

Multiple Factors at play in Setting Compliance Reporting Lines By Aaron Nicodemus, In Compliance Week, December 19, 2023

Quote from Douglas Hileman

By Douglas Hileman, FSA, CRMA, CPEA

Compliance Week published an article for premium members outlining factors that contribute to the reporting lines for corporate Compliance functions¹. This article provided intriguing data from a survey showing how company size and sector align with the reporting relationships of the Compliance function.

Aaron Nicodemus, a respected writer, reached out and generously included a quote as part of the summary. See below.

Consider a company that is seeking to improve its sustainability or pursue environmental, social, and governance goals. The Sustainability Accounting Standards Board (SASB) identifies sustainability topics and their material risks in the short, medium, and long term, said Doug Hileman, a compliance consultant and president of Douglas Hileman Consulting.

“SASB’s approach to materiality aligned with that of financial reporting—it’s all about the risk of impact on financial performance,” he said. “SASB recognized that nonfinancial topics, including regulatory compliance burdens and risks, affect industries differently. Heavily regulated industries will have more, and probably more detailed, disclosure requirements around compliance than less regulated industries (e.g., pharma compared to retail). If compliance

requirements pose more material financial risks, the reporting channels and governance structure around compliance might be different.” A company in the energy sector, Hileman said, might see incentives from carbon capture and storage, energy efficiencies, and other benefits to pivot its strategy to improve its financial performance.

“Compliance has changed from a ‘must-do’ cost to an essential component of business strategy and growth,” he said. In that case, he added, “Maybe the reporting relationship should change from coming through operations or legal to the CFO or CEO.”



¹ Full article – including data from Compliance Week survey – available to premium members at <https://www.complianceweek.com/surveys-and-benchmarking/money-size-industry-multiple-factors-at-play-in-setting-compliance-reporting-lines/34050.article>.



Compliance (and its sibling functions of Risk and Audit) are often regarded as a costly burden; if that's the attitude, then that is exactly what they will become. We see the same now with Sustainability/ ESG. There may be a Chief Sustainability Officer on the organizational chart, but their role, responsibilities, and authority may be unclear. Is it any wonder these companies cannot cite meaningful examples of how Sustainability has added value?



COSO released “Achieving Effective Internal Control over Sustainability Reporting (ICSR)”² in March 2023. I am proud to be one of the six distinguished authors. It has received wide acclaim. The usefulness of this supplemental guidance has been recognized primarily by Accounting, Finance, Internal Audit, and external (accounting) assurance providers – professions already familiar with “internal controls.” It has received scant attention in communities not already familiar with internal controls: Environmental; Human Relations; Procurement; Real Estate and Safety, to name a few. These groups are the source of key data and narrative in Sustainability reporting and disclosures. Furthermore, more of this reporting is becoming mandatory to capital markets.



I maintain that these functions can identify opportunities, improve effectiveness and efficiencies, and drive value – but only if empowered to do so by company culture, their organizational charter, and strong leadership and talent in these functions.



The Compliance Week survey can offer useful data points on how Compliance function organization in your organization (or those in companies in your value chain) compare to current practice. The COSO ICSR supplemental guidance can be a powerful reference to help all communities identify these opportunities and leverage them.

² This document is free; see www.douglashileman.com for a direct link to the COSO website for download.