

How cost effective are your risk and internal control activities?

Do you know how effective your internal controls are? Are they aligned with the company's business objectives and risks?

Do you use risk and control activities to drive process improvement and value to the business?

Towards Controls Optimisation*

Establishing effective controls at the right cost for your organisation

Business advances that have offered growth and opportunity in the recent past have also delivered unforeseen consequences. One consequence has been the rise in inefficiency in most major businesses as information systems and processes have been adapted to meet increasing complexity and transaction volumes.

At the same time there are areas that have not escaped the relentless search for cost savings. This has put further pressure on the efficiency and effectiveness of business and financial reporting processes and wider business control.

Recent Sarbanes-Oxley s404 projects have offered unprecedented insight into how businesses operate their internal control environments and where common opportunities lie for improvement in the financial reporting arena.

SEC registrants are now exploiting some of these opportunities. But most s404 projects to date have only addressed financial reporting risks, ignoring operational and regulatory risks, and have not yet looked more widely across the business to where major opportunities lie.

If internal control is fundamentally challenged and then redefined in a business, the resulting performance improvement will offer a return on investment beyond the reduction in risk it was designed to achieve. These benefits are available for both SEC and non-SEC registered companies.

*[connectedthinking](#)

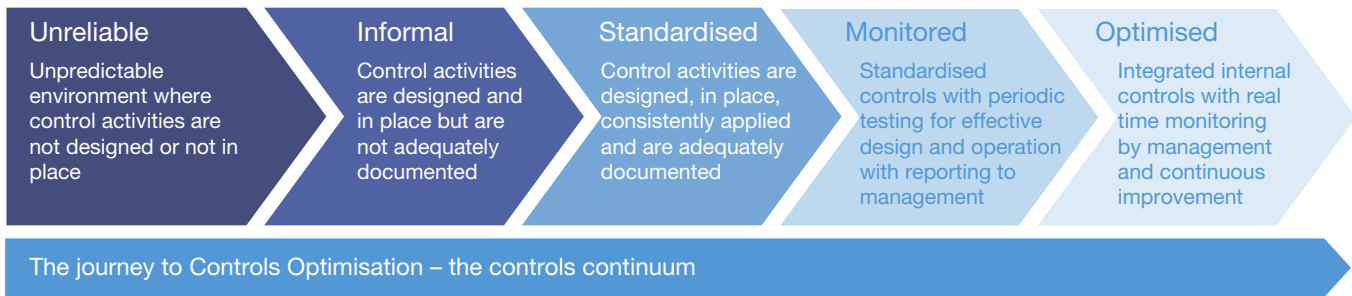


Controls Optimisation: a unique approach

All organisations are unique in their strategy, market positioning and structure, so Controls Optimisation means something different to each of them. Controls Optimisation is a process of continuous improvement reflecting a company's objectives and risks and the risk appetite of management. There is no 'one size fits all' solution. Factors to consider in achieving Controls Optimisation include:

- Controls over the risks (financial, strategic, operating and regulatory). Are they simple, transparent and cost effective?
- What are the necessary operating costs of systems, processes and controls?
- Appropriately containing the ongoing cost of regulatory compliance whilst minimising the risk of non-compliance.
- Flexible controls to enable business change and add real value to the organisation.

So, where are *you* now and where do *you* want to be?



Would these apply to your organisation?

Drivers for change

- Expectation from key stakeholders.
- Audit Committee and Board pressure to achieve best practice controls principles and greater transparency.
- Existing or future regulation requirements.
- Remaining competitive.
- The need to embed ongoing controls compliance process into business as usual.
- Process improvement.
- Simplifying/standardising processes and controls.
- Reducing the cost of compliance.
- Increased reliability of management information.

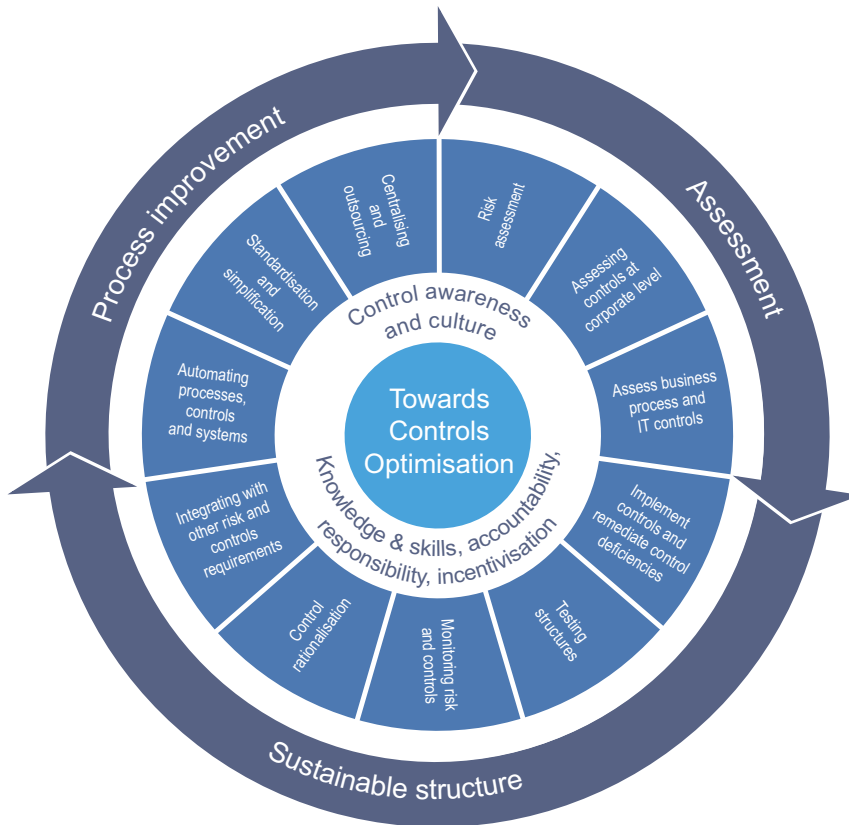
Triggers for change

- Known control deficiencies, control breakdowns or financial statement errors or restatements.
- Complexity – multiple systems, processes, locations, cultures.
- Implementing new systems or processes.
- Moving to shared services or outsourcing.
- Expanding into emerging markets.
- Significant growth or change, mergers or acquisitions.
- Revisiting the role of internal audit.
- Risk management processes not fully embedded in the business.
- Lack of ownership and awareness of risk and controls.

Achieving tangible business benefits

Higher assurance on the performance of controls	Efficiency gains (including reduced costs)	Reduced volatility and complexity
<ul style="list-style-type: none"> • Reliable and transparent information for decision-making. • Reduced risk of potentially embarrassing adjustments to prior-period results thus preserving corporate reputation. • Errors detected in a timely manner. • Early warning indicators as to where controls may not be operating effectively. 	<ul style="list-style-type: none"> • Harmonised systems and processes. • Streamlined controls. • Process efficiency. 	<ul style="list-style-type: none"> • Alignment of risk and control. • Flexible to deal with business change. • Reduced likelihood of fraud. • Enhanced 'tone at the top' and subsequent accountability. • Improved corporate discipline. • Third party assurance.

Steps in the journey



Many companies are finding that moving towards an optimal control environment consists of a series of activities that can be implemented through manageable programmes of change.

Assessment

Perform risk assessment and analyse current internal control environment, at the corporate, business process, systems and IT level.

Sustainable structure

Establish a system of control with clear accountability, an efficient testing and monitoring structure, supported by effective use of technology.

Process improvement

Design and implement improved business processes and controls which reduce cost and improve transparency driving real business benefit.

“Even though we no longer have a listing in the US, we have pushed ahead with our s404 internal controls programme – thereby driving major long term performance benefits for our business.”

Finance Director – FTSE 50 company

From compliance requirement to voluntary improvement

Following a merger, this FTSE 50 company decided to seek shareholder approval to drop its US listing and remove its SEC registration and reporting obligations.

However, the company decided that suspending its Sarbanes-Oxley obligations should not mean suspending the compliance project. The finance director explains:

“I was very keen for us to apply the disciplines of s404 compliance, as a basis for documenting procedures to improve process efficiency and financial control as appropriate throughout the business. A further consideration was that a UK/EU equivalent to Sarbanes-Oxley – although unlikely to be as prescriptive – might be introduced at some stage. So I gave this project my full support and backing. Similarly, the finance directors of each of our divisions were keen to put this process documentation in place, particularly given the ongoing integration following the merger.”

The right sponsorship and scope

Following the board’s decision to proceed, the company set about ensuring the right top-level sponsorship and governance, and the right scope for the project. A steering group was set up including the group finance director as sponsor, the director of internal audit as project leader, the finance directors of the four divisions and the technology director.

Internal Audit then determined the project scope on the basis of discussions with all the finance directors. The FD comments:

“In the scope, we decided to include all four divisions and Technology using an appropriate approach for each division. Two divisions – due to the materiality of their businesses – required detailed reviews and full documentation of key financial processes. With one division, due to the varied nature of the business, our approach was to concentrate on financial reporting processes and high level controls within the division as a whole, and within each sub-sector. In another, the approach was to concentrate on high level financial controls and management reporting processes, with specific assurance being obtained from work performed across the Central Finance processing cycles.”

Self diagnostic

To determine whether your company could benefit from moving towards Controls Optimisation, ask yourself the following questions:

- 1 What is the cost of your risk and control activities (both explicit and hidden)? Can you and do you measure their ROI?
- 2 What is the commercial value delivered by your risk and control activities?
- 3 Do you conduct an annual optimisation (including effectiveness) review of your system of internal controls?
- 4 Do you test the level of your controls culture regularly?
- 5 Do you know what percentage of your controls are manual?
- 6 Can you identify control breakdowns from the information you receive?
- 7 Is your system of internal controls properly aligned to your risk appetite and business strategy?
- 8 Do you monitor the effectiveness of your IT systems both top down and bottom up?
- 9 Do you review and monitor the efficiency of your key business processes through a planned and regular programme?
- 10 Do you use risk and control to build organisational resilience (agility)?
- 11 Do you act on risk and control information to enhance your business performance (financial, operational and regulatory)?
- 12 Given the above, are you confident to present to the board with examples and key metrics?



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