



**Compliance control testing  
and monitoring**

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# Compliance control testing and monitoring

The future of compliance control testing and monitoring: from manual in-house testing to outsourcing and automation of testing activities.

Controls are a fundamental element within Compliance Risk Management and correct execution of controls is key to reducing risks. Control requirements change constantly due to new regulations, policies and standards, but control testing often remains a manual process, driven by reporting deadlines.

Limited resources and cost reductions lead to Compliance Risk Management facing a bigger challenge to include new requirements in their control framework and processes.

The traditional approach to compliance control testing offers too few opportunities to add value, resulting in a “tick the box” exercise with high fixed costs, lack of flexibility and the risk of inconsistent quality.

## The foundation

Within the three lines of defence (3LoD) organization, a clear ownership and understanding of key compliance controls in the organisation by the 1stLoD is critical. If this ownership is incorporated in the organisational structure and aligned with critical end-to-end processes, it will be resilient to the ongoing changes to organisational structure, which is a feature of most large financial services organisations.

This should be the foundation of a compliance control testing organisation as it establishes the conditions under which control simplification and rationalisation can occur as a pre-cursor to control automation. This sequence of ownership, rationalisation, simplification and then automation, offers the opportunity to improve the effectiveness of management and business units. It will also assist to streamline the underlying processes and increase the risk and control awareness of the business.

Control testing in the 3rdLoD often is not planned and executed to the same degree and rigour, or in an integrated manner as it is done by the 1stLoD and 2ndLoD. The distribution of control testing activities results in unproductive duplication and no clear line of sight of risk gaps and control weakness. By supporting and organising mature in-house compliance control testing activities, outsourcing solutions as ‘testing as a service’ and potentially the most sophisticated solutions, continuous control monitoring, organisations can reduce duplications and optimize processes.

## In-house Testing

In-house testing relates to the process of control testing as it is currently in most organisations designed and conducted, where the 1stLoD and 2ndLoD are responsible for performing compliance control activities as well as testing them. The 3rdLoD is responsible for independent monitoring of the test results.



External parties can support with more efficient and effective design of the testing process in different areas, such as governance, control descriptions, planning, process descriptions and standard operating procedures with regard to the testing activities. This creates the foundation for leaner testing and monitoring and paves the way for further improvements such as:

- Optimization of Compliance Control Frameworks & testing scripts;
- Consistency in execution of testing activities
- Coordination and oversight of testing activities in a central location
- Possibility to centralize testing activities for similar controls on different locations
- Knowledge transfer to personnel
- Creating and facilitating ownership of compliance controls
- Improvement of risk awareness and promoting the importance of compliance control testing activities

### Testing as a Service

A next step in increasing focus and quality with regard to testing activities can be to deploy off-shore experts, located in a cost efficient location, who are fully dedicated to perform testing activities with the highest quality and efficiency. Such off-shore control testing experts are always up-to-date with the latest regulatory requirements and/or technical standards of every region in the world. Deloitte offers this solution as 'Testing as a Service' (TaaS).

Our off-shore teams are very experienced and fully dedicated to testing activities on large scales. We therefore easily recognize opportunities to automate or even apply robotics, which can optimize

efficiencies, improve consistency and reduce costs, while high quality test results remain available any time through dashboard views.

TaaS agreements are based on clear Service Level Agreements and Key Performance Indicators, in which control frameworks in your organisation are taken as a starting point to offer a fully customized service.

TaaS will lead to a leaner compliance testing organisation but requires a solid foundation in the form of a fully functional 3LoD, sufficient internal risk & control knowledge and a clear governance structure.

### Continuous Control Monitoring

The availability of data needed to test controls has increased over the last years, offering the possibility for more automated testing activities. Compliance controls are often automated and enforced by systems, but are sometimes bypassed by employees. The digitalization of compliance controls and increased data availability offers the opportunity for Continuous Control Monitoring (CCM).

CCM is a solution that can be used to monitor controls in a focused, intelligent and actionable approach. Events that differentiate from the agreed upon control approach are noted automatically and real-time.

By using completely automated tools, the required internal capacity for testing controls can be reduced significantly, while the effectiveness, speed and quality of the compliance control testing activities are improved. Furthermore, this will lead to less "seasonal patterns" with high peaks in workload with regard to control testing activities.

The use of CCM indirectly improves business processes and activities by freeing up internal capacity, while cost effectiveness of control testing is improved by automation. Deviations are identified faster, offering the opportunity to correct them quicker and thereby preventing an event that otherwise could have resulted in an incident. By using sophisticated dashboards, management is fully in control and faster decision making is facilitated.

### We can help

Financial organizations' business lines should be responsible for managing the risks they incur in conducting their activities and should have controls in place that ensure compliance with internal and external regulatory requirements. Think about Customer Due Diligence, FATCA and CRS controls, Transaction monitoring and numerous other controls in the Know Your Customer domain.

Deloitte can help to improve in-house testing activities or we can implement fully operational TaaS or CCM solutions. Depending on the current maturity of your organisation, services can vary from assistance in strengthening the compliance control testing and monitoring organisation to fully outsourcing or automating compliance control testing related activities. Want to know more? Please contact us!



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Compliance control testing & monitoring is part of **Deloitte's Compliance Risk Management Solutions for 2018** which aim to enhance and ensure financial institution's Compliance Risk Management frameworks.



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