

# A Close Collaboration Between Audit and Compliance

## Key for Effective Risk Management

By Colin Campbell and Michael Rasmussen

The role of internal audit is expanding as it guides the enterprise beyond traditional attitudes about financial risk management, risk mitigation, and monitoring and toward evaluating a broader spectrum of compliance activities. Today's auditor must have a full understanding of the risks the company faces and how they relate to each other, and needs to rely on well-constructed and well-executed risk management, control, and governance processes in order to provide assurance that controls are designed appropriately and operating as designed.

At the same time, the role of compliance is expanding as it goes beyond the traditional roles of building an ethical workplace culture, identifying and managing regulatory and legal obligations, and implementing and monitoring policies, controls, and training. Today's compliance officer, beyond being devoted to the business and shareholder requirement of building and maintaining an ethical organizational culture, must have an active role in risk identification, management, monitoring, and mitigation.

Audit and compliance—working together—are uniquely positioned to help the board and management understand the importance of an integrated approach to compliance that enables wise resource use, prevents undesirable outcomes, and grasps advantages while achieving business objectives.

### The Role of Internal Audit

As a key player at the center of the strategic team of the enterprise, Audit must keep in mind and address the demands and concerns of a wide-ranging group of stakeholders.

- » Key external stakeholders including investors, regulators, NGOs, and local communities demand transparency.
- » Board and C-Suite executives require clear and reliable information about compliance risks that impact strategic decisions.

*Audit drives the overarching need for improved efficiencies and reduced compliance risk throughout the extended enterprise.*

- » Compliance and legal executives must identify and quantify significant risks and then allocate limited resources to preventive, detective, and corrective controls to mitigate those risks.
- » Line executives need to be invested in and consulted about surveys, risk assessments, and audits.

Auditors guide the organization through decisions that will develop and drive compliance strategy and need to be prepared to:

- » Articulate to the audit committee and the full board why having a clear and conformed view of compliance risk across the enterprise is critical to providing assurance
- » Demonstrate how strong, objective, independent assessments and audits can be used to evaluate all aspects of performance from strategic to financial and operational
- » Communicate the benefits of including internal audit on the front-end design of compliance processes
- » Influence other key functional executives to support internal audit's role in compliance and the organization's achievement of business objectives
- » Collaborate with key C-suite executives in developing compliance processes that allow for measurable evaluation of effectiveness and efficiency
- » Help the CEO to appreciate how a strong compliance risk management approach can protect and grow value

Audit can best guide the organization when it understands the implications of compliance at both the strategic and operational levels.

### The Role of Compliance

Compliance has expertise in creating the structure and culture of compliance needed to achieve the goals of compliance. Compliance has evolved from the days immediately post-SOX enactment when it was merely a 'department of no' to a department that operates like any



other core business function—it delivers on key business objectives and demonstrates its ability to successfully apply resources to manage the organization's obligations.

In a May 2011 Benchmarking Study done with SAI Global clients, 83% of respondents indicated that internal audit assisted with risk assessments in the areas of legal, compliance, and/or ethical risks. This same survey indicated that the most critical elements in any effective compliance program are: training, risk assessment management, investigations, and auditing and monitoring.

Compliance and ethics professionals in global organizations must connect and measure the degree to which program processes deliver outcomes that contribute to enterprise objectives. Compliance relies on audit to provide assurance of compliance processes, and audit can assist compliance by ensuring that the controls and metrics used to evaluate and improve established processes are measurable. Working together, audit and compliance can determine which processes require continual monitoring and which do not warrant this degree of allocated financial and human capital.

### The Close Collaboration Between Audit and Compliance

The close collaboration between audit and compliance activities simply makes sense. Internal auditors have the skill set, interest, and focus to be able to look at things in a measurable way. They have a broad understanding of many facets of the company. Additionally, internal audit departments already have budgets and resources available to assess the effectiveness and efficiency of compliance process. If audit is involved on the front-end design of the compliance capabilities, the

*As risks like the UK Bribery Act and various import/export trade regulations change the regulatory landscape, Audit and Compliance can together assess risk and ensure that compliance processes and controls are operating as designed and are effective in mitigating the most significant compliance risks.*

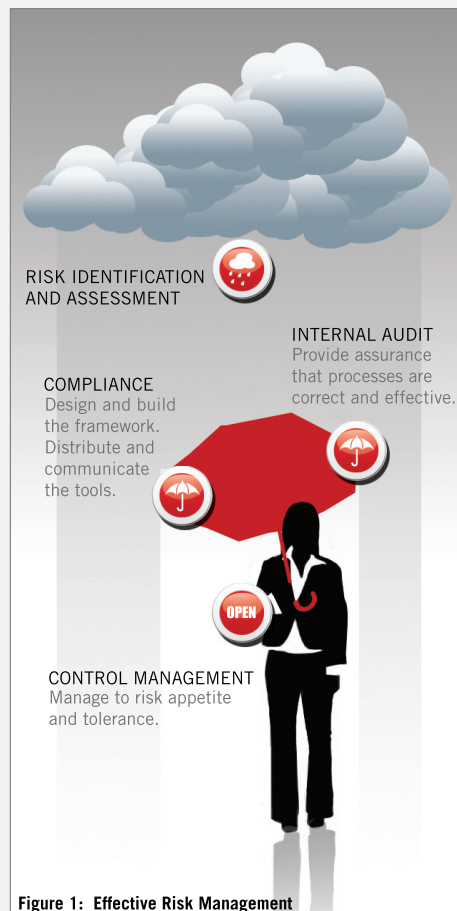


Figure 1: Effective Risk Management

organization will be assured that compliance systems are created to enable back-end review, which ultimately improve efficiency.

Audit's existing relationship with the audit committee can be leveraged to enhance the compliance reporting process; without a consistent and measurable compliance function, audit will have trouble assessing this process and providing assurance to the board that it is operating effectively.

At the same time, compliance understands how multiple regulations impact different business units differently and can help identify places where controls can address multiple requirements and/or obligations. The entire compliance process needs to be audit-ready, with policies in place to deal with inquiries, subpoenas, formal audits, external reviews, and investigations. Working together, audit and compliance can monitor and periodically report to the CEO and board of directors on how compliance and ethics risks are being identified and addressed.

As the board and executive management bring assurance to all stakeholders of the strategic and organizational effectiveness of the enterprise and continue plans to both preserve and create value, an effective standard approach to providing assurance related to compliance and ethical risk is critical. ■

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