

KPMG's Culture & Conduct Assurance Framework



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Culture and conduct risk should be integrated into an organisation's risk management framework. The key for Internal Audit as the third line of defence is that it is able to provide independent and objective assurance to the Board on the effectiveness of the risk management activities performed by the first and second lines of defence, and as such support the Audit Committee and Board in their oversight role. In the diagram below we set out three interconnected 'pathways' of how we believe IA functions can systematically approach Culture and Conduct

Three Pathways to Auditing Culture <u>& Co</u>nduct

Indicators to suggest focus on this pathway:

- Concerns raised by management around the quality, existence or level of awareness of cultural aspects. For example - lack of clarity around staff's awareness of the whistleblower hotline.
- More broadly: to respond to Regulators increased expectation of a holistic approach.

- Organisational Culture set the foundation for the organisation's control environment.
- Builds understanding of how the control environment supports behaviour.
- Provides insight on the existence, quality and strength of existing cultural aspects which are key to effectively embedding and driving desired employee behaviour.

- WHAT
- Review on entity level by conducting a survey to assess current state culture and its drivers.
- Using psychometric analysis and predictive analytics to predict future outcomes for the organisation, and enable early targeted intervention.

Entity

Level

Culture

Review

Workshop to educate and inform stakeholders on Conduct & Culture Risk, potential Risk indicators and

Annual Planning

existing Conduct & Culture Risk Management approach and broader Organisational response

regulatory focus

Review



Indicators to suggest focus on this pathway:

- Management are confident that the control environment forms a strong foundation around risk and compliance but want a fresh perspective or challenge.
- Need to assess the specific culture ('what happens when no one is looking') across key departments impacting existing 'hard controls'.
- To determine whether departmental culture currently supports desired employee behaviour.
- Determines whether existing culture could support desirable behaviour despite potential significant gaps in the control environment.
- Same lens applied across departments allows for identification of trends and early warning on adverse developments.
- Using a cultural overlay tool consisting of a defined set of test steps to identify desirable and detrimental behaviours. Allowing specific 'material' cultural observations to be included in individual audit reports.



Indicators to suggest focus on this pathway:

- Similar or exact issues are constantly re-occurring across the organisation or business
- Proactively address specific areas of regulatory concern or
- Support the organisation in ensuring 'good customer outcomes' in processes exposed to high conduct risk.
- In contrast to a 'culture overlay', specific conduct audits focus on gaining a deeper understanding of the specific controls as well as behaviors that might increase conduct risk in key areas of the organisation.
- Can provide a thematic analysis of root causes for detrimental behaviour.
- · Specific audits designed around potential conduct pain points or known area of concern.
- Address key regulatory focus areas impacting 'customer outcomes' within the organisation.

Audits

Enabled by data analytics and continuous auditing/ monitoring of Key Risk Indicators

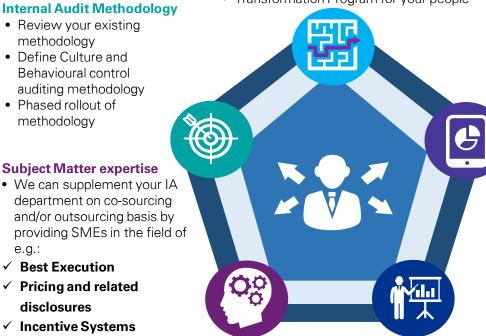
KPMG's Culture and Conduct Risk Management Offerings

Organisations are increasingly realising that investing in culture leads to measurable financial gains. Whether to support that notion, or purely in response to the increased regulatory focus, Internal Audit (IA) needs to demonstrate that they are up to the challenge of auditing culture and help safeguard their organisation against conduct failures. We can specifically tailor our offering to Internal Audit's needs and have highlighted some our services below:

How can we help?

Internal Audit Strategy

- Co-create a holistic audit approach and implementation strategy
- Transformation Program for your people



Data & Technology

- Data and Analytics, visualisation, information management
- Target Operating Model design
- Scenario testing
- Metrics implementation and testing

Training

- Board Audit Committee and Senior Management awareness sessions
- Culture & Conduct Training Program tailored for your IA staff

Subject Matter expertise

• Review your existing

Behavioural control

auditing methodology

methodology · Define Culture and

· Phased rollout of

methodology

- We can supplement your IA department on co-sourcing and/or outsourcing basis by providing SMEs in the field of e.g.:
- ✓ Best Execution
- ✓ Pricing and related disclosures
- ✓ Incentive Systems
- ✓ Individual Accountability /
- √ Sales suitability

Contact us



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