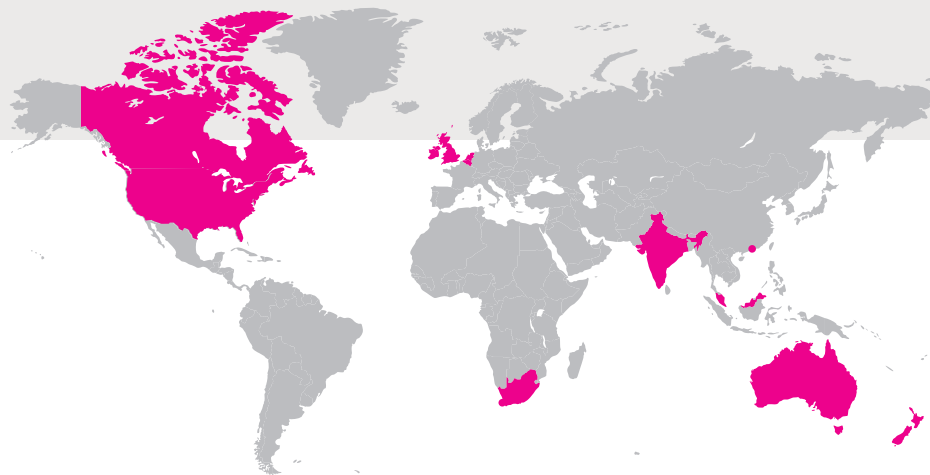




COMPLIANCE:
A NECESSARY EVIL

Ensure your
business is
compliant





“Now that we have our CFO Centre CFO looking after compliance I feel that our company is a lot safer...”

Karen Howes, Taylor Howes



Executive summary

With an ever-changing regulatory landscape, compliance can be a nightmare for any company. Not only do you have to keep up to date with laws and regulations but also ensure that you are implementing adequate controls and managing them effectively while at the same time maintaining normal operational requirements. But non-compliance carries a much higher price. This report reveals the benefits of compliance and how you can create an effective compliance programme within your organisation.

Highlights

- The main reasons SMEs don't have adequate compliance plans
- How to create an effective compliance plan
- The benefits of ensuring your company is completely compliant
- How a part-time CFO will ensure your company is fully compliant



Introduction

Although the cost of implementing a compliance programme may seem high, not putting an effective compliance programme in place can be significantly more expensive.



A major compliance failure can not only cost billions of dollars in direct costs, but also bring a company to its knees, says Richard M. Steinberg, CEO of Steinberg Governance Advisors, Inc., who advises large and middle market companies on board responsibilities, governance best practices, and compliance and risk issues.¹

“At a minimum, it steals time and energy of top management, detracting from the day-to-day running of the company and new initiatives to grow the business.”

“And damage to a company’s reputation, which takes years to develop and can be destroyed overnight, affects relationships with customers, suppliers, alliance partners, bankers, and investors, as well as retention of key human resources and ultimately long-term success.”



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RICHARD M. STEINBERG, CEO OF STEINBERG GOVERNANCE ADVISORS, INC.

¹ ‘The High Cost of Non-Compliance: Reaping the Rewards of an Effective Compliance Program’, Steinberg, Richard M., Open Pages, Inc., www.openpages.com, Feb 2010



What many business owners probably don't realise is that compliance (with both external laws and rules and internal systems), has intrinsic benefits for business. Such benefits extend beyond that of avoiding fines and all the disruptions that non-compliance causes (like investigations, lawsuits, corrective actions and damage control).

Those benefits are:

- It forces you to introduce quality improvements
- It allows managers to make plans with confidence. With concise and reliable information at their fingertips, managers are able to make forecasts and plan faster and with more certainty.
- It reveals better data which in turns allows for better decisions. Systems and data are clarified and work in harmony while the documentation of activities is complete, accurate and timely.
- It forces the organisation to make processes more efficient. By following best practice guidelines, redundant or inefficient steps in a process become apparent and can be amended or removed.
- It helps you to achieve your business mission. Having a compliance programme in place helps (or forces)

your company to act in ways that are consistent with the values expressed in your mission statement. This is because well-designed guidelines and policies tend to follow not only external regulations and laws but also a company's aspirations.

- It enhances your relationships with regulators and other stakeholders. If you have a concise and widely communicated compliance programme in place, it shows internal and external stakeholders as well as regulators that your company considers compliance to be a top priority.

It shows that you're committed to doing business ethically. Your customers, employees and suppliers will recognise this commitment which will, in turn, make them more likely to trust you. And as studies have shown, trust breeds loyalty.

- It helps you to attract and retain high-quality talent and improve employee engagement. That's because job seekers look for companies that have strong reputations in their industries and communities and employees want to stay with a company that has strong values.

When this happens, you improve your ability to attract and retain the best talent and lower the cost of recruitment and employee turnover. Your company also benefits from high employee engagement which is known to help bolster productivity.



The main reasons SMEs don't have adequate compliance plans

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The cost of compliance is a significant burden for SMEs

A survey by the Association of Accounting Technicians (AAT) found SMEs in the UK spend around £9.9 billion each year on tax compliance alone compared with the £100 million that larger firms pay.² On average, the UK's SMEs incur £4,376 in tax compliance costs, just under half the £8,907 large businesses typically pay, the AAT found.

While the average tax burden for SMEs is lower, the vast majority of these enterprises have no more than four employees compared with the 250 or more employees found in large businesses. As such, the impact on SMEs is proportionally much greater.

The average cost of regulation to UK SMEs increased by £713 in a year, according to 2014 research from the Forum of Private Business.³ It found that compliance bills had increased by 4% since 2013, and now cost businesses a total of £19.2 billion each year.

It also found the compliance bill for companies with less than nine employees is the equivalent of £164 per employee almost seven times the cost for companies with 50 or more workers.

Taxation compliance remains the single biggest outlay for small operators, followed by employment law, with health and safety third.⁴

Compliance is time-consuming

The time spent on compliance is another major issue for SMEs. About 40% of the companies surveyed by the Forum of Small Business said understanding and implementing new measures was a costly procedure.

The AAT says the average SME spends up to two hours per week on tax issues, compared with the six hours of an average large business. While the SME total is a third of that undertaken by large business, the cost to the business itself is proportionately higher due to their lower headcount.

² 'UK businesses hit by £10bn a year in hidden tax costs: UK businesses are shouldering £10bn a year in extra tax costs, with the majority falling to the country's SMEs, the AAT has found', Fuller, Callum, Financial Director, www.financialdirector.co.uk, 29 Jan 2015

³ 'New regulation compliance costs businesses £19.2bn a year', Flanagan, Jack, RealBusiness, www.realbusiness.co.uk, Jly 14, 2014

⁴ 'Cost of compliance hits small businesses hard', Lobel, Ben, SmallBusiness, www.smallbusiness.co.uk, Jly 15, 2014

Compliance is becoming ever more complex

SMEs don't have the luxury enjoyed by many large companies of being able to employ an entire Compliance Division. Such a division will normally:

- Identify risks that the organisation faces and advise on those risks
- Design and implement controls to protect the organisation from those risks
- Monitor and report on the effectiveness of those controls in the management of an organisation's exposure to risks
- Resolve compliance difficulties as they occur
- Advise the business on rules and controls.

Those SMEs that employ a Compliance Manager have probably expanded the role from that of managing risk to one that encompasses a wider responsibility to reduce costs elsewhere in the business and create value by contributing directly to the company's bottom line.

Naturally this has moved the focus away from the 'pure compliance' issues which has the knock-on effect of increasing risk. In other words, compliance has become much harder for SMEs!

To exacerbate the problem, ever-changing regulations create uncertainty making it difficult to predict their scope and impact.

Red-tape, paperwork and complex legislation can often impede your company's growth plans and it can be very difficult to move forward without taking care of compliance issues.

Compliance policies and procedures are disparate

Companies typically have a number of policies and procedures aimed at legal and regulatory compliance but too often these are disparate elements that fail to function effectively as a true compliance programme, says Richard Steinberg.⁵

Worse, layer upon layer of policy and procedure builds up over time, each dealing with various aspects of legal and regulatory requirements, he says.

"For each new law or regulation, new internal procedures are designed to deal with specifics of the rule. Unfortunately, often each is free-standing without considering existing protocols in the organisation that may already address the new requirements."



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⁵ 'The High Cost of Non-Compliance: Reaping the Rewards of an Effective Compliance Program', Steinberg, Richard M.

Compliance is viewed as a necessary evil rather than being beneficial

While completely understandable, this philosophy can be counterproductive from a business perspective, says Steinberg.

"Certainly, the thought goes, it's a drain on resources that could otherwise be used to grow the business and enhance profitability," he says.

It also ignores the many benefits that compliance can provide.

The companies who have avoided these pitfalls and succeeded not only in reducing compliance costs but also enhancing efficiency and gaining real business benefit see the bigger picture, beginning with the realisation that new laws and regulations arise from corporate actions that caused damage to consumers, employees, investors or the community, says Steinberg.

"Each legislative or regulatory reaction raises the performance bar in such areas as product safety, human resource discrimination, information privacy and security, the environment, sales practices, and financial reporting."

Their leaders have recognised that despite the raising of the bar, the marketplace sees these new standards as a minimum, with consumers looking for those products and services that meet their higher expectations.

"Successful managers 'get it' and their companies reap the benefits in terms of market share, profitability and return," he explains.



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How to create an effective compliance plan

To overhaul your compliance plan to ensure that it's effective, it's best to look at your current situation, where you need to be, and how to reach your goal.



Understand the importance of compliance in your organisation

This is really about making the business case for a more effective compliance programme. Estimate the current costs of dealing with compliance matters and the risks and costs of non-compliance. Compare these two costs (compliance and non-compliance) with the benefits of a more effective and streamlined compliance programme.

Assess where you are

Look at your current compliance state, including all the written and unwritten compliance policies, procedures and guidelines as well as the support activities.

Decide where you want to be

Design your company's desired compliance programme. It must, says Steinberg, reflect your company's corporate culture, including such factors as the organisation structure, management style and other embedded cultural features.

It should be designed so that it is built into your company's business and management processes with established responsibilities, accountability and communication protocols, he says.

Establish how it will be communicated, reported and monitored

You need to establish two-way information channels within the company along with how the information will be tracked, captured, and analysed. Clear responsibilities need to be assigned.

Implement the new process

Roll out the new process to your company as a whole or to chosen units. Use training and education to ensure everyone involved understands what is needed, and why. Explain the benefits of compliance to the organisation and to individuals.

Benefits of ensuring your company is fully compliant

It's often the case that business owners and senior executives consider the time and money spent on compliance could be better spent on revenue generating activities but there are tangible benefits and measurable returns in effective compliance that can contribute directly to the company's bottom line as a recent US survey of senior finance and human resource executives revealed.⁶

They believe that compliance programmes can help them in the following specific areas:

Wage payments processing **64%**

Employment verification **56%**

Employment-related tax credits **56%**

Employment tax processing **52%**

Unemployment claims processing **50%**

Healthcare reform reporting and employee communications **48%**

Meanwhile, the following percentages of executives said they believe a strong compliance programme has a positive impact on these intangible dimensions of the company's overall performance:

Employee satisfaction **70%**

Quality of workforce **67%**

Employee engagement **63%**

Corporate brand or reputation **55%**

Product or service delivery **54%**

John Braine, Partner at FD Research (that conducted the survey in collaboration with ADP), says companies that approach compliance on a short-term ad hoc basis tend to get the least operational benefit out of it.

"They are also the companies that often find themselves struggling to keep up with the ever-changing rules and regulations," he says.

"Conversely, companies that take a longer-term view of compliance as a continuous process and growth opportunity can usually boost their overall business performance through the effective management of their compliance programs. Tangible improvements include improved operational efficiency, more employee productivity and engagement, better risk management and higher profitability."

⁶ 'Bottom Line: Highlighting the Benefits of Investing into an Employment-Related Tax and Payment Compliance Strategy'; FD Research, in collaboration with ADP, <http://info.adp.com/content/bottom-line-on-compliance>, April, 2014;

How a part-time CFO will ensure your business is fully compliant

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The CFO Centre will provide you with a highly experienced senior CFO with 'big business experience' for a fraction of the cost of a full-time CFO. This means you will have:

- One of Australia's leading CFOs, working with you on a part-time basis
- A local support team of the highest calibre CFOs
- A national and international collaborative team of the top CFOs sharing best practice (the power of hundreds)
- Access to our national and international network of clients and partners



With all that support and expertise at your fingertips, you will achieve better results, faster. It means you'll have more confidence and clarity when it comes to decision-making. After all, you'll have access to expert help and advice whenever you need it.

In particular, your part-time CFO will help you to ensure your business is fully compliant.

Compliance is hugely beneficial to any organisation but it is by no means a one-off exercise. It takes time, energy and money to ensure it works effectively.

Your part-time CFO can bridge the gap between money and risk and handle both legal and compliance issues for your company to ensure risk is managed and the bottom line is optimised.

That lifts an enormous burden from your shoulders, leaving you free to focus on the core activities of your business.

Our regional teams of part time CFOs and our national collaborative network have all the latest regulatory knowledge at their fingertips.

There are many aspects of compliance but by way of a summary, your assigned part-time CFO will work with you to:

- Ensure that statutory accounts are completed correctly and filed on time.
- Ensure that annual returns are completed and filed on time.
- Use our national collaborative network to access information related to specific compliance issues for your industry.
- Check thresholds relating to GST registration, audit, cash accounting, intrastats, etc.
- Read and interpret bank/invoice finance covenants and ensure compliance.
- Check insurance cover, relevance and make sure paperwork is complete.
- Check the creditor situation with the ATO: are agreements in place and are they being adhered to?
- Ensure that all returns are accurate and up to date with the ATO.



Conclusion

When you allow a part-time CFO to lift the considerable burden of compliance from your shoulders so that you are no longer being sidetracked into time-consuming compliance activities, you are free to focus on the core activities of your business.

You can be confident that your part time CFO provides an expert level of support in managing compliance functions and risk.

He or she will help you to cut back on expensive infrastructure so that compliance is managed in a cost-efficient way. Critically, your CFO will give you peace of mind, leaving you free to concentrate on growing your business.

REAL
IMPACT
BETTER
RESULTS
FASTER
MONEY
CONFIDENCE

Protect your company now

Unless you have an up-to-date compliance programme, your company is at risk. Allow one of The CFO Centre's part-time CFOs to help you to ensure your company is fully compliant. To book a free one-to-one call with one of our part-time CFOs,

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