FloQast

EBOOK

Compliance and Controls:

The State of the Industry

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Intro

Corporate compliance and internal controls are an essential part of business operations, regardless of industry or size.

While these activities might seem like a hassle at times, they can save organizations untold costs— including fines, penalties, lawsuits, and loss of reputation—in the long run, and if executed effectively, be a key driver of organizational strategy.

In March 2023, FloQast surveyed 370 full-time employees with some responsibility for financial compliance and control in their organization.

We sought to understand whether the compliance and control function is prepared to deliver strategic value to the organization. Specifically, we considered whether the organizations were engaged in the right activities, employing the right people, and supporting those people with the right tools to deliver such value.

Now is an ideal time to ask and answer such questions, given the current volatile economic environment requiring tighter budgets and greater scrutiny of costs to promote organizational agility. Under these conditions, it is even more critical to intentionally invest in compliance and control - specifically, to concentrate on the optimal human and technological resources for this function. We use the word "function" as most compliance and control professionals indicated they were a function within a larger department.

In conjunction with the University of Georgia Consumer Analytics program, we address these topics in Compliance and Controls: The State of the Industry.
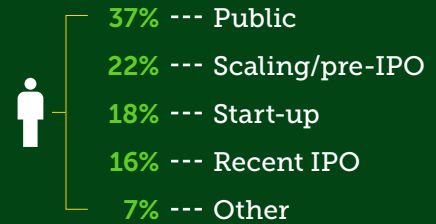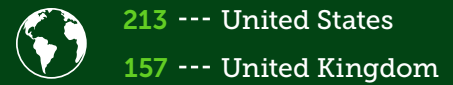
Survey Methodology

The sample included 213 professionals from the United States and 157 from the United Kingdom. Most survey participants were located in an Accounting & Finance Department, while some were in a separate Compliance Department.

Their titles included Accountant (34%), Chief Accounting Officer (16%), Accounting Manager (13%), a position in Compliance and Controls (9%), Financial Analyst (6%), and CFO (6%). For 75% of the participants, compliance is their entire job, with the other 25% having activities related to compliance as part of their job.
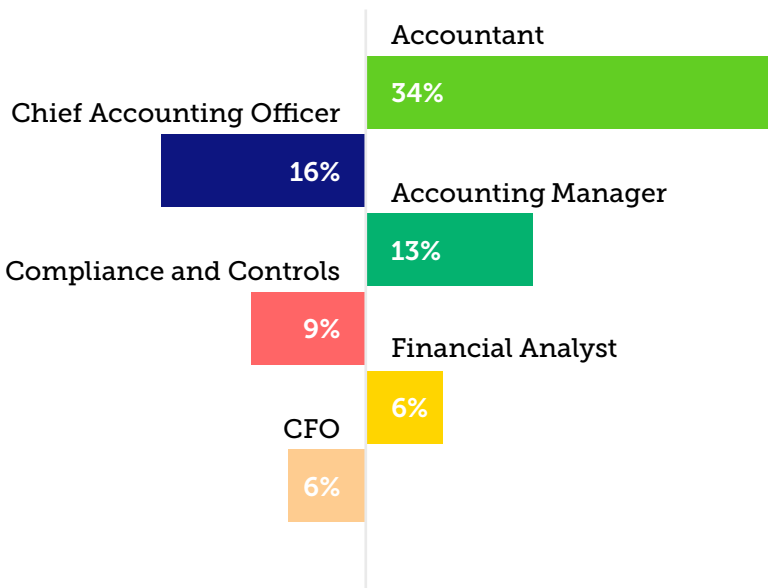
Percent of survey participants by company type

- 37% --- Public
- 22% --- Scaling/pre-IPO
- 18% --- Start-up
- 16% --- Recent IPO
- 7% --- Other

Number of survey participants by country

- 213 --- United States
- 157 --- United Kingdom

Top titles of survey participants

Accountant 34%

Chief Accounting Officer 16%

Accounting Manager 13%

Compliance and Controls 9%

Financial Analyst 6%

CFO 6%

Role of compliance in their job

Total number of employees by company

- 17% — 1-50 Employees
- 11% — 51-100 Employees
- 17% — 101-500 Employees
- 23% — 501-1000 Employees
- 18% — 1,001-5,000 Employees
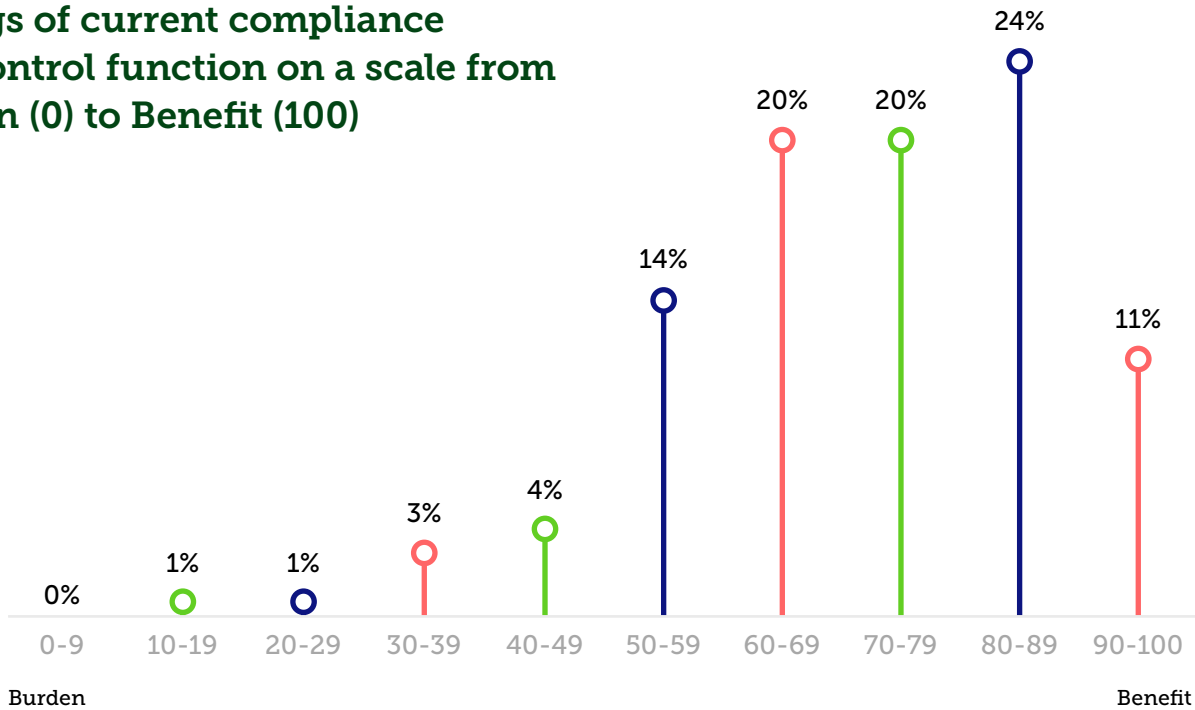- 7% — 5,001-10,000 Employees
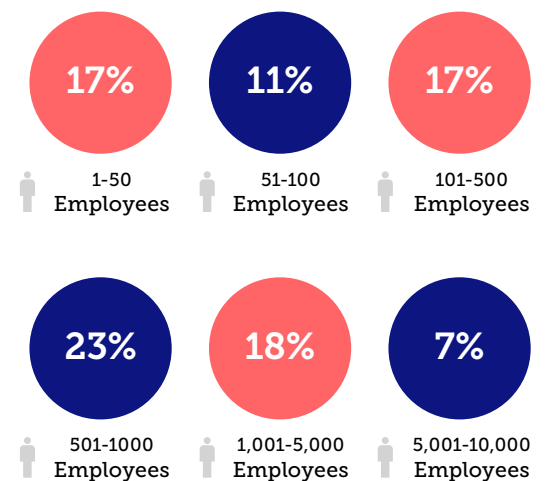
INSIGHT 1»

Compliance can do much more for the organization than awareness and adherence.

While compliance and control professionals believe their programs are beneficial, the data suggests they are just scratching the surface in terms of organizational value. We asked these compliance and control professionals to rate their current efforts on a 100-point scale, with 0 representing all burden/no benefit and 100 representing all benefit/no burden. The average professional rated their current compliance and financial control function a 69.9 out of 100 — about 70% benefit and 30% burden. The average was slightly higher in the United States (71.8) than in the United Kingdom (67.6).

Ratings of current compliance and control function on a scale from Burden (0) to Benefit (100)

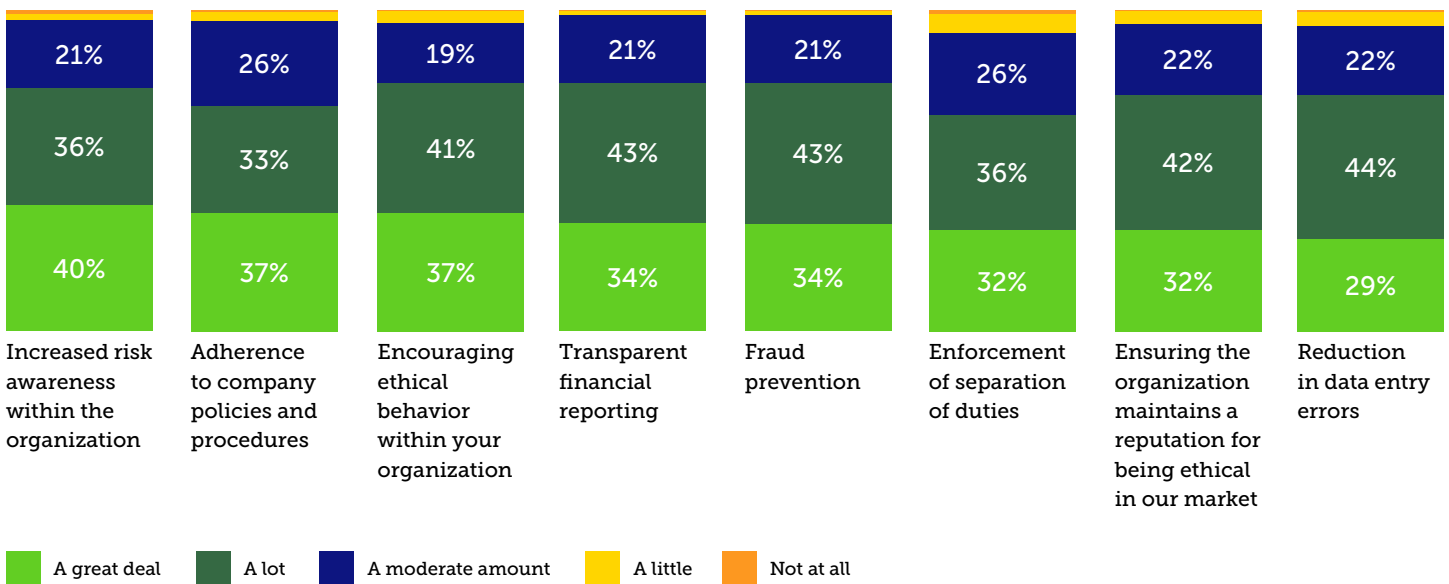| Bucket	Value
0-9	0%
10-19	1%
20-29	1%
30-39	3%
40-49	4%
50-59	14%
60-69	20%
70-79	20%
80-89	24%
90-100	11%

Burden / Benefit

Many of the top benefits of compliance and financial control processes had to do with increasing awareness of and adherence to actions that protect the organization. These activities largely reflect checking the box on legal requirements, which is congruent with the fact that **93% of these compliance and control** professionals cite regulations as the motivation for their efforts.

INSIGHT 1»

Compliance can do much more for the organization than awareness and adherence.

To what extent do your compliance and financial control processes help with each of the following?

	A great deal	A lot	A moderate amount	A little	Not at all
Increased risk awareness within the organization	40%	36%	21%		
Adherence to company policies and procedures	37%	33%	26%		
Encouraging ethical behavior within your organization	37%	41%	19%		
Transparent financial reporting	34%	43%	21%		
Fraud prevention	34%	43%	21%		
Enforcement of separation of duties	32%	36%	26%		
Ensuring the organization maintains a reputation for being ethical in our market	32%	42%	22%		
Reduction in data entry errors	29%	44%	22%		

Legend: ■ A great deal   ■ A lot   ■ A moderate amount   ■ A little   ■ Not at all

When asked to rate the impact of their compliance or control management processes overall, the rating given for the valued added and stress reduction were interestingly conflicted. Just one quarter (26%) of survey participants felt their existing compliance and control management processes add significant value to their organization with a relatively small percent (5%) indicating their processes added very little value. More than half (56%) of participants indicated that current compliance or control management processes were adding a lot (16%) or some (40%)

stress to the work rather than removing it. What's particularly interesting is the relationship between adding value and reducing stress. We expected that value-adding processes would reduce stress overall but there was no significant correlation between these two ratings, thus, it seems that there is an opportunity to re-examine what these compliance and control professionals are doing and how they are doing it to isolate what is adding value and what is contributing unnecessarily to the stress.
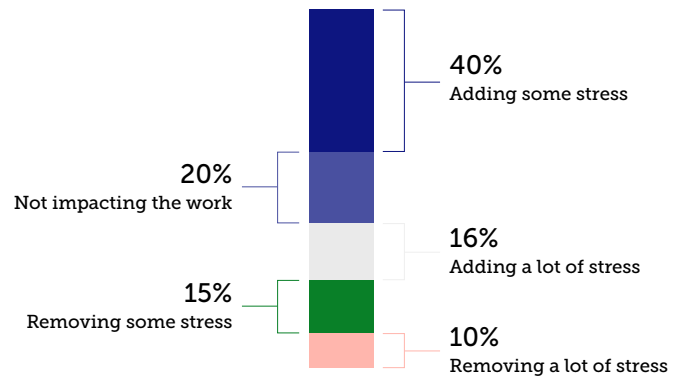
INSIGHT 1»

Compliance can do much more for the organization than awareness and adherence.

To what extent are your current compliance or control management processes adding value to your organization?
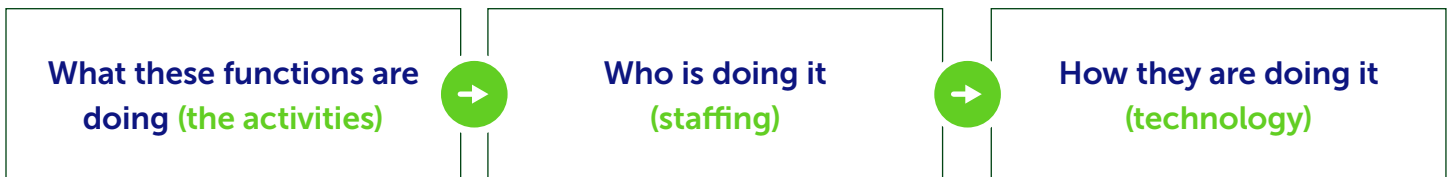
		46%	
	23%		26%
5%			
Adding very little value	Adding some value	Adding value	Adding significant value
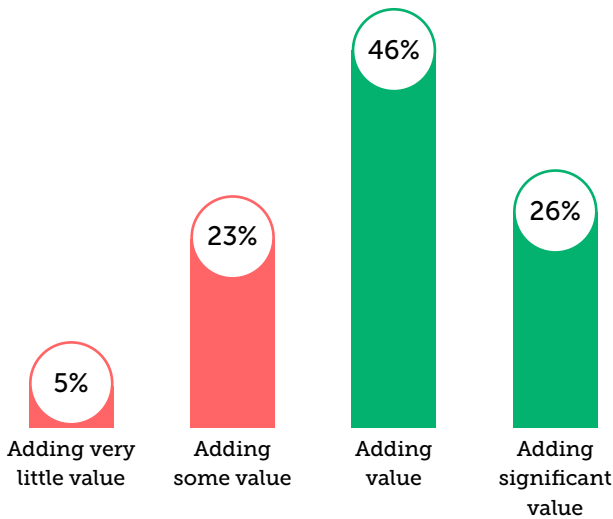
To what extent are your current compliance or control management processes adding or removing stress from the work?

- **40%** Adding some stress
- **20%** Not impacting the work
- **16%** Adding a lot of stress
- **15%** Removing some stress
- **10%** Removing a lot of stress

These functions are not inexpensive. The average compliance and control professional reported their organization spent about $2.4 million annually on compliance and control processes. In the United States, the average was lower at $1.6 million, while in the United Kingdom, it was higher at $3.3 million. Ensuring those investments produce value for the organization matters.

In our study, three areas emerged as potential barriers to greater value from compliance and control activity:

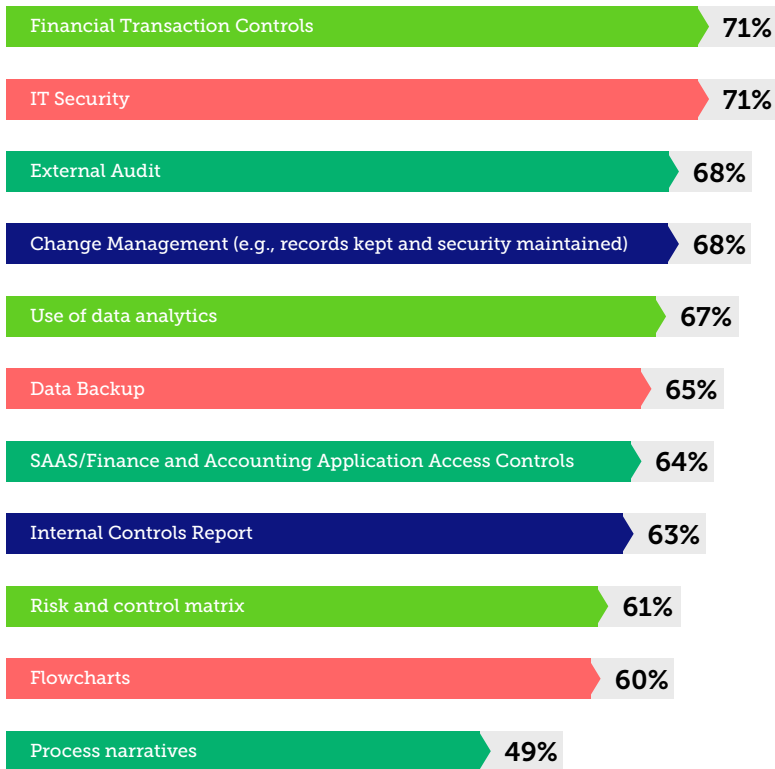| What these functions are doing (the activities)	→	Who is doing it (staffing)	→	How they are doing it (technology)

Taking the time to consider each of these three areas makes all the difference between merely checking the box and realizing organizational value from your compliance and control activities. Getting it right supports the financial transformation of your organization. In the following report sections, we share our findings of where organizations succeed or have opportunities in each area.

INSIGHT 2»

The emphasis of controls and compliance programs is on execution and tactics rather than optimization and process improvement for greater organizational agility.

While almost three-quarters of the participants reported their organization had financial transaction controls, just about half reported the presence of process narratives. Process narratives are a powerful strategic tool that clearly lays out the compliance and control process in context. With a process narrative, there is little ambiguity about how the process functions and what it seeks to accomplish. Flowcharts are similar to process narratives but take a more graphical approach to communicating the process.

Does your organization do or have any of the following items or activities related to compliance and financial controls?

Financial Transaction Controls	71%
IT Security	71%
External Audit	68%
Change Management (e.g., records kept and security maintained)	68%
Use of data analytics	67%
Data Backup	65%
SAAS/Finance and Accounting Application Access Controls	64%
Internal Controls Report	63%
Risk and control matrix	61%
Flowcharts	60%
Process narratives	49%

We expected to hear that organizations were considering ways to improve their controls and compliance programs.

37%

of the survey participants reported a current initiative related to compliance or control management as a strategic program.

Most of those initiatives were general efforts to understand or improve rather than strategic initiatives.

INSIGHT 2»

The emphasis of controls and compliance programs is on execution and tactics rather than optimization and process improvement for greater organizational agility.

While most participants reported testing financial controls, this activity seems to be more of a task than strategic management of the compliance and control process. Testing controls is an internal process for 70% of the survey participants, with only 23% using an external group for this process. It is also unclear how effective testing can be without the presence of process narratives and/or flowcharts for most organizations.

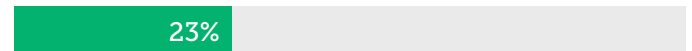## Do you have a current initiative related to compliance or control management?

Yes

| 37% |

No

| 63% |

Where does the responsibility for testing financial controls reside?
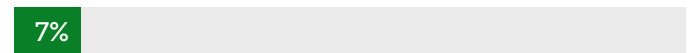
Inside our organization (e.g., Internal Audit or other internal group)

| 70% |

Outside the organization (e.g., External Audit or other external group)

| 23% |

We do not test

| 7% |

ACTIVITY SUMMARY

The basic issue

is that organizations do a lot of things without a clear blueprint.

The larger risk

is that tactical efforts have blind spots that expose the organization to negative outcomes.

The missed opportunity

is having a strategic plan for compliance and control to direct and prioritize the activities most likely to provide protection and value.

STAFFING THE APPARENT STRUGGLE TO BUILD AN EFFECTIVE COMPLIANCE AND CONTROLS FUNCTION
COMPLIANCE AND CONTROLS: THE STATE OF THE INDUSTRY

ACTIVITIES | **STAFFING** | TECHNOLOGY

INSIGHT 3»

Formation and management of the compliance and control function is more expedient than intentional.

We wanted to understand the extent to which organizations intentionally staffed the compliance and controls function to support strategic organizational benefits from the activities. Here we explored whether there was a sufficient number of people allocated to the team, whether those team members understood their broader role in the organization, and whether these compliance and controls professionals had basic knowledge of compliance.

First, we learned that there may be a lack of understanding when it comes to the staffing levels needed to run a coherent and effective program. Most compliance and/or financial control teams included 6 to 10 people, suggesting the teams are fairly well-staffed.

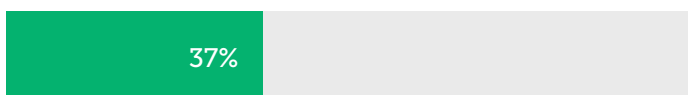## How many people work on your compliance and/or financial control team

24%
1-5
People

34%
6-10
People

25%
11-20
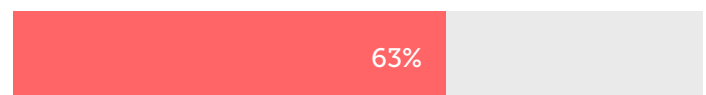People

18%
More than 20
People
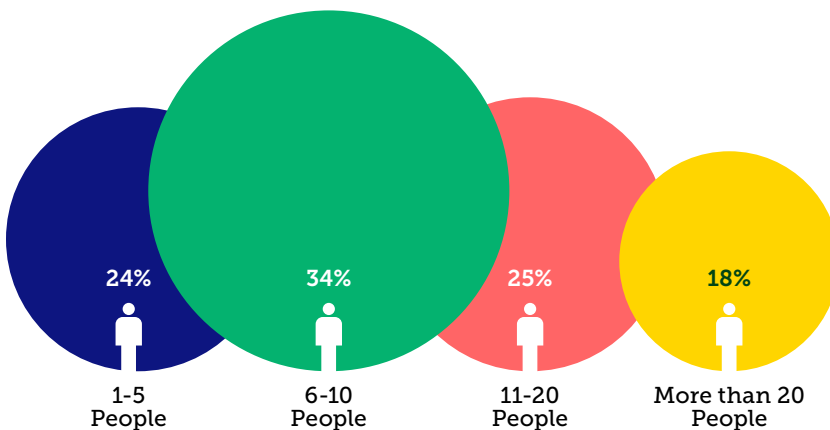
Only
37%
of compliance and controls professionals reported having sufficient headcount in place to manage compliance/ financial control processes.

Percent reporting that they have sufficient people in place to support their compliance and control function

Have sufficient people in place

37%

Not sure

63%

STAFFING THE APPARENT STRUGGLE TO BUILD AN EFFECTIVE COMPLIANCE AND CONTROLS FUNCTION
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INSIGHT 3»

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If organizations based this assessment of sufficiency on a rational understanding of the size of the compliance and control task and the number of people working to manage compliance and control, we might conclude that there were not enough people working on compliance. Instead, we found that the survey participant's assessment of sufficiency does not correlate with the number of people in compliance/control relative to company size. This suggests that a good amount of guessing is involved in staffing decisions which is strange in a function that is so structured and exact.

Interestingly, the United Kingdom tends to have, on average, about 20% more people on their compliance and control teams than organizations in the United States. Even so, the professionals we surveyed in the United Kingdom were less sure they were staffed sufficiently (35%) than professionals in the United States (42%).

Percent of compliance and control professionals who believe they are staffed sufficiently in the compliance and control function
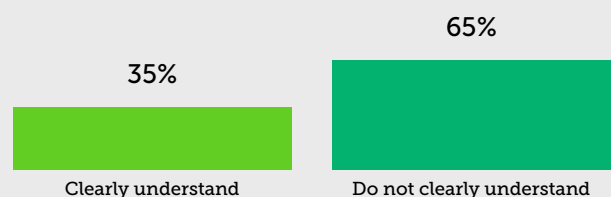
Second, we found challenges in having these employees understand the larger purpose of their work.

42%
United States

35%
United Kingdom

35%

of the survey participants clearly understood how their actions lead to effective controls and a strong control environment in their companies.

Extent to which compliance and control professionals understand the larger purpose of their work

35%
Clearly understand

65%
Do not clearly understand

STAFFING THE APPARENT STRUGGLE TO BUILD AN EFFECTIVE COMPLIANCE AND CONTROLS FUNCTION
COMPLIANCE AND CONTROLS: THE STATE OF THE INDUSTRY

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INSIGHT 3»

Formation and management of the compliance and control function is more expedient than intentional.

Finally, we found that among these control and compliance professionals, compliance literacy was surprisingly low. We define compliance literacy as a working knowledge of the origins, objectives, and applications of controls and compliance. To assess knowledge of compliance, we constructed a 12-item quiz and assessed the difficulty level of each item to calculate a weighted score. The possible scores ranged from 0 to 25, with 25 reflecting a high level of compliance literacy.

The FloQast Compliance Literacy Assessment

Questions	Correct Answer	% Correct
In some countries, data localization is an important aspect of compliance.	True	83%
A key piece of compliance documentation is the risk and control matrix.	True	83%
Research has shown that compliance has implications for how successful a company will be in hiring qualified employees.	True	81%
ICFR ensures that information reported in the financial statements is accurate and does not contain any material misstatement.	True	81%
Financial compliance is about making sure a company follows the rules.	True	80%
GDPR ensures that information reported in the financial statements is accurate and does not contain any material misstatement.	False	60%
What is the system used to establish internal controls that are to be integrated into business processes called?	The COSO Framework	44%
Which of the following statements best describes the regulations governing compliance?	The regulatory enviroment is changing constantly	40%
Not counting the taxes they must file, every company is legally required to submit documentation of compliance and control to a regulatory body.	False	29%
Materiality applies to which of the following?	Climate action	25%
Compliance deals with regulations at which of the following levels?	Only people who selected all levels (International to Local)	13%
Which of the following pieces of legislation are relevant to compliance?	People who selected everything except the 1974 Fair Credit Opportunity Act	0%

NOTE: We assessed the difference in results if we dropped the last question that no one answered correctly.
The impact on the average score was 0.12 points on a 25-point scale. Based on this analysis, we elected to keep the last question in the score.

The average compliance literacy score was only 10.11 out of 25 possible points.

10.11

Total possible score: **25**

Compliance literacy tended to be higher in the United Kingdom than in the United States. In the United Kingdom, the average score was 11.13, while in the United States it was 9.12.

STAFFING THE APPARENT STRUGGLE TO BUILD AN EFFECTIVE COMPLIANCE AND CONTROLS FUNCTION
COMPLIANCE AND CONTROLS: THE STATE OF THE INDUSTRY

ACTIVITIES | STAFFING | TECHNOLOGY

INSIGHT 3»

Formation and management of the compliance and control function is more expedient than intentional.

Average compliance literacy score by country

11.3
United States

9.12
United Kingdom
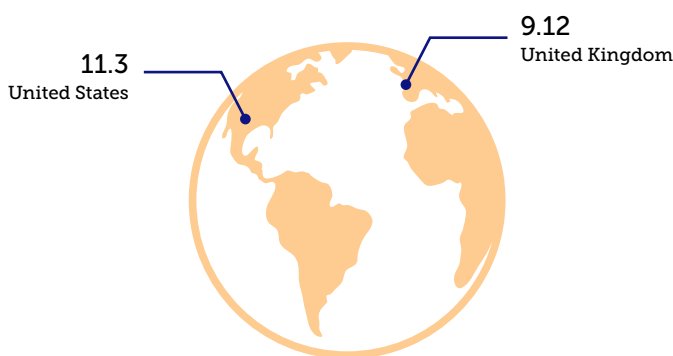
The longer someone had worked in compliance, the higher their compliance literacy score.

There were few differences in compliance literacy based on the stage of the individual's company.
One exception was that compliance literacy was significantly higher in scaling/pre-IPO companies than in recent IPO companies.

11.4	8.6
Scaling Pre-IPO	Recent IPO

The overarching finding here is that the current approach to filling the compliance and controls function in most organizations needs reconsideration. The most common approach to compliance and control is that there are tasks to be accomplished and we need warm bodies to complete those tasks. The alternative is to have the right number of professionals who possess compliance literacy and understand the role that compliance and control should play in their organization.

STAFFING SUMMARY

The basic issue

is that organizations are likely spending more on headcount than needed when costs per control may already be a major stressor to organizational budgets

The larger risk

is that staffing to check the box might expose your organization to unnecessary risk.

The missed opportunity

is the potential organizational benefit from appropriately staffing a compliance and control function with professionals who understand how to deliver strategic value through their work.
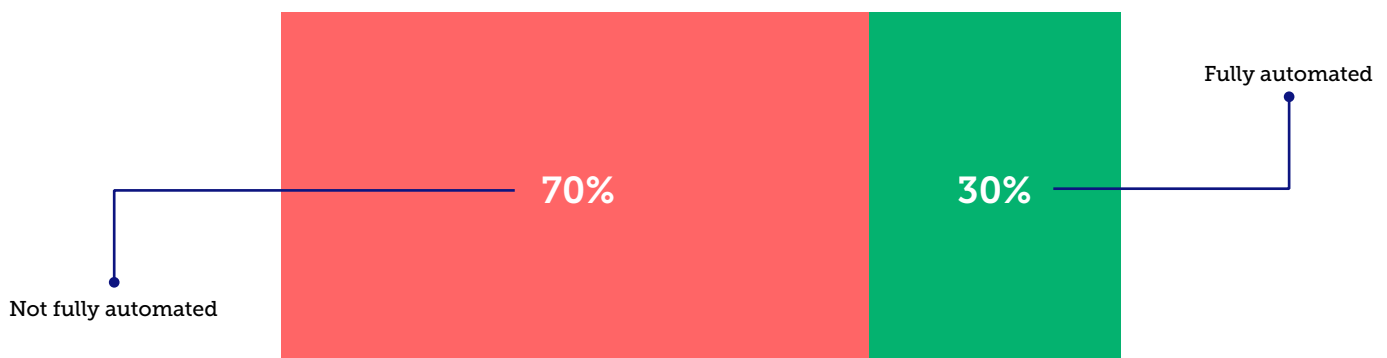
INSIGHT 4»

Controls and compliance would clearly benefit from a greater application of technology.

Organizations with more automated compliance and control processes saw greater benefit from their efforts.
Thirty percent of the survey participants felt that their compliance and control processes were automated.
This suggests that 70% of organizations could benefit from automating their compliance processes.

Percent of compliance and control professionals reporting that their processes were fully automated

Not fully automated — 70%   30% — Fully automated

In general, the current technology these organizations use doesn't make life unnecessarily complicated but it also doesn't solve pain points or save time for the majority of survey participants.

Only one-third of participants say their technology works in ways that make intuitive sense.
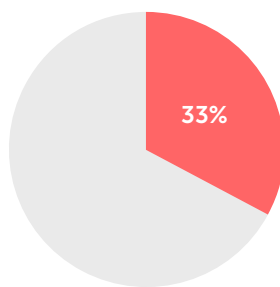
INSIGHT 4»

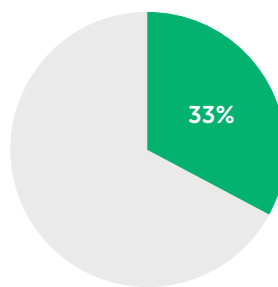# Controls and compliance would clearly benefit from a greater application of technology.

Percent of respondents that agree the following statements describe the technology they currently work with very well.
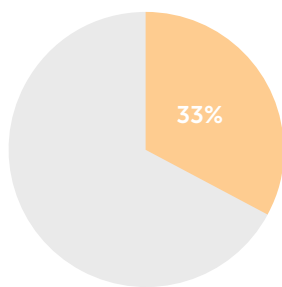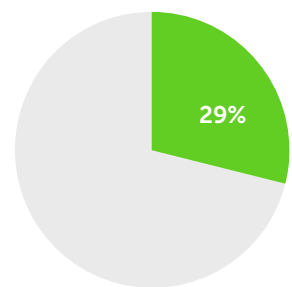
33%	33%	33%	29%
Makes your life unnecessarily complicated	Saves you time	Works in ways that make intuitive sense	Solves pain points

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TECHNOLOGY SUMMARY

The basic issue

is that organizations are not leveraging technology to support their compliance and control function.

The larger risk

is that the compliance and control function is missing (or losing) important steps in key activities, given the lack of automation and staffing challenges.

The missed opportunity

is the potential gains in strategic vision for and value from compliance and control that can come from a strong technological foundation for the work.

Conclusion

Today's compliance programs are lacking. How can organizations improve?

Legal requirements most often prompt compliance and control functions (93% of the participants surveyed). The reasons given for implementing compliance and control functions reflected a desire to protect the company from internal and/or external issues, sometimes prompted by a negative event. While protecting the organization is important, organizations can also leverage compliance and controls as a strategic tool. In addition, an inefficient program can cost the organization more in the long run.

The current state of this work seems to be driven by an "ignorance is bliss" mentality, with most everyone doing it but few understanding why. Why settle for ignorance is bliss?

Organizations have a major opportunity to equip the people engaged in compliance and controls with technology that supports not only the implementation of basic or functional tasks but also promotes an understanding of the larger reasons for and benefits of compliance and controls.

If we consider the people and technology findings simultaneously, the results suggest that current tools do not support realization of the potential benefits of compliance and control activities. They also do not help these professionals move beyond compliance and control activities as tasks to realize more strategic organizational benefits. The opportunity is to establish a synergistic relationship between the people and the technology for the benefit of the compliance and control function as well as the organization it supports.

The question for an organization seeking to improve its compliance and control function is where to begin. Considerable research points to one answer:

In compliance and controls, technology is the best first step to architecting the right environment.
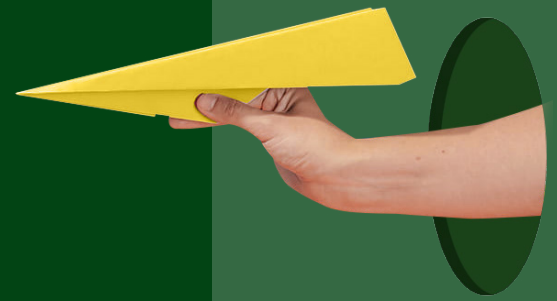
By making the right investments in technology today, organizations can empower their compliance programs and teams to be more than just a "check the box" kind of function — instead, leveraging data and insights to steer organizational strategy in the midst of challenging times.

FloQast remains dedicated to decoding the DNA of accounting through ongoing research and exploring the critical issues impacting professionals while working to develop best practices and powerful solutions for the areas where current systems fall short.

To learn more and explore additional resources around managing organizational compliance and controls,

Visit FloQast.com