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?
  o Take sample of transactions from "Donation" GL account and also key government contracts won
  o 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
  o 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?
  o Take sample of transactions from various expense accounts in the GL
  o Review sampled transactions for presence of
    • Purchase order / agreement (existence)
    • Delivery note / service report (existence)
  o Ensure financial values recorded and that in purchase orders/agreements, supplier invoices, delivery note/service reports match (accuracy)
  o Ensure purchase orders/agreements, supplier invoices, delivery note/service reports of sampled transactions are approved by relevant management (management approval)
  o 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?
  o 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 the 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)
  o Review for dormant bank accounts that have been reactivated
Example: Anti-Trust Risks

Project Bidding: Bid Rigging
• What tests would Internal Audit typically conduct?
  o Take sample of projects won
  o 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?
  o Take sample of projects won and lost
  o 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
  o 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?
  o Take sample of transactions from relevant GL accounts
  o Review sampled transactions for presence of invoices / receipts (existence)
  o Ensure financial values recorded and that in invoices / receipts match (accuracy)
  o 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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