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## Internal Audit: The Compliance Officer's Best Friend

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## My Organization

- Private liberal arts research institution with professional schools in Law, Medicine and the Kellogg School of Management
- FY08 operating budget of \$1.2 billion and sponsored research of \$416 million
- Endowment of \$5.9 billion
- 17,000+ students: 7,100 Faculty and Staff
- Two campuses located on Lake Michigan:
  - 240 acre campus in Evanston, Illinois
  - 25 acre campus in Chicago, Illinois
- Northwestern University in Qatar is one of six colleges established by the Qatar Foundation in Education City, Doha.



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## Internal Audit: The Compliance Officer's Best Friend

- Distinguish between Internal Audit and Compliance Office duties.
- Internal Audit can add value to your compliance team.
- Internal Audit and the Compliance Office can be effective partners.



## Internal Audit Bias

- Corporate Financial Analyst – 2 Years
- **Corporate Internal Audit – 3 Years**
  - **Insurance & Banking**
- Public Accounting – 4 Years
- **State Government /University Internal Audit – 9 Years**
  - **Chief Audit Executive**
  - **Chairman, Illinois Internal Audit Advisory Board**
- Private Higher Education Compliance – 4 Years
- **The Institute of Internal Auditors – 12 Years**
  - **Volunteer Leader**



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## Distinguish Between Duties

- Internal Audit Role:
  - Auditing is an independent examination and evaluation of something performed to provide an objective second opinion.
  - Effective auditing enhances confidence in management and accountability processes.
  - Internal Auditing is management oriented.
  - Internal auditors are management team members who report to the CEO/senior management and Audit Committee and who are responsible for assuring that the CEO/senior management are in a position to make optimally informed decisions.



## Distinguish Between Duties

- Internal Audit Duties:
  - Perform financial, compliance, information technology, investigative, operational, and special assignment audits, in accordance with the fiscal year audit work plan and management requests.
  - Identify and advise management regarding the risk and control of operations.
  - Brief management on the actual or potential impact of identified control concerns.
  - Monitor management's elimination of material weaknesses as identified by the audit process and communicate with senior management and the audit committee regarding the status of those weaknesses.
  - Manage the relationship with external review agencies.
  - Serve as a member of the Compliance Committee.



## Distinguish Between Duties

- Compliance Office Role:
  - To develop, implement, and monitor an effective compliance function to coordinate organization-wide initiatives to prevent, detect, and respond appropriately to compliance risks.
  - Independent, objective evaluator, consultant, and advisor.
  - Compliance Office is management oriented.
  - Compliance Officers are management team members who report to the CEO/senior management and Compliance Committee and who are responsible for assuring that the CEO/senior management are in a position to make optimally informed decisions.



## Distinguish Between Duties

- Compliance Office Duties:
  - Identify units and individuals that have a key role in managing compliance in order to develop an inventory of all compliance requirements. Establish working relationships with the various managers (with compliance responsibilities) in order to categorize components of each compliance program.
  - Educate operating units as to the essential components of a strong compliance program. Aide in the identification and prioritization of compliance risks. Assess compliance gaps between operating units who manage compliance programs.
  - Provide risk analysis for management by developing a tool to capture the risks, responsible party, prioritization, and gaps related to compliance issues. Establish mechanism/process to keep the tool current.



## Distinguish Between Duties

- Compliance Office Duties:
  - Design a template to identify the essential components and controls of a compliance program for any unit within the organization. Based on the established template, assess the effectiveness of each unit's compliance program.
  - Facilitate the establishment of corrective actions and appropriate follow-up related to gaps in compliance programs. Establish mechanisms and processes to consistently enforce compliance requirements.
  - Educate units managing compliance aspects as to the essential elements necessary in compliance programs.
  - Assess the awareness and adherence to the code of conduct throughout the organization, suggest strategies for improving existing systems & monitor enhancements.



## Distinguish Between Duties

- Compliance Office Duties:
  - Communicate with senior management, the Compliance Committee the compliance issues, corrective action, and follow-up processes for compliance issues.
  - Implement a vendor provided phone and web-based anonymous reporting line, provide supplemental training for report reviewers, and market the reporting line throughout the organization.
  - Monitor the process to allow anonymous reporting of alleged noncompliance by serving as the administrative overseer of the inquiry complaint tool, which entails ensuring issues are investigated appropriately and timely, spearheading certain investigations, and providing summaries and reports to management and the compliance committee.



## Similar Roles

- Both are:
  - Independent, objective evaluators, consultants, and advisors.
  - Management oriented.
  - Management team members who report to senior management and committees and are responsible for assuring that senior management and committees are in a position to make optimally informed decisions.



## Similar Duties

- Evaluate the organization's compliance with external regulations.
- Brief management on the actual or potential impact of identified compliance concerns.
- Facilitate the establishment of corrective actions related to gaps in compliance programs. Establish mechanisms and processes to consistently enforce compliance requirements.
- Monitor management's elimination of material weaknesses and communicate with senior management regarding the status of those weaknesses.
- Manage the relationship with external review agencies.



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- Distinguish between Internal Audit and Compliance Office duties.
- Internal Audit can add value to your compliance team.
- Internal Audit and the Compliance Office can be effective partners.



## Internal Audit Value

- Output
  - Audits & Investigations
  - Annual Risk Assessment
  - Special Projects
    - Enterprise Risk Assessment
  - Training



## Internal Audit Value

- Authority/Standing
  - Charter
    - Full and complete access to all records, employees, and areas of the organization.
    - Direct line to Senior Management and the Audit Committee.
  - Independent & Objective
  - *“Houston, We’ve had a problem!”*

*James A. Lovell*



## Internal Audit Value

- Expertise
  - Internal Control
  - Investigations
  - Risk Analysis and Mitigation
- Resources
  - Audit Staff
  - Organizational Data



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## Effective Partners

### Common Goals

- Understanding, evaluating, and mitigating organizational compliance risk.
- Ensuring management and the Board are in a position to make optimally informed decisions.



## Effective Partners

- Share Information
  - Audit reports
  - Annual audit plan
  - Risk assessment
  - Emerging risks
  - Special projects



## Effective Partners

- Share Strategy
  - Management and Audit/Compliance Committee
  - Organizational policy
- Share Resources
  - Joint training
  - Expertise
  - Data and access



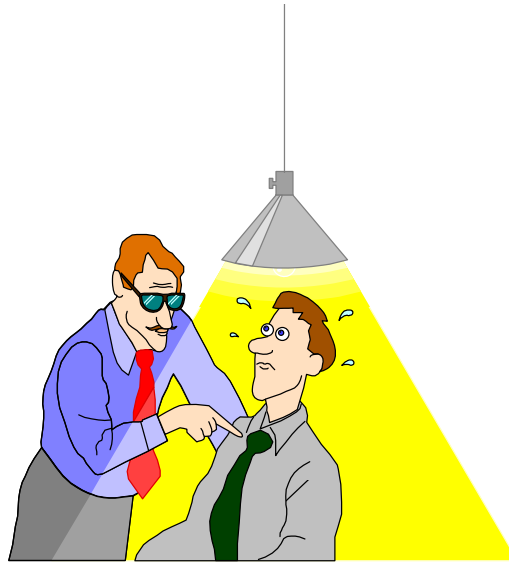
## Effective Partners

“It is amazing what you can accomplish if you do not care who gets the credit.”

*Harry S. Truman*



## Questions?



## Thank You!

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