

Why do people do what they do?

The impact of behaviours on risk (culture)

Introduction and overview

Topics

1.	Overview of risk culture and how it relates to Internal Audit	25 mins
2.	High level early insights from PwC's recent Financial Services industry Risk Culture and Conduct Benchmarking Survey	15 mins
3.	Questions	10 mins

1. Overview of risk culture and how it relates to Internal Audit

Culture is a frog, not a bicycle



The role of Internal Audit



INTERNAL
AUDIT

Internal auditing is an **independent, objective** assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a **systematic, disciplined** approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal auditors must identify **sufficient, reliable, relevant, and useful** information to achieve the engagement's objectives.

Internal auditors must base conclusions and engagement results on **appropriate analyses** and evaluations.

The value from Internal Audit



To deliver value to Executives and Boards, Internal Audit must provide insights into three questions:

- **What** is happening (or could happen)?
- **Why** is this happening?
- **How** do we cause something different (better) to happen?

This is all about getting to the root cause. And the root cause of many risks lies in behaviours.

So we'd like to show you what's possible for internal audit to provide deeper insights on the **Why** and **How**...

What is risk culture?

Risk culture is much more than a formal set of policies, procedures and systems. It's the system of values and behaviours throughout an organisation that shapes the collective approach to managing risk and making decisions.

Managing your risk culture is about building an environment where *the right people, do the right thing, at the right time.*

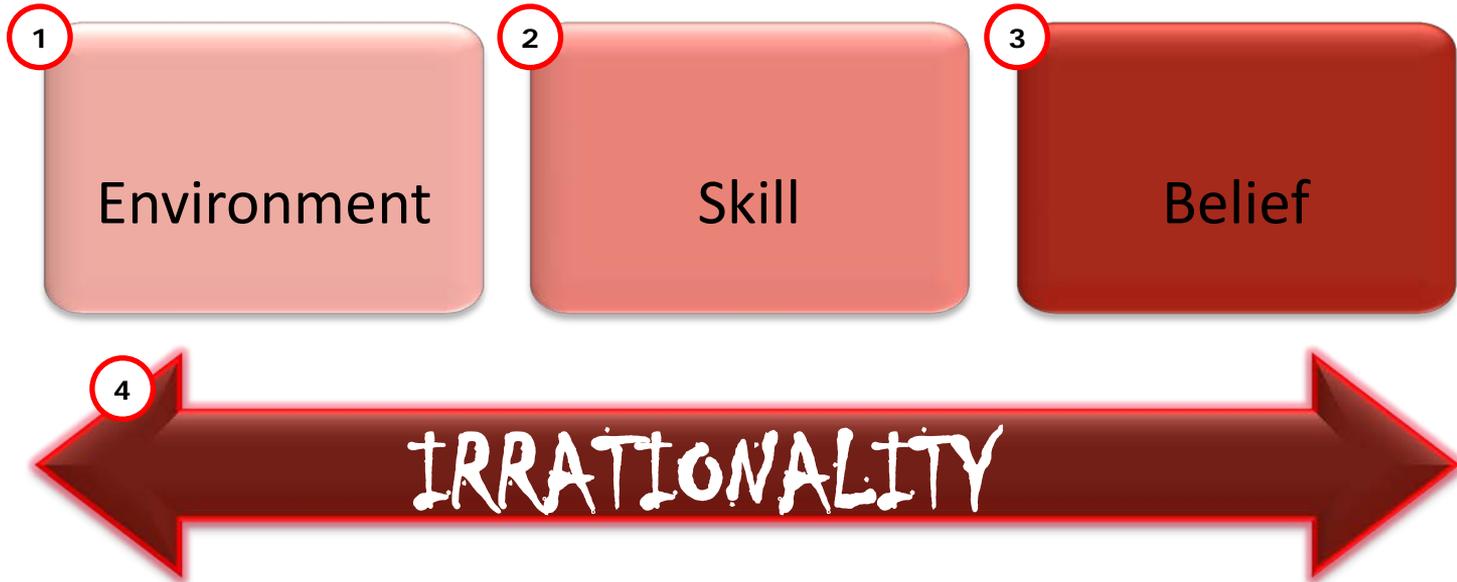
Linking culture and behaviour

	Internal	External
Individual	Ethics / Morals	Behaviours / Conduct
Organisation	Corporate Culture	Compliance / Market Perception

Why do doctors kill so many people?



Four reasons why people do what they do



Environment

We are pushing people in certain directions by our systems, processes, rules, tools, staffing levels...all the environmental reasons



Skill

They are doing what they are good at, enjoy or what is simply within their capability



Beliefs

They think that's what's expected, encouraged, allowed or what they can get away with (everyone is different)

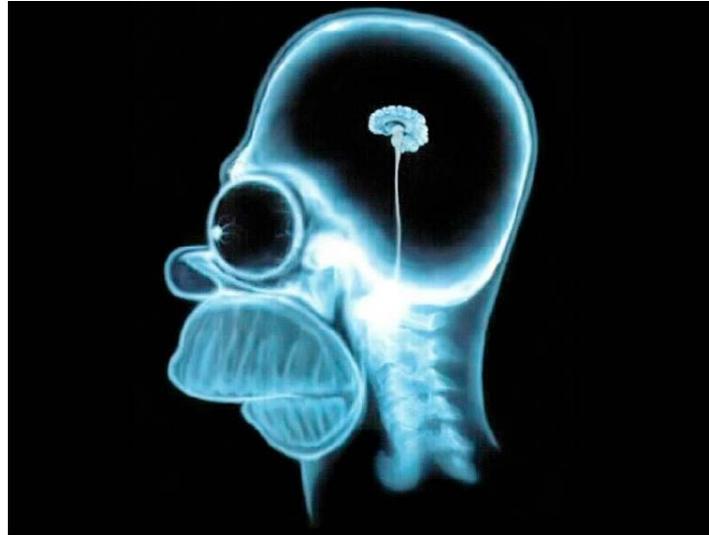


In summary...why are you all where you are right now?



Irrationality

We aren't actually the rational beings we would like to think we are



***So, now that we know what we are looking for,
how do we find it?***



Five ways to find out what's going on



1. Ask everyone the same question(s). (A survey.)

But....

- assumes you know which questions to ask
- assumes people actually know the answer
- assumes they are honest

Five ways to find out what's going on

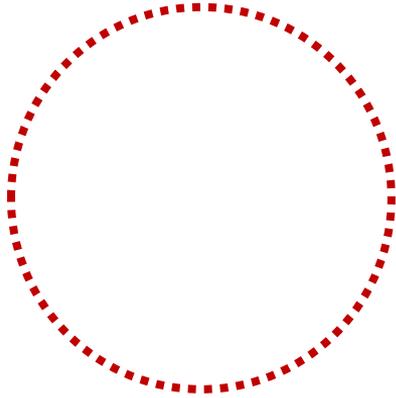


2. Have a look at all the available evidence.
(desktop research)

But....

- limited to what is available
- limited to what is recorded and captured
- limited by interpretation of the documentation

Five ways to find out what's going on

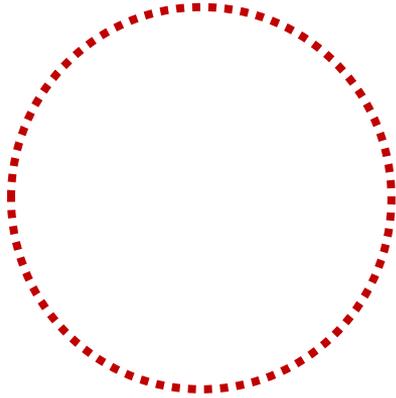


3. Ask a small number of people different and more detailed questions (Interviews)

But....

- depends on the people you ask
- depends on their knowledge and awareness
- depends on the capability of the person asking the questions

Five ways to find out what's going on



4. Ask groups of people to explore the issue
(focus groups)

But....

- relies on facilitator to reveal new information
- relies on facilitator to prevent group think
- relies on facilitator to prevent individual dominating

Five ways to find out what's going on

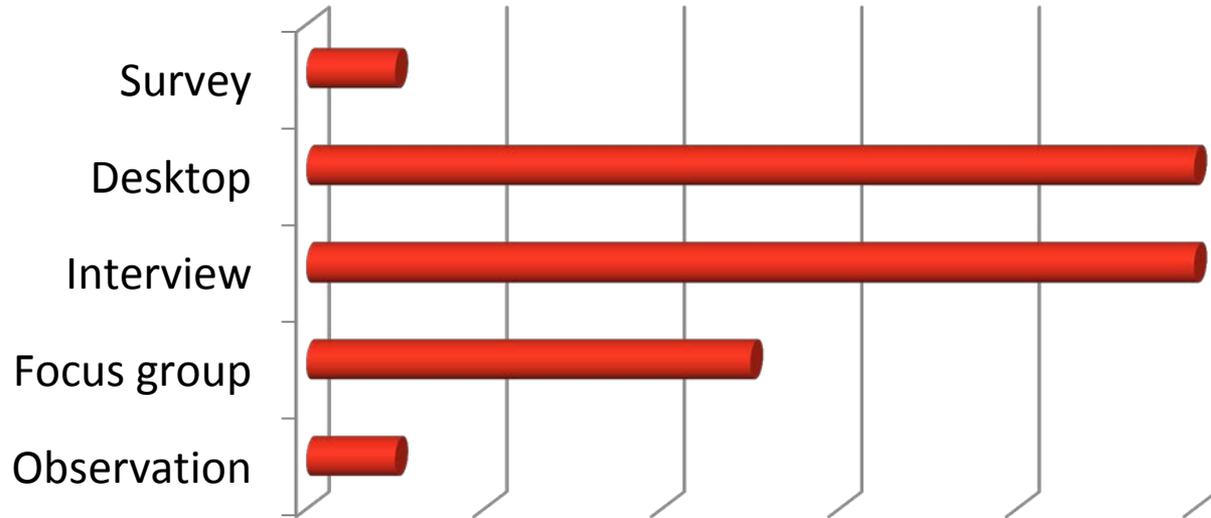


5. You can see a lot just by looking
(Behavioural observation)

But....

- requires observer to be unbiased
- requires plenty of time
- requires rigorous process to generate findings

Typical internal audit use of these methods



What skills are required to do this kind of work?

- Psychology
- Ethnography
- Behavioural Economics
- Statistics
- Quantitative Research
- An open mind

Where to from here?

- There are multiple reasons why people do what they do
- Understanding them may require more than one approach
- There is potential for internal audit to leverage (structure and skilled) behavioural observations as a source of evidence

2. High level early insights from PwC's recent Financial Services industry **Risk Culture and Conduct Benchmarking Survey**

PwC's Financial Services industry

Risk Culture and Conduct Benchmarking Survey

Purpose:

This survey explores views on the importance of Risk Culture and Conduct and the organisational mechanisms in place to manage it.

Audience:

The benchmarking survey is targeted towards the Financial Services industry, with particular interest in respondents from the following roles:

- **Non-Executive Directors**
- **CEOs / CFOs / CROs**
- **Risk Management and Compliance Professionals**
- **Internal Audit Professionals**
- **General Counsel / Legal**

Timing:

- **Release #1** of this benchmarking survey was conducted in April/ May 2015, analysis is currently under way.
- **Release #2** of this benchmarking survey will open in July – ***more info on how to register interest later.***

PwC's Financial Services industry

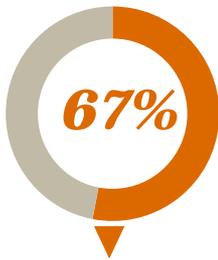
Risk Culture and Conduct Benchmarking Survey

Objectives:

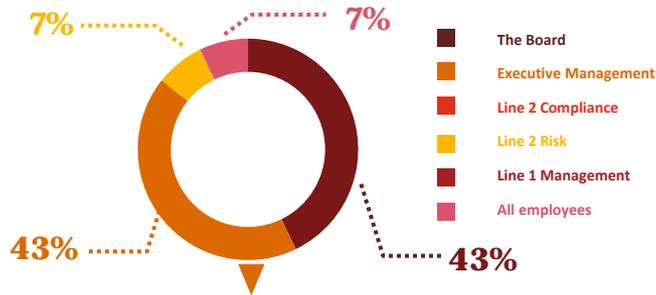
Findings will allow us to analyse and share insights regarding:

- **Industry maturity and variation** in action being taken in relation to Risk Culture and Conduct
- **NED expectations and perception** of organisational mechanisms in place to satisfy regulator expectations in relation to Culture and Conduct **and how that might differ to what organisations are *actually* doing**
- **Action being taken** to understand and influence the culture to achieve the desired state
- How organisations are performing within the **key risk culture areas impacting the Financial Services sector**, including:
 - i. Leadership and strategy
 - ii. Risk management and infrastructure
 - iii. People and communications
 - iv. Accountability and reinforcement
- How organisations are **performing against industry peers** in core risk culture areas

High level overview of early findings (CRO and Risk Professional responses)



Two thirds reported that their organisation has a clear and defined desired state for risk culture....



86% reported that the Board and executive management team is accountable for driving towards the desired state for risk culture.



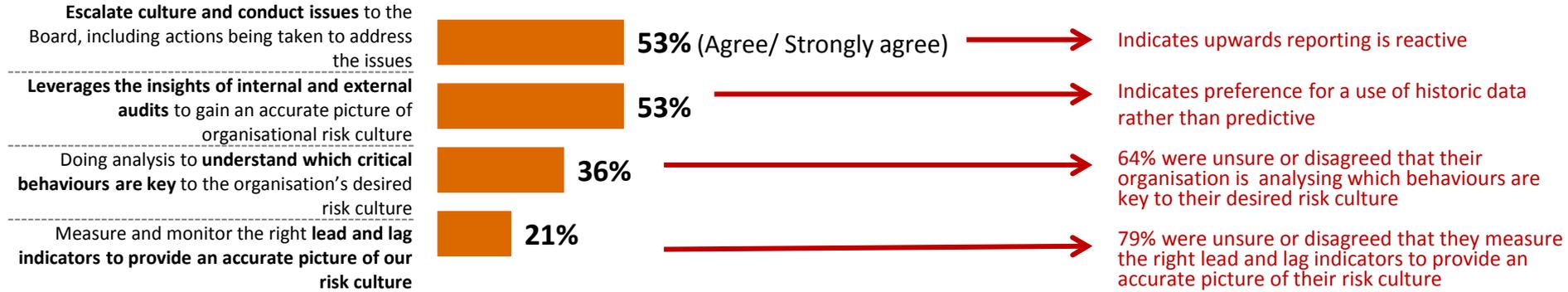
BUT, less than half reported that their organisation actually measures and tracks risk culture...

?

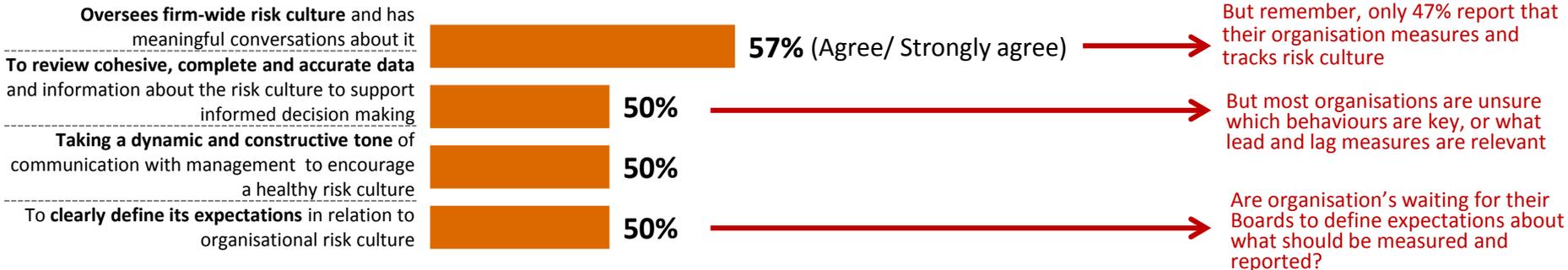
If less than half of their organisations are measuring and tracking risk culture, how are Boards and executive management teams able to tell if they are delivering on their accountability for driving an improvement in risk culture?

High level overview of early findings (CRO and Risk Professional responses)

CRO and Risk Professional's views of **the Organisation**'s accountabilities regarding risk culture



CRO and Risk Professional's views of **the Board's** accountabilities regarding risk culture



Next steps

- **June/ July:** Quantitative analysis completed
- **July:** Release #1 of the benchmarking survey report available
- **July- September:** Qualitative data gathered and analysed to provide further insight to survey findings
- **Late July:** Release #2 of the survey opens
- **Late August:** Release #2 of the survey closes
- **November:** Release #2 of the benchmarking survey report available

Interested?

