

**“ The time is always right
to do what is right”**

- Martin Luther King Jr.



Integration of Compliance, Risk and Ethics Management

**Research Report by
Verita Management Advisors Pvt Ltd**

January 2017

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FOREWARD AND INTRODUCTION

India has witnessed unprecedented regulatory and government interventions since the new Union cabinet took oath in the year 2014. The public policy discourse has shifted from reforming institutions, rules and systems to people. The impact has been so sweeping and wide that in a largely populous country like India, there seems to be “no place to hide”. Corporates and citizens have been impacted alike. Further new developments suggest Robo based Audit analytics by tax authorities, Risk Based Continuous Monitoring of Data by regulatory agencies, shall leave no space for cracks between the lines. Corporates would be required to adopt robust Compliance & Risk Management Framework.

The Union Government is working on a mission mode to pro-actively regulate, simplify and bring in much required focus on laws that matter to the country. As a result, there is an upsurge in the number of laws and regulations for companies to follow in the last 2-3 years. This has created uncertainty, complexity and sometimes chaos. Corporates and firms are unable to fully understand their obligations and implications thereby placing the Boards, CEOs, CFOs, and Compliance Heads in an extremely vulnerable position. Key regulators, Judicial and Government authorities are working in tandem to implement the compliance and ethical tone adopted by the Union Government. Corporates, Boards and Firms are beginning to re-think their Compliance initiatives especially in the backdrop of the substantial increase in regulatory requirements, level of due diligence and care to be exercised by the companies towards legal compliances. Whether a small and reactive Compliance function can stand up to the test of scrutiny of law and be considered reliable? Key questions emerge whether only a tick in the box demonstrating compliances to laws is sufficient? Is it time to integrate key compliance and related functions in the company to efficiently and effectively respond to the emerging Compliance and Ethical challenges?

Team Verita in consultation with executive management teams of leading companies, emerging businesses, start-ups, VCFs, PEs discusses the state of compliance, risk management and ethics in industry today. This paper aims to highlight contemporary trends of compliance and risk management as well as challenges in implementing the same. The research outcome captures and consolidates the emerging point of view of executive management who play a pivotal role in shaping the corporate growth story of India.

This paper reveals a fast engine mind set of boards and compliance teams who are aspiring to implement continuous and real time compliance monitoring solutions that would provide a unified dashboard for multiple laws, the other notable trend that emerges from this paper is the integration of Compliance, Risk and Ethics functions as a top most compliance priority.

We hope you enjoy reading the survey results.

Happy New Year !!!



Huzeifa Unwala
Founding Partner
Verita Management Advisors Pvt Ltd

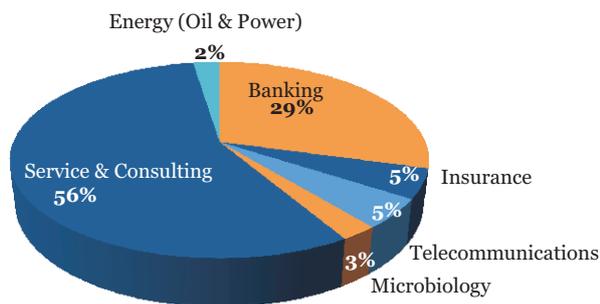
January 2017
Mumbai

METHODOLOGY AND CONTRIBUTIONS

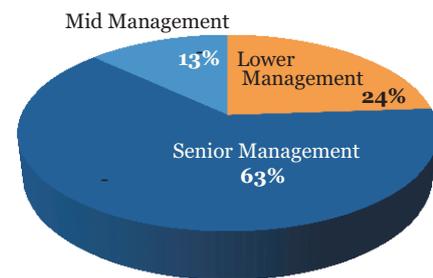
The survey team designed a detailed questionnaire to capture the emerging point of view on the subject of Integration of Compliance, Risk and Ethics. The questionnaire was circulated through a link to 150+ respondents. We received 50+ responses. The responses have been analyzed, tabulated and re-produced in a reader friendly manner. Respondents have also provided value added suggestions that have been shared at appropriate places in this report.

The survey team has used digital media and personal interviews to gather information from respondents.

Survey Respondents by Sector



Survey Respondents by Designation



EXPERT SPEAK

“Complying with all or even material laws in India may at times be challenging for majority of businesses in India. The problem of compliance is magnified significantly for the MSME sector and start-up sector. The challenge emanates from the number of compliances under diverse laws, creation of multiple un-connected repositories and at times, the archaic laws. Accordingly, modernisation of laws combined with use of technology will encourage businesses to create a robust compliance regime resulting in reduction of non-compliances and growth of transparency, which in turn will establish strong ethical practices.”



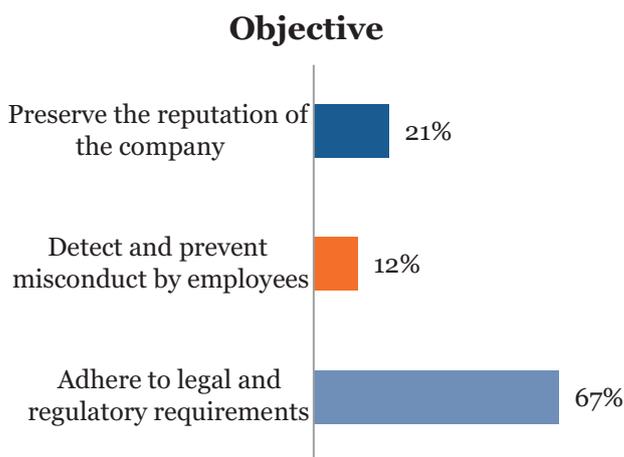
Souvik Ganguly

Managing Partner
Acuity Law

A COMPLIANCE REPORTING & STRUCTURE

The first section of the survey focused on the Objective & Formal structure of the Compliance Function in an organization as well as the reporting responsibilities of the Compliance Team.

COMPLIANCE OBJECTIVE



SURVEY FINDINGS

The survey reveals that the top management focuses more on the traditional role of Compliance adhering to legal and regulatory requirements as is evidenced by **67%** of the responses.

Whereas **21%** and **12%** of the responses stated that the main objective is to preserve the reputation of the company and to detect and prevent misconduct by employees respectively.

POINT OF VIEW

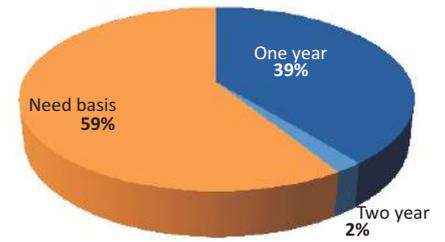
Gradual shift of priority is visible from the responses above that the executive management lays emphasis on preserving reputation and prevention of misconduct by employees as **33%** of respondents agreed that the primary objective of the compliance function was not traditional. This being the case compliance skills would require expansion and depth.

The Compliance skills in future would have to include Enterprise Risk Management and ethical business conduct skills

SURVEY FINDINGS

59% respondents believe that there is no fixed interval for revising their code of conduct which is done on need basis whereas, **39%** stated that it is revised annually and **2%** stated that their code of conduct is revised once in two years.

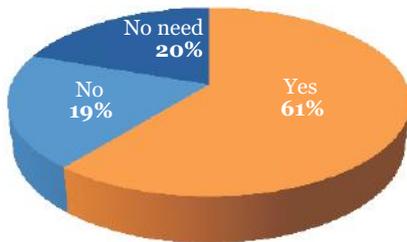
No. of Years



POINT OF VIEW

Given the frequent regulatory changes, it would be appropriate to adopt a revision time-interval and seeking of compliance declaration from employees

Compliance Budget



ADEQUACY OF COMPLIANCE BUDGET

SURVEY FINDINGS

61% stated to have adequate compliance budget whereas, **19%** stated that they do not have adequate compliance budget to manage their compliance program.

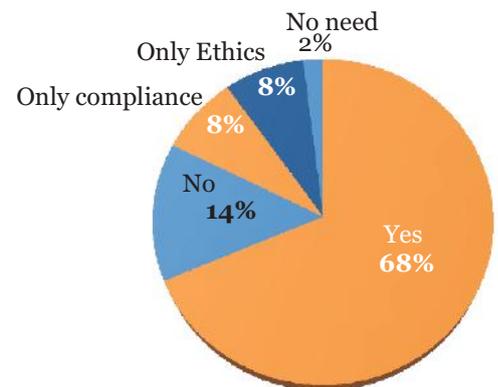
POINT OF VIEW

The Compliance Budget should be understood and managed in the same way as any financial budget, as compliance directly affects, and can place a cap of organizational sustainability. Compliance is a core business activity as business survival is dependent on compliance effectiveness and therefore requires sufficient funding/ budgeting.

WRITTEN CHARTER/POLICY DESCRIBING COMPLIANCE AND ETHICS FUNCTION

SURVEY FINDINGS

68% of respondents replied that they have a written charter describing the Compliance and Ethics function while **8%** each have a charter covering only the Compliance function or only ethics function. **14%** do not have any written policies of any kind which presents a rather disturbing view **2%** believe that there is no need of describing compliance and ethics function.



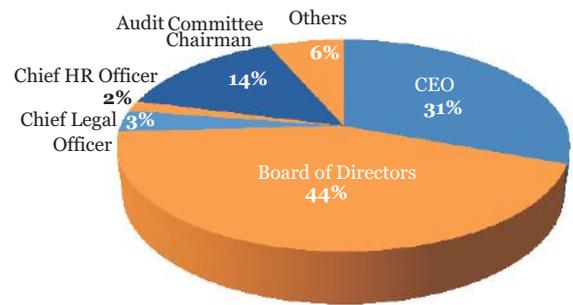
POINT OF VIEW

Charters and Policy provide clarity on scope, authority and responsibility. They are a “must” for fixing accountability, however, difficult to enforce in a “whatsapp and facebook” era. Organisations are fast moving towards electronic charters and policy narrations that are embedded in applications and access mechanism. It makes business sense to integrate Compliance, Risk and Ethics charters into a single philosophy document.

REPORTING STRUCTURE

SURVEY FINDINGS

44% respondents stated that the Compliance reporting is directly to the Board of Directors, **31%** to the CEO, **14%** to the Audit Committee Chairman, **6%** to others (CFO, COO, MD-Group, Partner), **3%** to Chief Legal Officer and remaining **2%** to Chief HR Officer.



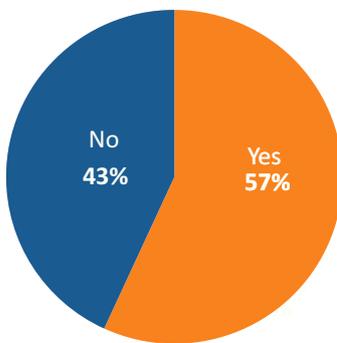
POINT OF VIEW

Compliance forms very critical part of the organization and by its nature confidential. Due to the confidentiality aspect, majority of the respondents say that Compliance reporting is directly to BOD.

COMPLIANCE STEERING COMMITTEE

SURVEY FINDINGS

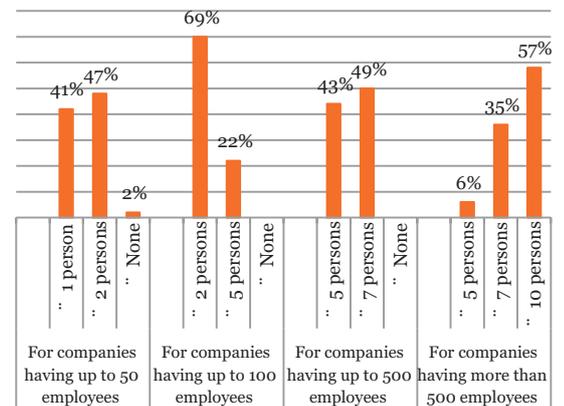
57% have a dedicated Compliance Steering Committee to monitor and oversee their Compliance Function while **43%** do not have such a Committee and this function is clubbed with other functions.



IDEAL SIZE OF COMPLIANCE TEAM

SURVEY FINDINGS

47% agree that a team of 2 persons would be sufficient for companies up to 50 employees, whereas **69%** of respondents agree that a team of 2 persons would be sufficient for companies up to 100 employees. There is a 1:1.4 ratio between a team of 5 & 7 persons for companies up to 500 employees and **57%** agree that a team of 10 persons would be necessary for companies having more than 500 employees.



POINT OF VIEW

The Compliance team is directly proportionate to the size, compliance scope and complexity of the organization. Based on the responses received, on an average **58%** of the respondents feel that companies having employees ranging from 50-100, need to have 2 members in their Compliance team, which differs from the opinion of other **41%** which focuses on having only 1 member in the team for company having 50 employees. Given the climate of regulatory interventions, global events and protectionist governments organisations would be forced to re think their compliance structures and resourcing of compliance functions. It is quite likely that the compliance, ethics and risk functions could be merged together for common and seamless Board view. Further, the skills and learning could be managed to make the functions more effective in dealing with emerging uncertainties

EXPERT SPEAK

Companies with a higher compliance score and good Corporate Governance have a greater chance of surviving in this VUCA world. In fact the trend is to build “Ethics” proactively in the Business Strategy. There is statistical evidence to suggest that shareholders and Investors are willing to pay a substantial premium for a “compliant” enterprise. It obviously makes good business sense for all stakeholders to invest in creating compliant and well governed entity. It is no longer the finance functions responsibility, but that of the entire leadership team! It is now an integral part of managing the concept of the “going concern” and future survival of the enterprise.



Chandni Sahgal
Independent Director

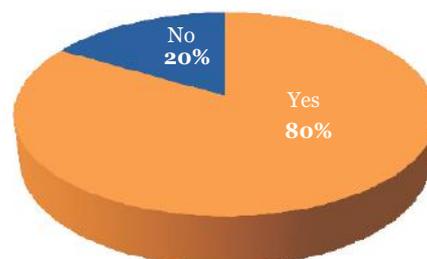
B COMPLIANCE RISK MANAGEMENT

This section focuses on the Compliance Management and Risk Management in organizations.

CODE OF CONDUCT FOR THIRD PARTY

SURVEY FINDINGS

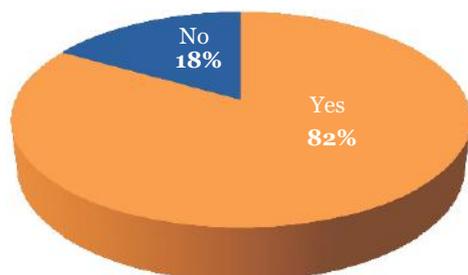
80% maintain a Code of Conduct for Third Parties which they are required to sign when entering into any contract with the company. In case of **20%** there is no specific



POINT OF VIEW

Code of Conduct for Third Party acts as a behavioral safeguard for a new third party to engage with the organization. Anti-bribery and anti-corruption provisions are key safeguards in third party code of conduct.

MISCONDUCT REPORTING SYSTEM



SURVEY FINDINGS

82% have an active misconduct reporting system while **18%** do not formally report instances of misconduct.

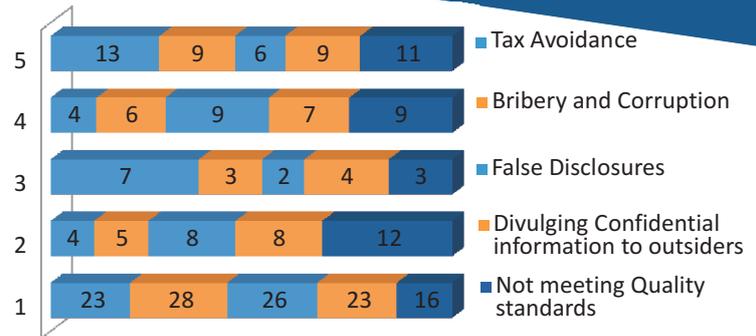
POINT OF VIEW

Accountability is a key ingredient in any organization, where fairness is perceived at all levels; wherein violators at all levels are held accountable. There are various forms of misconduct and the most notable ones that are widespread are use of company’s resource for personal gain, internet abuse and sexual harassment.

SURVEY FINDINGS

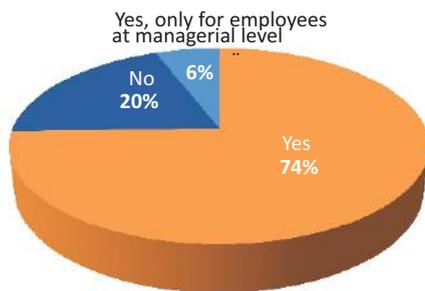
Respondents were requested to rate the following types of misconduct:

- 1) Tax Avoidance
- 2) Bribery & Corruption
- 3) False Disclosures
- 4) Divulging confidential information to outsiders
- 5) Not meeting Quality standards



Respondents rated above types of misconduct on a scale of 1 to 5 and the following results were observed:

- 1) Not meeting Quality standards - **28%**
- 2) Tax Avoidance - **13%**
- 3) Divulging confidential information to outsiders - **12%**
- 4) Bribery and Corruption - **9%**
- 5) False Disclosures - **7%**



POINT OF VIEW

Corporates publish conflict of interest situations and examples for employees to refer. Such declarations are not restricted to Board but also extended to vendors, auditors, brokers and third parties

DISCLOSURE OF CONFLICT OF INTEREST

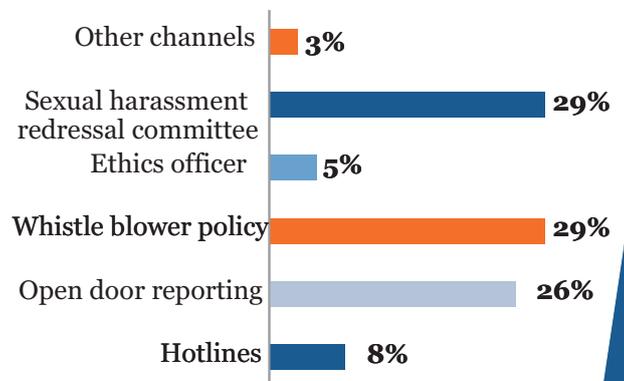
SURVEY FINDINGS

74% stated that all employees are required to disclose their conflict of interest, **20%** stated that there is no need for such disclosure while **6%** only require such disclosure for employees at the managerial level.

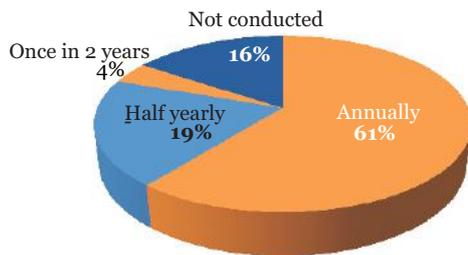
MISCONDUCT REPORTING CHANNELS

SURVEY FINDINGS

Sexual harassment redressal committee and Whistle blower policy are the most preferred mode of misconduct reporting channel with **29%** of total responses, open door reporting and hotlines share a similar preference at **26%** & **8%** respectively, only **5%** and **3%** prefer to report misconduct directly to the ethics officer and other channels respectively.



COMPLIANCE RISK ASSESSMENTS



61% conduct their Compliance Risk Assessments annually, **19%** conduct it half-yearly, **16%** do not conduct it at all whereas remaining **4%** conduct once in 2 years.

SURVEY FINDINGS

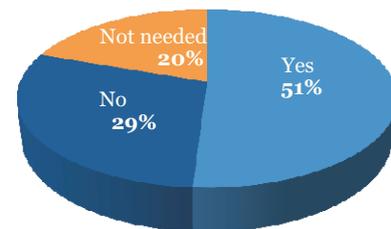
POINT OF VIEW

Rolling Risk Assessments and Risk Reviews are a business reality as compliance takes centre stage in business activities. Real time compliance risk supervision and monitoring would be targeted by Boards and Compliance executives.

INVESTIGATION OF MISCONDUCT BY SUBJECT MATTER EXPERTS

SURVEY FINDINGS

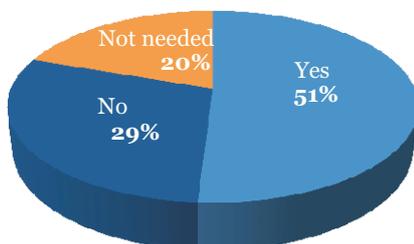
51% get their incidents of misconduct investigated by a subject matter expert, **25%** do not hire any subject experts while **24%** believe it is not needed at all either because they have developed the expertise in-house or they seek the help of Internal Auditor whenever required.



POINT OF VIEW

Organisations should develop a policy narrative and clarity on outsourcing investigations and use of third party experts

EXTERNAL EVALUATION OF INTERNAL COMPLIANCE FUNCTION



SURVEY FINDINGS

51% have an external evaluation of their internal Compliance function whereas **29%** don't have such external evaluation while the remaining **20%** believe they do not need any external evaluation

POINT OF VIEW

External evaluations assist organisations on verifying compliance effectiveness and provide added confidence on compliance output.

MEASURES TAKEN ON ANTI BRIBERY / CORRUPTION



SURVEY FINDINGS

38% stated that they have a dedicated anti-bribery and anti-corruption policy which is communicated to all the employees, **28%** have strengthened their internal controls to prevent and detect bribery and corruption, **14%** have due-diligence of third parties and **15%** have agreements with them containing a clause on anti-bribery and anti-corruption each whereas **4%** have dedicated anti-bribery unit for surveillance and investigation of the same.

“An integrated and effective Management of Compliance, Risk and Ethics is pivotal for a robust second line of defense within the overall control framework and this will ensure alignment of multiple stakeholders “



S Bhaskar

**Senior Vice President
IIA-India**

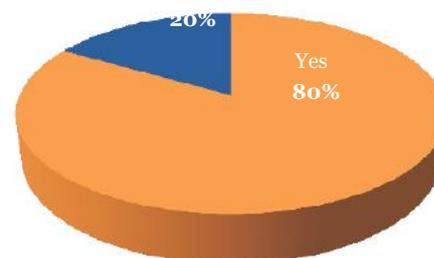
C TRAINING & COMMUNICATION

This section deals with the training and its mode and the communication to employees.

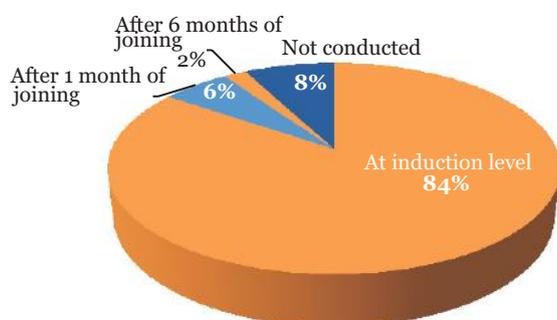
COMMUNICATION PLAN FOR COMPLIANCE & ETHICS FUNCTION

SURVEY FINDINGS

80% have a dedicated communication plan for Compliance and Ethics topics while the remaining **20%** do not have the same.

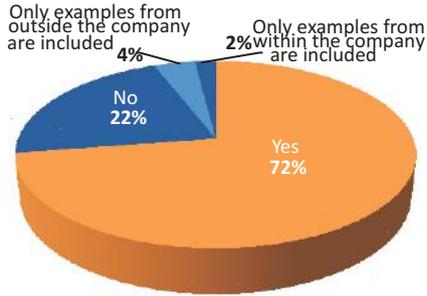


TRAINING FOR COMPLIANCE, ETHICS & CODE OF CONDUCT



SURVEY FINDINGS

84% of the participating organizations have their training for employees at the on-boarding stage of induction, **8%** have not conducted any training for compliance, ethics and code of conduct, **6%** conduct training after 1 month of joining while remaining **2%** conduct after 6 months of joining.



SURVEY FINDINGS

72% use real-life examples in communication on Compliance and Ethics function, **22%** do not use the same, **4%** gives only examples from outside the company while remaining **2%** give only examples from within the company.

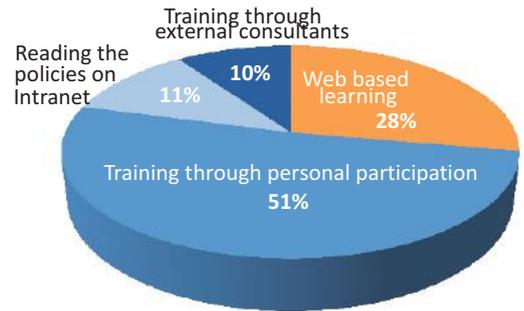
POINT OF VIEW OF THIS SECTION

Compliance & Ethics awareness programs are fast evolving into shorter quiz formats and E-learning modules rather than the traditional classroom formats. Digital revolution has impacted the quality, content and delivery of compliance & ethics awareness programs significantly.

SURVEY FINDINGS

51% prefer training through personal participation. **28%** prefer online mode of web based learning, **11%** prefer reading policies on intranet and remaining **10%** get training conducted through external consultants.

MODES OF TRAINING



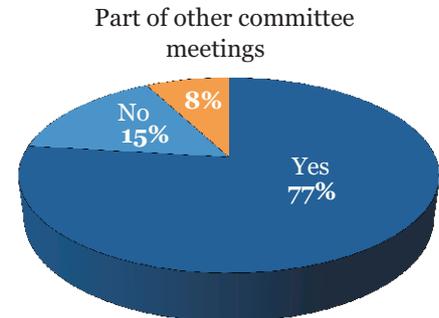
D COMPLIANCE & ETHICS INTEGRATED APPROACH

This section deals with the integration between Compliance Management, Risk Management and Ethics within an organization.

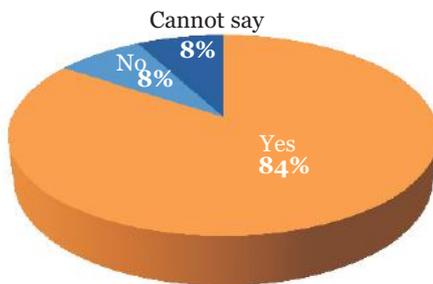
COMPLIANCE A PART OF CORPORATE DECISION-MAKING & STRATEGY

SURVEY FINDINGS

77% state the Compliance is a permanent part of corporate decision-making and strategy, **15%** do not include compliance in their strategic decisions while **8%** state that Compliance forms a part of other Committee meetings.



ADEQUATE INVOLVEMENT OF TOP MANAGEMENT



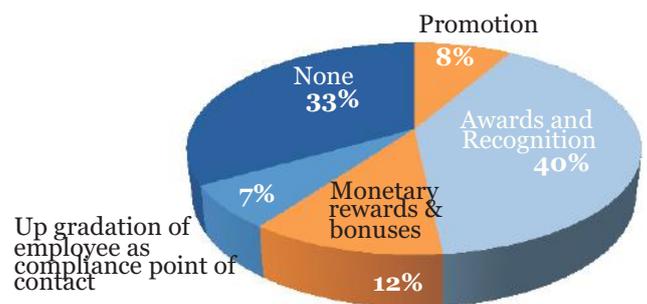
SURVEY FINDINGS

84% devote enough time for Compliance and Ethics, whereas **8%** believe that top management should give more time for Compliance and Ethics function and same amount of respondents are not sure about involvement of their top management in Compliance & Ethics.

SURVEY FINDINGS

33% stated that they do not provide any reward for ethical compliance by employees, **40%** provide awards and recognition to employees for ethical compliance, **12%** provide monetary rewards and bonuses, **8%** provide promotion and remaining **7%** provides up - gradation of employee as compliance point of contact.

REWARDS FOR ETHICAL CONDUCT

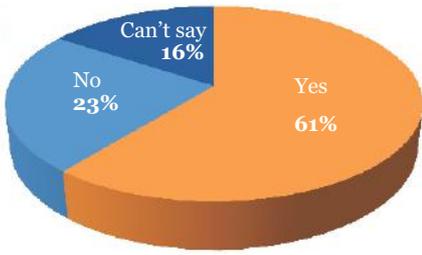


POINT OF VIEW

Board of Directors meet once a quarter for a day, therefore, annually they dedicate about 30 to 50 hours on Board affairs. Going ahead, the Boards may like to view an integrated compliance and ethics dashboard so that they spend quality time on both the subjects and not one at the cost of other.

Risk Governance is a top down process affected at the highest level, therefore, Compliance, Risk & Ethics integration could provide a completely fresh approach to the Board.

SURVEY FINDINGS

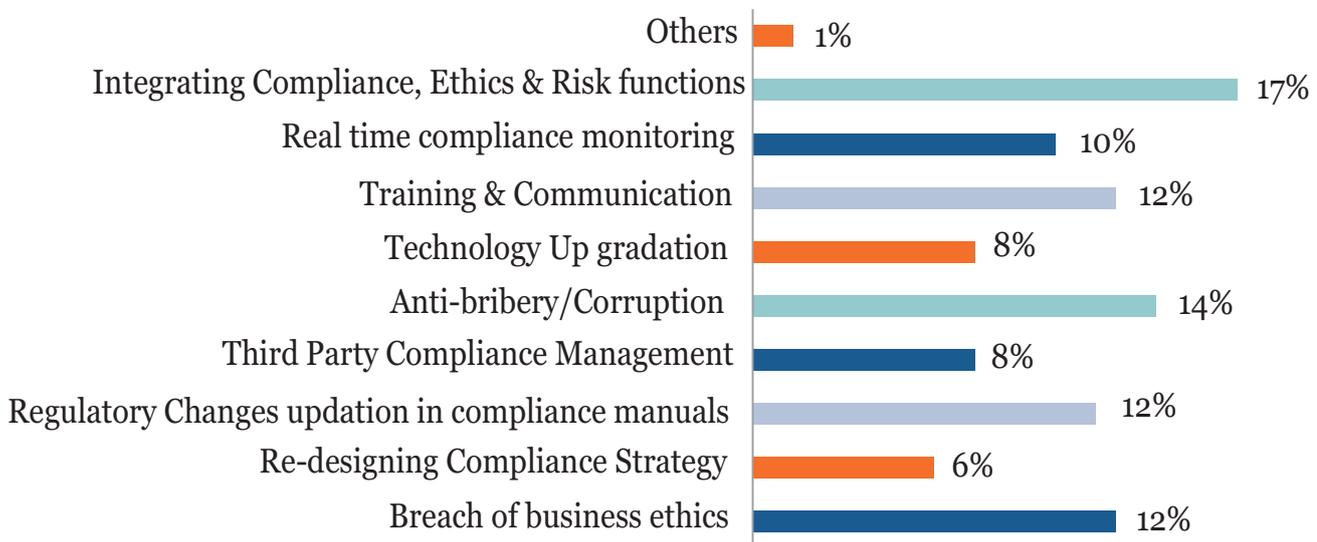


61% agreed that compliance management includes both while **23%** do not agree on the same, **16%** are unsure about the same.

POINT OF VIEW

Significant majority echoing the sentiment that compliance means not only complying with laws of the land but also upholding standards of behavior towards employees, customers and third parties, this implies a fully merged view on compliance & ethics.

TOP AREAS TO FOCUS FOR COMPLIANCE & ETHICS IN 2017-18



SURVEY FINDINGS

17% believe the top area of focus for Compliance and Ethics in 2017-18 is integration of Compliance, Ethics and Risk functions. Real-time compliance monitoring form the response of **10%** of the respondents, **14%** agree with anti-bribery/corruption while **8%** of the respondents agree with upgradation of technology for Compliance & Ethics and Third party compliance management. Training & Communication, Breach of business ethics and Regulatory changes updation in compliance manuals are at **12%** each, **6%** of the respondents agree in Re-designing Compliance strategy.

POINT OF VIEW

Top compliance priority is integration of compliance, ethics and risk functions followed by Anti-bribery and breach of business ethics.

CONCLUSION

Trend of changes in the Legal and Regulatory climate to continue; volume and velocity of regulatory amendments shall be disruptive in nature and therefore the responses need to be comprehensive, faster and better.

Digitization of Compliance Libraries & Automation of Compliance Monitoring

Organizational response to the Compliance complexity shall require re-calibration of Compliance Charters, larger and integrated Compliance teams, Unified Compliance reporting that would include a merged view of Risks & Ethics and monitoring of third party risks.

External Evaluations of Compliance functions

·Social media tracking and monitoring of people and compliance assets and their abuse if any.

Compliance budget and teams to expand

Technology Managers to play a key role in automating code of conduct and employee behavior monitoring. Compliance policies and charters to be coded in access mechanisms, applications and digital mode.

Integrating Compliance, Risk & Ethics a top priority.

Compliance function to be brought to the Core of the business activities and no more can be considered as a back office function. Compliance stance to turn pro-active and top down.

Expanding Compliance skills to include Ethics & Investigations

Incremental Investments in Compliance operations, technology alignment, compliance education and setting up of robust vigilance mechanisms for tracking employee misconduct. Boards to invest in creating a Single View System that can monitor multiple regulatory laws and provide a focused dash board of regulatory changes

Compliance to be part of Corporate Strategy

Compliance Managers to play a key role in teaching compliance requirements and creating awareness on compliance matters. Compliance skills to expand to include technical skills of Ethics and Risk Management.

Compliance Risk Assessments for identifying compliance blind spots

GALLERY OF RESEARCH PUBLICATIONS

Building versatility and resilience in your control environment



Measuring the impact of Internal Audit in uncertain times



Control Self Assessment



Internal Financial Controls



Demonetization - Effects & Implications Report



Cashflow Risk Management practices in Corporates



Red Flag Reports - Edition 1



Red Flag Reports - Edition 2



GALLERY OF PRODUCT NOTES

Global Internal Audit



Internal Financial Controls



Fixed Assets



GST



Risk Monitoring Transformation



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CONTACT US

VERITA MANAGEMENT ADVISORS PRIVATE LIMITED

Mumbai Office
A-78, Virwani Industrial
Estate, Opp. Westin, Off
Western Express Highway,
Goregaon East, Mumbai –
400063
T: +91 22 29272030

Ahmedabad Office
206, Sheetal Varsha,
Shivranjini Cross Road,
Satellite, Ahmedabad.
T: +91 9377150095

Kolkata Office
402, 25A, Vardhan
Complex, Camac Street,
Kolkata, West Bengal
700016
T: +098311 50209

Hyderabad Office
Flat No 101, 16-11-1/1,
Parimala Tej apartments,
Malakpet, Hyderabad -
500036
T: +91 9440464879

Delhi Office
A-6, Maharani Bagh, New
Delhi 110065
T: +91 011-41626470

Baroda Office
3rd floor, TNW Business
Centre, Above Mc Donalds,
Old Padra Road, Baroda,
Gujarat 390007
T: 0265 2333698/ 2304800

Oman Liaison Office
P.O. Box 385, Jibroo, P.C. 114,
Sultanate of Oman

UAE Liaison Office
P.O. Box 128235, M04, Bil Badi
Building, Madinet Zayed, Abu
Dhabi, United Arab Emirates

Learn more about Verita → www.verita.co.in
Request for Information → contactus@verita.co.in

We welcome your valuable feedback and review comments on this publication on
huzeifa.unwala@verita.co.in/ amrita.pandilwar@verita.co.in.