

Compliance: why is it important, and how to audit it?

A comprehensive view of the compliance function and processes



The Institute of Internal Auditors
Združenje notranjih revizorjev
IIA - Slovenski inštitut
Slovenija

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For today's topic

Define the Compliance Function => Compliance Value Chain

Identify classic compliance risks

Have a holistic view of all compliance risks for proper audit scoping

Clarify the notions of:

- Compliance Management System
- Compliance Risk Universe + taxonomy
- Compliance Risk owner
- "Regulatory Compliance"

Identify potential benchmarks

... If time allows, talk about Ethics beyond compliance

Common myths about compliance (1/2)

✘ Myth 1: A compliance function is only for large companies

✔ Reality:

Every organization, regardless of size, needs to protect itself from legal and reputational risks. Compliance is scalable according to the specific needs of each company. Suddenly, the company is too small to have a dedicated function, but it still has to comply.

✘ Myth 2: Compliance slows innovation

✔ Reality:

Instead, it creates a safe framework that encourages risk-free innovation. It sets clear boundaries within which creativity can flourish with confidence.

✘ Myth 3: Implementing compliance is expensive and complicated

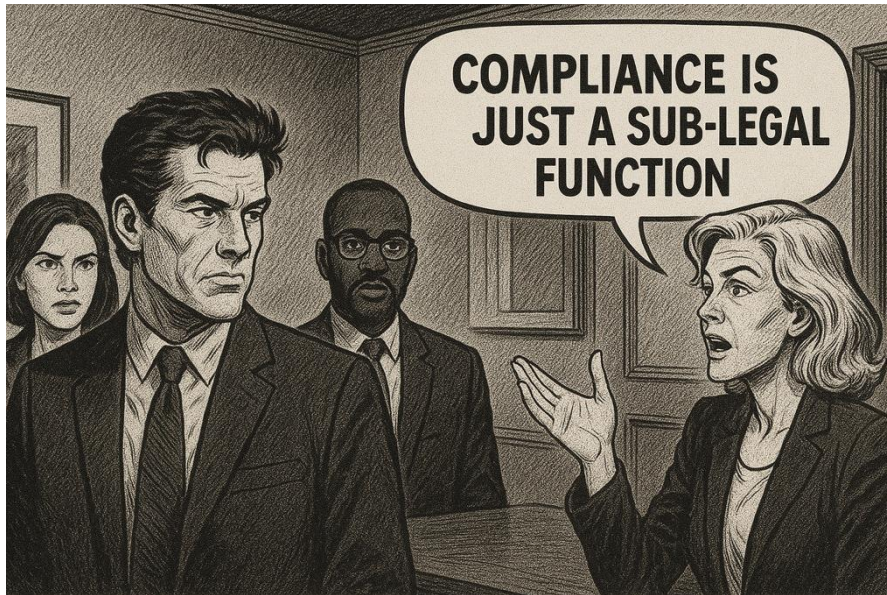
✔ Reality:

It is an adaptable investment. The cost of not having it can be much higher in terms of fines, penalties, reputational damage, and loss of stakeholder confidence.



Former U.S. Deputy Attorney General Paul McNulty

Common myths about compliance (2/2)



- ✘ **Myth 4: The compliance officer only reviews laws and regulations in the insurance sector.**
- ✔ **Reality:**
Leads ethical culture, builds teams, and ensures business sustainability. Their role goes far beyond legal review, making them a strategic partner for the organization.
- ✘ **Myth 5: Compliance only prevents penalties**
- ✔ **Reality:**
It also builds trust, improves processes, and opens doors to new opportunities. An effective compliance program generates tangible value for the organization.

- ✘ **Myth 6: Compliance is a burden on the business**

- ✔ **Reality:**

It is a critical component of business success that strengthens consumer confidence and helps mitigate risks before they materialize, protecting the company's reputation..

The compliance function role

The compliance function monitors legal changes, identifies risks, and monitors compliance across the organization. Is this value chain completed in your organization?

As a Key Function within the Internal Control System, the main tasks of the Compliance Function are:

Consultative	Advising the Board of Directors and Boards of Directors at Group and local level on compliance with legal requirements and the consequences of legal changes
Risk Identification and Assessment	Identify and assess risks that may arise from non-compliance with external legal requirements
Monitoring and Supervision	Follow-up and monitoring of whether compliance with external requirements is ensured on the basis of appropriate and effective internal procedures
Monitoring of legal changes (early warning)	Observe and analyse developments in the legal environment, assessing the potential impact of legal changes

The classic compliance issues

Four buckets – important ones but hardly covering the full scope of compliance processes

Financial crime

Anti-money
laundering Bribery
Sanctions
Human Trafficking
and Slavery

Example of CIIA (UK)

Data

GDPR
Data breach
incidents and
response plans
Data ethics

ESG

Health and safety
Sustainability
reporting
Gender pay
Human rights

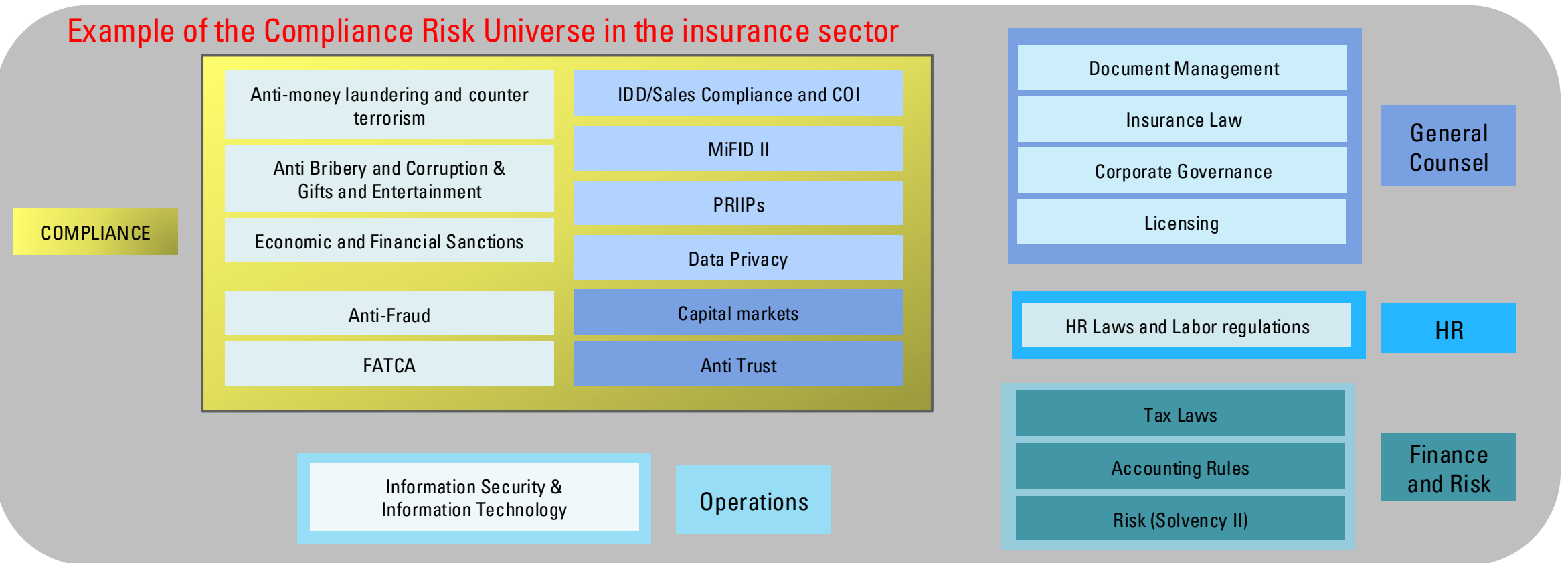
Customer Protection

Consumer duty
Digital accessibility
Prompt payment

Many functions are responsible for compliance processes

Monitoring is a fundamental task of the compliance function

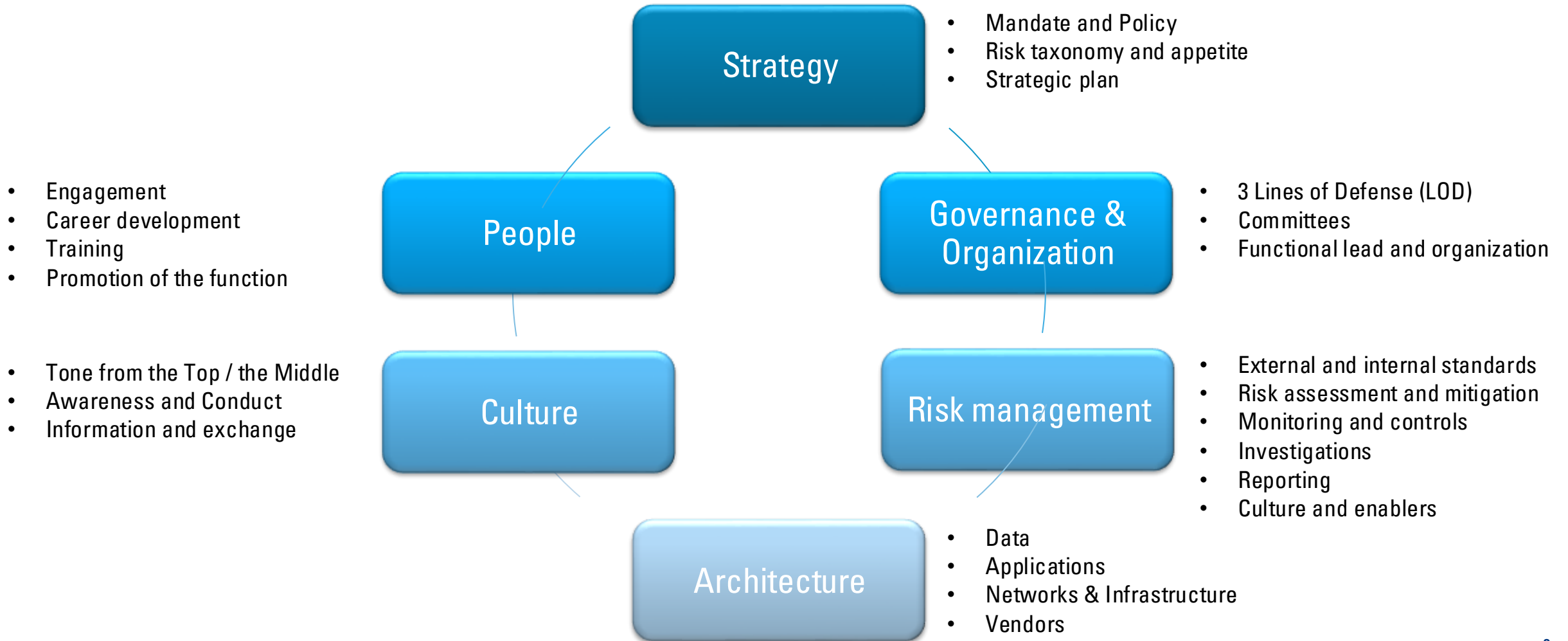
Example of the Compliance Risk Universe in the insurance sector



COMPLIANCE

Regulatory Compliance. Through Regulatory Compliance the COMPLIANCE function monitors the compliance duties and processes of the other functions

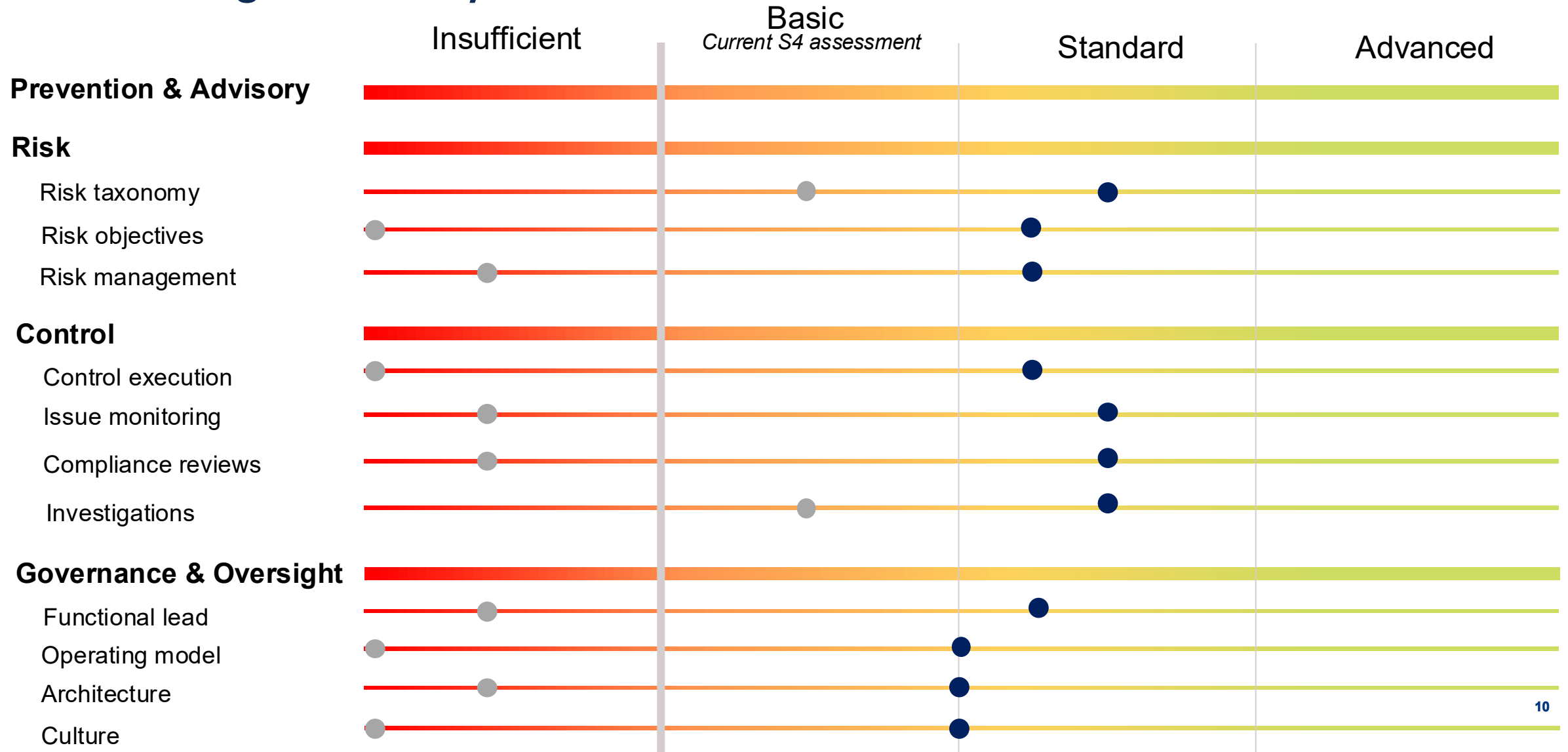
The 6 building blocks of Compliance



A needed focus on monitoring and steering

Teams	Prevention & Advisory	Risk & Control	Governance & Oversight	Allianz SE Solo
Focus	A team focused on Design	A team focused on Effectiveness	A team dedicated to Support Activities	A team dedicated for AZSE Solo
Topics	<p>Organized per topic (“Compliance families”):</p> <ul style="list-style-type: none"> • Anti Financial Crime • Customer Protection • Market Integrity • Regulatory Compliance 	<p>Organized per risk, controls and processes:</p> <ul style="list-style-type: none"> • Compliance Reviews and Issue Monitoring • Compliance Catalogue • Compliance Risk Management • Investigations 	<ul style="list-style-type: none"> • OE Compliance Budgets • HR Compliance Community • Simplification and Integration of IT Tools and Solutions • Convergence to the Compliance Operating Model • Harmonization and effectiveness of reporting 	<ul style="list-style-type: none"> • Enable the integration of Allianz SE Solo into the Compliance TOM • Interface to BaFin on Compliance related topics • Driving strategic topics such as the Code of Conduct

Assessing Maturity



The compliance management system

Often the compliance function is audited – but not the compliance management system (CMS)

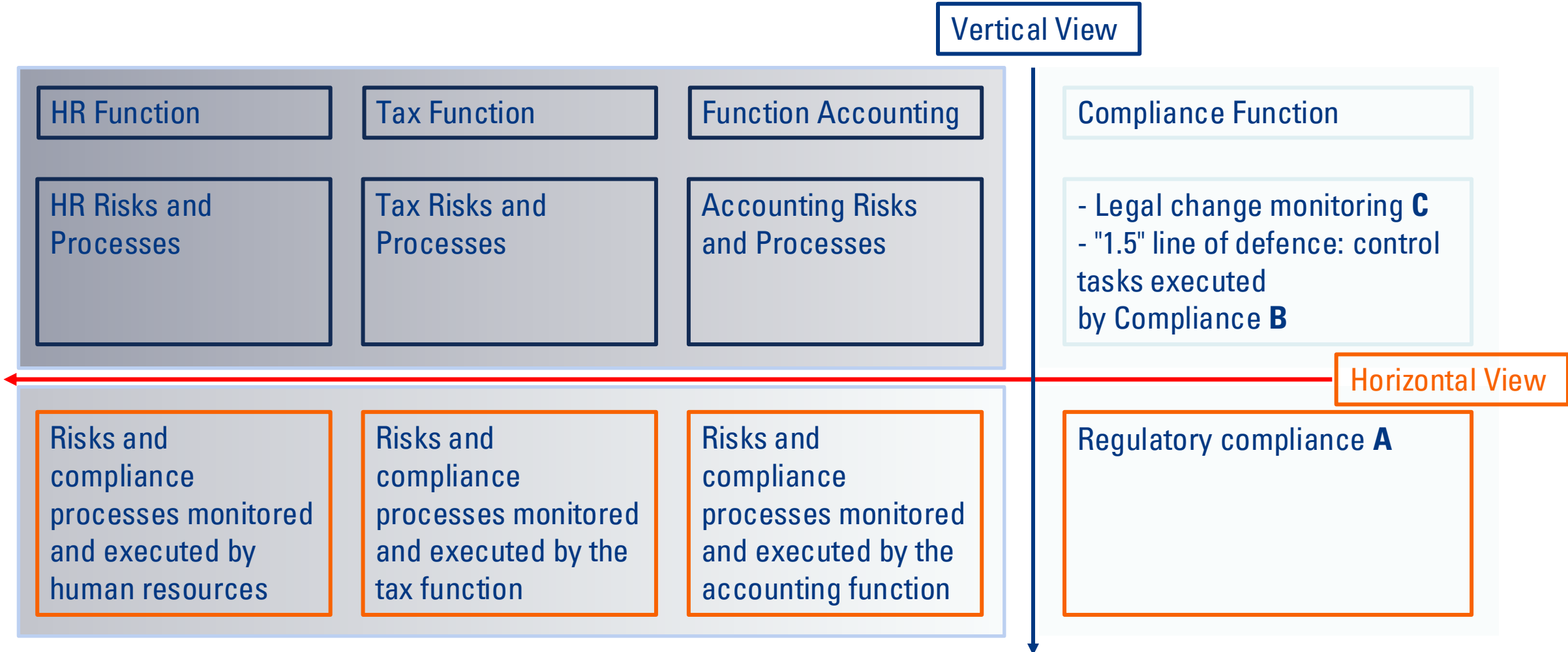
Compliance risk Universe

Compliance risk owners

Regulatory Compliance

Two different audit scoping strategies

A vertical view VS the horizontal view



Useful references for audit checklists

Good sources for banks, and from ISO, the USA, and Germany

Basel Committee on Banking Supervision (BCBS)
Compliance and the Compliance Function in Banks (BCBS 113)
<https://www.bis.org/publ/bcbs113.htm> (April 2005)

U.S. Department of Justice - Criminal Division - Evaluation of Corporate Compliance Programs
<https://www.justice.gov/criminal/criminal-fraud/page/file/937501/dl?inline=>
(Updated September 2024)

ISO 37301:2021 Internal Audit Checklist Template
<https://certification-portal.sandbp.net/wp-content/uploads/2024/02/Internal-Audit-Checklist-Template.pdf>

Germany: Prüfung von Compliance Management Systemen nach IDW PS 980
Switzerland: Compliance-Prüfung PS 980

For an impactful audit of compliance

Seven points to bear in mind

- Understand the Compliance Value Chain, the Compliance Management System, the notion of Compliance Risk Owner
- Identify the Compliance Risk Universe
- Have a scoping strategy: just the function, or all the risks and processes? Compliance can (must?) be audited even without a compliance function
- Don't miss the perspective and responsibility of "Regulatory Compliance".
- Suggest a taxonomy such as the 3 classic families "Financial Crime + Consumer + Financial Markets"
- Measure the ability to anticipate future compliance risks
- ... and do not think you necessarily need a lawyer in the audit team!

Hervé Gloaguen – Summary Bio

- ❖ Hervé Gloaguen has been the founder and CEO of Paracas-Advisors GmbH since September 2023. He advises on auditing, regulatory compliance, risk, and control. He teaches and gives talks to various audiences at numerous events. He is a member of the Audit Committee of the United Nations Office for Project Services (UNOPS) in Copenhagen and of the scientific council of IESEG, one of France's leading business schools.
- ❖ Hervé has over 38 years of professional experience in global environments and has held responsibilities across the "three lines". Hervé was Head of Internal Audit for the Allianz Group for over 12 years, managing up to 900 auditors in over 40 countries. He also led the Group's compliance function (CCO), with 800 professionals dedicated to compliance. Hervé has accumulated significant operational experience as one of the managing directors of Allianz France for five years (12,000 employees, €12 billion in revenue). He founded and served as co-CEO of Allianz Banque for 6 years. He has also gained extensive experience in corporate governance, serving on the supervisory boards of several Allianz Group companies. Hervé was also a member of the Allianz Group ESG Committee.
- ❖ Hervé graduated from HEC (MBA) and is currently pursuing a Doctorate at Bocconi University in Milan. He holds the QAC (Quality Assurance Certificate) awarded by the Global IIA. He is a French national who speaks English and Spanish and has a working knowledge of German. He has lived in France, Germany, Peru, the United Kingdom, Spain, and Hong Kong.

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