Q-Pulse®
white paper

The Top 10 Risks Your Business Cannot Afford to Ignore
Part 1 - Compliance Systems

Executive Summary

If a business does not have an agenda for internal control, they need to ask themselves why
(Ernst & Young, 2007).

It has never been more urgent to understand and proactively manage business risk at every level of the organisation in order to at least stay in business and to take advantage of opportunities for growth.

Strategic business review to drive cost-efficiency in order to compete is key to success. The absence of a robust framework and transparent business controls will potentially place additional strain on the business with increased pressure and risk.

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Managing such strategic change requires ultimate leadership and senior management commitment, performance related focus with effective communication and linked training. To balance cutting back on resource while trying to sharpen the focus and strengthen the infrastructure, implementation of a more holistic approach is critical: Working smarter not harder.

Reducing business risk and removing barriers to growth is achieved through internal control systems implemented and working effectively. This improves information reliability, decision making and drives competitive advantage. From a secure footing different strategies can be evaluated, new markets entered and new products brought to market.

High performing companies have an internal control infrastructure underpinning the successful execution of their businesses and risk management strategies. This provides them with a vehicle for sustainable and continuous improvement that propels them towards their goal of reducing their exposure to risk while increasing their profitability.

Contrary to popular belief that internal control is a burden to budgets and management time, quite the opposite can be true when done correctly.

A streamlined, standardised risk management infrastructure, shored up with appropriate technology, can deliver long-term benefits far beyond immediate cost reductions: greater transparency, greater cross-enterprise collaboration, and ultimately greater business value.

The *Top 10 Business Risks* series comprises the following white papers:

Part 1 – Systems
Part 2 – Suppliers
Part 3 – People

Read the other parts in this series by requesting your copy from info@gaelquality.com.

Business Risk

Risk Intelligence in a downturn is even more important and can be a useful guide to protect and enhance value through effective risk management (Deloitte, 2009).

It is the rare breed of business that intelligently manages the full spectrum of risk, that breaks through the organisational barriers that obscure a view of the entirety of risks facing a company and that systematically prepares an integrated response to potentially significant risks. Model companies that do so have been described as 'Risk Intelligent Enterprises' (Deloitte, 2006).

Section One Compliance Systems **Section Two** Supplier Management **Section Three** People **Section Four** GRC and Business Risk Corrective actions/ Continuous Improvement	On the brink of disaster / failure	Moving forwards but still dealing with unexpected and invasive events (Frequent Firefighting)	Coherent Strategy and team working together to drive business forward	Successful Risk intelligent world class business succeeding at all levels.

Regardless of your risk maturity at the start of the journey, every organisation will ultimately arrive at the same destination (Deloitte, 2006):

- Risk management practices that encompass the entire business, creating connections between 'silos' that frequently arise within large, mature and/or diverse businesses
- Risk management strategies that address the full spectrum of risks, including industry-specific, compliance, competitive, environmental, security, privacy, business continuity, strategic, reporting and operational
- Risk assessment processes that augment the conventional emphasis on probability by placing weight on vulnerability
- Risk management approaches that do not solely consider single events, but also take into account risk scenarios and the interaction of multiple risks
- Risk management practices that are infused into the corporate culture, so that strategy and decision-making evolve out of a risk-informed process, instead of having risk considerations imposed after the fact (if at all)

Risk management philosophy that focuses not solely on risk avoidance, but also on calculated risk-taking as a means to value creation.

The Top 10 Business Risks

The top 10 business risks and barriers to growth reported in two comprehensive recent surveys. Each of these has increased in scale and complexity in the current economic environment, number one being the biggest risk.

These are summarised in Table 1 and have been grouped into four strategic business areas. Each of these Business Areas will be considered in turn within this series of white papers. This white paper considers the risks associated with systems to satisfy standards for compliance.

Table 1: Top 10 Business Risks and Barriers to Growth

Section No.	Business Areas	AON 2009 – Business Risk		ICAEW 2008- Barriers to Growth	
One	**Systems**	Systems Regulatory /legislative changes	2	Regulatory changes/ Enforcement	7
		Damage to reputation	6	Product /service quality issues	4
Two	**Supplier Management**	Business interruption	3		
		Distribution or supply chain failure	8		
		Commodity price risk	5		
		Third party liability	9		
Three	**People**	Failure to attract or retain top talent	10	Availability of exceptional leadership talent	3
				Availability of specialist/ technical skills	2
				Staff retention	5
				Availability of general management skills	6
				Cost of labour	8
				Basic Skills of employees	10
Four	**Governance, Risk and Compliance (GRC)**	Economic slowdown	1	Competition in marketplace	1
		Increasing competition	4		
		Cash flow/ liquidity risk	7	Funding/ Access to finance	9

Systems for Safety and Quality Management

Regulatory compliance and assurance should come as a by-product of a deeply held quality culture that is also reflected in integrity of process and systems design (Deloitte, 2007).

On the spectrum of risk, legal compliance must be the absolute minimum standard for businesses. But simply meeting the legal minimum is insufficient in making sure that systems can continue to comply with legal requirements; doing so exposes the business to the rapidly increasing risk of non-compliance.

Additionally, such businesses are increasingly likely to compromise, either knowingly or unknowingly, on existing legal requirements, as well as to fail to be aware of and to meet new ones, without the required level of knowledge and expertise within the business (ICAEW, 2008).

Across all industries, legal compliance cannot be achieved without management commitment, supported by an appropriate evidence-base and level of knowledge. Additionally, businesses need the ability to cut official inspection costs in order to relieve often conflicting day-to-day business pressures.

With enforcement becoming increasingly risk-based, businesses that cannot demonstrate compliance will suffer additional regulatory burdens; at the very least, non-compliance means the loss of competitive advantage, the loss of reputation, and the loss of high-potential markets and customers.

For a single business, complying with multiple regulations, standards and drivers is difficult enough. Without a robust framework to support it, businesses with multiple locations and a global marketplace face far greater difficulty in achieving internal control.

For most organisations, inefficiencies from assurance fragmentation are so great that huge savings are possible from taking the simple step of eliminating silos and operating on a common context of a shared GRC organisational and process structure (Paisley, 2009).

Independent certification against assurance schemes seeks to provide an additional level of assurance over and above the legal minimum.

While assurance standards and practices are set today by a bewildering array of professional and trade associations, customers and regulators, virtually none of them has expressed interest in, or opposition to the concept of GRC convergence (Paisley, 2009).

Systems built for compliance as opposed to competitive advantage are fraught with problems. Not least the effort required to re-engineer when standard numbering is changed with the next version. Many key areas of business risk are not considered at all, such as:
- organisational structure
- authority and responsibility
- governance
- ethics
- human resource policies and practices
- communications and transparency
- fraud risk

Many complain of the inadequacy of auditors and consistency of certification: Even the most competent of auditors can only be expected to sample the degree of compliance to a standard at the time of inspection comparable with a MOT. Also consider how much preparation is required to manage a 'successful' audit. Only you know how much preparation and effort that takes in your business.

If safety and quality management were integral to the business culture for verification by an independent auditor, the opportunity to include third party certification as a robust quantity in risk management would have exponential benefits to the business.

Until then, businesses are doomed to be subject to multiple standards, multiple audits and auditing their own suppliers.

Companies seeking to harmonise objectives of governance through internal control and audit will gain greater efficiencies and confidence, allowing executives to sleep better at night.

Is business control smoke & mirrors or fit for purpose?

For optimum efficiency, systems must be fit for business purpose, to get the basics right as a foundation for business stability and growth:

Ownership and responsibility

Giving ownership and responsibility for systems for standards compliance to the Quality Manager may satisfy the needs of the business, where compliance is the business risk strategy; but in terms of the internal control system, it is an especially high risk strategy.

By overrelying on an individual in this way, without transparency and shared ownership, the business is likely to to be aware of issues only after they have gone wrong and/or the Quality Manager has moved on. Where these events often coincide, all semblance of control is lost.

Documents

One of the cornerstones of an effective internal control system is its documentation. Businesses must ensure that all staff are able to access up-to-date, accurate documents, eg forms, reports and SOPs, in order to encourage ownership of compliance systems.

In practice, paper-based systems are not fit for business purpose, and require increasing time, effort and cost to maintain: not representative of how the business operates, not available at the point of use and unresponsive to rapid business and process change.

By investing in an integrated software solution, businesses can put a fast and efficient mechanism in place to ensure controlled documentation can support systems to satisfy standards for compliance.

Internal audit

Ever increasing regulatory and business pressures are leading to demands for reliable business intelligence to be able to give early warning of potential risks and deal with them before they arise.

Mis-alignment between an internal audit function and senior management strategy objectives can result in the micro-management of some aspects at the expense of others, wasted effort and conflict.

Internal auditors need to deliver an internal audit function which provides balanced, objective assurance over the business's key risks and responses to the issue-driven requirements of stakeholders (Deloitte, 2005).

The benefits of risk based auditing are frequently recognised and often prescribed in third party standards, but are all too infrequently delivered. It is not unusual for this to be interpreted to the minimum of an annual update, which is inadequate for business purpose.

A key responsibility of risk based auditing is to provide 'comfort' through providing reasonable assurance that the organisation's risk management and internal control processes operate effectively (Deloitte, 2006).

The traditional metric for measuring effectiveness of auditing – as a percentage completion of the audit plan – is no longer fit for business purpose. True risk based auditing for business fitness requires ongoing performance as its foundation to be effective.

Integrated compliance management – the Q-Pulse advantage

With businesses under continually increasing pressure from customers, regulators and third parties, integrating compliance systems throughout the organisation is of paramount importance. With an integrated solution, businesses can demonstrate compliance as well as contribute to stability and growth.

With Q-Pulse from Gael, your business can integrate compliance-related processes and activities through a streamlined, standardised framework to increase transparency, cross-enterprise collaboration, and business value.

From documenting and distributing policies and procedures to identifying opportunities for continuous improvement, Q-Pulse increases the visibility and control of compliance systems to secure greater buy-in from stakeholders and to achieve greater transparency of compliance-related information.

And by intelligently managing key risks throughout the enterprise with Q-Pulse, your business can drive long-term stability and growth and firmly anchor compliance in the corporate culture, beyond meeting minimum legal standards to present opportunities for further growth and improvement.
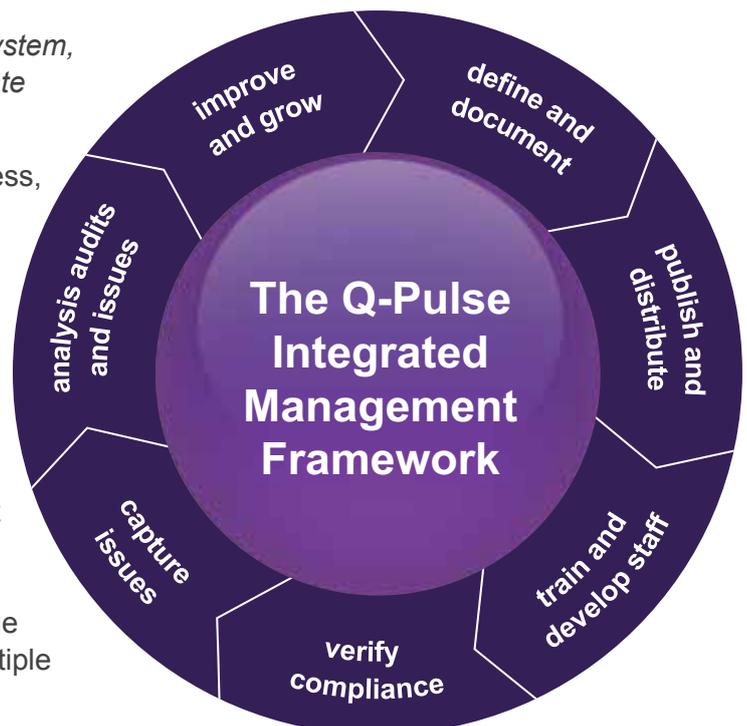
7 Simple Steps to Compliance

The Q-Pulse Integrated Management Framework comprises 7 simple steps:

1. **Define and document**

   Define and document the scope of your system, policies and procedures, all with appropriate Document Control.

   By automating the document control process, your business can secure greater buy-in from stakeholders and participants to radically reduce approval cycle times, and ensure that all compliance-related documents and records can be accurate, reliable and continuously updated.

   And together with secure, centralised access to the policies and procedures that support your compliance systems, your business can ensure that all management and staff can be aware of and acknowledge their responsibilities in complying with multiple legal and regulatory requirements.

The Q-Pulse Integrated Management Framework

- improve and grow
- define and document
- publish and distribute
- train and develop staff
- verify compliance
- capture issues
- analysis audits and issues

2. Publish and distribute

Publish and distribute your management system to all appropriate personnel, via secure web access, including supply chain.

By extending its compliance systems to stakeholders and participants throughout the enterprise, your business can ensure management and staff understand their role in maintaining legal and regulatory compliance and in actively participating in controlling and minimising risk

And by automatically notifying management and staff of overdue or upcoming compliance actions, your business can significantly increase the visibility and control of its compliance systems and achieve greater ownership and transparency of compliance-related information.

3. Train and develop staff

Create a framework to demonstrate staff competence and capability and therefore train and develop staff.

By reviewing training needs against policy requirements and person specifications, your business can make sure that all staff have the relevant expertise and experience in order to contribute to its understanding of its operations, and to actively participate in controlling and minimising risk.

And with the ability to automatically identify all staff impacted by changes to compliance-related documents, you can schedule relevant procedure-based training, to develop and encourage adherence to best practice that is consistent with your existing corporate culture..

4. Verify compliance

Verify compliance of your policies and procedures through regular internal audit and prove/demonstrate adherence to legislation.

By integrating all audit programmes within a streamlined, standardised framework, your business can track and continuously monitor all compliance-related information across the enterprise to reduce audit cycle times and to dramatically drive down compliance costs.

And by centrally managing all external, internal and third-party audits, you can measure ongoing compliance-related performance to deliver assurance over the business' key risks and demonstrate legal and regulatory compliance to customers, regulatory authorities and certification bodies.

5. Capture issues, NCs and complaints

Capture issues, NCs and complaints, create action plans and track through to completion all within one single, integrated system.

By extending its reporting system throughout the enterprise, your business can ensure that all management and staff can report compliance-related issues, non-conformances and complaints through a standardised framework that improves subsequent investigation and analysis.

And by centrally managing all corrective action plans, you can automatically notify all stakeholders and participants of upcoming and overdue compliance-related actions in order to ensure compliance with all legal and regulatory requirements, to accelerate time to completion and prevent recurrence.

6. Analyse audits and issues

Analyse audits and issues, incidents, occurrences and audit findings and determine the root cause with detailed graphical analysis.

By analysing all compliance-related information across the enterprise, your business can identify root causes and trends to ensure that compliance-related policies and procedures meet and exceed legal and regulatory requirements through regular internal and external evaluation.

And by learning from issues, non-conformances and complaints across the enterprise, your business can identify opportunities to improve its compliance systems in order to contribute to the continuous improvement of compliance, to control and minimise key risks and to create greater business value.

7. Improve and grow

Improve and grow by identifying trends and concerns, highlighting costly repeat issues and implementing improvement projects.

By improving the visibility and control of its compliance-related information and systems, your business can encourage all management and staff to contribute to a shared understanding of its operations, in order to reduce business risk and take advantage of growth opportunities.

And by putting a foundation in place for stability and growth, your business can build a corporate culture that encourages adherence to internationally-recognised best practice, and which contributes significantly to the continual improvement of legal and regulatory compliance across the enterprise.

Contact us now at info@gaelquality.com to read the other parts in this series, or to find out how you can effectively integrate systems throughout your business with Q-Pulse.