Implementing Effective Periodic Testing For Your Compliance Program

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Increasing Effectiveness of Periodic Testing

Agenda:

• Examples of how periodic testing can become ineffective

• Analysis of contributing factors and solutions to remedy these common pitfalls

• Reaping the benefits from effective periodic testing
Ineffective Periodic Testing?

Focus of Compliance
- Nature of transaction
- Residual risk of the transaction

VS

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

Performance Expectation Gap
(a) Different skillset
(b) Resource challenge

Example: Anti-Corruption Risks

Gifts & Entertainment
- What tests would Internal Audit typically conduct?
  - Sample 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?
  o Sample transactions from “Gift” and “Entertainment” GL accounts
  o 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)
  o Review gift / entertainment expenses by team / cost centers
  o Review gift / entertainment expenses by team / cost centers over time and against revenue for abnormalities (by-product: channel-stuffing)

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)
    ▪ supplier invoices (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 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

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?
  o 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
  o 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 People At The Top: 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:
  o Specialized job (like due diligence, investigations)
  o Scalability
  o Opportunity to cross fertilize Internal Audit / Compliance
  o No impact on fulltime equivalent (FTE) headcount

Questions?

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