

# Why covid-19 should be a catalyst for compliance reform

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*Lextegrity's Parth Chanda, Kara Bonitatibus and Andy Miller explain how the current crisis is exposing flaws in corporate compliance programmes.*

Managing fraud and corruption risks in global organisations was already difficult before the covid-19 pandemic. Today, that challenge has increased significantly as governments pour trillions of dollars into new spending with lax oversight, sales staff feel pressure to close deals to

keep their jobs and rapid personnel changes open gaps in day-to-day management oversight within organisations. New risks emerge as companies are asked by governments or customers to support charities and social funds with opaque ownership and control structures. Supply chain disruption has also required companies to accelerate onboarding of new third parties.

Against these headwinds, company management may be freezing compliance, audit and investigation budgets or pushing those control functions to operate with fewer resources. Those functions are also forced to operate remotely, with

reduced access to the people, documents and data that they need to be effective. All the while, dissatisfied employees may be creating an uptick in hotline complaints that require investigation and follow-up.

## Many compliance programmes are not up to scratch

The old ways of managing risk are not up to this task. The combination of manually pre-approving expenses and conducting periodic corporate audits in the riskiest countries has never been particularly effective, and covid-19 has highlighted the weaknesses in that approach. While necessary, the system for pre-approving expenses and focusing due diligence on the highest-risk jurisdictions or vendor categories can be gamed or bypassed.

Employees can collude with potential new business partners to provide false information. And in most companies, a rogue employee can simply bypass due diligence processes and hire a new vendor without the compliance team knowing about it. The systems for compliance teams to pre-approve expenses or vendors often run separately from the systems managed by finance and procurement. That means an employee can spend a different amount to what compliance had approved.

The reliance on internal audit as the backstop to detect fraud and corruption using their current toolset is inadequate. Internal audit can only visit a sample of countries each year and when they do, they pick a sample of transactions to review. Their selections may be random or may rely on basic analytics, such as the top ten travel and entertainment spenders or top ten “high-risk” third parties identified through the diligence process. Reviewing only a sample of markets and a sample of transactions, by definition, misses things. Using basic analytics ignores that your 30th highest travel spender or a “low-risk” supplier like a putative “paper supplier” may actually be your conduits for fraud or corruption. Most importantly, however, covid-19 has upended even this imperfect control framework, as audit teams are grounded for the foreseeable future.

## Compliance needs to assess every spend transaction, not just a sample

Risk management must be reimagined to apply advanced data analytics on all expenditure (not a sample) in real-time (not periodically) to escalate those with heightened risk. Compliance should also have a system for not just pre-approving expenses but also checking whether an employee only spent the

money they were allowed to. By introducing this reform, proactive compliance, audit and investigations functions will be able to manage increased risk and workload more effectively while heeding management's directive to do more with fewer resources.

Off-the-shelf data analytics software can process and risk-assess all company expenditures. Invoices and expenses are subjected to multiple analyses simultaneously. For example, a payment request to a "paper supplier" may be statistically anomalous for its expense category – there are suspicious keywords and the payment is made to a high-risk bank account country only a day after the invoice was received. Applying this level of aggregated analysis to every invoice is the most effective way to find those fraudulent or corrupt needles in the haystack. This level of analysis, however, cannot be done by humans at scale and necessitates technology.

Since new data points emerge daily from risk assessments and ongoing investigations, data analytics tools should allow compliance, audit and investigations personnel with no background in data science or engineering to implement and tweak these analyses continually. Machine learning can also automatically improve the accuracy of the algorithm as transactions are resolved to further refine which invoices and expenses need further investigation.

Real-time data analytics on expenditure can be accompanied by better automated approval systems that monitor all types of transactions. For example, multiple systems or processes for third parties, donations, gifts and entertainment and conflicts of interest create siloed risk data that make predictive analysis far more difficult. Unifying those systems can, for example, show you an employee's aggregate spend across transactions as well as their third-party engagements next to their disclosed conflicts.

## Reimagining how compliance, audit and investigations functions work

Implementing data analytics and automation provides an opportunity to reimagine compliance, audit and investigation functions so they become more effective, efficient and coordinated.

A unified system where every expenditure is risk-scored can be used by compliance monitoring and internal audit teams to detect problematic invoices before they are paid and to identify emergent risks in days rather than months

or years. A data analytics platform can risk-score countries, employees, vendors or individual government officials, customer employees or healthcare providers. In doing so, compliance teams can move away from relying on subjective analysis that relies predominantly on surveys or high-level metrics like total expenditure, and move to more objective risk analyses. For example, a compliance officer could compare the risks in China and Mexico with respect to payments for a specific general ledger account in a specific company business unit. This level of micro-targeting of risk can allow compliance officers to identify and then focus limited time and energy, and – post-coronavirus – constrained budgets on the truly highest-risk areas.

For investigations teams, a data analytics platform can accelerate the accuracy of investigations and the time needed to scope and complete an investigation and implement ongoing remediation. If a whistleblower complaint about personal travel and entertainment expenses is lodged against the country manager of a specific country, an investigator can access that manager's expenses in seconds, where every single expense is also risk-scored and every risk analysis that was a positive match is summarised for the investigator. If an investigator identifies a pattern of behaviour indicative of fraud or corruption, such as certain keywords used in a certain country for a certain type of expense, data analytic settings can be modified in real time to look for that specific pattern and identify similar transactions immediately, providing investigators with a powerful digital forensic analysis tool. And real-time analytics can allow an investigator to monitor a subject's transactions more closely during an investigation and any ensuing probationary period.

For internal audit, data-driven risk visualisations can help objectively scope audits more effectively. Software can also expose underlying data, such as receipts from entertainment in expense reports, to make the auditor's job even more efficient. This work can also be done remotely without an audit team having to travel to the local office, which is particularly relevant because of covid-19.

To effectively tackle corruption and fraud in an increasingly difficult environment, organisations should adapt data analytics and automation, particularly given the significant increase in people working remotely. As authorities have already stated plainly, the future will be divided between effective programmes that use data analytics and ineffective programmes that do not. Now is the time to smarten up.