The Institute of Internal Auditors

TONE at the TOP®

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*Providing senior management, boards of directors, and audit committees with concise information on governance-related topics.*

# Compliance Overload: 5 Steps to Taming the Beast

If your audit committee and board meetings seem inundated with ever more compliance-related matters, you likely are not alone. Because of the existing regulatory environment, the time needed for effective compliance oversight, especially in certain sectors, is expanding. Without a measure of diligence, compliance issues can begin to overwhelm already busy board and audit committee agendas. While compliance issues were once a periodic topic for board agenda planners, today's meetings typically include such varied compliance-related activities as:

- More proactively overseeing the broad corporate compliance program.
- Reviewing key compliance-related policies and practices designed to achieve conformance with applicable legal, regulatory, and ethical requirements.
- Promulgating and reinforcing the code of ethics or conduct and assessing the effectiveness of any associated whistleblower hotlines.
- Reviewing and evaluating findings and recommendations from completed compliance activities and audits (beyond internal audit results), including management responses and action plans.
- Meeting periodically (and more frequently) with the chief compliance officer (or equivalent), possibly in an executive session at least once a year.
- Possibly reviewing and approving the annual compliance plan, and monitoring progress compared with that plan.
- Assessing the adequacy of compliance resources to ensure that sufficient resources, with appropriate competencies, are being employed.
- Working with management to incorporate leading practices, including protocols for investigating complaints, helpline statistics, and internal reporting mechanisms.

Board members are well-aware that the risks are growing: A recent survey by BDO USA, LLP found that more than two-thirds of corporate directors believe that regulatory and compliance overload is the greatest risk facing their businesses today. But while audit committees and boards almost universally understand the risks, their schedules are jampacked with conflicting priorities.

Nearly half of the directors surveyed said they would prefer to spend more board time on topics such as succession planning (47 percent) and studying industry competitors (45 percent). Some would like to spend more time on risk management (38 percent) and evaluating management performance (32 percent). But only one in six, or 16 percent, wants to spend more time on compliance.

Fortunately, there are several effective ways to help keep the compliance burden under control. If your audit committee and board are facing escalating demands on their time, the following tips can help:

## 1 Keep compliance in perspective

Key to managing workloads is to identify compliance — along with other major risks — on a master agenda to keep its importance in the proper context, says Martin Coyne, founder and chairman of the CEO Learning Network. A former senior Eastman Kodak executive who has served on a number of boards and audit committees, Coyne says he uses information from internal audit as a "ready reference" to keep major risks top of mind.

"I would take the headings of what were the four to six big risks, and I would keep them in front of me at every audit committee meeting — whether I was chairing it, or I was a member," he said. "I would make sure, at least in my mind, that we were constantly thinking about those, so we were focusing on majors, instead of focusing on minors."

Using a template can help an audit committee avoid becoming victim to the tyranny of the urgent, Coyne said. It serves as a constant reminder that other priorities need to be addressed. Otherwise, "you can get derailed quickly," he said. "All of a sudden, you realize that you are an hour-and-a-half into a two-hour meeting, and you're still on the first topic."

Coyne also recommends that information needed for audit committee meetings be distributed to members well in advance.

## 2 Enlist other committees

Forty-three percent of respondents to KPMG's worldwide audit committee survey indicated that their "expertise and heavy agenda" make it increasingly difficult to oversee major risks, such as compliance.

Some boards are responding to this challenge by delegating oversight responsibilities for certain risks to other committees. In fact, a quarter of the survey respondents said they had recently reallocated or rebalanced their risk-oversight responsibilities, and many created new committees to focus on risk or a specific risk area, such as compliance. But it is imperative for audit committees to maintain connectivity with any new committees and have oversight of their activities.

## 3 Appoint a chief compliance officer

Paul Walker, Ph.D., executive director of the Center for Excellence in ERM at St. John's University, says that appointing a chief compliance officer is an excellent way for organizations to prevent compliance overload at the audit committee level and to ensure that internal audit resources remain balanced over a full range of strategic risks. A properly positioned and empowered chief compliance officer can help ensure that the organization's most important compliance risks get the attention they deserve.

Just as important, a chief compliance officer who has access to the board or other appropriate governing body can meaningfully oversee compliance reporting and escalation protocols.

For large companies in highly regulated industries, a full-time chief compliance officer is essential; but even smaller, less-regulated companies need to assign responsibilities and resources to handle compliance effectively. While some organizations successfully combine the internal audit and compliance functions, others create a chief risk and compliance officer position or combine compliance responsibilities with legal or investigative functions.

## 4 Ensure a unified, coordinated approach

In a recent article for Corporate Compliance Insights, Brian Christensen, executive vice president and global leader for internal audit at Protiviti, advocated "undertaking a quality focus on managing compliance with the same fervor with which management often approaches the improvement of core operating processes." Christensen supports the Three Lines of Defense model for effective risk management and control, in which operations management, risk and compliance, and internal audit all have clearly defined roles.

By using a unified, coordinated approach, such as the Three Lines of Defense model, organizations can help to ensure individual responsibilities are clearly defined and there are no gaps in compliance coverage and no unnecessary duplication of services.

## 5 Ask the right questions

It's impossible to focus valuable committee time on the right issues unless you start by asking the right questions. The "right" questions will vary, depending on your organization's size, industry, and other factors, but you might consider asking:

- Are compliance risks appropriately prioritized and are we focusing on the key risks?
- Are we considering "reputation risk" (the risk to the company's brand if something were to go wrong) as a key driver for what is most vulnerable, as it relates to compliance exposures?
- Are we leveraging board committee structures effectively to determine what should be in full board discussions and what could be best dealt with in board committees? And, have we revisited the committee structures and responsibilities recently?
- Is there a need for the organization to assess the resources it has dedicated to compliance matters, both in terms of sufficiency and experience?
- Are there redundant compliance efforts and, if so, can they be streamlined to save time and money?
- Have we assessed how well second line of defense functions (e.g., compliance) and the third line of defense (internal audit) collaborate?

Compliance challenges are growing, making efficient and effective oversight of compliance activities too important to ignore. If you are not confident that your organization effectively balances compliance with other strategic risks, it is time to take action.

### Balancing Risk and Compliance Coverage

The Three Lines of Defense model depicts three groups that senior management and the board can rely upon to detect and address risk:

- Operations management
- Risk and compliance functions
- Internal audit

Read the February 2013 issue of *Tone at the Top* to learn more about the Three Lines of Defense.

### Quick Poll Questions

1. How confident are you that your organization is effectively balancing compliance demands with other strategic risks?
2. Over the next 3 years, do you expect the level of resources needed by internal audit to address compliance demands to increase, decrease, or remain the same?

Visit **www.theiia.org/goto/quickpoll** to answer the questions and see how others are responding.

## About The IIA

The Institute of Internal Auditors Inc. (IIA) is a global professional association with 180,000 members in 190 countries. The IIA serves as the internal audit profession's chief advocate, international standard-setter, and principal researcher and educator. www.globaliia.org

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## Quick Poll Results:

Does your organization provide training on how to make ethical decisions?


*Based on 676 respondents. Source: The Institute of Internal Auditors *Tone at the Top* June 2014 survey

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