

Compliance Testing Programs

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Program Objectives & Structure

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Compliance Testing Program Objectives

Compliance Testing refers to a point in time review of business processes aimed at identifying key risks within a particular subject area and opining on the control design and effectiveness in place to mitigate the risk.

Compliance Monitoring/Surveillance refers to a periodic or continuous observation of processes to identify control deficiencies. It doesn't include control testing.

Objectives of Compliance Testing include:

- Identification of key risks and validation of associated control design and effectiveness
- Identification of non-compliant processes or practices
- Development of remediation plans to address non-compliance with requirements
- Standardization of testing methodology including sample sizes, reporting, and ratings
- Trend analysis, including root cause, to identify systemic issues
- Reporting of Compliance test results to management and other relevant stakeholders
- Interlinking of applicable laws & regulations, risk assessments, policies and training

Governance Structure Components

The governance structure for a Compliance Testing Program should include:

- Program ownership
- Staffing resources
- Senior management oversight
- Coordination with other control functions
- Formalization and approval of the program

Key characteristics of an effective program include:

- Centralized oversight
- Standardized methodology and documentation:
 - Annual schedule
 - Reporting
 - Sampling methodology
 - Tracking of remediation
 - Work papers
 - Quality Assurance
- Global data repository system
- Linkage to laws and regulations, risk assessments, policies and training
- Coordination of, and reliance upon, testing reviews performed by other control functions

Testing Scope & Staffing Model

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Testing Scope

Determining what to test:

- ✓ Risk-based approach
- ✓ Cornerstone = Annual Risk Assessment (and 6 month “refresh”)
- ✓ Other considerations include discussions with business, Internal Audit findings, regulatory landscape, changes to business, date of last testing, etc.



Examples of Key Compliance Risks for Financial Institutions:

- Financial Crimes Compliance / AML
- Anti-Bribery & Anti-Corruption
- Data Privacy and Protection
- Conduct Risk / Treating Customers Fairly (consumer)

Organizational Structure – Centralized View

- Center of Excellence (“COE”) -- Centralized, global function with regional leadership and HQ functional roles (standards, reporting, quality assurance, etc.)
- Testing done by Compliance – a combination of dedicated Assurance and part-time testers (i.e., compliance roles that perform some testing in smaller businesses)

COE Significant Advantages

A Center of Excellence is a shared service model and subject matter specialist network. A testing COE is most efficient and flexible option to ensure independence, address gaps, and provide surge capacity.

Adding value to the organization

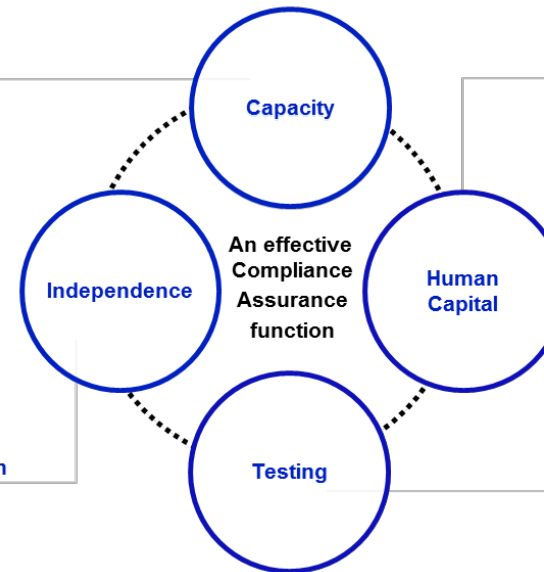
- Leverages economies of scale (horizontal & targeted reviews)
- Rapid deployment of resources to test emerging risks in any BU or region
- Increased efficiency in annual test plan coverage and allocation of resources

Adding value to regulatory expectation

- Promotes greater fact and appearance of independence
- Promotes segregation of duties and role clarity (e.g., BU CCO as controls creators vs control checkers)
- Decreases risk of regulatory criticism of possible conflict of interest
- Consistent Compliance Assurance program across Americas, Europe, and Asia

Adding value to the employee

- Opportunity to grow knowledge and become an SME across multiple BUs
- Develop employee cross-training capabilities
- Utilize employee strengths to create high performing teams
Manage language and geography barriers



How do we know we have the right people in the right roles?

Tester Skills

Good testers are good compliance professionals – with extra skills

Skills Assessment

A skills assessment that focuses on functional skills, or those capabilities for successful day-to-day job performance in Compliance Assurance is a good way to determine what talent you have, and what talent to look for.

Input can include:

- First round stakeholder interviews with leadership (Compliance, Risk, Audit, Training and HR)
- Manager and tester focus groups (US, Europe, and Asia/ANZ)
- Second round stakeholder interviews with Compliance Assurance leadership
- External benchmarking and Compliance and Skills Assessment Specialists

Overall Skills for Compliance Professional						
	Business, Legal and Regulatory Knowledge	Compliance Risk Identification and Mitigation	Communication	Partnering and Collaboration	Adaptability and Flexibility	Testing <i>(Specific to Compliance Assurance)</i>
Capabilities	<ul style="list-style-type: none"> • Knowledge of the Business • Knowledge of Current Legal and Regulatory Environment • Apply Legal and Regulatory Knowledge to the Business • Continuously Develop Business, Legal and Regulatory Knowledge 	<ul style="list-style-type: none"> • Knowledge of Compliance Risks and Controls • Compliance Risk Identification and Prioritization • Mitigate Compliance Risks, Prioritize Actions, and Build a Sustainable Control Environment 	<ul style="list-style-type: none"> • Written Communication Skills • Verbal Communication Skills • Compliance Risk Escalation • Executive Presence • Deliver Difficult Messages 	<ul style="list-style-type: none"> • Build and Maintain Working Relationships • Maintain Independence as a Control Function • Stakeholder Engagement/Management • Collaboration with Businesses and Functions across the Organization 	<ul style="list-style-type: none"> • Adapt to Internal and External Changes • Prioritization • Leverage Diverse Work Experiences • Continuously Build New and Share Existing Skills and Knowledge 	<ul style="list-style-type: none"> • Test Planning and Scoping • Fieldwork Execution • Root Cause Analysis • Documentation/Evidence • Challenge the Business • Identify Process and Control Deficiencies and Improvements

Implementation

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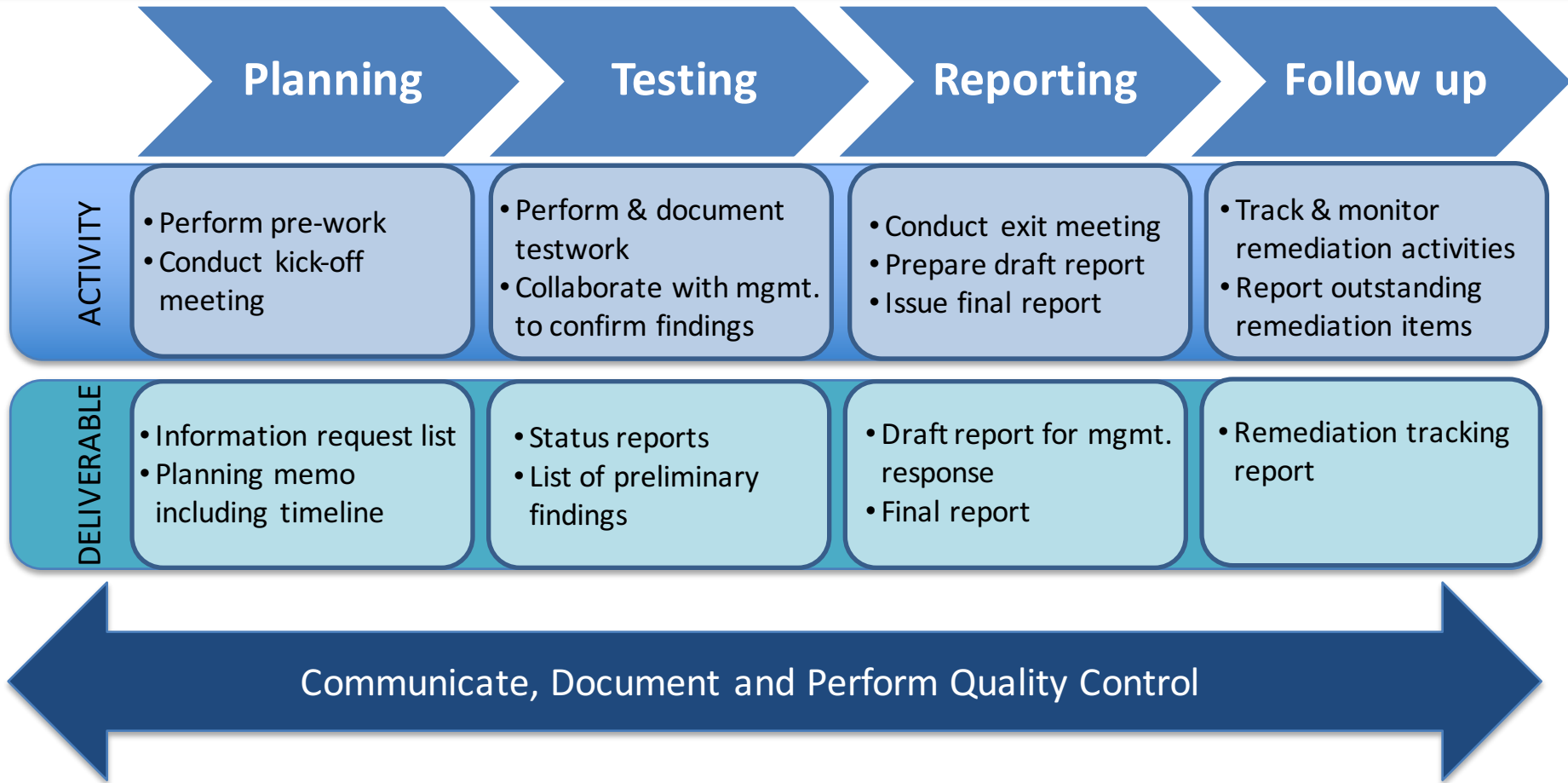
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Implementation



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