



Meeting Compliance and Corporate Governance norms using PeopleSoft Enterprise Applications

By Venkat Manthripragada and Kaushik Kumar

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An important factor for organizations is to reap the benefits of the existing ERP system implemented for laying down a strong compliance framework or implement a new ERP system if no system has been implemented.

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PeopleSoft Enterprise Applications provides strong capabilities to define a flexible framework to meet the Compliance and Corporate Governance Norms.

This article discusses the importance of Corporate Governance and the ways and means to meet the norms using PeopleSoft Applications

Abstract

Fast changing Macroeconomic landscape and pressures Organizations are facing for continuous performance in the global market place made Compliance which as a discrete function from the perspective of regulatory need into a key requirement for establishment and protection of Organization's reputation and value in the marketplace and in the eye of the investors.

Compliance failures during new millennium are impacting the rating the Organizations by Industry Analysts, Rating Agencies and Investors and thus are impacting the stock prices directly. With growing concern about the pressure of performance impacting the presentation of the state of affairs of Organizations, the investors are showing willingness to pay premiums on shares of Companies that are demonstrating better Internal Control Systems and Transparent disclosure policies.

As per a survey report of Financial Times on World's Most Respected Companies published in November 2004, Companies that demonstrated effective steps towards Sustainable Growth, Effective Governance, Risk Management and Compliance were preferred by most of the respondents of the survey as most respected ahead of companies that are performing

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very well but may not be showing the balance between Performance and Compliance.

Following accounting scandals reported at most respected Corporations across the globe in the wake of new millennium, a host of regulations were introduced and amended by various Governments and Regulatory Bodies to ensure better Compliance and Corporate Governance within Organizations such as the Sarbanes-Oxley act in the United States, Loi de Securite Financiere of France, Federal Government 10-Point Plan of Germany, Corporate Governance Code and Tabaksblat of the Netherlands, European Commission's laws on increasing transparency, Basel II norms for safer banking practices, Committee of Sponsoring Organizations (COSO) frameworks and so on.

This paper outlines the need for strong Compliance and Corporate Governance frameworks for modern Corporations and how PeopleSoft Enterprise Applications support achieving the same.

Introduction

Issues like coincidence of wants and storing of exchangeable value led to invention of Money to counter the good old barter system, the new trends of specialization of different countries and shrinking of domestic markets for their specialized products led to Globalization of Businesses.

The world is becoming increasingly flat and the businesses are finding more even ground to operate in the global market place leading to major shifts in the way the business is conducted. The demand is on all time high, investments are flowing across the world to meet the demand. Rapid change of social landscape in majority of the countries and changing preferences of consumers giving rise to high pressure situations. Organizations are coming under severe stress of performance to safeguard the investments by showing good performance period after period to the shareholders and potential shareholders to keep the share prices moving upwards.

With major shifts taking place in the macro economic landscapes of many countries, businesses are finding the customers becoming increasingly demanding, heavy competition prevailing in many sectors indicating an end to the era of monopolies and oligopolies. Corporate businesses are under severe pressure to perform, be profitable to attract investors in stock markets.

To survive in the demanding market conditions, companies are trying to hard sell their products and services through aggressive marketing campaigns, discriminated pricing and enter into niche areas. In addition to increasing revenues, companies are trying to rationalize the cost structures to optimize the costs and rationalize the investments by finding effective alternatives to achieve the same results they are achieving at a given cost such as outsourcing work to cheaper labor locations.



Despite all the attempts, companies are not becoming completely successful. Continuous growing requires good confidence on the part of the investors - small or institutional.

To combat the Sectoral competition and recession, companies are trying to grow through mergers and acquisitions. Investments required by conglomerates are huge and the CEOs/Management Boards are increasingly coming under pressure to show performance and keep up the investor confidence.

All the attempts to handle better revenues, turnaround times for collections, cost rationalization and any other effort the new age Organizations are adopting were not proving to be completely effective owing to the fast changing preferences of the customers and macro economic conditions in various parts of the globe. This situation gave rise to resorting to some creative management of finances showing rosy pictures to the investors to keep the investments growing. Late 90's and early years of the new millennium brought out the practices of fudging accounts to show better performances. Enron, Worldcom, Tyco, Lernout & Huspie, Xerox, Lucent Technologies, Sunbeam, Critical Path and many successful companies were found to have some specific instances of application of creative accounting practices. Perishing of Arthur Andersen and increasing focus on presenting true and fair view of companies affairs gave rise to a new wave of Corporate Governance which as present in some form for a long time but was dormant until then.

Background and Motivation

Considering the fact that Compliance and Corporate Governance are forming a part of the Board Room's agenda, Organizations look for laying down a robust framework that helps managing the compliance and regulatory requirements. The Compliance and Regulatory framework should help meeting all requirements at a lower cost and faster execution.

An important factor for organizations is to reap the benefits of the existing ERP system implemented for laying down a strong compliance framework or implement a new ERP system if no system has been implemented.

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Compliance and Corporate Governance

In the wake of various regulations and laws of various countries and regulatory bodies, balancing between better performance and governance became a matter of equal importance. The investor confidence is now resting not just on the performance and profitability but also on the



compliance and better governance reducing the risk of the investments in the organization.

Compliance and Governance needs of corporate involve multiple measures including some qualitative measures such as training employees on corporate ethics to reduce unethical practices and so on. Such events cannot be automated in the organization's landscape but these are forming part of compliance.

The financial system, internal controls, audit trails and reporting can be automated very tightly to bring in required results on the material and quantitative measures supporting the qualitative measures to bring in very good governance within an organization.

Some of the key indicators relating to transaction management in Organizations leading to better corporate governance are -

- a. Strong internal control system with traceability of transactions and transparency into the financial affairs of the organizations.
- b. Well established financial policies and procedures indicating the accountability of people involved in the processes and strict adherence to the policies
- c. Periodic identification and recording of key business processes and the data relating to the business processes.
- d. Proper collection and recording of business data with sufficient audit trails to track transactional trace throughout the organization.
- e. Identification and elimination of risks arising as a part of regular business process.
- f. Flexible reporting methodology within the organization to meet the needs of internal management, external parties of interest such as auditors and stakeholders.
- g. Accelerated financial closures leading to publication of reports as quickly as possible after closure of a financial period.

The list is long and above mentioned measures are some key indicators of the compliance and governance.

Compliance and Controls provided by ERP Products As ERP centralizes data from various departments and various locations across the globe, all data required for providing visibility of the state of affairs of the organization can be stored in a single database. Any report, operational or analytical reports can use the same data giving same picture through different reports.

ERP products provide strong process orientation leading to better recording of audit trails. Tracing of transactions from origin to recording in the books can be created through set ups and can be used across the organization for various types of transactions.

Internal control mechanism requires stronger process definitions and trace mechanism and ERP applications provides capability to establish and track the internal controls in a faster and easier way. For creating the Compliance structure using ERP products, a clearly defined list of Segregation of Duties is required. The segregation of duties should consider smoother transactional process flow considering the possible conflicts in sharing of responsibilities of various employees of the Organization.

ERP products provide capabilities to build the framework of access control to various features of the applications and data basing on the Segregation of Duties definition. The flexibility to configure the access controls allow the Organizations to define the access controls imposed for employees accessing the data of the Organization at various levels.

Management Controls to verify the data manipulations and checks at tools level provides final framework for laying down the control structure that support the Compliance norms.

Compliance and Controls using PeopleSoft Financial Suite of Products PeopleSoft Financial Suite of products provides strong capabilities to create a robust structure for controls and compliance. PeopleSoft has a highly configurable security structure and compliance features in addition to better data integrity and audit trails.

Segregation of Duties

Organizations try to achieve trace and audit trails with the help of better access controls for the employees to various business processes. It is important to have a clear structure for access control so that the compliance related conflicts does not occur regularly leading to correction of entries or explanations to the regulators and investors.

Key elements for establishing clear segregation of duties include -

- Make a clear chart showing clear segregation of duties considering potential conflicts as per regulations
- Incorporate Segregation of duty checks into the security request process
- Conduct periodic audits of to monitor the conflicting transactions
- Clearly outline the exceptions and define additional approval processes
- Define online workflows to track transactions and approvals

For the purpose of determining the access controls, it is important to have a clearly laid down segregation of duties chart. The segregation of duties will determine the kind of roles that should exist in PeopleSoft and the type of access will be determined basing on the duties assigned to different roles.



Effective Segregation of duties represents a vital component of virtually any organization's internal control system. Segregation of duties based controls are designed to ensure that no single individual inappropriately handles all aspects of a transaction or business process, helping to prevent employees from committing errors or engaging in fraudulent activity. The security administration should have a process of approval considering the segregation of duties checks so that potential conflicts can be avoided.

Internal auditors are often charged with reviewing employee tasks and transactions to identify potential Segregation of duty conflicts and make recommendations to minimize their impact. In an organization that uses enterprise resource planning (ERP) technology to integrate its business and information processes, however, hundreds or even thousands of individual users may have access to the company's system, each with authorization to perform multiple transactions. The sheer volume of activity in this type of environment can make testing Segregation of duties controls extremely challenging.

The duties should be segregated considering the current organization design to handle the transaction recording and processing. The duty chart should provide traceability for each of the transaction as to where it has originated, who has approved it and what was the implication.

Once the segregation of duty structure is created, the transaction workflow structure outlining the different players such as transaction creator, verifier, approver and so on should be created. The workflow capabilities of PeopleSoft provide stronger control on transaction flows leaving good amount of trace.

Though the conflicts of duties are created with a better transactional process leading to minimum manipulation of data, some of the conflicts defined as a warning by regulators may have to be continued as an exception considering the larger design of the organization. In such cases, all the exceptional processes should be documented clearly and published and for each of the exceptional process additional approvals should be created.

Implementing Segregation of Duties within PeopleSoft Enterprise Applications

While segregating the duties of various users the following scheme should be used for the purpose of keeping a trace of each of the transaction from the origin to the final impact on the business results. This scheme helps mapping the roles to PeopleSoft security architecture.

- Data Entry roles - these roles determine the transaction origin. These roles will have restricted access to the system to the extent of entering the transactions.
- Processing roles - these roles are often combined with approval roles but essentially the responsibility of processing roles is to validate the data entered and set them to process for the purpose of approval.
- Making adjustments - these roles are control based roles normally assigned to the senior employees of the organization who own an aspect of financial recording and processing. Adjustments should be tracked clearly because these are impacting the original transaction.
- Posting accesses - posting of transactions is an important action that will bring in details of a transaction into the final data tables. This action should be associated with sufficient understanding and responsibility for the purpose of posting because once posted, the transaction will permanently impact the financial details recorded in the system.
- Un-posting and Canceling transactions - these are exceptional scenarios to make correction of wrong or erroneous transactions. These actions should have sufficient trace because these actions impact the original transactions.
- Correction of transactions entered - correction transactions are entered to reverse the impact of a wrong or erroneous transaction. This helps in keeping the original transaction unchanged and adds a new correction transaction. This role should be assigned to the senior member of the organization because this involves decision and require trace.
- Changing the set ups that impact transaction entry and processing and so on - this is more fundamental impact role where the set up changes are required. Sometimes the set up changes may alter the way transactions are entered in the system and hence this needs trace in the system as to who has changed the set up and from when.

Access Controls basing on Segregation of Duties PeopleSoft provides a strong and flexible access control mechanism using which access to the system can be controlled at various levels and data entry modes. The access control system of PeopleSoft is divided into different components that provide control to accessing the application to the minutest level.

The fundamental control of access of components in PeopleSoft is at the level of Pages. Various page accesses can be controlled for different users. From the level of page it can be drilled down to the level of type of access for each page covering the data manipulation modes.