

THE FUTURE OF FINANCIAL PROCESS GOVERNANCE

How to Leverage Data Automation for
Exceptional Performance and Oversight







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THE FUTURE OF FINANCIAL PROCESS GOVERNANCE

Finance and controls professionals around the world face a tremendous range of responsibilities and challenges. Among many other roles, they are tasked with managing risks and ensuring effective controls across multiple financial systems, spanning general ledger and financial reporting, all revenue and payments, and the systems underlying all assets and liabilities.

These risks include the possibility of damaging fraud, error, and abuse, as well as exposure to regulatory compliance failures in areas such as internal control over financial reporting (ICFR), Sarbanes-Oxley (SOX), and state and local tax (SALT). Not to mention responsibility for anti-bribery and anti-corruption, and overseeing overall functional and process performance, including third parties. The volume of finance-related regulations is ever growing, with new and changed requirements constantly needing attention.

Finance departments also play key roles in helping to ensure that the executive leadership team has ongoing insight into how well the organization is performing in terms of achieving corporate and strategic objectives—and that risks are being addressed appropriately.

It is also clear that the use of data automation can fuel better business practices and unlock new opportunities and optimize return on investments, and the finance team is often looked to as the driving force behind such initiatives.

The question is: How can finance teams best meet all these challenges?

The answer lies in transforming traditional approaches to financial management processes, which includes oversight of risk, controls, and compliance, through the better use of technology, data, and automation.

While some financial leaders have already started to embrace a data automated approach to managing risks and controls, many are so immersed in the daily demands of their job that it is difficult to take time and step back to consider the benefits and practical steps in implementing a new approach.

In this eBook, we look at what the near future holds for progressive finance teams and provide some guidance on how to move ahead and implement better practices now.

What does the world of the progressive finance team look like?

Let's envision an ideal future. A world in which the finance director and other leaders of the finance team have far more immediate and ongoing insight into all aspects of functional and financial performance, including risks and inefficiencies in people activities, sub-processes, or third-party relationships—and all of this insight is based on actual data.

Your world might look like this:



Control activities are optimized so that they are neither unnecessarily stringent and cumbersome, nor weak and prone to failure.



Dashboards, viewed on any computer or mobile device, show you the results of risk assessment and transaction monitoring in key process areas.



You have far clearer visibility into the often-complex relationships among risks and control activities.



When meeting with the executive team, audit committee, or external regulators, you can show up-to-the-minute status of risks and controls for which you are responsible, across process or by regulatory program—and illustrate the potential impact on performance goals and overall organizational objectives.

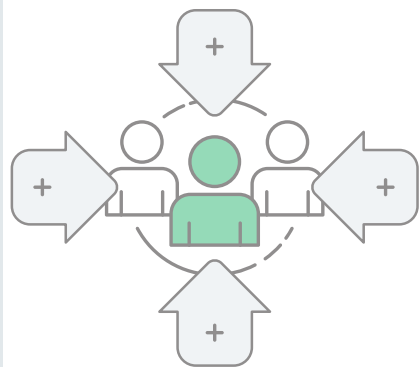


You're able to check the status of all anomalies that have been identified and whether issues have been resolved. And you're able to quickly fine-tune processing parameters for automated analytics that have flagged particular areas of concern.



You have insight into worsening trends around control and compliance issues, so you can take proactive measures to respond before the scale of damage increases.

Does this sound like a world your team would like to get to in the future? This future is possible now. This is the difference that enterprise governance software and a data-automated approach can make for finance leaders, their teams, and the organization overall.



Top 4 pressure points on today's finance teams

With fast-changing business and regulatory landscapes and evolving demands and responsibilities, finance teams are at a crossroads. Old approaches are breaking down, exposing organizations to reputation, revenue, and regulatory damage. Yesterday's methods have reached an end point, and today's teams are being forced by practical realities into a period of self-assessment and change. The pressure is high for increased capabilities. Here are four fast-emerging pressures today that will yield a very different looking tomorrow—and how tomorrow may look as a result.

1. You need to be able to see your risks according to impact on your strategic objectives.

- » All risks within financial systems are identified, categorized, and assessed in terms of impact on the achievement of key organizational objectives.
- » Specific risk mitigation processes are recorded and linked to controls designed to manage the risk.
- » Regulatory compliance requirements and standards are automatically updated and linked into compliance processes.
- » Related risks and controls are linked, allowing for overlapping or redundant controls to be rationalized/optimized.

2. You're expected to monitor all your controls, and rapidly respond to control breakdowns.

- » Suites of automated data analytics are used to constantly examine transactions that are processed through systems, monitoring the effectiveness of controls and identifying control failures.
- » Specialized analytics are designed to find risk, detect trends, and identify new areas of risk for which no controls currently exist.
- » Anomalies and specific instances of control breakdowns are automatically routed to appropriate individuals for response and resolution.

3. You need up-to-date risk scoring, based on what's actually happening.

- » Risk scoring is used so that high-risk combinations of test failures are highlighted and prioritized for action, with automated escalation as needed.

4. You need a unified view of all your data—including system, process, and people responses—for true, across-the-board oversight.

- » Surveys, questionnaires, and certifications are automatically distributed, and the responses analyzed—which pertain to things like policy or compliance attestation, including your workforce and third parties like contractors, business partners, and vendors.
- » Whistle-blower hotlines are monitored, and the results analyzed.
- » The results of all the transaction monitoring, information gathering, and control testing are constantly fed into dashboards that provide an immediate ongoing assessment of risks throughout multiple financial processes.

Process governance for finance teams: A roadmap

MANAGE
Programs & Documents

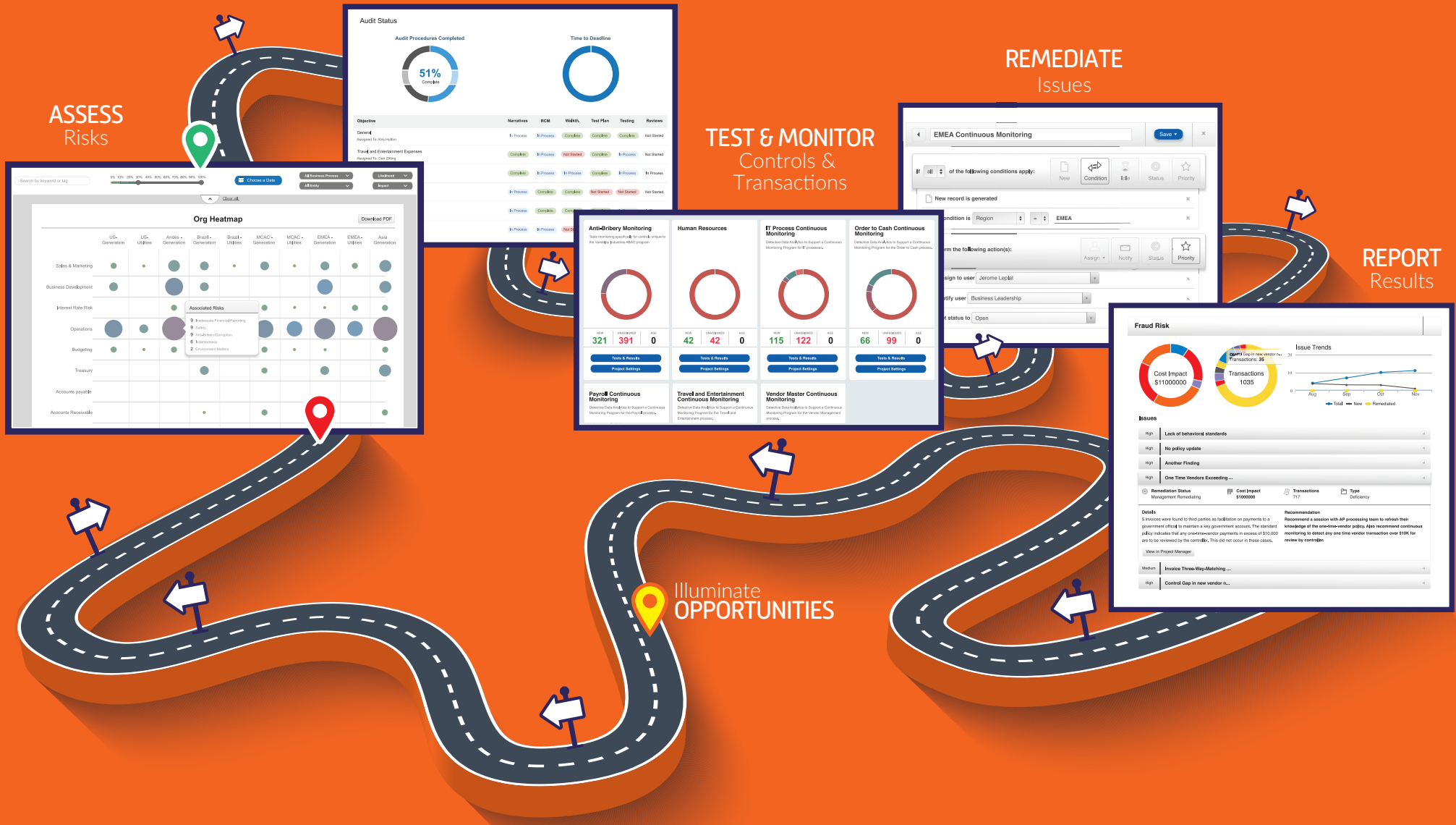
ASSESS
Risks

TEST & MONITOR
Controls &
Transactions

REMEDIATE
Issues

REPORT
Results

Illuminate
OPPORTUNITIES



Looking at the (very near) future through the eyes of the progressive finance leader

Pressures on finance teams come in many forms: evolving business processes, systems complexities, ever-changing regulations, cybersecurity, and fraud risks, as well as demands for improved financial performance, to name just a few.

At some point the *only* solution is to respond differently and implement change.

While the effort of changing approaches can be challenging, change also brings the opportunity to implement real improvements—which can be transformational. Some of the greatest opportunities lie in making use of the immense power of data and the ability to automate. Implementing enterprise governance software underpinned by data automation is arguably *the single most impactful lever* that finance teams can pull to improve operational and oversight activities.

Let's review some of the improvements possible through the application of governance and data automation technology.

✔ A better, more insightful view on risks leads to more efficient and effective controls.

There are multiple benefits to using technology to transform traditional risk and control processes in financial areas, starting with a move away from purely subjective assessments of risk levels. Analyzing and testing entire populations of financial transactions means that risks and control effectiveness can be assessed in a factual and quantified way. Traditional subjective and sample-based assessments are combined with a rigorous and more scientific data-driven approach.

Risk and control issues in financial systems can have widely varying degrees of impact upon strategic and corporate objectives, so it is important to be able to view the results of monitoring and assessment activities in context.

A wide range of risks can be viewed and assessed in a consistent way, bridging traditional silos and viewpoints, so that all those involved understand the relative impacts and relationships among inter-connected risks. Risk and control issues in financial systems can have widely varying degrees of impact upon strategic and corporate objectives, so it is

important to be able to view the results of monitoring and assessment activities in context.

Risks are clearly linked to relevant controls and processes designed to manage the risks. Technology is used to more simply demonstrate the sometimes complex relationships and dependencies among controls. The objective is to ensure that redundant control mechanisms are eliminated and that exposures are clearly evident.

In some cases, transaction monitoring becomes the control, replacing inefficient and cumbersome control mechanisms and focusing on what is actually taking place so that an immediate response can be made.

Reliance is no longer placed on controls that are often ineffective because employees have found ways to circumvent them as they are seen as cumbersome and interfering with efficient performance.

✔ A better way to manage risks and compliance.

Implementing a technology and data-driven approach helps to ensure that efforts to manage financial system risks are proportional to the extent of the risk. As the relative impact of risks is better understood, control processes/mechanisms become more efficient. The efforts and costs required to manage risk and control processes overall is reduced, particularly in terms of the time spent by team members working on routine compliance procedures. This frees up resources to work on more high-value activities.

✔ A new level of insight and assurance.

A data-driven approach using transaction monitoring and ongoing risk assessment means that the finance director or CFO, along with the rest of the executive leadership team (as well as the board and risk and audit committees), have ongoing insight into risks to the organization in a way that is far more objective, quantified and current than using traditional techniques.

Traditional control testing techniques are based on samples and process walkthroughs, providing only limited insight into what

✔ Improved corporate performance.

To put things into a bigger context, why is it really worth moving from a traditional approach to risk and controls management? The answer is simple: The risks of unexpected and damaging issues are reduced, while risk management and

At the same time, instances of control failures and of fraud, error, abuse, and regulatory non-compliance are identified and addressed before they escalate. New and emerging risk trends are identified and addressed, before they become damaging.

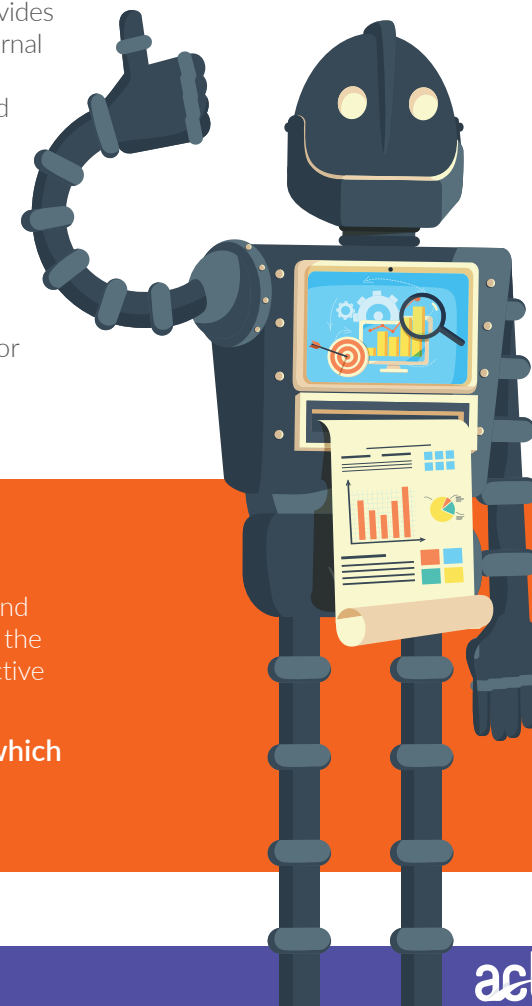
has actually taken place when millions of transactions are involved. On the other hand, a data-driven approach provides management in all three lines of defence—as well as external auditors and audit committees—with far higher levels of assurance around the integrity of financial systems, based on knowing that there is comprehensive monitoring of financial and business transactions and activities.

control processes are performed more efficiently, ultimately resulting in improved financial performance for the organization overall.

Robotic Process Automation

Much attention is being paid to robotic process automation (RPA) and its ability to improve various processes in financial and accounting systems, particularly by reducing both the need for employees to perform repetitive tasks, along with reducing the likelihood of associated errors. In many ways, using technology and data analytics to drive a far more automated and objective approach to managing risks and controls is a specialized application of RPA.

RPA has potential in processes that are clearly defined, repeatable, and rule-based. There are many ways in which RPA techniques can be applied to testing controls and the integrity of transactions.





5 steps to getting started ...



with a technology-driven approach to risk and control management

Governance technology powered by data automation is already available and designed specifically to support an agile and rapid implementation process. Getting started does not have to be highly complex and involve a massive commitment of resources. Nor does it have to involve an all-or-nothing “big bang” approach. In most cases, organizations take an incremental and ongoing approach.

Typically, this means identifying a key risk area or areas with obvious control problems and starting there. Focusing on achieving a fast and light implementation in selected areas provides the opportunity to show benefits and prove ROI. This may mean implementing risk assessments and transaction monitoring in one or two financial systems and then expanding across additional systems over time. The goal is often to ultimately integrate financial system risk and control management/monitoring with similar approaches taking place across the organization as part of the ongoing implementation of enterprise risk management processes.

5 steps for evaluating the technology and approach that will work best for your organization

1. Identify the technology capabilities needed to deliver this approach.

Some organizations decide to embrace a new approach, but plan to depend on generalized software, such as spreadsheets and corporate standard data query tools. Unfortunately, this rarely provides the benefits that can be achieved from using modern software that is designed specifically for the task and that provides close integration across the entire risk and control monitoring process.

Here is a checklist of overall functional capabilities to consider when evaluating governance software:

- ☐ Defines and documents risks and controls
- ☐ Links related risks and controls
- ☐ Links to key corporate and performance objectives
- ☐ Links to regulatory compliance content and standards
- ☐ Assesses and ranks risks
- ☐ Assesses and tests control effectiveness
- ☐ Advanced data analysis
- ☐ Library of secure standard analytic tests
- ☐ Investigates results
- ☐ Manages red flags and exceptions
- ☐ Supports remediation and escalation workflow
- ☐ Supports data repositories
- ☐ Automates distribution, collection and reporting of questionnaires and surveys
- ☐ Dashboards and reporting

2. Tap into your data.

The incredible power of data analytics is now well-proven and its use has been transformative when applied to many key business process areas, such as marketing and product management. This is equally true in the case of financial controls. When considering data automation capabilities, look for software that is designed for control testing and detection of risks such as fraud, waste, and more. Look for:

- ☐ Pre-built analytic routines, such as classification, stratification, duplicate testing, aging, join, match, compare, as well as various forms of statistical analysis, including Benford analysis, all of which have a role to play in helping to find fraud indicators
- ☐ Data manipulation function capabilities for combining, matching, and extracting data
- ☐ Data visualization—to spot unexpected anomalies and to provide new insights
- ☐ Ability to access a broad range of data sources and types
- ☐ Support for full automation and scheduling of analytics
- ☐ Ability to perform complex testing and fraud detection
- ☐ Comprehensive logging of all procedures performed (which is important in generating complete trails to support detailed investigation)

3. Consider the benefits of the cloud.

Think about the extent to which cloud-based applications and data are supported. The benefits of using online cloud-based applications are now widely accepted, including the ease of implementation (very little input is required from IT teams) and the addition of ongoing functional enhancements. From a security perspective it is now recognized that the risk of cyber breaches is higher when using in-house-based data than when using cloud-based data.

4. Think mobile devices.

It is no longer sufficient to depend solely on office-based computers and laptops for access to critical systems. Increasingly, finance leaders want to be able to get updates and respond to risk and control issues at any time and from any place. This means that software must run securely on tablets, smart phones, and other mobile devices

5. Last, but not least, prioritize ease of use to ensure your people will use it.

The term “ease of use” is overused for describing software. Yet it remains one of the most important characteristics of software that actually gets embraced by users and applied to its full potential. This applies particularly when using software to manage the multiple aspects of risk, control, and compliance processes, when it is critical that an application is really intuitive to use.

3 reasons you can't rely exclusively on controls

A traditional approach to risk and controls in financial systems usually focuses on establishing controls that are configured to be “bulletproof” based on, say, a combination of ERP or application settings and independent approval processes. But there are a few problems with this approach:

1. **Many ERP control settings are far from 100% effective.** A control designed to prevent billing errors may, for example, make it impossible to enter the same invoice number for the same supplier. But, what if the invoice number is slightly changed, either accidentally or deliberately? What if the same invoice number is posted in another instance of an ERP running in another region? In practice, no control configuration setting is guaranteed to prevent fraud, errors, and abuse from occurring.
2. **Control settings in ERPs and other applications may not be turned on or are worked around,** often with the intent of avoiding delays and increasing productivity. Whenever human interaction is required in processing financial or business transactions, it involves time. When focusing on “just getting the job done,” employees may, with good overall intentions, decide to ignore the control process that is meant to be in place.
3. **Approval processes are a common failure point.** Managers may approve large numbers of transactions without really examining what has taken place. They may also try and circumvent system authorization controls by, for example, arranging to split a purchase order into multiple POs just under approval thresholds.

Data automation for the win

On the other hand, data automation can test every transaction automatically for compliance with a control rule and look for multiple indicators of a control failure. At the same time, analytics can examine entire populations of transactions and identify new risks of fraud, error, and abuse for which no effective control was identified in the first place.

Bonus: Another advantage of using data analytics to test and monitor all transactions is that problems can be identified and resolved before they escalate and cause far more significant damage.



Where to point data automation: Top tests

Data automation can be used to monitor risks and controls in virtually any financial or business process. The following examples highlight common high-value, high-performing tests that can be applied in everyday finance process areas.

General ledger

Testing general ledger journal entry transactions is a very effective way of testing controls in financial reporting processes and supporting compliance with regulations like ICFR and SOX. Example analytics:

- » Test for failures in segregation of duties (SoD) around journal entry (JE) approvals.
- » Identify postings between unusual account combinations
- » Identify JEs posted at unusual times and days.
- » Identify suspect keywords in JE descriptions.

Procure-to-pay

The procure-to-pay process is an area at risk for multiple forms of fraud, error and abuse, as well as compliance failures around anti-bribery and corruption regulations. Example analytics::

- » Test for multiple types of potential duplicate payments.
- » Identify SoD failures based on actual approvals, not just ERP SoD settings.
- » Identify payments to fictitious or fraudulent vendors.

Purchasing cards and travel and entertainment expenses

The use of corporate credit cards and claims for travel and entertainment expenses are prone to employee fraud and abuse and particularly easy to test using data analytics because of the ready availability of data. Example analytics:

- » Test for duplicate charges and claims.
- » Identify charges and claims for personal expenditures.
- » Identify weak or missing approval procedures.

Payroll

Using a combination of data from payroll and HR systems as well as other data sources can provide unique insights into fraud and error. Example analytics:

- » Compare payroll records with digital evidence of system login times and physical security access records to identify phantom or inactive employees.
- » Compare payroll and HR records to identify payments to terminated or deceased employees.
- » Perform statistical analysis to identify unusual pay and overtime rates.

Order-to-cash (revenues)

Example analytics:

- » Test customer billings for inaccurate pricing.
- » Identify services and goods provided with no matching billing.
- » Identify unusual discounts and credit terms.

Analytics can be also used for many regulatory compliance areas, such as:

Anti-bribery and corruption

- » Search for name matches in the Politically Exposed Persons database.
- » Identify unusual payments through offshore bank accounts.
- » Search for suspicious keywords in payment and journal entry descriptions.

The future of finance teams lies in a technology-driven approach to managing risk, improving controls, and reducing fraud, error, and abuse.

It is well known that technology can now play a pivotal role in transforming how organizations operate, build markets, and deliver goods and services. This is equally true in the world of financial risk and control management.

The role of the finance and control leader is not an easy one. But technology can now help these professionals make a real difference. The challenges do not have to be insurmountable just because they are large and complex. Embracing the right technology strategy can transform the impact of even the smallest teams responsible for finance, accounting, risk, and controls.

Taking a data-driven, more scientific approach to assessing risk and maintaining effective controls is shown to provide multiple benefits. Instances of fraud, waste, abuse, and regulatory non-compliance are reduced, and risks are better understood

and reduced. Organizations become “better run.” The finance director or CFO involved in driving a transformational approach is recognized as a leader—not just in best practices for financial risk and control monitoring, but in overall organizational/enterprise risk and control management.

Technology and big data analytics are already transforming businesses globally. Finance leaders now have a huge opportunity to drive comparable practices in areas of financial integrity and control.

Has the time come to take a closer look at how good a job your department is doing in using technology to deliver on its mandate?



Let us help you get better insight into your financial process health, risks, and performance.

ACL's enterprise governance platform can help you get oversight of your critical financial processes.

For a free assessment of how your organization can better use governance technology powered by data automation to continuously monitor process risk, measure process health, protect revenue, and move the needle on performance,

call +1-888-669-4225, email info@acl.com, or visit www.acl.com.



About the Author:

John Verver, CPA CA, CMC, CISA, Advisor to ACL

John Verver is currently an advisor to ACL. Previously, John spent two decades as a vice president with ACL, with overall responsibility for product and services strategy, as well as leadership and growth of ACL's professional services organization, including customer success services, training, and technical support.

John is acknowledged as an expert authority and domain thought leader on the use of enterprise governance technology, particularly data analytics and data automation for audit, risk management, and compliance. He speaks regularly at global conferences and is a frequent contributor of articles in professional and business publications.

John is a Chartered Professional Accountant, Certified Management Consultant, and Certified Information System Auditor.



About ACL

ACL delivers enterprise governance SaaS solutions that help governments and the world's largest companies quantify risk, stamp out fraud, and optimize performance.

Our integrated family of products—including our cloud-based governance, risk management, and compliance solution and flagship data analytics products—are used at all levels of the enterprise to help maximize growth opportunities by identifying and mitigating risk, protecting profits, and accelerating performance.

Thanks to 30 years of experience and our consultative approach, we implement flawlessly so customers realize concrete business results fast at low risk. Our actively engaged community of more than 7,100+ active customer organizations around the globe—including 60% of the Fortune 1000, 72% of S&P 500 and hundreds of governments—tells our story best.

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