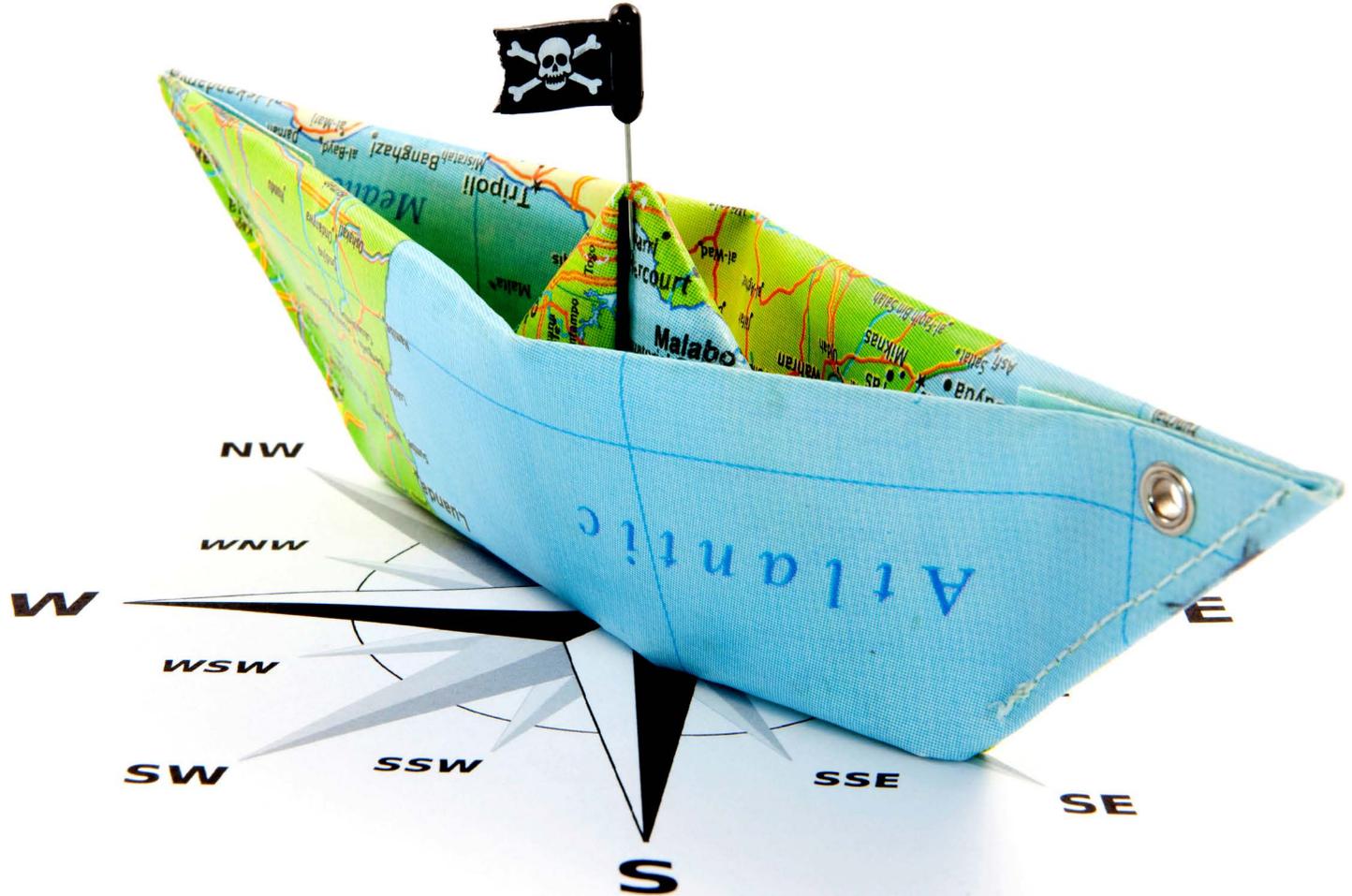




The Norway  
Compliance Survey  
Risk assessment





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# Executive summary

## Need for compliance

Strong compliance is increasingly becoming a part of corporate agenda essentials, owing to the continuing persistence of the economic and financial crises. Although companies seem to be making progress in establishing compliance as part of their corporate agenda, the 'Norway Compliance Survey Results 2014' shows that majority of the companies in Norway are still struggling to have a firm grip on the nuances of compliance and controls. This concern becomes significant in light of the fact that regulatory burden is going to assume further significance, especially with no regulatory 'end-game' in sight and firms needing to design and build compliance systems against a highly volatile setting. However, several companies in Norway are still not investing enough to support a strong compliance function.

## Do compliance teams wield enough authority?

Compliance is still not considered at par with certain other functions in Norway. Less than half of the respondents (44 percent) have a stand-alone chief compliance officer (CCO)/head of compliance. The absence of a stand-alone compliance head is prevalent across both small and large firms.

Only one-third (33 percent) of the respondents said that CCOs reported directly to the CEO; 11 percent said that CCOs reported directly to the board. Only 11 percent said that CCOs reported to the board monthly, and 26 percent said that CCOs reported quarterly.

Resource allocation for compliance is inadequate in Norway. Fifty nine percent of the respondents had less than three full-time employees dedicated to compliance. In terms of budget, no respondents had more than €1 million in allocation. Moreover, 22 percent of the respondents had no assigned budget for compliance and another 22 percent were not aware of their budget size.

These clearly point out that further resources are required for compliance to function effectively.



### **Are compliance teams addressing the right risks?**

Compliance officers have a number of risks and responsibilities in their ambit—27 to be precise. This could result in a lack of focus in their approach. Key responsibilities of a compliance officer include compliance training, formulating compliance strategy and processes, establishing and monitoring standards for business conduct, anti-bribery/anti-corruption/anti-fraud programs, and ensuring compliance with domestic/international regulations, among others.

However, the good news is that all respondents felt that they do not have a culture problem; i.e., they believe their organisation's culture, as demonstrated by its behaviour, aligns with its professed ethical values.

Outsourcing or co-sourcing is a tactic that is set to continue in Norway. If 37 percent of the respondents preferred to do it in-house, 63 percent preferred to outsource compliance activities. The highest outsourced activity was employee and ethics hotline at 26 percent, followed by third-party compliance risk management at 22 percent.

### **Are compliance teams adopting the right metrics?**

The most common metrics used to gauge the effectiveness of a compliance program were internally focused: feedback from employee ethics surveys, analysis of internal audit findings, analysis of self-assessment results, and completion rates for required compliance trainings, among others. In addition, metrics that incorporated external information such as comparisons to competitors or similar organisations and analysis of regulatory reviews were also used, although these were less commonly adopted.

More than half of the respondents (55 percent) who measured the effectiveness of compliance programs had confidence in the metrics they tracked. Majority of the respondents were also confident that their IT systems captured and reported all compliance data necessary to get a better sense of the effectiveness of the program. However, many compliance tasks relied heavily on desktop tools and internally developed applications. Moreover high-end analytical methods, such as agent-based modelling for predictive modelling, were rarely used by compliance teams in Norway.



Finally, compliance function appeared to be a profession in transition. When asked to describe the maturity of 10 basic compliance tasks, the most common answer was 'evolving' followed by 'proactive', which came at a distant second.

### Four ways to implement an effective compliance program

	Challenges	Solutions
Effective leadership	Roles and responsibilities are often split across a number of positions and tasks. Fragmented leadership can cause confusion and slow down responses to changes.	Clarity on responsibilities and tasks are required. The board and CEO have key roles in setting the right compliance culture.
Incentivised compensation	Compliance is not aligned to the senior management's annual performance. This dis-incentivises compliance officers from effectively implementing the program.	Compliance must be considered while measuring senior management's annual performance.
Required resource allocation	Resources in terms of both staff numbers and budget remain low.	Resource balance should be reviewed and adjusted to reflect requirements for improved performances.
Effective measurement of programs and deployment of specialty technology	With only 39 percent measuring the effectiveness of the compliance programs, it becomes difficult to gauge the effectiveness and changes required to create greater impact.	Firms should proactively evaluate the effectiveness of metrics and leverage specialty tools and technology to improve their compliance programs.

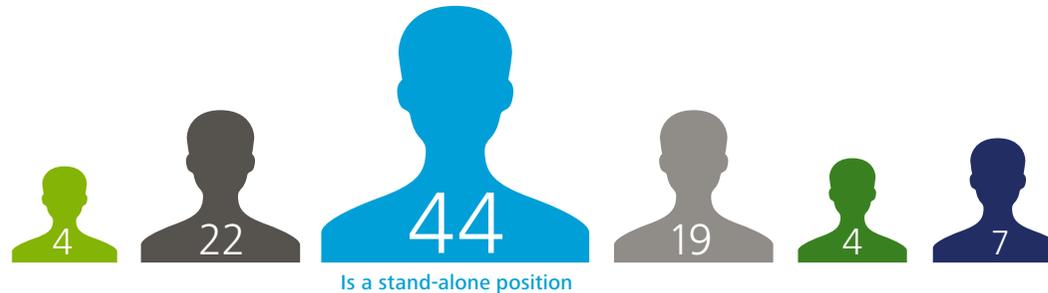
# Do compliance teams wield enough authority?

## Leadership challenge

A compliance officer's 'authority' can be defined in terms of three elements: freedom to act without fear of an organisational backlash; access to resources to run the compliance function effectively; and access to the CEO or board to discuss ethics and compliance issues when necessary.

The 'Norway Compliance Survey 2014' suggests compliance is still not a major priority for companies in Norway and compliance executives are yet to be regarded at par with other key executives in the company. Less than half of the respondents (44 percent) said their company had a standalone compliance officer who was fully engaged with compliance issues. When the CCO role was combined with another role, it was often combined with the risk function (cited by 22 percent). Other combined roles included the general counsel and chief audit executive (4 percent each).

## Head of compliance – the state of affairs in Norway



% of respondents who had a standalone compliance officer

The survey did bring out some worrisome observations – 56 percent of companies in Norway had no standalone head of compliance; out of these, 19 percent had no designated head of compliance at all. This either means there was no general consensus among companies with regard to a dedicated head of compliance or that the compliance division took a back seat, as revenue generating business divisions got prioritised. Both expose a firm to innumerable risks.

- Is a stand-alone position separate from any other function
- Is also the chief risk officer
- We do not have a designated CCO/Head of compliance
- Is also the general counsel
- Is also the chief audit executive
- Other

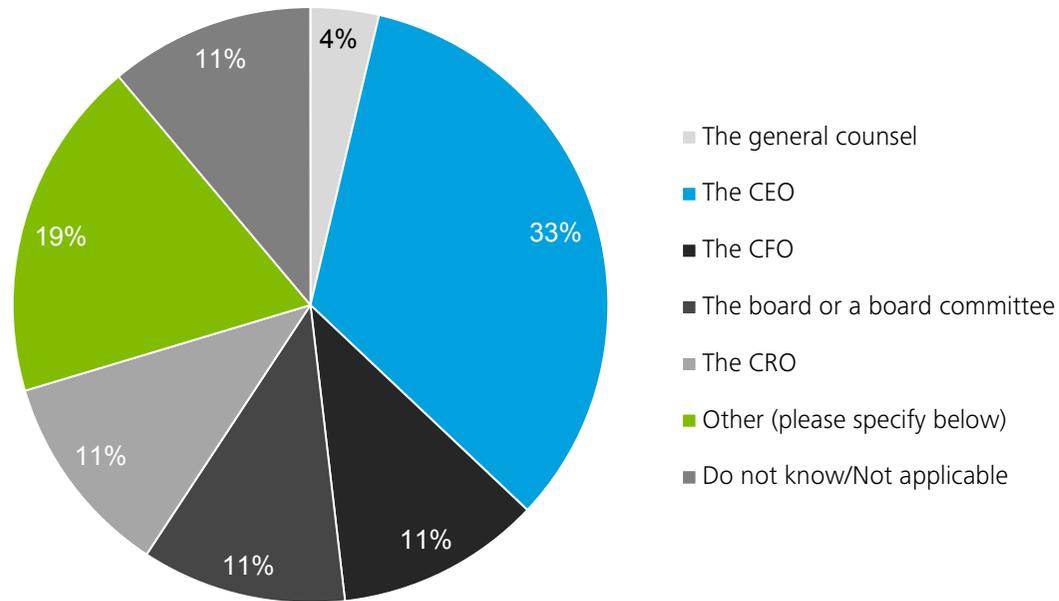


It should be noted that the size of the company did not always have a direct co-relation to the authority enjoyed by the head of compliance. Of those companies which had a standalone chief compliance officer, only 29 percent generated more than €1 billion in revenues – 71 percent generated revenues of less than €1 billion.

### Reporting structure

To maintain independence, CCOs generally reported directly to the CEO or the board. The survey revealed that Norway had some reporting structures in place - 44 percent of the respondents said that CCOs reported to the CEO or the board. However, only 37 percent respondents said that the CCOs met the board on a quarterly or monthly basis. Eleven percent respondents said that the CCOs met annually and another 11 met said that the CCOs met only when the board requested them to.

Reporting structure in Norway



% of respondents who reported to various heads

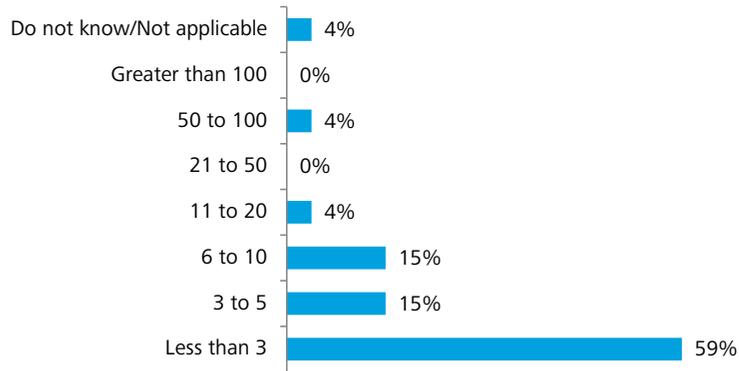


### Insufficient resources

Resource allocation was also not considered sufficient for compliance divisions in Norway. Fifty-nine percent of the respondents had three or fewer number of full-time staff members devoted to compliance and ethics.

### Compliance team size in Norway

Percentage of full-time people within an organisation focused specifically on ethics and compliance

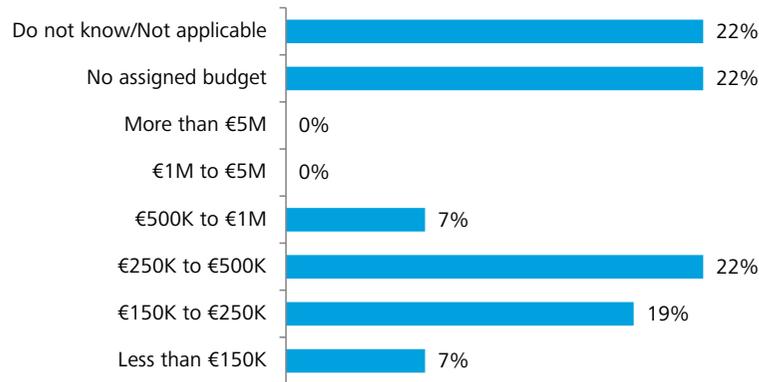


% of respondents in terms of the number of full-time people focused specifically on ethics and compliance

No respondent in Norway had a budget (including salary) of €1 million or more. In addition to this, 22 percent of the respondents had no assigned budgets and another 22 percent was not sure how large their budget was. This was partly because many compliance departments relied on other departments to accomplish their objectives.

### Compliance budget in Norway

The 2014 total budget for enterprise-wide compliance function(s) such as processes, salaries, technology



% of respondents in terms of the number of full-time people focused specifically on ethics and compliance

## Change in compliance budget in Norway



# 48%

expected compliance budgets to increase in the near future

However, there was a silver lining – nearly half of the respondents (48 percent) expected compliance budgets to increase in the near future vis-a-vis 7 percent who expected budgets to decrease. Forty four percent expected no change in budget.

The budget mainly depended on the number of resources available for the compliance function. A combined forty two percent indicated that hiring and salary increases (due to annual raises or promotions) were the main reasons for budgetary increase. On the other hand, overall corporate downsizing was responsible for decrease in budget.

### Weak perception about compliance

Statistics suggest CCOs have to be aggressive and do a lot more to gain authority and visibility in Norway. Sixty three percent of all respondents reported that CCOs did not hold a seat on the executive committee, outnumbering the 19 percent who did.

Again, only 19 percent of the respondents said compliance was considered for measuring senior management's annual performance. This means that compensation has to be realigned with compliance, so that it is more closely pegged to specific objectives and is effectively implemented. Moreover, only 18 percent of the respondents felt compliance was a business partner. However, it is encouraging to note that 52% of the respondents felt compliance was seen as a business partner, at least in certain aspects.

# Are compliance teams addressing the right risks?

## Is there a culture problem?

All respondents in Norway felt that their organisation's culture was well aligned with its ethical values and there was no problem in this regard.

The 'executive level' was identified as having the least of culture-related issues. The biggest gap existed among 'middle management' followed by 'first line supervisors'. A lack of awareness of compliance objectives could be a reason for these gaps.

## Culture alignment in Norway



37% very well  
33% above average  
30% average

respondents who believe the organisation's culture aligns with its professed ethical values

## Plethora of responsibilities

Compliance officers have a wide range of responsibilities, ranging from privacy, policy management to investigations into anti-bribery training, among others. The survey suggested there were no key set of major responsibilities that the compliance function was responsible for. The responses were spread across 27 responsibilities, signifying a possible lack of consensus on what compliance functions one needs to focus on. Another reason for this wide range of responsibilities could be the differences in industry-specific regulatory and compliance laws.

Among the various responsibilities, some of the key ones prevalent in Norway were compliance training, compliance strategy and processes, establishing and monitoring standards for business conduct, anti-bribery/anti-corruption/anti-fraud programs, compliance testing and monitoring, and compliance with domestic/international regulations, among others.



However, when we compared smaller companies with bigger ones, it was observed that the primary responsibilities of both differed from each other.

### Key responsibilities of compliance officers in Norway

Small Companies (< € 1 billion)	Large Companies (> € 1 billion)
Compliance training (93%)	Establishing and monitoring standards for business conduct (83%)
Compliance strategy and processes (87%)	Complaints and whistle blower hotlines (83%)
Regulatory filings and reports (87%)	Anti-bribery/anti-corruption/anti-fraud programs (83%)
Regulatory and internal compliance investigations (80%)	Ethics program (75%)
Compliance with domestic regulations (80%)	Code of conduct (75%)
Compliance with international regulations (80%)	Compliance strategy and processes (75%)



## Challenges to managing compliance risks

The primary challenges faced by several respondents in Norway were “third-party compliance risk management” and “monitoring compliance with policies”. This was followed by “policy/procedure management”, “compliance training”, among others.

### Challenges in managing risks – Norway

Top 3 to 4 challenges

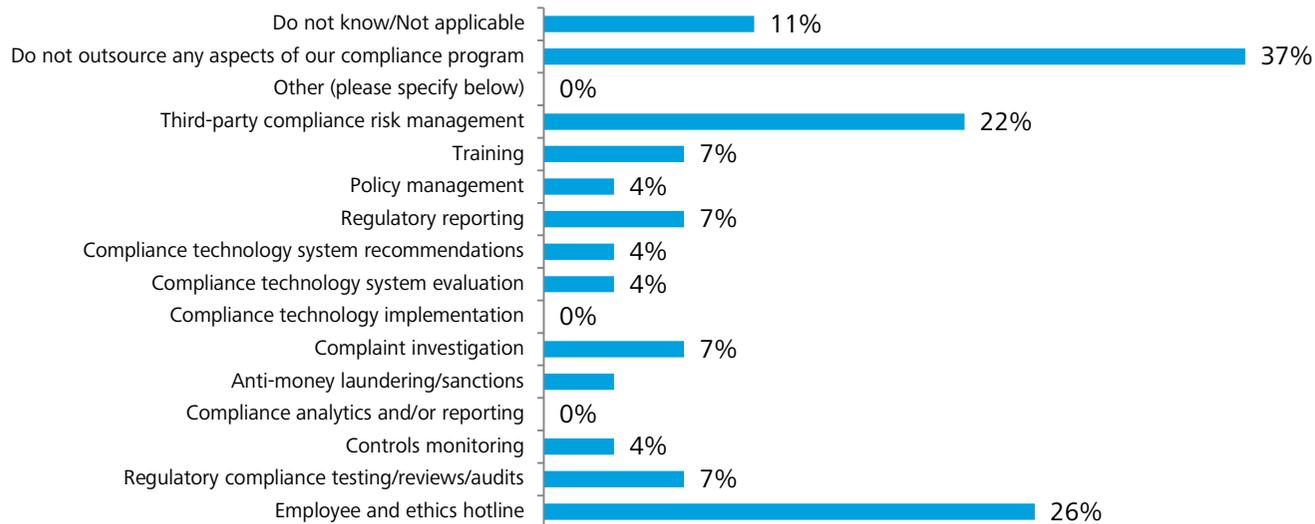
Priority 1	Priority 2	Priority 3
Third-party compliance risk management	Conducting internal compliance audits/reviews	Compliance training
Monitoring compliance with policies	Policy/procedure management	Regulatory relationship management
Policy/procedure management	Management of internal investigations	Third-party compliance risk management

## Outsourcing to continue with re-assessments at regular intervals

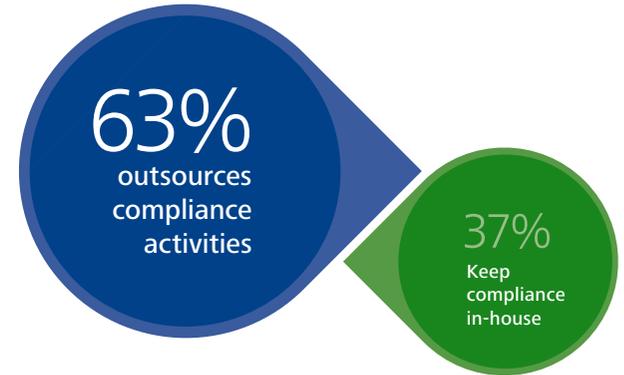
Sixty three percent of the respondents preferred outsourcing compliance activities, while 37 percent preferred to do it in-house. The highest outsourced activity was employee and ethics hotline at 26 percent, followed by third-party compliance risk management at 22 percent.

## Compliance outsourcing activities in Norway

Compliance activities that were outsourced or co-sourced



% of respondents who outsource respective compliance activities



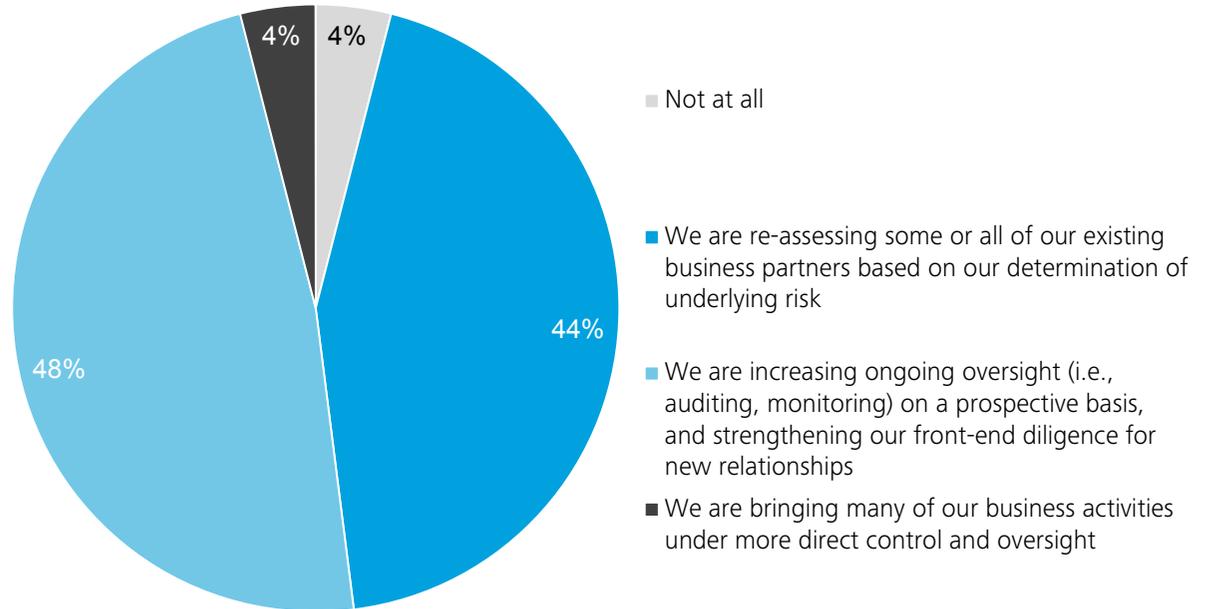


The respondents were divided about re-assessing business links with joint-venture partners, suppliers, distributors, and agents, among others. While 44 percent were re-assessing, 48 percent were increasing ongoing oversight (i.e., auditing, monitoring) on a prospective basis, and strengthening front-end diligence for new relationships. Merely four percent were bringing these activities under direct control.

Of the total responses, 21 percent always managed risks related to third-party relationships, while 40 percent did it sometimes, and 21 percent did it rarely. Some of the common methods employed to identify and manage compliance risks related to third-party relationship included 'providing the company's code of conduct', performing extensive background check', and 'review media reports, TRACE International, WorldCheck, etc.'

### Re-assessing third-party relationships in Norway

How much the changing regulatory landscape was driving re-assessment of third-party relationships, including joint-ventures, suppliers, distributors, agents, or other business relationships



% of respondents who are re-assessing some or all of their existing business partners

# Are compliance teams adopting the right kind of metrics?

## Measuring the effectiveness of compliance programs in Norway

How was the effectiveness of a compliance program measured



% of respondents who use various tools to measure compliance program effectiveness

## Predicament of measurement

Although measuring the effectiveness of compliance programs remains critical to the success of such company-wide programs, identifying the right metrics for measurements remains an unresolved issue. More than half of the respondents from Norway (56 percent) said they had not measured the effectiveness of their compliance program.

Firms which employed tools for measuring effectiveness used internally focused-methods such as gathering feedback from employee ethics surveys, analysing internal audit findings, analysing self-assessment results, and measuring the completion rate of required compliance trainings and so on. At times, firms also used externally-focused methods such as comparisons to competitors or similar organisations and analysis of regulatory reviews.



### Level of confidence about the metrics employed for measurements

Among the respondents from Norway who measured the effectiveness of compliance programs (41 percent), more than half (55 percent) were confident that the metrics gave a true sense of the program. This was followed by around 36 percent, who were somewhat confident about the metrics.

About two-thirds of respondents from Norway (63 percent) said that their firms performed an enterprise-wide compliance assessment on an annual basis, followed by 11 percent who performed the assessment on a quarterly basis.

### Technology and tools prowess

Majority of the respondents from Norway felt that their compliance departments were technologically equipped to execute compliance functions. More than half the respondents (56 percent) expressed general satisfaction and more than one-third (37 percent) were somewhat confident about their department's technological competence.

Among technology tools, desktop tools and internally developed tools were generally used to support compliance programs. More than one-third of the respondents used desktop tools for programs such as 'policy development', 'documentation management', 'conflicts of interest', 'compliance risk assessments', and 'compliance monitoring, testing, and reporting'. Internally developed tools were also used to manage programs such as 'policy development', 'training', 'case/incident management', 'third-party risk management', and 'documentation management'.



# 56%

expressed general satisfaction about their department's technological competence



However, for ‘tracking legislation or regulation’, ‘measuring effectiveness of compliance program’, and ‘regulatory examination issue tracking’ most of the respondents (26 percent) in Norway did not employ any technology or tool. In addition, enterprise resource planning (ERP) technologies and tools were also not employed for compliance programs, according to the respondents.

About half the respondents (48 percent) in Norway used continuous monitoring as a predictive modelling technique to better understand compliance risks, measure effectiveness, or allocate compliance resources. However, about a quarter (26 percent) did not use any predictive modelling techniques.

The remaining respondents used basic techniques such as text mining, statistical methods, scenario analysis, and discrete event simulations for predictive analysis. This goes on to show how, even in the current technological age, compliance divisions are way behind in implementing ‘high-end analytical methods’ such as agent-based modelling for predictive modelling.

Compliance seemed to be a profession in transition. When asked to describe the maturity of 10 basic compliance tasks—governance, culture, risk assessment, compliance organization, policies and procedures, communications and training, supervision, controls and monitoring, reporting, IT systems and information management—the most common answer was ‘evolving’ followed by ‘proactive’, which came at a distant second.

# Methodology

The 2014 Compliance Trends Survey was drafted by Deloitte in June, and then given to an audience of senior-level corporate compliance, audit, risk, and ethics officers in Norway.

The report surveyed 27 respondents (who were senior level executives) who worked in the ethics, compliance, audit, risk management, or corporate governance departments.

Of these 27 respondents, 52 percent held the title of chief compliance officer and 15 percent held the title of compliance manager or equivalent.

The survey encompassed a wide range of industries. Of the 27 respondents from Norway, the single largest industry group represented was financial services at 48 percent. Thirty percent of the respondents were from companies with annual revenue of €1 billion to €5 billion, followed by 19 percent with annual revenue of less than €100 million.

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