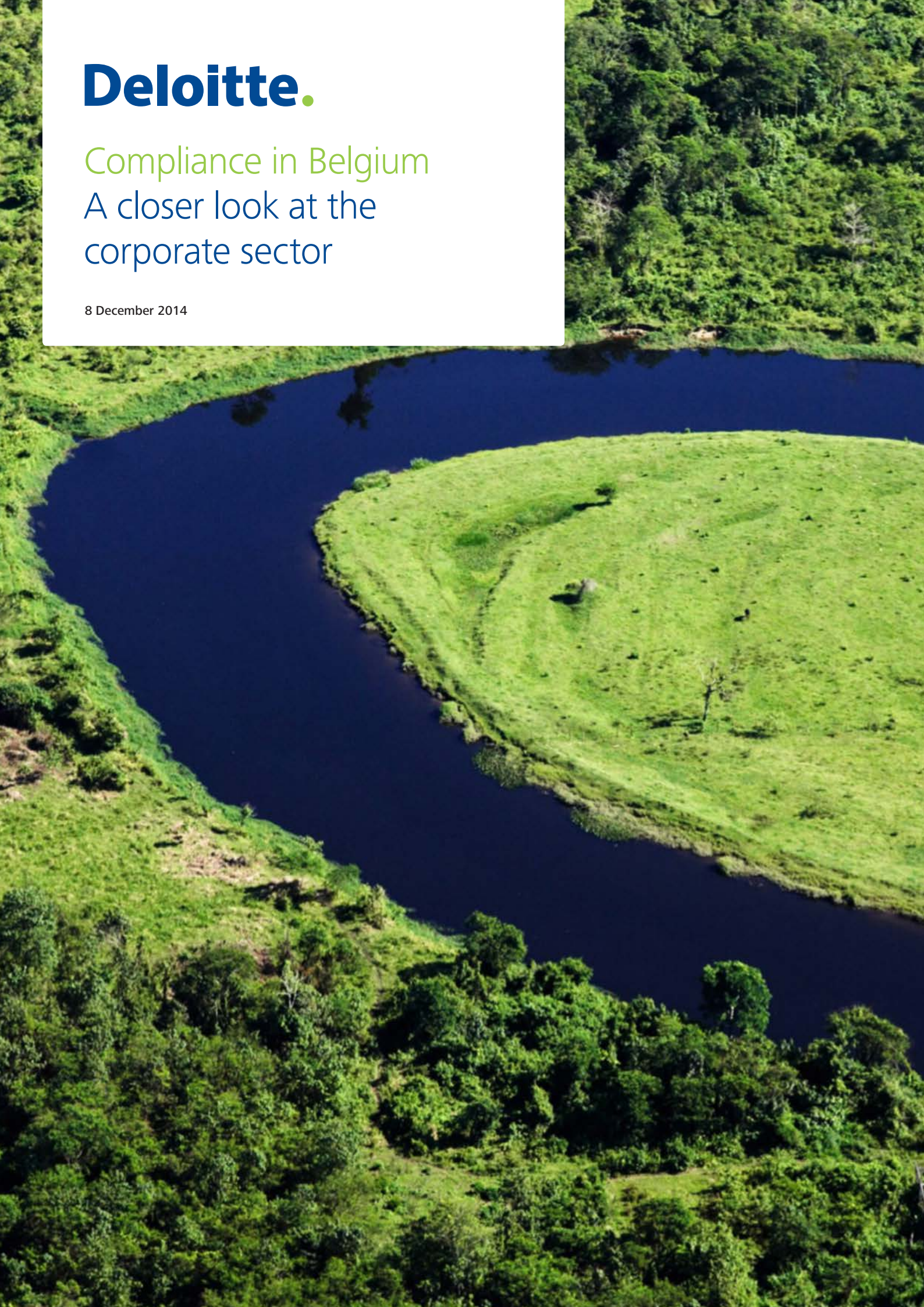




Compliance in Belgium  
A closer look at the  
corporate sector

8 December 2014



# Contents

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Contents	2
Introduction	4
The organisation of Compliance	5
Compliance subjects and scope	9
The Compliance programme	11
Future developments	17
International developments	19
Concluding remarks	21
Respondent Profiles	23

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Being prepared is critical and will give you confidence that Compliance risks are being managed at acceptable levels across your company.



8 December 2014

Compliance is becoming a hot subject in today's business conduct. It is no longer just one of the items on a Friday checklist, but is gradually becoming embedded in the day-to-day business. Due to increased insistence from the Authorities, not only in Anglo-Saxon countries, but also in mainland Europe, the corporate sector has to evolve towards Compliance as a means of doing good business. Tough market conditions prevail in a rapidly changing and globalizing world, so it remains a challenge for the corporate sector to adhere to Compliance.

In order to assess the current state of Compliance in today's Belgian Business World, Deloitte Belgium has conducted a benchmark survey. This report provides you the results of this first one. We therefore welcome you to the first in an annual series of benchmarks designed to gauge the challenges faced by Compliance functions across all corporate sectors.

This report also marks the launch of the Deloitte 'Corporate Compliance Seminar', a platform enabling you to engage with peers and discuss insights into the trends and challenges that companies and their Compliance functions are facing.

Compliance is becoming an increasingly important subject on the agendas of company's Management and Board Meetings, and its importance will continue to grow. The increasingly changing and globalizing world, combined with new or strengthened laws, regulations and guidelines plus tougher industry standards, has created a complex Compliance landscape.

The focus on acting ethically and the rapid rise in enforcement actions through existing regulations, have increased the fines that are imposed (both corporate and personal).

The Compliance function though is a fairly new concept to many corporate entities in Belgium. Of those interviewed, about 53% had only set up their Compliance function within the last five years. We expect the Compliance functions to mature apace in order to meet the ever-changing regulatory environment.

The success of this benchmark depends on the willingness of companies to share their practices. Without those which have participated and agreed to an in-depth interview with us, this benchmark would not have been possible. We therefore would sincerely express our gratitude to you, the Compliance Officers or similar functions who given us an insight into their Compliance organisation, culture, structure, processes and programme. We hope that you and your colleagues find this document valuable in your role as Compliance leader and that you also will gain useful insights.

Yours sincerely

Laurent Claassen

Eline Brugman

# Introduction

In the wake of a rapidly changing and globalizing world and tougher market conditions, the Belgian corporate sector is required to keep abreast of certain national and international laws and regulations and some specific Compliance requirements. This benchmark includes the various Compliance aspects, such as organisation, scope, processes, culture and reporting.

Note that Compliance is not limited to the organisation's internal organisational boundaries. It also covers reporting and communicating this subject to outside parties (such as regulators, for instance). This will become an emerging subject in future years and should be an attention point. We have not thoroughly assessed this in this year's benchmark but have primarily focused on the internal organisation in terms of Compliance.

As companies operating in and from Belgium face a profusion of regulatory requirements, many of them are now focusing on organising their Compliance function.

Compliance is an extensive subject that could encompass a large number of items. Our benchmark defines 'Compliance' as conformity with regulatory, legislative, industry and internal requirements that apply to corporate activities.

- **Regulatory Requirements:** National and international laws such as those in the fields of competition, anti-bribery and corruption; regulations on the export of products and economic sanctions banning commerce and trade with particular countries.
- **Industry Standards:** Primary practices in industries that are not regulatory requirements, such as sustainability requirements, and health, safety and environmental considerations.
- **Internal Policies:** Internal policies may involve measures for external regulatory and legislative requirements such as those covering business conduct, ethical behaviour, risk appetite, training and regulatory reporting.

This report first focuses on the organisation of Compliance, or how the Compliance function is set up; what is the reason for creating one; where in the organisation is Compliance situated and which resources are allocated to it. The second chapter provides insights into the subjects and scope of Compliance, or which Compliance subjects fall within the Compliance function's scope. Chapter 3 describes the Compliance programme within the different organisations covering the key activities and processes that have been rolled out to ensure that the organisation is compliant with the preventive, detective and reactive rules and regulations regarding Compliance subjects, issues and incidents. The fourth chapter provides an insight into the future focus areas of the Compliance functions that we have interviewed. Chapter 5 provides an overview of the international trends that we have seen via international benchmark surveys. We conclude the report with key observations for each of these subjects.

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As companies operating in and from Belgium face a profusion of regulatory requirements, many of them are now focusing on organising their Compliance function.

# The organisation of Compliance

The existence of a Compliance function is a fairly new concept to many corporate entities. The organisation of Compliance in the corporate sector comes in a variety of flavours.

This chapter focuses on the Compliance function, its background and position within the company.

## The organisation of Compliance

### The Compliance function

The interest in Compliance is evolving to Compliance as a common practice due to developments in corporate governance requirements, public listing, acquisitions and mergers and/or Compliance incidents. In Belgium however, the existence of a Compliance function is a fairly new concept to many corporate entities. The organisation of Compliance in the corporate sector comes in a variety of flavours.

### Separate Compliance Department or dedicated Compliance Officer

Figure 1 below indicates the existence of a Compliance function and how it is organised within the entity.

Three possible categories of the Compliance function's organisation are shown in this figure: (1) the company has a separate Compliance Department, (2) the company has a dedicated Compliance Officer (in a non-Compliance entity) which means that the Compliance function is situated or combined with another Risk, Legal or Control function, or (3) neither: Compliance functions are performed by other departments/functions and there is no dedicated Compliance Officer or Compliance Department assigned to Compliance.

The result of this benchmark illustrates a separate Compliance Department (1) and a dedicated Compliance Officer (2) to cover 58% of the companies involved. A stock-market listing or company size and activities seem to be significant factors for the creation of a separate department or for appointing a dedicated officer.

### Combined function

42% of the companies interviewed combine the Compliance responsibility with another function. In the majority of the companies with a combined function, the Compliance function is combined with a Legal or Company Secretary role. Other departments in which Compliance is positioned include Finance, HR and Internal Audit.

### No Compliance function

As many as 42% of the companies interviewed do not have a Compliance function. (See Figure 1) The underlying reason for this relates to the assumed Compliance risk. Current Compliance risks are assumed to be sufficiently managed by existing corporate functions, such as Legal, Finance or Internal Audit.

In this report, when we refer to the Compliance function, we are referring to the Compliance Department, the Compliance Officer or the person responsible for Compliance as part of a combined function.

### Compliance function set-up

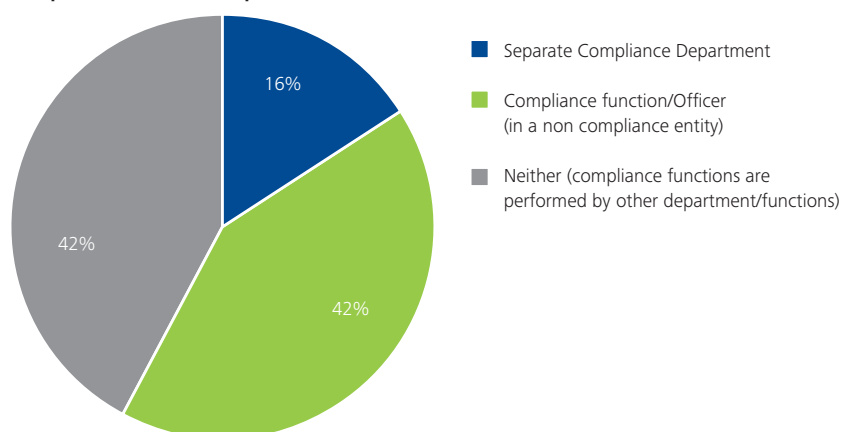


Figure 1: The Compliance function set-up

### Why does the Compliance function exist?

The main reasons for creating a Compliance function include the presence of one or more strong regulatory bodies with which the organisation has to deal, and the increasing amount of legislation and/or economic sanctions. Other reasons relate to common or industry practice, incidents and enhanced enforcement actions, which have brought to light the value and impact of Compliance for the organisation.

The evolution of Compliance functions has been reactionary as opposed to risk-aligned and has strategically focused on value-creation for the business.

### Background of the people involved in Compliance

The background of the people involved in Compliance completes the picture of how Compliance is organised in the corporate sector (see Figure 3). Most of those responsible for Compliance at Head Office have a Legal background (26%). Others have backgrounds in Internal Audit (20%), Finance (18%), HR (14%) or General Management (7%).

Background of people involved with Compliance

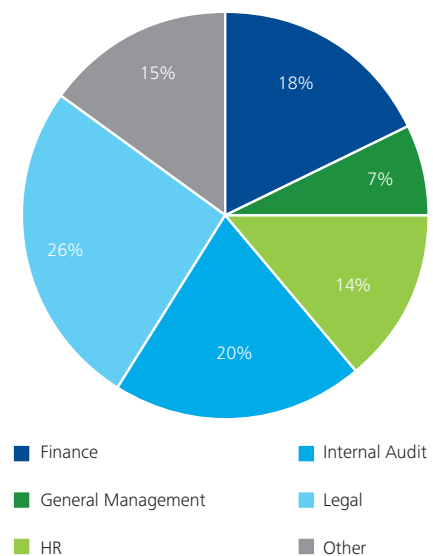


Figure 3: The Background of the Compliance function

Although the Compliance function at Head Office is still dominated by people with Legal backgrounds, that is not the case for those involved in Compliance at a business unit or divisional level. The latter's backgrounds tend to be spread more evenly across Legal, Finance and HR.

Reasons for creating a Compliance function

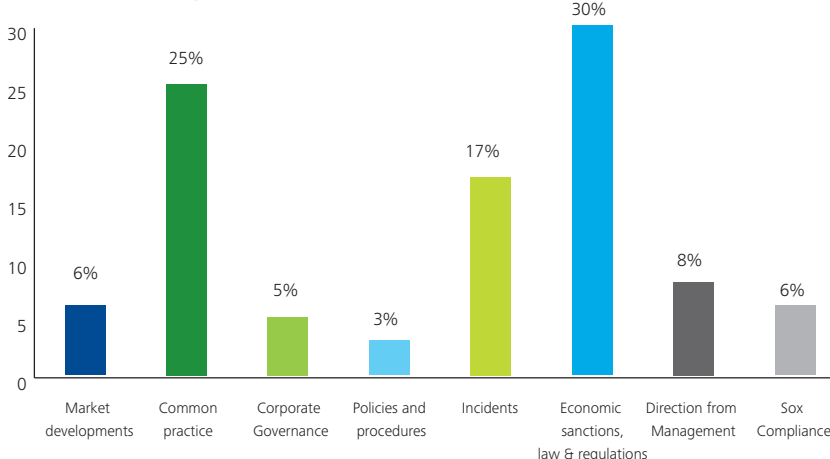


Figure 2: Reasons for creating a Compliance function

### Collaboration and fragmentation

In most of the companies, the Compliance Officer collaborates with different departments. HR, Risk, Security, Legal and Control are being mentioned mostly to collaborate with on a structured basis. The collaboration, however, depends on the related subjects. In some cases Internal Audit, ICT or Finance is the key collaboration partner, depending on whether or not IT, financial or audit issues are raised.

Some companies have developed or are developing Compliance Committees (or similar Committees). The reason is to collaborate and communicate, as Compliance relates to various subjects covered by various departments. The main motivation for establishing such a committee is to ensure that the identification of regulatory changes and industry standards is implemented, managed and monitored in a coordinated manner. The Compliance Officer or Head of Legal usually chairs such a committee. Generally, the participating departments are Legal, HR, Finance and Internal Audit.

### Compliance is organised decentrally

Of the interviewees, 58% say that their Compliance responsibility is spread across the business into divisions and business unit levels, rather than being considered as an exclusive corporate function or responsibility. This means that on top of corporate responsibility, Compliance Managers within different countries, different business units or divisions are assigned to roll-out the Compliance programmes and report on them on a regular basis.

### Compliance maturity

The survey asked the participants how they would rate their Compliance programme compared to those of other organisations, but limiting it to their peers as the point of reference. As Figure 4 shows, 46% of the respondents consider their Compliance programme to be average. However, 17% consider their Compliance programme to be above average, while 37% consider it below average.

Respondents' rating of compliance programme

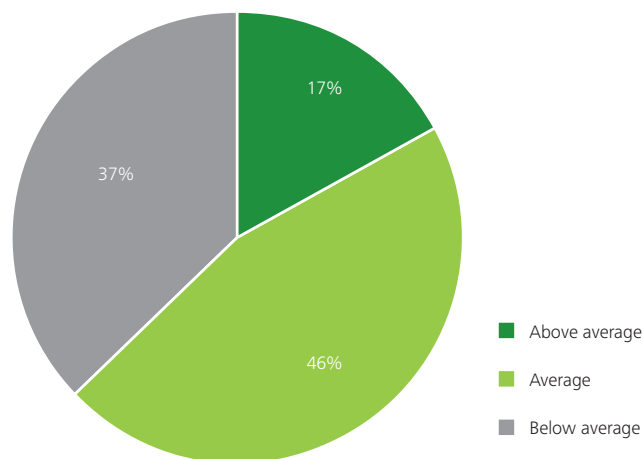


Figure 4: Respondents' rating of their Compliance programme

When asked, the respondents indicate that Compliance is still in development and has room for improvement in terms of formal definition of charters, collaboration with other functions, reporting lines, maturity monitoring, and so on. There is still room for increased maturity of the Compliance function, its more visible and independent position within the organisation and the roll-out of a robust Compliance programme.

### Responsibility for Compliance at Management level

he Compliance function reports in the vast majority of cases directly to the CEO (25%) or Head of Legal (13%) as Figure 5 shows. For some companies, the Compliance incident, and the potential investigation that will follow, determine to whom the function will report. Compliance Officers report to the CFO according to 10% of the respondents, directly to the Executive Board (10%) or to another function within the organisation (42%), such as Internal Audit or the Chief Compliance Officer. The respondents state that tone from the top is definitely not the issue in embracing a Compliance culture, tone from the top is being present in most of the companies interviewed. There is room for improvement, however, in advocating that message to middle and lower management.

**To whom does the Compliance function report ?**

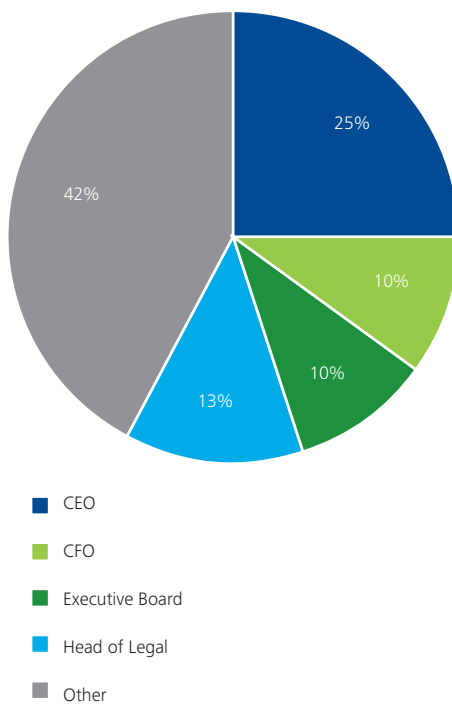


Figure 5: To whom does the Compliance function report

### Compliance budget

When asking about the Compliance budget, we noticed that only 32% of the interviewees have a specific budget or dedicated resources available for Compliance. Most of the companies say that either they have no separate budget or only a minute budget as part, for example, of the Internal Audit or the Legal Department budget.

By assessing the budget allocation (see Figure 6), we can see that a significant part of the budget is spent on salaries (65%), with support from external consultants in second place (14%). The third and fourth categories of Compliance expenditure are training and travel (both 7%).

**Compliance Budget allocation**

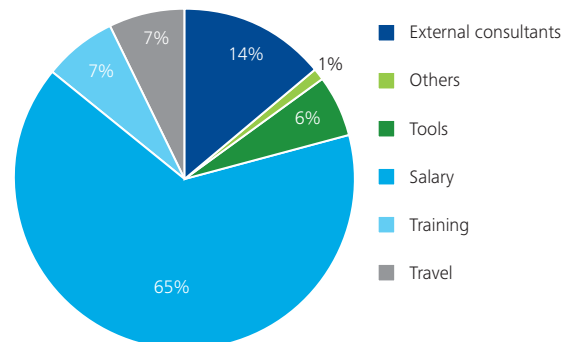


Figure 6: Allocation of the Compliance budget

When asked if the interviewees expect the Compliance budget to grow in the next five years, 54% of the companies interviewed expect a budget increase (Figure 7). The other interviewees do not expect any budget growth, as they say that their Compliance organisation is sufficiently mature in relation to the Management's risk appetite or willingness to make further investment in a separate Compliance budget.

**Expected growth of the Compliance budget in the next 5 years**

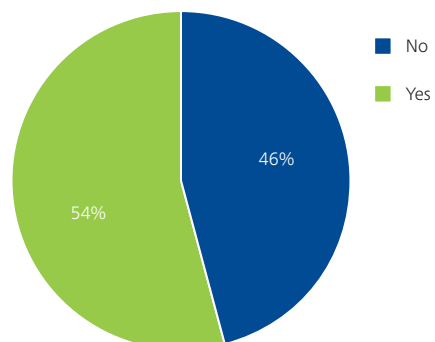


Figure 7: Expected growth of the Compliance budget



# Compliance subjects and scope

Compliance is a broad concept. To keep it manageable, companies have to make choices. Those choices can be based on industry regulation, company risk and/or general business conduct.

## Compliance subjects and scope

### A broad concept

The scope of Compliance differs per company. Survey respondents see a close link between Compliance, business principles and ethics. Together they form the scope of Compliance within the company. However, this scope is broad and requires collaboration between different functions such as HR, Risk, Security, Legal, Quality Assurance, Finance, Internal Audit and ICT.

This section describes the scope of the Compliance function, not the Compliance scope of the company as a whole. The key scope areas are:

- Fraud
- Bribery and Corruption
- Integrity
- Privacy
- Competition

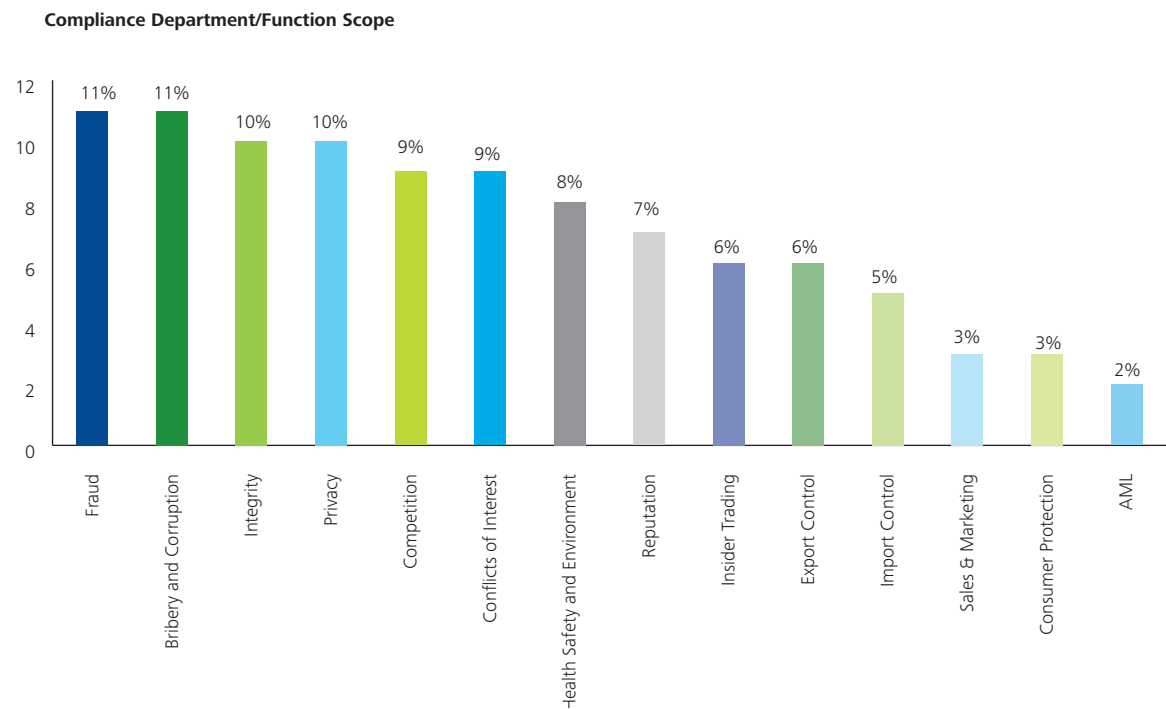


Figure 8: Compliance Department/Function Scope

The significance of the above key subjects relates to the importance of the companies' business principles and its Code of Conduct. Some companies primarily focus on a specific Compliance subject such as export controls or bribery and competition, or specific industry regulations (such as the Sunshine Act, transparency rules, etc.). This from the perspective of a strong regulation body controlling the implementation of these regulations as well as industry standards. For this reason specific legislation has sometimes been incorporated into the Quality function from a historic perspective, which is why it is not directly within the remit of the Compliance Department and/or function. This is mainly the case in the Pharmaceutical, Food and Manufacturing sectors.

Privacy is an upcoming subject, identified by 10% of the respondents. This should be of no surprise considering the recent and future developments in the Privacy law and regulations and the increased media attention paid to privacy infringements. The European Commission also stresses the importance of privacy and has issued a new EU Privacy Regulation which forces companies to increase their efforts and focus more on privacy Compliance. A thorough preparation may prevent reputational damage and penalties.

Defining the content and/or boundaries of Compliance is not easy. The Code of Conduct and the external laws and regulations are the umbrella for most interviewees.

When respondents were asked who was primarily responsible for these subjects, we notice that Compliance has a limited list of subjects within its scope. Different functions are involved in various Compliance-related subjects and matters. However, in most of the cases, there is no inventory assigning responsibility to certain subjects nor the priority that should be given to each subject.

Reputation is less mentioned, mainly because it is seen as a consequence of non-Compliance rather than as a primary focus area as such.

Health Safety and Environment is a subject which in most cases is not considered as part of the Compliance function's scope but the focus of HSE Managers or the HSE Department.



# The Compliance programme

## Compliance programme

Compliance is an integral component of good business conduct. Embedding Compliance and the various Compliance subjects within a company's organisation requires a Compliance programme – from risk assessments, developing policies and procedures, providing training and creating awareness, setting up a monitoring system for Compliance, etc.

This section analyses the current elements framing such a Compliance programme, the current approaches to Compliance and the use of Compliance capabilities.

## Compliance processes

A good Compliance programme should embed Compliance within the processes of the daily business. Compliance itself also needs supporting processes embedding Compliance in the day-to-day business. These processes are risk assessment, development of policies and procedures, providing training, creating awareness, assessing whether conduct aligns with procedures, screening, investigating Compliance incidents and implementing a monitoring system.

### Risk Assessments

Figure 9 illustrates that 62% of the respondents periodically perform a risk analysis on Compliance-related subjects, while 23% conduct risk assessments on an ad hoc basis. For 15% of the companies, Compliance risk assessments currently never occur.

**How regularly risk assessments are conducted to identify Compliance risks**

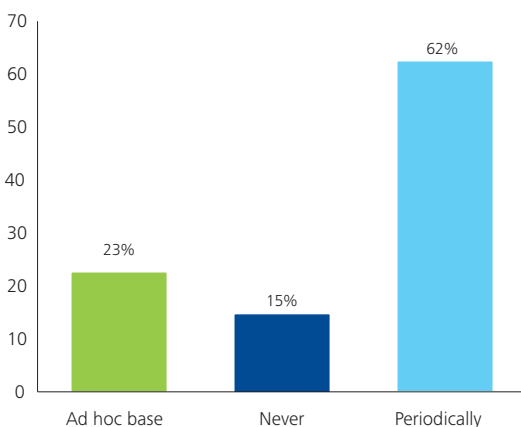


Figure 9: Basis on which risk assessments are conducted to identify Compliance Risk

Compliance should be a means to and integral part of conducting good business. Therefore a Compliance programme should be developed.

The risk assessments however are not necessarily dedicated to Compliance risks, but are in most cases part of the Internal Audit programme, general risk management or specific risk assessments organised by others such as the Quality or HSE Officer/ Department.

When asked whether or not there is a defined risk appetite and/or Compliance risk indicators, only 12% of the participants define a risk appetite whereas 36% define risk indicators.

### Development of policies and procedures

In order for employees to know what is expected of them, the laws, regulations and internal rules should be translated into company policies and procedures. Most of the Compliance Officers are responsible for translating regulations into policies and procedures and have developed either a Code of Conduct or policies and procedures relating to the Compliance subjects relevant for their company's business. There is however no integrated approach, some of the subjects are described in the Code of Conduct, such as a whistleblowing procedure, the company values and respect of Privacy. For specific subjects, dedicated policy and procedures exist (e.g. Policy on Bribery, Anti-Trust, industry specific legislation). We notice however that it is not always clear who is the owner of these policies and procedures, who is responsible for providing regular trainings and how the monitoring will take place regarding their effective implementation. If the policies and procedures relate to the Quality function, these policies are embedded in the day-to-day activities of the business. If not, Compliance is less embedded in the day-to-day processes.

## Training and awareness creation

Awareness creation is considered to be the most important building block of the Compliance programme and thus the responsibility of the Compliance function. Almost 88% of the companies have training programmes for creating awareness on Compliance-related subjects. This occurs either through face-to-face learning or by e-learning. The more mature Compliance functions have an underlying training programme that is a mixture of face-to-face and periodic e-learning training, with completion rates being actively monitored. (See Figure 10) However, this is far from common practice. This is not to say that companies without a robust training programme fail to create awareness, as this is also possible via newsletters, roadshows, etc.

Most of the respondents (40%) have a mandatory training programme, however most of these are non-recurring (e.g. they exist for new recruits by which they are introduced to the Code of Conduct and business rules, but not every employee has to attend recurrent mandatory training on Compliance matters). For particular functions, 48% of the respondents say that they provide specific training. This might for example be anti-corruption training for sales functions or specific trading training for dedicated functions.

Overview Compliance training methods

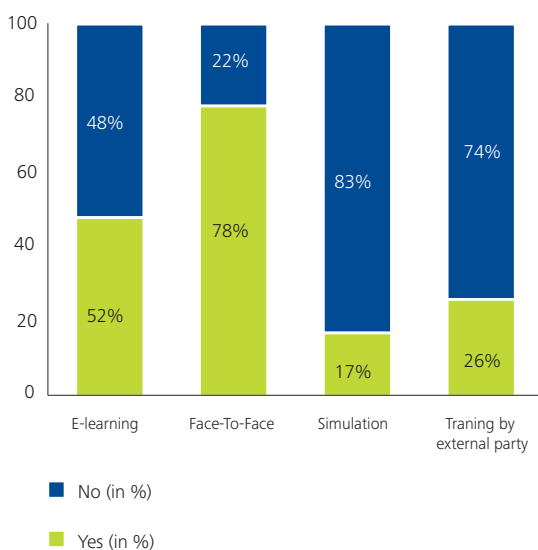


Figure 10: Overview of Compliance training methods

Compliance is actually nothing more or less than playing by the rules of the game. A Compliance programme entails that you and your colleagues work within the boundaries of the law, rules and regulations and that you inform, train and evaluate your employees accordingly.

## Screening business partners

Screening can have two applications: either the screening of business partners, or the screening of employees. For the purpose of this benchmark, we have focused on the former. Not many companies conduct Compliance and integrity-related due diligence as a standard procedure in relation to business partners. Some screen their business partners only partially. The interviewees indicate that this screening is mostly limited to financial strength and/or to defined sustainability criteria as part of the supply chain processes. The larger manufacturing and international companies with strong ties to the USA and the UK mostly have a more robust screening process in place, especially due to the stringent anti-bribery and corruption requirements regarding third parties or the recent economic sanctions. This subject will become more important as many companies will expand into emerging markets. These markets are perceived to have higher levels of corruption based on the Transparency International's Corruption Perception Index.

## Investigation of potential incidents

Of the Compliance Managers who were interviewed, 25% are leaders in investigating potential Compliance incidents. However, such investigations are often performed by Internal Audit and/or by a dedicated internal investigative function or even HR if the Compliance subject is personnel-related. The Compliance function in those cases is involved, but not as the leader of the investigations. The results and follow-up of the potential incidents investigated are discussed with other functions such as Internal Audit, but also with Legal and/or HR. Some firms, as referred to earlier, have formalised the coordination and discussion of these subjects in a Compliance Committee.

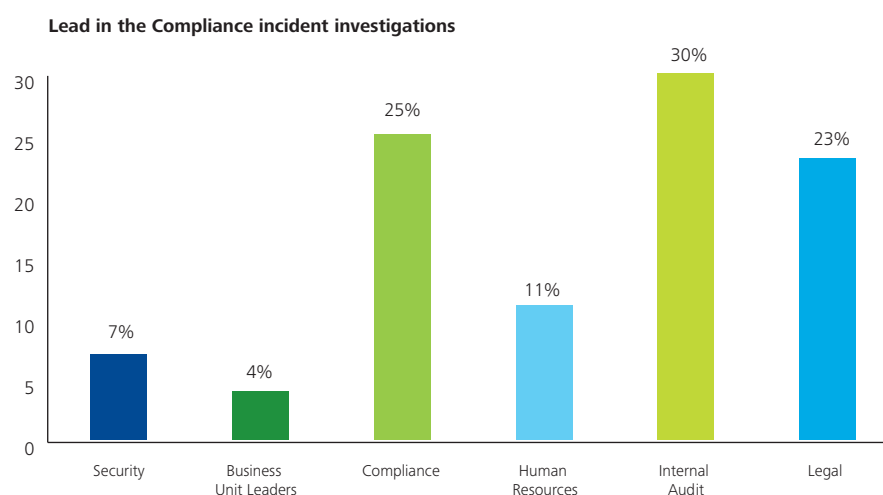


Figure 11: Which function leads the investigation?

### Whistleblowing and incident management

Some of the companies interviewed have a whistleblowing or speak-up line and if they have one, it is mostly outsourced to a Law firm which operates as an independent 'mailbox'. The number of incidents reported via the whistleblowing channel or other similar channels is also very limited. 47% of the respondents have only between 1 and 5 incidents reported each year. Not only is whistleblowing not embedded in Belgium's business culture, but also the 'marketing' of the existence of a hotline or whistleblowing procedures could be improved. The larger multinational companies have various means

of reporting incidents: from telephone to dedicated e-mail or via an Intranet. Some of these companies also have a logging tool to ensure centralized access of all incidents. The challenge however resides in adequately categorizing the different incidents for further follow-up and reporting purposes.

The majority of reported incidents concern fraud (29%), HR (21%), theft (21%), conflict of interest (17%) and business integrity (12%). In fact, out of the top five of incident types reported, fraud is clearly the most common.

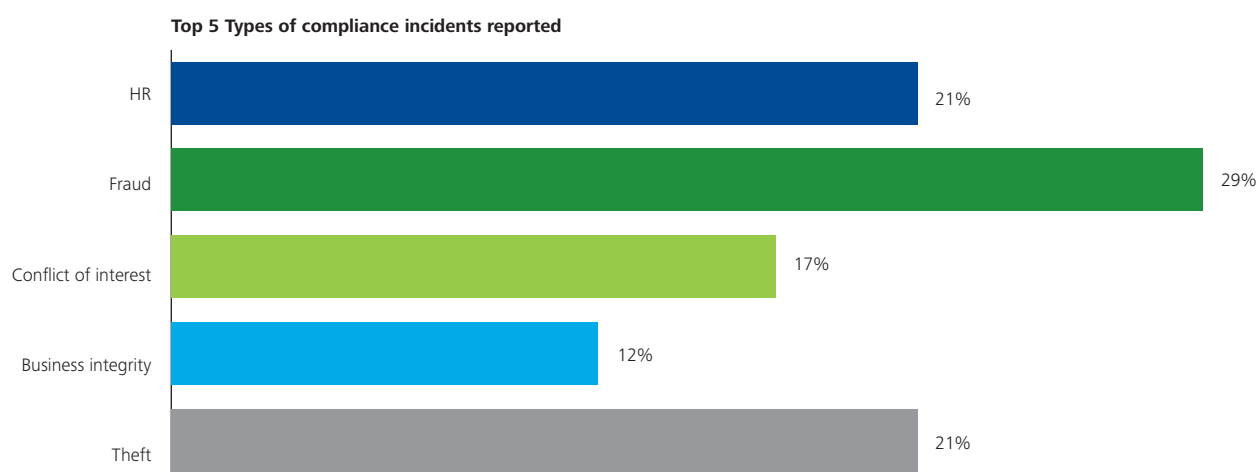


Figure 12: Top five types of Compliance incidents reported



## Reporting lines

Chapter 1 illustrated the hierarchical reporting lines of the Compliance Officer. On top of the functional hierarchy, the Compliance function reports internally on Compliance subjects to governance bodies. 72% of the Compliance Officers report regularly to the Audit Committee on Compliance subjects. While 83% mention that Compliance incidents are regularly discussed during Management and/or Board Meetings. Management is informed via the Audit Committee or directly by the Compliance Officer in cases where significant issues are identified. The Compliance Officer has the possibility to report to Management when he/she deems that it is necessary. The reporting chain from the Compliance function to the Management and to the Audit Committee varies: some of the respondents report directly to the Management and to the Audit Committee, while others report only to the Audit Committee, which in turn reports to Management if necessary.

The reporting frequency varies per company. The larger companies and companies with a separate Compliance Department or dedicated Compliance Officer predominantly report on Compliance-related risks every quarter or every six months (except when a high-impact incident occurs). These reports include questions regarding Compliance and other incidents. Others reports are made specifically when incidents occur.

## Monitoring the effectiveness of the Compliance programme

When asked for information on the measuring and monitoring of the effectiveness of the Compliance programme, most respondents say that they conduct the listed activities from the survey. (See Figure 13) However, most of the activities performed are part of their Compliance processes and activities rather than measurements of the effectiveness of the Compliance programme itself.

It is not enough to say what people should be doing and to give them the information, skills and motivation to do it. To be effective, a company needs to assess and report on what its people are actually doing.

Metrics for measuring the effectiveness of the Compliance programme

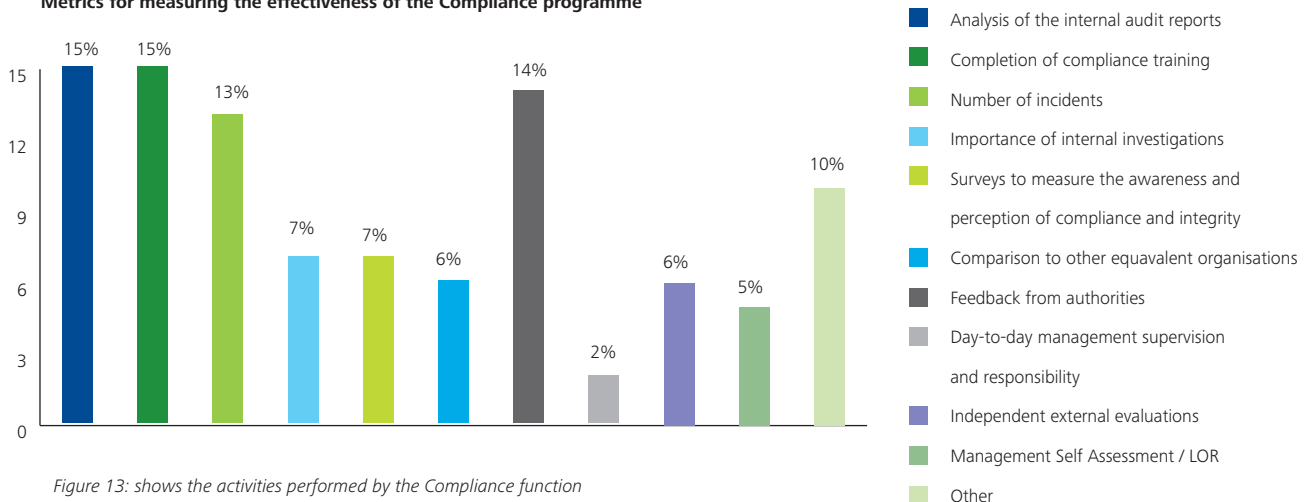


Figure 13: shows the activities performed by the Compliance function

The Compliance Officers when assessing (part of) the Compliance programmes effectiveness mostly use following methods: 1) analysis of the internal audit reports, 2) number of people completing Compliance trainings, 3) the number of Compliance incidents and 4) feedback from authorities. As mentioned before, this is not necessarily perceived as a metric for effectiveness measurement only, but seen by most Compliance Officers as part of their Compliance programme itself.

### Main building blocks

Core building blocks for the Compliance organisation in order to successfully implement and embed a Compliance programme are tone at the top, culture, training and communication (see Figure 14).

**Most important building blocks for the Compliance organisation**

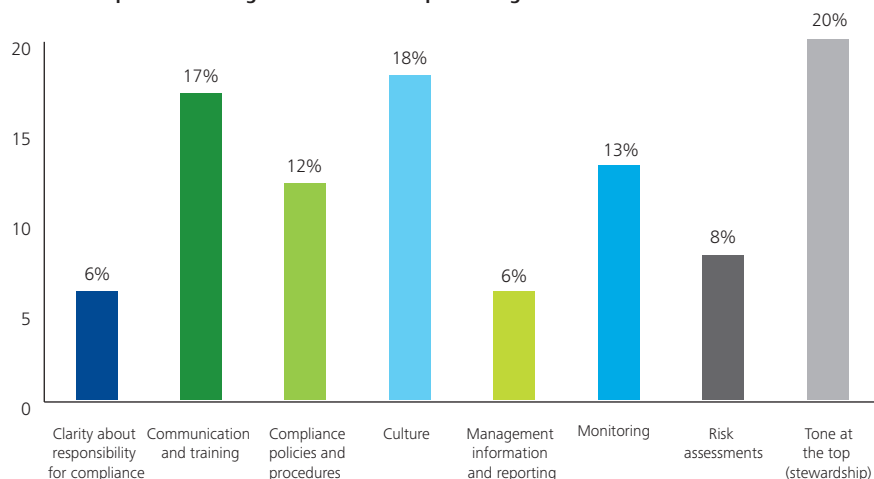


Figure 14: Most important building blocks for the Compliance organisation

### Main challenges faced

Figure 15 illustrates the key challenges identified by the respondents in developing and embedding a Compliance culture in their organisation.

**Key challenges in developing and embedding a Compliance culture**



Figure 15: Key challenges in developing and embedding a Compliance culture

### **Alignment of business objectives with Compliance requirements**

Most respondents indicate that the main challenges for the Compliance function are the potential misalignment between the business objectives (for example, sales objectives) and the Compliance objectives (for example, prohibiting trade with certain countries).

### **Lack of incentives motivation for employees to deliver/embrace culture and values**

Another challenge in embedding the Compliance culture for almost one out of four of the respondents is the lack of incentives motivation for employees to deliver culture and values within their organisation.

### **Lack of commitment from senior management**

All companies indicate that the Management and the Board of Directors has Compliance on their radar. Most of the companies permanently have Compliance subjects on the Management meeting agendas, either specifically or implicitly ('are there any red flags?'). The frequency and importance are relative to the size, business, Compliance approach, awareness and/or robust registration systems. In cases where there have been incidents, or where a member of the Management has been confronted with a Compliance incident, Compliance is much higher on the agenda.

### **Lack of stewardship / ineffective role models**

Lack of commitment by senior and also by middle management has been indicated as a key challenge in thoroughly developing the Compliance culture. Most respondents say that the tone from the top is not necessarily an issue, but that the advocacy of the importance of a Compliance culture is crucial. Top management acknowledge the importance of Compliance, but this is not always communicated as a top priority towards the lower levels of the organisation. When confronted with issues, it is mostly the communication and messages from middle management that are perceived to focus less on Compliance matters.

### **Diversity within company and group**

Respondents face the challenge of implementing an integrated Compliance programme taking into account different countries and regulations, different cultures, different Business Units, different products. Compliance Officers implement a standard Compliance programme across the organisation. Deviations are only allowed when country legislation is different. In some cases, variations are also possible to ensure fit for purpose with the country and employee culture in terms of requirements and use of practical examples.

### **Inability to measure culture**

Putting metrics in place for measuring the Compliance culture seems to be difficult for some of the respondents.

Of the challenges stated above, it is clearly indicated that incentives for motivating the employees and alignment between group Compliance requirements and operational business requirements are the most important challenges, not only for embedding the Compliance culture, but also in the long term, for identifying areas of weakness in the Compliance programme. Focus on the above challenges may help to enhance Compliance by emphasising its importance to all employees.

### **Concluding remarks**

Many companies are trying to find a balance in the scope of their Compliance function: between classic Compliance subjects such as anti-bribery & corruption, anti-trust & competition, anti-fraud and integrity on the one hand and new regulations such as privacy and transparency on the other hand. We see close collaboration with other functions in covering the various aspects of Compliance as well as the division of Compliance processes. However, we do not see an integrated Compliance framework supported by one, common methodology to capture Compliance requirements, risks, policies, procedures, controls and assurance activities.

# Future developments

Respondents were asked what their top themes and activities were for the coming year.

## Future developments

Considering the top Compliance theme priorities provided by the respondents for the coming years can be part of the planning for more effective and more efficient Compliance operations in the future.

Next to the general Compliance subjects within in the scope of the Compliance function, as discussed in Chapter 2, the three subjects that are the areas of focus for the next year for most of the Compliance Officers are privacy, transparency and third party screening. Geopolitical trends also drive the company's conduct and thus will affect the focus of the Compliance function if relevant to the company's business.

## Most important building blocks for the Compliance Organisation

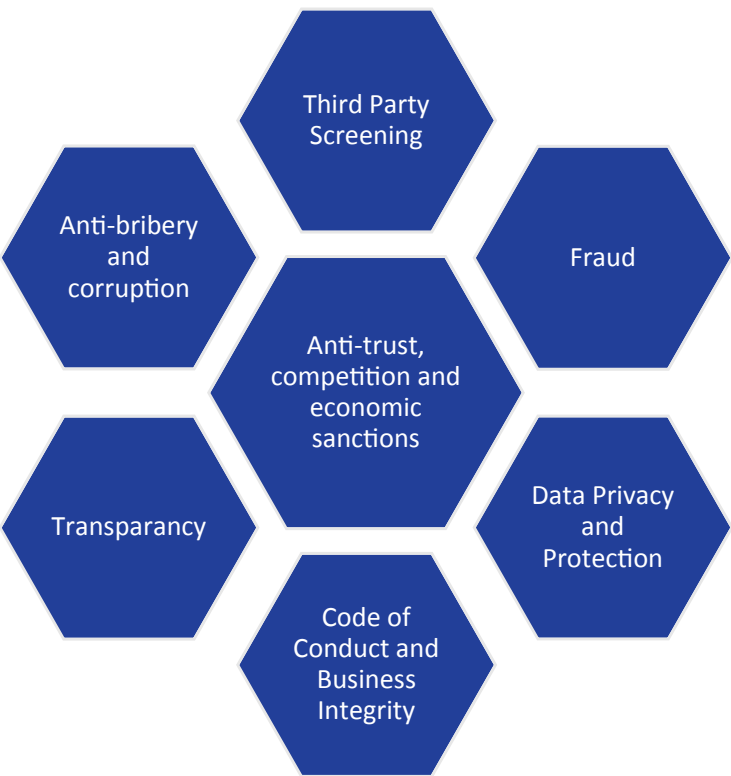


Figure 16: Most important building blocks for the Compliance Organisation

### Compliance activity / processes priorities for the coming year

When asked about the Compliance activity priorities for the next 12 months, for 26% of the respondents the 'Training, Awareness and Communication' item was on the shortlist, 23% mentioned 'Policies, Procedures and Process Improvements', with drafting a Code of Ethics and a Code of Conduct being a part of it, while 15% mentioned 'Compliance Programme Design'.

As Figure 17 shows, a wide variety of key activities has been selected for the coming year's Compliance programme, including, in addition to the ones mentioned before, design of the 'Audit Programme' and implementation of 'Information Security Projects and

Tooling'. Important activities mentioned for 'Reporting' are for example the determination of reporting lines and the creation of Compliance committees.

When all of these subjects become more and more important for regulating bodies and monitoring activities might increase, one could expect Compliance budgets to grow. We also expect that the allocation of a dedicated budget for Compliance rather than being part of another entity's budget might be a future development. Most of the regulating bodies, such as for instance the 'Autoriteit Consument en Markt' in the Netherlands, emphasise the importance of a robust Compliance programme as a first step in good business conduct and one that might entail a reduction of fines in case of Compliance breaches.



Figure 17: Planned key activities for the coming year



# International developments

We have also had a look at some of international surveys published by Deloitte on Compliance. The primary source for this chapter is the 'In Focus Compliance Trends Survey 2014', a survey conducted jointly by Deloitte and Compliance Week. Another valuable source is the Dutch Corporate Compliance Benchmark 2014 report: 'Compliance in Motion 2014'.

## International Developments

### Compliance function

Out of the respondents to the Compliance Trends 2014 survey, 50% have a separate Chief Compliance Officer, up from 37% last year; this suggests that more companies are taking Compliance more seriously. This jump in separate CCO posts seems to be driven by two related factors: fewer companies combining Compliance with risk and audit responsibilities, and fewer having no designated CCO at all. When the CCO role is combined with another post, the latter is most frequently the Legal Department (mentioned by 17%).

This is better than the results of both our Belgian survey and the Dutch survey, where less than half of the respondents have either a separate Compliance Department or a dedicated Officer. Legal being the background function in the case of a combined function is similar to the results of the Belgian survey.

### Reporting lines

CCOs meet frequently with their Boards; the majority says that they meet quarterly or more frequently. This suggests that CCOs today may have a higher degree of independence, visibility, and organisational support, which is essential for the success of any Compliance programme.

### Compliance budget

Nearly half of the respondents of the US survey expect budget increases in 2015 and beyond, roughly the same expected no change, and virtually none expected budget cuts. That would appear to continue the trend of spending in 2014, where budget increases outnumber decreases by 3-to-1, driven by salary increases, hiring, and changes in regulatory requirements. We are seeing Compliance staffs grow within highly regulated industries, such as Energy and Healthcare.

However, other trends suggest that Compliance is not getting the resources it needs for doing its job properly. 45% of respondents of the US survey have five or fewer full-time staff devoted to Compliance and ethics; 40% have budgets of \$1 million or less, including salaries. While larger companies (annual revenue 1 billion dollars or more) tend to do better on these measures, 57% still have less than 10 full-time Compliance employees. But the demand for greater attention to ethics and Compliance from regulators, business partners, investors, boards, and in some sectors, customers has increased, so the lack of additional resources seems out of step. 47% of the Dutch survey respondents also indicate that they believe the resources are insufficient given the complexity of the organisation.

### Compliance scope and subjects

As indicated before, the Compliance Officers have a wide range of responsibilities, from privacy to policy management, investigations to anti-bribery training, and much more. The Compliance trends 2014 report identified four "core" responsibilities, each one mentioned by at least 80% of the respondents:

- Compliance with domestic regulations;
- Compliance training;
- Code of Conduct;
- Complaints and whistleblower hotlines.

These four basic duties are the same for small and large companies alike, which suggests that a consensus is emerging on what Compliance Departments should oversee on a practical, daily basis, even if other, more specific risks vary greatly from one company to the next.

Responsibility for several "regulation-specific" risks, such as the Foreign Corrupt Practices Act (FCPA) and anti-money laundering (AML) rules, edges down this year compared to 2013: from 62% to 58% for the FCPA, and from 40% to 38% for AML programmes.

The biggest worry that the responding CCOs have is third-party risk. And clearly Compliance Officers think about third parties to a considerable extent: 85% of respondents say that they are reassessing their business relationships with joint ventures, suppliers, distributors, agents, and the like. Only 5% say that "re-assessing" third-party relationships would lead to bringing more of those activities back into the corporation; most say they would step up the monitoring and due diligence of third

parties. Interestingly, given the level of perceived risk, the most common form of managing third-party risks is merely to provide those third parties with a copy of the Code of Conduct. More active forms of third-party supervision are less common; less than one-third of respondents say that they perform extensive background checks on third parties, and 17% say they virtually never do so.

The Dutch respondents have the same scope as the Belgian respondents. The top four Compliance areas being:

1. Integrity and anti-fraud
2. Bribery and corruption regulation
3. Anti-trust and competition regulation
4. Privacy regulation

### Effectiveness measurement

In terms of Compliance monitoring and Compliance Officers trying to measure the effectiveness of their programmes, the percentage of US respondents continues to increase (up to 68%, from 63% last year), but the challenge of succeeding in those efforts remains. The most common metrics CCOs use to gauge effectiveness are internally focused: internal audits, analysis of hotline calls, completion rates for training programmes. Metrics that incorporate external information e.g., regulator reviews or benchmarks against peer groups are less common. So again, we see Compliance executives aware of the need (to measure effectiveness), but still mostly doing what they actually can, rather than what they ideally should.

Despite the challenges, however, a solid majority describes the alignment between their organisation's behaviour and professed values as above average or better. The one section of the organisation where CCOs fear the biggest gap between culture and values is middle management. This is a cause for concern, since tone from the top is little more than aspirational if the mood in the middle does not loyally support the performance. This is also an observation drawn from interviewing the Belgian companies taking part in the survey and is an attention point when developing Compliance programmes addressing awareness creation.

# Concluding remarks

The results of this benchmark provide insights into the status of Compliance within the corporate sector. This year's benchmark is a starting point for further exploration and insight for years to come.

We have identified a number of interesting trends and challenges:

1. Setting up separate and independent Compliance functions is a growing trend, although in most cases this function is combined with the Legal function. The creation of a separate officer or department is linked to a strong regulator and the occurrence of Compliance incidents. Organising an efficient and integrated Compliance function is a challenge that the companies within the scope of this benchmark face. Some have started to meet this challenge by setting up Compliance Committees. The Compliance function is not yet formalised by means of a Compliance charter defining the roles, responsibilities and areas of focus for Compliance, as well as second-line partners and formal reporting lines.
2. Many Compliance functions do not have a separate budget; they are allocated a part of the overall department or group budget instead. Those that do have a separate budget are mainly the larger or separate Compliance functions. Salary is the largest budgetary portion, followed by support from external consultants. The overall expectation is that Compliance budgets will grow in the coming years. A main concern was raised that the scope of the Compliance function is extending more than the available resources dedicated for Compliance. This raises the concern regarding the effectiveness of the function and the implementation of the Compliance programme.
3. Many companies are trying to find a balance in the scope of their Compliance function: between classic Compliance subjects such as anti-bribery & corruption, anti-trust & competition, anti-fraud and integrity on the one hand and new regulations such as privacy and transparency on the other hand. We see close collaboration with other functions in covering the various aspects of Compliance as well as the execution of Compliance processes. However, we do not see an integrated Compliance programme supported by one, common methodology in order to encompass Compliance requirements, risks, policies, procedures, controls and assurance activities.
4. The scope of Compliance is still expanding in most of the companies and Compliance is treated by different functions in the company. The most popular Compliance subjects relate to ethical Compliance covered in the Code of Conduct (e.g., Integrity and Company values), fraud, bribery and corruption and competition. Privacy currently forms a key subject of the companies interviewed, due to its current prominence in the marketplace. Although the scope of Compliance is evolving, the Code of Conduct is the guide or basis for doing the right thing.
5. The implementation of Compliance programmes and processes differs: from fully implemented and integrated Compliance processes for larger, supervised companies, to companies that focus on a limited number of Compliance processes, such as development of policies and procedures, training and awareness, and coordination of incident investigations. Since most of the companies interviewed are still at the design stage of a more robust Compliance organisation and programme, the focus is put on awareness creation and training, therefore monitoring as last stepping stone to an integrated programme is (not yet) at the top of the agenda. We foresee however that many Compliance functions will have to include more robust Compliance programmes and processes, spanning all Compliance areas, supported by a common methodology in order to encompass Compliance requirements, risks, policies, procedures, controls and assurance activities.
6. Measuring the effectiveness of a Compliance programme is not yet common practice in Compliance functions.
7. The majority of the respondents report to the Board of Directors / Management and/or the Audit Committee. However, internal reporting on Compliance remains mainly reactive, based on the number of Compliance incidents occurred, including follow-up actions.

8. Compliance risk management is not a key priority for Compliance functions. Most risk assessments are based on the risk management methodology of the company, rather than focussing on Compliance risks as such. There is no formal Compliance risk appetite defined, nor are there any Compliance risk indicators defined in order to monitor the company's Compliance risks.
9. Management does support Compliance, but awareness creation remains a key attention point to ensure a culture of Compliance is kept alive company wide. It is not so much top management, but rather middle management that needs to focus on creating and advocating the importance of Compliance. Potential misalignment between Compliance requirements and business requirements or the messages the workforce receives might restore Compliance in terms of business priority.
10. Compliance is evolving, not only in terms of key areas of focus but also in terms of processes. Compliance is using to ensure Compliance remains a hot subject within the company. Evolving towards an integrated and mature Compliance programme requires budget and resources in line with the desired risk appetite of management and the right indicators assessing whether or not the organisation is compliant.

The overall conclusion that we would like to share is that the growing attention and expectations of the outside world require companies to increase their attention to Compliance. We currently see a great variety of attention for embedding Compliance in the organisation.

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We sincerely express our gratitude to you, the Compliance Officers or similar functions who given us an insight into their Compliance organization, culture, structure, processes and programme.

# Respondent Profiles

## Company profiles

Twenty-five companies participated in Deloitte's Corporate Compliance Benchmark with a diverse maturity of Compliance within a broad perspective of different industries, all providing a comprehensive view of Compliance in a wide variety of organisational settings. Compliance Officers at group, business unit and entity level responded to the survey through face-to-face interviews.

Both listed and large non-listed companies were included in the scope of the Corporate Compliance Benchmark. About 64% of companies included in this survey are currently listed. The remaining 36% of companies are large non-listed companies throughout Belgium.

Percentage of non-listed and listed companies

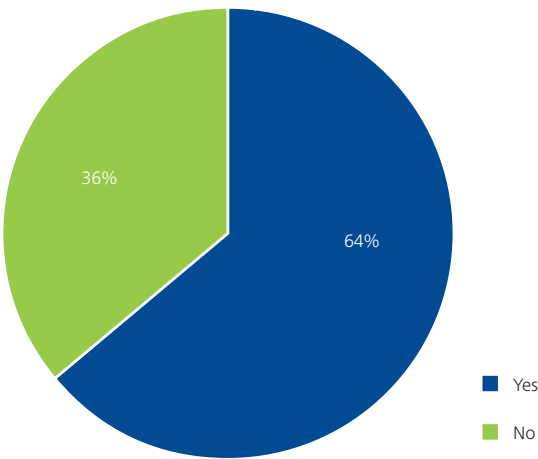


Figure 18 shows the percentage of non-listed and listed companies:

The benchmark included companies from the Manufacturing (MAN) sector (28%), the Consumer Business (CB) sector (24%), the Energy, Resources and Transport (ERT) sector (16%), the Technology, Media & Telecom (TMT) sector (12%), the Life Sciences and Healthcare (LSHC) sector (8%), the Automotive (AUT) sector (4%), the Public sector (4%) and Real Estate (RE) sector (4%).

Respondents per industry

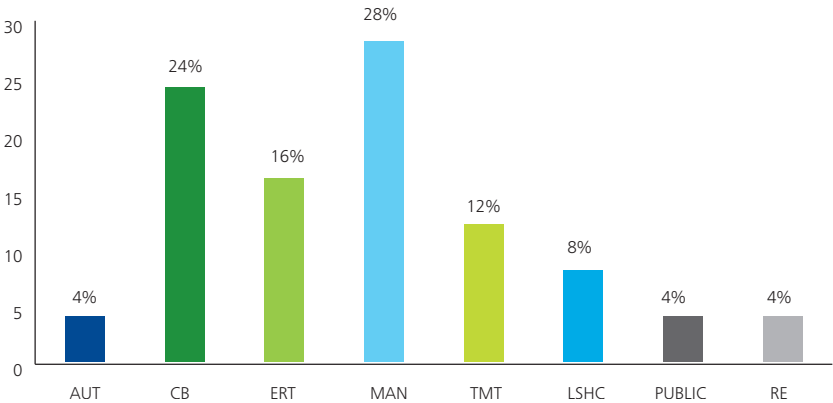


Figure 19 shows the respondents per industry



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