Internal Audit and Compliance
Blurred Lines of Responsibility

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Understanding the audience

- Do you have an established compliance function within your company?

- Have you performed a compliance function audit?

- Do you include compliance components within your audit programs?

- Do you feel there is coordination/cooperation between internal audit and compliance?
Agenda

Compliance in Our World
Roles, Responsibilities and Challenges
Approaches to Auditing Compliance
Keep this in Mind
Compliance in Our World
“Surveys from the IIA, PwC, Protiviti, and Grant Thornton say the internal audit profession is still evolving, mired in expanding compliance and regulatory demands while also wrestling with rapid advances in technology and increasing demands to look more broadly at strategic and operational risks.”

“The IIA's annual ‘Pulse of the Profession’ report says, for example, chief audit executives increasingly are embracing the IIA's “three lines of defense” model, but are not clearly defining who is responsible for which aspects of the defense model.”

“When companies end up with blurry lines, “you run the risk of potential gaps, but also overlap,” says Richard Chambers, president and CEO of IIA. It also makes it difficult for internal audit to provide independent assurance to the board if IA ends up taking on risk management duties that are intended for management…”

“Grant Thornton also issued a report earlier that indicates internal auditors are struggling to strike the right balance between an increasing compliance burden and an increasing demand for more strategic or operational audit coverage.”

* Compliance Week. ‘Internal Audit Facing Multiple Challenges, Surveys Say’ March 21, 2014
Compliance defined

Compliance:

The process of adhering to obligations derived from laws, regulations, industry and organizational standards, contractual commitments, corporate commitments (e.g., social responsibility statements, corporate filings), values, ethics, and corporate policies and procedures.

Similar to internal audit, the compliance function plays a critical role in providing information to management, the board and those individuals other roles across the organization that contribute to corporate governance.
The expectations

Organizations are continuing to expect more out of their risk, compliance, and internal audit programs....

through execution in a coordinated manner with minimal impact on business operations.
The facts

We live in a world of diverse, skilled, dedicated teams of:

- internal auditors
- enterprise risk management specialists
- compliance professionals
- internal control specialists
- quality inspectors
- fraud investigators

Where everyone is expected to:

- have assigned specific roles
- coordinate effectively and efficiently
- ensure there are no gaps
- not duplicate coverage
- have minimal interruption to the business
Roles, Responsibilities and Challenges
The 3 ‘distinct’ lines

The Three Lines of Defense Model

Adapted from ECIIA/FERMA Guidance on the 8th EU Company Law Directive, article 41

* IIA Position Paper: THE THREE LINES OF DEFENSE IN EFFECTIVE RISK MANAGEMENT AND CONTROL January 2013
Three Lines of Defense distinguishes among three groups:

**Operational Management**
- own and manage risks
- Implement corrective actions to address process and control deficiencies

**Risk Management and Compliance Functions**
- oversees risk and facilitates and monitors the implementation of effective risk management practices
- assists risk owners in defining the target risk exposure
- monitor risks such as noncompliance with applicable laws and regulations

**Internal Audit**
- Provides independent assurance and monitors the efficiency and effectiveness of operations
- safeguard assets
- reliability and integrity of reporting processes
- compliance with laws, regulations, policies, procedures, and contracts
Compliance Responsibilities

IDENTIFY, TRACK AND ASSESS REGULATIONS
• Compliance is responsible for understanding what regulations are in force or emerging, and how they apply to the company and its operations.

DEVELOP AND IMPLEMENT POLICIES
• Compliance should create or work in tandem with management to develop high level and strategic documents that establish rules for expected behavior of individuals, processes, and/or relationships in alignment with regulations.
Compliance Responsibilities

EDUCATE AND ADVISE

• The compliance function is responsible for establishing written guidance to staff on the appropriate implementation of compliance laws, rules and standards through other documents such as compliance manuals, internal codes of conduct and practice guidelines.

MONITOR, AUDIT AND DOCUMENT

• The compliance officer needs to make sure that policies and procedures are being followed and that compliance efforts are being clearly documented. Document disciplinary actions that send a clear message that failure to comply with policies is not acceptable.
Challenges of the Three Lines of Defense

Proliferation of operating silos

Perceived overlap of responsibilities

- monitor risks such as noncompliance with applicable laws and regulations
- Provide assurance on compliance with laws, regulations, policies, procedures, and contracts

Fragmented/diffused reporting of risk and control data

Lack of aligned stakeholder expectations

Lack of understanding of independence (compliance vs internal audit)
A challenge - managements ‘blurred’ view

- Multiple conflicting layers of ‘oversight’
- Double dipping in compliance areas
- Compliance considered an organizational stepchild
- Teaming up against management
- There is a compliance function why is internal audit looking at compliance
Approaches to Auditing Compliance
Compliance as a ‘partner’

- Develop an approach that leverages compliance professionals
- Scope the audit with the involvement of these ‘loaned’ resources
- Establish the roles first thing
- Assign specific compliance tasks to the compliance professionals
- Educate loaned resources on your internal audit methodology
- Keep loaned resources updated through the end
- Debrief, debrief, debrief
Compliance as a ‘component’

- Have an inventory the internal audit compliance bench strength

- Develop an approach that leverages compliance skillsets of internal audit staff

- Always consider leveraging co-sourced resources

- Do not attempt to include compliance within your audit program if there is a lack of skills/knowledge
Compliance as an ‘auditable unit’

- Team responsible for auditing compliance must supplement basic audit experience with solid knowledge of laws and regulations
- Confidence to challenge the ‘compliance experts’
- Be current on important regulatory and compliance developments since last audit
- Inquire of compliance of how they monitor and respond to current changes in regulatory and compliance changes
- Understand oversight by the company, management, committees, board, etc
- Review of the compliance function’s:
  - risk assessment
  - organization and structure
  - policies and procedures
  - training
  - monitoring and remediation
  - reporting
Keep this in Mind
Keys to success working with compliance

Strike a balance between internal audit and compliance strategies

Leverage of a common language of risk and control

Set supporting methodologies and approach

Leverage of a common technology solution

Align Gap/Finding/Observation language

Construct a familiar reporting format and structure

Be a ‘friendly’ and ‘open’ partner when planning, scheduling and coordinating audits
In summary

• Others within the profession are sorting out these roles, responsibilities and approaches as well

• Obviously there is not a silver bullet

• Connect with your compliance counterparts, they can actually provide valuable insights, as at times they are linked closer to management

• There will be continued pressure to focus on compliance and the easiest way to manage the risk is through operating outside of actual or perceived silos
Open Discussion