



Data analytic insight

**Strengthening compliance
effectiveness metrics**

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Executive summary

As expectations from regulators, Boards, and investors have evolved, the need to develop and maintain effective metrics to support compliance efforts and provide a window into an organization's compliance risks and controls has never been more important. Metrics must be comprehensive and insightful in order to prevent misconceptions and to tell an accurate story about your compliance program's operational effectiveness, including how well the first line of defense has implemented compliance policy requirements in its day-to-day activities. Further, predictive metrics that are aggregated from disparate data sources across an organization can provide a more pointed view of risk severity and focus on compliance risks that might otherwise be buried.

It is vital that organizations evaluate, integrate, and (where valuable) automate metrics that provide insights into their compliance efforts in order to more effectively prevent, detect, and respond to current and future compliance risks. Such metrics can help compliance and business leaders identify gaps and areas where further operational controls can strengthen the control environment, while enabling the organization to move beyond compliance and realize greater value.

Using insights from discussions with executives and their stakeholders, this publication provides key takeaways to help compliance, business, and risk leaders initiate their next steps to bolster their metrics:

- **Confirm your compliance metrics goals** so you can prioritize enhancements that are directionally aligned to goals and business needs.
- **Evaluate existing compliance metrics**, specifically key risk indicators (KRIs) and key performance indicators (KPIs) to better understand where your metrics are already strong and where they can be improved or supplemented.
- **Distinguish execution effectiveness metrics between first and second lines of defense**, so you can measure how well your compliance program is functioning in its role, in addition to how well the first line business embodies the compliance requirements in its day-to-day activities.
- **Determine the compliance metrics to enhance** based upon a detailed analysis of factors, in order to realize greater value and risk coverage.
- **Incorporate additional financial and nonfinancial attributes** to address new regulatory obligations and Board expectations, such as those around environmental, social, and governance (ESG) reporting.



Top metrics to measure compliance program effectiveness*



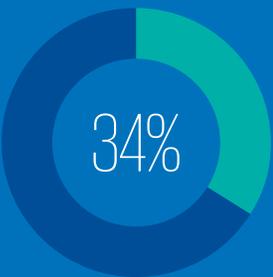
Internal audit/
external audit results



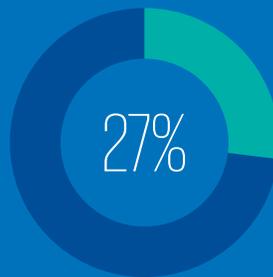
Regulatory
actions/inquiries



Training
results



Internal employee
survey results



Culture assessment
results

*KPMG 2021 Chief Compliance Officer Survey

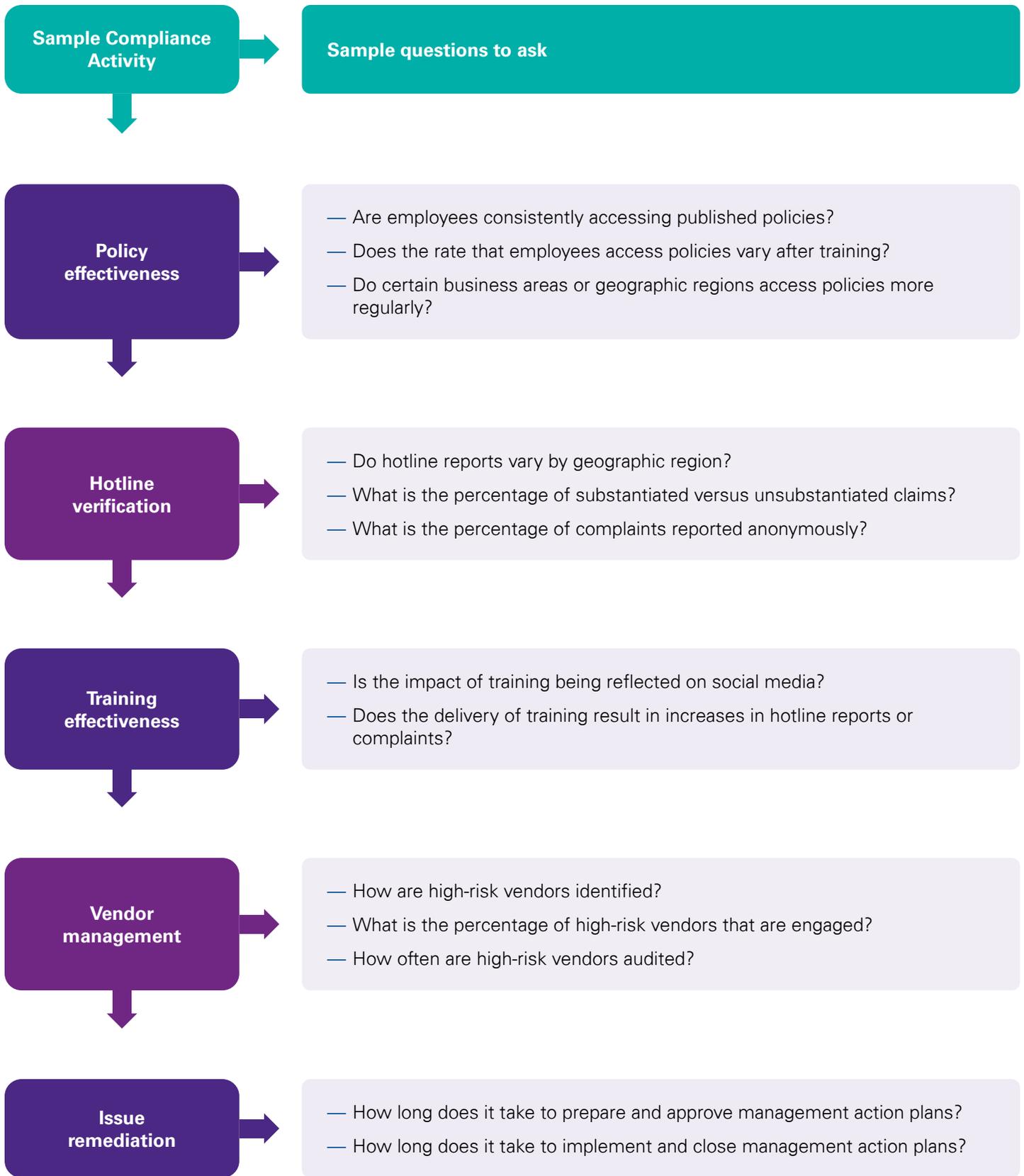
In early 2021, KPMG surveyed 249 chief compliance officers (CCOs) representative of the largest organizations across the following industries: healthcare and life sciences (26%), financial services (25%), technology media and telecommunications (13%), industrial manufacturing, commercial markets, and retail (24%), and energy (11%).





Key point: Before an organization can determine the metrics to track and the corresponding data collection strategy, it must align on the key questions that need to be addressed. Once these are agreed upon, the organization can work to analyze and triangulate the data available as needed to get more granular insights across the various compliance elements. The following table contains sample questions to ask.







Evaluate existing compliance metrics to confirm goals going forward

Key point: Organizations should determine the questions and insights that are of the highest priority and develop a combination of metrics (descriptive, diagnostic, predictive, and prescriptive) that are tailored to their regulatory requirements and risks.



Types of metrics

After the compliance priorities are determined, organizations can tailor their reporting metrics to help address the previously outlined sample questions, evaluate their compliance risks based on their regulatory environment, and guide decision-making going forward.

Organizations cannot take a “one-size-fits-all” approach to metrics. Since there is no single set of metrics, compliance leaders must refine their approaches based on the priorities of their organizations and the insights necessary to tell a more holistic story.

Traditionally, organizations may have developed metrics that focus on select compliance efforts such as certifications of compliance with the Code of Conduct, training completions, and monitoring and testing results. The expectation and mandate going forward, however, is to enhance this baseline and collect data from varying sources and business areas in order to develop supplemental metrics that tell a broader, more insightful story. These enhanced metrics will vary depending upon the priorities of organizations, but in all cases must be responsive to and provide insight into the agreed-upon questions.

Types of metrics

Descriptive

Metrics based on a data attribute that provides a basic insight into what happened, such as a summary of logged numbers resulting from compliance efforts

Diagnostic

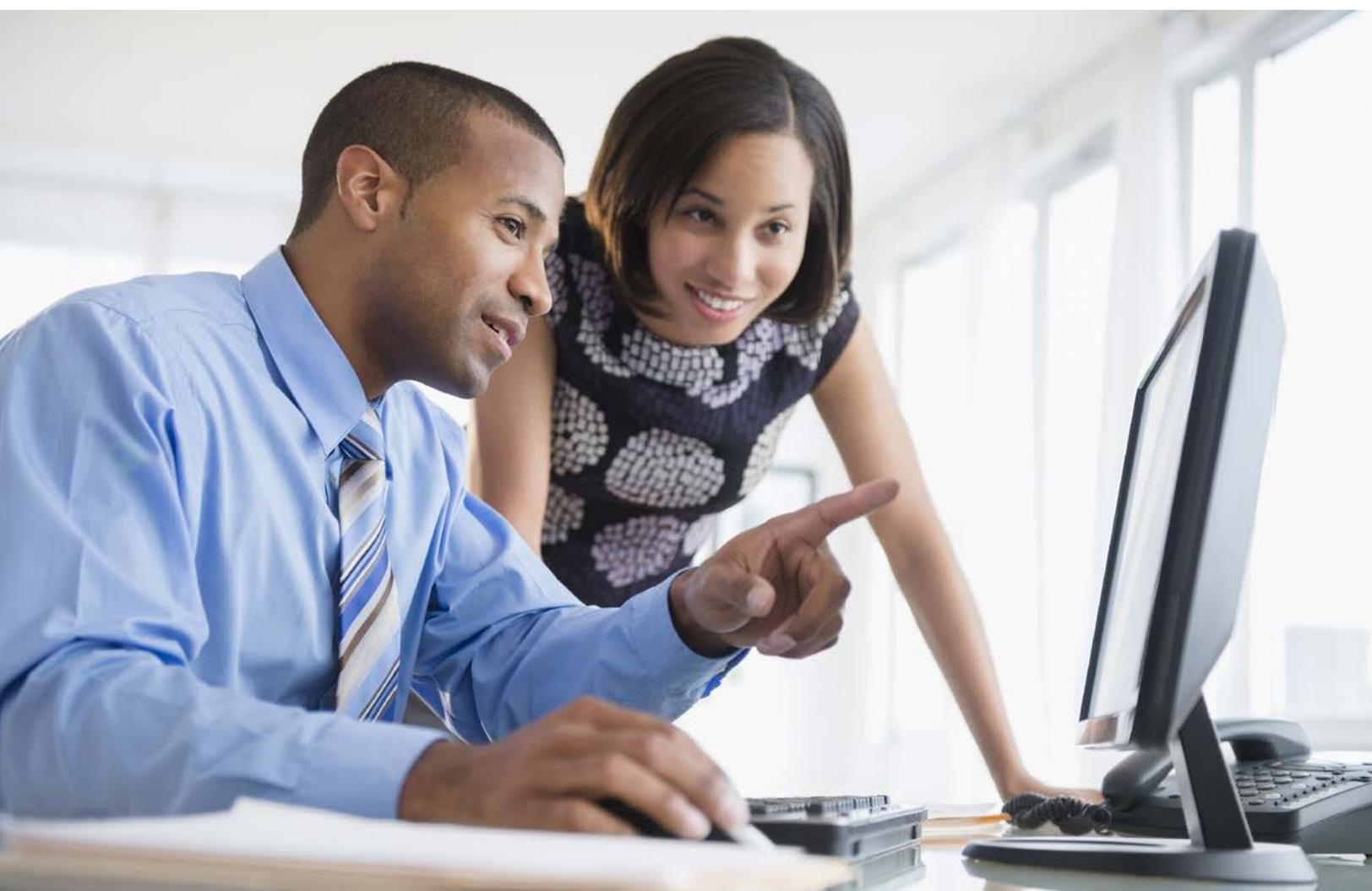
Metrics based on multiple data attributes that shed light on why something happened, such as insights around trends, root causes, and correlations

Predictive

Metrics that leverage past data and trends (including patterns and abnormalities), coupled with operational activity, to inform the business about what will likely happen so that it can better predict future outcomes and make decisions on compliance risk mitigation activities

Prescriptive

Metrics that utilize technology to factor in data about possible situations, available resources, and past/current performance to inform the business about what should be done and suggest a course of action or strategy





Determine compliance metrics to enhance for greater value

Key point: In identifying ways to enhance compliance metrics, organizations should consider if their existing metrics adequately address the regulatory risks in the jurisdictions where they operate; the specific compliance, financial, and nonfinancial topics that concern their Board; the organization's compliance goals; the data they have available; and the functionality of their technology and tools for metrics generation and reporting.



When developing compliance metrics, compliance leaders should have a strong understanding of their existing state and desired future state, as well as their organization's risks and the Board's risk tolerance. In addition, engaging in up-front strategic discussions with cross-functional stakeholders in the business and operations can help compliance leaders ensure alignment in goals and allow a concerted approach at the inception of any project. The following list can assist compliance leaders in working with their stakeholders to scope their metrics needs and functional abilities, which should then inform their strategy and plan.

— **Regulatory requirements and expectations in all jurisdictions where the organization operates.**

Compliance leaders should review their existing compliance metrics, in conjunction with cross-functional stakeholders, to better understand if they adequately cover the organization's priorities and key risk areas. In reviewing these metrics, compliance leaders should identify what risk information they already collect about their compliance with each of their regulatory requirements (across finance, operations, human resources, legal, etc.) through various compliance mediums, including system-generated reports, monitoring/internal audit test results, and stakeholder culture surveys. From this, they can then determine what additional data is needed to enhance their knowledge of their compliance posture and assess ways to aggregate and triangulate such data to make necessary correlations to drive further insights.

— **Board interest in compliance, financial, and nonfinancial topics.** Compliance leaders should also evaluate what information their Board, business, risk, and operational leaders need to know. The priorities of Board members and senior executives shift over time in parallel with the expectations of regulators and stockholders. For example, as new expectations develop around ESG reporting, the Board may require additional financial and nonfinancial data points to be incorporated in compliance reporting. In addition, the Board's risk tolerance and senior management's desired proactiveness must be understood in order to tailor

reporting in the most effective manner. For example, is the Board only interested in understanding confirmed compliance incidents that exceed a regulatory requirement, or does it want to know potential “near misses” (i.e., instances that are within a certain percentage of the regulatory threshold)? This alignment is critical in order to demonstrate reporting value and inform the organizational investments necessary to enhance capabilities around compliance metrics.

— **Goals for predictive analytics and modeling.**

Organizations are increasingly making efforts to advance the use of predictive analytics and develop risk models to categorize high-risk transactions and areas of operation. Since this requires significant investment in technology and resources, a roadmap is often created to guide the journey and detail the order of implementation for distinct use cases. Compliance leaders must prioritize implementation of those predictive metrics that are most impactful for the organization and will provide the most value in identifying and classifying its highest-risk areas.

— **Activities and needs of the business.** In order to drive the organizational view of compliance as a partner to the business, it is important to understand the operational challenges for compliance and develop metrics to illustrate their execution effectiveness as well as operational outliers that may present greater compliance risk. By distinguishing the effectiveness of the activities conducted by the first and second lines of defense (i.e., understanding the number of issues identified and reported by the first line as compared to the second line, or the level of operational monitoring being conducted by the first line as compared to the compliance work plan initiatives), compliance leaders can tell a more holistic story to highlight potential business areas that require more support or emphasis.

— **Available data, data integrity, and technology infrastructure.**

Compliance leaders need to be cognizant of the data they are relying upon. If the data quality is poor or unreliable, any metrics or use of the data downstream will be based upon potentially faulty premises and will be similarly unreliable. Even when data is reliable, compliance leaders can be challenged





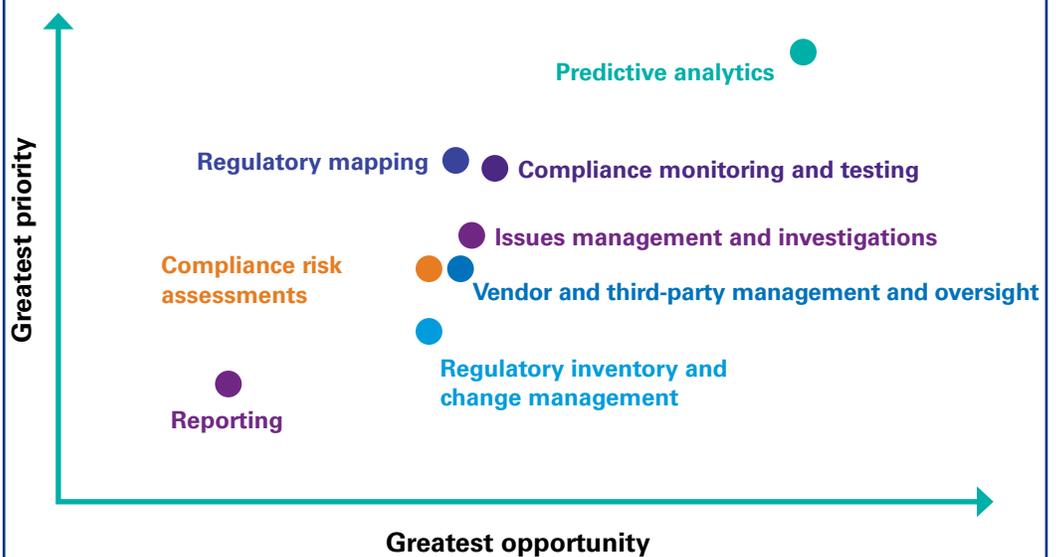
by differences in data collection across the organization, with certain risk indicators collected by some units but not others, preventing an aggregate view of compliance risk. Organizations have increasingly been working to build compliance data lakes as central data repositories in order to help standardize data quality and drive risk insights across business units.

A firm understanding of what data exists and is available across an organization, and the integrity of that data, is key to forming a realistic current-state analysis of the organization's metrics as a baseline for further enhancements. An organization may need to enhance existing data and remediate the data before it can design metrics that are truly valuable to its stakeholders and indicative of compliance effectiveness and health.

- **Technology and tools for metrics development and reporting.** Increasingly, organizations are using technology to generate reporting dashboards that synthesize established compliance metrics and can paint a more holistic and consistent, enterprise-wide view of compliance risks. In aggregating data enterprise-wide, dashboards help leaders avoid siloed views, which can undervalue risk indicators in isolation, and obtain a more comprehensive vision of their compliance risks. From this vantage point, senior leaders are better equipped to monitor their compliance risks in a more targeted manner, strategically focus on improving compliance activities where they most need it, and remain vigilant in addressing their trending risks enterprise-wide. They can also allocate their human and monetary resources using a more risk-based approach.

Phased approach to automation. Certain business areas present the most opportunity for compliance automation and most return on investment. As organizations work to phase automation opportunities into their compliance programs, they should consider the priorities for investment as referenced in the accompanying heat map.

Respondents to the KPMG 2021 CCO Survey were asked to rank the ethics and compliance areas in their organization that present the **greatest opportunity** for automation and the **greatest priority** to automate.





Continuous improvement and strengthening of compliance metrics

Key point: Organizations should continuously reassess their organizational priorities along with the compliance metrics that are designed to address the key underlying organizational questions. Metrics should be continuously refined to account for evolving compliance risks and goals, shifting Board and stockholder expectations, changing operational activities, and new technologies and tools that impact access to data.



Organizations must reassess and refine their existing inventory of compliance metrics to address evolving risks and regulatory expectations. They should also use the data underlying the metrics to identify business or operational enhancements in furtherance of compliance efforts, including training, investigations, vendor management, customer complaints, and, to the extent applicable, sales practices. Conducting regular evaluations of the organization's compliance metrics can help leaders to reaffirm the metrics they use; address shifting Board expectations; keep pace with business, market, and regulatory trends; and help ensure that metrics remain aligned to the organization's highest risks and priorities so that they provide the most useful insights for the Board and business stakeholders.

In addition, quality control testing of the data sources and feeds that underlie the organization's compliance metrics is also important. Testing helps to validate that the data is complete, accurate, and has integrity, especially when there are changes to the data or the technology systems. Seemingly innocuous changes made for operational reasons can impact the data feeding into the metric or cause the data to be dropped, diminishing the value of the metric and its use. Sometimes these changes can actually expose the organization to additional regulatory risk.

Further, as part of their continuous improvement efforts, compliance and business leaders can benefit from considering what the metrics reflect about the program's health and what additional metrics can impact that evaluation. Through a review of metrics, compliance leaders can identify instances for follow-up, a quick refresher, or additional communication to reinforce a particular issue. Governance remains key.



Conclusion

Organizations face the daunting task of analyzing the overwhelming amount of information that is produced daily to reflect key business, customer, and employee behaviors in order to provide risk-based compliance insight. Well-designed metrics can empower business, compliance, and risk leaders to execute their responsibilities more soundly; present appropriate information to management and the Board; evaluate alignment of compliance efforts with business goals and strategies; and further the organization's overall compliance risk management. Well-developed compliance metrics also enable organizations to improve their ability to prevent, detect, and respond effectively and efficiently to emerging risks.

Visit kpmg.com/us/regandcompliance/transformation to learn more about how KPMG can help support your organization in moving beyond compliance.



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