

Internal Audit. Expect More.

Tone at the top

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Tone at the top

- **Narrow sense** – term that originated in the field of accounting and is used to describe an organization's general ethical climate, as established by its board of directors, audit committee, and senior management.
- **Broad sense** - senior management's impact on organization's climate in general, including strategy, mission, culture



Assessment – why?

Only 48% of respondents report their organization assess its tone at the top

Only 36% of compliance/ethics professionals are inherently integrated in strategic planning

Insufficiently communicated Tone at the Top may lead to:

- increased number of inadvertent code of ethics breaches
- increased fraud risks and misappropriation of assets
- limited „sense of belonging“ among employees
- misalignment among particular entities in the group
- misalignment between strategy and ethical requirements

Assessment – how?

How to measure/audit ToT directly:

- Benchmarking (incidents, whistleblowers incidents)
- Social media reputation assessment
- Structured interviews/exit interviews
- Employee surveys
- Compliance and ethics executive scorecards
- Ratings on GlassDoor.com and other ratings sites
- Text analysis (e.g., of big data sets such as all internal emails)

How to measure/audit ToT indirectly:

- audits of compliance functions
- audits of specific processes (e.g. travel expenses, personal data management)

Enterprise risk management

COSO-ERM Framework What's changed since 2004?

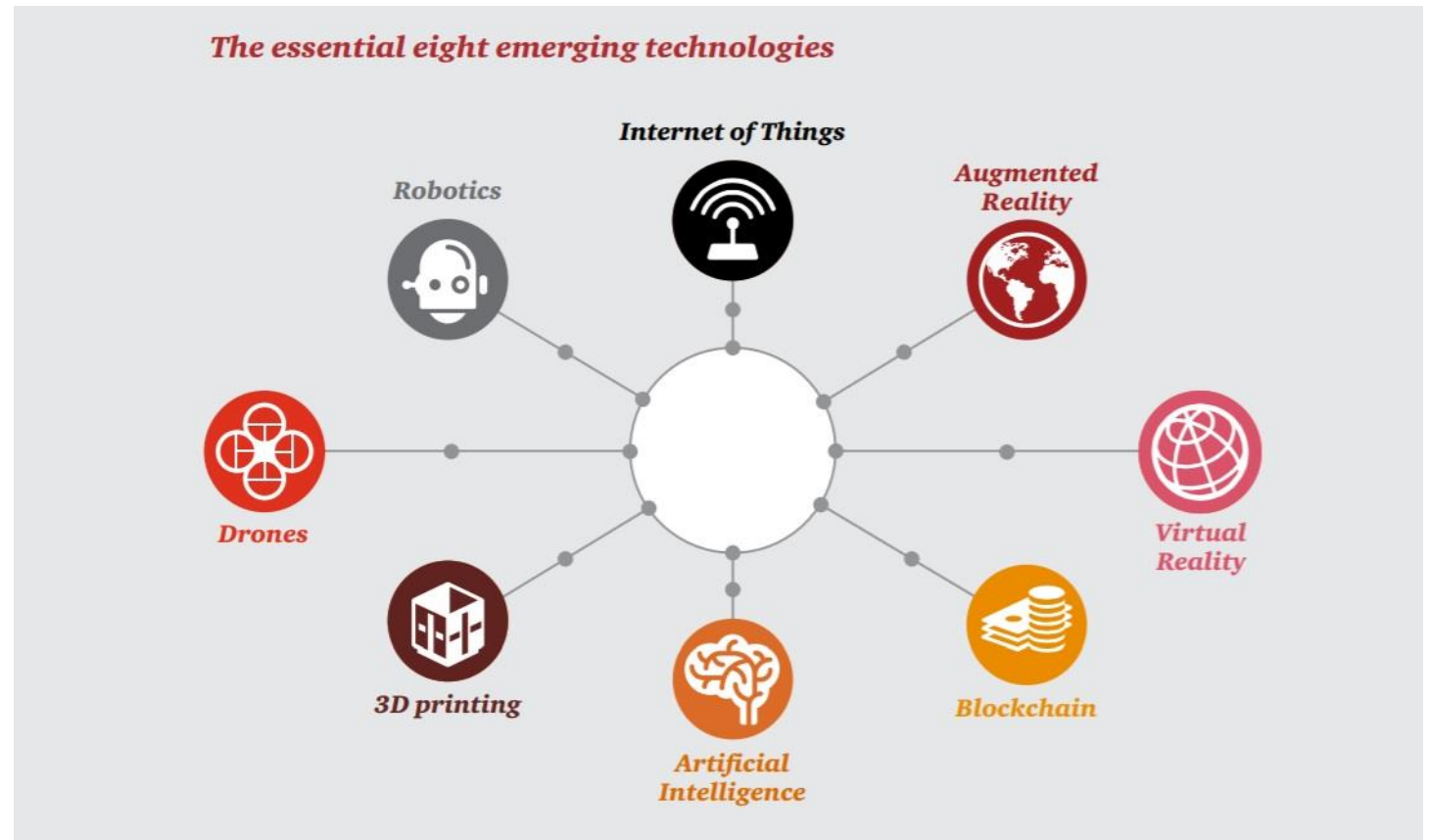
The four most significant changes to the Framework are designed to make ERM even more effective



www.pwc.com/coso-erm

Importance of strategy and culture for IA considerations

- Culture is considered as key element of delivering strategy
- Strategy and strategic risks are becoming more important for internal audit due to innovation
- **Hot topic: Innovation culture**
 - Impact on:
 - Sales growth
 - Customer satisfaction
 - Market share
 - Number of products
 - Time to market



Innovation culture – impact on IA

Figure 2b: Percentage of organizations who view the IA function as providing significant value

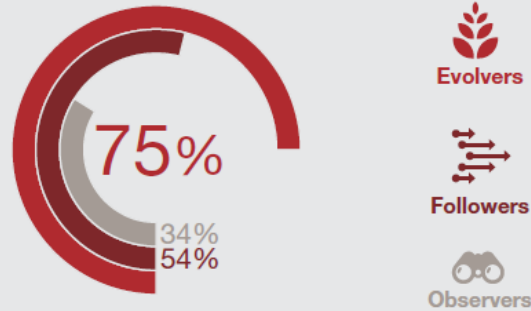
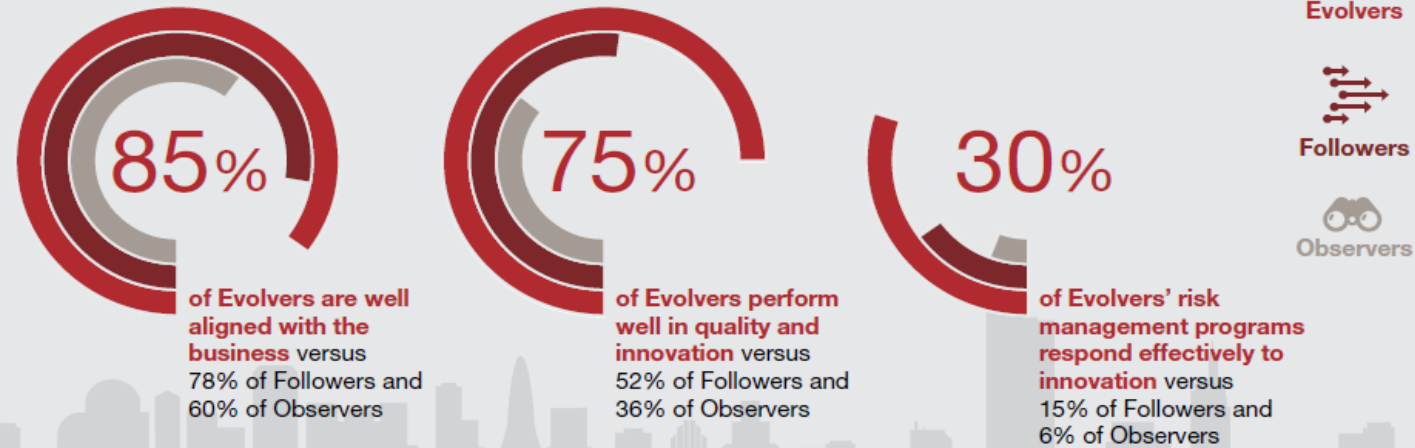


Figure 4: Evolvers excel at attracting talent

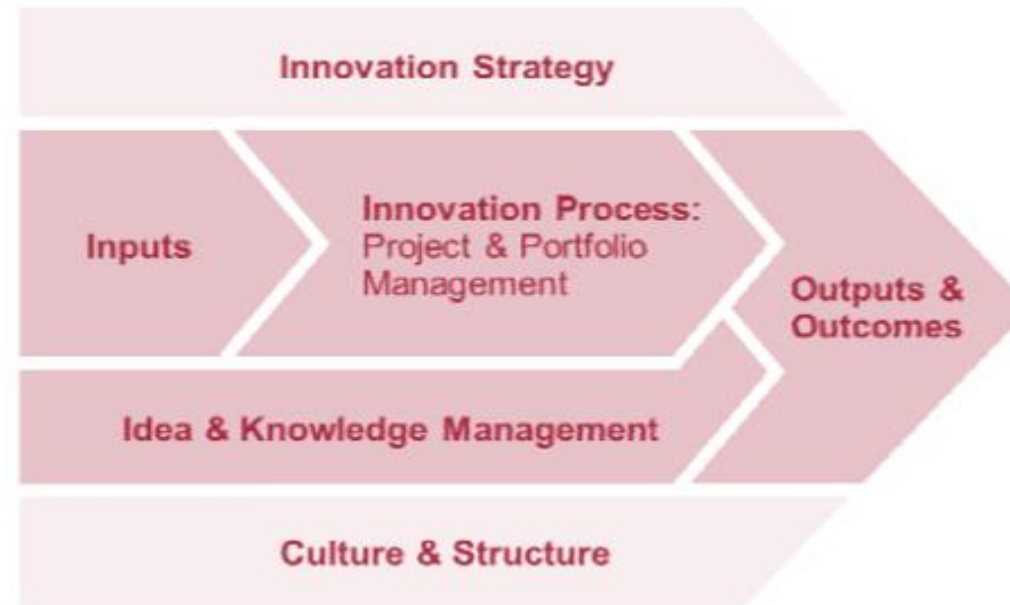


Figure 3: “Evolvers” see benefits from technology and talent enablement



What should IA do?

- Re-consider audit risks universe
- Focus on attraction of key talents, tools and methodology development
- Work as a middleman
- Involve process readiness assessment into standard audit programs
- Focus on audits of Risk management involvement in innovation projects



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Thank you