

Increasing Effectiveness Of Periodic Testing In Your Compliance Program

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Increasing Effectiveness of Periodic Testing

Agenda:

- Why and how periodic testing can become ineffective
- Examples of ineffective periodic testing
- Solutions to straighten ineffective testing
- Benefits from effective periodic testing

Ineffective Periodic Testing?

Compliance Focus

- Nature of transaction
- Residual risk of the transaction

Internal Audit Focus

- Overweigh of tests designed to ensure Existence, Completeness, Financial Accuracy and Management Approval

Performance Expectation Gap

- (a) Different skillset and
- (b) Resource challenge

Example: Anti-Corruption Risks

Gifts & Entertainment

- What tests would Internal Audit typically conduct?
 - Take sample of transactions from "Gift" and "Entertainment" GL accounts
 - Review sampled transactions for presence of invoices / receipts (existence)
 - Ensure financial values recorded and that in invoices / receipts match (accuracy)
 - Ensure sampled transactions are approved by relevant management (management approval)
 - Take a sample of gift and entertainment reimbursement claims submitted and ensure transactions are correctly recorded in respective GL accounts (completeness)

Example: Anti-Corruption Risks

Gifts & Entertainment

- Examples of tests meaningful for Compliance?
 - Take sample of transactions from “Gift” and “Entertainment” GL accounts
 - Review sampled transactions for the following possible red flags:
 - Reason for gifting / entertainment
 - Position of recipient in Company (e.g. government official)
 - Nature of gift / entertainment (e.g. personal, hot-spring outing)
 - Value of gift / entertainment
 - Frequency of gift / entertainment
 - Timing of gift / entertainment (e.g. contract renewal)
 - Review gift / entertainment expenses by team / cost centers
 - Review gift / entertainment expenses by team / cost centers over time and against revenue for abnormalities (by-product: channel-stuffing)

Example: Anti-Corruption Risks

Donations

- What tests would Internal Audit typically conduct?
 - Take sample of transactions from “Donation” GL accounts
 - Review sampled transactions for presence of
 - agreement (existence)
 - Tax deductible invoices (existence)
 - Ensure financial values recorded and that in agreements and invoices match (accuracy)
 - Ensure agreements and invoices of sampled transactions are approved by relevant management (management approval)

Example: Anti-Corruption Risks

Donations

- Examples of tests meaningful for Compliance?
 - Take sample of transactions from “Donation” GL account and also key government contracts won
 - Review sampled transactions for the following possible red flags:
 - Unbudgeted
 - Cause inconsistent with company direction / no history / new charity
 - Patrons of receiving charity (e.g. wives of government officials)
 - Timing of donation (e.g. before award of government contract or granting of licenses)
 - Frequency of donation
 - Value of donation
 - Review sampled project expense accounts (including pre-acquisition) for donations

Example: Anti-Money Laundering (Non Financial Sector) Risks

Payments to Service Providers

- What tests would Internal Audit typically conduct?
 - Take sample of transactions from various expense accounts in the GL
 - Review sampled transactions for presence of
 - purchase order / agreement (existence)
 - supplier invoices (existence)
 - delivery note / service report (existence)
 - Ensure financial values recorded and that in purchase orders / agreements , supplier invoices, delivery note / service reports match (accuracy)
 - Ensure purchase orders / agreements , supplier invoices, delivery note / service reports of sampled transactions are approved by relevant management (management approval)
 - Take a sample of paid payments vouchers and ensure transactions are correctly recorded in respective GL accounts (completeness)

Example: Anti-Money Laundering (Non Financial Sector)

Payments to Service Providers

- Examples of tests meaningful for Compliance?
 - For the all new payees created, review for the following possible red flags:
 - Is the registered business address located in a tax haven?
 - Is the registered business address a P.O. Box?
 - Is payment made to a bank payment (vs cash payment)?
 - Is the bank account a numbered account?
 - Is the name of the bank account same as the Service Provider?
 - Is the name of the bank account an individual?
 - Is this a one time transaction? (large on-time payments / frequent small sums: by-product embezzlement, fraud)
 - Nature of service rendered? (e.g. payment agents)
 - Review for dormant bank accounts that have been reactivated

Example: Anti-Trust Risks

Project Bidding: Bid Rigging

- What tests would Internal Audit typically conduct?
 - Take sample of projects won
 - Review sampled projects for the following:
 - Bid price calculations
 - Underlying analysis supporting price submitted
 - Multi-disciplinary management approval including Compliance
 - Project execution
 - Revenue recognition

Example: Anti-Trust Risks

Project Bidding: Bid Rigging

- Examples of tests meaningful for Compliance?
 - Take sample of projects won and lost
 - Review sampled project expense accounts (including pre-acquisition) for gifts, entertainment provided to the following:
 - Staff of competitor companies
 - Staff from Company / Government Agency or their appointee awarding the contract
 - Review projects won and lost by bidding teams over time for trends in winning projects

Example: Anti-Trust Risks

Attending Industry Conferences

- What tests would Internal Audit typically conduct?
 - Take sample of transactions from relevant GL accounts
 - Review sampled transactions for presence of invoices / receipts (existence)
 - Ensure financial values recorded and that in invoices / receipts match (accuracy)
 - Ensure sampled transactions are approved by relevant management (management approval)

Example: Anti-Trust Risks

Attending Industry Conferences

- Examples of tests meaningful for Compliance?
 - For all Industry Conferences attended by staff, review for the following possible red flags:
 - Planned Agenda
 - List of Attendees (e.g. new hires, competitor companies)
 - Attendee familiarity with dos and don'ts (e.g. email reminder by approving manager)
 - Actual content (e.g. slides) & post conference feedback
 - After the industry conference, review for the following:
 - Prices adjustments
 - Underlying analysis supporting the price adjustment
 - Price adjustments by Competitors

Benefits Of Effective Periodic Testing

- For Compliance: Input for finetuning policies, procedures, compliance tools, training material
- For the Business: Culture of continuous improvement in business processes = Competitiveness
- For Top Management: Reduction in compliance risk = Sleep

Implementing Effective Periodic Testing

- Outsourcing may be the best medium term solution given the limitations of Internal Audit and day-job of Compliance Officers.
- Key Considerations:
 - Specialized job (like due diligence, investigations)
 - Scalability
 - Opportunity to cross fertilize Internal Audit / Compliance
 - No impact on fulltime equivalent (FTE) headcount

Questions?

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