



Effective Internal Controls over Financial Reporting with Business Process Outsourcing

Anil Samtani, Vice President,
Risk Management and Audit, WNS Global Services

It all began in October 2001 when one of the world's leading corporations that had been named by *Fortune* as 'America's Most Innovative Company' for six consecutive years, announced that it accrued a USD 618 Million net loss for the third quarter and that it would be reducing shareholder's equity by USD 1.2 Billion. Although it was believed at the time that this scandal was an anomaly, another large corporation in the telecommunications space declared an even larger fraud in 2002. It was an accounting fraud with a larger restatement of earnings and a larger bankruptcy filing.

The *Forbes* Corporate Scandal Sheet that was last updated in September 2002 lists dozens of corporations falling prey to financial accounting fraud. The more recent cases are those of a global financial services firm failing to disclose Repo 105 transactions to investors in 2010, a leading information, communications and technology firm presenting falsified accounts in 2009 and a business and commercial bank's hidden loan controversy in 2008. This trend demonstrates the need for corporate governance to usher in a regime of greater accountability.

It is against this backdrop that the Sarbanes-Oxley Act (SOX) was passed in the United States. The Turnbull Guidance on Internal Control with the London Stock Exchange for listed companies and Japan's Financial Instruments and Exchange Law (J-SOX) are similar rules for public companies. Establishing the right internal controls provides greater assurance that a corporation will achieve its operating, financial reporting and compliance objectives. Internal controls on financial reporting have been in place for a long time but have taken on relevance in recent times, as risk management has become more crucial. Whether an organization is large or small, public or private, establishing internal controls over financial reporting is important to ensure that the policies, directions and procedures put in place by the board and management are functioning well.

In our opinion, effective internal controls matter to a company in the following five essential ways:

1. It ensures accuracy in financial reporting
2. It ensures compliance with laws and regulations
3. It builds effective and efficient operations

4. It allows for a peaceful night's sleep – ensures that the management team and the stakeholders are not faced with risks since they adhere to the required regulations
5. It saves money

Challenges Faced by Companies While Implementing a Financial Reporting Compliance Program

Publicly listed corporations have to follow regulations laid down in the guidelines, with the ultimate responsibility for internal control being with the company's board. The responsibility of implementing the board's control and risk policies are with employees. A top-down approach is the right strategy where the tone and expectations are set at the top level. All companies, regardless of their size, are faced with the challenge of maintaining internal control in financial reporting. Some of these challenges are:

- **Compliance overkill:** Many organizations run compliance programs in isolation to demonstrate adherence to specific laws / regulations thereby increasing the overall cost of compliance.
- **Paucity of resources:** Organizations often face a resource problem in monitoring financial reporting processes and achieving the appropriate segregation of duties. Some even make themselves believe that there is no segregation of duty issue unless a fraud is discovered.
- **Lack of management resolve:** Many private organizations feel that they do not need to invest in this area as there is no regulatory obligation to do so. Often there are lapses in the existing processes. The issue is likely to get sidelined as the management trains its efforts on achieving business targets and goals.
- **Deficient skill sets and expertise:** There is a lack of resources with sufficient experience and skill in accounting and financial reporting, and more importantly, many small companies are unable to recruit and retain suitable people.
- **Limited IT tools:** Small organizations are likely to have limited technical resources and cannot maintain the necessary application controls over their information systems.



A good governance system in place, irrespective of regulatory obligations, is the way forward. This requires a team with technical knowledge, skills and a thorough understanding of the objectives of the organization to set up internal controls for financial reporting, while maintaining the costs of compliance in check.

WNS, a leading Business Process Outsourcing (BPO) firm, specializing in Finance and Accounting Outsourcing (FAO) – recognized as the top five “FAO Market Star Performer” for the second consecutive year by Everest Group – presents the right set of skills and expertise to chalk out a robust compliance management program such that, even if a new law or regulation is enacted at a later date, an organization needs to make minimal adjustments to its existing risk management and compliance program. WNS advocates in implementing these practices as part of the organization’s DNA.

Internal Controls over Financial Reporting in the Context of Outsourcing

Given the significance of adopting internal controls over financial reporting, companies must opt for outsourcing and automation of their non-key finance processes. This will allow for standardization and enable companies to obtain better and faster access to data that will result in cost savings. Large organizations that maintain multiple finance environments with different policies, business rules, charts of accounts and finance systems find the practice to be unwieldy, costly and difficult to manage.

Partnering with WNS can help:

- Establish a single, enterprise-wide accounting methodology as well as a core general ledger
- Eliminate non-value-add steps in the finance functions and reduce the ambiguity due to disparate business units
- Ensure subsidiaries retain proprietary processes and charts of accounts
- Enable cost savings due to leaner and faster processes
- Establish and maintain a compliance Center of Excellence that helps your organization implement compliance as a BAU and not as a separate task or activity to be performed

WNS – A Specialist in FAO Services

There is increased focus on the finance reporting and control framework to ensure that every business process with a financial implication is being monitored. WNS has the requisite experience and capability of partnering with clients throughout the entire spectrum of processes in the finance and accounting space.

WNS assists clients at various stages of the compliance program and in fact the WNS internal controls function acts as the ‘second line of defense’. The first line of defense is the Operations Team, which includes Quality Analysis and Quality Control. This involves preventive, detective and monitoring controls that are embedded within the operations processes to mitigate risks and ensure day-to-day compliance. The second line of defense is the WNS Internal Controls team that conducts an audit oversight over the first line of defense. The team also reviews the operating effectiveness of stated controls. The third line of defense is the audit group of the client organization, which conducts an audit of adherence to group policies and contractual commitments.

The following are three levels of partnerships with the client:

- **Design the entire framework for internal controls** – This involves performing risk assessment at every level and recommending controls that need to be set in place. An entity level assessment is conducted to ascertain compliance maturity.
- **Review the existing internal controls framework** – The WNS team conducts a meticulous assessment of the internal control framework of an organization. With expert process understanding and documentation, all controls are assessed in terms of design efficiency and operating effectiveness. The team reviews each control that is set up. If a particular process is found to be redundant, the WNS team will recommend discontinuing it. This results in significant cost benefits.
- **Evaluate all existing risk control mechanisms** – The WNS team helps mitigate risks by performing a test of operating effectiveness and identifying any deficiencies in the system and then plugging the gaps. As your extended organization, the WNS team will even liaise with your organization’s audit teams (internal or external) for any compliance reviews.

WNS has extensive experience in managing the FAO of processes for a wide range of industries. Our team draws from the insights it has garnered through its wide experience on process nuances to help clients put in place best-in-class control environments. WNS represents clients in interactions with external auditors. An added advantage is the application of AuditWiz, a WNS-developed compliance tool for a better financial reporting and control framework.

To learn more, please write to us at marketing@wns.com