

RESEARCH HIGHLIGHTS

# Auditing Organizational Culture in the Public Sector



CANADIAN AUDIT  
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FOUNDATION



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### Auditing Organizational Culture in the Public Sector

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*“What was once thought to be a squishy art better left to the feel-good people folks in the human resources department is slowly becoming a hard science with monitoring, measures, and metrics, and an emerging literature and research.”*

– Joseph McCafferty (McCafferty, 2016)

## Introduction

Soft, intangible, nebulous, subjective, challenging. Until a few years ago, these words were often used by auditors to describe organizational culture, and auditing culture was not considered to be appropriate or practical, let alone a priority (Chambers, 2019; McCafferty, 2016; Tabuena, 2016).

But things have changed. After the 2008 financial crisis and a succession of large corporate scandals, organizational culture has emerged as a recognized risk area that needs to be managed, monitored, and, yes, audited.

Publications on the topic have become common in recent years. Auditing culture, once dismissed as inappropriate and impractical, is now seen as a new imperative by many commentators and professional associations (Chambers, 2019; Noye-Allan and Nuttall, 2014; Tabuena, 2016).

This article presents an overview of the emerging practice of auditing organizational culture and its relevance for today’s public sector auditors. It answers three main questions:

- What is organizational culture?
- Why is auditing organizational culture important?
- How can organizational culture be audited?

## What Is Organizational Culture?

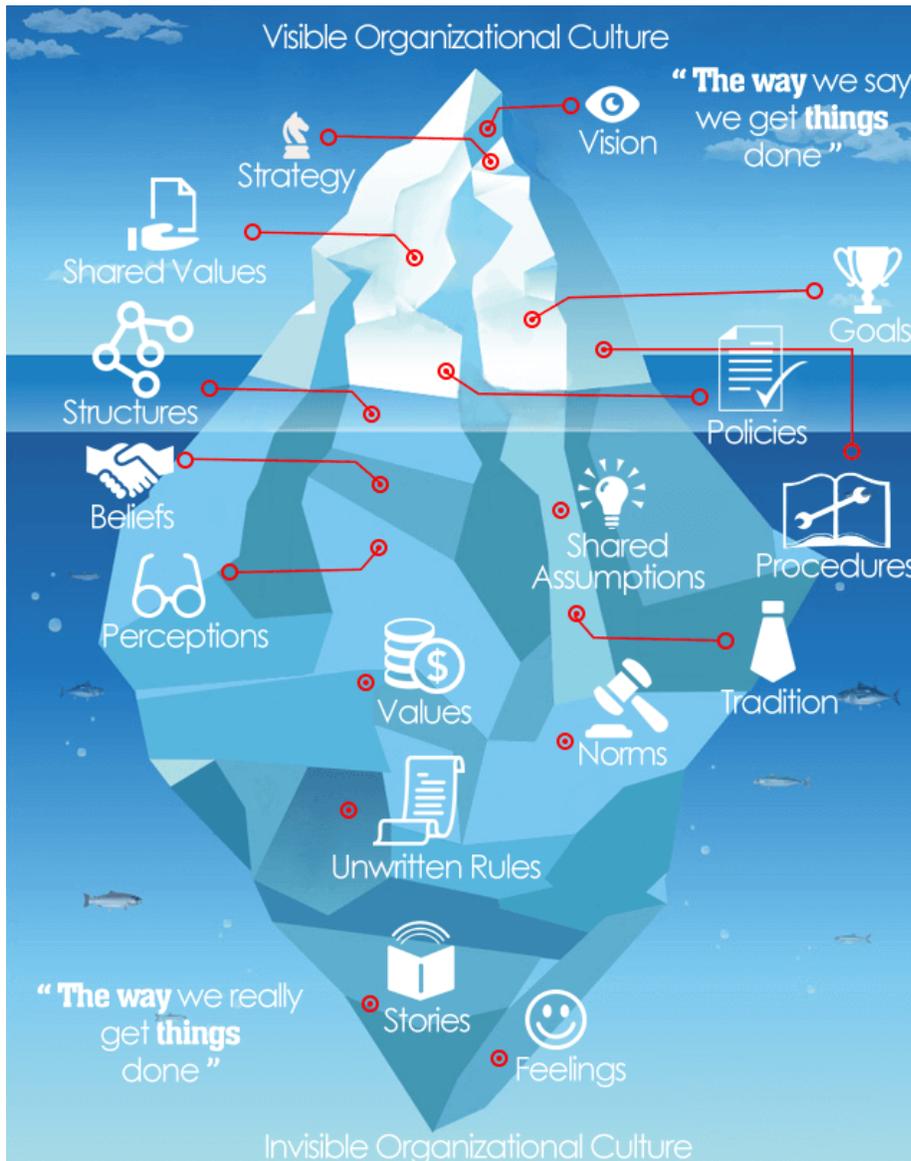
*“Culture is not what is said; it’s what is done.”*

– Richard F. Chambers (Chambers, 2019, p. 178)

There are many definitions of what organizational culture is. Some emphasize an organization’s rules, norms, and explicit values, while others focus on its typical behaviours, beliefs, and attitudes. Yet others combine both the formal and the informal aspects, like this one: Organizational culture is “shared social knowledge within an organization regarding the rules, norms, and values that shape the attitudes and behaviors of its employees” (DeRoche, 2016a). In its simplest expression, organizational culture is defined as “The way we do things around here” (Bower, 2003).

The definitions may vary, but what seems clear is that organizational culture is made up of two complementary elements: what is said (the organization’s vision, mission, stated values, code of ethics, internal policies, and so on) and what is done (people’s actual behaviours, practices, attitudes, and mindsets). The first element is the desired culture, whereas the second element is the actual culture. Said another way, the first element is about the values an organization espouses, while the second is about how the organization’s people live those values (Noye-Allan and Nuttall, 2014). **Figure 1** illustrates this dichotomy between the “visible” and “invisible” organizational cultures.

Figure 1 – The Visible and Invisible Elements of Organizational Culture



Source: Rick, 2015 (reprinted with permission)

In a perfect world, the actual organizational culture is aligned with the desired culture. However, in the real world, many factors can create a gap between an organization's stated values and how its people interpret them. These factors include the tone from the top, the actions of upper management, formal and informal communications, training programs, and incentive schemes, among others (Land, 2019; McCafferty, 2016; Roth, 2017).

The literature on organizational culture emphasizes the key role that leaders at the top play in setting the culture through their decisions, actions, and communications (the "tone at the top") (ACCA, 2017; CIIA, 2016). However, it recognizes that leaders at other levels in an organization (the "buzz at the bottom" and the "mood in the middle") can also influence and shape its culture. For this reason, culture in an organization may not be uniform; it may vary from region to region, and from one branch to another in the same location, giving rise to various sub-cultures that co-exist under the same roof (Roth, 2017).

Finally, culture is not static in any organization. It is a living thing that evolves through time, responding to changing leadership styles, new strategic orientations, shifting incentives, and wider societal trends.

## Why Audit Organizational Culture?

*"Too many high-profile compliance failures in recent history can be tied to cultures that encouraged, allowed, or looked past illicit behaviour."*

– Jose Tabuena (Tabuena, 2016)

Reports of unethical behaviour in private sector corporations have made headlines on numerous occasions since the start of the 21st century. The names of certain companies and organizations now immediately bring to mind some famous fraud or corruption scandal, from Enron in 2001 to Cambridge Analytica in 2018, with FIFA, Toshiba, Volkswagen, and many others in between (Arons, 2016; Chambers, 2019; Sims and Brinkmann, 2003).

What all these cases have in common is a clear gap between the organization's stated values and its actual conduct as embodied by management's actions. Enron, for example, had an award-winning code of conduct, which highlighted its core values of community, respect, integrity, and excellence (Noye-Allan and Nuttall, 2014; Tabuena, 2016). But today Enron is no more; its actual culture and behaviours led to its downfall. In this case of unethical behaviour, as in many others, a dysfunction in the organizational culture had a very real adverse impact on the organization's performance (Roth, 2019d). Similarly, organizational culture (especially the risk culture) in the banking sector has been recognized as one important cause of the 2008 financial crisis in the United States (Lowenstein, 2010; Noye-Allan and Nuttall, 2014; Roth, 2019c).

In the aftermath of all the high-profile scandals, one question has been frequently asked: Where were the internal auditors? (IIA, 2016). Faced with this question, the internal audit profession has come to recognize that culture plays a critical role in the governance of organizations, that there was a clear need to improve oversight of culture, and that auditors should be auditing this risk area regularly (IIA, 2016; McCafferty, 2016; Tabuena, 2016). A direct result of this recognition has been that, in recent years, The Institute of Internal Auditors (IIA) and other professional associations around the world have produced a number of publications and webinars to raise

awareness about the need to audit organizational culture and to provide guidance and advice on how to conduct these audits (CIIA, 2016; IIA, 2019; IIA, 2016). (Many useful documents can be found on the [IIA Culture Resource Exchange](#).)

But is all this recent interest in culture audits relevant for public sector organizations? The short answer is “yes.” Unethical behaviours and dysfunctional cultures are, sadly, not restricted to the private sector. A few past reports of the Auditor General of Canada have shown this. Some will remember the [2003 audit of the Office of the Privacy Commissioner](#), which found behaviours amounting to a “reign of terror,” or the [2010 audit of the Office of the Public Sector Integrity Commissioner](#), which found that unethical behaviours and a climate of intimidation had led to high staff turnover and poor organizational performance.

More recently, comments made by Michael Ferguson, the late Auditor General of Canada, in relation to his 2018 audit of the federal government’s Phoenix pay system, clearly pointed to organizational culture as a factor in the system’s failure (von Scheel, 2018; CBC 2018; Office of the Auditor General of Canada, 2018a). In his news conference on this report, he said that “the federal government has a culture problem that makes meaningful change difficult” (CBC, 2018). This is rather worrisome considering the federal government is currently engaged in a number of transformation initiatives for which a culture change has been identified as a key success factor. (See the [Digital Operations Strategic Plan](#) from the Treasury Board of Canada Secretariat for an example.)

Considering the above, and the growing literature on culture auditing, it appears that organizational culture can be a key determinant of:

- organizational performance;
- the success of transformation initiatives; and
- the extent of fraud, corruption, and other unethical behaviours within organizations.

Culture is therefore a significant risk area that needs to be managed and overseen, like any other risk area that may affect a public sector organization’s ability to achieve its strategic goals.

By auditing culture, internal auditors and legislative auditors can help public sector organizations to manage it and to close any gap between their desired culture and their actual culture (DeRoche, 2016b; IIA, 2016). Ultimately, auditing organizational culture may help to prevent project failures, damage to reputation, and loss of trust in the public sector’s ability to deliver value for money to Canadian taxpayers.

## How Can Organizational Culture Be Audited?

*“What auditors should be mindful of when auditing culture is how far the walk deviates from the talk.”*

– Richard F. Chambers (Chambers, 2019, p. 180)

Auditing organizational culture is now recognized as useful and desirable, but how should auditors move from theory to practice and actually audit culture?

This section answers four key questions about conducting culture audits:

- Where should auditors start and what should they audit?
- How can auditors gather evidence?
- What skills are needed?
- How can auditors report sensitive observations on culture?

### Where Should Auditors Start and What Should They Audit?

When auditing organizational culture for the first time, it is recommended that auditors start slowly and build up experience by gradually increasing the scope of the audits as they gain more confidence (Chambers, 2019; Roth, 2019c).

A first step that auditors can take is to start, in their regular audits, to consider whether there could be underlying cultural factors that could explain their audit observations. By using [root cause analysis tools and techniques](#), auditors can identify such factors, which can then be documented and presented in their audit reports (Chambers, 2019; Gwin, 2017). For example, if auditors observe cybersecurity weaknesses, a root cause analysis may uncover that the problems are not technical, but rather cultural (IIA, 2017). For example, there could be a lack of awareness and training about cybersecurity in the audited organization, or a high tolerance of risk driven by a culture of excessive focus on results.

The next logical step is to devote a section of an audit plan to examining some aspect of organizational culture. Then, later on, as its competence and confidence increases, an audit team may consider conducting a full audit on organizational culture (as the City Auditor of Edmonton did in a [2017 audit](#)). Finally, after many audits have examined cultural aspects, an audit office may decide that it would be worthwhile to produce a capstone report providing a horizontal view of cultural issues across a whole organization (Bruce, 2018; Chambers, 2019; Plamondon, 2017).

This covers the general approach, but does not quite touch the questions that most auditors are asking: What to audit and how to do it?

In essence, culture audits are about determining whether an organization’s actual culture and behaviours conform to its professed, desired culture. This implies that the first requirement in a culture audit is to have a good understanding of the desired culture in the audited organization, including a clear picture of the expected

behaviours that would embody this culture. Relevant information on organizational values can often be found in corporate documents, such as mission and vision statements, codes of ethics, strategic plans, annual reports, human resources policies, and special initiatives documents (Roth, 2019a). This information can be complemented with discussions with management to complete the picture (IIA, 2016; ECCC, forthcoming).

From this point, auditors can proceed to identify areas where a gap between desired and actual behaviours could present significant risks to achieving an organization's objectives. During this risk assessment process, auditors should pay particular attention to red flags that may indicate cultural issues worth examining further. For example, if auditors are aware that some financial or safety controls are frequently overridden, this may indicate a cultural bias toward producing outputs at any cost, to meet unrealistic organizational targets (Land, 2019; Plamondon, 2017).

Red flags can also include, among others:

- failure to enforce codes of conduct and related policies and procedures (for example, compliance violations are noted but bring no consequences);
- mistrust of auditors and regulators, and poor track record of implementing recommendations made by them;
- high rates of discontent expressed in employee surveys (across the organization or in specific divisions);
- high rates of complaints about the organization (or its personnel) filed by staff, clients, or the public;
- high staff turnover and absenteeism rates;
- long-standing unresolved issues (for example, when similar audit observations have been made many times over the years and no concrete actions have been taken to resolve the identified problem);
- lack of actions or incentives to support organizational values (for example, no action to improve gender equality despite a stated value to that effect); and
- a lack of alignment of performance incentives and metrics with the organization's policies and values (for example, incentives may only reward the delivery of projects on time and on budget, while the organizational values emphasize excellence of products and quality of services) (IIA, 2019; Noye-Allan and Nuttall, 2014; Roth, 2019d; Tabuena, 2016).

Auditors can obtain information to support risk assessment and to identify red flags in various ways. They can start by reviewing previous audits and an organization's rate of implementing recommendations. They can also consult other financial and performance auditors who know the organization well and ask for their opinion on its culture. Next, they can review available information on the organization's values and ethical commitments before requesting and analyzing staff survey reports, human resources policies, performance incentives, documentation of exit interviews, minutes of key management meetings, and so on. Of course, conducting interviews with management to obtain additional information is also part of the usual risk assessment process.

Once they have reviewed sufficient information, auditors will be able to define the focus of their audit. Audits of organizational culture can focus on various areas of interest. The most common ones include:

- collaboration culture,
- compliance culture,
- cybersecurity culture,
- ethical culture,
- equality culture,
- openness (transparency) culture,
- risk culture,
- safety culture, and
- tone from the top (leadership).

Another option is to audit a specific culture transformation initiative within an organization (for example, the Treasury Board of Canada Secretariat’s [Digital Operations Strategic Plan](#) involves a transition to an open-by-default and collaborative-by-default culture in the public service). **Table 1** provides examples of publicly available audit reports for several of these focus areas. (No audits were found for the other focus areas during our research.)

**Table 1 – Examples of Published Culture Audits for Selected Focus Areas**

Focus Areas	Published Audit Examples (when available)
Culture transformation initiative	<ul style="list-style-type: none"> <li>▪ Office of the City Auditor, City of Edmonton, 2017 – <a href="#">Corporate Culture Audit</a></li> <li>▪ Office of the Auditor General of Canada, 2018 – <a href="#">Inappropriate Sexual Behaviour – Canadian Armed Forces</a></li> </ul>
Equality culture	<ul style="list-style-type: none"> <li>▪ Office of the Auditor General of Canada, 2015 – <a href="#">Implementing Gender-Based Analysis</a></li> <li>▪ Office of the Auditor General of Canada, 2016 – <a href="#">Canadian Armed Forces Recruitment and Retention—National Defence</a> (includes one criterion about representation of women in the organization)</li> <li>▪ Office of the Auditor General of Nova Scotia, 2019 – <a href="#">Public Service Commission, Agriculture, Community Services, and Justice: Diversity and Inclusion in the Public Service</a></li> </ul>
Ethical culture	<ul style="list-style-type: none"> <li>▪ City Auditor’s Office, City of Calgary, 2015 – <a href="#">Ethics Program Assessment</a></li> <li>▪ Public Safety Canada, 2015 – <a href="#">Internal Audit of Values and Ethics</a></li> <li>▪ Office of the Auditor General of British Columbia, 2017 – <a href="#">An Audit of B.C. Public Service Ethics Management</a> (includes a criterion on building an ethical culture in the workplace)</li> <li>▪ Office of the Auditor General of Canada, 2019 – <a href="#">Respect in the Workplace</a></li> </ul>

Focus Areas	Published Audit Examples (when available)
Risk culture	<ul style="list-style-type: none"> <li data-bbox="602 289 1409 363">Audit Office of New South Wales, 2018 – <a href="#">Managing Risk in the NSW Public Sector: Risk Culture and Capability</a></li> </ul>
Tone at the top	<ul style="list-style-type: none"> <li data-bbox="602 405 1421 531">Correctional Service Canada, 2011 – <a href="#">Audit of Values and Ethics</a> (includes a criterion about measuring staff’s perception of the performance of the organization’s leaders)</li> </ul>

Selecting a focus area is a key step in the audit planning process because it allows auditors to ground their audit in a specific context in which they can define precise expectations, and therefore audit criteria. Adopting this approach is preferable to seeking answers to questions such as “Does the organization have a strong organizational culture?”, which are too vague to be examined effectively (ECCC, forthcoming).

With a focus area selected, auditors can begin to develop their audit plan. A three-step model being developed by Environment and Climate Change Canada’s Audit and Evaluation Branch can be useful at this stage (ECCC, forthcoming).

In the model’s first step, auditors seek to gain a clear understanding, for the selected focus area, of the audited organization’s envisioned culture and how it communicated this culture to its people. This understanding allows auditors to define the desired culture and clear expectations in terms of accepted and forbidden behaviours. They then use this information as the basis for their audit criteria.

In the second step, auditors examine the alignment between the desired culture and organizational practices and processes, determining the extent to which expected behaviours are incentivized, integrated in relevant processes, and practised by people.

Finally, in the third step, auditors examine related oversight processes and practices: how the organization measures and monitors the alignment of the actual culture with the desired culture, and how it responds to instances of inappropriate behaviour or non-compliance with relevant policies.

## How Can Auditors Gather Evidence?

Auditors may be unfamiliar with auditing organizational culture, but most will be familiar with the main evidence collection techniques used in this type of audit: surveys, interviews, direct observations, file reviews, and root cause analysis (CIAA, 2016). However, many auditors may be less familiar with more recent techniques that can also be used to audit culture, like advanced data analytics and text analytics applications, which can analyze the language used in large quantities of emails and other documents to assess emotions and derive findings about culture (Corritore, Goldberg, and Srivastava, 2020).

Some of the techniques used to audit culture, like interviews or focus groups, will provide information of a qualitative nature. Interviews, for example, can be a very good way to obtain information on organizational culture that would otherwise be difficult to obtain, such as:

- perceptions about the receptiveness of managers to new ideas or contrary opinions,
- instances of non-compliance that were not dealt with according to internal policies,
- fear of retaliation among employees, and
- disregard for safety measures.

Information obtained through interviews can be valuable when it points to findings that could be confirmed by written documentation or other sources of evidence. Similarly, interviews can be useful to confirm information (such as cause and effect relations) obtained through other means.

However, auditors should be careful when conducting interviews about sensitive cultural aspects. For example, interviews with senior executives may provide an idealized portrait of a situation because the information that executives receive from managers and staff is often filtered. Similarly, interviews or focus groups with staff may not provide an accurate picture if individuals do not feel comfortable saying what they honestly believe about their organization (Bruce, 2018; Roth, 2019a).

Like interviews, employee surveys can be an effective way to obtain relevant information on organizational culture, especially when they are designed to preserve the anonymity of respondents. Surveys can provide quantitative information to substantiate informal observations or claims heard in interviews. Survey results can also highlight areas that would warrant further examination by auditors (for example, a survey question asking whether managers always display ethical behaviours that received a high proportion of “strongly disagree” answers) (IIA, 2016; McCafferty, 2016; Tabuena, 2016).

While useful, employee surveys, like interviews, should be used carefully when auditing culture. Survey answers may not always be honest or they may be biased, even if the survey is anonymous. For this reason, auditors should generally seek to support survey findings with additional corroborating evidence. In fact, a one-tool approach to auditing culture is unlikely to be effective. Rather, using a mix of quantitative and qualitative tools and evidence sources is more likely to result in strong audit findings and conclusions (PwC UK, 2018; Roth, 2019a).

In addition to reviewing employee survey results and conducting interviews, auditors can observe the behaviour of executives at management meetings to gain a better idea of an organization’s actual culture. Finally, they can also obtain and analyze a wide range of relevant documents (**Table 2**) and apply [root cause analysis tools and techniques](#) to ascertain whether cultural reasons can explain deficiencies observed within the audited organization (Chambers, 2019; IIA, 2019; Roth, 2019d).

Table 2 – Examples of Potential Documentary Evidence Sources for Audits of Organizational Culture

Functional Area	Evidence Sources
Values and ethics policies and their enforcement	<ul style="list-style-type: none"> <li>▪ Codes of ethics, codes of conduct, values statements, vision and mission statements, etc.</li> <li>▪ Records of ethics compliance program</li> <li>▪ Records of training on values and ethics</li> <li>▪ Staff surveys and records of exit interviews</li> <li>▪ Ethics, fraud, and waste hotline reports and case files</li> <li>▪ Management responses to non-compliance instances</li> <li>▪ Internal and external audit reports</li> </ul>
Human resources policies and practices	<ul style="list-style-type: none"> <li>▪ HR policies (including gender equality, diversity, and inclusion policies) and hiring practices</li> <li>▪ Staff surveys and records of exit interviews</li> <li>▪ Employee turnover statistics</li> <li>▪ Procedures to deal with complaints about sexual harassment and other inappropriate behaviours</li> <li>▪ Documentation of executive performance compensation, incentives, and evaluation processes; documentation of incentives and evaluation processes for staff members</li> <li>▪ Statistics on timeliness of performance reviews</li> <li>▪ Gender equality and diversity statistics; pay equity statistics (disaggregated data is key for these topics)</li> <li>▪ Records of awareness training on fraud prevention, cybersecurity, sexual harassment, gender equality, diversity and inclusion, etc.</li> <li>▪ Statistics on handling of whistleblower cases</li> <li>▪ Internal and external audit reports</li> </ul>
Tone from the top and leadership	<ul style="list-style-type: none"> <li>▪ Executive committee meeting minutes</li> <li>▪ Documentation of exceptions and management overrides</li> <li>▪ Communications with employees</li> <li>▪ Internal and external audit reports</li> <li>▪ Statistics on frequency of repeat audit findings</li> <li>▪ Responses to audit findings and recommendations; statistics on implementation rates</li> <li>▪ Statistics on timeliness of corrective actions</li> <li>▪ Response to non-compliance instances</li> <li>▪ Response to significant events</li> </ul>

Functional Area	Evidence Sources
	<ul style="list-style-type: none"> <li>▪ Statistics on frequency of performance targets being missed (suggesting unrealistic targets and potential pressure to achieve them at any cost)</li> </ul>
Interactions with external stakeholders	<ul style="list-style-type: none"> <li>▪ Client survey results and supplier survey results</li> <li>▪ Complaints from service or program users</li> <li>▪ Statistics on frequency of legal problems</li> <li>▪ Media coverage (including social media)</li> <li>▪ Internal and external audit reports</li> </ul>

Sources: Adapted from IIA, 2019 and Roth, 2019d

## What Skills Are Needed?

It is clear that audits of organizational culture differ in some respects from more traditional audits. But are special skills required to plan and conduct such audits? The answer is “not always,” because many auditors are already familiar with the main tools and techniques to audit culture.

Because culture audits often make use of surveys, skills in designing and analyzing surveys are clearly valuable. Also, as in most audits, interviewing skills are a requirement. However, because interviews about cultural aspects can be more subjective than the average audit interview, and because these interviews will often involve senior management, superior interviewing and communications skills are desirable and the most experienced team members should be in charge of the most sensitive interviews. For the same reasons, a high level of tact and discretion is required (Bruce, 2018; IIA, 2019; Pett and Pundmann, 2016).

Superior interviewing skills, including the ability to read body language and non-verbal cues, will also be useful when interviewing staff members (IIA, 2019). Because sensitive topics will often be discussed in these interviews, it is very important to make the interviewees feel safe so that they will provide honest and complete answers to the audit questions. Interviewees who do not feel safe may fear that there could be negative consequences to telling the truth. It is also important to assure interviewees that their concerns will be duly considered in preparing the audit report and that their anonymity will be preserved (IIA, 2016).

Of course, not all auditors or audit teams will have all the required skills to conduct an audit of organizational culture. Some auditors will require training in interviewing skills and others will need to learn to identify and understand indicators of cultural issues (Bruce, 2018; Noye-Allan and Nuttall, 2014). Training on specific culture areas is also available now from different organizations. (For example, the IIA offers training on [auditing risk culture](#).)

Finally, when starting to audit culture, or when specialized skills are needed to examine complex questions, it may be wise to bring an expert on board (an organizational psychologist, for example) to help the audit team apply

proper methods to assess cultural aspects and to report audit findings appropriately (ACCA, 2017; Cansialosi, 2014; IIA, 2019).

## How Can Auditors Report Sensitive Observations on Culture?

Audit findings on organizational culture can be very sensitive and this may make the reporting phase more challenging than usual. Auditors may find that management is open to their findings when presented orally, but become defensive and take it personally when the findings are written down (Bruce, 2018; DeRoche, 2016b).

This can be particularly challenging when internal auditors have to present conclusions that imply that their organization has clear signs of a problematic culture. There may be increasing tension between management and internal audit in such cases, and even a danger of retaliation (Tysiac, 2015).

In contrast, when management supports a report on culture, this is a sign of an open and transparent culture within the audited organization (Bruce, 2018).

To avoid too many bumps on the road to reporting, auditors are encouraged to minimize surprises by raising their concerns about culture with management before writing their report. They should be able to explain exactly what aspect of organizational culture could be improved and to support their views with relevant observations. By having timely discussions with management and presenting examples that support their observations, auditors can increase their chance of gaining management acknowledgement and acceptance of culture problems (Chambers, 2019; IIA, 2016; Plamondon, 2017).

Finally, auditors can make their reports more effective by balancing their negative findings with positive ones. For example, they can highlight exemplary behaviours, identify best practices, and cite specific groups or regional offices as role models (IIA, 2019; Land, 2019).

## Conclusion

A few years ago, most auditors did not think of auditing organizational culture as an important part of their mandate. However, attitudes toward auditing culture are now changing and the profession has started to provide much-needed guidance on this topic.

But, to become fully adept at auditing culture, audit offices may have to change their own culture and become better at asking “why” and digging deeper to identify the root causes of the deficiencies they observe in their audits. Many of these root causes may be culture-driven.

We hope that with time, good guidance, and experience, auditing organizational culture will become a routine part of public sector auditing

***If you have relevant experience to share on auditing organizational culture, we would appreciate hearing from you. Please contact us at: [research@caaf-fcar.ca](mailto:research@caaf-fcar.ca)***

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Before joining AEB, Aïda developed and directed the department’s wellness programs (mental health, values, and ethics) for two years. For the previous 10 years, she occupied various executive level positions at Environment and Climate Change Canada, including the role of Senior Disclosure Officer for eight years. She was also the Director of Leadership and Policy Development at the Treasury Board of Canada Secretariat.

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