

“CHANGE WITHOUT (INTERNAL) CONTROL”

An **EndState** article by Ian Crawford

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Maintaining your long-term financial controls is an imperative for growth in shareholder wealth. Introducing change without (internal) control can lead to more systemic problems than just the failure of a project.

When **EndState** work with our clients to deliver major change, we often remind people that one definition of “chaos” is “change without control.” Never has there been a more apposite addendum to this phrase than in the current economic climate when we offer an alternative definition, “change without (internal) control.”

Prior to the credit crunch a head of steam had already built up behind increasing regulation regarding financial and internal controls. Increasingly, we work with organisations wrestling with the challenges of delivering to both commercial and compliance objectives simultaneously.

Section 404 of SOX, for example, mandates that external auditors submit an annual management report that gauges the efficacy of a company's internal controls. A further report from auditors & management must assess internal controls used in support of financial reporting.

A common perception of SOX is that it is only for U.S. publicly quoted companies. However, if you have long-term public debt quoted on the U.S. debt markets, you must meet certain SEC filing requirements. Furthermore, the arrival in Europe of the 8th Directive (or E-SOX) shows that a significant in-

crease in risk focus is on the way for all companies.

The credit crunch will undoubtedly provide us with salutary lessons; it is safe to say that further tightening of the regulations over internal & financial controls is highly likely as a result.

Increasing obligations for transparency may mean a corresponding chance that reliability of earnings will come under further scrutiny. As audit practises place increased reliance on the internal controls framework of your organisation, it is imperative that programmes and projects do not destabilise any key controls upon which your organisation relies.

So why must Executive Managers pay increasing attention to the change programmes their organisations undertake?

Clearly no-one embarks upon a programme or project with the intention of de-stabilising the business or its internal controls. Sadly, however, as pressures come to bear on many project teams they often focus hard on delivering “things” to milestones and managing to the assigned budget. On occasion this leads to de-scoping of programme components in order to meet budget and time constraints.

As Executive Managers, we should recognise this and provide assurance that a project is not de-scoping aspects which may place controls in danger, increase operational business risks or threaten the underlying financial performance of the company.

Similarly, it is important to identify behaviours that are driven solely by budget or milestones and which forget

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Key Observations:

- AN INCREASING FOCUS ON RISK IS IMPERATIVE FOR THE SUCCESS OF ALL ORGANIZATIONS
- THE IMPACTS OF THE CREDIT CRUNCH MAY LEAD TO FURTHER REGULATORY TIGHTENING
- EXECUTIVE MANAGERS MUST CONSIDER INTERNAL CONTROLS EARLY IN ANY CHANGE INITIATIVE
- EMBED THE ASSESSMENT OF INTERNAL CONTROLS INTO THE STRUCTURE OF NEW PROGRAMMES

EndState Differentiators:

- WE HELP OUR CLIENTS REDUCE THEIR HIDDEN COSTS OF RECRUITMENT
- WE GIVE YOU MANAGEMENT CONSULTING BRAND VALUES IN A RECRUITMENT COMPANY SETTING
- WE HAVE PERSONALLY BUILT TEAMS TO DELIVER SUCCESS; WE UNDERSTAND YOUR CHALLENGES
- OUR AFTER-CARE SERVICE FOR CLIENTS & CANDIDATES ALIKE HELPS BUILD LONG-TERM RELATIONSHIPS
- WE ALIGN OUR BRAND VALUES WITH YOUR VISION, ENABLING YOU TO ATTRACT & RETAIN TALENT

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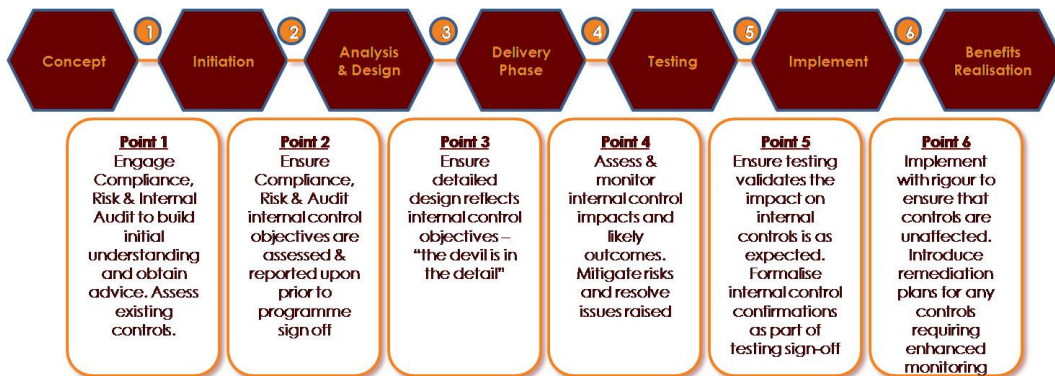
about business outcomes and business risk – we must strive for the right balance between delivery and operational stability. Programme Managers usually think in terms of 'Delivery Risks' for their Programme whereas a robust internal controls framework dictates that all concerned must continually evaluate the impact of the programme on 'Business Risks.' A delivery at all costs mentality can lead to a failure to deliver the required benefits

your P&L. The result of ineffectively delivering a programme to compliance and risk management requirements will negatively impact your cost base and potentially the risk profile of your business, resulting in sanctions & /or reputational damage in the worst case.

As further advice, EndState offer some mitigating steps for your programmes, laid out in the lifecycle diagram below.



Be financially prudent with your internal controls & use EndState as your chosen advisor.



and an increase in the risk profile of the business as a whole.

However, as well as ensuring you demonstrate effective controls over your change programmes, there is potentially a direct bottom-line cost for Executive Managers to contemplate.

It is said that even the most efficient SOX programme may cost at least 1% of gross revenue to operate. Clearly, that converts to a far greater percentage of profit. Therefore, you need to make sure that your programmes & projects are truly aligned to internal control & risk management objectives if they are to avoid increasing the size of the compliance bill still further.

Consider that a programme is a one-time cost whereas those associated with maintaining a robust control framework are an ongoing burden on

In summary, make sure:

1. Executive Sponsors, Programme Directors and key stakeholders embrace compliance, risk & audit functions early
2. Ensure that these functions add value to the programme with positive contributions to success
3. Consider a seat at the Steering Group table for your Chief Risk Officer

What's more, it is important to start a major programme with your eyes open. Many times we have seen organisations oblivious to existing control challenges only for a programme to highlight them. The root cause is not the programme; the issues were underlying within the business, sometimes for many years.

“BE AWARE OF YOUR INTERNAL CONTROL STRENGTHS & WEAKNESSES BEFORE YOU START A PROGRAMME. OTHERWISE YOU RISK COMPOUNDING EXISTING ERRORS.”



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Programmes which are initiated in a weak control environment can come to resemble an exercise in building houses on a bed of sand. To take early action and avoid such a scenario, EndState would suggest that you look out for:

- ≡ Financial reconciliations which continually carry reconciling items
- ≡ Patterns of financial reconciliations which are produced but not counter-signed (an absence of the “4-eyes principle)
- ≡ Internal control reports which are signed off, but for which supporting evidence is not forthcoming
- ≡ Data inconsistencies between financial platforms (e.g. between ERP solutions, Data Warehouses, product platforms)
- ≡ Historical billing challenges - legacy billing applications often create ‘invisible’ billing errors
- ≡ Internal audit issues highlighted but which never seem to be at the top of anyone’s priority list

In essence, it is now imperative to establish and maintain a robust internal controls framework as part of business as usual. Undertaking major change programmes are a threat to the stability of that framework and must be initiated and managed accordingly.

If your organisation is to avoid our revised definitions of “Chaos”, “change without (internal) control” then it is equally imperative to ensure that you initiate and deliver major changes with internal and financial controls in mind from the outset.

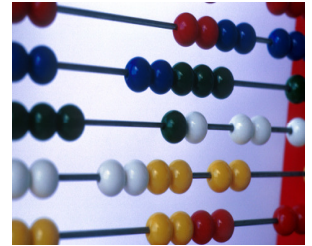
EndState help our clients focus on delivering programmes without endangering your control environment. Through EndState we support you in:

- ≡ Protecting: your existing controls framework from the risks associated with major change
- ≡ Simplifying: your operations as a result of change programmes
- ≡ Standardising: your processes and controls for ease of operation
- ≡ Clarifying: the control impacts and enabling transparency

EndState provides you with the ideas and people that enable your success through removal of the hidden costs of recruitment.

Whether you are growing, transforming or diversifying, EndState’s unique combination of Management Consultancy, Executive Headhunting & Recruitment Services, Management Coaching, Facilitation and Team Building are specifically targeted at helping you and your organisation deliver value for money and service quality excellence.

Find out more about EndState at www.endstate.uk.com.



Calculate the internal control risks your organisation faces and let EndState help you to mitigate them effectively.

“MONITOR AND MANAGE YOUR INTERNAL CONTROLS THROUGHOUT THE LIFECYCLE OF ANY CHANGE PROGRAMME TO AVOID SURPRISES AFTER THE PROGRAMME COMPLETES.”