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Teaming Together:
How Compliance can work with the
evolving role of Internal Audit

Agenda

Compare and contrast — Compliance and Internal Audit

The change imperative

The changing role of Internal Audit

Leading practices — Compliance and Internal Audit: Teaming together



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Compare and contrast - Compliance and Internal Audit

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Compliance Officer & Internal Auditor

What makes a great Compliance Officer?



What makes a great Internal Auditor?



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There are a lot of similarities ...



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Compliance Officer

Well educated

Personable

Organized

Excellent
communicator

Collaborative

Good judgment

Problem solving

Methodical

Leadership skills

“Wicked Smaaat”

Understands “Risk”

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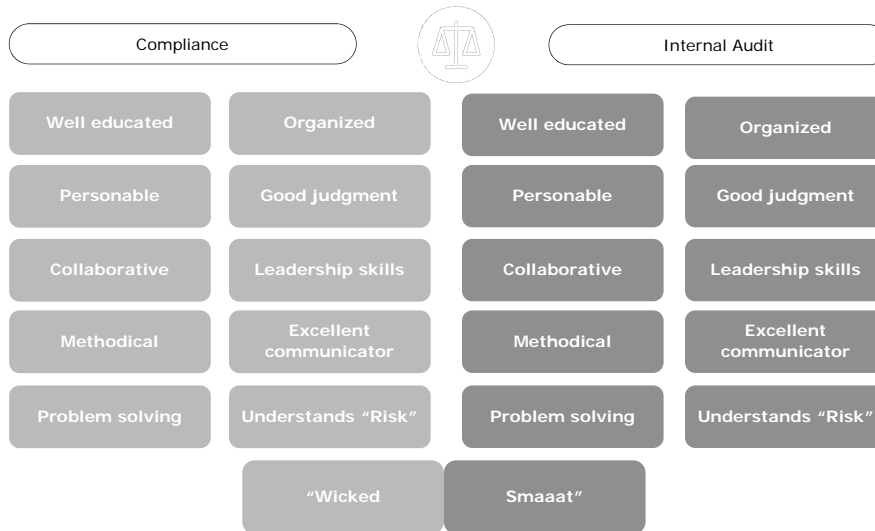
Internal Auditor



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Compliance Officer & Internal Auditor



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But, there are differences....



Compliance & Internal Audit

Compliance



Internal Audit

Compliance	Area	Internal Audit
Direct line to audit committee and chair of compliance committee; dotted line to CEO	Reporting relationship(s)	Direct line to audit committee; dotted line to CEO/CFO
Health Care Compliance Association	Authoritative body	Institute of Internal Auditors
Federal Sentencing Guidelines and OIG Compliance Guidance	Applicable standards	Standards for the professional Practice of Internal Auditing
Certified in Health Care Compliance (CHC) Others include: CPA, FACHE, CHPC, CHRC, CFE, CPC	Primary certifications	Certified Internal Auditor Others include: CPA, CCSA, CRMA, PMP, CFE
Compliance, regulatory and privacy risks: compliance with applicable, laws, rules and regulations	Primary scope/focus	Broad; risk-based; assurance and consultative
Yes	Independence	Standards require independence
2 nd	Line of defense	3 rd

How do you define "risk"?

"exposure to the chance of injury or loss; a hazard or dangerous chance..."

- Dictionary.com

"Risk is the possibility of losing something of value."

- Wikipedia

"possibility of loss or injury: peril; someone or something that creates or suggests a hazard;...the chance that an investment (such as a stock or commodity) will lose value"

- Merriam-Webster

How do you define "risk"?

Risk is the possibility of something bad happening...



...something good not happening.



Risk is everywhere...

- | | |
|----------------------|------------------------|
| Operational | Financial |
| IT | Legal |
| Social media | Infrastructure |
| Competition | Culture |
| Regulatory | Economic |
| Supply chain | Quality of care |
| HR/Talent | Industry |
| Environmental | Safety |
| Reputation | Compliance |
| Contract | R&D |



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RISK



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The change imperative

Welcome to VUCA, the new playing field Volatile, uncertain, complex, and ambiguous



Technological changes and advances



Macro forces



Changing consumer demographics and behavior



Regulatory changes



24/7 feedback culture



Business model innovation



Globalization

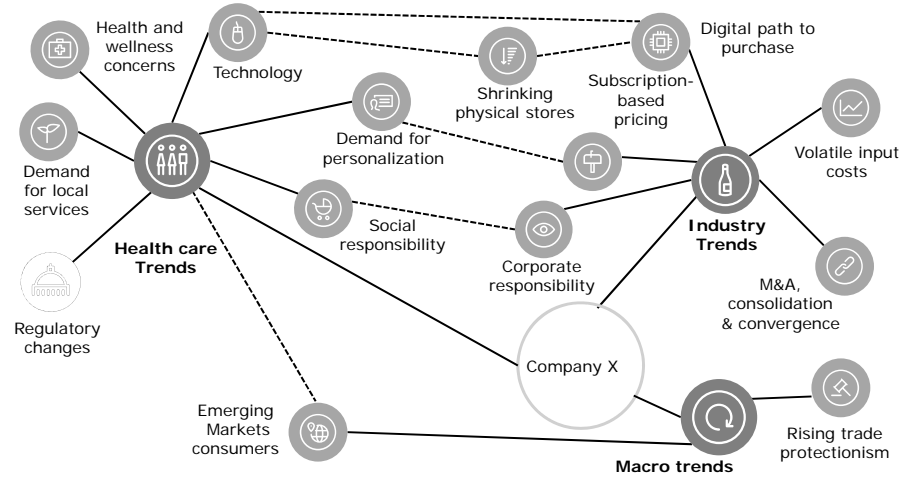


Productivity pressure

A VUCA world brings opportunity and organizations can capitalize on these emerging trends and technologies.

New trends and disruptive innovations are re-shaping industries
 Changes in consumer preferences, technology, and the competitive environment are posing strategic risks to existing business and operational models.

Example: Health care industry sector



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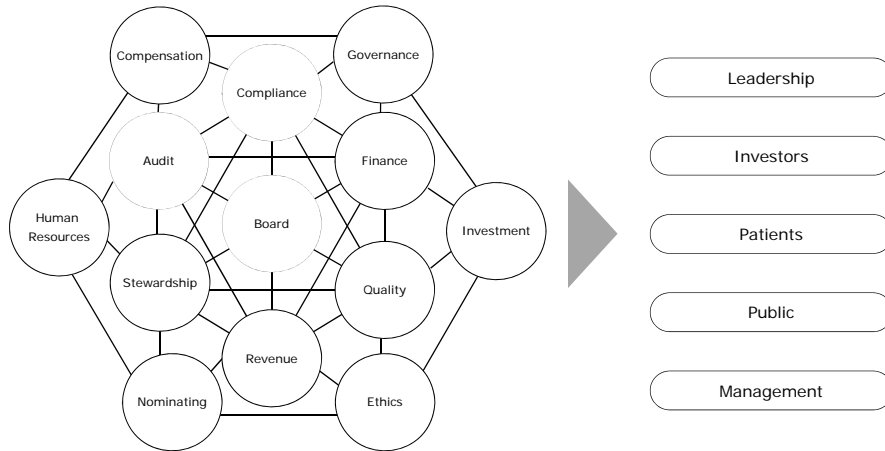


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Board committees

So many committees....so many constituencies



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Common challenges faced by audit and compliance committees

Common pitfalls we have observed in industry when communicating with audit and compliance committees:

Reactive approach (vs. proactive)

Lack of prioritization

Too little information

Lack of prioritization

Unclear information

Too much information

Failure to "speak the same language"



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Key responsibilities of audit and compliance committees

The roles will vary from organization to organization depending on the complexity and size as well as the requirements of the governing body, but typical audit and compliance committee responsibilities include:



Note > not intended to be an all-encompassing list of responsibilities

The changing role of Internal Audit

The history of Internal Audit

- The term "auditing" goes back centuries.
- The Institute of Internal Auditors ("IIA") was founded in the United States in 1941; over 185,000 members globally, 160 local chapters in the US. (source: The IIA; <https://na.theiia.org/about-us/Pages/About-The-Institute-of-Internal-Auditors.aspx>)
- The IIA established the Standards for the Professional Practice of Internal Auditing in 1978; revised January 2017.
- Historically, internal audit functions faced challenges:
 - Perception of independence vs. extension of management
 - Confusion with "other auditors" (i.e., financial statement)
 - Corporate police function
 - Positioning within organizations
 - Staffing
- "New accounting laws make internal auditors 'rock stars'" – 6/1/06, Baltimore Business Journal
- Thank you, Sarbanes-Oxley!
- Boom....but now a downturn? Mandate - innovate or become irrelevant

What is Internal Audit?

Definition*	Mission*
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.	To enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.

* Source: The Institute of Internal Auditors

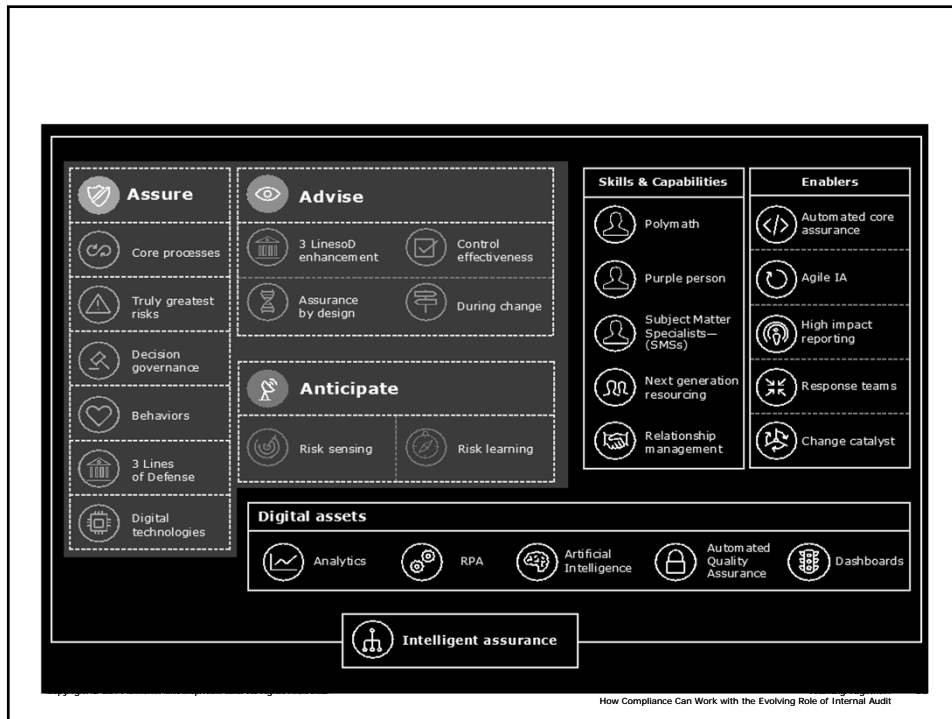
The Internal Audit continuum

What is a "leading" Internal Audit Function?

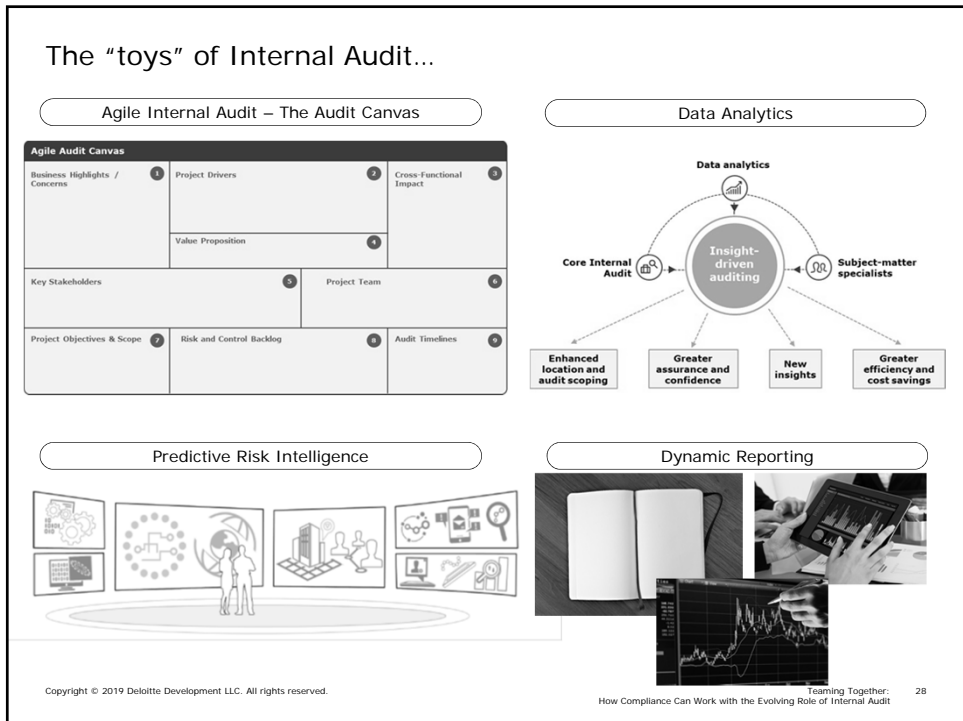
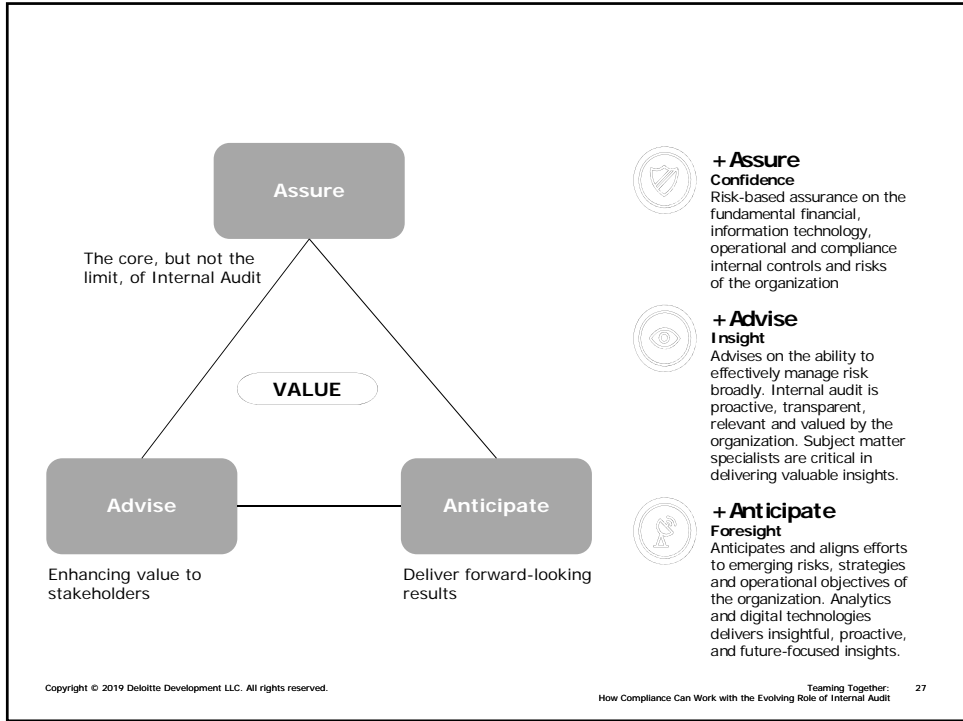
	Archaic	Basic	Leading Edge	
Organizational/ People	Competency	Financial	Financial and operational	Business, industry, strategic; evolving; specialized and deep
	Governance	No involvement/no presence	Periodic involvement	Internal Audit as advisor/facilitator
	Role/Responsibilities	Financial controls and compliance with policies/procedures	Financial controls and operational effectiveness	Business controls, strategic risk advisor and broad reach
Processes/ Methodology	Talent and Staffing Model	Generalists; headcount focused; body shop	Traditional staffing based on experience level	Competency based staffing model; on-demand skills; use of subject matter specialists
	Risk Focus	Limited; financial and compliance	Financial, compliance, and operational	Enterprise risk tied to strategy and goals; continuously monitored and updated; non-traditional risk focus inclusion
	Methods	Financial controls and compliance checklists	Process and controls internal audit programs	Risk intelligence frameworks; continuous auditing; flexible audit plan; stakeholder buy-in
	IT Auditing	Basic through use of generalists/pool resources	General computer controls	Consulting to improve IT infrastructure and strategy
	Cyber Assurance	Limited/no cyber assessment	Standalone cyber risk assessment	Continuous cyber risk assessment and monitoring, well-defined Cyber Risk Framework incorporated into multi-year audit plan
	Reports	Small findings; "gotcha" approach	Process and operational improvements	Proactive risk and trends analysis; dynamic reporting; findings are value driven; prioritized to focus on 'what matters'
Performance/ Technology	Performance Indicators	Informal measures	Established metrics	Established KPIs to identify process improvements and to drive accountability and effectiveness
	Technology	Basic	Project management and administrative systems	Data analysis, continuous auditing/monitoring; cutting edge tools and technology embedded into all phases of audit lifecycle
	Data Analytics	One off routines	Risk-based data profiling	Leverage data analytics platform to drive business decisions and inform audits
Stakeholders/ Perceptions	Style	Corporate police/reporter	Consultative	Trusted advisor; valued resource; sought out by business owners
	Value	Little to none; not viewed as helpful	Correct and improve through findings	Drives meaningful insights, changes and perspectives
	Communication	Focused on periodic reporting	Periodic communications with management	Proactive; inclusive; collaborative
	Perspective	Historic/reactive	Current	Proactive/future

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Leading practices — Compliance and Internal Audit: Teaming together

Teaming opportunities — Compliance and Internal Audit

Risk assessment

- Conduct a joint annual risk assessment including the following tasks:
 - Discuss prior results and current events
 - Develop introductory pre-read materials
 - Develop list of interviewees
 - Develop set of interview questions
 - Participate/facilitate risk assessment meetings
 - Debrief on results
- Enterprise risk management, if applicable

Annual audit planning

- Conduct joint planning discussions; review scopes
- Compare and review audit plans
- Review OIG workplan
- Identify potential overlap in plans
- "Divide and conquer" audit areas
- Coordinate timing of work re: same process owners/areas
- Identify subject matter specialists
- Identify stakeholder dependencies
- Identify potential IT needs/requirements
- Discuss data analytics
- Discuss potential Agile audit areas

Teaming Opportunities — Compliance and Internal Audit

Audit execution

- Identify common audits; tag team where appropriate
- “Guest auditor” approach
- Share audit results
- Learn Agile together
- Ongoing consultation
- Discuss potential recommendations
- Periodic touch points/status updates

Governance, training and education

- Joint pre-calls with governance
- Conduct joint education sessions with stakeholders
- Coordinate on governance education materials
- Collaboration at events (such as organizational outings)
- Consideration of how to “market” Compliance and Internal Audit

Q&A



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