A GUIDE TO

CONTROL AND COMPLIANCE

Avoid Risks, Improve Accuracy and Sleep Easier

Improving Efficiency and Mitigating Risk Through Concise Internal Control Processes

According to EY, one of the key characteristics that separate the "high performers" in the financial close process from the rest of the crowd is that they have a documented and detailed understanding of significant processes. By doing so, they can identify the key risks in the financial close process and can have a very well defined and functioning internal control process.

Ensuring that your internal controls are well-defined will result in increased reliability of financial reporting and compliance with applicable laws, regulations, internal policies and efficiency of operations.

For the finance department, the structure, policies and procedures that are put in place are crucial to providing reasonable assurance of its ability to fulfill its responsibilities.

Internal controls are tools that help finance managers (and the whole organisation) be efficient while avoiding serious problems, such as violation of laws or fraud.

In this eBook, we'll describe the most important steps you must take to implement the necessary control activities, streamline processes and quickly identify risks within the finance department, so that you can increase control, close faster and truly trust your numbers.

> "More and more companies are using secure, cloud-based technologies to automate manual routines and drive costs down."

Better Reporting. Faster Delivery. Fewer Flaws.

The demand for financial controls and compliance is steadily growing. And just as finance departments are being pressed to contribute more and more to their organisations, an increase in regulations is creating the need for more thorough procedures. How will your organisation handle these conflicting pressures?

Using a risk-based approach and a standardised process, it's possible to identify and minimise financial regulatory, strategic and operational risks in all processes.

In this chapter, we'll describe the most important steps toward implementing necessary control activities, streamlining processes and better identifying risks—all so you can increase control and truly trust your numbers.

> **...If the production of financial statements was integrated with COSO controls, then users would be able to drill down on a financial statement and determine its compliance with the COSO controls.**

GARTNER - OCTOBER 11, 2007

What Are Risk-Based Financial Controls?

Risk-based financial controls and compliance are critical parts of effective risk management. The most common internal control framework for this is, COSO*. Above all, this framework can provide peace of mind for corporate boards, stakeholders and regulators, all of whom need to rest assured that an appropriate financial control structure is implemented, monitored and maintained.

* The Committee of Sponsoring Organisations of the Treadway Commission - www.coso.org

The 5 Essential Elements of Internal Control Over Financial Reporting (ICFR)

Control Environment

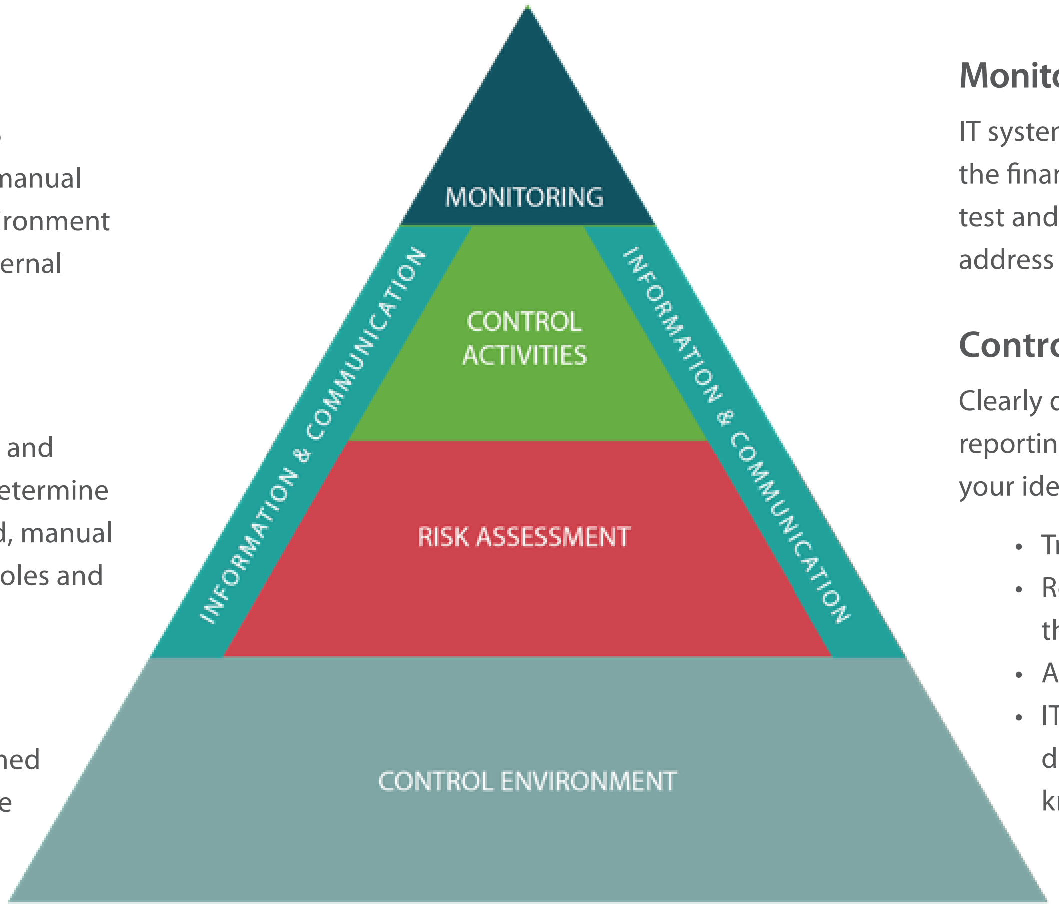
How are you creating awareness of and visibility to potential risks in the financial close such as fraud, manual errors and shared spreadsheets? Your controls environment is the foundation that sets the tone for all other internal control activities.

Risk Assessment

It's important to identify and analyse relevant risks and cross reference them with your key objectives to determine any barriers to success. Potential risks include fraud, manual errors, shared spreadsheets, unclear overviews of roles and responsibilities and weak policies and procedures.

Information and Communication

How well are finance department personnel informed of ongoing control activities and their purpose? Are they updated when changes are implemented?



The COSO model, illustrated here, is one of the most widely used standardised ICFR frameworks.

For more in-depth information on COSO, visit www.coso.org

Monitoring

IT systems that are purpose-built for monitoring the financial close process allow you to more effectively test and adjust control activities, and to regularly address and remove bottlenecks.

Control Activities

Clearly defined processes and activities at corporate, reporting unit and transaction levels are designed to reduce your identified risks. Examples of control activities include:

- Transaction matching
- Reduced manual processing to minimise the risk for human errors
- Audit trails
- IT systems that prohibit wrongdoing such as defined roles protected by passwords and need-to-know access limits

“For us, digitising the financial process was a way to ensure traceability during the audit and provide a better overview of all accounts in the close process. It was also a great opportunity to gather all balanced documentation in one place in the cloud.

CONSUMER BANK, NORWAY

The month-end close is so much more efficient without all those binders and paper copies. Now I can get a full overview of all the balanced accounts in real time – with all the documentation aligned in one format.”

RECREATION & FITNESS COMPANY
SWEDEN

Assessing Your Financial Controls

Most mature organisations have already adopted a well-defined internal control framework, but the exact impact of each potential risk area on the financial statement is generally less understood by all relevant staff.

To maintain effective and up-to-date processes, it's important to regularly review internal control risk assessments—starting with the risk for significant financial statement errors, and working down through all related transaction processes—at least once a year. Such an assessment should always take into account the following:

Policies and guidelines: Are they clearly defined, communicated and enforced throughout the finance department?

Standardised operating procedures: Are they complete, well integrated and transparent throughout the organisation?

Transparency and Accountability: Is everyone aware of their responsibilities and their importance to the overall control process? Does your IT system support informed decision-making?

IT systems: Many control technologies not only prevent and monitor recurring areas of risk, but also document important records of who did what and when. Are yours up-to-date and aligned with today's best practices?

Company culture: Are superior ethical and legal standards evident in your day-to-day interactions? If not, it may be time to re-emphasise company guidelines and procedures.

> "Incomplete control design provides a dubious sense of security."
>
> **PwC**
> IFCR Benchmarking Survey 2016

Identify Common Risks in Your Numbers

The whole point of implementing control measures is to mitigate any potential risks you've identified within your numbers. Not all of these checks and balances are carved in stone, of course. In fact, they should preferably be monitored, evaluated and improved upon regularly to ensure their effectiveness.

Equally important is the need to gain acceptance and understanding within your organisation by communicating the various risks and procedures to all relevant parties. This way, they can better understand their own roles and responsibilities. Examples of control activities in the financial area include:

Existence: All inventory is recognised in the balance sheet at the close of the period.

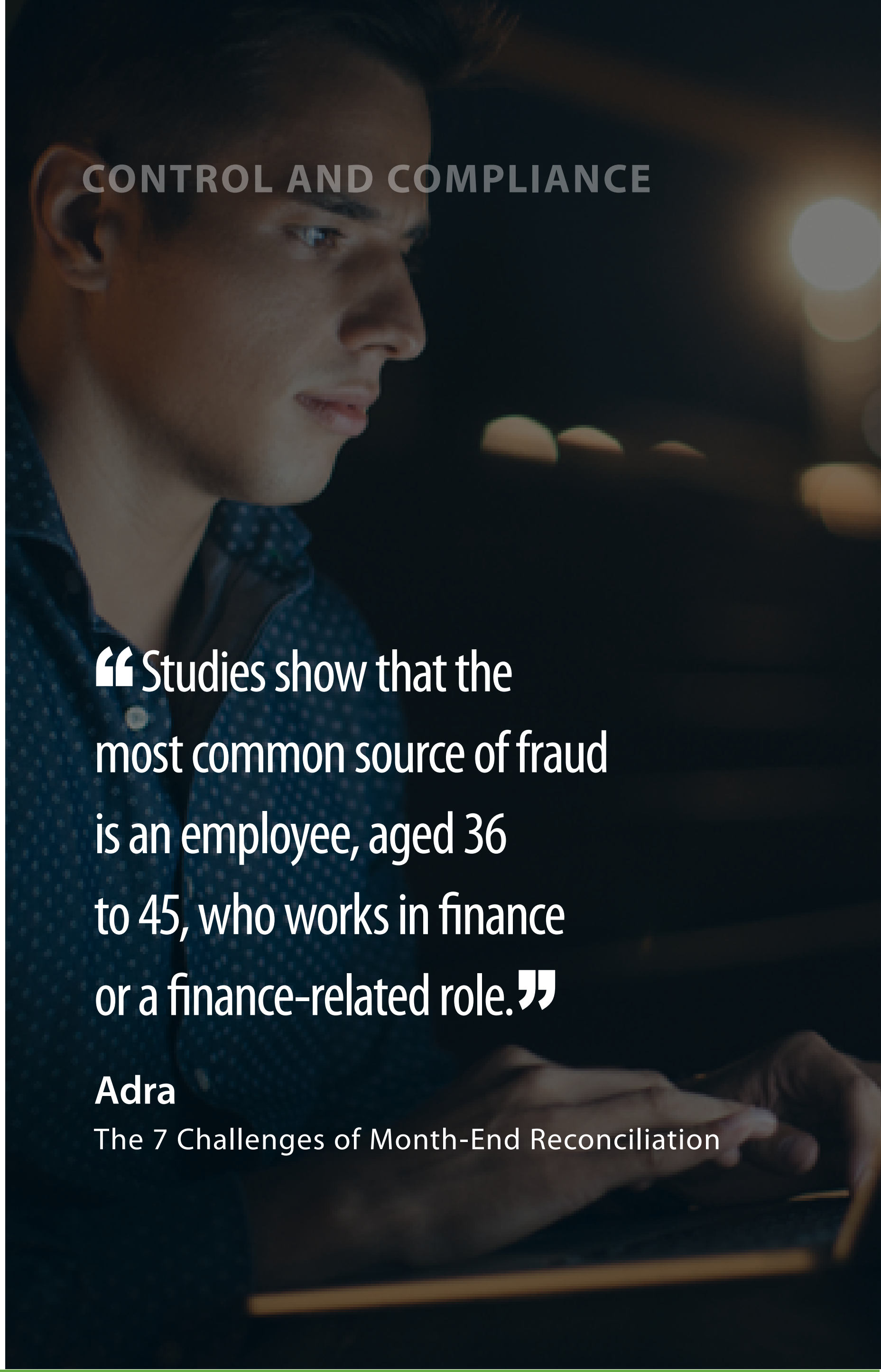
Completeness: All assets, liabilities and equity balances that were supposed to be recorded have been recognised in the financial statements.

Occurrence: The recorded transactions have actually taken place.

Rights & Obligations: Your entity has the legal right to own and use the recognised assets, and any liabilities recognised in the financial statements represent the obligations of the entity.

Rights & obligations: Balances included in the financial statements are appropriately valued and allocation adjustments are appropriately recorded.

Cut-off: Transactions have been recorded in the correct accounting period.



“Studies show that the most common source of fraud is an employee, aged 36 to 45, who works in finance or a finance-related role.”

Adra
The 7 Challenges of Month-End Reconciliation

Monitor Your Control Measures and Spread the Word

There are a number of known financial reporting risks that you should be aware of and work to avoid. A prudent way to identify these is to use financial statement assertions, a conceptual framework based on known audit standards.

What are the risks that transactions or balances are not compliant with these assertions? Below we list relevant assertions to keep in mind when documenting the balance and closing period:

Segregation of Duties: Separating authorisation, custody and record-keeping roles to prevent fraud or errors by one person

Authorisation of Transactions: Review and approval of certain types of transactions by the appropriate individual

Retention of Records: Maintaining documentation to substantiate transactions

IT application controls: Controls over information processing enforced by IT applications, such as edits to validate data entry, accounting for transactions in numerical sequences and comparing file totals with control amounts

By following these control measures, whether you're working digitally or manually, you're well on your way to reducing potential accounting risks. Taking this even further, your next step should be to look into specialised IT software for these purposes.

EXPERT'S CORNER

Per-Øyvind Borge-Hansen
PARTNER, EY NORWAY

> "Companies that displayed a superior level of closing efficiency were often extremely successful."

What distinguishes high-performing organisations from the others?
In a recent study of 146 Nordic companies, we identified a number of key characteristics that separate the "high performers" from the rest of the crowd. These are companies that displayed a superior level of closing efficiency and were often extremely successful. Check out the list below and see how these descriptions fit your organisation:

- Spend five days or less on their monthly financial close process
- Produce high-quality internal and external financial reporting
- Are confident in their processes and create higher stakeholder confidence with their financial reporting
- Have gained a detailed understanding of their financial closing process and are constantly working to improve
- Have a documented and detailed understanding of significant processes, enabling them to identify and mitigate risks through strong internal controls
- Have implemented and continuously monitor a group-wide closing calendar with supporting checklists
- Operate a well-functioning shared service center
- Have a high degree of automated processes
- Have a high degree of system integration, and one centralised standard chart of accounts
- Have implemented group-wide materiality thresholds and adopted a risk-based approach to the financial close process

How can a company "get going" right now?
Three areas are critical to creating a more responsive delivery model for reporting: strategy and vision, technology and data and people. Many companies think it will take months of analysis to improve their financial close process; that isn't true. When done properly, you can come a long way in assessing your current status in just a couple of weeks.

Here are some tips:

Perform Rapid Assessment

The first step is to perform a rapid assessment of the current state of your reporting. Focus on areas that are time-consuming and where errors often occur. Use this rapid assessment to focus your future efforts on the issues that really matter.

Create a Project Plan

Next, focus on the low-hanging fruit (i.e. improvements with a large impact at a low cost). Identify the specific process owners and other key personnel that need to be involved in order to identify critical issues and develop solutions.

Develop an Execution Plan

In formulating the execution plan, interview process owners and key personnel to understand current processes in sufficient detail, get their input on improvement opportunities and prioritise these improvements. Based on the information gathered on current processes and the planned improvements, you can start to design an ideal approach. When identifying issues, focus on eliminating redundant tasks, moving non-value-adding tasks out of the financial close, implementing materiality thresholds, and making better use of the existing IT configuration.

Implement Improvements

Finally, prepare an implementation plan that describes what needs to be done, who is responsible for doing it, and what are the deadlines. As implementation unfolds, continuously monitor progress and adjust the approach when necessary.

CONTROL AND COMPLIANCE

"It's a big boost to have our day-to-day reporting tasks automated. We also get full traceability, which is something of great importance to us."

ONLINE STOCK BROKING GROUP
SWEDEN

Going digital has not only benefited our financial team, it's been indispensable for the external auditors who can work from anywhere."

GLOBAL IT COMPANY,
SWEDEN

What Can I Do to Strengthen My Internal Controls Right Now?

Faster is better, of course, but it's also extremely important to stay in control; one does not preclude the other. In fact, strengthening your internal controls is a crucial enabler to a best-in-class close.

Prepare and implement a Risk and Control Matrix

First, you need to document the significant processes and get an overview of the identified risks related to the processes in scope of the internal control system. Then you have to make sure that there are internal controls in place that reduce the identified risks to an acceptable level. As your business and processes change, so do your risks and controls. For this reason, establishing and implementing a process for continuous updates of the Risk and Control Matrix, is very important. Furthermore, you need to define materiality levels and use these actively when you identify the risks in scope of the internal control system.

Bring your controls to life

Your internal control system should be an integrated part of the financial reporting process. You should strive to keep it embedded in documentation and guidance used in day-to-day activities, such as process documentation, standard operating procedures and service level agreements with shared service centers and outsourcing partners.

Automate your controls

To the highest extent possible, ensure that controls are automated and supported by IT. Therefore, perform an analysis to understand the correlation between your significant processes, internal controls in scope and IT setup to take maximum advantage of automation possibilities. Strive to build up an internal control system where the controls are automatic and supported by your ERP system. This will streamline your internal control process and reduce the risk of errors in the reporting process.

Monitor your control performance

Last but not least, continuous monitoring of the control performance is a key aspect of an efficient internal control system. One option is to implement IT-supported monitoring of the risks and controls (GRC systems), but many companies run efficient monitoring without such systems. A key aspect of monitoring controls is ensuring that your group controller's and internal auditors' site visits include an evaluation of whether the controls documented in the Risk and Control Matrix are performed as described. Developing the right balance between self-assessment and actual testing of controls is also a key prerequisite for maintaining a high-quality internal control system at a reasonable cost.

Join Our Movement to Close the Gap

If you're still using spreadsheets, binders and paper-based archiving during your financial close, you are not alone. However, because you have read this report, we know that you realise it's time to make a change. The Adra Suite of Solutions can help you do just that.

GO

Balance Sheet Reconciliation

trintech Adra BALANCER

GO

Transaction Matching

trintech Adra ACCOUNTS

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Financial Task Management & Controls

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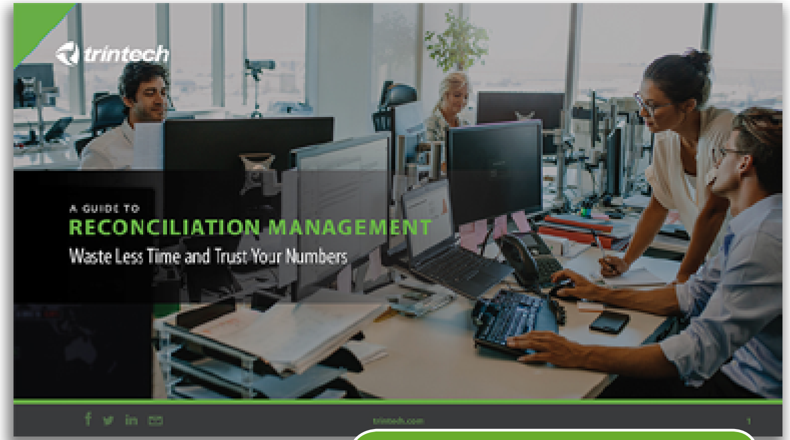

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About Trintech

Trintech, Inc. pioneered the development of Enhanced Finance Controls and automation (EFCA) software to optimise the Record to Report process. From high volume transaction matching and streamlining daily operational reconciliations, to automating and managing balance sheet reconciliations, journal entries, treasury management and bank fee analysis, to governance, risk and compliance. Trintech's portfolio of financial solutions, including Cadency®, ReconNET™ , T-Recs® and Adra™ help manage all aspects of the financial close process.

Over 3,100 clients worldwide—including half of the Fortune 50 and the FTSE® 100—rely on our cloud-based software to increase efficiency, reduce costs, and improve governance and transparency across global financial organisations.

Headquartered in Dallas, Texas, Trintech has offices located across the United States, United Kingdom, Australia, France, Ireland, the Netherlands and the Nordics, as well as strategic partners in South Africa, Latin America and Asia Pacific.

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