

Implementing Effective Periodic Testing For Your Compliance Program

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Luis Hui, CCEP-I, CPA
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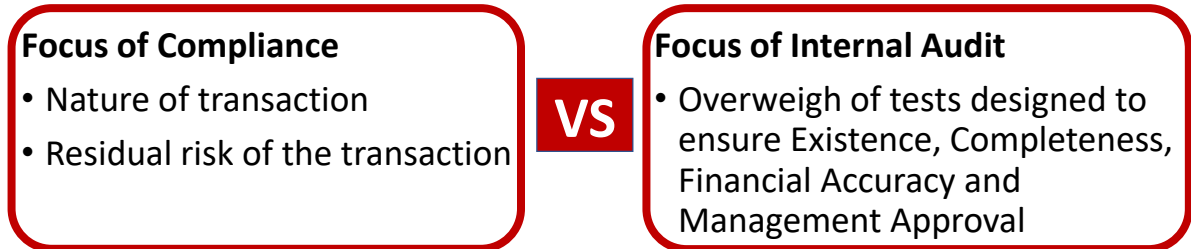
Increasing Effectiveness of Periodic Testing

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

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Ineffective Periodic Testing?



Performance Expectation Gap

(a) Different skillset

(b) Resource challenge

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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)

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Example: Anti-Corruption Risks

Gifts & Entertainment

- **Examples of tests meaningful for Compliance?**
 - Sample 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)

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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)

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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](#)

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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)

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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

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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

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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

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Questions?

Luis Hui, CCEP-I, CPA
huiluis@me.com

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