

# Compliance: it needn't be a headache

Why are compliance projects so painful? In the face of mounting regulatory pressures, *Dean Evans*, US head of global project management consultancy PIPC, argues for a more proactive approach.

As headaches go, coping with the regulatory load of Sarbanes-Oxley and IFRS has proven to be beyond the reach of a simple pill. But maybe that's because financial directors have been taking the wrong medicine.

It's a sure fact that FDs are cursing those Enron executives that set the regulatory ball in motion. Yet, in many ways, they have done business a favor, at least in the long-term. Accountability and transparent accounting are not such bad things, and in the drive to achieve these goals, businesses have the opportunity to change for the better.

However, that change has to be well structured. There is no place for knee-jerk reaction. Many businesses are still needlessly ripping out old IT systems to cope with compliance. When IFRS and SOX came along, many companies used it as an excuse to change their systems but they missed the point. One of the key reasons companies have been struggling with compliance has been down to data gaps in the reporting, rather than the systems themselves.

A lot of companies have found they have been trying to report on data that they just haven't captured. This has meant that companies are now playing catch-up on something that should have been done months ago – a costly and time-consuming process.

These data gaps lie at the foundation level of any compliance project and therefore can affect everything above it, including transaction systems and business processes. And here you have another problem. The business processes themselves are often found wanting. A lack of documented business process controls is making the implementation of compliance programs more difficult. Until proper controls are put in place, there are always going to be issues with compliance testing. Basically, if you don't know how your engine works, how can you hope to successfully install new parts?

Businesses have to apply project management principles and take compliance projects by the scruff of the neck if they are to overcome these major issues. It's no good reacting to problems as they arise without understanding the root causes. You have to be proactive, foresee issues and plan accordingly and that can mean starting from scratch.

That's not necessarily a bad thing either. If you are going to take your accounting systems apart, it's a great opportunity to apply improved methods. When do businesses ever get a chance to radically improve their business and financial processes from the ground up? But any reorganization has to make provisions for collecting the right data. It has to build from the data foundations.

It's also an opportunity to apply consistent, testable and measurable controls to those processes. It's a good time to put your house in order, but staff and stakeholders must share a positive attitude and approach.

What companies have to be wary of is the rip and rebuild process, which can be costly. It is possible to integrate new ideas with legacy IT applications as long as you project manage the process sufficiently to ensure a consistent reporting process. Consistent data will enable transparency and forward planning. This makes a company more efficient and valuable and ultimately more attractive for either acquisition or further investment.

Another problem that many companies face is the timing requirements imposed by regulatory bodies. Few companies can afford to employ specialists whose sole purpose is to manage compliance internally. There is a lot of doubling-up of tasks – a constraint that can stop compliance projects from hitting their deadlines. Companies must design effective working plans to ensure compliance is managed with consistent efficiency.

A lack of guidance from the regulatory bodies is also not helping. It adds an element of individual judgment to the project, which may not be consistent across the company or easily agreed upon. Endless meetings arguing over key compliance points are a sure way to send a project into a late spin.

Given that compliance is basically the cost of doing business rather than a direct contributor to bottom line profit, it is often put on the backburner. There has been a lack of urgency, a long-meetings culture and this has led to businesses panicking as deadlines loom.

Changing attitudes to compliance is essential. Companies also need greater regulatory guidance and a clearer understanding of how compliance fits within the business. Empowerment rather than punishment.

It is possible for a business to build business process rules that will enable it to react more efficiently to any compliance changes in the future. This makes the business more lean and agile and more able to take regulation in its stride. And that's a competitive edge. With so many companies struggling in the regulatory tide, a proactive approach could transform compliance from a cost to an opportunity. ■