Whose culture is it anyway?

by Peter Parry

The Audit Quality Forum was established in December 2004 at the request of the Secretary of State for Trade and Industry. The Forum claims to bring together representatives of auditors, investors, business and regulatory bodies and aims to encourage stakeholders to work together. Its purpose is to promote open and constructive dialogue about transparency, accountability, reporting and confidence in the independent audit. This contributes to the work of government and regulators and helps to generate practical ideas.

On behalf of UKSA I attended this event held by the Forum at Glaziers Hall on 12th November. It started at 5.00p.m and lasted two hours with a further hour for refreshments and networking. It was well supported with some 340 attendees packed into a room with a maximum capacity of 280. As one speaker wryly remarked, only an event organised by auditors could end up 20% overbooked. You might wonder how the dry and dusty world of company audits managed to achieve a response that other event-organisers dream of. However, there is significant debate going on about the scope of the annual audit, as well as both the role and remit of auditors. In part, this is fuelled by concerns about the failure of the auditors to spot signs of serious trouble in the run-up to the banking crisis – a concern that has received further impetus in the last few weeks from the (long-overdue) release of the Bank of England’s report on the failure of HBOS.

The two keynote speakers were Baroness Neville Rolfe, Parliamentary Under Secretary of State for Business, Innovation and Skills (BIS) and Sir Win Bischoff, Chairman of the Financial Reporting Council (FRC). They were preceded by Mark Steel, a commentator and stand-up comedian, who was there to do the ‘warm-up act’. In fact, the warm-up act made the rest of the event look tame. Mark Steel’s performance was accomplished, entertaining and thought-provoking. He managed to lead out some of the largest elephants in the room to perform a few handstands for the audience. Companies that pay their directors too much, organisations that try to sell their customers things they neither want nor need and those that indiscriminately bombard people with unsolicited telephone calls were amongst those that were mercilessly parodied and lampooned.

Following a lively session that at times tested the borders of political correctness the talks from the two keynote speakers were always going to look bland. There were warm words about the need to develop cultures that resulted in long-term success for businesses and references to the revised Shareholder Rights Directive, along with the need to promote transparency and shareholder engagement. Sir Win Bischoff made a veiled reference to cultural failings at Volkswagen – a comment safely aimed at a non-UK company but which still failed to give any clarification as to what the cultural shortcomings were, how they had arisen and how they might be addressed. 'Culture', he added sagely, 'is a long term thing; you can't change it overnight.' A sense of 'déjà vu' descended on the room.

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The last hour of the formal part of the event was covered by the panel session in which five senior people from industry, academia and the armed forces plus Mark Steel were asked to give their comments on different aspects of culture. Sadly, the debate failed to reveal anything new. We learnt that culture in the army was ingrained into the organisation and that it had changed little over the last two hundred years. The army grows its own leaders who rise from within the ranks and who are expected always to lead by example. There was a rather 'rosy' view presented of culture in academia in which research is unbiased, impartial and everyone works together to get to the 'the truth'. Some who have worked in academia, where in-fighting in the senior common room can be every bit as vicious and partisan as the rivalries in industry, may find this hard to believe. Other speakers mentioned the problems of introducing common cultural standards across national boundaries in multi-national organisations. Legal and General said that it was more than willing to take senior management to task over cultural attitudes which it believed were inappropriate and damaging to the organisation. The problem was that other large fund managers were often less supportive for reasons that couldn't be explained. There was a suggestion from one panel member that, despite widespread miss-selling by banks, branch staff had really tried hard to do what was best for customers and provide excellent service. The fact that branch staff were actually trying their hardest to please senior management, spurred on by financial incentives to miss-sell, seemed to have escaped her attention.

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Over canapés and a drink afterwards I chatted to a young woman from one of the large audit firms. 'What is your view of the audit team getting more involved in assessing corporate culture? I asked. 'I'm against it', she said without hesitation. 'You can't measure corporate culture or give a definitive assessment of it. You are just creating unrealistic expectations on the part of the shareholders and others of what the audit can sensibly do.' There speaks the voice of reason.

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