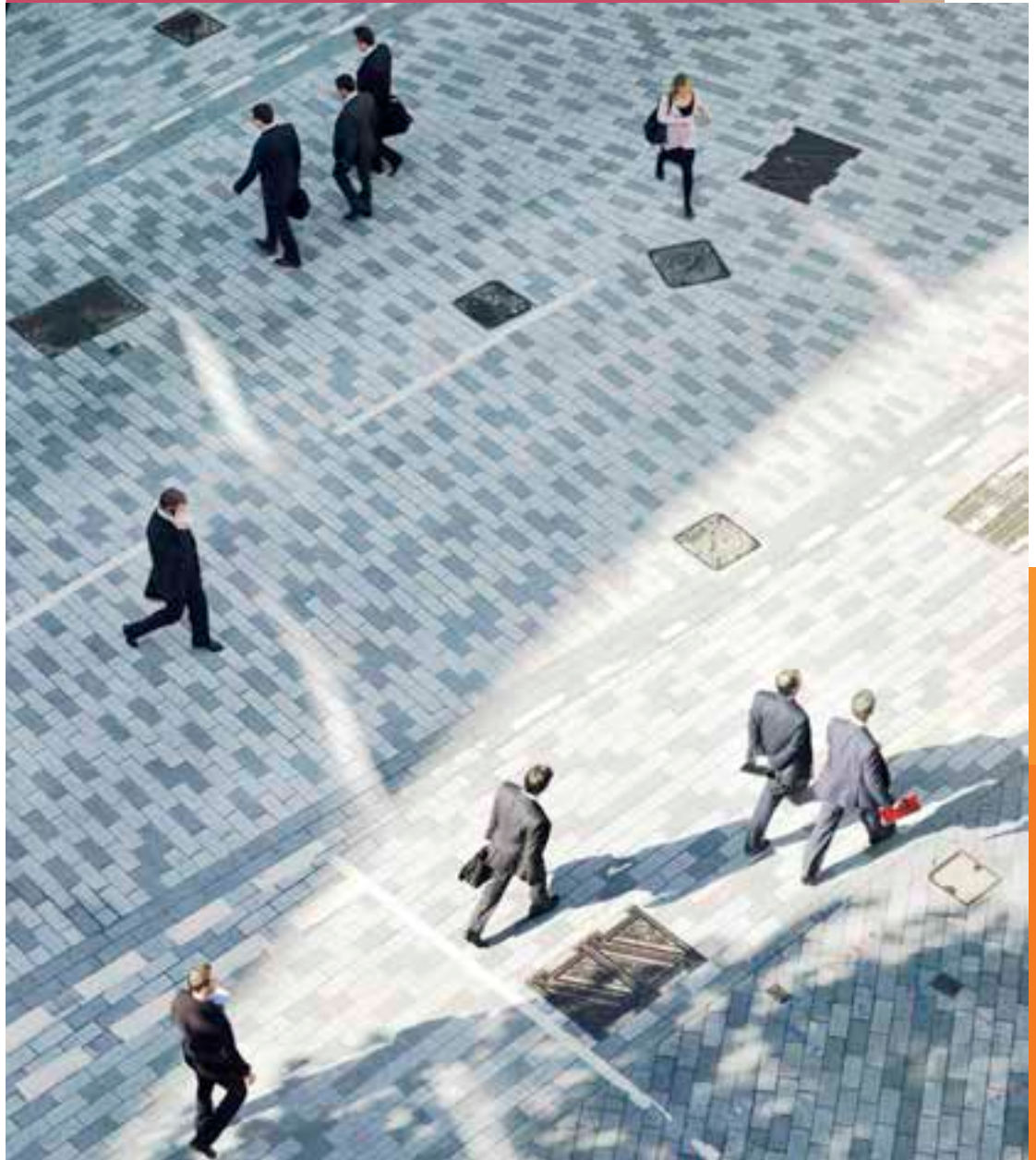


# *Broader perspectives; Higher performance.*

## State of Compliance: 2012 Study

*A joint effort between PwC  
and Compliance Week*

*June 2012*



**pwc**

*A supplement to*

**COMPLIANCE WEEK**  
THE LEADING INFORMATION SOURCE ON CORPORATE GOVERNANCE, RISK, AND COMPLIANCE



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Welcome to our State of Compliance report for 2012—a joint effort between PwC and Compliance Week. Here we’ve combined the deep knowledge and experience of PwC with the broad industry perspective of Compliance Week to answer a common question: How do compliance functions manage the increasing demands of numerous stakeholders and position themselves for the future? We understand that today’s chief compliance officer is overseeing an ever more complex regulatory environment and wants to be more efficient and effective. This survey tries to provide insight to support that goal.

First launched in 2011, the State of Compliance report aims to give compliance officers a comprehensive view of how they and their peers work, what their responsibilities are, what resources they have, and much more. Indeed, this executive summary is only one part of a much larger effort. We began last fall, creating a 35-question survey that explored a wide range of issues confronting compliance organizations today. Those 35 questions were grouped into four broad categories: the scope of responsibilities compliance departments have; the metrics they use to gain assurance that the compliance program is effective; the technology compliance departments use; and the staffing, resources, and oversight they have as well.

*Sincerely,*

**Matt Kelly**  
Editor-in-Chief  
Compliance Week

**Sally Bernstein**  
Principal, Advisory Services  
PwC

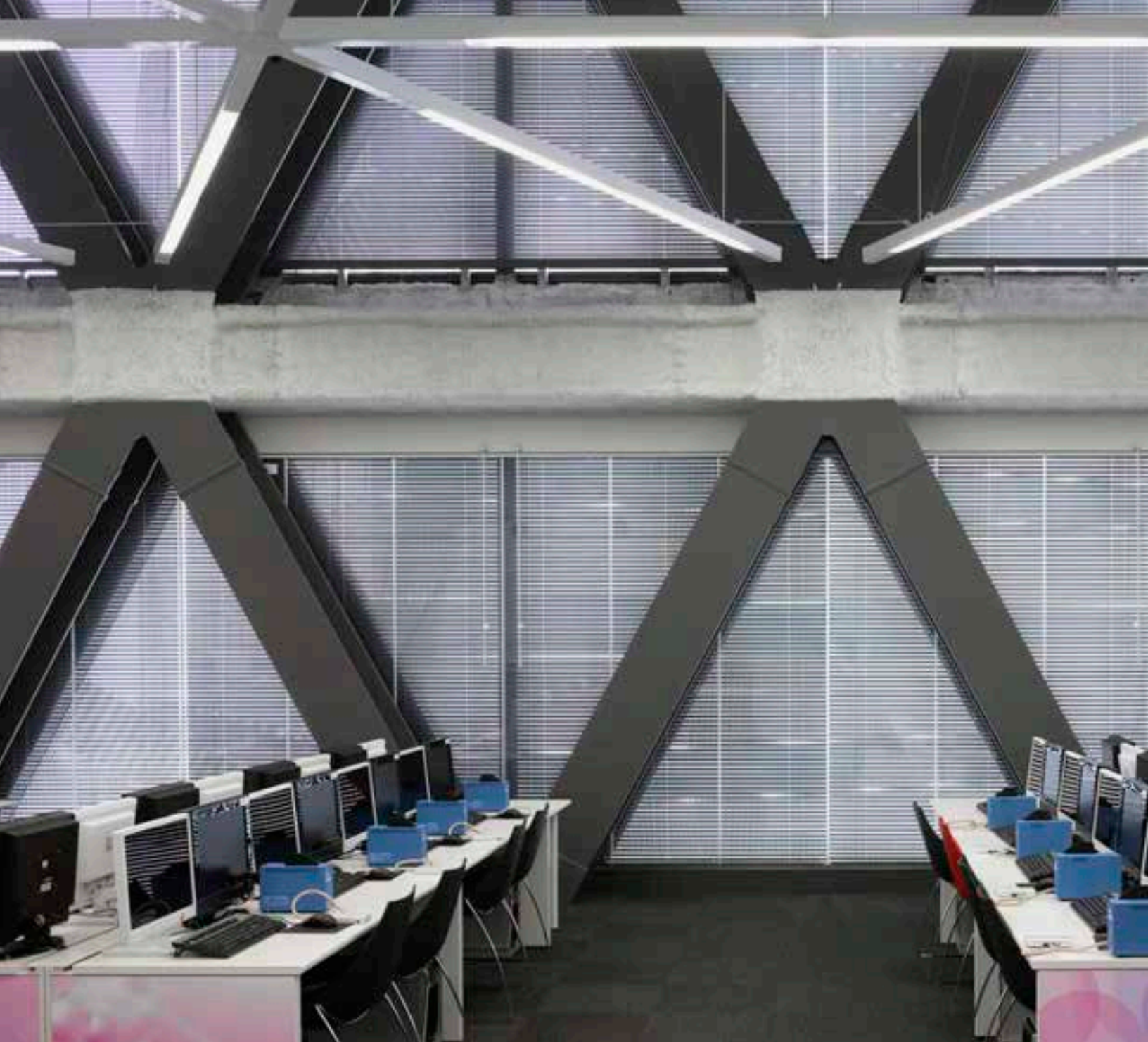
We then asked compliance executives across Corporate America (and overseas!) to take the State of Compliance survey. Participants hailed from all manner of industry, and their companies had median annual revenue of \$5 billion and more than 18,000 employees—in other words, the true voices of modern, global business. Their answers gave us the raw material to understand the common practice of compliance functions today, and we’re grateful for their invaluable input. In these pages, you’ll find an executive summary of the results on pages 7-9, and then “snapshots” of select findings from each of those four categories.

The data doesn’t end with this report, however. Once you finish here, you can visit [www.pwc.com/us/compliancebenchmark2012](http://www.pwc.com/us/compliancebenchmark2012) to take the State of Compliance survey yourself, and receive a complimentary report that compares your own answers across all 35 questions against the norms. And as years progress (because we certainly don’t intend to ignore this subject!) we can all get a better understanding of what common compliance practices are, and how to improve upon them.

We hope you find the information here useful, and that it can serve as a guidepost for your own efforts to understand how corporate compliance works best in your company.

**Barbara “Bobby” Kipp**  
Partner, Assurance Services  
PwC





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**Respondents who anticipate increased board and audit committee demands for evidence of effective compliance**

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**78%**

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**Respondents who are very satisfied with the assessment of the effectiveness of the compliance program**

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**35%**



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## *Executive summary*



The findings of the 2012 State of Compliance report indicate that at least in theory, the role of the compliance department is evolving into something akin to a primary care doctor: the physician who sets broad goals of health, monitors overall vital signs, and—most importantly—coordinates more specific medical needs with the specialists. Likewise, the chief compliance officer steers the corporation's efforts to manage compliance and other organizational risks, while ultimate responsibility for those tasks still resides (or at least, should reside) with the business units that have the resources and expertise to respond.

That said, our findings also suggest that several practical obstacles remain before compliance officers can move toward a fully integrated, proactive function. Those challenges include fragmented IT systems, tight budgets, shifting and growing regulatory requirements, and the ongoing challenge of proving that the compliance program is effective.

This year's State of Compliance report groups its findings into four categories: **Scope and Support**, to see what sorts of risks occupy the compliance department's time, and what assistance from other parts of the company the compliance department receives; **Effectiveness**, examining which metrics compliance departments use to gauge effectiveness, and how much evidence they need to collect; **Technology**, to study the IT systems employed to manage governance, risk, and compliance; and **Reporting and Resources**, reviewing the budgets, staffing, and executive oversight of the compliance department.

The scope of the compliance officer's purview is expanding, without question. Our survey found that for virtually every risk or regulatory issue—anti-trust, anti-corruption, ethics, import-export, supply chain, social media, codes of conduct, and many more—the compliance department is now involved to at least some degree. Hence our metaphor of the compliance officer as primary care physician: working with IT, legal, internal audit, finance, and many other specialists in the enterprise, providing guidance on all manner of risk and regulatory issues that come up.

Of greater interest, however, were the in-house compliance committees that businesses use to help understand and manage those risks. Most companies do now have a compliance committee (71 percent, up from 57 percent last year), but the composition of those groups doesn't necessarily reflect the same worries that compliance officers have. For example, more than 75 percent of respondents were directly responsible for conflicts of interest or abuses in gifts and entertainment, but only 33 percent said sales and marketing representatives served on their compliance committees—when gifts and entertainment offered to customers have long been concerns, and in some industries, regulated.

*The scope of the compliance officer's purview is expanding, without question. Our survey found that for virtually every risk or regulatory issue, the compliance department is now involved to at least some degree.*

Measuring the effectiveness of the compliance program—or more accurately, gaining assurance that your compliance effort works—is one of the primary occupations of the chief compliance officer today, and with good reason. Our survey found that in coming years, practically everyone will want more evidence of an effective compliance program. The groups that most want to see evidence of effectiveness are regulators (91 percent), audit committees (72 percent), and business partners (70 percent). These are the very groups that have the most influence over a compliance officer's daily activities. The onus will be on the compliance officer to find those metrics that can prove effectiveness.

*In coming years, practically everyone will want more evidence of an effective compliance program.*

We did find some disconnect between metrics that compliance officers rated as important, and the ideals commonly cited as proof of a strong compliance program. For example, only 35 percent of respondents labeled surveys of workforce culture as very important, even though the U.S. Sentencing Guidelines clearly favor a “culture of compliance.” Along similar lines, 94 percent rated compliance audits as important or highly important—and to be sure, they are; but audits mostly uncover weaknesses after the fact, rather than giving insight into current “compliance in motion.”

Our findings related to the technology that compliance departments use revealed a highly fragmented approach, which runs risks of its own. Corporations still perform the solid majority of their GRC-related tasks using desktop IT tools, principally Microsoft Office applications such as Word, Excel, or SharePoint. Only in a handful of specific circumstances—handling financial data, delivering ethics training, tracking employee surveys, case management—did a majority of respondents say they use software from GRC vendors.

Moreover, the corporate departments that typically cooperate in GRC-related tasks are more likely to use their own IT tools than to share one common system. For example, 47 percent of respondents said their internal audit department uses its own tool, while only 20 percent said they share one with other functions. In the legal department, the numbers were 38 and 12 percent.

The ad hoc approach to IT systems is unsettling unto itself, since it increases the risk of “silos” of data that might be duplicative, incompatible, or simply unknown to the compliance department. Organizations often have not maximized the use of their historic data and technology investments. Combine that fact, however, with the new corporate world of cloud computing systems, social media (46 percent of respondents monitor social media sites for hints of misconduct; 54 percent review social media postings as part of pre-hiring due diligence), and widespread use of mobile devices by employees, and suddenly the odds start to soar that the compliance department doesn't have visibility into all the data that might suggest risk.



Having systems that enable monitoring and reporting supports the compliance officer's goal of improved understanding of effectiveness. The findings suggest that compliance officers still have much work ahead of them to harness existing IT systems and to build new ones that will provide that holistic view of risk and compliance.

One piece of mildly good news: 46 percent of compliance officers say they plan to spend more money on compliance-related technology and tools in the coming 12 months. (Although that also means a majority of compliance officers do not.)

Budgets, staffing, and reporting relationships all are moving in positive directions. In the 2011 State of Compliance survey, nearly one-third of respondents had budgets of less than \$1 million last year. In 2012, that group dropped to 20 percent. At the same time, the percentage reporting budgets of \$3 million to \$10 million jumped from 14 percent last year to 21 percent in 2012.

Staffing levels tell a similar tale. Last year 12 percent of compliance departments consisted of one employee. In 2012, only 4 percent said the same. Indeed, nearly 80 percent of respondents said their compliance departments grew at least modestly in the last year; one-quarter of respondents reported that their compliance departments jumped by more than 10 percent. Only one-third experienced no change.

Oversight of the compliance function is changing as well. Fewer compliance officers report to the general counsel on a daily basis (35 percent in 2012, compared to 41 percent last year), although the number reporting on a daily basis to the CEO held steady at 32 percent. On a formal basis, 32 percent of respondents report to the audit committee, almost as many as who report to the general counsel (33 percent) and much more than those reporting to the CEO (20 percent). This falls in line with the U.S. Sentencing Guidelines' revisions from 2010, which favor an independent compliance function that preferably reports to the audit committee and board.

Overall, then, the findings suggest that while the compliance department is getting incrementally more budget dollars and manpower, that may not necessarily keep pace with the expanding scope of duties, nor with the improvements necessary for IT systems. We are indeed moving in a good direction, but much remains ahead to achieve a truly strong, flexible, and effective compliance program.

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## Scope and support

The range of compliance departments' primary responsibilities—ethics, codes of conduct, anti-corruption, and a few similar issues—has not changed much from the 2011 State of Compliance survey. The range of the compliance department's secondary responsibilities is what's interesting.

For almost any risk or regulatory issue, the compliance department is now involved to at least some degree. Anti-trust, import-export, supply chain management, social media (see Chart 1)—the list is endless, and almost all survey respondents said they were at least somewhat, if not heavily, involved in addressing those issues.

*A crucial question is whether the composition of those compliance committees reflects the risks that most occupy the compliance officers' time. Our State of Compliance survey suggests that right now, the committees do not.*

Why? As regulatory and business complexity grows, boards and senior executives are ever-more overwhelmed with concerns and want a single source of information about compliance and risk. That source increasingly tends to be the CCO, so in turn the CCO is trying to coordinate all of the organization's other "players on the field" who are each responsible for specific types of risks or compliance obligations.

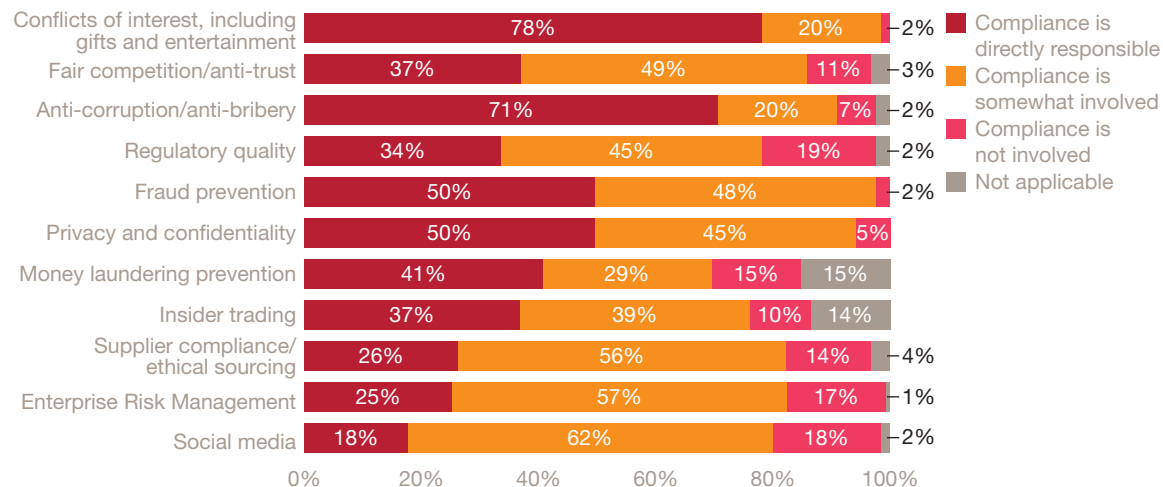
Given that expansive role, little surprise then that most corporations (71 percent) now have an in-house compliance committee to pinpoint the company's risks and ensure coordinated efforts to address them. (See Chart 2.) Such committees, PwC partner Bobby Kipp says, help the compliance officer understand where non-compliance might happen and how to ensure that the company has an effective approach to mitigating that. "Compliance departments are small," Kipp says. "They don't have direct management responsibility for most risks, so they leverage other resources in the company and use the compliance committee to help get the job done."

A crucial question is whether the composition of those compliance committees reflects the full universe of compliance risks. Our State of Compliance survey suggests that right now, the committees do not. (See Chart 3.) For example, more than 80 percent of survey respondents said they are somewhat or directly responsible for ethical sourcing and supply-chain compliance—yet only 21 percent of compliance committees included representatives from the supply-chain department. Likewise, more than 75 percent of respondents were directly responsible for conflicts of interest or abuses in gifts and entertainment, but only 33 percent of respondents said sales and marketing were part of their compliance committees.

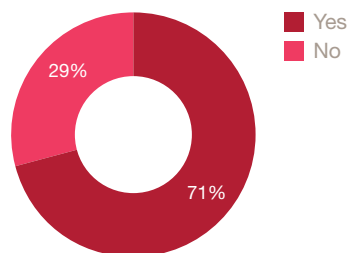
That disconnect between scope of responsibility and support from the rest of the business may simply reflect the newness of the compliance committee structure. Some organizations are still trying to understand which departments belong on an effective committee, Kipp says.

About 45 percent of compliance committees include representation from the business units. Given that a majority of companies (53 percent) now say the business units have direct responsibility for compliance, with support and oversight from the compliance department, one might expect this number to be higher. That might be due to numerous reasons, Kipp says, such as a desire to keep compliance committees small in size, or using business-unit level compliance committees in addition to corporate committees.

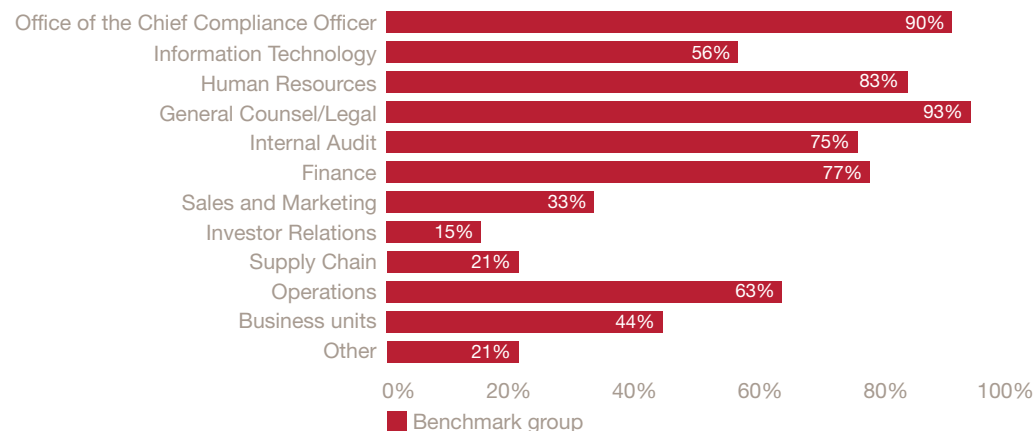
**Chart 1: Extent of the compliance department's involvement in various areas of the enterprise (partial list):**



**Chart 2: Does your company have an in-house compliance committee to support compliance efforts?**



**Chart 3: Departments or functions that serve on the compliance committee:**





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# Effectiveness

*“Compliance officers today know that just tracking calls to the hotline isn’t enough. The question is what is enough. They really need overall assurance that their program is effective, and getting that assurance requires combination of multiple metrics and insights.”*

*—Bobby Kipp, PwC*

Few elements of corporate compliance are as elusive as the art of confirming that, yes, your ethics & compliance program is effective. In our 2011 survey, 38 percent of respondents said they did not measure the effectiveness of their programs at all—a startling figure, considering how much the U.S. Sentencing Guidelines stress the importance of an “effective” program.

Our 2012 survey tried to be more precise: How satisfied are you with the assessment of the effectiveness of your compliance program? What metrics do you use to measure effectiveness, and how often? The answers indicate that any effort to determine effectiveness is a hugely complex task. For example, of the 14 different metrics we asked survey respondents to rank, more than 80 percent rated 9 of those 14 as “important” or “very important.”

“Compliance officers today know that just tracking calls to the hotline isn’t enough,” says Bobby Kipp, partner at PwC. “The question is what is enough. Compliance officers really need overall assurance that their program is effective. Getting that assurance requires a combination of multiple metrics and insights.”

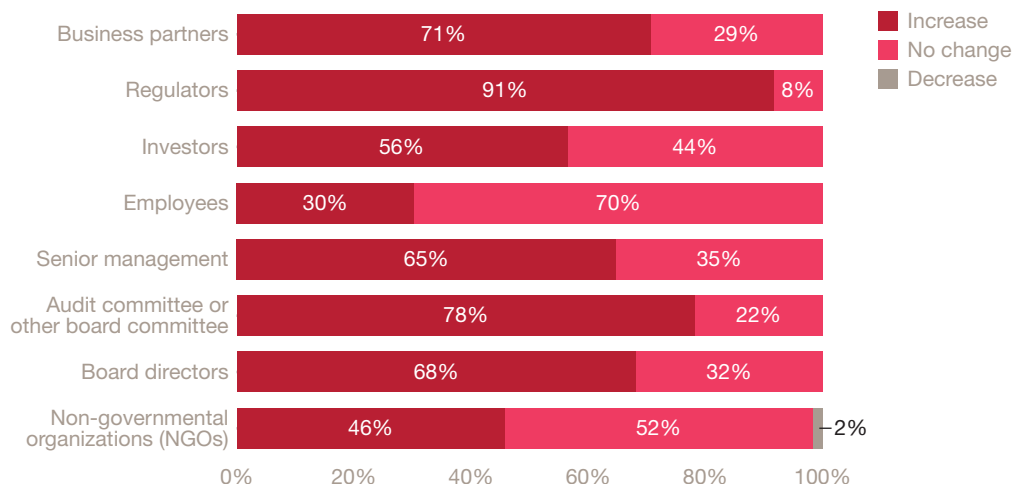
Moreover, assurance of effectiveness will be paramount in coming years. As Chart 1 shows, everyone wants more evidence of an effective compliance program. The groups that most want to see evidence of effectiveness are regulators (91 percent), audit committees (78 percent), and business partners (71 percent)—the very groups that have the most influence over a compliance officer’s daily work. The onus will be on compliance officers to find those metrics that can prove the case.

Compliance officers themselves largely (84 percent) say they are satisfied with their assessment of effectiveness. (See Chart 2.) The question is whether the metrics they use to reach that conclusion, and how often they do the measuring, justify their satisfaction. That may not always be the case. For example, 76 percent of respondents say that surveys of workforce culture are important or very important, since the U.S. Sentencing Guidelines clearly favor a “culture of compliance” and surveys are a useful way to diagnose ethical attitudes and correct bad habits before they lead to specific compliance failures.

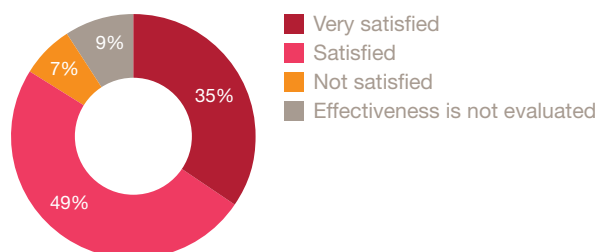
On the other hand, 92 percent cited compliance audits as an important or very important metric—which it is, although it often identifies problems only after the fact. Other important metrics were hotline usage, employee disclosures, and training data. That is, the most popular metrics were those things that can be documented and (if necessary) given to regulators as proof that the compliance department is trying. But those are not necessarily the same metrics that prove a compliance department works well.

“There’s a lot of good information collected and used by function leaders, but not all of it is available to compliance,” says Sally Bernstein, principal at PwC and co-head of its compliance and ethics practice. “The key is to engage with those other leaders. That’s going to give compliance leaders a better sense of specific risk metrics and indicators—both leading and lagging—and that fills in the picture of overall effectiveness.”

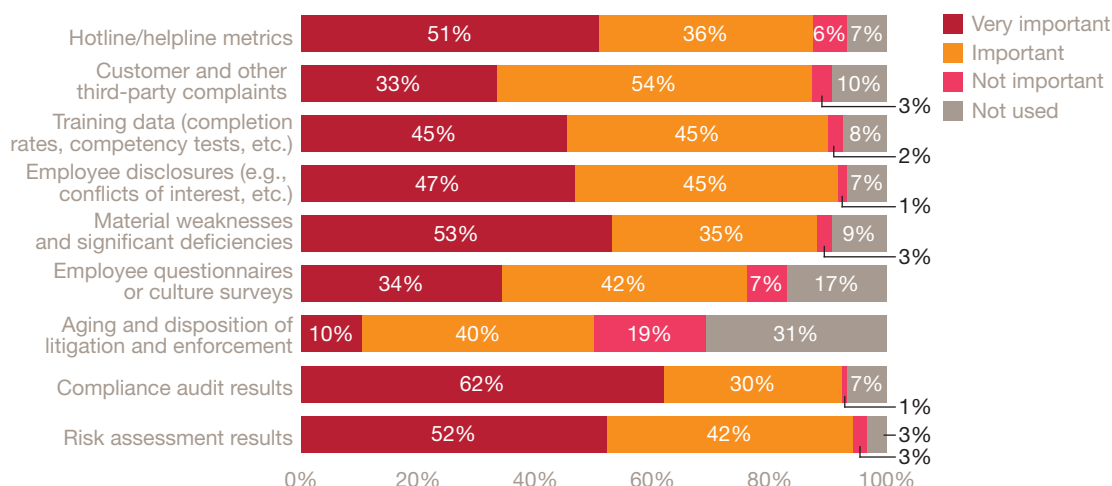
**Chart 1: How much will various stakeholders increase or decrease their demand for evidence of effective compliance in the next three years?**



**Chart 2: How satisfied are you with your assessment of the effectiveness of your ethics & compliance program?**



**Chart 3: Importance of indicators and metrics in evaluating the effectiveness of your ethics & compliance program:**



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# Technology

To little surprise, corporations still perform the solid majority of their GRC-related tasks using desktop IT tools, principally Microsoft Office applications such as Word, Excel, or SharePoint. (See Chart 1.) No matter how we asked the question, or what specific type of data we asked about, desktop tools almost always ranked as the most common technology compliance executives used to get the job done. Only in a handful of tasks—audit management, delivering training, employee surveys, case management—did a majority of respondents say they use GRC software tools. This further demonstrates a lack of an integrated technology strategy for risk and compliance information processes.

*“We’re still not leveraging IT for compliance efficiencies. Adding to the challenge is that technology—social media and the explosion of data and devices—is making compliance more complex.”*

*—Sally Bernstein, PwC*

This dominance of desktop tools underscores the compliance department’s difficult job of monitoring risks across the whole enterprise. Most types of risks, and most data generated about them, arise within one specific part of the organization: operations, or finance, or R&D, or a particular geographic market. Understandably, then, employees across a large enterprise or business unit will use the technology they have at their desks—typically, Microsoft Office tools—to handle their immediate challenges.

Compliance officers already worry about the proliferation of data and how that might put the organization at risk, but the risk is rising as global corporations grow ever more expansive, and IT systems move ever further into technologies such as cloud computing or mobile devices. Data created or stored using desktop tools is already hard to control, and this new reality of rapid data proliferation increases the odds that compliance officers won’t have visibility into all the data the company has, or where that data resides. That, in turn, increases all sorts of other risks: regulatory noncompliance, litigation, reputation, security.

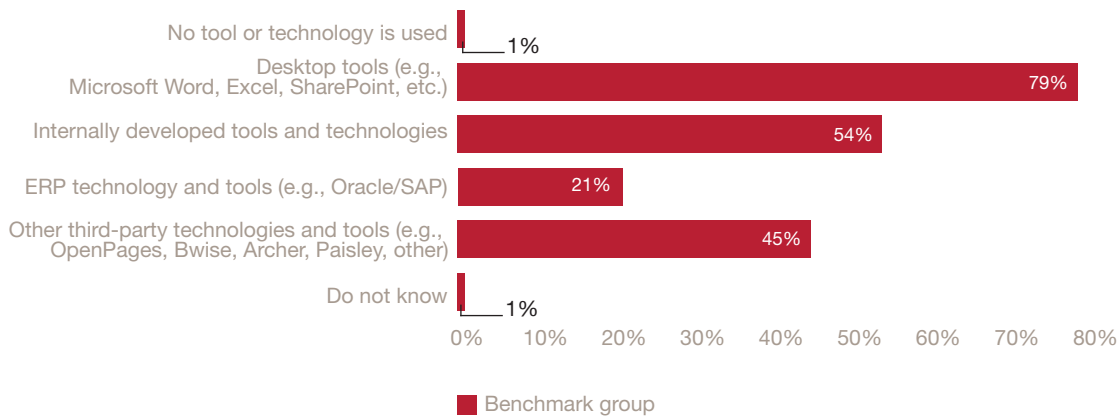
Even the departments that typically participate in GRC-related tasks are more likely to use separate IT tools rather than share one (see Chart 2); an alarmingly large number of respondents also reported that they use no tool at all. All of that points to a fragmented approach to GRC—the dreaded “silos” of data and compliance activity, that can thwart compliance executives trying to get a holistic view of enterprise risk. Although our results suggest that the idea of the compliance department as leader of a coordinated effort to manage risks may be taking root, the landscape of IT systems doesn’t yet reflect that.

“Technology is still not enabling GRC the way it could,” says Sally Bernstein, partner at PwC. “We’re still not leveraging for efficiencies. Even worse is that at the same time, technology—social media and the explosion of data and devices—is making compliance more complex.”

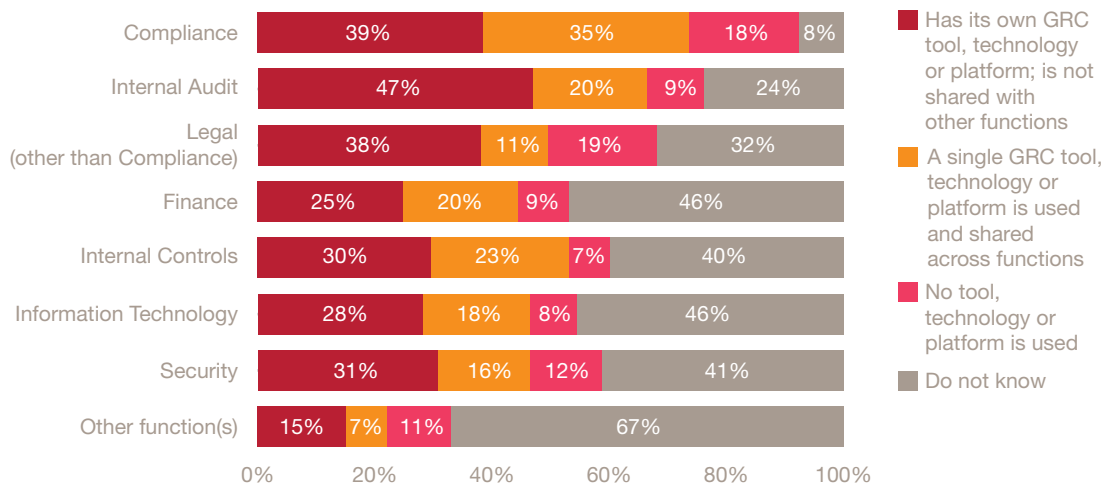
Forty-six percent of compliance officers did say they plan to spend more money on compliance-related tools and technologies. (See Chart 3.) What will they spend that money on? Joseph DeVita, a partner in PwC’s GRC software automation practice, expects a continued migration to GRC software. “That will continue to go up,” DeVita says. “We’ll see more and more companies use technology smartly to monitor compliance and compliance-related information. The GRC technologies of today are where the ERP platforms were 20 years ago. An appropriate GRC technology strategy, integrated with the overall IT strategy, can accelerate the adoption of a more automated compliance process.”



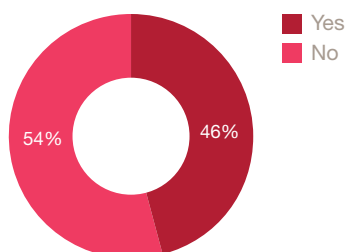
**Chart 1: Tools and technologies used by GRC functions to capture, monitor, and report GRC-related data (compliance function only):**



**Chart 2: GRC functions sharing a common GRC-specific tool, technology, or platform with other functions:**



**Chart 3: Are you going to purchase more GRC-related technology in the next 12 months?**



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## Reporting and resources

Risks, tools, and metrics aside, compliance officers do have more good news in the numbers: budgets and staff are increasing (albeit slowly), and reporting relationships are moving toward the ideal of an independent chief compliance officer who answers to the board.

In the 2011 State of Compliance survey, 31 percent of respondents had budgets of less than \$1 million last year. In 2012, that group dropped to 20 percent. At the same time, the percentage reporting budgets of \$3 million to \$10 million jumped from 14 percent last year to 21 percent in 2012.

*Compliance officers do have good news in the numbers: budgets and staff are increasing, and reporting relationships are moving toward the ideal of an independent chief compliance officer who answers to board.*

Staffing levels tell a similar tale. Last year 12 percent of compliance departments consisted of one employee. In 2012, only 4 percent said the same. Indeed, nearly 80 percent of respondents said their compliance departments grew at least modestly in the last year; one-quarter of respondents reported that their compliance departments jumped by more than 10 percent. Only one-third experienced no change.

Detailed survey results show that, while compliance departments are small, they are involved in a large number of activities, including compliance strategy, risk assessments, training, investigations and policy

Several factors are driving those increases in spending and staff, although assigning the proper weight to each one is difficult. The growing number of, and complexity in, rules and regulations is certainly one cause. More aggressive enforcement—including the larger penalties for misconduct—is another, since that gives compliance departments strong incentive to prevent or remediate problems quickly. Doing so requires money and manpower.

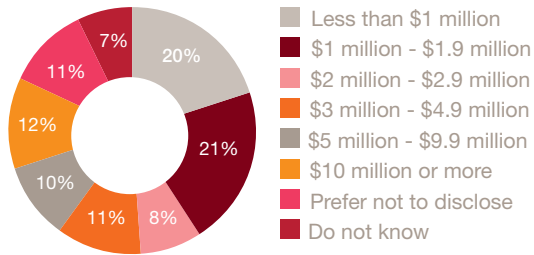
That said, as more and more compliance tasks are pushed onto the business units, more and more spending and staffing on compliance will be allocated there as well—but those numbers are hard to pinpoint. “In large companies many people own various elements of compliance,” Bernstein says. “The total cost of compliance is not always easily measured as different groups define, plan, assess, implement, execute and manage all the tasks.”

Reporting relationships for compliance departments are moving in the right direction as well. Fewer compliance officers report on a daily basis to the general counsel (35 percent in 2012, compared to 41 percent last year), although more report to the CFO (16 percent versus 6 percent), and an equal number report to the CEO (32 percent).

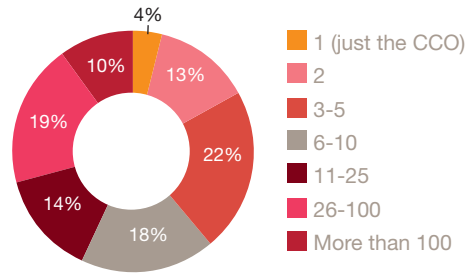
Also encouraging: 32 percent of respondents report formally to the audit committee, almost as many as who report to the general counsel (33 percent) and much more than those reporting to the CEO (20 percent). This falls in line with the U.S. Sentencing Guidelines’ revisions from 2010, which favor an independent compliance function that preferably reports to the audit committee and board. In addition, corporate integrity agreements or other enforcement orders often stipulate that the CCO must report to the board or the CEO.

Despite the positive changes in many areas, however, room for improvement remains. One example: 8 percent of companies have no formal chief compliance officer at all!

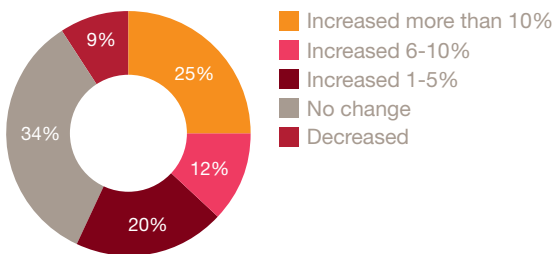
**Chart 1: Total annual budget for compliance and related activities at the compliance department level:**



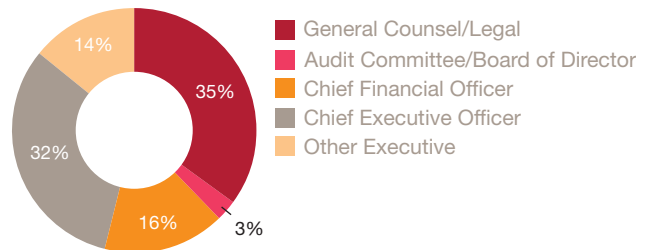
**Chart 2: Number of full-time equivalents (FTEs), including CCO, working in the compliance department:**



**Chart 3: Change in FTE compliance department staffing over the past 18 months:**



**Chart 4: On a day-to-day basis, the CCO reports to...**





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# Methodology

Survey data supporting the Compliance Week-PwC State of Compliance 2012 Study was collected from February 28 through April 6, 2012. The survey instrument was directed to senior-level compliance officers at U.S. corporations with annual revenue of \$1 billion or more.

As of April 6, Compliance Week received 119 usable survey responses; 116 were from the United States, three from the European Union. Median revenue and number of employees were \$5 billion and 18,414, respectively. Responses by industry, as classified by survey participants using standardized NAICS coding, included:

- Manufacturing (33)
- Finance and insurance (25)
- Professional, scientific, and technical services (10)
- Retail (9)
- Utilities (8)
- Educational services (6)
- Healthcare and social assistance (6)
- Construction (5)
- Information (5)
- Other industries (12)

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# ***How to participate in this study***

The State of Compliance 2012 study is based on an annual survey developed by PwC, Compliance Week and an advisory committee comprised of senior compliance executives representing a cross-section of leading U.S. companies.

The study collected and compared data from senior compliance officers at leading U.S. companies to set a baseline understanding of the state of compliance today. Now in its second year, the State of Compliance study also tries to provide a lens into the changing practice of compliance risk management over time.

While this report summarizes survey data collected through April 6, 2012, the survey remains open and available, allowing you to participate in the study by visiting [www.pwc.com/us/compliancebenchmark2012](http://www.pwc.com/us/compliancebenchmark2012). The survey will remain open through Dec. 31, 2012.

## **What you'll receive**

Each participating company receives a complimentary benchmarking report that compares the company's specific survey responses with respective peer group data.

Data available includes:

## **Compliance department scope & effectiveness**

- To what extent is your compliance department directly responsible for, or involved in, select areas?
- How satisfied are you with the assessment of your ethics and compliance program's effectiveness?
- How often do you perform select evaluations?
- What key indicators or operating metrics do you collect metrics you collect regarding your compliance program?
- The extent to which various groups' demand for evidence of compliance will change over the next three years?
- Ways in which your company uses social media in the compliance and ethics program?

## **Use of technology**

- What categories of tools and technologies, if any, are used in the governance, risk and compliance functions to capture, monitor and report GRC-related data across the company?
- To what extent do various GRC functions share a common GRC specific tool, technology or platform with other functions or departments?
- To what extent do various GRC functions capture, monitor and report the same compliance-related data or issues?
- What categories of tools and technologies, if any, are used to support key components of your compliance program?
- How satisfied are you with the return on investment on the GRC technology investments you have made to date?
- Whether you are considering purchasing additional compliance related technology or tools in the next 12 months?

### **Staffing, budget and resources**

- Total annual budget for your compliance department.
- Number of full-time equivalents (FTEs), including the CCO, working in the compliance department.
- How the number of FTEs in the compliance department has changed in the last 18 months?
- How many FTEs in your central compliance department are focused on select tasks?
- What other departments or functions the compliance department reports to, oversees, or coordinates with?
- How often the compliance department relies on staff from other departments or functions to assist with ethics and compliance activities?
- Whether you have ethics or compliance representatives embedded in the business units?
- To what extent those embedded individuals are dedicated to their ethics and compliance roles?

### **Leadership, reporting relationships, and organizational structure**

- How long has the company had a chief compliance officer in name or function?
- To whom the CCO reports formally?
- To whom the CCO reports on a daily basis?
- The seniority level of the top compliance executive?
- Other titles the CCO may or may not hold?
- The primary structure of the compliance department?
- How often does the CCO provide written reports to the board or audit committee on compliance matters?
- How often the CCO meets in person with the board or audit committee on compliance matters?
- How often the CCO meets with the CEO or appropriate senior executives on compliance matters?
- Whether the company has an in-house compliance committee to support compliance department efforts?
- Who serves on that compliance committee?
- How often the compliance committee meets?

---

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***Dear Compliance Officer,  
Your broader perspective  
has arrived.  
Sincerely, PwC***

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