on stability, accountability, and accuracy. A multitude of dynamic, complex factors influence culture. While it is true that variations in culture may exist between groups within an organization, it is critical that ethical values and healthy culture guiding principles serve as common threads woven into the cultural fabric of the entire organization.

The Culture Assessment Toolkit in the appendix identifies several [Healthy Culture Guiding Principles \(HCGPs\)](#) shared by healthy, high-performing, and ethical organizational cultures.

What Is Tone at the Top?

“Tone at the top” is a term used so freely that it often feels like an empty buzzword. To make the concept useful for this discussion, let's define it. Just like culture is “how we do things around here,” **tone at the top is how C-suite executives and the board behave, including their actions, words, and deeds (actions performed with intent)**, which is influenced by many factors including those individuals' personal values, priorities/focus, competency, communication and leadership style. For example, you may ask the following questions to help you assess tone at the top: Do executives advocate and model appropriate behaviors? Is building and cultivating a healthy culture a priority? What level of pressure is being pushed down? What values do they promote? How open, effective, and frequent is their communication? Do they encourage employees to speak up, and demonstrate a willingness to address issues and concerns raised by employees? Have they defined and communicated an organizational purpose greater than profits? Do their decisions consider the impact on the culture, key stakeholders, long-term sustainable success, and employee well-being?

With core concepts, principles, and attributes in focus, we're equipped to look more closely at culture's impact on the organization.

CHALLENGE QUESTIONS

Does your organization align with the attributes and guiding principles of a healthy culture? Is there a strong ethical tone at the top? Does the board and executive team prioritize cultivating a healthy culture?

Why Does Organizational Culture Matter?

Survey results show that, while internal audit leaders readily recognize several crucial benefits of organizational culture, **their understanding of its risks, value, and opportunities is still evolving.**

Widespread Agreement on the Top 4 Valuable Benefits

When internal audit leaders were asked to select the most valuable benefit of a healthy culture, the vast majority (88%) zeroed in on four areas: As Figure 2 shows, the largest percentage (38%) identified higher levels of [employee engagement, satisfaction, and well-being](#) as the top benefit, followed by an increase in organizational value and performance (19%); trust, transparency, and open communication (17%); and ethical values, decisions, and actions (14%).

Which of the following is the most valuable benefit of a healthy culture?

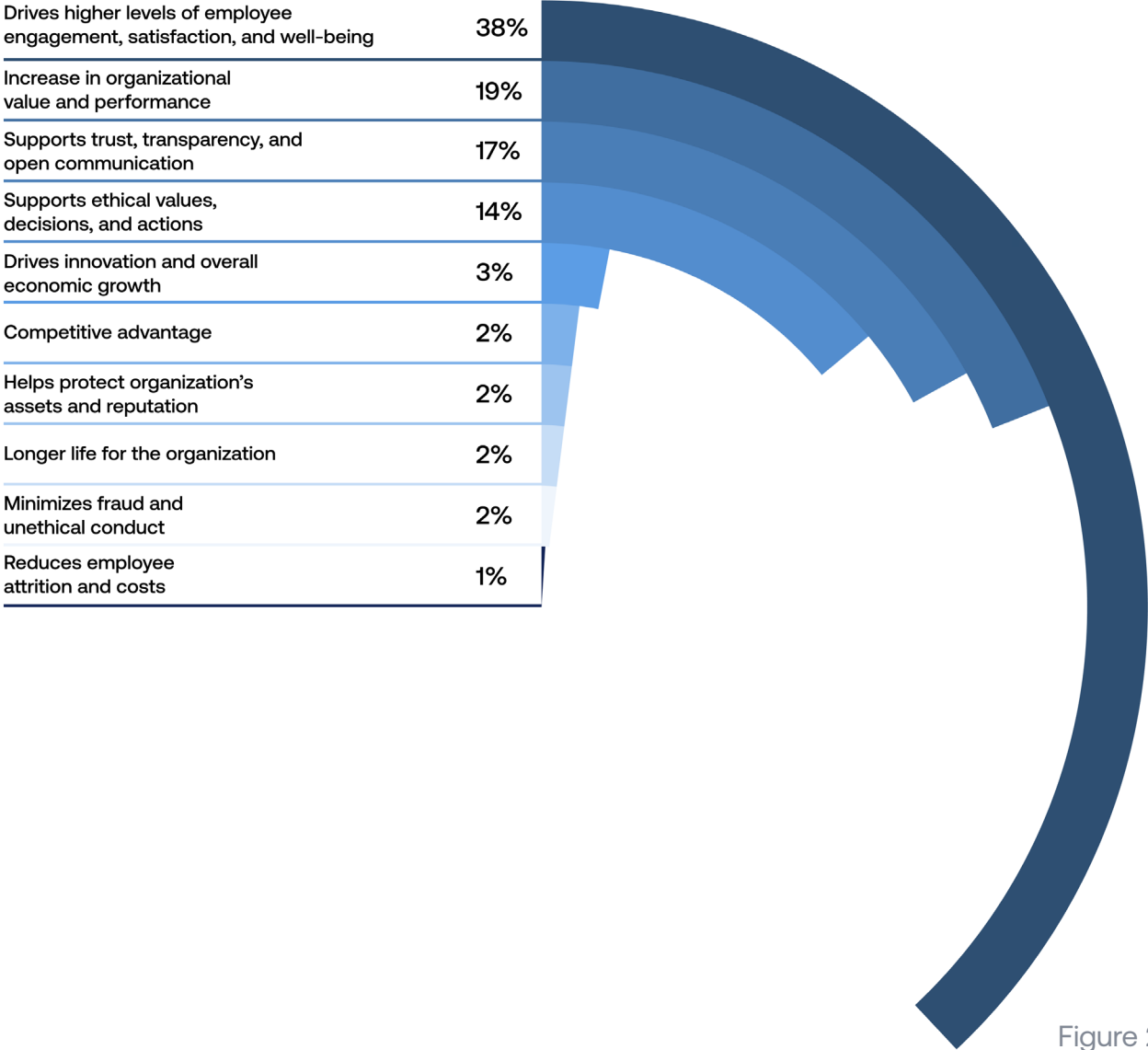


Figure 2

Interestingly, benefits that receive comparatively scant support include an organization's competitive advantage (2%), organizational longevity (2%), minimizing fraud and unethical conduct (2%), helping to protect the organization's assets and reputation (2%), and reducing employee attrition and costs (1%). Each of those tie in directly with strategic business risks. If CAEs don't perceive these as being severely impacted by culture, they are likely to address them minimally or not at all in internal audit plans. **A key question CAEs should ask themselves is: Do I see a clear link between culture and strategic business risks?**

Impact on Innovation and Competitive Advantage May Be Underestimated

Respondents also largely overlooked how **culture drives innovation and overall economic growth — a benefit selected by only 3% — which can, in turn, drive competitive advantage.**

Culture has long been acknowledged as a powerful driver of innovation. A landmark [2008 University of Minnesota study](#) of 759 firms in 17 countries suggested that, “among the factors studied, corporate culture is the strongest driver of radical innovation across nations,” and “the commercialization of radical innovations translates into a firm's financial performance.” Similarly, PwC's [2021 Global Culture Survey](#) found that of leaders who strongly believed their organizations were able to adapt to change during the Covid-19 pandemic, 81% saw culture as a source of competitive advantage.

Widespread Recognition of the Critical Importance of Employee Well-Being

The top-ranking benefit of employee engagement, satisfaction, and well-being aligned with results from the 2022 AuditBoard-Chartered IIA [Cultivating a Healthy Culture report](#), which saw 65% of respondents identifying HR, talent management, recruitment, and retention as a top-three risk that most impacts organizational culture. Indeed, **culture's outsized impact on employee engagement, satisfaction, and well-being is reflected in study after study.** A [2023 Gallup survey](#) found that employees who strongly agreed with the statement “I feel connected to my organization's culture” are nearly four times more likely to be engaged at work and five times as likely to recommend their organization as a great place to work. Meanwhile, 68% said they were less likely to feel burned out and 55% were less likely to be looking for another job. In a [2022 EY US Generation Survey](#) of 3,000 white-collar workers, 92% said that culture impacted their decision to remain at their employer.

CHALLENGE QUESTIONS

Is your organization experiencing all of the benefits of a healthy, ethical, high-performing culture? What do you believe are the most critical benefits, and what needs to change within your organization to realize them more fully?

What Drives Organizational Culture?

Giving culture the appropriate level of consideration in internal audits and assessments requires thinking through the drivers of organizational culture and how they affect organizational risk. However, **internal audit leaders are not consistently acknowledging the level of risk that comes from culture**, according to our survey.

Most Important Drivers of Organizational Culture

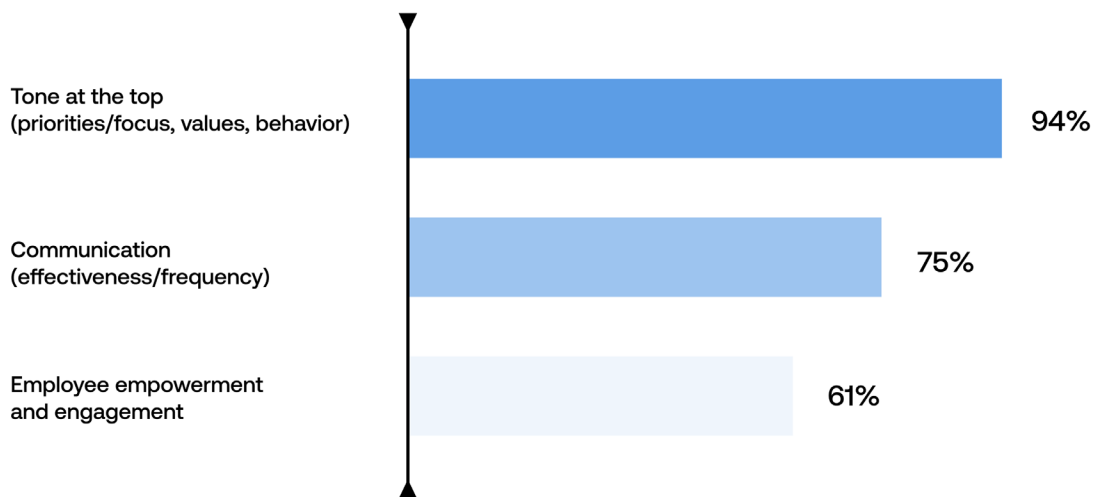


Figure 3

Strong Correlation Between Top Drivers

When asked to identify the five most important drivers of organizational culture (regardless of whether these drivers led to a healthy or unhealthy culture), survey respondents identified tone at the top (94%), communication (75%), and employee empowerment and engagement (61%).¹

The three top-ranked drivers certainly go hand in hand. As we've explained, **different elements of culture serve as drivers and influencers for others. It's important to view each element as only one part of the tapestry of the overall culture.** As an illustrative example, when thinking of top-down communication in the context of culture, it's key to remember that communication includes not only what is said, but how it is conveyed, how frequently the message is delivered and reinforced, and whether everyone is on the same page.

¹ Question: In your experience, what are the five most important drivers of organizational culture (regardless of whether the driver results in a healthy or unhealthy culture)?

Base: 360.

Answer options: Tone at the top (priorities/focus, values, behavior); communication (effectiveness/frequency); employee empowerment and engagement; mission, vision, purpose, strategy; work-life balance; employee behavior (actions, norms, habits, assumptions); ability/inability to speak up (hotline and non-retaliation policies); compensation, benefits, and perks; level of risk taking/strength of risk management; strong financial health or lack thereof; speed and method of change (e.g. competition, creative destruction); pressure levels (external or internal); level of commitment to diversity, equity, and inclusion; recognition/evaluations (considers values vs. productivity and profit goals); key controls, policies, and procedures; ethics and compliance infrastructure; other.

Several Critical Drivers May Be Commonly Underestimated

There is, however, **a more than 20 percentage point gap between the top three drivers and the 13 other elements listed for consideration.** The latter includes drivers such as employee behavior (actions, norms, habits, assumptions) at 38%, ability/inability to speak up (hotline and non-retaliation policies) at 26%, pressure levels (external or internal) at 23%, and level of risk-taking/strength of risk management at 15%.

The low ranking level of risk-taking/strength of risk management is particularly noteworthy given the much higher score for employee empowerment and engagement. Consider the potential impact of a “profit at any cost” mentality that puts results over purpose and encourages staff to drive hard to hit targets. In that type of culture, profit-over-purpose could result in highly empowered and engaged employees turning to fraud to meet those expectations.

CHALLENGE QUESTIONS

From a culture perspective, what drives your organization? What are the healthy drivers? Are there drivers that are negatively impacting aspects of your culture? What values are more important than financial performance?

Who Has the Greatest Influence on an Organization’s Culture?

As we found, **most internal audit leaders feel culture starts with the tone at the top, but our survey also showed that the “top” in this respect may not include the board.** As Figure 4 indicates, when asked to identify the three entities that influence culture the most in their organizations, respondents overwhelmingly cited the CEO and/or founders, line managers, and other C-suite members. The board came in at a distant fourth (27%) among the other 10 options offered for consideration.²

Top Entities That Influence Organizational Culture

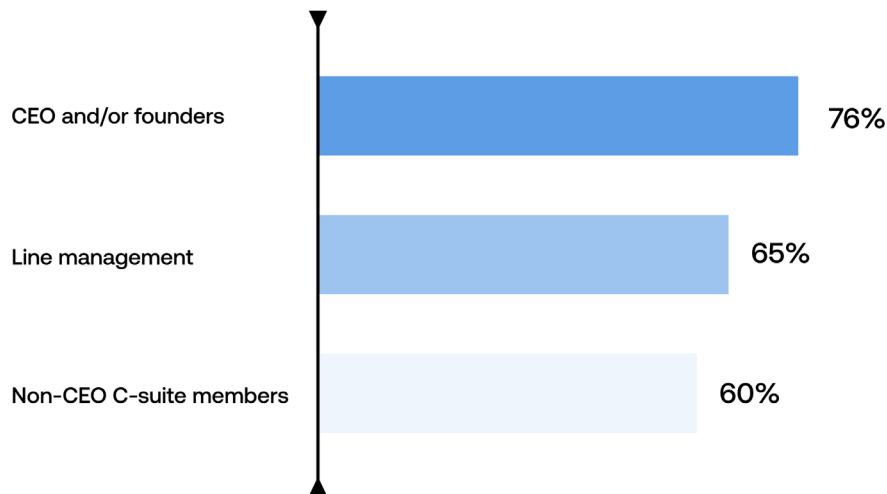


Figure 4

Boards and Gatekeepers Have Important Roles to Play

The fact that boards may not be seen as having substantial influence on culture may stem from findings that they do not focus extensively on the topic as part of their oversight role. EY’s [2021 The Board Imperative](#) survey found that 27% of boards never or rarely discuss the culture needed to support organizational strategy, and only 22% of board members “expect that a misaligned culture will more than moderately impact their business in the next 12 months.” The survey also offers an enlightening comparison of “leading” vs. “developing” boards relative to how often they discuss talent- and culture-related topics, showing a significant gap in many areas.

Also missing from the top results are key gatekeeper functions such as internal audit, human resources, legal, and ethics/compliance. These functions also have a significant opportunity to impact and influence the health of a culture. Boards need to ensure they hear often from these functions and dissuade any tendency by them to “speak only when spoken to.”

² Question: In your experience, what are the top three entities that influence organizational culture?

Base: 360.

Answer options: CEO and/or founders; line management; non-CEO C-suite members; board of directors; staff employees; internal audit; risk management; human resources; legal; ethics and compliance; whistleblowers; external regulators; legislators; other.

Everyone Shares Responsibility for Culture

It's also noteworthy that middle management ranked roughly equal in influence on culture to both the CEO and/or founders and other C-suite members. This shows that culture is influenced and enabled by many levels of an organization. Culture experts increasingly cite tone at the top along with “mood in the middle” (line managers) and “buzz at the bottom” (employees), reasoning that it is an organization's managers and employees who are the ones implementing policies and guidance, driven as much by their own values as they are by those of top leaders.

Ultimately, everyone in the organization is responsible for influencing culture. In “[Company Culture Is Everyone's Responsibility](#),” *Harvard Business Review* looked at why the historical approach to handling organizational culture is no longer effective, suggesting a new model that involves shared responsibility for culture throughout the organization. To that end, they offer a helpful breakdown of suggested roles for the board of directors; CEO and senior management; HR; compliance, risk, and ethics; middle managers; and employees.

CHALLENGE QUESTIONS

Who currently has the greatest influence on your organization's culture, and why? What recommendations can you make to empower and inspire the entities that influence culture to play a greater role in cultivating a healthy culture? What changes would positively impact key elements of culture such as employee well-being and engagement, core values, communication, etc.?

What Are the Most Important Culture Risk Indicators and Why?

Assessing organizational culture requires identifying key risk indicators — a concept we're referring to as Key Culture Risk Indicators (KCRIs). **KCRIs are specific indicators that can provide early warnings of culture weaknesses or failures. Internal auditors can use KCRIs to create metrics that allow continuous monitoring of changes to key aspects of culture over time.** For example, a KCRI to monitor for poor tone at the top or a profit-at-any-cost mentality might be measuring whether management is making financially driven short-term decisions that are not in the organization's best long-term interests. See the [Culture Assessment Toolkit](#) in the appendix for more example KCRIs.

Most organizations are not yet tracking these types of metrics, but they are critical for maturing internal audit's approach to assessing culture. After all, how is an internal audit approach risk-centric or risk-based if it's not looking at one of the most significant risks to the organization? **Do not overlook culture risk. A healthy culture of integrity, ethics, and compliance should be at the core of risk management for every organization.**

Top Risk Indicators for Organizational Culture

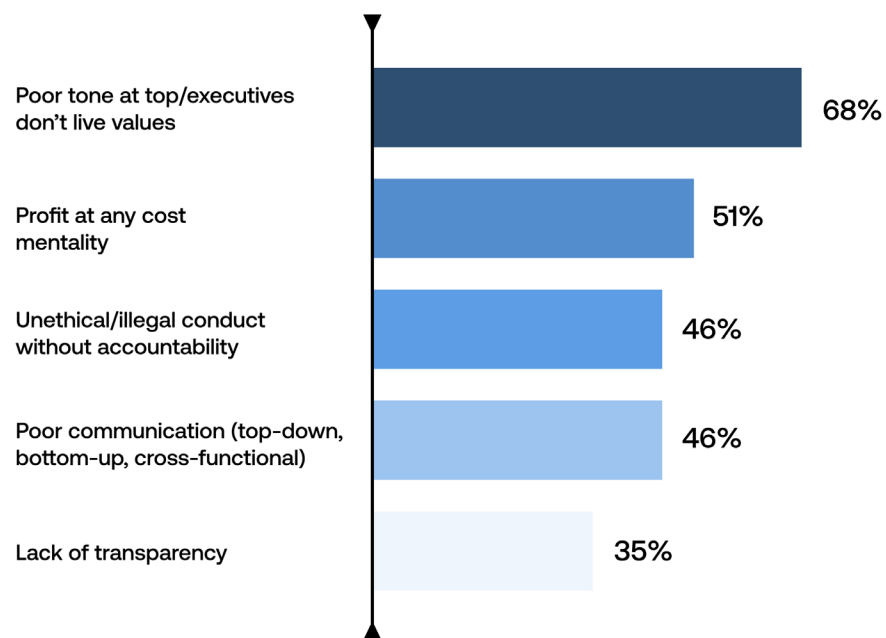


Figure 5

Executive Behavior Seen as Major Indicator

When internal audit leaders were asked to select the top five risk indicators for organizational culture, they sent a clear signal that they see executive behavior as critical in influencing organizational behavior.³ Specifically, as shown in Figure 5:

- 68% of respondents identified “poor tone at the top/executives don’t live values” as the top culture risk indicator.
- The next three results — “profit at any cost (ends justify the means)” at 51% and both “poor communication” and “unethical/illegal conduct without accountability” at 46% — are related to No. 1. If these risk indicators existed within an organization, they would further support the notion that executives are not demonstrating the values of a healthy culture, and/or suggest that the employees themselves may not be doing so.

Internal auditors should bear in mind that there will always be a certain amount of inherent risk to culture for organizations looking to meet financial targets.

³ Question: Aspects of corporate culture expose an organization to key risks. Please identify the top five risk indicators for organizational culture.

Base: 360.

Answer options: Poor tone at top/executives don't live values; profit at any cost mentality; unethical/illegal conduct without accountability; poor communication (top-down, bottom-up, cross-functional); lack of transparency; high employee/customer attrition; excessive risk taking; conflicts of interest; gaps in C-suite competency and skills; excessive change (reorganization/layoffs/rapid growth); not seeing/addressing critical risks; short-term decision-making that does not support long-term success; unrealistic goals and objectives; CAE and/or CCO do not have free access to audit committee; weaknesses in board governance; weak internal controls; speaking up not common / no anonymous reporting mechanism; core values and/or code of ethics not defined; employees don't feel respected/valued, no emphasis on diversity, equity, and inclusion; other.

CHALLENGE QUESTIONS

Have you defined and do you actively monitor key culture risk indicators? Do any key culture risk indicators within your organization point to unhealthy aspects of culture? What about your organization's tone at the top, strategy, priorities, values, or incentives could be driving bad behaviors? Where do you see points of excessive pressure and why?

Paradigm Shift: Internal Audit's Role in Organizational Culture

Culture is so multifaceted and complex that it can be extremely difficult for boards, executives, and internal auditors. Fortunately, internal auditors are adept at breaking down complex systems into more understandable and manageable components. **Those skills can be employed to gain a clearer view and understanding of culture's many moving parts, and help organizations move toward a more mature approach to managing culture.** To that end, [The Institute of Internal Auditors](#), the [Anti-Fraud Collaboration](#), and others offer [tools and resources](#) to help internal audit look more critically at strategy (including the underlying assumptions), risk management, and how to understand and assess organizational culture.

How Internal Audit Assesses Culture

Some organizations may not see assurance on culture as an internal audit "mission," mistakenly assuming that too many elements of culture are subjective. Interestingly, our survey found internal audit favoring "soft" areas that may involve subjective analysis over "hard" areas supporting more objective analysis in culture assessments.

Methods to Assess/Audit Culture

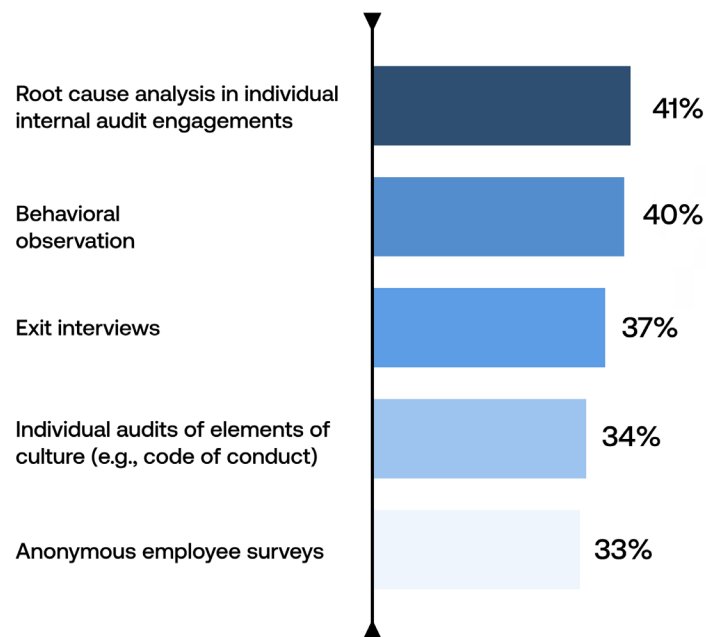


Figure 6

Subjective Analysis Favored Over Objective Analysis

Specifically, as depicted in Figure 6, when respondents were asked to identify the methods they've used to assess/audit culture⁴:

- **Root-cause analysis and behavioral observation are highly favored.** When respondents were asked to identify all methods used to assess or audit culture, the top two results were root-cause analysis in individual audits (41%) and behavioral observation (40%), both of which arguably involve degrees of subjective analysis and professional judgment.
- **Methods requiring audits of “hard” data were somewhat less favored.** The next three top-ranking responses were exit interviews (37%), individual audits of elements of culture (e.g., code of conduct) (34%), and anonymous employee surveys (33%).
- **Other complex and comprehensive methods scored low.** Specifically, culture assessment questionnaires (21%), culture risk assessments (18%), standalone audits of culture (10%), and audits against ethics and compliance federal sentencing guidelines (8%) received lower scores. Interestingly, these methods have been widely favored by culture thought leaders.

In the big picture, **root-cause analysis offers an excellent opportunity for internal audit to consider culture in every audit.** However, the results indicate that internal auditors are only using a limited number of approaches to assess culture, perhaps selecting more traditional approaches they may be more comfortable with. Internal auditors need to turn these skills toward being innovative and creative in how we assess culture, broadening our perspective to use all of the tools in our toolbox. For ideas to help get you started, see the “Actions for Impact” section in the appendix.

⁴ Question: Which methods have you used to assess/audit culture? Select all that apply.

Base: 360.

Answer options: N/A. We do not assess/audit culture; culture risk assessments; standalone audit of culture; individual audits of the ethics and compliance function; individual audits of elements of culture (e.g., code of conduct); culture assessment questionnaires; behavioral observation; organizational culture mapping; audit against ethics and compliance federal sentencing guidelines; root cause analysis in individual internal audit engagements; roundtable discussion groups; one-on-one employee interviews; anonymous employee surveys; supplier and customer surveys; exit interviews; best practice benchmarking (e.g., culture, values, compliance, governance); other.

Bottom-Up, Piecemeal Approach Favored Over Top-Down, Holistic Approaches

Our findings highlight another prevailing trend: **Typically, internal auditors use a bottom-up approach if they assess culture at all — merely prodding at culture at the engagement level — when what’s often needed is a top-down, holistic engagement that includes a formal assurance report to the audit committee and executive management.** While having both is aspirational for most internal audit departments, many lack the skills or resources to jump in at the deep end. But it will be crucial to diligently work toward increasing maturity, as shown in our [Organizational Culture Assessment Maturity Model](#).

CHALLENGE QUESTIONS

What do you think are the most important aspects of your culture to assess and why? What assessment methods do you believe are the most effective for each aspect of culture?

How Internal Audit Communicates Culture Assessments

When asked to identify the typical products of culture audits and assessments, **only 17% of internal audit leaders reported issuing formal, written standalone reports on overall culture.** Many functions said they hold briefings or discussions with management and/or the board and/or include findings and observations in typical audit engagement reports. While the latter communication strategies add value, neither provides a holistic view of organizational culture.

Typical Product of Culture Audit/Assessment

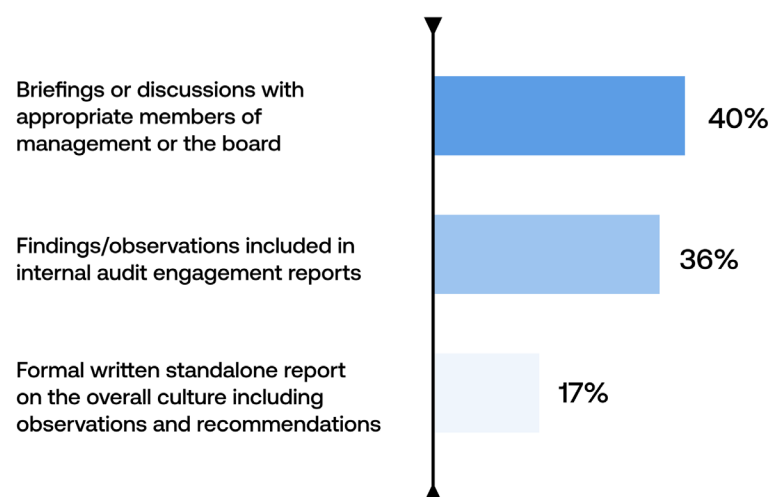


Figure 7

Less Formal Communications Favored Over More Formal

As noted, a high percentage of internal audit leaders (37%) said they have not formally assessed culture at all. As Figure 7 reflects, the remainder rely on:

- **Formal, written, standalone reports on overall culture, including observations and recommendations.** Only 17% of respondents use this approach, which offers assurance to management and the board via a top-down, holistic look at organizational culture.
- **Management and board culture briefings or discussions.** Forty percent reported holding briefings or discussions with appropriate members of management or the board. These communications offer insights and recommendations for others to better understand [potential issues and opportunities in their cultures](#). In turn, management is better equipped to take action and boards can provide more effective oversight.
- **Findings and observations in engagement reports.** Thirty-six percent employed this more formal approach.

Each method certainly holds value for the organization, but internal audit leaders should seriously consider employing all methods to provide the most comprehensive approach to culture assessments.

CHALLENGE QUESTIONS

How will you help your team move forward in maturing its approach; identifying and communicating culture insights, risks, and opportunities; and providing assurance on the health of your culture to management and the board?

A Call to Action for Auditing Culture

When asked to identify the most critical actions internal audit can take to promote a healthy culture, leaders were closely aligned, as depicted in Figure 8.⁵

⁵ Question: Please identify the three most critical actions internal audit can take to promote a healthy culture.

Base: 348.

Answer options: Create and/or disseminate thought leadership on ethics and culture; benchmark best practices (e.g., culture, compliance, risk management, corporate and board governance); educate/create awareness for the board and executives about culture; report to the board/audit committee on the health of individual elements of culture; provide board and executives with assessment/opinion of the overall enterprise culture; model the organization's values; perform a standalone audit of culture; audit individual elements of culture (e.g., code of conduct); include culture assessments within individual internal audit engagements; audit the ethics and compliance function; audit the enterprise risk management function; audit the strategic plan and underlying assumptions; other.

Most Critical Actions Internal Audit Can Take to Promote a Healthy Culture

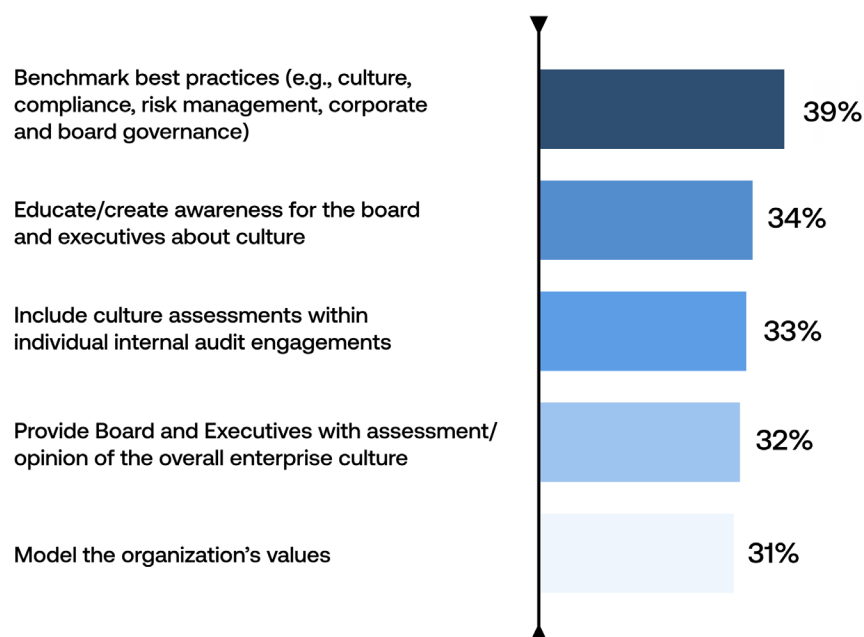


Figure 8

- **Internal audit leaders readily see opportunities to incorporate culture into their engagements.** This is encouraging, as culture is a significant risk to any organization and should be a mainstay in the audit/risk universe.
- **Internal audit leaders recognize the value of more top-down, holistic approaches to assessing organizational culture.** While a small percentage of organizations currently assess overall culture, internal auditors nevertheless recognize key options for stepping up to the plate: 32% selected “provide board and executives with assessment/opinion of the overall enterprise culture” and 11% selected “perform a standalone audit of culture” as among their top three critical actions.
- **Internal audit leaders are eager to benchmark both organizational culture and culture assessment best practices.** Understandably, as leaders determine how best to proceed with assessing culture, they want to know how other internal audit departments tackle the issue. “Benchmarking best practices (e.g., culture, compliance, risk management, corporate and board governance)” was the top choice, selected by 39% of respondents. While we hope that internal audit leaders ultimately place greater focus on other critical actions, this result accurately reflects the reality that many organizations are in the springboarding and learning stages of the [Organizational Culture Assessment Maturity Model](#).
- **Internal audit leaders more often see value in less direct or explicit assessment approaches.** Notably, the next four top choices after benchmarking do not use the word “audit,” signaling that many leaders may be more comfortable with less challenging approaches than undertaking declared audits of culture or its supporting elements. On the flip side, the five least-favored responses all contained the word “audit,” either regarding a function (e.g., ERM, ethics and compliance), the strategic plan and underlying assumptions, individual elements of culture, or in the context of a standalone culture audit.

Breaking Down Culture Into More Auditable Elements

Are internal auditors reluctant to “audit” culture? This would be understandable, given that they’re trained to audit hard controls. Auditing culture requires becoming comfortable auditing soft controls. **That said, we can’t throw up our hands and say, “Audit doesn’t belong here.” Instead, we need to create the supporting tools and principles that will help internal auditors convert these seemingly nebulous concepts into auditable areas** — a fundamental inspiration behind our decision to provide a [Culture Assessment Toolkit](#) in this report.

It’s absolutely possible to break culture down into different elements, enabling organizations and internal audit leaders to establish best practices and create a basis for comparison. For most organizations, a good place to begin is by asking targeted questions that will help identify culture elements, best-of-class assessment methods, and healthy culture guiding principles, as well as support the development of risk indicators and metrics that can be monitored. The following representative examples can help you start thinking:

- **Hotline.** Is there an independent and effective ethics and compliance hotline? Do employees feel comfortable speaking up? Do they understand how to report issues via the hotline? Are issues reported to the hotline being addressed effectively and escalated to the proper levels? Is there a whistleblower non-retaliation policy?
- **Executive-level communications regarding culture.** How often in a 12-month period are values communicated? How frequently does the CEO call together top executives to communicate important messages such as changes in strategy, expectations, emerging risks, and values?
- **Executive behavior and values.** Do executives model ethical values and behavior? This is admittedly a less concrete area that clearly can’t be assessed by a single opinion from internal audit. A culture assessment questionnaire can be used to gather opinions from across the organization, helping you to build out a more fact-based understanding of the behaviors and values being demonstrated by executives.

CHALLENGE QUESTIONS

What are the top critical actions your team can take to help promote a healthy culture? Does your culture need radical transformation or smaller changes? What small changes can your organization make that will have a significant impact on culture?

Conclusion

If we’ve learned anything from the corporate scandals of the past two-plus decades, it’s that culture can be one of the most lethal risks to an organization. An unhealthy culture is like heart disease: You may not know you have it until it is too late. But just as there are diagnostic tools that help predict and avoid heart disease, **internal audit can play a pivotal role in diagnosing an unhealthy culture before it’s too late to make changes.**

Internal audit has a tremendous opportunity to add value by conducting independent culture assessments, providing culture assurance, identifying threats to culture health, and making high-impact recommendations that affect aspects of culture ranging from employee well-being and engagement to tone at the top, communications, core values and organizational purpose, and so much more. Trends and findings in our report show that internal audit is still evolving in their development of culture assessment capabilities. This presents numerous challenges. For example, when asked to identify the functions responsible for overseeing and investigating hotline reports, 60% of respondents indicated that internal audit was responsible for oversight and investigations (often alongside legal, HR, or compliance)⁶. How does this structure impact internal audit's ability to assess the hotline's effectiveness? Internal audit leaders must proactively help their organizations set up governance that positions internal audit appropriately. **Being a champion for culture assessment and transformation is the same as being a champion for good governance.**

Small Changes, Big Impact

This report is a call to action. We've striven to show you the opportunities and provided tools in the appendix [Culture Assessment Toolkit](#) to get started. Now, it's time to challenge yourself to identify ways to drive big impacts in how your organization understands and assesses culture. Do you understand the elements, drivers, and KCRIs of your culture? Are you assessing culture and its risks, and communicating findings to management and the board? Where does your team stand on the maturity model, and what steps will help you advance?

While the aspirational state is for internal audit to serve as a knowledgeable, trusted, and sought-out advisor on organizational culture, the lower rungs on that very tall ladder still provide value. Use this report and toolkit to continue educating yourself, your team, and appropriate members of management and the board. Ask yourself the challenge questions throughout the report and brainstorm with your team. Start small, embedding culture in annual risk assessments. Be collaborative and positive as you introduce culture assessment in conversations with management and the board. Consider using organizational culture and employee engagement surveys to gain broad insight from across the organization. Ask questions — if there are unhealthy or toxic aspects of the culture, one of the best ways to identify issues is to ask the right questions to employees at all levels across the organization.

What are you waiting for? Become part of the conversation, and get a seat at the table. **Help your organization turn its culture into long-term value and competitive advantage.**

⁶ Question: Which function(s) have responsibility for oversight/investigations of hotline reporting? Select all that apply.

Base: 348.

Answer options: Legal; human resources; internal audit; compliance; other.

About the Authors



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Richard Chambers is the globally recognized chief practice leader of Richard F. Chambers & Associates, an advisory firm for internal audit professionals, and also serves as Senior Internal Audit Advisor at AuditBoard. Previously, he served for more than 12 years as the president and CEO of The Institute of Internal Auditors (IIA), where he led the organization to record global membership and countless milestones. Prior to The IIA, Chambers was national practice leader in Internal Audit Advisory Services at PricewaterhouseCoopers, the Deputy Inspector General of the U.S. Postal Service, and the Inspector General of The Tennessee Valley Authority. Chambers is the author of three award-winning books: [*Trusted Advisors: Key Attributes of Outstanding Internal Auditors*](#), which was released in 2017; [*The Speed of Risk: Lessons Learned on the Audit Trail 2nd Edition*](#), which was released in 2019; and [*Agents of Change: Internal Auditors in an Era of Disruption*](#) which was released in 2021. He recently launched The Audit Trail Academy to afford internal audit practitioners the opportunity to explore the key themes from each of his books in interactive seminars which he leads. Richard can be reached on [LinkedIn](#) or by email at rchambers@richardchambers.com.



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Cynthia Cooper is an internationally recognized speaker, consultant, advocate, and best-selling author of [*Extraordinary Circumstances: The Journey of a Corporate Whistleblower*](#). She shares her experiences and lessons learned, speaking on topics including ethics, leadership, culture, employee engagement and well-being, and fraud prevention and detection. Cynthia was the Vice President and CAE at WorldCom, and continued to serve in that role with MCI for over two years following the WorldCom scandal. Cynthia has served as Chair of the Board of Regents for the ACFE, on the SAG of the Public Company Accounting Oversight Board, and on the Board for the National Association of State Boards of Accountancy CPT. In 2020, Cynthia was included in 100 Women of the Year, TIME magazine's list of the most influential women of the last 100 years. She was also named one of TIME's Persons of the Year and one of twenty-five most influential working mothers in Working Mother magazine. Along with Senator Sarbanes, Representative Oxley, and Sherron Watkins, Cynthia received the Maria & Sidney E. Rolfe Award. She is the first woman to be recognized with the AAA Accounting Exemplar Award, the AICPA Business Hall of Fame and the IIA American Hall of Distinguished Audit Practitioners. Cynthia can be reached on [LinkedIn](#) or by email at ccooper@coopergroupllc.com.

About AuditBoard

AuditBoard is the leading cloud-based platform transforming audit, risk, and compliance management. More than 40% of the Fortune 500 leverage AuditBoard to move their businesses forward with greater clarity and agility. AuditBoard is top-rated by customers on G2, Capterra, and Gartner Peer Insights, and was recently ranked for the fourth year in a row as one of the fastest-growing technology companies in North America by Deloitte. To learn more, visit:

[AuditBoard.com](https://auditboard.com).

Appendix:

Culture Assessment Toolkit

You can't tell how healthy a culture is without actually assessing it, but as we shared earlier, there are key indicators that culture may present significant risks to your organization. Your initial challenge is to find ways to take point-in-time snapshots of your organization's culture, creating a report card on its various elements that can be a basis for comparisons to best practices, assessing gaps, and creating an action plan to address those gaps. **Most likely, you will need to “build a bridge” to key stakeholders by educating C-suite and board members on the risks and benefits of culture, demonstrating internal audit’s ongoing support and value, and offering recommendations for actions.** This collaborative approach will help stakeholders to recognize the important mandate and tremendous opportunity they have to ensure that internal audit has the resources and support needed to independently assess and monitor culture.

We built our Culture Assessment Toolkit with these needs in mind. It is not designed to be comprehensive, but rather generative. Share these tools with your board, audit committee, and C-suite, or extract ideas to help you develop your own culture assessment audit program.

Culture Assessment Toolkit

- Organizational Culture Assessment Maturity Model.....28**

- Actions for Impact: 3 Ways to Start Independently Assessing Culture and Providing Assurance to the Board.....32**
 - 1. Define Healthy Culture Guiding Principles (HCGPs) 32
 - 2. Set and Monitor Key Culture Risk Indicators (KCRIs) and Key Culture Metrics..... 34
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- Additional Culture Assessment Tools and Resources39**

Organizational Culture Assessment Maturity Model

Most internal audit functions still have a long way to go in maturing their culture assessment capabilities. Clearly, we need to crawl before we can walk or run. Internal audit’s ultimate goal should be to incorporate culture assessment at several key levels: (1) a formal, standalone report that provides a holistic view of the overall culture; (2) engagement-level findings and observations; and (3) regular briefings or discussions with management, the board, and audit committee. **Culture presents too big a risk — and too important an opportunity — to chance missing critical risk indicators by failing to incorporate a top-down, holistic approach to assessing culture risk.**

The maturity model presented in the following pages can help drive internal audit’s planning and execution. While every organization’s journey will be different, we advise that you begin by addressing culture at the engagement level. Then, work your way up, providing management and the board with capstone and trending reports that allow you to project across the enterprise. As soon as you are equipped and able, incorporate a top-down, holistic approach that includes a full culture risk assessment. Based on your risk assessment, you may determine that the best approach is to assess distinct aspects of culture on a rotational basis.

Organizational Culture Assessment Maturity Model: Internal Audit’s Role

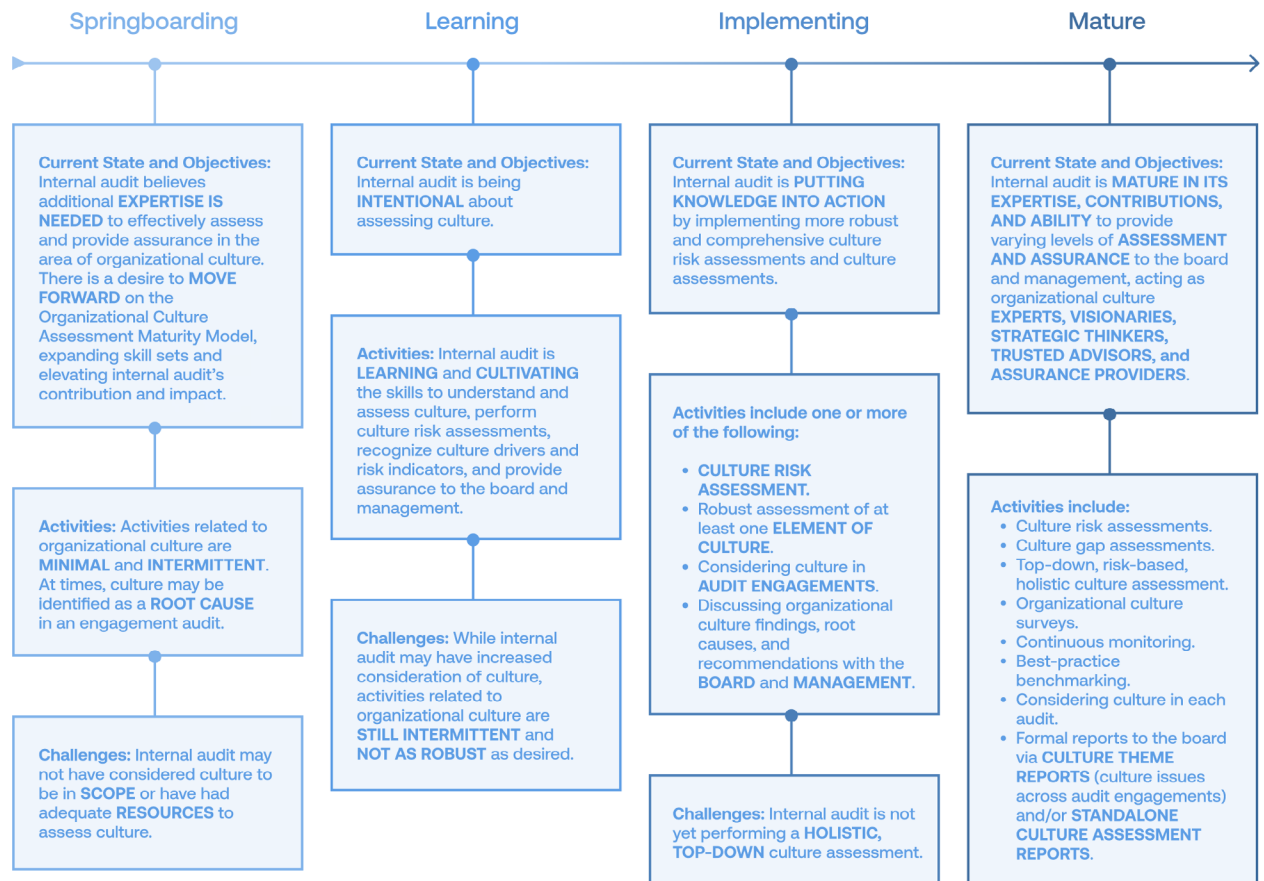


Figure 9

The following sections offer additional context around the activities, objectives, and challenges at each stage of maturity.

1. Springboarding

Internal audit's activities at the springboarding stage may be characterized as:

- Internal audit is aware of the risks culture can present, but little to no consideration is given to audit/assessment by internal audit.
- Culture risks are not considered in the annual audit planning risk assessment.
- Culture is sometimes identified as a root cause in audit findings.
- The board, audit committee, or executives have not requested that internal audit assess culture.
- Internal audit wants to learn more about the risks and opportunities that culture can present and how it can play a role.

During the springboarding stage, internal audit may lack skills and expertise in key areas such as:

- **How to assess organizational culture**, including metrics, methods, tools, and “hard” (areas for objective analysis) and “soft” (subjective analysis) aspects of culture.
- **Key Culture Risk Indicators (KCRIs)**, which can serve as warning signs that organizational culture is unhealthy or changing in important ways (e.g., increased attrition, lack of employee engagement or work-life balance).
- **Core elements of culture**, which break down organizational culture into different elements that drive and/or influence one another (e.g., employee engagement and well-being, communication, code of conduct, employee behavior, levels of pressure, compensation plans and perks). All elements do not have equal influence, so it's important to determine which elements pose the highest inherent and actual risk to the organization.
- **Attributes of healthy cultures** that tend to be fairly universal across organizations (e.g., having a purpose greater than profits, a tone at the top that encourages ethical behavior, an open-door policy in which speaking up is encouraged).

2. Learning

During the learning stage, internal audit is **intentional in educating itself about organizational culture** in all of the key areas indicated in the springboarding stage, including:

- Undertaking focused training to gain the skills needed to assess culture and culture risk.
- Considering culture in annual audit planning and risk assessments.
- Factoring culture in internal audit's findings, root-cause analysis, and recommendations.
- Beginning to explore opportunities to assess or audit one or more individual elements of culture, including both "soft" and "hard" assessment approaches.

3. Implementing

During the implementing stage, internal audit is **intentionally translating the culture knowledge it has accumulated into action** by:

- Implementing more robust and comprehensive processes around **culture risk assessments**.
- Assessing specific **elements** of culture.
- Regularly discussing culture in **conversations with management and the board**.
- Beginning to **think outside the box** regarding culture, getting creative in brainstorming ideas for developing long-term culture assessment plans and methodologies.

4. Maturity

Internal audit has achieved maturity in all areas outlined in the previous stages. Figure 10 shows what maturity looks like in practice, in terms of **how internal audit contributes value** as organizational culture experts, advocates, visionaries, strategic thinkers, trusted advisors, and assurance providers.

Organizational Culture Assessment Maturity Model: Internal Audit's Role

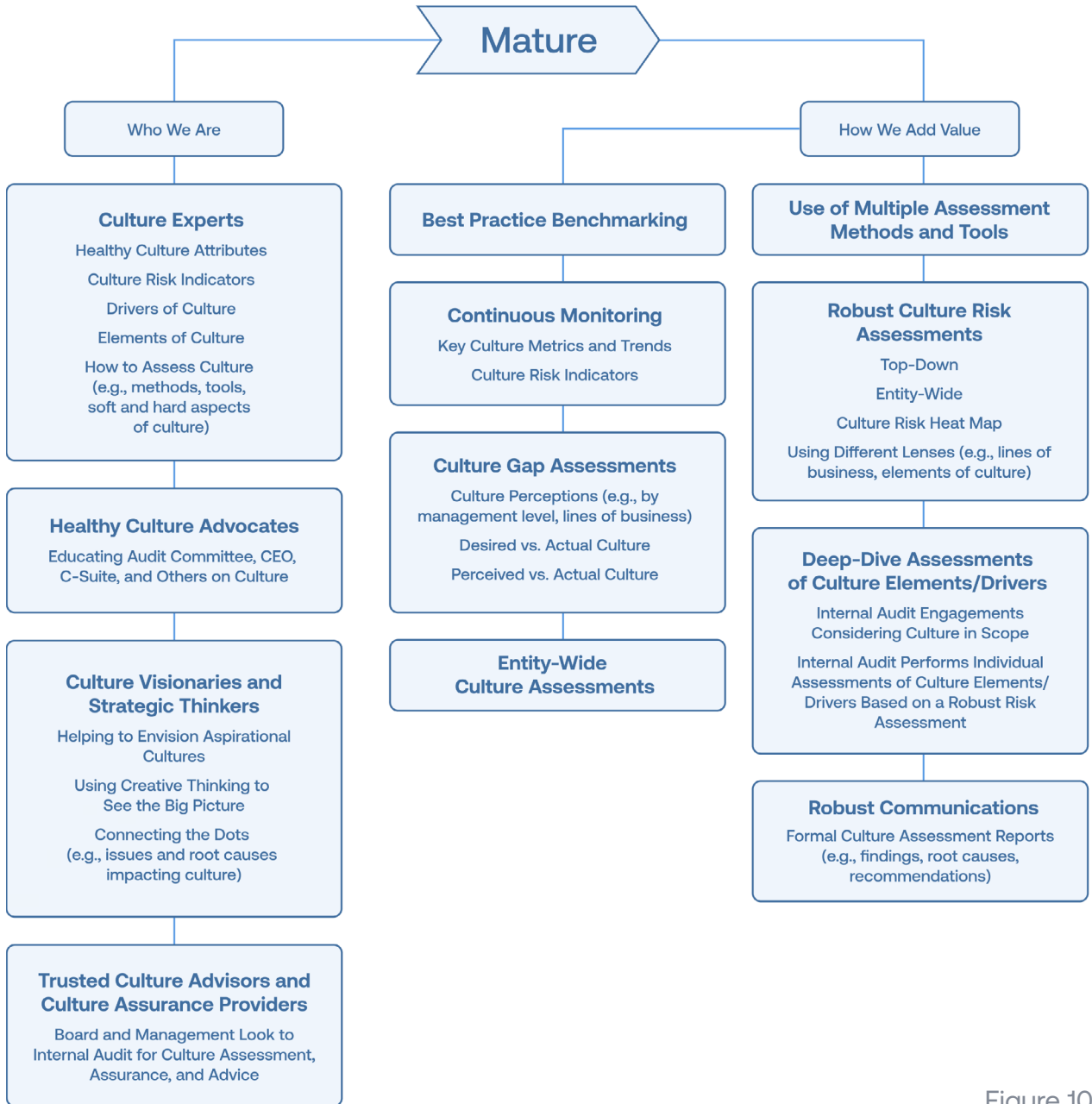


Figure 10

Actions for Impact: 3 Ways to Start Independently Assessing Culture and Providing Assurance to Management and the Board

1. Define Healthy Culture Guiding Principles (HCGPs)

It is crucial to define and visualize the principles and attributes that a healthy, high-performing culture embodies. Without HCGPs, an organization has nothing to assess against. It is true that, in some cases, what one organization may consider healthy, another may not. However, we believe that there are general HCGPs that most organizations can agree upon. Figure 11 shows examples of HCGPs to get you started.

Healthy Culture Guiding Principles (HCGPs)

Figure 11

Category	Healthy Culture Guiding Principle
Tone at the Top	<p>Tone at the top is one of the most critical aspects of culture, and can make or break an organization's success. A strong tone at the top has many dimensions. For example, executives:</p> <ul style="list-style-type: none"> • Formally define and clearly communicate their aspirational vision for strategy, mission and purpose, priorities, values, and organizational culture. • Inspire and motivate management and employees at all levels (e.g., convey gratitude, build trust, encourage employees to speak up, are intentional about listening and resolving issues). • Model, encourage, and prioritize ethical behavior. • Ensure that top-down communication is effective, in alignment, on point (e.g., clear, timely, transparent, respectful).
Mission, Vision, Strategy, and Values	The organization's mission, vision, strategy, and values are in alignment, well-defined, communicated, reinforced, and understood at all levels across the organization.
Organizational Purpose	The organization defines an enterprise-wide purpose greater than financial performance which is frequently communicated and well understood at all levels in the organization.
Ethics Awareness Tools	The organization prioritizes integrity and uses ethics awareness tools to communicate and reinforce key ethics messages.
Ownership of Assessment, Assurance, and Continuous Monitoring	<p>Ownership is assigned for:</p> <ul style="list-style-type: none"> • Monitoring, assessing, and providing independent assurance to the board and management regarding the health of the organization's culture. • Continuous monitoring of HCGPs, KCRIs, and issues that may negatively impact the culture.
Organizational Core Values and Guiding Principles	Guiding principles and core values are formally defined and regularly communicated and reinforced. They include values and principles that promote ethics and healthy cultures.
Change	Board and management closely monitor the impact and potential impacts of change on organizational culture (e.g., external: market, interest rates, competition, industry shifts, laws and regulations, creative destruction; internal: speed and method of growth, acquisitions, divestitures, workforce reductions or furloughs, integration, new products and services).

Category	Healthy Culture Guiding Principle
Employee Engagement	Employees are highly engaged, energized, and enthusiastic about the organization and their work. Levels of employee engagement and well-being are regularly assessed via employee engagement surveys. Employee engagement drives many factors that directly impact an organization's success (e.g. customer/client satisfaction, product and service quality, customer churn).
Employee Well-Being and Retention	<p>As with tone at the top, employee well-being is one of the most important components of culture. The organization understands that employee well-being drives employee retention and employee engagement, and cultivating well-being is prioritized. Employees feel a strong sense of well-being when it comes to their work. For example:</p> <ul style="list-style-type: none"> • Employees feel comfortable speaking up. • Employees believe in and understand how their work supports the organization's purpose, mission, and vision, and feel positive about the organizational culture. • They feel valued, respected, and supported by management. • They trust management and believe that the organization promotes ethical values. • They know where they stand, receive regular feedback on performance, and see opportunities for growth and advancement. • Work hours and expectations are reasonable, and work-life balance is supported over the long term.
Compensation and Perks	Compensation and perks are competitive, fair, and foster desired ethical behaviors.
Employee Behavior, Recognition, and Accountability	Employee behavior at all levels is in line with healthy cultural values. Ethical behavior is recognized and rewarded. Employees are held accountable for unethical behavior.
Priorities	Management is intentional in placing a high priority on ethics, integrity, and compliance, and ensuring that the organization has a healthy culture.
Diversity, Equity, and Inclusion	The organization has in place and prioritizes effective and impactful diversity, equity, and inclusion programs that are adequately funded and monitored by management and the board.
Goals and Objectives	Goals and objectives are well-defined, effectively communicated, and in alignment with organizational strategy. While stretch goals are used, they are still considered achievable.
Training	The board, management, and employees receive periodic training on culture, core values, facing and resolving ethical dilemmas, policies and procedures, organizational guiding principles, and expected behavior.
Pressure	The organization monitors levels of pressure on management and employees. Employees are not incentivized or pressured to behave unethically.
Talent Management	The organization has effective hiring and retention practices that support a healthy culture.
Board Oversight	Organizational culture, including tone at the top, is a regular board or committee agenda item. The board provides robust oversight of organizational culture, receives independent assurance regarding the health of the culture, and ensures that there is a strong infrastructure supporting the culture.
Competency and Skills	Management at all levels and employees have the competency and skills needed for their role.

Category	Healthy Culture Guiding Principle
Decisions	Profits alone do not determine decisions. Organizational purpose, values, and the impact on all stakeholders as well as the longevity of the organization are considered. The board and management are sensitive to the cultural impact of decisions that may be short-sighted and not in the best long-term interests of stakeholders.
Communication	The organization has effective, timely, respectful, open, and transparent top-down, bottom-up, and cross-functional communications.
Financial Health	The organization has strong financial health and adequate reserves to weather unexpected storms.
Risk Appetite, Level of Risk-Taking, and Risk Management	Risk appetite is well-defined, monitored, and clearly understood by management and the board. The board provides robust oversight regarding the level of risk and its impact on culture and long-term sustainable success.
Agility and Flexibility	The board and management are intentional about implementing structures, teams, processes, and policies that allow for agility and flexibility.
Infrastructure Supporting Culture	There is a strong infrastructure to support a healthy culture, ethics, and compliance. The organization supports and empowers strong, effective functions critical to a healthy culture (e.g., internal audit, ethics and compliance, enterprise risk management, human resources, legal).
Teamwork and Problem-Solving	High-performing teams are the norm. The organization supports collaboration to identify and solve problems quickly and effectively. Trust and respect are core values. The organization invests in and is intentional about understanding how high-performing teams are created, motivated, and function at their best.

2. Set and Monitor Key Culture Risk Indicators (KCRIs) and Key Culture Metrics

Organizations must set and monitor KCRIs that can provide early warnings of culture failures and determine key culture metrics to monitor continuously. Below are some examples to get you started.

Figure 12

Key Culture Risk Indicators (KCRIs)	
Profit-at-any-cost mentality	Management makes short-term decisions driven by financial goals that cause harm to others, are considered unethical or illegal, and/or are not in the best long-term interests of the organization or stakeholders.
Poor tone at the top	Building and cultivating a healthy culture is not prioritized by executive management or the board. Executives don't exhibit ethical or core values. Executives lack expertise and skills and/or are disengaged. Executives don't effectively define, communicate, and reinforce core values, employee expectations, strategy, important messages, etc.
Board does not provide robust oversight of culture	Board members do not proactively and consistently monitor and discuss organizational culture issues.

Key Culture Risk Indicators (KCRIIs)	
<p>Employee dissatisfaction: e.g., executive, tenured, and/or staff-level employee attrition is high; employee well-being and engagement is low; executive-employee complaints and issues exhibit heightened risk</p> <p>Customer or client dissatisfaction: e.g., customer/client attrition and complaints are high; satisfaction is low; issues raised have a significant level of seriousness and impact; retention falling, attributable to poor product or service quality stemming from organizational culture weaknesses; quality lacking in the organization's products or services (e.g., errors, untimely delivery, inaccuracy, defects)</p>	<p>Employee engagement is low and employee well-being is suffering. As a result, negative impacts such as customer and client dissatisfaction may ensue. Employees report that they do not feel respected, trusted, or valued by management; are not empowered to make decisions; do not find a sense of meaning or purpose in their work; and/or are subject to unachievable goals and unreasonable expectations (e.g., deadlines, productivity, efficiency, profitability). Root causes must be assessed to determine why employees, customers, or clients are dissatisfied and whether culture is a culprit. Questions to ask:</p> <ul style="list-style-type: none"> • Are goals and objectives unclear or unrealistic? Do they align with strategy? • Are compensation plans and perks competitive? Do they drive or encourage unethical behavior? • Is supervision adequate? Do management or employees lack expertise? • Is the physical work environment inadequate? Does it discourage innovation or creativity? • Are work hours excessive? Do employees have reasonable work-life balance? Are there excessive errors, disengagements, or cases of burnout and attrition? • Do expectations to meet deadlines or complete work result in undue pressure and poor quality? • Do employees feel respected or valued, or fail to find a sense of meaning and purpose in their work? Are employees unable to use their strengths or feel unempowered? Do they have the tools needed to do their work? • Is ethical behavior recognized or rewarded? Is unethical behavior properly addressed?
Organization is not in alignment	Mission, vision, values, strategy, purpose, goals and objectives, budgets, and compensation are not complementary, effectively communicated, or understood throughout the organization.
Secrecy or a lack of transparency	There is a level of secrecy and lack of transparency that lead to toxic cultures and culture silos.
Ineffective risk management programs	There is no formal risk management program and a lack of ownership for risk management activities. Risk appetite is not defined. Key risks are not recognized, monitored, mitigated, or reported to the board. Management is taking excessive risks that negatively impact culture, key stakeholders, or the organization's longevity.
Conflicts of interest	Conflicts of interest negatively impact the workplace and health of the culture (e.g., at the board, management, or employee level). There is no conflict of interest policy.
Rapid or extreme change puts excessive pressure on the culture	The negative impact of change (e.g., to employees, the quality of product and services, customer satisfaction) is not considered, monitored, or reported to the board. Change that negatively impacts an organization or its culture can come in many forms (e.g., reorganizations, layoffs, high attrition, rapid growth, acquisitions, or divestitures).
Communication is lacking	Top-down, bottom-up, and cross-functional communication is inadequate.

Key Culture Risk Indicators (KCRIs)	
Speaking up is uncommon and is not encouraged or supported	Employees are not comfortable speaking up. Employees who raise issues don't feel that their anonymity is protected or that issues are taken seriously and are addressed. In addition, they may face retaliation. The organization does not have a robust infrastructure to ensure that issues raised are properly investigated and resolved in a timely manner (e.g., ownership for investigations has not been assigned and there is no hotline or code of conduct, ethics and compliance resources and policies are inadequate, there is a lack of monitoring, or issues are not escalated to the appropriate levels of management or the board).
Lack of diversity, equity, and inclusion	<p>There is a lack of executive or board commitment to and prioritization of diversity, equity, and inclusion (e.g., no ownership for managing and monitoring, a lack of diversity training, inadequate budgets or resources, no formal diversity, equity, and inclusion programs, policies, and practices).</p> <p>There is a lack of diversity at various levels of leadership and/or across the workforce. Employees report that there is a lack of equity in compensation or growth opportunities, that they feel excluded, or that their ideas and input are not valued.</p>
Unwillingness to accept and address bad news or failure	Management and/or the board are not open to "bad news" or dissent, and refuse to take timely, ethical, and transparent action based on credible information that indicates a decline in performance or contradicts their preferred strategy, decisions, or opinions. There is a lack of flexibility in changing course when necessary.

3. Enlighten the Board, Audit Committee, and C-Suite

Culture has significant inherent risks, and the board, audit committee, and C-suite have important responsibilities for overseeing culture and managing any vulnerabilities. **Internal auditors can provide leaders with the sample questions listed below to ensure appropriate issues around culture and culture reporting are being addressed at board, audit committee, and executive meetings.** These questions can help reveal and get to the core of problems, assisting organizations in assessing where they should make changes to improve their culture.

Figure 13

Questions Every Board, Audit Committee, and C-Suite Should Ask About Culture		
Focus Area	Key Question	Going Deeper
1. Oversight	How is the board providing oversight to ensure that the organization's culture is healthy , and that there are no unhealthy culture silos or other related challenges?	<ul style="list-style-type: none"> Does the board need to be more intentional in providing oversight of organizational culture? Is culture consistently discussed at board meetings? Has the board communicated its expectations regarding organizational culture? Is the board aware of how the organization is or is not independently assessing, monitoring, managing, and measuring the health of the culture, including the use of defined Healthy Culture Guiding Principles and Key Culture Risk Indicators?

Questions Every Board, Audit Committee, and C-Suite Should Ask About Culture

Focus Area	Key Question	Going Deeper
2. Assurance	Does the board receive adequate information and independent assurance regarding organizational culture?	<ul style="list-style-type: none"> • Has the board been provided with independent assurance that the culture embodies the values of a healthy ethical culture (e.g., integrity, respect for others, honesty, accountability)? • Does risk management or internal audit perform a standalone culture risk assessment using different lenses (e.g., by line of business, culture element, department, geography, acquisition)? • Is there a regular, independent assessment of the health of core elements of culture, key culture drivers, and KCRIs? • Does the board receive a robust culture dashboard or health of the culture report?
3. Purpose Greater Than Profits	Has the organization defined a social purpose greater than financial results or growth?	<ul style="list-style-type: none"> • Is this purpose clearly and regularly communicated and understood at all levels of the organization?
4. Tone at the Top	Do board members proactively and consistently monitor the tone being set by the CEO and C-suite?	<ul style="list-style-type: none"> • Does the board understand what determines and drives a healthy/unhealthy tone at the top? • Does the board provide robust oversight, ask the appropriate questions, and monitor the appropriate metrics? • How are key CEO and other C-suite decisions impacting the organization from a culture perspective? • Does the drive for financial results result in decisions that are not in the best long-term interests of the organization or that are negatively impacting other key stakeholders?
5. Organizational Strategy	Do board members ask the appropriate questions regarding the wisdom and impact of organizational strategy?	<ul style="list-style-type: none"> • Does the board ask about the impact strategy is having on culture? What factors are driving the strategy? Are key assumptions underpinning the strategy valid?
6. Understanding Culture	Do board members understand the concept of organizational culture and have the tools and expertise needed to provide appropriate oversight?	<p>Does the board understand:</p> <ul style="list-style-type: none"> • What drives critical aspects of culture (e.g., employee well-being and engagement, communications)? • Unhealthy culture risk indicators? • The critical risk posed by unhealthy cultures, and benefits and competitive advantages of high-performing, healthy, ethical cultures?

Questions Every Board, Audit Committee, and C-Suite Should Ask About Culture

Focus Area	Key Question	Going Deeper
7. Principles of a Healthy Culture	Has the organization defined and presented to the board what executive management believes are the core principles, attributes, and values of a healthy, ethical, and high-performing culture?	<ul style="list-style-type: none"> Does management monitor and assess against those principles, attributes, and values?
8. Lines of Responsibility and Accountability	Have roles and responsibilities regarding culture been clearly defined?	<ul style="list-style-type: none"> Are these roles and responsibilities accountable and are they clearly articulated, understood, and cascaded throughout the organization?
9. Culture Risk Indicators	Does the board understand key risk indicators of an unhealthy culture?	<ul style="list-style-type: none"> How does the organization track and monitor Key Culture Risk Indicators (KCRIs)?
10. Perception of Culture	Has the organization formally evaluated how various aspects of culture are perceived by the board, C-suite, employees, customers, and other stakeholders?	<ul style="list-style-type: none"> Has the board been made aware of the findings and differences in perception by management level, line of business, geographical area, etc.?
11. Aspirational Culture	Have the CEO and C-suite formally defined and communicated their expectations for the aspirational culture ?	<ul style="list-style-type: none"> Has the board been made aware of these expectations and provided input to management? Is the board monitoring steps being taken by management to achieve the aspirational culture?
12. Assessing Culture and Culture Risks	Who is responsible for performing an independent culture risk assessment and an independent assessment of the health of the culture?	<ul style="list-style-type: none"> Does internal audit have a seat at the table, independently assessing and providing assurance and recommendations on the health of the culture and reporting on culture risks? What lenses are being used (e.g., level of management, acquisitions, department/line of business, elements of culture, drivers of culture)? Does the assessment need to be more robust and/or more frequent?
13. Gaps and Opportunities	Has the organization identified gaps between aspirational, perceived, and actual culture, as well as opportunities to strengthen culture?	<ul style="list-style-type: none"> Is the organization proactively identifying and making changes that strengthen its culture and move the organization forward on the healthy culture maturity continuum?

Additional Culture Assessment Tools and Resources

Explore more great tools and resources from The IIA, Chartered IIA, Anti-Fraud Collaboration (CAQ, IIA, FEI, NACD), OECD, Gallup, the Big Four, and more. All external resources referenced in this report are listed below.

Understanding Organizational Culture

[*What Is Organizational Culture? And Why Does It Matter?*](#) **Gallup; 2022.** Examines corporate culture is and why it's important to business success.

Assessment Guidance

[*Assessing Corporate Culture: A Proactive Approach to Deter Misconduct.*](#) **Anti-Fraud Collaboration; 2020.** Focuses on the rising regulatory tide, the importance of culture in driving ethical behavior and business benefits, and guidance on assessing and improving culture.

[*Various IIA resources on understanding and assessing culture.*](#) **The Institute of Internal Auditors.** Helpful planning tools, articles, webinars, and videos. Recommended resources:

[*Auditing Culture \(IIA practice guide\).*](#) **2019.** Guidance to help internal auditors understand the risks associated with culture, how effectively managing culture risk supports a successful control environment, and how to approach culture assessment.

[*The Speed of Risk: Lessons Learned on the Audit Trail.*](#) **Richard Chambers; 2019.** Includes a chapter dedicated to internal audit's role in auditing culture.

Governance Guidance

[*Build a Culture That Aligns with People's Values.*](#) **Harvard Business Review; 2020.** Offers recommendations for building cultures of employee empowerment and engagement.

[*Company Culture Is Everyone's Responsibility.*](#) **Harvard Business Review; 2021.** Looks at why the historical approach to culture is no longer effective, suggesting a new model in which responsibility is shared throughout the organization. Includes breakdown of suggested roles for the board, executive leadership, middle managers, HR, compliance/risk/ethics, and employees.

Surveys and Studies on Organizational Culture

[*Annual Corporate Directors Survey.*](#) **PwC; 2019.**

[*Corporate Culture: Evidence From the Field.*](#) **Duke University, Columbia University; 2022.**

[*Corporate Culture Is Most Important Factor In Driving Innovation.*](#) **University of Minnesota; 2008.**

[*Cultivating a Healthy Culture.*](#) **Chartered Institute of Internal Auditors, AuditBoard; 2022.**

[*EY US Generation Survey.*](#) **Ernst & Young; 2022.**

[*Fraud Is on the Rise: Step Up to the Challenge.*](#) **Chartered Institute of Internal Auditors, AuditBoard; 2022.**

[Global Culture Survey](#). PwC; 2021.

[Organizational Culture Drives Ethical Behavior: Evidence From Pilot Studies](#). OECD Global Anti-Corruption & Integrity Forum; 2018.

[Survey on workplace culture](#). Gallup, 2023.

[The Board Imperative](#). Ernst & Young; 2021.

[2022 Risk Overview: Human Capital, Diversity, and Talent Management](#). European Confederation of Institutes of Internal Auditing and the Institutes of Internal Auditors in Austria, Belgium, France, Germany, Greece, Italy, Luxembourg, the Netherlands, Spain, Sweden, and the UK & Ireland; 2022.

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