



Assessing Your Financial Institution's Culture

Scott Baranowski, CIA
Drew Coveney, CIA
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“Pursue a straightforward, upright, legitimate banking business. Never be tempted by the prospect of large returns to do anything but what may be properly done under the National Currency Act. ‘Splendid financiering’ is not legitimate banking, and ‘splendid financiers’ in banking are generally rascals or humbugs.”

– Letter of guidance to bankers from the U.S. Comptroller of the Currency,
December 1863

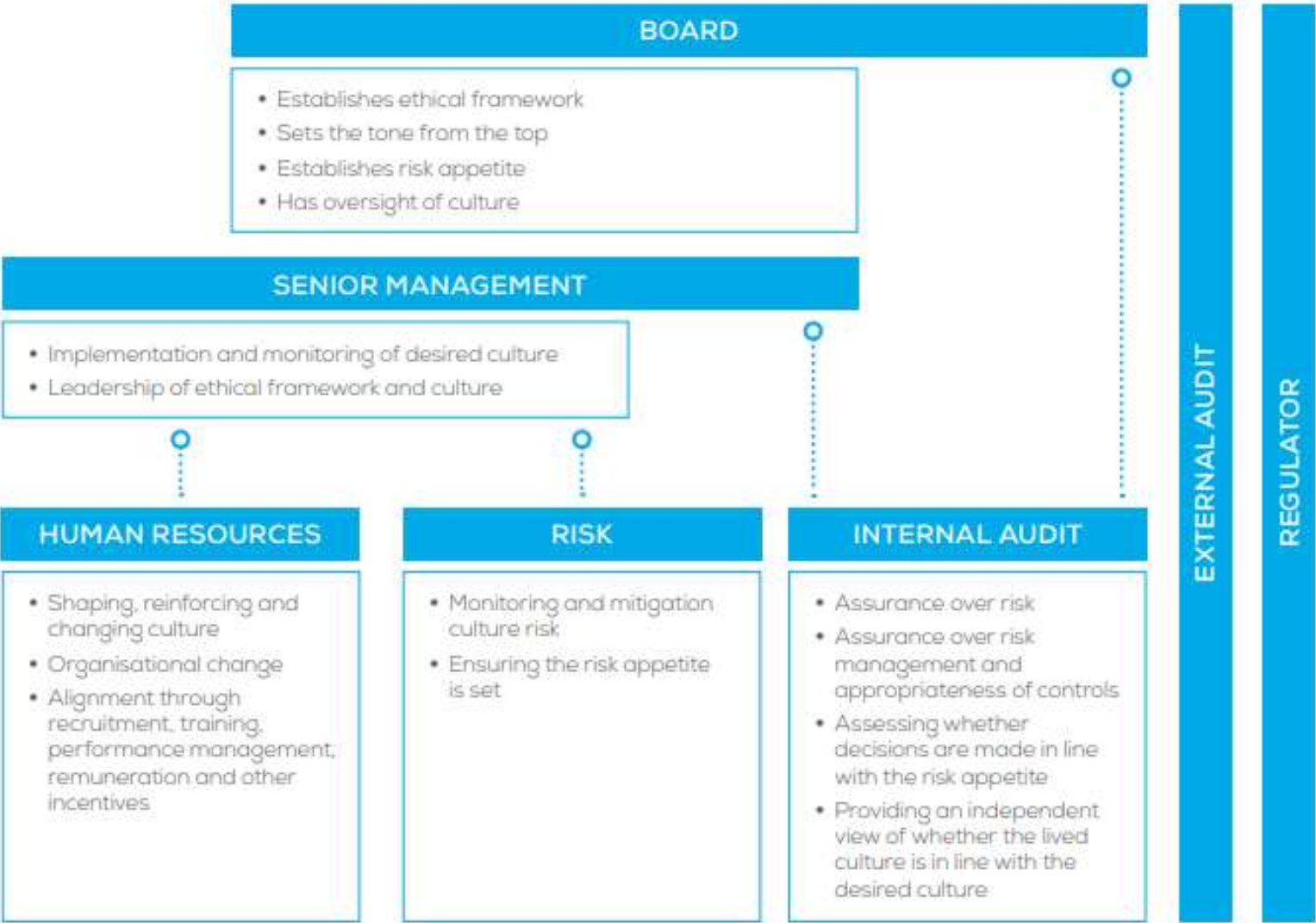
Good Culture



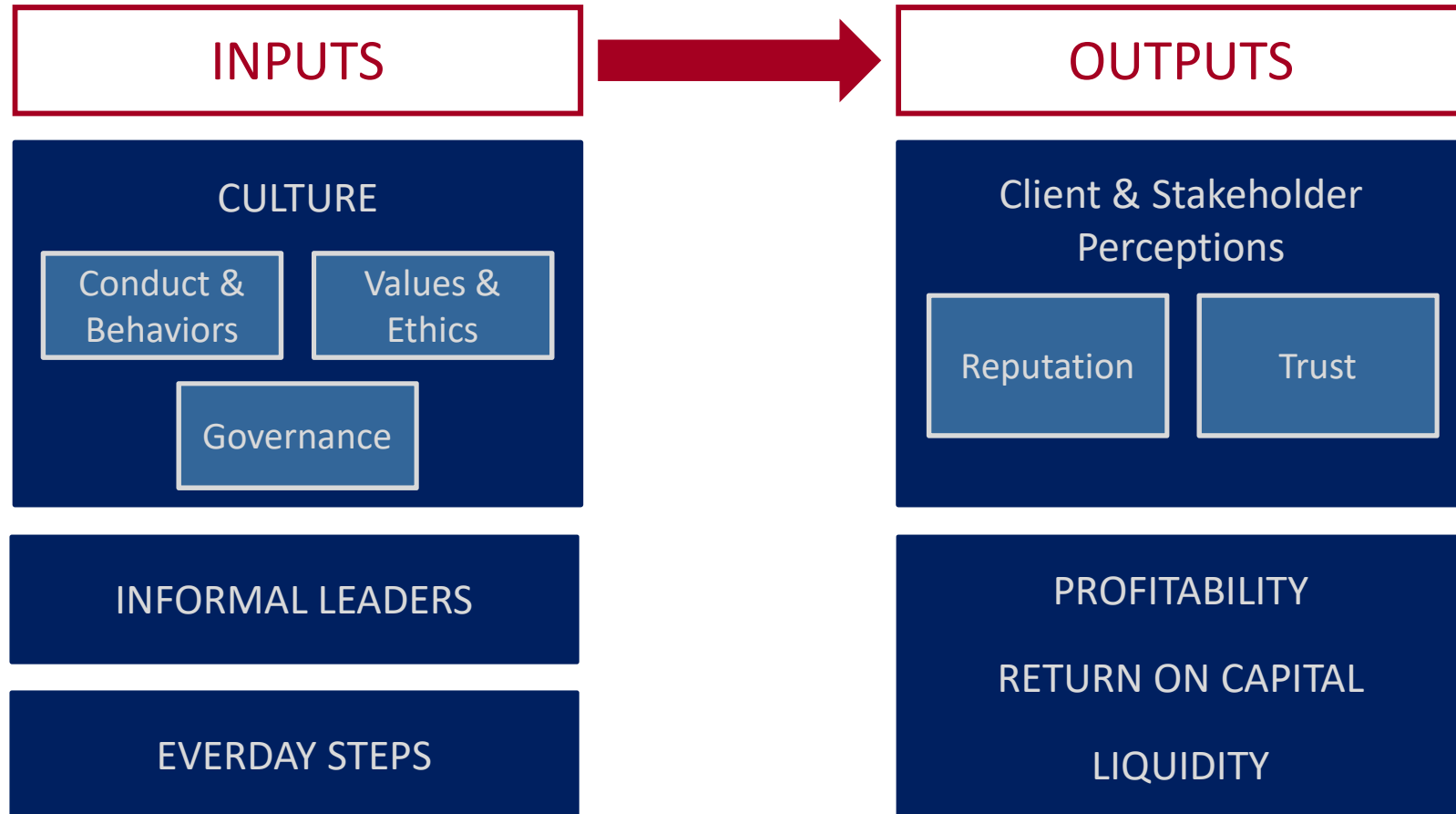
Defining Culture



Culture Responsibilities



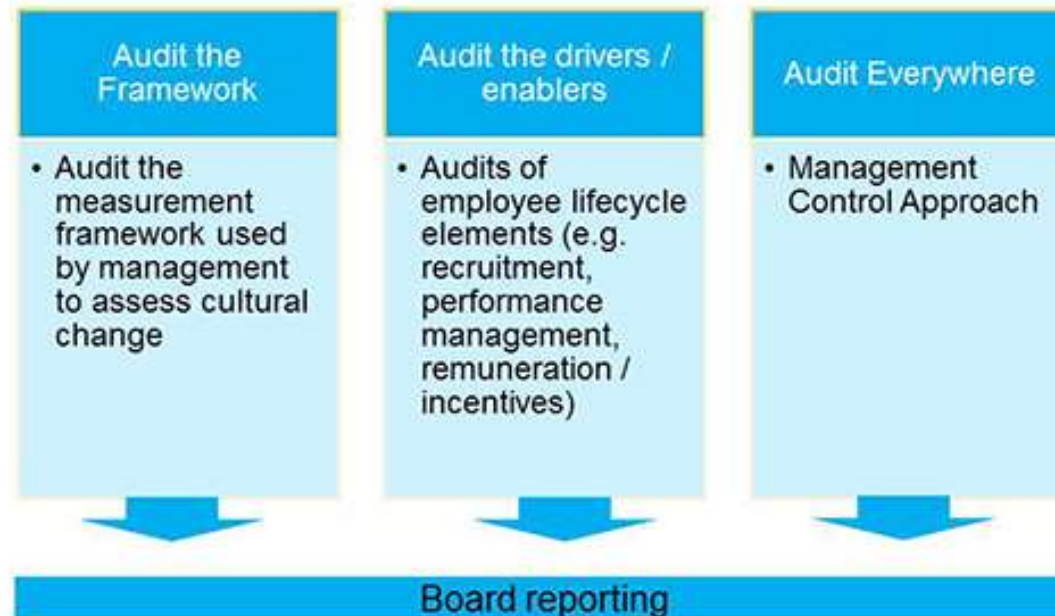
Calculating Culture



Why Assess Culture?

- Positive Culture – What to keep and what to change?
- Damaged Culture – Why?

Auditing Culture – Barclays Internal Audit approach



Assessing Culture – What’s Important?

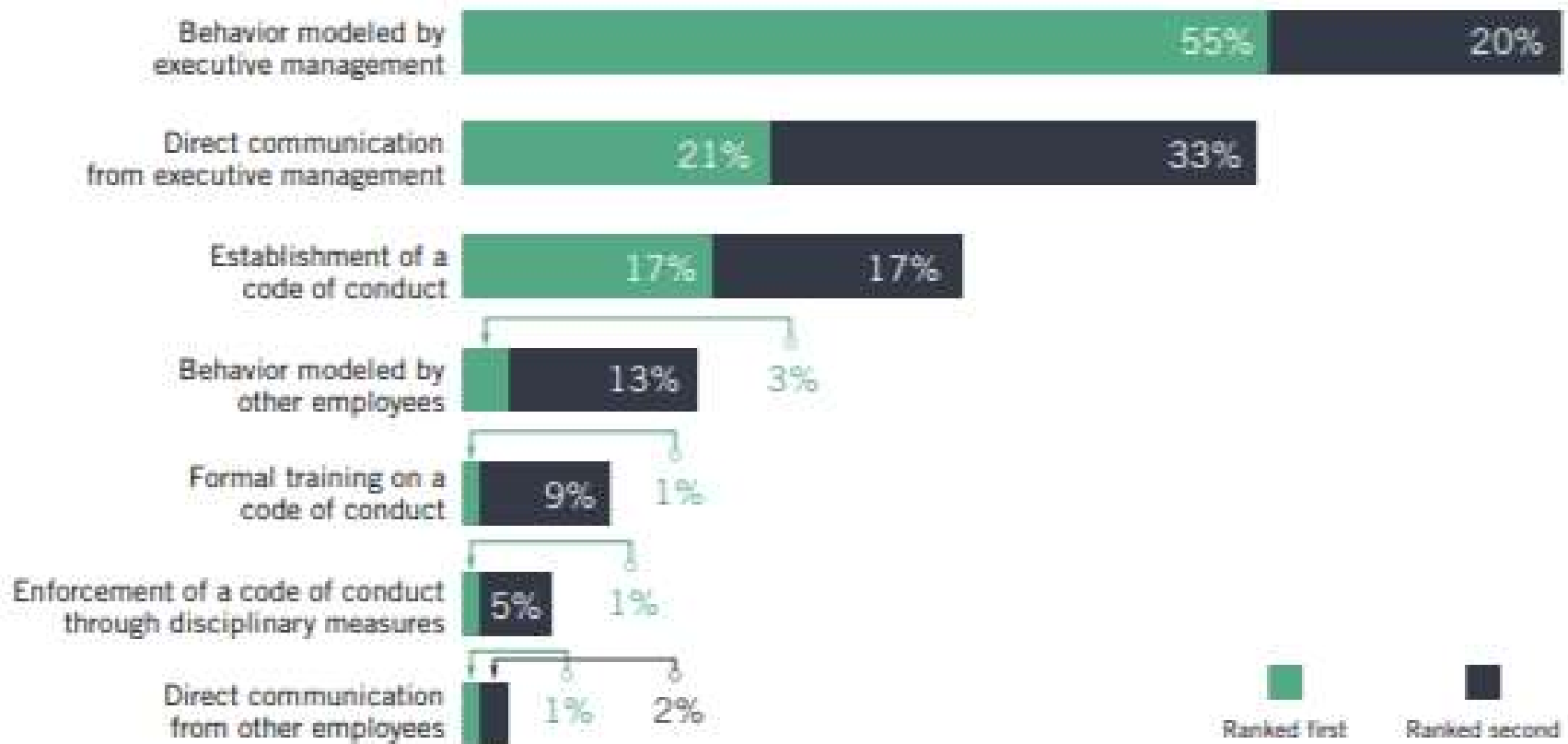


Assessing Culture – What’s Important?

1. Communication from other employees
2. Establish a code of conduct
3. Code of conduct enforcement
4. Code of conduct training
5. Behavior modeled by other employees
6. Direct communication from executive management
7. Behavior modeled by executive management

IIA Poll Results

Figure 2. Factors influencing culture ranked as first and second most effective.



Note: Q8. Rank each of the following factors according to its effectiveness in influencing the culture of your organization, with 1 as the most effective.

Who Assesses Culture?

58%

said they *do not* audit organizational culture.



65%

rated their average audit team member as not at all, slightly, or only moderately proficient in accounting for the organization's politics.

58%

rated their average audit team member as not at all, slightly, or moderately proficient in balancing diplomacy with assertiveness.

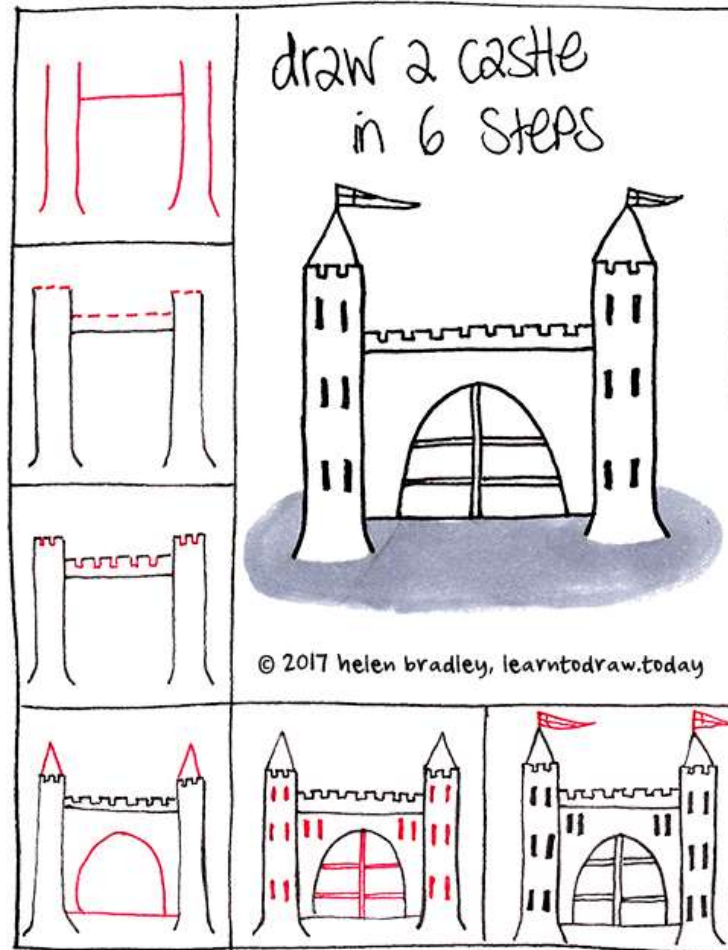
63%

rated their average audit team member as not at all, slightly, or only moderately proficient in managing conflict effectively.





6 Easy Steps



6 Steps for the CAE

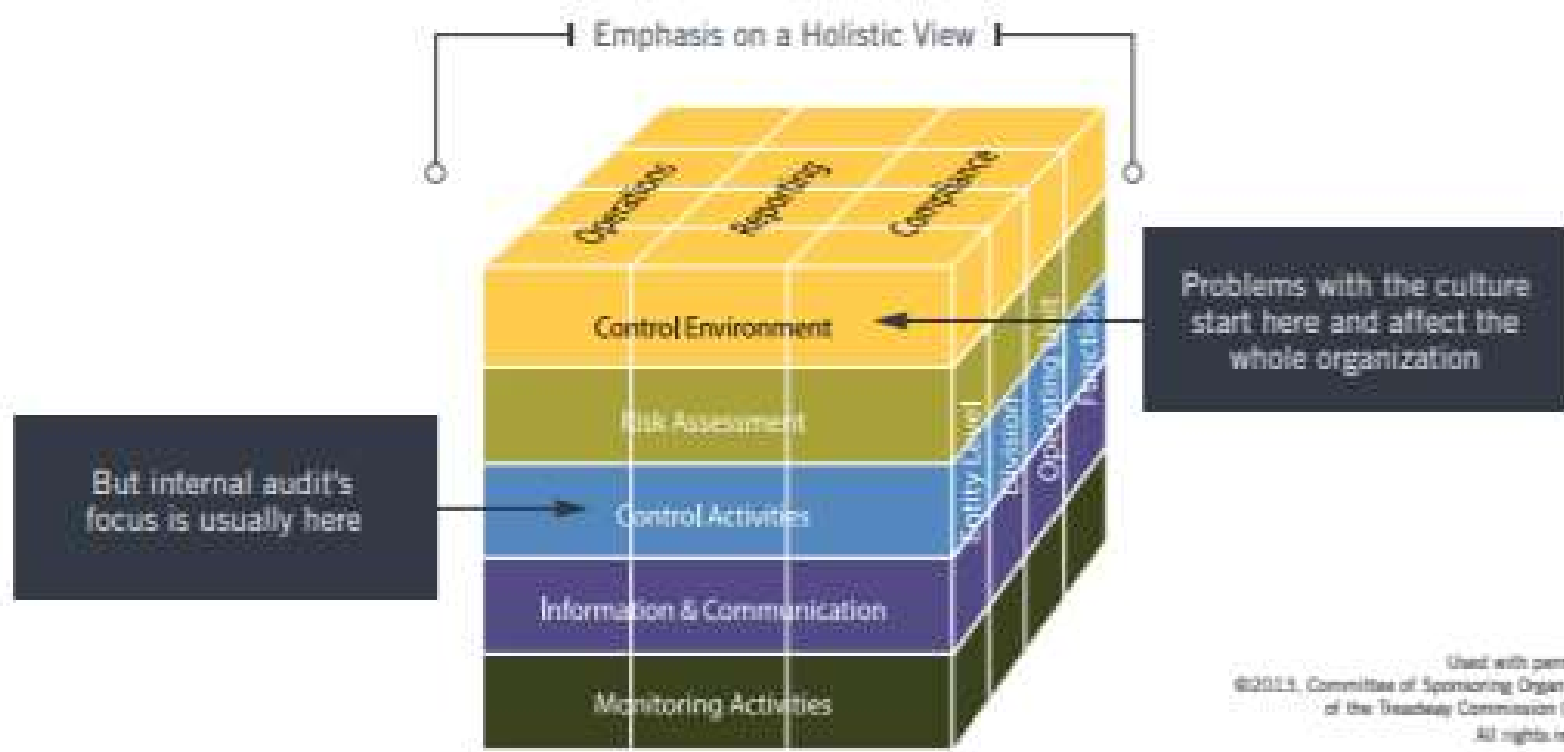
1. Discuss the importance of auditing culture with the board and executive management.
2. Build or acquire the skills needed to assess culture.
3. Learn how management style affects the organization and employee behavior.

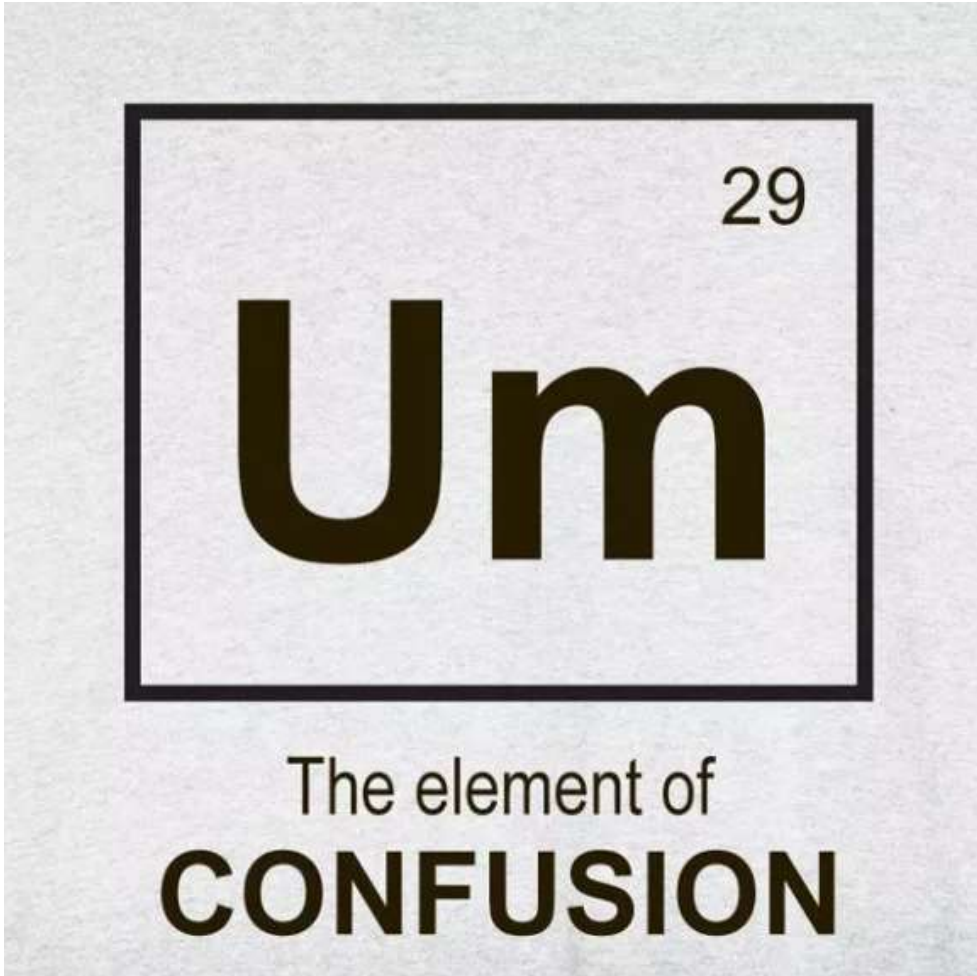
6 Steps for the CAE

4. Develop an approach to assess the critical elements of the organization's culture.
5. Gather information about the organization's culture, using professional judgment to evaluate information that cannot be easily measured.
6. Build relationships through which to identify and address concerns about culture.

COSO and Culture

Figure 1: COSO "Cube" Model





Connecting the Dots

- Prior report ratings
- Results of annual SOX and other compliance testing
- Data analytics and continuous controls monitoring
- ERM and internal audit risk assessments
- Ethics and whistleblower hotline reporting
- Trusted relationships within the organization

Look for Patterns

- Are findings consistent across processes?
- Are findings repetitive?
- Has management consistently and timely performed remediation activities?
- Are finding unique to a business unit or geography?

Look for Patterns

- Can findings be attributed to a lack of training or hiring practices?
- Do annual employee survey responses vary by location or job type?
- Is management open to discussion of specific audit findings?

Look for Patterns

- Are exceptions to following policy the rule?
- Do policies and procedures require modification?
- Is technology investment required to enhance and reinforce control culture?

When Culture Goes Bad..



When Culture Goes Bad..



Volkswagen



TESLA

EQUIFAX®



The Cost of Bad Culture

Violation Tracker Industry Summary Page

Industry: financial services

Penalty Total since 2000: \$228,770,992,016

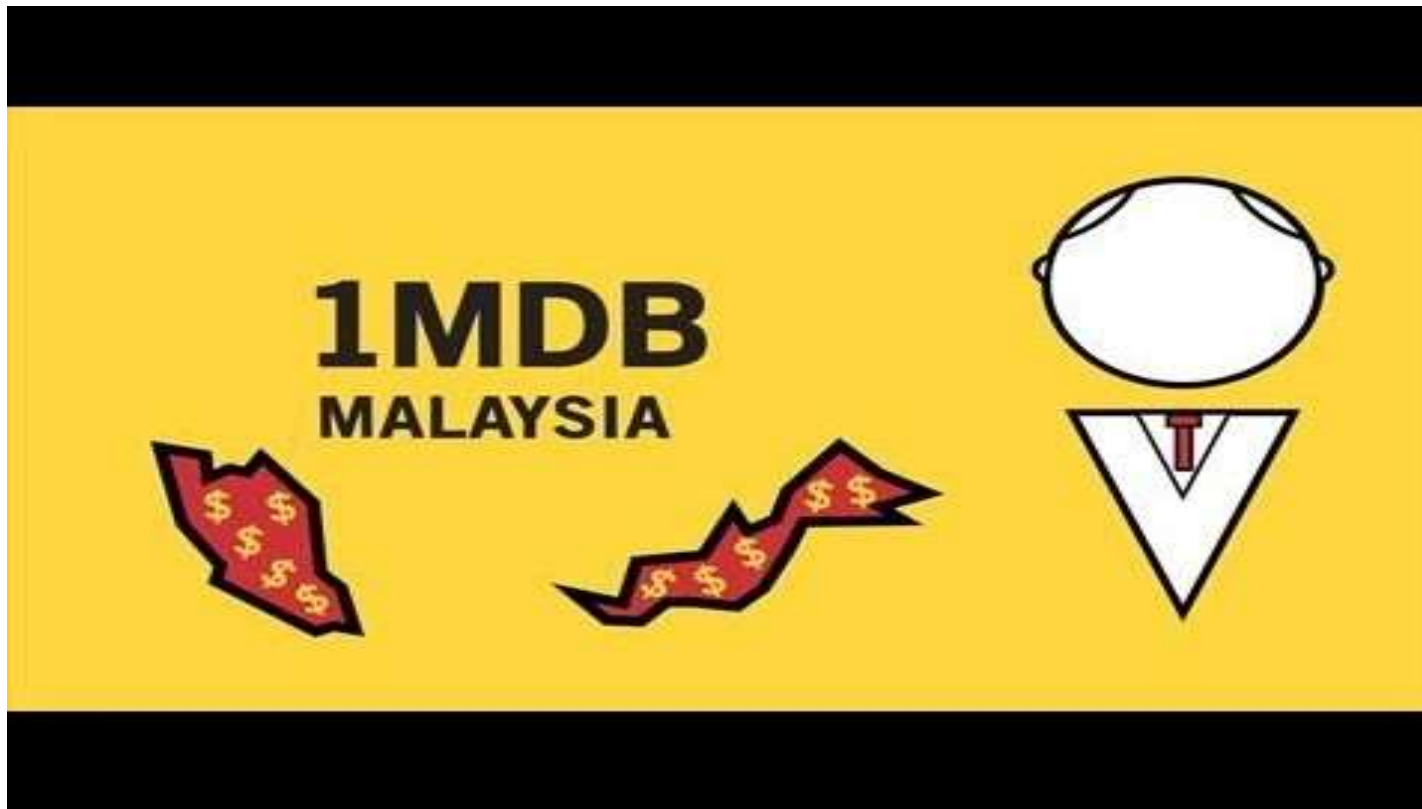
Number of Records: 1,939

Note: The total includes only those entries matched to a parent company. The industry designation is the primary one for the parent's operations overall. The penalty dollar total above is adjusted to account for the fact that the list of entries below may include both agency records and settlement announcements for the same case; or else a penalty covering multiple locations may be listed in the individual records for each of the facilities. Duplicate penalty amounts are marked with an asterisk in the individual records list below.

Top 10 Parent Companies	Total Penalty \$	Number of Records
Bank of America	\$58,406,055,098	119
JPMorgan Chase	\$29,715,750,704	99
Citigroup	\$17,267,715,789	68
Wells Fargo	\$14,779,993,515	93
Deutsche Bank	\$12,527,268,086	32
Royal Bank of Scotland	\$12,429,670,000	16
Goldman Sachs	\$9,602,492,860	26
BNP Paribas	\$9,542,129,750	11
Credit Suisse	\$9,238,499,630	19
HSBC	\$5,718,137,007	40

1 MDB Summarized

For a brief refresher:





Deep Dive Goldman Sachs

Violation Tracker Parent Company Summary

Parent Company Name: Goldman Sachs

Ownership Structure: publicly traded (ticker symbol GS)

Headquartered in: New York

Major Industry: financial services

Specific Industry: banking & securities

Penalty total since 2000: \$9,602,492,860

Number of records: 26

Top 10 Primary Offense Types	Penalty Total	Number of Records
toxic securities abuses	\$8,760,000,000	3
mortgage abuses	\$344,000,000	2
securities issuance or trading violation	\$179,027,860	9
foreign exchange market manipulation	\$120,000,000	1
investor protection violation	\$118,925,000	4
banking violation	\$36,390,000	2
financial institution supervision failures	\$30,500,000	3
illicit political contributions	\$12,000,000	1
data submission deficiencies	\$1,650,000	1



Deep Dive Goldman Sachs

The Goldman Sachs Group, Inc. (GS) ☆

NYSE - Nasdaq Real Time Price. Currency in USD

203.15 +0.93 (+0.46%)

As of 11:35AM EDT. Market open.

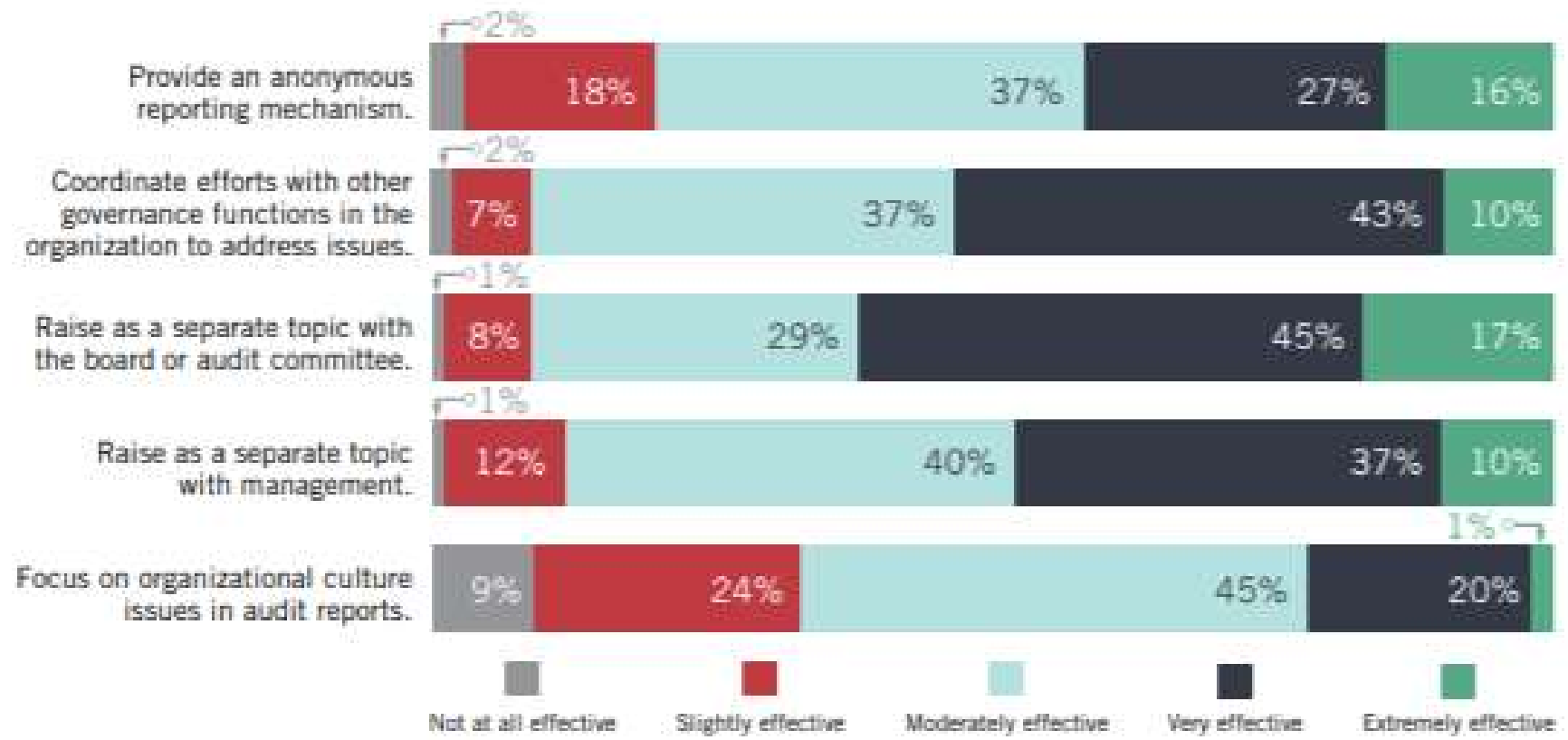


Starting Over



Fixing Culture

Figure 5. Effectiveness of methods addressing a toxic culture.

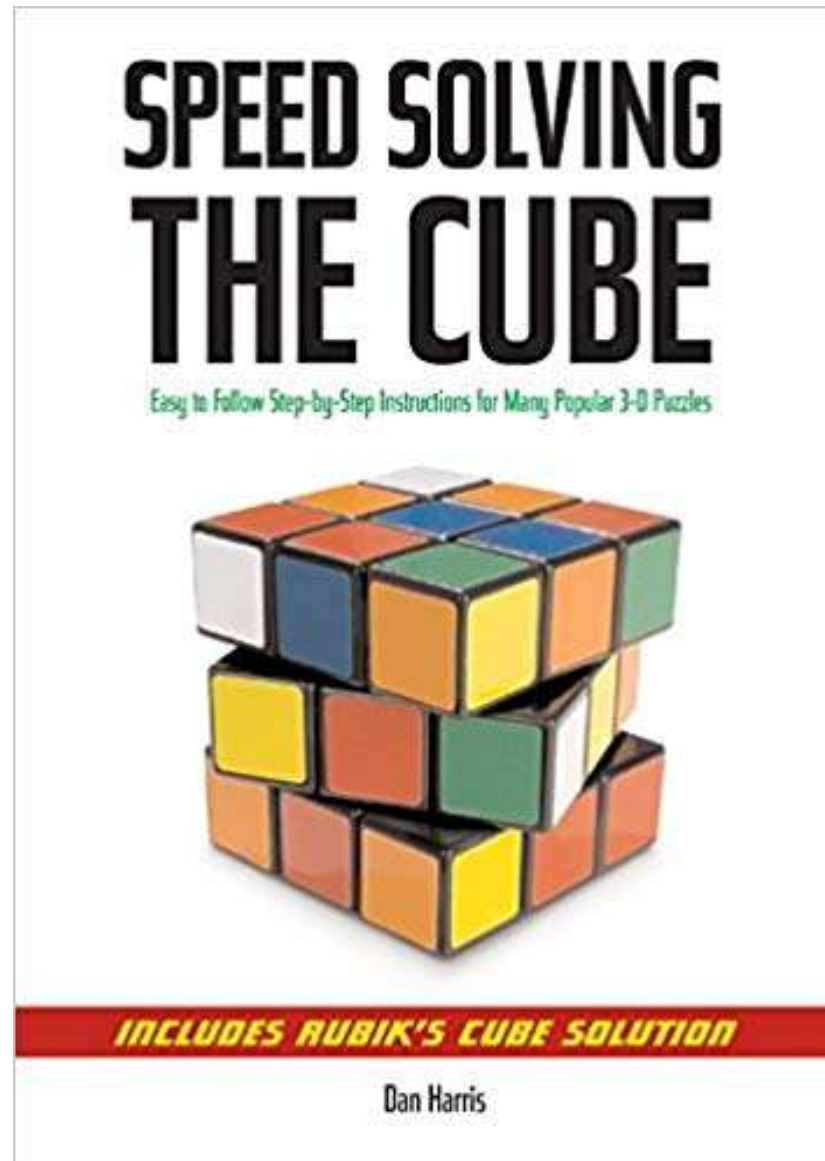


Note: Q12: Rate the effectiveness of the following methods for addressing a toxic culture in an organization. Includes answers from those who did not select "Internal audit does not audit organizational culture" for Q5 What are your department's main driver(s) for auditing organizational culture? n = 206. Totals do not equal 100 percent due to rounding.

Culture Needs to Measured

- Does your culture?
 - Set the tone at the top
 - Establish standards of conduct/ethical framework
 - Address deviations in a consistent timely manner
 - CEO/Board interact beyond the C-suite
- Conduct anonymous surveys
- Review hotline activity
- Analyze commission plans

Assess the Results



Next Steps

Informal Leaders



- Identifying employees
- Empowering employees
- Defining vision
- Following stated values
- Formalizing structure
- Calibrating compensation plans
- Emphasizing customer feedback

Everyday Steps



- Communicating effectively
- Making decisions
- Treating employee fairly
- Defining workloads
- Spending habits
- Abiding by risk tolerance
- Making customers happy

Last Steps

- All leaders must live corporate values
 - Encourage others to live values day to day
 - Need employees to invest in culture
- Invest in desired culture
 - Dedicate time and resources to reinforce
 - Recognize, celebrate and promote employees
- Requires continuous, long-term commitment

Actions Enhanced by Culture

- Investment/Credit Risk Decisions
- Ethics
- Short-term vs. long-term growth
- Mergers and Acquisitions

Starting Over





The Importance of Culture

“If you can have a culture that doesn't care what your race is, doesn't care what your gender is, doesn't care what your sexual orientation is — you, by definition, have a larger talent and client pool from which to pull from.”

- *Richard Marotta, Berkshire Bank CEO
Boston Business Journal*

Thank You



Scott Baranowski, CIA

Principal – Director of Internal Audit Services

617-428-5413

sbaranowski@wolfandco.com



Drew Coveney, CIA

Internal Audit Manager

617-933-3365

dcoveney@wolfandco.com

Resources

- The Institute of Internal Audit – 2016 North American Pulse of Internal Audit - <http://www.theiia.org/pulse>
- Good Jobs First - <https://violationtracker.goodjobsfirst.org/parent/wells-fargo>
- The CEO Magazine – How to Audit Corporate Culture - <https://kaufmanrossin.com/professionals/Justin-qwin-cpa-cisa>
- MISTI – The Why and How of Auditing Corporate Culture - <https://misti.com>
- Forbes – Culture the Most Overlooked Element of Audits - <https://www.forbes.com/sites/chriscancialosi/2014/09/29/culture-the-most-overlooked-element-of-audits/#207f43bf22b8>
- Deloitte – Care and Feeding of the Company Culture - <https://www2.deloitte.com/us/en/pages/audit/articles/care-and-feeding-of-the-company-culture.html>
- Social Internet Blog - <https://www.thoughtfarmer.com/blog/14-questions-corporate-culture-audit/#comments>
- Compliance Week – Can You Audit Corporate Culture? - <https://www.complianceweek.com/blogs/jose-tabuena/can-you-audit-corporate-culture#.Ww3MKEgvyUk>
- New CEO doesn't want Berkshire Bank to be the 'next Fleet' - <https://www.bizjournals.com/boston/news/2019/03/11/new-ceo-doesnt-want-berkshire-bank-to-be-the-next.html>