Priorities for Improving Risk Management from the Controller's Office

Gary Simon, Group Publisher,
FSN Publishing Limited

This essay is part of a series, *Controllers' Corner: Two-Minute Essays on Financial Management and Control*, which asks industry thought leaders for their opinions on critical issues facing today's finance organizations.

Governance, risk and compliance (GRC) cover a broad range of issues and processes across finance, IT and lines of business. The recession has increased the pressure on Controllers and Finance Directors to identify the most serious risks, and set priorities for the actions necessary to address them.

Q. **How should finance organizations evaluate the priorities for risk management?**

Recent events illustrate the sheer diversity of the risk landscape, from massive product recalls by automakers, to downgrades of sovereign debt in Greece. The suddenness with which events can take hold and the magnitude of their impact underline the vital importance of Governance, Risk and Compliance (GRC) management.

The ease with which problems can bubble up to the surface in any part of a multinational business and the profundity of the issues means that nothing short of a holistic approach to GRC is adequate. Nevertheless it is important to retain a sense of perspective and prioritize the areas of risk management if one is not to become overwhelmed by the enormity of the task.

GRC is a relatively new science, frequently characterized by a lack of urgency and disparate technical solutions. But the global financial crisis has changed all of that and set new expectations. Regulators, politicians and the public are uniformly demanding a step-change in outlook and professionalism. So now that risk is taken more seriously what are the priorities for change and where does the finance function fit in?

Inevitably, the financial crisis has focused a great deal of attention on financial reporting and the extent to which accounting standards failed the public. As a result, the emphasis today has changed from merely collecting and reporting the numbers to asking, "How do we know they are correct?"

In many organizations the control environment is seriously under-invested. In the past, businesses have employed a variety of techniques to exert control but many have relied on spreadsheets backed by paper files and folders. Or perhaps they have used standalone and bespoke databases to document control objectives and record test results. With the advent of Sarbanes Oxley, a number of specialized applications for creating repositories of controls appeared but these were often technically and organizationally marginalized - falling outside of the routine workflow of the reporting supply chain.

The history of the way in which financial controls are managed has not helped. Internal controls have always been understood to be a part of the finance function's domain but responsibility for managing and testing controls has usually resided with the internal audit function, supplemented once a year by an external audit. The recent history of control failures has changed that perspective in two fundamental ways. First, regulators around the world have re-asserted that the primary responsibility for the control environment rests fairly and squarely within the finance function. Second, it is now very clear to audit committees and executive management that financial controls have to be monitored and confirmed to be working continuously throughout the year if reliance is to be placed upon them.

So what are the priorities for investment? First, the control environment and the applications supporting it have to be inextricably linked (integrated) with the reporting supply chain and support collaboration. Second, the control environment has to be pervasive, i.e., cover the entire reporting supply chain and be globally deployable to a consistent standard. Finally, the applications need to be sufficiently specialized to cater for the complexity and breadth of GRC in the modern organization.

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But it should be remembered that there is a more positive side than mere compliance. The Controller's office can take the lead in pointing out that a strong control environment makes good business sense. After all, financial reporting underpins the performance management cycle, allowing management to monitor continuously the delivery of its targets and prospects for success. The greater assurance gained through dependable systems adds confidence to decision making, and at the same time, limits the risk to reputation through misstatements in earnings announcements and other public disclosures. This is the true priority.

About Gary Simon

Gary Simon is the Group Publisher of FSN Publishing Limited, Managing Editor of FSN Newswire and the author of many product reviews and white papers on financial software. Simon is a graduate of London University, a Chartered Accountant and a Fellow of the British Computer Society, with more than 23 years of experience implementing management and financial reporting systems. Simon was a partner with Deloitte for more than 16 years and has led some of the most complex information management assignments for global enterprises in the private and public sector. Gary Simon may be contacted at gary.simon@fsn.co.uk

IBM Canada
3755 Riverside Drive
Ottawa, ON, Canada K1G 4K9

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