Compliance & Internal Audit Collaboration
Developing a compliance third line of defense

October 2015

The Society of Corporate Compliance & Ethics
14th Annual Compliance & Ethics Institute Conference

Introductions – Walmart & PwC speakers

Patrick Burns – Walmart, Senior Director, Global Audit Services
- 10 years experience in Internal Audit with Walmart
- Auditing experience with various functions of global retail, including Merchandising, Operations and Compliance
- Key focus area includes providing advisory and assurance services to the Compliance & Ethics organization
- Leads forensic and analytics teams focused on advancing auditing techniques and providing tools and capabilities to the broader business

Phyllis Nordstrom – PwC, Director, Risk Assurance
- Over 15 years of experience in risk management within both the retail & consumer products and financial services industries
- Both industry and public accounting experience in building and leading internal audit, enterprise risk, and compliance functions
- Key focus areas include developing risk programs to enable enterprise governance and management of organizational risks

Session goals

- Provide an overview of the three lines of defense
- Introduce Walmart’s compliance program
- Review Walmart Global Audit Service’s approach to compliance auditing
- Discuss leading practices to strengthen collaboration across lines of defense
Three lines of defense overview

At a time when stakeholders except one another, consumers, competitors, and regulators, are increasingly exacting standards of integrity and competence, compliance is now as much about safeguarding reputations and assuring strategic execution as ensuring formal regulation.

In today’s dynamic business environment, with rapidly evolving trends driving new compliance risks and impacting legal regulation, it’s more challenging than ever for companies to understand and meet baseline obligations.

Sam Walton regarded personal and moral integrity as critical to the company’s success. As he said, “It starts with each one of us.”

78% of CEOs around the world view increasing regulations as the top threat to business growth.

The framework aims to provide comfort for the business and the board, while reducing potential strain on resources.

Three lines of defense overview

"Three Lines of Defense" Model

<table>
<thead>
<tr>
<th>Senior Management</th>
<th>Board/Audit Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st line of defense</td>
<td>2nd line of defense</td>
</tr>
<tr>
<td>Management Controls</td>
<td>Risk Management</td>
</tr>
<tr>
<td>Internal Controls</td>
<td>Compliance</td>
</tr>
<tr>
<td>3rd line of defense</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Inspection</td>
</tr>
<tr>
<td></td>
<td>Financial controls</td>
</tr>
</tbody>
</table>

Adapted from ECIIA/FERMA Guidance on the 8th EU Company Law Directive, article 41

1. Three Lines of Defence: How to take the burden out of compliance – PwC
2. State of Compliance Survey 2015 - PwC
5. "The framework aims to provide comfort for the business and the board, while reducing potential strain on resources"
**Key roles & responsibilities**

**Operational management**

**Responsibilities**
- Areas that own & manage risk

**Key Activities**
- Implement procedures and oversee execution of processes
- Design, implement, and maintain internal controls
- Implement corrective actions to address deficiencies

**Leading Practices**
- Utilizing a long-term risk outlook
- Integrating controls into ways of working

---

**Key roles & responsibilities**

**Compliance and risk management**

**Responsibilities**
- Ongoing monitoring of risk and controls in support of management

**Key Activities**
- Assist management in the design and development of processes and controls
- Perform evaluations to assess if controls are performing as intended
- Inform management of emerging issues and changing risks

**Leading Practices**
- Enhancing analytics capabilities for ongoing monitoring
- Coordinating risk evaluation with Internal Audit

---

**Key roles & responsibilities**

**Internal audit**

**Responsibilities**
- Provide independent and objective assurance to management and the board

**Key Activities**
- Perform evaluations to assess effectiveness of internal controls
- Report on effectiveness of first and second lines of defense
- Provide assurance on the effectiveness of governance and risk management

**Leading Practices**
- Increasing knowledge of the business
- Enhancing analytics and forensics capabilities
- Increasing visibility to escalate unmitigated risks
Leveraging the three lines of defense as an asset

- Process
  - Coordinating risk identification to reduce duplication of efforts and coverage gaps
  - Documenting control activities and data to support consistency in control evaluations

Walmart's compliance program

Overview of Walmart

Walmart

- 28 countries
- 245m customer and member visits each week
- 11k stores
- 2.2m associates
- $482.2b fiscal year 2015 net sales
Elements of an effective compliance program

- People
- Policies & Processes
- Systems & Analytics

Examples of key subject matters

<table>
<thead>
<tr>
<th>Anti-Corruption</th>
<th>Food Safety</th>
<th>Unions &amp; workplace</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antitrust</td>
<td>Health &amp; Safety</td>
<td>Privacy</td>
</tr>
<tr>
<td>Consumer Protection</td>
<td>Health &amp; Wellness</td>
<td>Product Safety</td>
</tr>
<tr>
<td>Environment</td>
<td>Trade</td>
<td>Respirable是非常的</td>
</tr>
<tr>
<td>Financial Services</td>
<td>Labor &amp; Employment</td>
<td></td>
</tr>
</tbody>
</table>

6 building blocks

- Leadership
- Risk Assessment
- Monitoring & Response
- Standards & Controls
- Compliance Program
- Communication
Audit can be an effective partner

Level 3 Risk-Based Independent Assurance

Who?
Global Audit Services w/External Support (as needed)

What?
Assessing effectiveness of overall compliance programs

Level 2 Risk-Based Continuous Improvement

Who?
Global Compliance w/External Support (as needed)

What?
Monitoring implementation of controls/policies

Level 1 Execution-Based Inspecting

Who?
Business Management & Operations

What?
Executing daily operational routines, controls, and procedures

Example of an Audit Approach

Assess Risk

Develop the Audit Plan

Communicate the Results

Conduct the Audit

Determine the Audit Approach

Assess Risk

Compliance Priorities
Compliance Audit Plan focused on the right local market compliance risks, with a mix of walkthroughs, program reviews and process-level audits.

Subject Matter Priority Market 1 Market 2 Market 3 Market 4 Market 5
A High 1 1 1 1 1
B High 1 1 1 1 1
C High 1 1 1 1 1
D Moderate 1 1 1 1 1
E Moderate 1 1 1 1 1

Audit Approach may include:
- Process-Level Audits
- Program-Level Audits

Conduct the Audit & Communicate Results

Communicate the Results

Assess Risk

Develop the Audit Plan
Leading practices to strengthen the second and third lines of defense

Increasing coordination and effectiveness
Compliance & Internal Audit collaboration

1. Risk Culture
2. Talent Model
3. Tailored Approach
4. Cross-Line Coordination
5. Knowledge Sharing
6. Tools & Technology

Increasing coordination and effectiveness
Risk Culture

- Involvement: board and senior management ownership in risk management
- Clarity: defining roles and leadership responsibilities to identify accountable owners
- Authority: elevating the authority and visibility of risk teams across the lines of defense
Increasing coordination and effectiveness

Talent Model

2

• Business Knowledge: gain a clear understanding of strategic priorities and business operations
• Skills: evolving talent capabilities outside of risk management, including analytics, change management, technology, and operations
• Talent Pipeline: expanding the talent pipeline to include a mix of risk management, business, and functional resources

Tailored Approach

3

• Maturity: evaluate the level of maturity of the compliance program or processes
• Approach: utilize a mix of consulting and objective audit activities based on program maturity
• Risk Framework: establish a risk framework that is utilized across lines of defense

Cross Line Coordination

4

• Risk Evaluation: collaborate to perform risk assessments and identify emerging risks
• Coverage: coordinate risk evaluation to reduce duplication of efforts and business impact; a “one-to-many” approach
• Approach: apply consistent risk methodology across lines of defense (e.g., risk definitions, severity ratings, data classification)
Increasing coordination and effectiveness
Knowledge Sharing

- Leadership Communication: ongoing meeting cadence across risk leadership to discuss emerging risks and issues
- Risk Reviews: regular compliance and internal audit meetings to discuss risks for changing business operations
- Reporting: consolidated risk reporting to provide management and the board with an holistic risk perspective

Increasing coordination and effectiveness
Tools & Technology

- GRC tools: utilize a common risk framework and tools to perform risk assessment, monitoring, and evaluation
- Analytics: combine risk factors, business knowledge, and technology to enhance analytics to identify emerging risks
- Information Management: integrate risk methodology into data governance and management initiatives

Elevating the maturity for lines of defense

- Review unique responsibilities of each line of defense
- Evaluate resources needed to keep pace with changing risks
- Align resources to strategy & risk
- Strive for aligned risk management
Thank you