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

Compliance Officer & Internal Auditor

What makes a great Compliance Officer?

What makes a great Internal Auditor?
There are a lot of similarities ....

Compliance Officer

- Well educated
- Personable
- Organized
- Excellent communicator
- Collaborative
- Good judgment
- Problem solving
- Methodical
- Leadership skills
- "Wicked Smaaat"
- Understands "Risk"
Internal Auditor

- Well educated
- Personable
- Organized
- Excellent communicator
- Collaborative
- Good judgment
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- Leadership skills
- "Wicked Smaaat"
- Understands "Risk"

Compliance Officer & Internal Auditor

<table>
<thead>
<tr>
<th>Compliance</th>
<th>Internal Audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Well educated</td>
<td>Well educated</td>
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<tr>
<td>Good judgment</td>
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</tr>
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</tr>
<tr>
<td>Leadership skills</td>
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<tr>
<td>Problem solving</td>
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</tr>
<tr>
<td>Understands &quot;Risk&quot;</td>
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</tr>
<tr>
<td>&quot;Wicked Smaaat&quot;</td>
<td>&quot;Wicked Smaaat&quot;</td>
</tr>
</tbody>
</table>
But, there are differences....

Compliance & Internal Audit

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

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How do you define “risk”?

Risk is the possibility of something bad happening... …something good not happening.
Risk is everywhere...

<table>
<thead>
<tr>
<th>Operational</th>
<th>Financial</th>
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<tbody>
<tr>
<td>IT</td>
<td>Legal</td>
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<tr>
<td>Social media</td>
<td>Infrastructure</td>
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<tr>
<td>Competition</td>
<td>Culture</td>
</tr>
<tr>
<td>Regulatory</td>
<td>Economic</td>
</tr>
<tr>
<td>Supply chain</td>
<td>Quality of care</td>
</tr>
<tr>
<td>HR/Talent</td>
<td>Industry</td>
</tr>
<tr>
<td>Environmental</td>
<td>Safety</td>
</tr>
<tr>
<td>Reputation</td>
<td>Compliance</td>
</tr>
<tr>
<td>Contract</td>
<td>R&amp;D</td>
</tr>
</tbody>
</table>
The change imperative

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

- Technological changes and advances
- Changing consumer demographics and behavior
- 24/7 feedback culture
- Globalization
- Macro forces
- Regulatory changes
- Business model innovation
- 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

- Health and wellness concerns
- Demand for local services
- Social responsibility
- Rising trade protectionism
- Digital path to purchase
- Volatile input costs
- M&A, consolidation & convergence
- Demand for personalization
- Volatile input costs
- Corporate responsibility
- Regulatory changes
- Emerging Markets consumers
- Shrinking physical stores
- Shrinking revenue / rising expenses
- Margin issues
- Employee dissatisfaction/ unions
- Physician alignment
- Lawsuits
- Evolving legislation
Board committees
So many committees...so many constituencies

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"
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:

- Collaboration with board / other committees
- Interaction with internal auditors
- Interaction with external auditors
- Risk assessment and oversight
- Interaction with compliance
- Fraud and internal control over financial reporting

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?

<table>
<thead>
<tr>
<th><strong>Definition</strong></th>
<th><strong>Mission</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
<td>To enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.</td>
</tr>
</tbody>
</table>

* Source: The Institute of Internal Auditors
The Internal Audit continuum

What is a "leading" Internal Audit Function?

| Competency | Financial | Financial and operational | Business, industry, strategic, evolving, specialized and deep |
| Governance | No involvement/no presence | Periodic involvement | Internal Audit as advisor/facilitator |
| Risk/Responsibilities | Financial controls and compliance with policies/procedures | Financial controls and operational effectiveness | Business controls, strategic risk advisor and broad reach |
| Talent and Staffing Model | Generalist: 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 and compliance checklist | Process and controls internal audit programs | Risk intelligence frameworks; continuous auditing; flexible audit plans;ılanlar for buy-in |
| 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 teams, "glossary" approach | Process and operational improvement | Practice risk and trend analysis; dynamic reporting; findings are issue driven; prioritized to focus on what matters |
| Performance Indicators | Informal metrics | Established metrics | Established KPIs to identify process improvements and to drive accountability and effectiveness |
| Technology | Basic | Project management and administrative systems | Data analytics, continuous auditing/monitoring; cutting edge tools and technology embedded into all phases of audit lifecycle |
| Data Analytics | One-off routines | Risk-based data profiling | Leverange data analytics platform to drive business decisions and inform audits |
| Style | Corporate policy/reporter | Consultative | Trusted advisor; valued resource; sought out by business owners |
| Communication | Little to none; not viewed as helpful | Correct and improve through findings | Drives meaningful insights, changes and perspectives |
| Perspective | Reactive/creative | Current | Reactive/future |

Skills & Capabilities
- Polymath
- Purple person
- Subject Matter Expertise (Gains)
- Next generation resourcing
- Relationship management
- Change catalyst

Enablers
- Customized core assurance
- Agile IA
- High-impact reporting
- Responsive teams
- Culture change catalyst

Digital assets
- Analytics
- RPA
- Artificial intelligence
- Authorized Quality Assurance
- Dashboards

Intelligent assurance
The "toys" of Internal Audit...

**Agile Internal Audit – The Audit Canvas**

<table>
<thead>
<tr>
<th>Agile Audit Canvas</th>
<th>Data Analytics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Highlights / Objectives</td>
<td><strong>Data analytics</strong></td>
</tr>
<tr>
<td>Project Drivers</td>
<td>✰ Core Internal Audit</td>
</tr>
<tr>
<td>Core Functional Impact</td>
<td>✰ Insight-driven auditing</td>
</tr>
<tr>
<td>Other Considerations</td>
<td>✰ Subject-matter specialists</td>
</tr>
<tr>
<td>Key Stakeholders</td>
<td>✰ Balanced assurance and risk management</td>
</tr>
<tr>
<td>Project Objectives &amp; Scope</td>
<td>✰ Greater assurance and confidence</td>
</tr>
<tr>
<td>Risk and Control Testing</td>
<td>✰ More insights</td>
</tr>
<tr>
<td>Audit Standards</td>
<td>✰ Greater efficiency and cost savings</td>
</tr>
</tbody>
</table>

**Predictive Risk Intelligence**

**Dynamic Reporting**
### Leading practices — Compliance and Internal Audit: Teaming together

#### 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