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PwC State of Compliance Study 2016

Laying a strategic foundation for strong compliance risk management

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PwC State of Compliance Study 2016

Welcome

Welcome to our State of Compliance report for 2016—2016 marks our 6th annual study which is designed to give corporate compliance officers benchmarking data to help them understand common industry practices today and plan for more effective, more efficient compliance operations in the future. The study aims to give compliance leaders a view into organizations' tone at the top, process to assess risk and compliance and ethics oversight structure and scope. These compliance program elements, representing the business strategy elements of compliance and ethics, are among the most frequently debated topics by compliance practitioners.

We extend our sincere thanks to the more than 800 executives globally who participated in this year's survey. Respondents represented a great diversity of company sizes, industries and responsibilities. This year, just over a third of respondents came from companies with anticipated revenues of more than $5 billion. Banking and Capital Markets organizations showed a particular interest (15% of total respondents), just as in 2015. A third of our respondents are either a Chief Compliance Officer (CCO), Chief Ethics and Compliance Officer (CECO), Chief Legal Officer or General Counsel and a fourth described themselves as a Chief Audit Executive or equivalent. Additional respondents are senior legal counsel or directors or managers of compliance, ethics, audit, or risk.

We hope you find the information in this PwC State of Compliance Study 2016 report insightful and valuable in helping you improve the effectiveness of your organization's corporate compliance function.

Sincerely,

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Delve into the full analysis of the PwC State of Compliance Study 2016 at pwc.com/us/stateofcompliance

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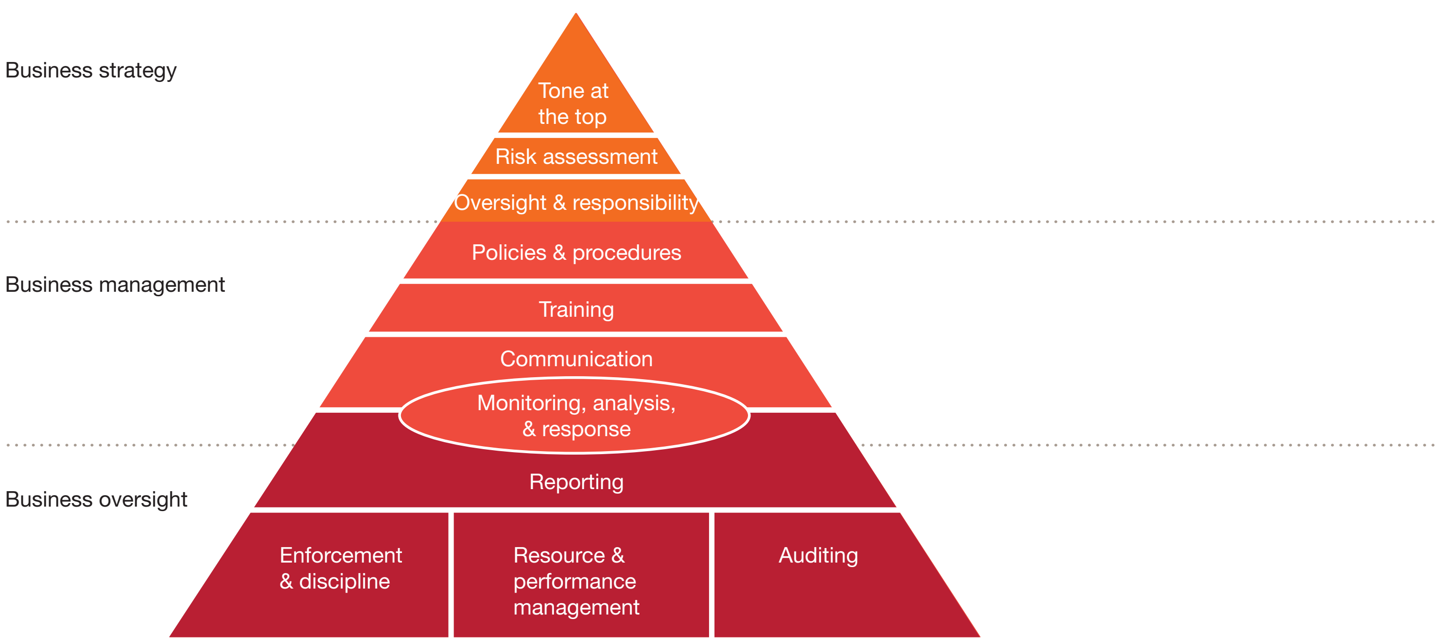
Introduction

In our 6th annual State of Compliance Study, we took a slightly different approach than in prior years—this time, focusing on the elements represented in the business strategy portion of PwC's proprietary compliance and ethics framework, depicted in Figure 1 and refreshed since first introduced in our 2015 study.

Within the framework, business strategy refers to the approach and tenor the organization takes to align risk and compliance with its business strategy and to manage associated risks. Business management refers to how risk and compliance management is owned by the business and integrated into the business processes and culture. Business performance is the measurement of operational and programmatic performance essential to determining the effectiveness of risk and compliance processes and identifying potential blind spots in oversight or management.

We focused this year on business strategy because the connection of compliance to business strategy—including tone at the top, risk assessment, and oversight and responsibility—lays the strategic foundation for both a culture of compliance and ethics, and management programs that help ensure the organization conforms to all necessary regulatory requirements and ethical standards. Without strong alignment of compliance management to business strategy, it is difficult to efficiently integrate compliance into business processes and to assess the effectiveness of compliance efforts against strategic objectives. By focusing our study more closely on these three strategic elements of an effective compliance and ethics program, we hope to provide CECOs and other compliance leaders with meaningful information against which they may benchmark and further develop the strategic cornerstones of their compliance and ethics programs. In subsequent studies, we will look more closely at the business management and business performance elements of the framework, all of which are needed to drive effective compliance and ethics programs.

Figure 1: PwC's compliance and ethics framework



State of Compliance Study 2016 at a glance

Embedding compliance into both strategy and everyday operations begins with effectively establishing the tone at the top, assessing compliance and ethics risks in efficient collaboration with other risk functions and building the governance and oversight structure that provides a high level of confidence over regulatory matters.

Tone at the top: Strategic involvement

Senior executives support compliance and ethics programs, but are less visibly engaged in leading their companies' programs

98% have senior leadership that is committed to compliance and ethics

55% indicate senior leadership provides only ad hoc program oversight or delegates most compliance and ethics oversight activities

Deficiencies in measurement may contribute to lagging leadership engagement

48% report their organization assesses its "tone at the top"

To align compliance to business strategy, compliance officers will need to be more actively involved in strategic discussions

36% are "inherently integrated" or "play a key role" in strategic planning

Risk assessment: Coordinated approach

Compliance and ethics is aligning activities with other assurance functions, but more coordination is possible

54% conduct compliance and ethics-specific risk assessment activities beyond ERM efforts

In their risk assessment, compliance and ethics teams may be missing valuable "bottom up" information…

21% use employee surveys to gather information for their risk assessments

…and, in execution, falling short on getting business units to own compliance risk

67% have a process to identify owners of specific compliance and ethics-related risks

Legal or compliance "owns" ***11 of 17*** compliance and ethics-related risks most frequently

Oversight and responsibility: Focused and efficient

Board-level oversight committees demonstrate a rising focus on compliance and ethics

20% have Boards of Directors that formed a separate, stand-alone compliance/ethics committee

Dedicated business unit compliance officers are keenly focused on monitoring activities

72% have dedicated business unit or business area compliance officers

89% select compliance monitoring as a primary area of responsibility

In-house compliance committees are becoming more streamlined

In-house committees do ***11 of 14*** activities less frequently than in 2015

Tone at the top

An organization has established effective tone at the top when senior leadership demonstrates personal and organizational commitment to compliance and the compliance and ethics program, and this commitment permeates all levels of management.

Executive commitment. Senior executives appear to be supporting their compliance and ethics programs, but they are less visible as actively engaged leaders of their companies' programs. An overwhelming majority of respondents to our survey (98%) indicated that senior leadership is, at the very least, committed to compliance and ethics. But a majority of respondents (55%) indicated senior leadership either provides only ad hoc oversight of the compliance and ethics program or delegates most oversight activities. This disconnect appears to impact employee perception of senior leadership's role in their organizations' compliance and ethics programs, as only 16% of respondents indicated their employees view the CEO as the compliance and ethics champion at their organizations.

Measurement. Perhaps this lagging leadership engagement is partially a result of deficiencies in measurement. Only 48% of respondents indicated that their organization assesses its "tone at the top." Among those who do, just 24% include senior leadership compliance and ethics performance metrics as part of that evaluation. Organizations that lack distinctive measures of executive participation are missing out on an opportunity. Metrics certainly help to hold executives more accountable for participation, which is motivating some innovative organizations to incorporate executive metrics into their compliance and ethics scorecards (Figure 2). Such scorecards enable both senior leadership and compliance and ethics department leadership to stay focused on the elements that matter most to actively driving a culture of compliant behavior and ethical decision making. They enable senior leadership to be more attuned to what is happening with the compliance and ethics program and, as importantly, the employee population. With better metrics, organizations can also gain efficiencies and improve program effectiveness by focusing on successful activities while discarding ineffective ones.

Executive communication. One way in which senior leaders appear to be participating in their compliance and ethics programs is in their messaging to both management and employees, yet there is more to be done. Eighty-two percent (82%) of respondents indicated their senior leaders formally communicate the importance of a compliance and ethics culture. Just over half of respondents report their senior executives formally communicate at least quarterly on compliance and ethics-related topics, and the vast majority use email for such communications, with town hall meetings and business unit meetings receiving significantly lower response rates (Figure 3). While these formal communications are necessary, embedding compliance and ethics into day-to-day operations requires frequent reinforcement. However, our study revealed that only 26% of senior executives speak of compliance and ethics as part of everyday business communications.

> ***"Our program goal is to manage global risks that impede meeting strategic goals while not adding unnecessary cost and burden to the bottom line."***
>
> 2016 study respondent

Participation in strategic planning. Rising unease among senior leaders about increasing regulation is not yet translating into widespread participation of compliance and ethics leaders in strategic planning. PwC's *19th Annual Global CEO Survey* identified that CEOs continue to be very concerned about increasing regulatory complexity. In fact, 79% of CEOs cited over-regulation as a top threat to their organizations' growth prospects—making it the fourth year in a row that regulatory concerns have risen. Yet, on a year-over-year basis, we continue to see that compliance officers are not actively involved in their organizations' strategic planning efforts. Only 36% of respondents indicated they are "inherently integrated" or "play a key role" in their organizations' strategic planning, which is not measurably different from our 2015 results, when 35% of respondents indicated they were involved in annual business strategy development.

PwC State of Compliance Study 2016

Figure 2: Sample compliance and ethics executive scorecard

We have adapted the following compliance and ethics executive scorecard from a similar version developed by one of our more innovative clients. It is a great example of how one organization holds executive leadership accountable for its critically important role in the company's compliance and ethics program.

To use such a scorecard, a company might first require the executive to provide a self-rating, followed by a blind rating by the compliance and ethics department—similar to many organizations' general performance management processes. In the event that an executive is found to be deficient, the CECO might co-develop an action plan designed to increase the executive's compliance leadership proficiency. Should there be a lack of improvement on a year-over-year basis, the individual's incentive compensation may be affected, and he or she may be otherwise held to task by the CEO or the Board.

Compliance and ethics program element(s)	Associated metrics	Executive's self rating	Compliance and ethics department's rating
Tone at the top; communication	1) Incorporates compliance and ethics messaging into broad communications to employees and in day-to-day interactions with employees		
	2) Regularly reminds employees of the importance of ethical and compliant behavior, raising concerns and the Company's non-retaliation policy		
	3) Models the Company values and demonstrates ethical and compliant behavior in everyday decision making and when enforcing disciplinary measures		
Enforcement and discipline; resource and performance management	1) Consistently recognizes compliance and ethics-related successes and consistently disciplines compliance and ethics-related violations		
Training	1) Achieves at least a 95% completion rate for compliance and ethics training within 3 months of deployment		
Monitoring, anaylsis, and response	1) Maintains an compliance and ethics related incident rate below 5 incidents per 100 employees		
	2) Develops and implements corrective actions plans in a consistent and timely manner		
Auditing	1) Provides full cooperation with compliance and ethics related audits and ensures audits are completed in a timely manner		

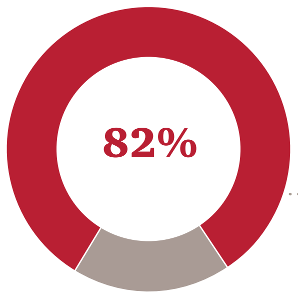
Good rating

Somewhat good rating

Poor rating

Figure 3: Executive communication regarding compliance and ethics

Senior leadership that formally communicate with employees regarding compliance and ethics topics



How?

Email communications 82%	*Town hall meetings 59%*	*Business unit meetings 46%*
Video messages 38%	*All hands calls/meetings 28%*	*Audio messages 11%*
Training 6%	*Intranet 2%*	

How often?

Monthly 19%	*Quarterly 33%*	*Semi-annually 21%*
Annually 22%	*Every other year 1%*	*Don't know 4%*

We are focused on culture change to get compliance involved in the very early stages of new product and service development.

2016 study respondent

Compliance and ethics officers should consider ways to enhance their participation in strategic planning, which could result in an enhanced profile for the compliance function across the organization and better position the function to anticipate and mitigate compliance and ethics-related risks. PwC's *2016 Risk in review* study highlights that 78% of risk executives agree that senior management wants to take a more forward-looking view of how compliance issues affect operations, yet only 49% agree their compliance function has a proven track record of proactively addressing potential growth impediments.

Involvement begins with demonstrating interest in the process and presenting a business case for why compliance and ethics should be included. If not overtly included at the executive level, CECOs can participate through functional and operational planning meetings, where strategic priorities may be discussed. This participation may serve to integrate compliance leaders into the process and establish them as key participants in strategy-setting discussions over the longer term while raising their overall profile. CECOs can also take advantage of the opportunities presented to them, such as interactions with the Board of Directors or audit committee, to demonstrate the value of their formal participation.

Tone at the top in action

The CECO at one PwC client recently worked collaboratively with her company's CISO to engage the Board in a sample data security breach crisis management exercise. She included in the Board's pre-read materials a faux newspaper article announcing the fictional data breach in very unflattering terms, asking Board members to imagine awakening to this news on their doorstep (or tablet, as the case may be). At the Board meeting, the CECO staged a mock crisis management scenario, inviting Board members to poke holes in the company's plans and to otherwise challenge senior executives' actions—or inactions—in the face of the presented crisis. This reproduction of a potentially real-life scenario actively engaged the Board in a critical risk management exercise and helped to solidify the CECO's stature as a strategic resource with both the Board and with other members of senior leadership at her company.

"Our top priority is to become trusted advisors to the lines of business and add value through process improvement."

2016 study respondent

Board visibility. Compliance and ethics functions are getting fairly consistent visibility with their Boards of Directors and senior leaders. Sixty-three percent (63%) of respondents indicated their Boards receive reports on their organizations' compliance and ethics performance on at least a quarterly basis, and 67% of respondents indicated their senior leadership receives similar reports on at least a quarterly basis. To elevate their status as strategic thinkers and trusted advisors, compliance leaders should consider providing more strategic elements in their Board reports and at Board meetings. (See Food for thought—Board reporting.) By mapping their compliance strategy to the business strategy, presenting results and ideas in that context, and proactively bringing issues to the forefront, they can open the door to more active and formal participation in strategy.

Food for thought—Board reporting

At a minimum, CECOs generally report to the Board on basic compliance and ethics program statistics, such as hotline metrics, training data and risk assessment results. CECOs also typically provide more detailed briefings regarding higher-risk internal compliance and ethics investigations (e.g., substantiated claims involving potential reputational or financial harm to the company, claims involving executive-level management, and claims involving accounting / financial fraud). CECOs at companies with more mature programs may also (a) do deeper dives into particular compliance and ethics risks and the company's associated risk management efforts, (b) train the Board on risk-specific topics (e.g., anti-bribery/anti-corruption) or more general compliance and ethics topics (e.g., the standards for compliance programs set by the Federal Sentencing Guidelines and the Board's duties and responsibilities relative to compliance and ethics program oversight), (c) brief the Board on recent compliance and ethics headlines and trends and / or (d) present and vet the company's annual compliance and ethics program plan.

Risk assessment

Risk assessment is a critical lynchpin of an effective compliance and ethics program. Leading organizations develop a formal methodology to conduct assessments of their compliance and ethics risks at least annually. They use risk assessment results to develop / revise the organization's compliance plan, including policies and procedures, training, auditing and monitoring. On a timely basis, the organization identifies and addresses any new or changing laws and regulations applicable to its business.

Regulatory requirements are on the rise across all sectors of our economy, from market conduct regulation in the financial services industries to food safety updates in the retail and consumer space. Because each new regulation adds complexity and introduces additional risk, PwC feels that clear and confident navigation of risk and regulatory complexity is one of 11 critical business imperatives for organizations in 2016 and beyond (Figure 4). However, for many organizations, increasingly complicated regulations, combined with a heightened level of regulatory scrutiny, have resulted in more challenging, and at times inefficient, compliance and ethics management.

"Our risk assessment process is consistent with ERM, which helps guide a more risk based audit and monitoring of compliance."

2016 study respondent

Alignment across risk functions. In an effort to improve both risk identification and productivity, many compliance and ethics groups are aligning their activities with other assurance functions within their organizations. Alignment helps reduce duplicate work across the groups and prevents the business from being subjected to redundant risk management activities. However, collaborative efforts are not always sufficient to fully meet compliance and ethics team needs. For example, nearly four-fifths of respondents indicated that there is an enterprise risk management (ERM) process at their organizations, and most indicated that the ERM process covers compliance and ethics-related risks (Figure 5). However, 54% of respondents indicated they needed to conduct at least some additional compliance and ethics-specific risk assessment activities in order to fully address their organizations' compliance and ethics risks.

While coordination and collaboration among groups is key to any successful compliance and ethics program, these efforts must be efficient and lead to productivity gains for the program and the company. Collaboration across groups may initially require a greater investment of time and resources, but the establishment of common frameworks and repeatable processes can improve efficiency for all groups in the longer-term while easing the burden on the business. Today, just 54% of respondents (the same percentage that conduct additional risk assessment beyond what is done by ERM) report the framework they use for their compliance and ethics risk assessment aligns with the framework the organization uses for its ERM process.

Risk assessment approach. In addition, it appears that, while compliance and ethics teams rely heavily on the top of the organization when conducting risk assessment activities, they may be neglecting to obtain valuable information from middle management and rank-and-file employees. A majority of respondents indicated their organizations include interviews with management (59%) and / or Board / management input (55%) in their compliance and ethics risk assessment process. However, only 21% of respondents include employee surveys. By limiting the inputs of compliance and ethics risk assessments to the executive view of risk, the results could miss potential operational or front-line employee issues that might be critical identifiers and / or elevate the importance of particular risks.

Ideally, compliance and ethics-related risk assessments would include input of employees from multiple levels at the organization, thereby increasing

"Our top priority is better aligning our compliance risk management processes with our enterprise risk management processes."

2016 study respondent

Figure 4: PwC's critical business imperatives: Navigate risk and regulatory complexity

Take the first step, set the tone. *The first step towards success is to set a enterprise-wide tone to embrace change as both inevitable and an opportunity.*

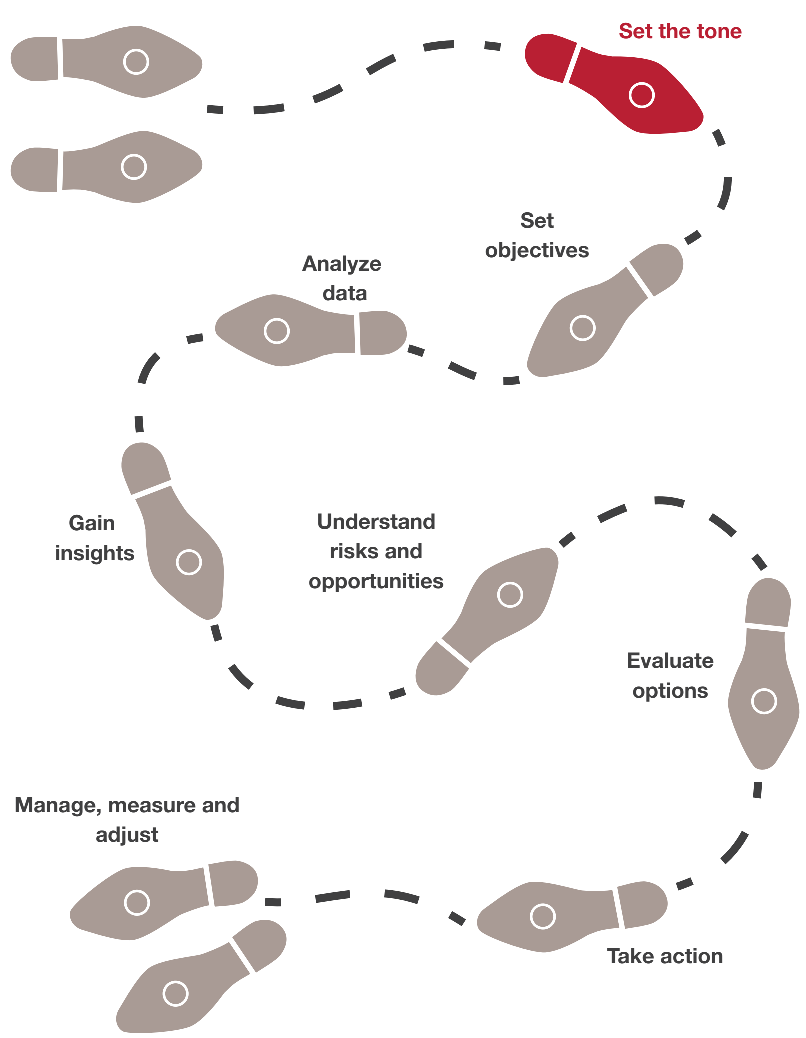
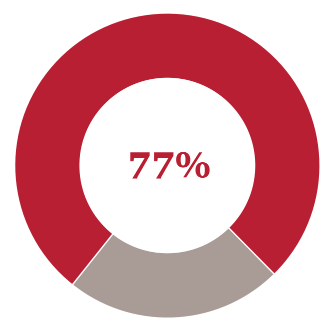


Figure 5: ERM coverage of compliance and ethics needs

Respondents reporting their company has an ERM process



Does your ERM process cover compliance and ethics-related risks?

88% do cover compliance and ethics-related risks

9% do not cover compliance and ethics-related risks

2% don't know

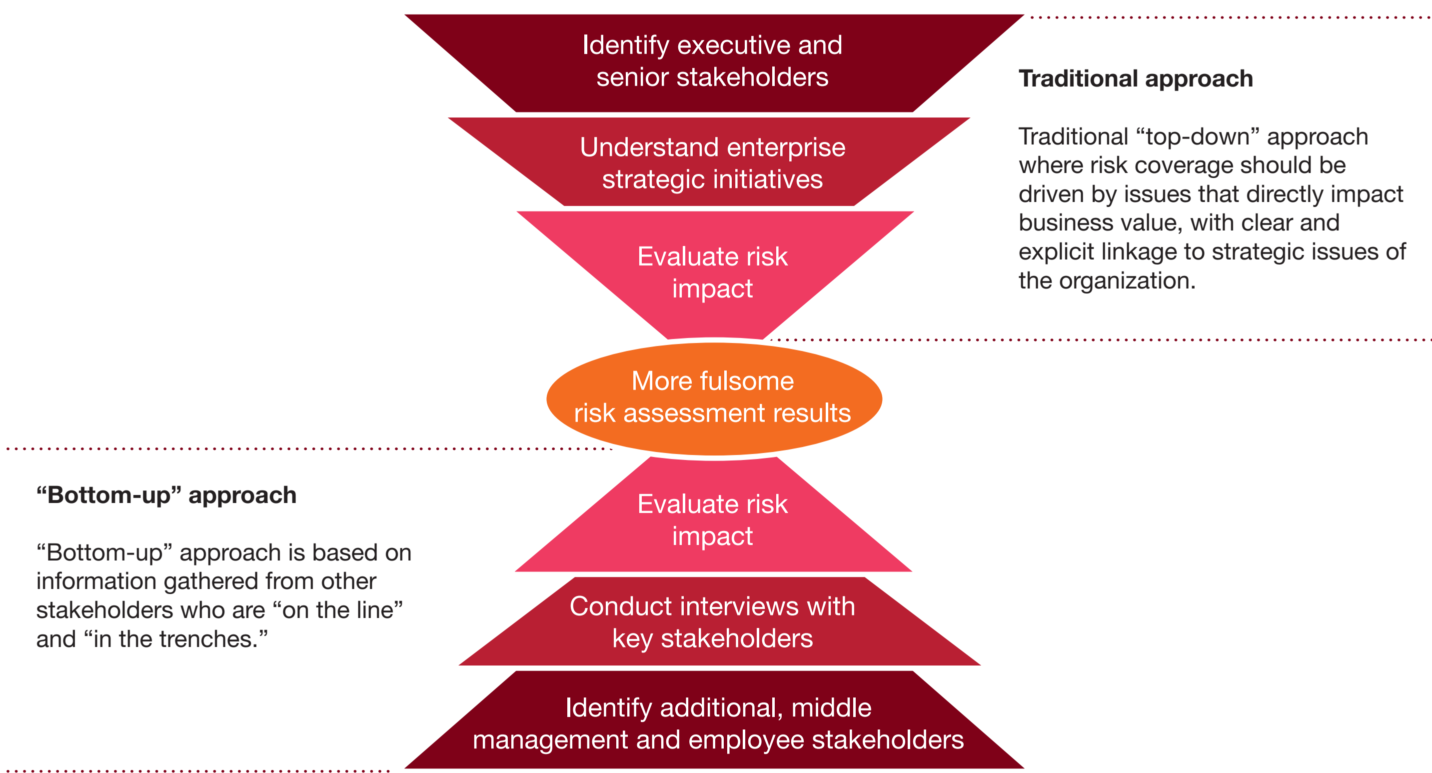
the likelihood of identifying and truly understanding the inherent nature of compliance and ethics-related risks at the company. PwC refers to this approach as conducting both a “top down” and “bottom up” compliance and ethics risk assessment (Figure 6). (See Food for thought – Risk assessment considerations.)

Risk owners. Critical to effective risk assessment and the implementation of control programs is the ability to identify the persons within the organization responsible for specific risks, which is not always straightforward. Sixty-seven percent (67%) of respondents stated there is a process in place at their

Food for thought – Risk assessment considerations

Through a combination of surveys and interviews involving not only risk owners but also rank-and-file employees, companies can prioritize each individual risk area’s strengths, weaknesses, and opportunities, identify top risks by business unit, and inform a roadmap for addressing risks over time. In addition to keeping risk in each business unit’s line of sight, top-down and bottom-up findings help to assure the Board of Directors/audit committee that the company fully understands the risks associated with conducting its business and is mitigating them appropriately. In addition, when conducting a compliance and ethics risk assessment, it can be helpful to clearly establish accountability with risk owners by sharing detailed risk assessment results with the Board of Directors/audit committee—once risk owners understand that risk reporting is important to the Board of Directors/audit committee, they may take the task even more seriously.

Figure 6: Top-down, bottom-up risk assessment



“We are currently developing a method to ensure we identify all applicable compliance requirements and assign owners.”

2016 study respondent

organizations to identify owners of specific compliance and ethics-related risks. However, organizations may be relying too heavily on the legal and/or compliance and ethics functions to manage these risk areas on a day-to-day basis.

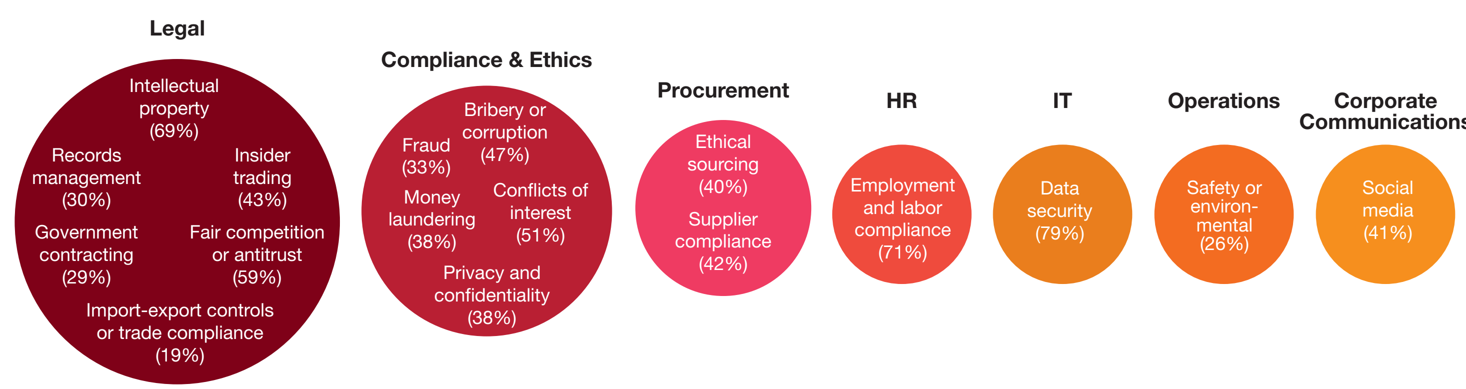
We asked respondents to identify who “owns” seventeen different compliance and ethics-related risks at their organizations (Figure 7). Respondents indicated the legal or compliance and ethics departments “owned” eleven of those risks most frequently. Our more than 800 State of Compliance survey respondents very rarely identified their organizations’ business units as owners of any compliance risk. While there are certain compliance and ethics-related risks that are typically directly managed by the legal and/or compliance and ethics functions (e.g., bribery and corruption), ideally, the business should “own” many compliance and ethics-related risks, such as import/export controls and government contracting, with the legal and/or compliance and ethics teams monitoring and providing support to the risk management efforts of the business.

Risk assessment in action

Assessing compliance and ethics-related risk is an important—and often overlooked—part of integrating newly acquired organizations. One highly acquisitive PwC client has instituted a new risk assessment process to address this challenge. To start, the CECO is a member of the M&A due diligence team, having contributed to the overall criteria assessed by the company when considering making an acquisition. Pre-acquisition, she also establishes a 30/60/90-day plan to integrate the new subsidiary after the closing of the transaction. Post-acquisition, as part of that 30/60/90-day plan, the compliance and ethics team will travel to the new affiliate’s HQ to conduct an affiliate-specific compliance and ethics risk assessment, folding the output into the consolidated risk assessment results for the company as a whole.

Figure 7: Key “owners” of compliance and ethics-related risks

Each risk has been attributed to the department which was most frequently selected as the ‘owner’.
Figures in parentheses show the percentage of respondents who selected that department as the ‘owner’.
The size of the circle depends on the number of risks "owned" (most frequently cited as the leader) by the department or function.



Overall, in examining compliance and ethics functions, it is clear that the ownership of particular risks plays a critical role in determining how a compliance and ethics function is structured and operates on a day-to-day basis. If many risks are owned by the businesses, a central compliance and ethics function may play more of a coordination role; if, as our study has indicated, a large majority of risks are owned by compliance, the central function may take a more active role in guiding the business and may have more significant justification for greater headcount and, perhaps, funding.

"Our most important priority this year is mapping of requirements to owners, policies, controls, and other information."

2016 study respondent

Oversight and responsibility

In leading compliance and ethics programs, the organization clearly defines oversight responsibilities and accountability for the Board of Directors, the designated compliance function, the compliance committee and members of senior leadership. A reporting structure supports these oversight responsibilities and accountabilities, with regular and appropriate sharing of relevant information.

Role of business unit compliance. Increased geopolitical pressures and subsequent regulations have heightened compliance programs' focus on "the rules" and increased the emphasis on ensuring compliance. This trend is illustrated in the results of our study when considering how companies utilize their business unit or business area compliance officers. Seventy-two percent of respondents indicated they have dedicated business unit or business area compliance officers. When asked what these compliance officers are responsible for, respondents selected compliance monitoring (89%) more often than any other area of responsibility (Figure 8), and this response cut across virtually all of the industries represented in the study. These results perhaps demonstrate that companies are not only increasing their emphasis on compliance with the law, but are also being more sensitive to risk tolerance and monitoring to ensure they stay within acceptable bounds.

Board-level compliance and ethics committees. While the audit committee oversees most compliance and ethics programs (65%), it is somewhat surprising that 20% of respondents indicated that their Boards of Directors have formed a separate, stand-alone compliance/ethics committee to provide oversight of the compliance and ethics program. It may be that, due to the increased scope of companies' compliance and ethics programs, Boards of Directors are increasingly finding it necessary to form a separate compliance/ethics committee to provide the appropriate level of oversight.

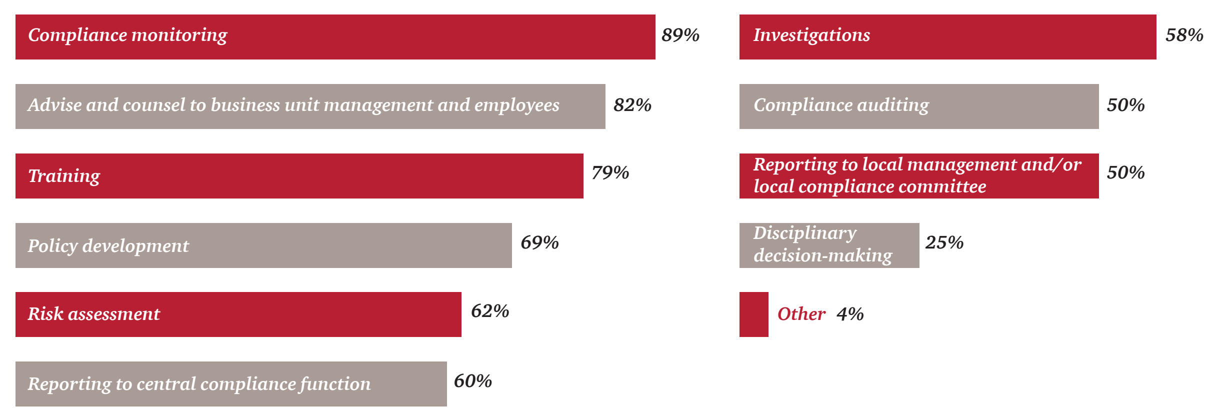
"We are installing a hybrid structure as a central compliance function that will operate as a guide, coordinating the oversight of the organization, while the accountability for implementation of compliance will remain with the business units to which the rules apply."

2016 study respondent

Relative emphasis on ethics. While an increased focus on "the rules" has been necessary to keep pace with increasing regulations, the emphasis on ethics may have suffered as a result. According to our survey, 9%

Figure 8: Roles of business unit compliance officers

What are the roles and responsibilities of your business unit or business area compliance officers?



“We strive for regulatory compliance underpinned by a good ethical climate.”
2016 study respondent

of respondents’ organizations have a Chief Ethics Officer separate from their CCO, and one-third (33%) have CCOs who also serve as Chief Ethics Officers. A majority of respondents’ organizations (56%) do not have anyone in a Chief Ethics Officer capacity at all.

While the organizational structure for ethics responsibilities can, and probably should, vary significantly by company and by industry, the absence of ethics in an officer title could be one indication that there may not be enough focus on ethics across the organization. However, depending on how domestic and international geopolitical uncertainty plays out, the pendulum could swing back, with decreasing regulatory demands. In that case, companies may have more profound interest in focusing on ethics and a greater capacity to do so. Regardless, there is really no room for a swinging pendulum, as leading compliance and ethics programs focus on both aspects.

Reporting structure. Our data also shows that compliance and ethics functions most often report organizationally to the chief legal counsel—this reporting structure occurs in 36% of companies, up 5 points from 2015. The tie into legal may be a further indication of the function’s rising emphasis on regulatory compliance, particularly in highly regulated industries. Expanding the compliance function beyond a traditional focus on the legal aspects of compliance, such as to oversee ethics or become more involved in business strategy, may be more difficult to do when the function is housed in the legal department. However, in those organizations where compliance is firmly rooted in the legal area, the opportunity to leverage the chief legal counsel’s possible standing as a member of the executive or leadership team could provide a pathway to driving additional strategic inputs by compliance leaders.

In-house compliance committees. One area where organizations may be working to increase the effectiveness of their compliance and ethics-related activities is the in-house compliance committee. (See Food for thought—Compliance committees.) Fewer companies this year indicated they have an in-house compliance committee, compared to respondents in 2015 (Figure 9). However, of those participants who responded that there is no in-house compliance committee at their organizations, a majority (55%) indicated there is another management committee that is responsible for overseeing compliance risk or risk overall. By eliminating or, ideally, never creating redundant committees, these organizations may be attempting to increase efficiencies in compliance and ethics risk management and perhaps have achieved a higher level of coordination with other risk-based functions.

Furthermore, those respondents whose organizations do have in-house compliance committees appear to be refining the activities with which those committees are tasked. As part of our survey, we asked respondents to select those activities their in-house compliance committees regularly conduct. Respondents selected eleven of the fourteen possible activities less frequently than in 2015 (Figure 10). Concurrently, it appears that more compliance committees than ever “review output of key compliance performance indicators (KPIs),” “review (annually) the effectiveness of the compliance program,” and “approve corporate compliance policies or policy revisions.” By focusing more time on fewer activities, compliance committees may be attempting to streamline their efforts, increase effectiveness and reduce overlap with other committees / groups.

Food for thought—Compliance committees

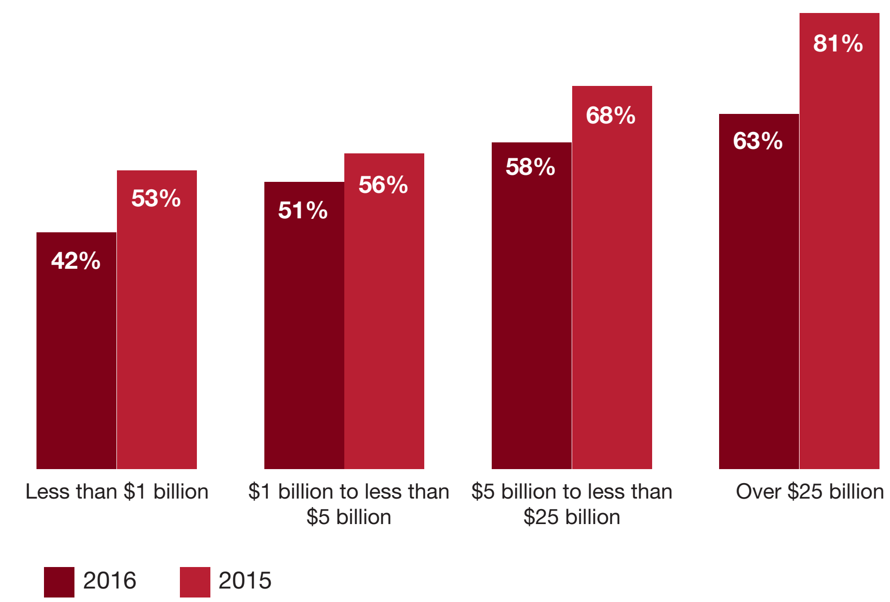
While our study reveals that compliance committees are focused on a tighter group of activities to provide support to the compliance function, we also recognize that committee members (in particular those representing the business) are key to establishing and reinforcing connections with business units to ensure that risks are sufficiently and effectively managed. One trend we have seen is that committee members themselves are taking on some compliance-related tasks rather than adding to compliance and ethics headcount. For example, some members may be specifically responsible for following up with their businesses (or functions) on training completion, compliance risk assessment activity or mitigating controls deemed to be weak following a compliance breach or other incident. For more information, see the PwC paper, Trends in compliance organizational structures, *May 2016.*

Oversight and responsibility in action

Organizations have landed in different places when it comes to assigning dedicated compliance and ethics officers to business units. Some have taken the path of creating a “liaison” or “ambassador” role, typically a person who has business responsibilities that has taken on additional responsibilities without a formal reporting line to the central or corporate compliance and ethics function. In one organization, compliance and ethics “champions” are volunteers who are then formally appointed by senior management. The champion role is considered a position of distinction, and the champions support a variety of compliance and ethics campaigns and provide advice to business unit personnel. Typically, these individuals would not become involved in monitoring or even investigations, but their existence is an important tool for the organization to embed compliance and ethics into the business.

Figure 9: In-house compliance committees by company size

Does your company have an in-house compliance committee to support compliance efforts?

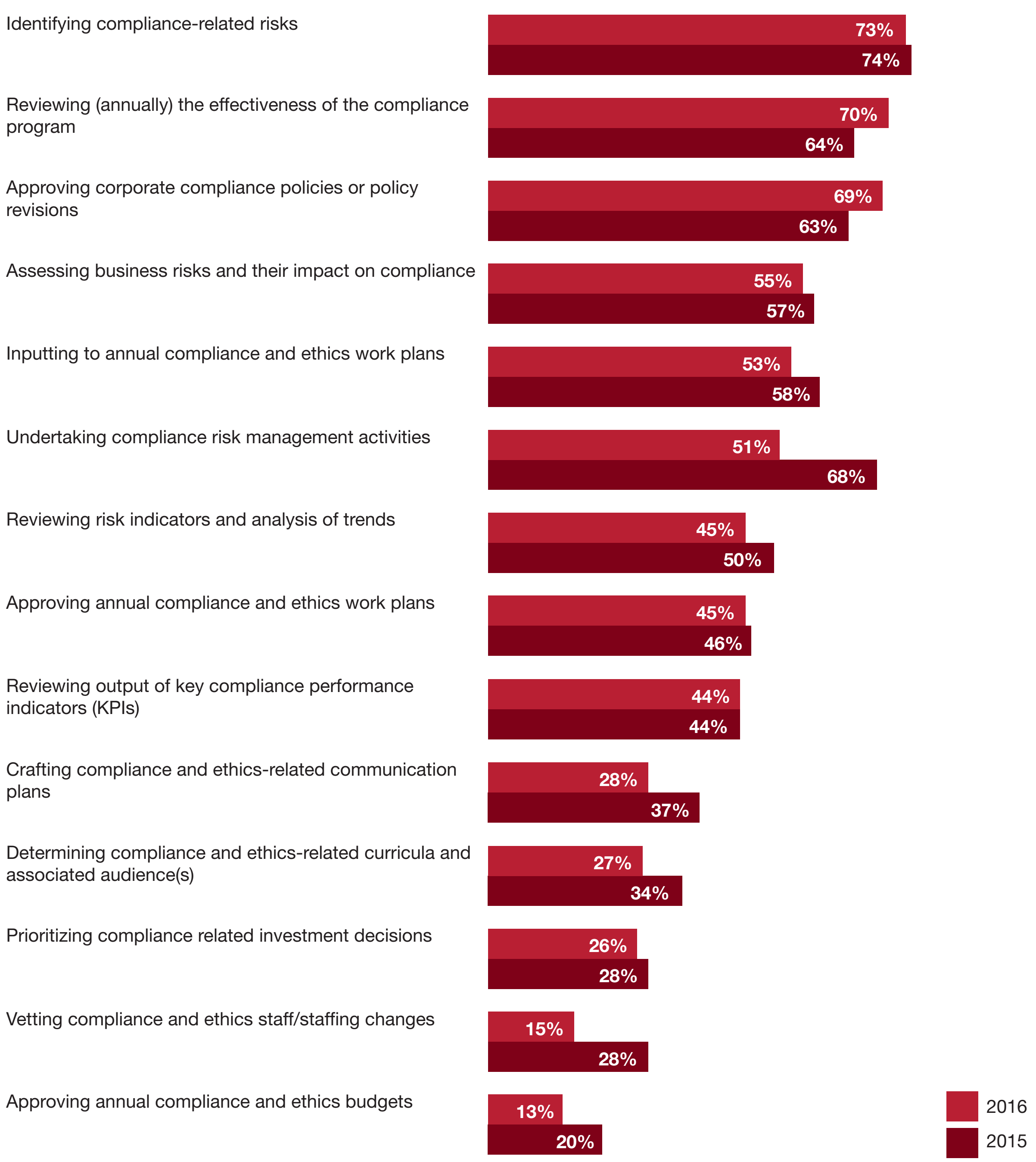


52%
of companies have an in-house compliance committee compared to 64% in 2015

PwC State of Compliance Study 2016

Figure 10: Activities conducted by in-house compliance committees

What activities does your in-house compliance committee regularly conduct?



A look at those with the strongest compliance commitment

For the first time this year, PwC created an index to measure and monitor organizations' commitment to compliance. The index is based on five questions relating to senior leadership's personal and organizational commitment to the compliance and ethics program. It provides a score that can be tracked over time.

The average 2016 index across all respondents is 7.10 based on a possible range of two to 10. The index was buoyed by the pervasiveness of organizations having a CCO or CECO and by leadership's formal communication efforts. It was tempered by lower overall scores in senior leadership's support of the compliance and ethics program and the compliance and ethics function's lack of participation in strategic planning.

Based on the overall index score, we categorized companies as scoring either high, medium or low. Companies with a high index (i.e., those where the index identifies leadership as more committed to compliance) stand out in each of the three dimensions discussed in this report (Figure 11).

Our data shows that organizations where senior leadership is more committed to compliance (those with a high index) are more often taking actions to inject compliance management into both strategy and everyday operations. They are effectively establishing the tone at the top, assessing compliance and ethics risks in efficient collaboration with other risk functions and building the governance and oversight structure that provides them with high levels of confidence over regulatory matters.

Figure 11: Areas where organizations with a strong compliance and ethics commitment stand out

		Companies with a high index	All respondents
Tone at the top	The compliance and ethics function is inherently integrated into all strategic activities and plans	33%	18%
	Senior leadership formally communicates monthly with employees regarding the importance of a compliance and ethics culture and/or other compliance and ethics-related topics	27%	19%
	The oganization assesses its tone at the top	63%	48%
Risk assessment	The company has an ERM process	84%	77%
	They conduct compliance and ethics risk assessments	79%	66%
	They have a process in place to identify owners of specific compliance and ethics-related risks	78%	67%
Oversight and responsibility	They have an in-house compliance committee to support or oversee compliance efforts	61%	52%
	Business unit or business area compliance officers are full-time compliance resources	66%	58%

Conclusion

Certainly compliance officers have a tough challenge grappling with a complicated risk landscape and ever-changing regulatory requirements. Connecting compliance to business strategy provides the foundation for both a culture of compliance and ethics, and management programs that help ensure the organization conforms to all necessary regulatory requirements and ethical standards.

Tone at the top does just that; it sets the compliance and ethics tone for the organization, which is particularly important as compliance and ethics enters its next phase of maturity. Organizations have the opportunity to drive a more refined approach to measuring senior leadership and its commitment to compliance and ethics, which will help to solidify both commitment and active program engagement.

At the same time, management of risk is becoming more nuanced, which can make it both more complicated and expensive. Compliance leaders should find the balance between the use of enterprise-wide risk management programs and the need for more detailed compliance risk assessments so that efficiencies can be gained yet the Board and senior leadership can remain confident that compliance risks are adequately assessed and owners of those risks are appropriately identified.

Finally, the structure of compliance oversight varies, driven in part by organizations' risks. In all cases, the data reflects a genuine focus and prioritization of activity performed, as evidenced by the board-level compliance/ethics committees and business unit compliance officers' focus on monitoring.

By laying a strong foundation with the right executive tone, strategic involvement, coordinated risk assessment and focused oversight, chief compliance and ethics officers can enhance the value that compliance provides to the organization, helping to manage risks associated with the organization's strategic objectives, and driving cost-effective compliance.

Five tough questions to ask about your organization's state of compliance?

1. Does your organization's senior leadership make the delivery of compliance and ethics messages a priority?
2. Is your organization's senior leadership measured in any way on its commitment to compliance and ethics?
3. Does your organization's existing risk assessment process capture the current state of compliance and ethics risk management with sufficient detail so as to power your planning and execution of necessary mitigation activities?
4. Does the structure of your organization's compliance and ethics function truly enable and support key activities to address prioritized risk areas?
5. Do your organization's Board and senior leadership provide meaningful oversight and support of the compliance and ethics function?

Contacting PwC

To have a deeper conversation about how compliance officers can expand their roles to become partners to the business, please contact:

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