The Controls Challenge

By Michael Paul Cangemi

Automation can cut costs and make processes more consistent.

As any senior executive in the financial services industry will tell you, the demands of implementing an effective governance, risk and compliance (GRC) strategy are growing every year, both in terms of cost and complexity. But as no one needs reminding, the penalty for *not* getting things right is often too high even to contemplate, with enormous potential damage to your company's reputation among analysts, ratings agencies and investors. The recent $7 billion loss at the French bank Société Générale, resulting from alleged fraud by a Paris-based trader, serves as a timely warning.

For many organizations, the response to the GRC challenge has been to throw more people resources at the problem, to ensure that performance can be adequately monitored. A recent Deloitte study[1] in the banking sector highlights that compliance spending is growing significantly—3.69 percent of net income in 2006, compared to 2.83 percent in 2002—while 60 percent of that direct expenditure went to compensation of staff. As many financial institutions publish results that show the depth of the problems in the consumer credit and mortgage markets, these additional costs are far from welcome.

Much attention is currently focused in the areas of operational risk, addressing how services are delivered, including issues such as internal controls, information technology (IT) systems, security and access to data. The Sarbanes-Oxley Act of 2002 (SOX) is clearly an important consideration for GRC strategies, driving greater emphasis on corporate governance and effective control procedures. In this respect, the financial services industry is no different from a major public manufacturing or consumer goods company: Strong governance and controls are not just a priority for the CFO of Coca-Cola but also for the CFO of Bank of America. Effective financial reporting is the foundation to increased shareholder confidence irrespective of the nature of the business.

As costs continue to escalate in response to regulatory requirements, organizations today aim to achieve compliance, reduce fraud and manage overall risk in a consistent and cost-effective manner. Taking this one step further, more visionary organizations have begun to look beyond compliance and risk management as an end in themselves and have seen how adopting the right systems and processes can actually deliver added value across their business.

Making the transition from a company struggling with regulatory demands to an organization with a strong compliance culture requires some significant changes in approach. As noted above, many companies have called upon increased manpower, along with manual checks, to implement their GRC programs. This often results in a series of control and compliance challenges, where companies face difficulties with the following issues:

- Identifying and prioritizing your areas of greatest risk

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- Pushing ownership of controls to business users
- Satisfying the expectations of the auditors
- Establishing effective preventive controls
- Ensuring sustainable, cost-effective compliance

Automation Improves Consistency

Since we are fast approaching the point where companies cannot afford to throw more people at their GRC effort, the only viable and sustainable answer is to adopt automation technology to reduce the cost and drive more consistent processes.

Automation can play a powerful role in eliminating unnecessary procedures, improving efficiency and providing actionable reporting. In many cases, familiar assumptions and business processes will need to be questioned and revised. Automation can also help integrate operations across the enterprise, combining data from different business units, areas and geographies, and providing consolidated reports and analysis.

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The demand for a more integrated and automated approach to GRC has given rise to a new generation of software solutions that can help companies in the financial services industry establish a foundation for their GRC processes. Controls intelligence software provides the ability to continuously monitor critical transactions and processes so that companies have real-time visibility of their control and compliance performance and can manage risk in a proactive manner.

This kind of software helps address control challenges at three different levels:

- Financial reporting and operations, including sensitive transactions, business controls, fraud and data quality
- Access to applications, covering segregation of duties, emergency access and user provisioning
- Configuration of IT systems and processes, ranging from change management, to completing the required fields, tolerances and limits

The latest controls intelligence tools have a number of characteristics that enable them to help address many of the major control and compliance challenges faced by financial organizations. Most importantly, the software is independent from the enterprise resource planning (ERP) systems, which businesses typically use to manage their operations, and can therefore provide a single companywide platform for control and compliance, even when multiple ERP systems are in place.

As a result, the software enables organizations to analyze and continuously monitor all of their financial and operational applications, providing a holistic view of controls across the company. This allows businesses to address the core control and compliance issues, including segregation of duties, sensitive access controls or master data controls, across multiple applications.

The improved visibility afforded by the software enables companies to prioritize high-risk areas and exceptions, rather than wasting resources on repeatedly testing low-risk controls. Capturing all of the key compliance data and documentation—including control rules and rule books, control-related changes and activities and details of exclusions and compensating controls—within a single system makes the software easy to secure and audit.

Business Users Must Oversee Compliance and Controls

Another important characteristic of these software solutions is that they are designed for the business user, rather than requiring an IT expert to oversee their use. As a result, business managers can take direct ownership of the compliance and controls process, reducing the risk of errors and improving efficiency.

Adopting an intelligent controls solution as the primary platform for compliance and control can result in a significant improvement in an organization's ability to manage risk, prevent fraud and maintain compliance. Typical benefits in the financial services industry include the following:

- Improved visibility of business risk
- Less time preparing for audits
- Reduced audit costs
- Faster regulatory compliance
- Reduced burden on IT staff

In addition to these direct improvements, most companies experience benefits through streamlined business processes, better quality of transactions and a more secure operating environment.

Automation Can Bring Down Assurance Costs

A recent survey of bank executives[2] found that 92 percent of respondents see regulations growing in complexity over the next three to five years. With this threat on the horizon, organizations in the financial services industry should think very seriously about leveraging automation to move their GRC strategies to the next level.

Costs related to compliance remain a significant issue for all financial executives. I believe that increased automation can bring down assurance costs.

Endnotes

1 Navigating the Compliance Labyrinth—The Challenge for Banks (The Deloitte Center for Banking Solutions, 2007).

2 Bank Compliance—Controlling Risk and Improving Effectiveness (The Economist Intelligence Unit, 2006).