

CROSS-FUNCTIONAL COMPLIANCE MONITORING STRATEGIES

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Science For A Better Life

Cross-Functional Compliance Monitoring Strategies

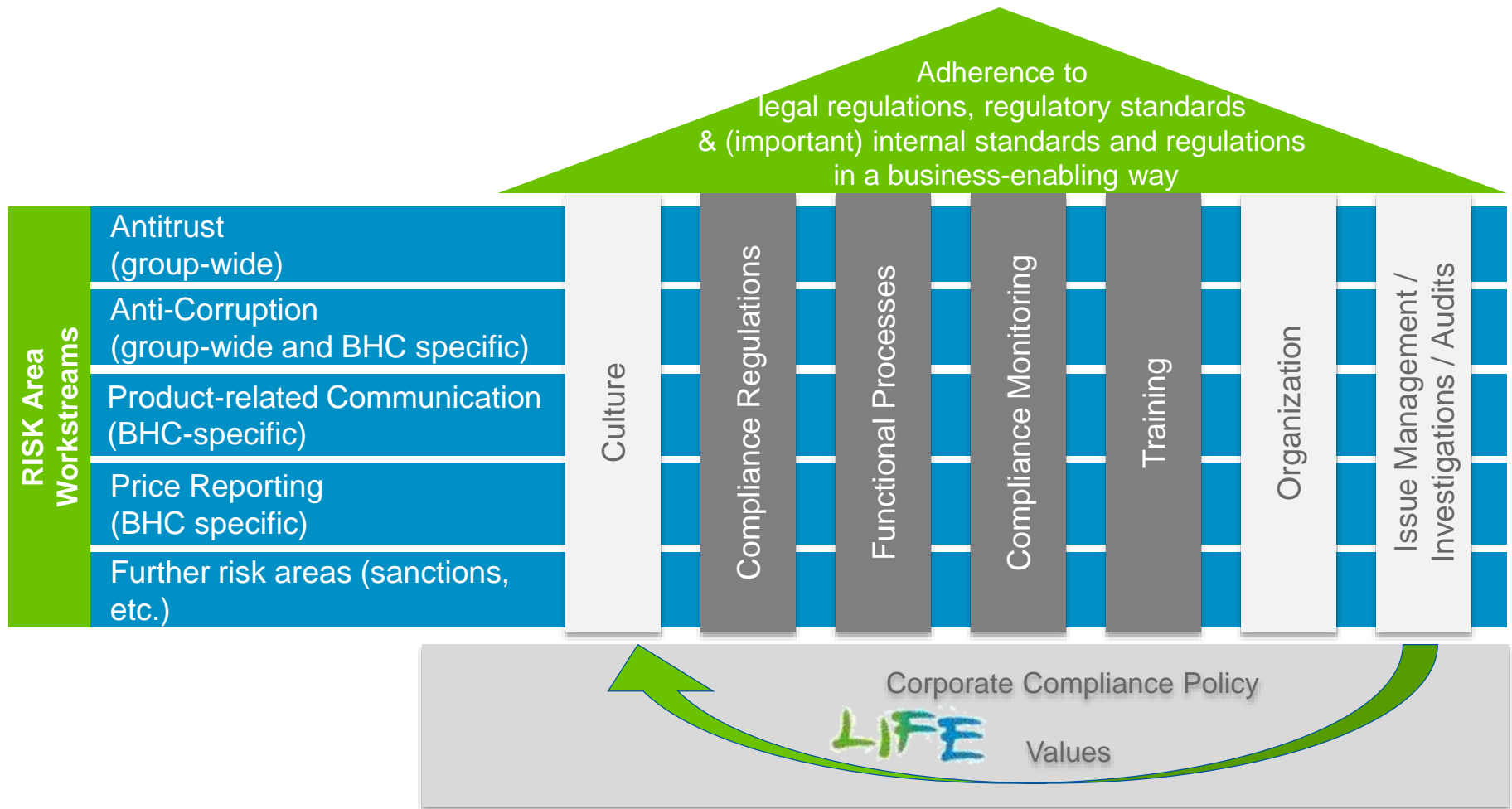
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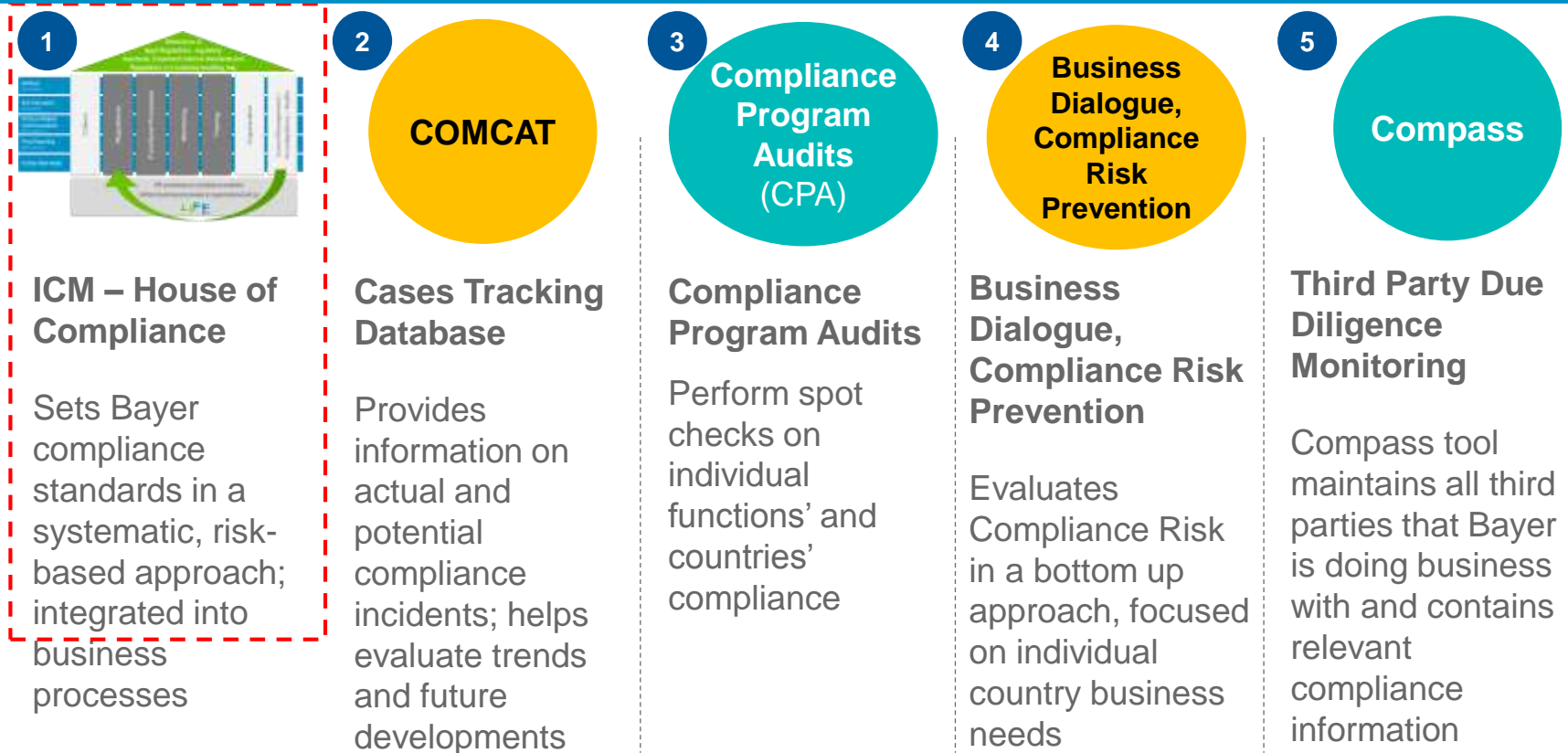


The 'House of Compliance' provides the framework for preventive compliance management process



Compliance Monitoring Concepts & Tools

Overview of Compliance Monitoring Tools



Compliance Monitoring is further supported by soft controls (management meetings, attending trade fairs, surveys, etc.)



Monitoring approach includes effectiveness monitoring and analytical monitoring

Overview of monitoring approach

Functional processes



Monitoring approach

■ Effectiveness monitoring

- Monitor effectiveness of **functional processes** (e.g. periodic sample-based check)



Objectives

- Ensure the **effectiveness of all risk mitigating measures** included in business processes to prevent compliance violations

Business activities



■ Analytical monitoring

- Monitor unusual **business activities**



- Monitor unusual business transaction to **raise early warning signs**
- Allow **compliance risk prevention** rather than incident reaction by minimizing likelihood of undetected violations
- Allow local business to perform an **automated analysis of compliance KRI¹s**

Compliance Monitoring: Who is doing what?



Monitoring Type	Department in Charge
Interactions with healthcare professionals/orgs (fair market value, pharma code)	Compliance
Transparency reporting	Finance (disclosure operations)
Maverick spending & after-the-fact purchase orders	Procurement
Permits & temperature control	Quality
Internal controls	Finance (internal control department)
Travel expenses	Finance
Anti-trust / anti-corruption / conflicts of interest / insider trading / trade sanctions	Compliance
Audits & compliance programs audits	Corporate audit

Specific compliance risks are managed by different departments



Compliance Monitoring: Things to think about

Elements to consider in your compliance monitoring system:

- Homogeneous vs. heterogenous IT landscape
- Control vs. trust culture
- Manual controls vs. data mining
- Risk-based approach → the higher the risk, the more controls needed!!!
- NOT owned by compliance but by the business
- Skills needed (process/control skills) are different from typical lawyers' skills
- Data mining allows for 100% of the population vs small sample testing
- Data mining has high start up costs (e.g., detailed knowledge of IT systems, what tables to take data from) and typically many false positives

Questions



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Cross-Functional Compliance Programme Monitoring Strategies

Markus Jüttner, VP Group Compliance, E.ON SE

Compliance: A dazzling term & a cross-functional issue?



- What is compliance?
- Who is responsible for what kind of compliance risks?
- Who is identifying new compliance risks?
- Who is monitoring the risk management system and how?

Compliance: The definition @ E.ON

Company Culture/Values/Integrity

Fraud (*against* the company)

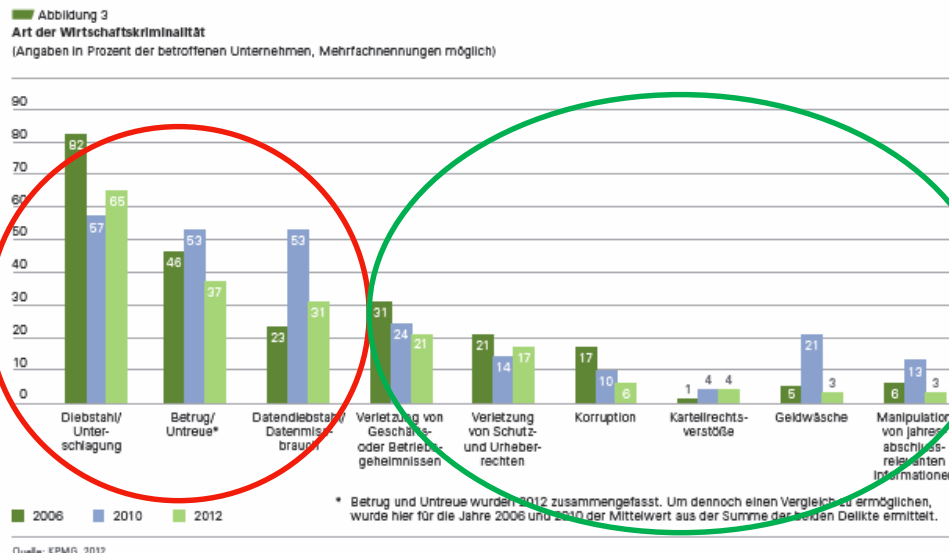
means
Business-damaging behaviour,
against company

Anti-Fraud Management

Company misconduct

means
High legal, reputational, and criminal risks
for company and institutions/management

Compliance



Compliance & Fraud

Fraud against the company

- Acting against company's interests
- Company is the damaged party
- Fraud committed on purpose
- Usually low public interest
- Criminal proceedings against employee/offender

⇒ **Prevention with focus on ICS**

Company Misconduct

- Acting in company's interests (pretend)
- Company is enriched (in short term)
- Misconduct can be unintentional
- Usually very high public interest
- Criminal proceedings against company

⇒ **Prevention with focus on Corporate Values**

Bribery requires unauthorized access to money

Fraud cases might be regarded as company misconduct

Management override

e-on

What is compliance monitoring?

- **≠ Investigation:** Event-driven investigation, evaluation, elimination, and sanctioning of (compliance) misbehavior. A tool within the compliance management system (CMS). Support may come from internal or external parties.
- **≠ Detection:** The proactive identification, documentation, and assessment of (potential) compliance risks, including a plan to mitigate them. A tool within the CMS.
- **≠ Auditing:** Formal approach to evaluate and improve the effectiveness of processes and related controls. Auditing is done by people or organizations independent from the process being audited. An audit could identify the need for monitoring mechanisms.
- **Monitoring:** An ongoing process to ensure that the CMS is working as intended. Monitoring is an effective control mechanism within the CMS.

What is the goal of compliance monitoring?

- **Measuring compliance activity**
 - Relatively easy but the right approach?
- **Measuring the impact of the compliance program on the business**
 - More challenging and the right approach!

=> How, with what kind of tools?

Tools and ideas for compliance monitoring

Q14 Please indicate which indicators and metrics you use when evaluating the effectiveness of your compliance program

	2014 (Base:751)	2013 (Base: 781)
Compliance audit results	66%	71%
Risk assessment results	61%	65%
Training completion rates	53%	**
Hotline/helpline metrics	50%	56%
Results from a regulatory visit	48%	46%
Customer & other third party feedback/complaints (not reported through hotline/helpline)	39%	41%
Employee questionnaires or culture surveys	35%	52%
Employee disclosures (e.g. conflicts of interest and gift reporting)	35%	56%
External benchmarking**	33%	**
Internal benchmarking**	28%	**
Training competency tests**	24%	**
Cost of non-compliance (penalties, litigation and other consequences of non-compliance incidents)	22%	44%
Exit interview responses**	20%	**
Cost of compliance program activities	19%	17%
Training trend analysis**	17%	**
Monitoring of press and public statements	16%	24%
Aging and disposition of litigation and enforcement	14%	20%
Training data (completion rates, competency tests etc)	**	65%

PwC State of Compliance Survey 2015

Compliance & culture: How to monitor?

‘Somebody once said that in looking for people to hire, you look for three qualities: **integrity, intelligence, and energy**. And if you don’t have the first, the other two will kill you. You think about it; it’s true. If you hire somebody without integrity, you really want them to be dumb and lazy.’ (W. Buffet)

If integrity is a basic (compliance) element: How can you monitor for it?

- Individually using HR tools during onboarding?
- Organizationally using an Integrity Risk Assessment?

Summary

- Compliance is a dazzling term & a cross functional issue
 - Example: **Fraud against the company** vs. **company misconduct**
- What is compliance monitoring, its goals, & common tools
- How to monitor for organizational culture / integrity

Thank you very much
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THANK YOU

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