



# “Compliance Auditing - Three Objectives Approach”

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## Objective #1

Are we complaint?

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## What is compliance?

- ▶ The act or process of complying to a desire, demand, proposal, or regimen or to coercion; conformity in fulfilling official requirements (*Merrian-Webster*).
- ▶ In general, compliance means conforming to a rule, such as a specification, policy, standard or law. Compliance has traditionally been explained by reference to the deterrence theory, according to which punishing a behavior will decrease the violations both by the wrongdoer and by others. (*Wikipedia*)

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## What is compliance audit?

- ▶ A compliance audit is a set of activities that helps to determine whether or not an organization follows applicable rules, regulations, standards, policies, codes of conduct, etc.

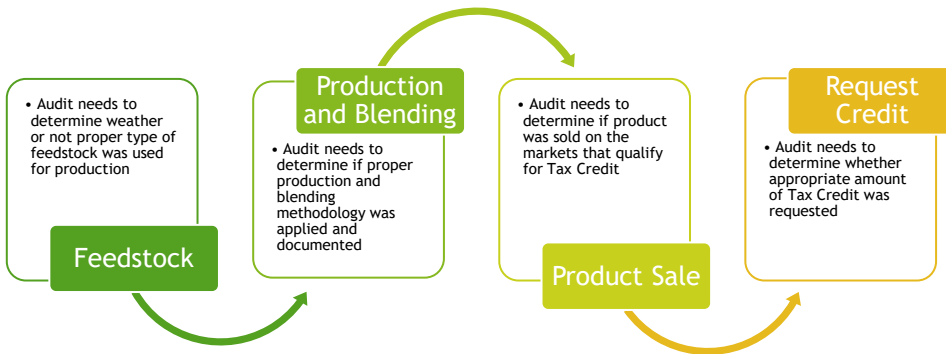
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## What do we focus on?



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## Compliance audit - example



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## We are in compliance - are we done here?

- ▶ If deficiencies are noted and compliance is violated, the auditor determines the cause and recommends ways to improve the process.
- ▶ But what happens if compliance requirements were met. What are the challenges when focus is placed mainly on confirming whether “compliance requirements” are achieved (check the box type of activity)?

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“Luck is the dividend of sweat. The more you sweat, the luckier you get.”

— Ray Kroc

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# Objective #2

How did we obtain compliance?

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We are in compliance - another box checked!

The policies and processes are designed and operating effectively,  
or...

The policies and process are informal,  
and/or not designed properly,  
or...

We got lucky ☺...

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## Reporting challenges

- ▶ One of the most difficult part of the audit is reporting phase.
- ▶ Even if all the work was executed as planned, auditor might prepare a report that does not properly reflects “the reality” or could consist conscious and unconscious bias.
- ▶ Inappropriate reporting is usually driven by:
  - ▶ Management
  - ▶ Auditor

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## Auditor's pitfalls

- ▶ Inappropriate identification of areas of risk, in advance of starting an audit
- ▶ Prejudice in relation to audited focus areas
- ▶ An absence of objectivity and a habit of assumption
- ▶ Application of unsuitable audit techniques and tools (e.g. verbal inquiry vs. physical observation)
- ▶ Insufficient level of listening
- ▶ Difficulties with classification of major and/or minor issues (why do we care?)

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## Management - could be another stumbling block

- ▶ Management wants to focus on determining whether or not “we are complaint” - the rest is noise
- ▶ Budget and/or resources are limited
- ▶ Auditors are not encouraged to direct or advise management
- ▶ Auditor’s objectivity is affected by internal reporting structures
- ▶ Management’s misunderstanding of applicable risks

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## Compliance audit - understanding the risk



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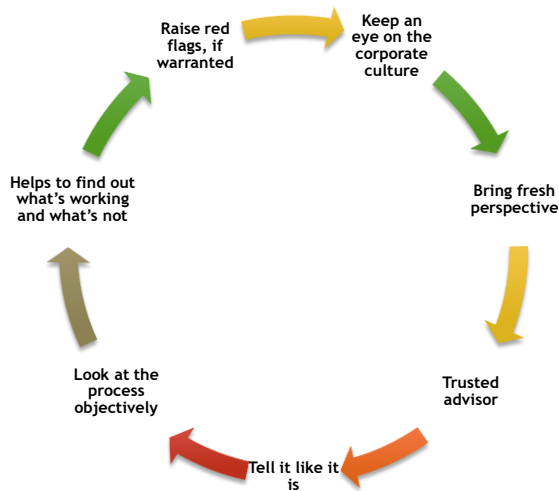
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## What to consider during conclusion phase?



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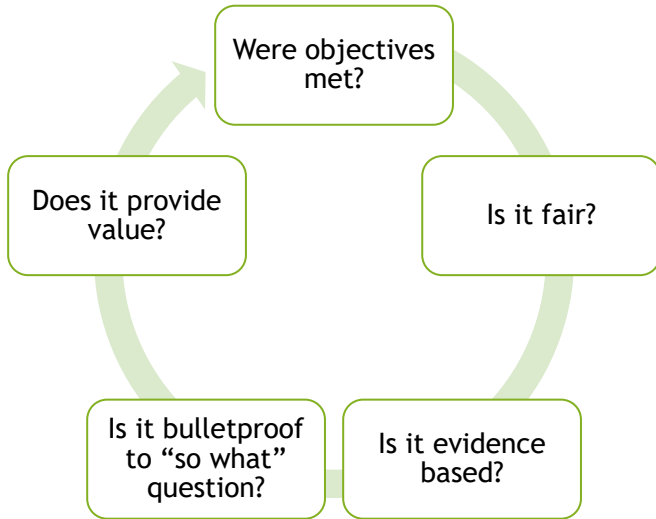
## Value we strive to bring



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## What to keep in mind while reporting?



## Objective #3

Can we do it better next time?

## Assess the “how”...

Improve

- **“Different isn’t always better, but better is always different.” (Unknown)**

Complete Self-Assessment

Perform cost / benefit analysis

Continue to train and educate

With every risk there is an opportunity and with every opportunity there is a risk

## Auditor’s responsibilities

- OFFER INSIGHT AND ADVICE
- EVALUATE RISKS
- ASSESS CONTROLS
- CONCLUDE ON COMPLIANCE ASPECT
- HELP WITH IMPROVING THE BUSINESS
- ASSESS POTENTIAL OF FRAUD
- COMMUNICATE RESULTS
- PROMOTE ETHICS
- REVIEW PROCESSES AND PROCEDURES

## Focus areas usually overlooked

**Personnel:** Usually, teams appear to be lean-resourced, and highly specialized skillset cannot be easily hired in.

**Automated vs. manual:** The ways company manages the process

**Time:** Carving out time to focus on compliance activities is a challenge

**Communication:** Insufficient communication channels across departments

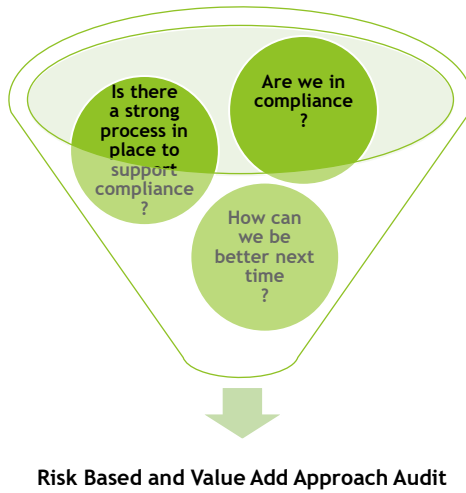
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## Auditor self-assessment

- ▶ In addition to providing recommendations to the management on what needs to be improved, auditor should perform self-assessment to determine the following:
  - ▶ Were procedures designed and executed in a way to meet “three objectives” approach?
  - ▶ What can we do more efficient next time?
  - ▶ Are we agile in what we do?
  - ▶ Did we provide value?

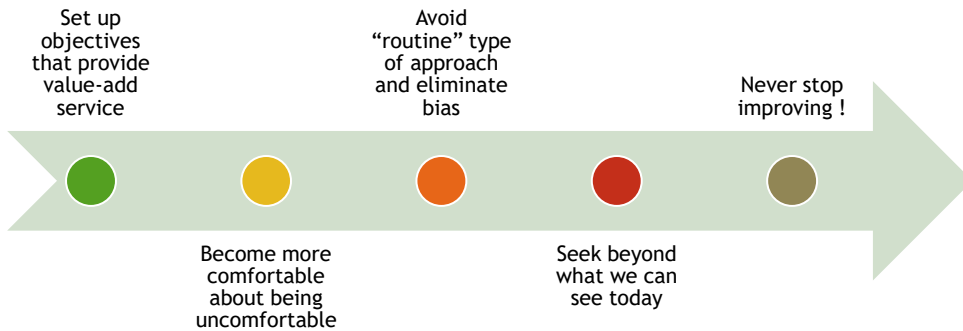
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## Planning, planning, planning...



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## Things to remember



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Thank you