Managing the compliance conundrum
Compliance Risk

Historically, boards have been perceived to focus primarily on value creation for shareholders. But with renewed attention to statutory compliance, regulators now also want boards to focus on value management and value protection by doing a formal review of compliance obligations.

As a result, corporations are looking to replace informal compliance frameworks with well structured, documented and demonstrable compliance structures that help management monitor and report compliance risk and exposure as well as compliance status to the Board.

Clause 49, among other initiatives, mandates that the board will periodically review compliance reports of all laws applicable to the company, as well as steps taken by the company to rectify instances of non-compliances.

Further, the voluntary guidelines issued by the Ministry of Corporate Affairs require directors to furnish statements that appropriate systems are in place to ensure compliance of all applicable laws to the company.

<table>
<thead>
<tr>
<th>Compliance area (illustrative)</th>
<th>Possible risk of non compliance</th>
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<tbody>
<tr>
<td>Direct tax compliance</td>
<td>• Imposition of penalty</td>
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<td></td>
<td>• Prosecution of directors</td>
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<td></td>
<td>• Loss of reputation</td>
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<tr>
<td>Indirect tax compliance</td>
<td>• Cancellation of licences –</td>
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<tr>
<td></td>
<td>Withdrawal of tax benefits</td>
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<td></td>
<td>• Stoppage of operations</td>
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<tr>
<td></td>
<td>• Loss of reputation</td>
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<tr>
<td>Labour law compliance</td>
<td>• Imposition of penalty</td>
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<td></td>
<td>• Prosecution of directors / occupier</td>
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<td></td>
<td>• Loss of reputation</td>
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<td></td>
<td>• Employee dissatisfaction</td>
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<tr>
<td>Environment, health &amp; safety laws</td>
<td>• Stoppage of operations</td>
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<td></td>
<td>• Loss of reputation</td>
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<tr>
<td></td>
<td>• Imposition of penalty</td>
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<tr>
<td>Corporate law compliance</td>
<td>• Imposition of penalty</td>
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<tr>
<td></td>
<td>• Vacation / prosecution of directors / senior management</td>
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<td></td>
<td>• Loss of reputation</td>
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</tbody>
</table>

Compliances Inventory

Rating Criteria Filter

High Risk

Medium Risk

Low Risk
“Failure to implement good governance procedures has a cost beyond mere - regulatory problems. Companies that do not employ meaningful governance procedures will have to pay significant risk premium when competing for scarce capital in today’s public markets…”

Chairman Committee on Corporate Governance, SEBI

1. **Large number of legislations and multiple regulators**
2. **Multiple business locations attracting state legislations**
3. **Lack of ownership /awareness of functional staff about compliance requirements**
4. **Segmented compliance initiatives**
5. **Time-consuming and unreliable manual reporting**
6. **Dynamic legal environment, lack of a robust updation process, frequent changes in process owners and internal processes.**

**Three dimensions**

- Direct Tax
- Indirect Tax
- Corporate Laws
- Sector Specific Laws
- Labour Laws
- Registration and licensing
- Payment of taxes and dues
- Filing and reporting
- Do’s and Don’t’s
- Procedural Compliance
Compliance with laws is innate to any corporation’s business operations. However, the maturity levels may vary.

<table>
<thead>
<tr>
<th>Level</th>
<th>Description</th>
<th>Where are you today?</th>
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<tbody>
<tr>
<td>Unreliable</td>
<td>• Unpredictable compliance where compliance framework not designed or not in place</td>
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<tr>
<td>Informal</td>
<td>• Compliance framework designed but is not adequately documented</td>
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<tr>
<td></td>
<td>• Compliances mostly dependent on people</td>
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<td></td>
<td>• No formal training or communication of compliance status</td>
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<tr>
<td>Standardised</td>
<td>• Compliance framework is designed and in place</td>
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<td></td>
<td>• Framework documented and communicated to process owners</td>
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<td></td>
<td>• Inadequate process for detecting compliance deviations</td>
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<tr>
<td>Monitored</td>
<td>• Standardised compliance framework with periodic testing for effective</td>
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<td></td>
<td>design and operation with reporting to management</td>
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<td></td>
<td>• Automation and tools for limited use</td>
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<td>Optimised</td>
<td>• An integrated statutory compliance framework with continuous monitoring</td>
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<td>by management with regular improvement</td>
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<td></td>
<td>• Automation to support compliance process and allow rapid changes</td>
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<td>if required.</td>
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**Compliance initiative leads**

- Effective governance and streamlined compliance processes
- Safeguarding reputation and brand enhancement
- Lower risk exposure
- Improved control and visibility into compliance related operation
- Ease of compliance management and monitoring
- Better resource utilisation and enhanced productivity
- Reduced compliance costs
Essentials of a robust compliance management framework

How can we help

1. Diagnostic of existing compliance management systems
2. Detailed compliance reviews including reviews for sector specific laws
3. Assistance in setting up of statutory compliance framework
4. Automation of compliance processes into an organization-wide compliance management system

The PwC difference

- Dedicated team with strong legal and technology expertise
- Experience of working with some of the largest companies in India
- Standardised methodology, work process & audit procedures tailored to suit your needs
- Repository of applicable laws to different sectors
- Practical and implementable action plans
- Zero time to hit the ground
Delivering excellence

Our Compliance Tool significantly speeds up the complex internal processes that companies have to go through in order to track legal compliances across multiple locations by creating a robust compliance framework and providing the senior management with a one-stop view of the organization’s compliances through comprehensive compliance dashboards and reports.

Key Feature

1. Central repository of all applicable compliances, statutory forms, licenses and even evidences for compliances
2. Flexibility to customize the tool based on organizational needs and practices
3. Enables creation of complex Compliance Organogram
4. Enables creation of multiple approval and escalation levels
5. Enables customizable dashboards and compliance status and exception reports
6. User friendly as enables drill downs from readily available links
7. Facilitates customizable alerts and reminders
8. Audit Trails to track compliance at every step
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Providing organisations with the advice they need, wherever they may be located, our highly qualified, experienced professionals, who have sound knowledge of the Indian business environment, listen to different points of view to help organisations solve their business issues and identify and maximise the opportunities they seek. Our industry specialisation allows us to help co-create solutions with our clients for their sector of interest.

We are located in these cities: Ahmedabad, Bangalore, Bhubaneshwar, Chennai, Delhi NCR, Hyderabad, Kolkata, Mumbai and Pune.

Great! Where do I start?

If you wish to have a deeper conversation on the subject, then we at PwC will be glad to assist you.

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