

Janmar Consultants Inc.



**Ensure Your Business is Compliant with All Regulatory Requirements.
Failure to do so Can Cause a Business Interruption.**

Compliance





Not being compliant, depending on what you need to be compliant with, has the risk of shutting your business down.

The cost of compliance can easily be dwarfed by the cost of non-compliance.

Executive Summary

Ensure your business is compliant with all regulatory requirements. Failure to do so can cause a business interruption.

When you mention compliance most business owners roll their eyes as it is the last thing they want to think about or work on. It's generally not exciting and boring to deal with. However, not being compliant, depending on what you need to be compliant with, has the risk of shutting your business down. You need to know what you need to be compliant with, what the risks are of not being compliant and is the compliance a requirement, or just a nice to have.

Compliance includes conforming with required laws, regulations, industry requirements, and supplier requirements to name a few. It will vary depending on your industry, where you are located and how your business is structured. Compliance not only deals with what your business needs to be compliant with, but also the processes and procedures your business puts in place to manage compliance and to ensure you are compliant. Ensuring your business has a cost-effective compliance program, will ensure your business is not shut down due to non-compliance.

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Introduction

Many business owners do not put compliance programs in place because they do not see the benefit of incurring the costs to be compliant.

However, there are many real-life examples of how the cost of compliance can easily be dwarfed by the cost of non-compliance. One example is the emissions scandal that has had the medias' attention and plagued Volkswagen since 2015. In September 2015 Volkswagen admitted it had been using an illegal shutdown system in its diesel engines to manipulate nitrogen oxide levels and thus circumvent regulated emissions standards – a deliberate breach of the law, ordered by management. This software was used in about 11 million vehicles worldwide, 600,000 in the United States. Since 2015 the company has been the victim of constant public attention, and the CEO Martin Winterkorn resigned from his position, possibly facing up to 25 years incarceration. The scandal has resulted in automotive manufacturers being the focus of politicians. As a result, the automotive industry is in a crisis, and there are numerous criminal and civil investigations underway. In April 2016, Volkswagen announced it would spend around \$18 billion to rectify the emissions issues, as well as retrofitting the affected vehicles after their recall. In total the scandal has cost Volkswagen around \$29 billion.



Not only does compliance avoid potential negative impacts to your business, it also provides intrinsic benefits

Now your company likely pales in relation to Volkswagen with respect to compliance, but this example underlines, and we cannot stress enough, how important compliance is in your business. Without it you are taking a gamble that your business may not be able to afford. However, not only does compliance avoid potential negative impacts to your business, it also provides intrinsic benefits.

The Benefits of Compliance

You may not have considered:

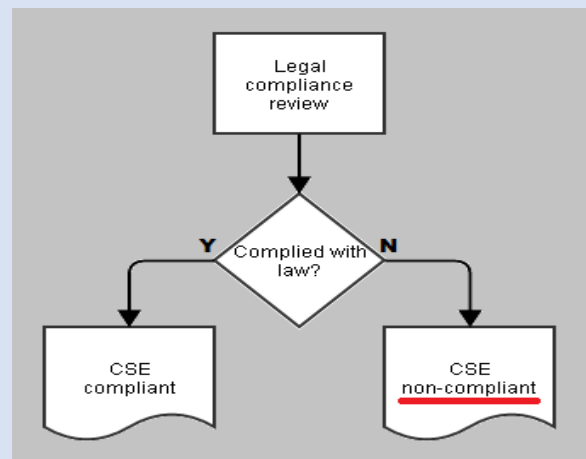
- **Reduces organizational and individual risk.** By avoiding legal troubles and fines, these dollars can be utilized elsewhere. They could be invested in research and development, additional required assets/equipment or returned to shareholders. Softer costs avoided would be the negative media attention and adverse public and customer

perceptions, like Volkswagen received. Your business also avoids business disruptions that come from investigations, audits, and subpoenas, to name a few.

- **Enables less hesitation and more confidence.** If people know the rules, they can be more confident about doing their jobs and more effective. Well-designed and implemented compliance processes and procedures prevents paralysis as people know the rules, and hence move faster and more confidently.
- **Uncovers better data for better decisions.** Systems and data are clarified and work in harmony. At the same time the documentation of activities is complete, accurate and timely. This results in transparency and better visibility, which is critical for informed business decisions, including investment and planning.
- **Results in efficiencies and economies of scale.** Compliance will result in more visibility into your business, and simplification of your business since it will highlight activities that are more lavish or frequent than needed, or simple inconsistencies that exist within your business. For example, activities not consistent with your mission and purpose. Eliminating these inconsistencies will result in savings.
- **Levels the playing field.** With industry wide rules, or voluntary criteria applied by all companies within an industry, the result is a level playing field, where everyone applies the same rules the same way consistently.
- **Helps a business to realize its mission.** Compliance programs in place and running correctly, will force a company to act in ways consistent with the

values in its mission statement. The reason is policies and guidelines normally not only address external laws and regulations, but also its internal and external aspirations. Not only is it about what is legal, but what is the right thing.

- **Enhances relationships with regulators and other stakeholders.** When regulators and stakeholders deal with a business that they consider having high ethical standards and practices, it shows that your business has compliance as a high priority and leads to higher levels of trust. These higher levels of trust will also carry over to customers, employees and suppliers and this in turn will result in loyalty.
- **Helps attract and retain talent and ensure employee engagement.** The loyalty discussed in the previous benefit, will result in your company having a strong reputation in your industry and community. This will allow you to attract and keep high-quality talent and improve employee engagement, as generally, employees want to work for companies with strong values. The higher employee engagement also tends to result in higher productivity.



Why Companies Have Ineffective Compliance Plans

Business Owner/Leader Does Not Consider Compliance Important

For one reason or another the business owner/leader does not consider compliance important. This may be due to a variety of reasons:

- They do not think it's necessary for their business
- The business hasn't been compliant before so why bother now
- They see it as too expensive

Compliance is Too Costly

In an article published in the Financial Post on January 22, 2018, it stated that regulations cost businesses \$36 billion a year – and owners are telling their kids being an entrepreneur isn't worth the costs. The same article quotes research by the Canadian Federation of Independent Business, the cost of regulation to Canadian business is \$36 billion a year. Red tape makes up \$10 billion a year of these costs.

Another report by the Canadian Federation of Independent Business entitled "Canada's Red Tape Report With U.S. Comparisons" reports, 2012 regulation cost per employee is as follows:

	Canada	U.S.
Fewer Than 5 Employees	\$ 5,942	\$ 4,084
5-19 Employees	\$ 3,133	\$ 2,620
20-49 Employees	\$ 2,315	\$ 1,841
50-99 Employees	\$ 1,713	\$ 1,456
100 or More Employees	\$ 1,146	\$ 1,278
Note: Canadian and US \$ assumed at parity		

Needless say the costs are not minor. The study goes on to say that if business owners had

known the cost of compliance, 31% in Canada and 23% of business owners in the US, they may not have gone into business.

Compliance is Time Consuming

The time involved in ensuring your business is compliant is time consuming. In the same Canadian Federation of Independent Business report entitled "Canada's Red Tape Report with U.S. Comparisons", it reports 68% of small-to-medium enterprises ("SME's") in Canada and 57% in the U.S., say excessive regulations significantly reduce the productivity in their businesses.

It goes on to say that government regulation and paper burden is a concern of 69% of SME's in Canada. It is only second behind total tax burden (76%) as the top priorities for SME's. The lesson to take away from this is, compliance is time consuming and is clearly visible to businesses, since they have to comply with a plethora of rules from multiple levels of government.

Compliance is Complex

Many larger businesses have entire departments whose soul focus is compliance.

Smaller businesses do not have the luxury of being able to afford this. When these departments are in place they normally look after:

- Ensuring the business adheres to external rules and internal controls
- Identifying the compliance risks a business faces and providing advice on the risks

- Designing and implementing processes and procedures to protect the business from risks
- Monitoring and reporting on the effectiveness of the policies and procedures to control risks
- Resolving any compliance issues

Realistically, in an SME, the role of compliance officer is usually combined with another role. If the SME is lucky it is a risk officer. However, more than likely it is someone with a regular day-to-day job with many other more pressing responsibilities, like the senior financial staff member whether it is a CFO, controller, etc. This, in turn, results in the person's focus being on more than just compliance. Hence compliance for SME's is much more difficult, even if they remain stable. However, on top of this, regulatory requirements are constantly changing which adds even more complexity.

Compliance

Costly?

Not important?

Time consuming?

Complex?

Disparate?

No benefit to business?

Compliance Policies and Procedures are Disparate

Businesses normally have policies and procedures in place whose aim it is to make sure the business is legally and regulatory compliant. However, these policies quite often are disparate, and one has nothing to do with the other.

To compound the problem as new legal and regulatory laws are introduced new policies and procedures are introduced, and normally this is done in a vacuum with no reference or appreciation for existing policies and procedures.

Additionally, rightly or wrongly, the business seldom, if ever, meets to review all existing policies and procedures to see whether they are the same, whether any can be combined or if any are obsolete and consequently no longer needed. Hence there are quite often compliance policies and procedures in place, but no comprehensive compliance programme.

Compliance is a Necessary Evil and of No Benefit to the Business

This philosophy sees compliance as a necessary cost the business has to incur, but one with no practical benefit to the business. The correct approach to take with compliance is – since my business has to be compliant and comply with various laws, regulations and internal controls, how do I put compliance in place, so it is a benefit to my business and not a cost.

Companies that are able to make this paradigm switch use compliance to drive and enhance efficiency and gain real business benefit. One way to do this is by using compliance to drive loyalty from customers, suppliers, employees and investors.



How to Create and Implement an Effective Compliance Plan

Every business needs to be compliant. As a minimum there are laws and regulatory requirements. For example, no business can perform illegal activities and all businesses need to file a tax return, regardless of whether you are a corporation, sole-proprietor or partnership. As a result, the best way to implement an effective compliance plan is to understand:

- Where you are now
- Where you need to be
- How you are going to get to where you need or want to be

Following are the steps to design and implement an effective compliance plan.

1. Understand compliance is important
2. Assess where you are
3. Determine where you want to be
4. Establish the compliance plan
5. Implementation

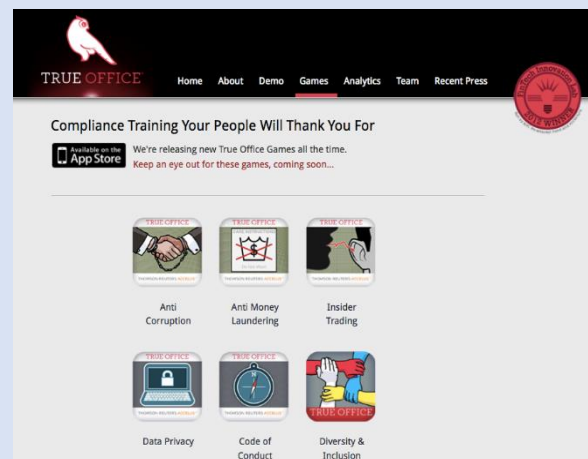
Understand How Important Compliance is to Your Business

This is a fairly simple exercise. To do this you need to calculate the cost of compliance and compare it to the cost of non-compliance. You will likely be surprised by the results. We have found in all circumstances that the cost if

compliance is always less than the cost of non-compliance.

Assess Where you are at Present

This again is fairly simple. For this you need to assess all of the business; both written and unwritten policies and procedures related to compliance. Make sure you include any ancillary activities that support this.



Determine Where you Need or Want to Be

This is the most difficult and important step. This step sets out the policies and procedures that will be put in place in your business. A truly effective compliance plan will be built into your business' very fiber. That is, the policies and procedures will be part of your business' normal day-to-day activities, by making it a part of your business and management processes. It will also establish responsibilities, accountability and how communication will be handled.

Establish How the Compliance Plan will be Communicated, Reported on & Monitored Within Your Business

The first step is to train all of your employees, so they understand your compliance program expectations and the standards required. A training program will need to clearly explain the compliance program and it will also require an annual refresher. You will need to establish two-way communication at all levels. All employees, at every level will need to provide proactive communication that allows them to ask compliance questions, report issues and to anonymously report any non-compliance issues with no fear of retaliation.

You also need to set out how the compliance program will be tracked, captured, and monitored. To achieve this, you will need both internal and external monitoring. This includes formal audits.

Additionally, you will need a system to ensure the current compliance program is monitored for its effectiveness, and to identify additional or new risks. In turn, the compliance program needs to be revisited and update/improved on a regular basis.

Implementation

Once the steps above are established, the last step is to roll out your new effective compliance program. This will include explaining the benefits of compliance to the organization as a whole, as well as individuals.



How a Janmar Consultants Part-time CFO Can Help Ensure Your Business is Compliant

All Janmar Consultants part-time CFO's are experienced, seasoned finance professionals that have years of experience being a CFO at large companies, including designing and implementing compliance plan. All of this expertise is available to your company at a fraction of the cost of a full-time CFO and considerably less than even a junior accountant.

In all likelihood you do not have an experienced member of your team that has been involved in the creation and implementation of an effective compliance plan. Your part-time CFO will allow your business to quickly move to develop an effective compliance plan, which will allow you to focus on other more important core parts of your business such as operations and/or sales.

Specifically, your part-time CFO will focus and assist you and your business to become and remain compliant by focussing on the following:

- Complete your financial statements and ensure the annual returns are filed on time
- Ensure payroll related taxes and filings are completed and filed on time
- Ensure GST/HST/PST tax filings are complied with and payments made on time
- Understand the requirements under your loan agreements and covenants related thereto and file these reports on time
- Research any industry specific compliance requirements that apply to your business
- Ensure all government filing requirements, including CRA, are complied with
- Review your insurance coverage and ensure any necessary insurance requirements are complied with

Conclusion

Compliance is a necessity for all businesses, regardless of size. Your part-time CFO from Janmar Consultants will work with you to ensure your business is compliant with all necessary laws, rules and regulations, which will free up your time to focus on the core business activities that need your attention. They will assist you to put in place a cost-effective compliance plan that is monitored and updated on a regular basis. This will provide you with peace of mind which will allow you to sleep better at night, knowing non-compliance risk is minimized.

Call now to eliminate non-compliance risk from your business – we're here to help.

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