KPMG

Boardroom Questions

The Board's role in moving beyond compliance

KPMG Board Leadership Centre

Enriching oversight of compliance activities

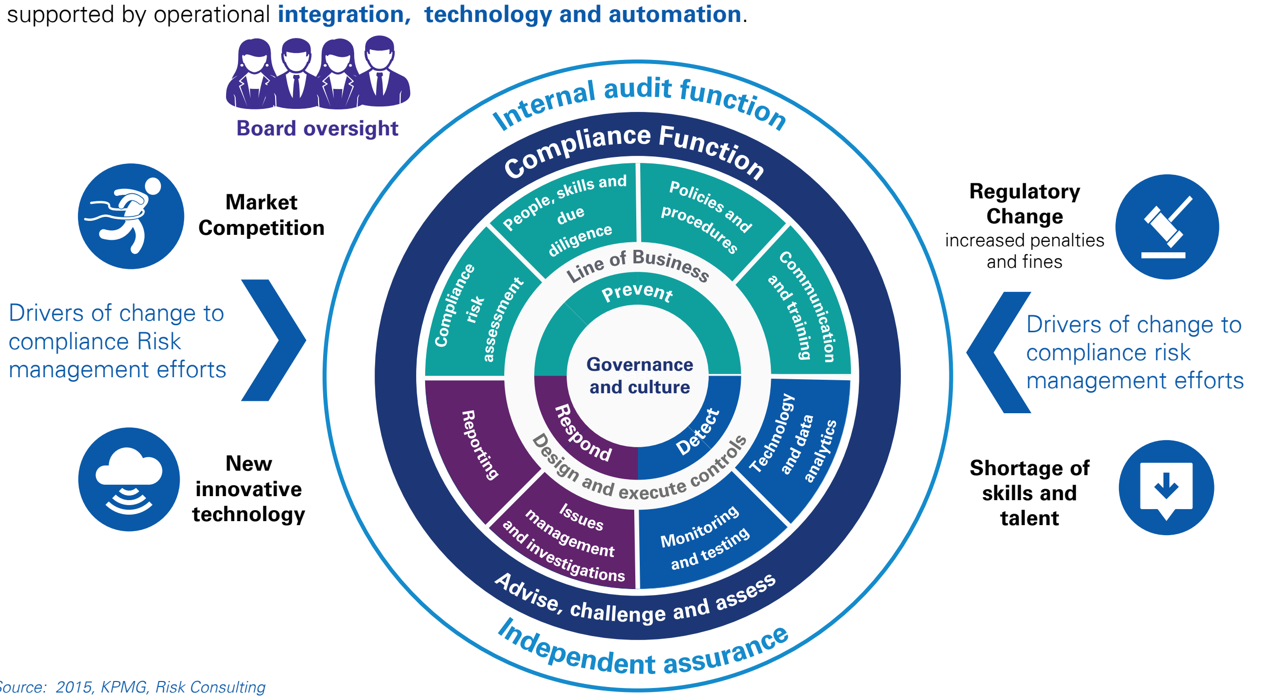
The Board of Directors has a crucial role in an organization's **governance structure** and in supporting efforts to move **beyond compliance** through their **oversight** of the program and activities, across the 3 Lines of Defense which are:

1. **Business and operations** - responsible for the design and execution of controls
2. **Compliance function** - oversees/implements the program; advises, challenges and assesses compliance
3. **Internal Audit** – provides the independent assurance of the 1st and 2nd Lines of Defense

To remain **competitive, innovation in compliance is a necessity.** Organizations must strategically invest in the **integration** and **automation** of their compliance risk management activities to promote greater **agility, sustainability resiliency and effectiveness.** Boards must be **engaged** and **active** in **designing the strategy** and **overseeing implemented** changes to move beyond compliance, thereby achieving greater **effectiveness and efficiency** in their operation of compliance.

Compliance Transformation framework – 8 key elements

Consider a **Compliance Transformation framework**, that includes **8 key elements** that drive **prevention**, **detection and response** with **governance** at the core. To provide critical challenge and oversee compliance risk management efforts, Boards require **reporting**, founded upon robust **data analytics**, **metrics** and a detailed **risk assessment**, supported by operational **integration, technology and automation**.



Source: 2015, KPMG, Risk Consulting

The Board's role and responsibilities in the compliance risk management structure

The Board's role is to oversee and supervise an organization's compliance risk management efforts. A strong Board with clearly defined roles and responsibilities, and knowledgeable about the organization's risks, helps to support a governance structure that is resilient, sustainable, agile and effective. To move **beyond compliance** and further operationalize compliance activities, the Board's role and responsibilities should include the following:

01
Guide strategy and set risk tolerance

Directors establish a **clear** strategy and tolerance for risk in sufficient detail for senior management to execute enterprise-wide, and in consideration of risk management capacity.

02
Actively manage information flows through set processes

This includes actively managing Board discussions and requiring timely and accurate information. This enables the Board to make sound, well informed decisions.

03
Hold senior management accountable

Directors make certain that Senior Management carries out the strategy within defined tolerance levels; that the risk and control framework is maintained; and evaluates compensation and performance of managers.

04
Ensure independence and statute of the 2nd and 3rd lines of Defense

This includes thorough support of committees, and inquiries into material or persistent breaches of risk appetite, risk limits and remediation of audit or regulatory findings.

05
Regular and systematic self assessments

Self assessment of the Board's diversity in terms of skills, knowledge, experiences and perspectives; as well as performance of its committees; governance structure and reporting lines.

Boardroom Questions

Does the Board…

— Have the right **information** (holistic and impactful) needed to do the job, including from enterprise-wide **metrics reporting** and from the **risk assessment**, and does the Board exercise **healthy scepticism** in its oversight?

— Guide the organization's **strategy**

— **Monitor the alignment of the organization's compliance capabilities to strategy** – framework, organizational structure, resources, talent, automation and technology?

— Have an established and articulated **risk tolerance**?

— Understand the **key regulatory compliance risks** facing the organization?

— **Oversee and hold business leaders accountable** for regulatory compliance, positive culture, as well as business growth and remediation of any regulatory actions?

— Define the **role of the Board and Board committees** in oversight of regulatory compliance?

— Understand if and how the organization's **culture and compensation incentives** are **creating or reducing risk**?

— Establish a strong **tone at the top** that demonstrates and communicates compliance as an investment?

For senior management

Confirm that senior management …

— Is executing the organization's business strategy in alignment with the **Board's risk tolerance**

— **Incorporates technology**, data analytics and compliance automation to support program effectiveness and sustainability

— Provides appropriate **information flows** to the Board and presents **metrics and risk assessment results** that further the Board's knowledge (includes aggregation enterprise-wide of complaints, litigation and other indicators of increasing regulatory risk)

— Receives regular and meaningful reports to **understand the state of compliance** and assesses risk impacts and trends

— Stays **up to date** on the latest legislative and regulatory changes and emerging risks; understands the **implications of new regulations** and regulatory expectations

— Has allocated sufficient risk management **personnel** in order to fulfil its obligations (based upon risks)

— Establishes the **right compliance culture**, expresses a **strong tone at the top** and actively models and communicates a **culture of compliance**

— Assesses how incentives impact compliance efforts

— Is held accountable for driving effective **compliance**

— **Benchmarks** against competitors and industry participants to enhance the organization's compliance strategies

Contact us:

Amy Matsuo,
Leader, Compliance Transformation
KPMG in the US
T: +1 919 380 1509
E: amatsuo@kpmg.com

Dennis T. Whalen
Leader, KPMG Board Leadership Center
T: +1 212 733 7413
E: dtwhalen@kpmg.com

Click here
for more information
kpmg.com/governance-regulatory-compliance

Create Graphics | CRT089155 | December 2017