

AUDITING YOUR COMPLIANCE PROGRAM

COMPLIANCE TOOLKIT



Introduction

Many CEOs ask compliance professionals when the ethics and compliance work will be "done." Of course, the answer is that it's never completely done. An ethics and compliance program should grow and adapt to fit the business and its environment. An "off-the-shelf" program is only good until a new regulation or updated product line.

A program's effectiveness over time depends on how the company measures its effects and makes improvements based on that data. "Auditing" is simply taking those steps. An internal audit of an ethics and compliance program provides essential information and points the way forward for the company.

WHY AUDIT A COMPLIANCE PROGRAM?



Auditing a compliance program is the best way to keep it effective. Many companies launch ethics and compliance plans with good intentions, but do not check whether it is actually working. An audit gives objective data showing real outcomes.

The first item needed for an audit is a baseline. That is, your company needs to know how things were going prior to the program. If a program is already in place, your baseline would be how that program is currently performing. Measurements such as regulatory violations and fines, days out of compliance, and internal reports all provide a snapshot to compare.

Some info can be gathered after the fact. If you launched a compliance program this year, your company most likely has records of the issues that occurred last year. Whatever you can

put together to create even a partial picture of past issues will help inform what you need to do now.

Using your baseline measurements (or "metrics"), you can build an audit process that measures current performance against the prior results. Over time, new issues may arise that you want to measure as part of your compliance strategy, but you don't need a crystal ball. Just start with what you know now.

By comparing clear data, you can track how your company improved with the program in place. You might find that outcomes didn't improve, or even declined. That's still useful to know. That information allows you to find out what isn't working and improve or update that part of the program.

COMPLIANCE AUDITING FLOWCHART

Use this flowchart to keep track of the development of your auditing process.

First, collect data on the company's baseline performance, focusing on the issues that the compliance plan is designed to improve.

Second, gather information about how the company is doing on these issues since the baseline was set.

Third, compare the new data to the baseline to track performance trends.

Next, look at the trends and re-evaluate your ethics and compliance program. Make changes where needed, and repeat these steps!

**THE KEY IS MEASUREMENT,
SIMPLE AS THAT.**

Robert D. Hare

WHAT TO MEASURE?

Objective measurement is the best way to find out how your compliance plan is working. First, you need a baseline, and second, measurements to compare to it. Here's how to start.

1. Baseline

Maybe your compliance plan grew out of a regulatory fine or lawsuit. That means you already have at least one measurement.

- A regulatory action will specify where your company went wrong, either as a number of violations or an error calculation.
- Fines make excellent goals for cost reduction.
- If your company is sued for an ethics issue, such as sexual harassment, the number of plaintiffs or lawsuits and the fees and damages are also numbers to reduce.

If your plan is preventative, look at your goals to determine what to look at for both a baseline and ongoing audits. This rest of this list will help you brainstorm.

2. Days Out Of Compliance

If your plan includes tracking new regulations, how long does your company take to come into compliance?

Say there's a new rule on employee notifications about retirement plans. You can measure when the company became aware of the rule (which may be before or after it takes effect) and how long until the company starts meeting the requirement. Compare those times to when the rule came into effect. The difference between the rule's start date and when the company later complied is your days out of compliance.

You can also keep track of how quickly the company responds before a new regulation is in effect. Coming into compliance before it's required is recommended

WHAT TO MEASURE, CONTINUED

3. Safety Goals

Maybe you've seen a "Days Since Last Accident" sign. That's a great way to measure safety programs. Displaying it openly helps improve team support. Other possible measures include equipment maintenance and testing goals and training requirements. Make a schedule and track who, what, and when.

4. Employee Measures

It might seem impossible to measure "soft" data like job satisfaction. But using an anonymous employee survey with consistent questions can show trends over time.

Many hard measures are available. How long do employees stay with your company? What is your annual turnover? Is there higher turnover in certain departments or roles? If so, it makes sense to look closely at what might be causing those issues. Consider holding exit interviews to learn more.

5. Financial Concerns

Many plans include financial controls to avoid wrongdoing. Financial matters may seem like simple math, but where does the money go? Many plans make rules for who can cut checks or set up vendors, for instance, or how expenses must be documented. If your plan includes financial controls, think about how you can double-check that the system is working.

6. Training

Most plans include training on new systems or procedures, plus basic education on job responsibilities and respectful conduct. But how do you know it's working? First, keep track of who delivers which training and how often. Consider adding a quiz to training and recording performance instead of just attendance.

Training needs to yield outcomes. Determine your baseline on the training topics, then track whether company performance improves as employees receive training.

AUDIT TIPS

Internal audits can be challenging. Use this checklist to keep your audits on track.

- An internal auditor should be distinct from program administration or record-keeping. Double-checking by a third party is fundamental to the audit concept.
- Give the internal auditor a checklist of the information the company needs to keep the audit focused and useful.
- Give the internal auditor enough time to do the work. In a small business, the internal auditor is an existing employee. The work is important, but must fit in around other duties.
- Notify employees that the audit process is a normal part of the program and not intended to be adversarial. They should work with internal auditors, not against them.
- An internal auditor should use independent judgment. No one in the company should pressure the person running the audit to report in a specific way.



**SUCCESSFUL PEOPLE ARE SIMPLY
THOSE WITH SUCCESSFUL HABITS.**

Brian Tracy

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AUDIT TIPS, CONTINUED

- Give the auditor access to high-level management or the board of directors. These connections will help if anyone tries to influence or avoid the audit. The auditor's raw data should be delivered to multiple recipients among these individuals.
- After receiving a completed report from the internal auditor, promptly review the data and compare it to your original baseline and other audits since that time.
- Resist any urge to "spin" the results or exclude bad data. An audit is not an indictment; it's an opportunity to learn and improve.
- Check the trends. If no improvement occurred on key metrics, why? Did a program start strong and then trail off? Is your ethics and compliance program easy to understand and access? Have employees had the right training? Rather than assigning blame, view it as a puzzle to be solved.
- Based on the results and your analysis, adjust your program to address continuing issues. An ethics and compliance program grows with your business. See where it leads you.

