



Corporate Culture and the Control Environment:

The Foundation of Internal Control

It's understandable that many Sarbanes-Oxley compliance projects focus on implementing and testing internal control. After all, controls represent the "fix" of Sarbanes-Oxley; they are the tangible response to the corporate scandals that spawned the law and the area that gets the most attention from the media.

Yet concentrating on controls to the exclusion of other areas is akin to raising a roof before finishing the foundation — it won't take much of a breeze to bring the whole structure down.

In fact, any Sarbanes-Oxley compliance project should be built on the foundation of a solid control environment.

What, exactly, is the control environment? The control environment, which is one of the five components of the COSO internal control framework, is the overall culture, tone, and attitude of a company. It comprises of a number of elements, including the following:

- integrity
- ethical values
- professional competence
- management's philosophy and operating style
- delegation of authority and responsibility
- direction provided by management and the board of directors

The first step toward creating a strong control environment is determining its current state. A cultural assessment should be performed to aid in understanding and documenting the existing conditions.

A well-designed cultural assessment will focus heavily on the ethics of executives, managers, and employees. It will verify

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the existence of certain tangible items associated with strong control environments, including codes of ethics, whistleblower helplines, and training programs.

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Cultural assessments should measure tone at the top, consistency and fairness, channels of communication, incentives and compensation practices, timeliness and effectiveness of responses to breaches, and myriad other areas.

Cultural Assessment Sample Questions

Survey respondents are asked to reply to statements such as those listed below with one of the following: strongly agree, somewhat agree, somewhat disagree, or no comment.

I feel that my management is committed to complying with all the laws and regulations applicable to our business.

I am aware of my ethics and compliance responsibilities in performing my daily work.

I have received training on the code of ethics in the last 12 months.

I feel I need more training and education on the laws and regulations that apply to my work.

I know how to report a suspected violation in my organization.

I know that there is a dedicated helpline for reporting violations or addressing concerns.

I believe that there will be no retaliation against me if I make a report through the helpline.

I feel that the company acts upon reports of potential violations.

I feel my company is a good corporate citizen.

I feel that management is willing to hear about problems or bad news and respond appropriately.

Overall, I feel that the company has a strong ethical culture that enables compliance with laws and regulations.

Deloitte has developed two versions of a sophisticated cultural assessment tool to aid in this important process. The first version, distributed to all non-management personnel, includes questions that encompass the following:

- integrity and ethical values
- perceptions regarding tone at the top
- management's philosophy and operating style
- general control environment pertaining to the company
- general control environment pertaining to the respondent's department
- information technology

The second version, intended for management, encompasses all of the areas listed above, as well as the following:

- commitment to competence
- human resources policies and practices
- board of directors and audit committee
- management's philosophy and operating style
- organizational structure
- assignment of authorization and responsibility

Upon completion of the survey, Deloitte compiles and analyzes the results, providing a report with insights and recommendations to strengthen policies, education, and programs.

To learn more about our cultural assessment and the various approaches to enhancing your control environment, including the ethics and compliance program, please contact your local Deloitte professional or visit www.deloitte.com/us/corpgov.