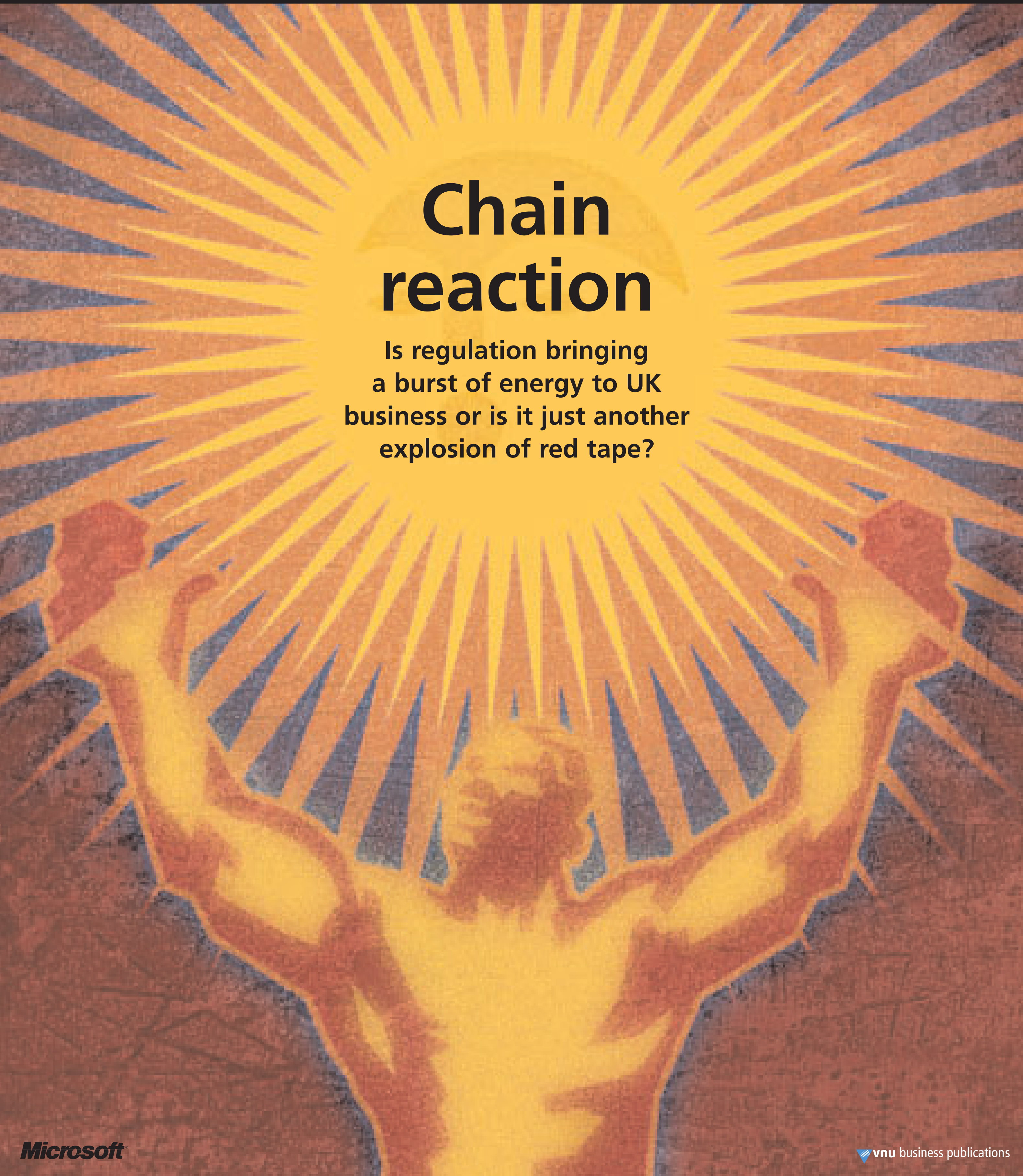
# Business Compliance

Expert opinion on business



## Chain reaction

**Is regulation bringing a burst of energy to UK business or is it just another explosion of red tape?**

Microsoft

vnu business publications

# Know your business

The second of Financial Director's round tables brings together FDs from different industries to debate the issues surrounding corporate governance and regulatory compliance

Financial Director: **Every time speak to finance directors we ask them to list the top few items on their agenda and very often one of the points is just trying to get closer to business. Does it affect companies throughout the UK or is it just the FTSE 100?**

Tony Bickerstaff: The key issue is understanding the underlying performance of the business. Finance directors can have all the data and information, but it needs to be properly interpreted, so we're able to make quality decisions. One of the issues for us is the long-term nature of our business and the quality of the forecast going forward. We're a very project-oriented business. Forecasts are inevitably full of subjective and perhaps not straightforward issues and the key is how we really understand the underlying performance of the business.

Andrew Darby: Technical expertise and knowledge of regulations are pretty much a given. The senior management expects you to analyse and interpret the information and help the business grow.

Martin Davis: The NHS, which spends about 8 or 9% of the gross national product, has huge sums of money to control and, as you would expect, it has very good systems for collecting data and very good controls assurance regimes, and it's probably well embedded into the culture. But that doesn't necessarily mean to say that it delivers good corporate governance – it's about the people actually delivering it. And we still get the hiccups; we still get surprises and huge deficits. By and large, the sector is well managed, and even though it's well regulated, even though there are good systems to protect all the stakeholders, we still get problems. Not as much as central government of course, it's only this year that central government is actually starting to think finance directors into its departments.

Financial Director: **And what would you say are the key causes of these data gaps?**

Martin Davis: It's not a data gap. The information is there; sometimes it's not fully presented, but worst of all it's not fully challenged. There's a big recognition now that you need to improve the quality of non-executive directors and non-executive chairmen together with non-executive-led audit committees to actually challenge some of the information.

John Kerr: In my own business getting close to the business is not particularly difficult. We started the business about two and half years ago and so one has grown up with it. But we've trebled turnover in the last 12 months, and I'm realising that I'm not going to be able to stay as close to it as I might like. I think that however much data you have and however much you refine it into information, the question you can usually answer is 'what's going wrong?'. The question you can't always answer is why is it going wrong?'.

I think the extent to which we can refine data is critical, so it doesn't just tell us what, but gives us at least a lead into why.

Paul Hart: One of the roles of the FD is to interpret and make a very complex set of numbers simple for the rest of the board to understand. If you've got an ERP system it's pretty useless without applications or things built around it to help you understand the data – things like a digital dashboard that allow you to understand the data. That kind of information really helps an FD make the right decisions at the right time.

Tony Bickerstaff: It's said that the most important page of the financial report is the commentary. There's a widening of that belief across the shareholder community, across the analyst community, because they're putting extra burden on us to be more open about how the business is doing, how it's doing against its peers, what KPIs [key performance indicators] we are measuring.

Alan Gow: I think that's right. We've just published our first annual report. It surprised us how much work was involved. We made it as compliant as possible with the new guidelines and I think the requirements are an improvement for the stakeholders in the business. Last July we floated the business on the London Stock Exchange and just appointing a non-executive group on the board has been positive. We've got great people and different perspectives and we've been forced to really

**Taking part in the debate were:**

- Kieran McPolin from BT
- Mr Tighe from Reliance National Insurance
- Tony Bickerstaff, finance director at Taylor Woodrow Construction
- Mr Wilson from Microsoft
- Alan Gow from Virgin Mobile
- John Kerr from Guardian Homecare
- Roger Cockerton from Lloyd's broker Houlder Insurance Services
- Andrew Darby from IT company Misys
- Douglas Millican from Scottish Water
- Martin Davis, finance director for NHS trust UK Transplant NHS
- Mr Hewavisenti from charity Breast Cancer Care
- Mike Withey from Marlborough Stirling Life and Pensions Services
- Paul Hart, Microsoft finance director

Chairman: Financial Director editor Andrew Sawers think about governance properly. And I think the business is much better for having them in place. We were a bunch of entrepreneurs who had developed the business over five or six years and we were worried that somebody else would take control of our business – the thing we understood – and they'd make the wrong decision. But it's been quite a painless exercise. There's a lot more work to do and it takes longer sometimes to make decisions. But I hope I'm right in feeling that they are better decisions in the end.

Financial Director: **The digital dash board – it seems that a lot of work has to go into pre-specifying what you might want to be told. Is that right?**

Paul Hart: A digital dashboard can be built any way you like. You can pull data from your ERP system, CRM solution, any kind of application you have, to allow you to better understand how you're running the business. We use a standard platform, standard application worldwide, so it's an assistance from a compliance point of view because we have standard applications worldwide. And for a global US company going through the pains of Sarbanes-Oxley, it's a huge benefit to us.

Andrew Darby: We had a crack at our own digital dashboard over the last year and it burned and crashed in flames. It didn't suit our business, which is large contracts. It was modelled on a drinks company where the volumes change every day.

I think we tried to do it too far down the business and people lost touch with the P&L. We brought it in to encourage other parts of the business outside sales and finance to think about what metrics are important.

John Kerr: Paul and Andrew are both in the IT business so presumably have got totally integrated systems, but I suspect most of us have got systems that are different. How do you get over that problem?

Andrew Darby: We don't specialise in enterprise-wide solutions. We specialise in banking systems, so we've stuck together all sorts of best of breed systems with Sellotape and plasters. But what we don't have is an enterprise-wide risk-management system to glue it all together.

Kieran McPolin: Forecast information on the dashboard is as important as the historical information. In our business we couldn't have predicted the growth of the Internet. It's the big disrupters in the business that can catch big and small companies totally by surprise. There has to be a well-informed planning input into any dashboard.

Financial Director: **To what extent do industry regulators get in the way of you managing the business?**

Douglas Millican: In the water industry, there's probably very little information that our regulator demands that we don't need ourselves. I think the issue is in the frequency of reporting and the checks and balances in the governance that goes round that reporting. It's not the regulators per se that get in the way, it's the opportunity costs associated with being heavily regulated.

Andrew Darby: My impression is that it's much worse in the States with Sarbanes-Oxley – the information, the questionnaires and so on that are required.

Kieran McPolin: BT is listed on the New York Stock Exchange and I think it stops you from providing information. You take things out of reports because you can't definitely prove it and you tell shareholders less. If you live with regulations for a long time the company forms itself around regulations. I think that the only issue would be where the regulator steps in and changes the shape of the business – and clearly for BT that's a really big issue. The regulator can actually change the future and can add value or completely devalue a business. »


Mr Wilson


Martin Davis


Mr Tighe


John Kerr


Alan Gow


Mr Hewavisenti


Douglas Millican


Roger Cockerton


Andrew Derby


Kieran McPolin


Mike Withey


Paul Hart


Tony Bickerstaff


Andrew Sawers

Tony Bickerstaff: We recently did a project in the UK for a large American company and as part of the bid documentation there were 20 questions all based around Sarbanes-Oxley. So even though we're not directly affected by it, we have a customer who is and therefore wants to interrogate our internal controls to ensure that they comply with what they need to, so it's really finding its way through.

Paul Hart: Ultimately, it's going to affect the investments in the US because people are finding it's holding them back. I think it's going to affect the US economy long term.

Tony Bickerstaff: Potentially, there will be more entrepreneurial CEOs moving to private equity because of that regulation.

Financial Director: **People are saying it will happen in the UK as well. Is this a scare story? Are people still going to relish a high-profile organisation?**

Alan Gow: There are things that we would like to do now in our business but we can't really do them as a public company. We'd be much more aggressive and probably have a much higher growth profile if we were private. And the entrepreneur would prefer that, obviously.

Financial Director: **Douglas said there was little information required by the regulator you don't also require yourselves. Is that a common experience, particularly in heavily regulated organisations?**

Roger Cockerton: I think it's certainly true of insurance. Insurance has only recently been regulated by the FSA. It has forced you to do something you probably meant to get round to for some time. The FSA is probably taking a fair approach and trying to let the industry regulate itself.

Mike Withey: The data is there. To some extent, it does duplicate what you produce in the statutory accounts and reformats it in a common structure that could be compared throughout the UK between businesses. But it's interesting to benchmark and use those pro forma documents to see how your competitors are doing in the marketplace as well.

John Kerr: In our case, the regulator is quite simply trying to protect vulnerable people, ensure that we're not abusing vulnerable people or treating them casually by recording what we do. That kind of regulation is quite different in its aims. But the information that we have to produce is what we should be doing anyway.

Mr Hewavisenti: In the charity sector, people are less interested in profit but more interested in performance in terms of what you are doing with the money. Charities do need to be accountable and that performance information is something that we're already collecting.

Financial Director: **An FD of a very large business told me you need very good managers and you have to trust them. Sarbanes-Oxley basically says you're not allowed to trust anybody. So how do you reconcile that – good systems in place and at the same time trusting people to make good decisions and drive the business forward?**

Mr Tighe: You need a system of performance management and therefore you need to think about what your performance indicators are. And then you monitor against them. It still doesn't do away with the need to trust people. But it can enhance your confidence threshold no end if you're getting good performance data.

Tony Bickerstaff: You have to start by having performance mapping based on risk. You've got make sure that what you measure and monitor are the key risk areas of the business. We've recently focused our internal audit on the key risk areas. Our internal team now is made up of several disciplines, including IT. A survey a little while ago found many companies were adopting risk management procedures, largely as a result of the Turnbull report.

Financial Director: **How confident are you in the robustness of your approach to risk, or do you think that there is much more that could be done?**

John Kerr: Turnbull focuses very much on systems and how people behave. It does make you focus on staying close to the people who are taking decisions and trying to understand what they're doing.

Mike Withey: In life and pensions risk is completely embedded within the organisations. There are risk registers at different levels in the business. There are risk reports that are reviewed monthly. There are quarterly representation letters that are signed off with regard to risk for the client for our own internal business as well. People are trained to highlight the fact that, for example, somebody's resigned and they're a key person. There is a mechanism for people to report their concerns and what they view as a risk, which is then assessed and taken seriously, right up through to finance committee and at board level.

Financial Director: **I wonder if over time these things don't become mechanistic?**

Mike Withey: The whipping boy for our business is the audit committee. They have the visibility and the ability to get people to take action, but it's about how seriously the management take it and whether they're driving risk resolution forward in the business.

Douglas Millican: I think for us what's turned it around, as well as having risk well integrated into a planning process, is encouraging an environment of shouting about your risks and we now have a formal monthly escalation procedure.

Kieran McPolin: The CEO and FD have a very important role with this because the management team do look to them to see if they're taking risk seriously. You can get complacent. It can be too comfortable to think "oh I'm doing the process, therefore all the risks, they're in the documents, it's fine".

# Credit due

Consumer credit reference agency Callcredit provides up-to-date and accurate information to help lenders make loan decisions based on credit history. Fast, accurate, and error-free information is its stock in trade, and Callcredit holds over 100 million individual records and is growing daily.


**When Callcredit came to the market with a web-based solution – known as SHARE – it realised that it would only be as good as the information it holds.**

This information is built into a number of relational databases, and its first choice was a system that would deliver information to customers all the year round via the web, API or dedicated leased line, in a Microsoft Windows environment.

The credit reference service also needed a powerful, sophisticated and scalable storage solution. Callcredit's IT director John Eggleston explains: "Our storage requirements have increased dramatically over the past two years. We have received an unprecedented amount of support from the industry with the contribution of data. We needed a huge storage system that could achieve high transactional throughput. Flexibility, availability, ease of management and compatibility were also key factors."

## Processing ability

Callcredit put its requirements out to tender. Eggleston adds: "The storage area network (SAN) was to form the cornerstone of our processing ability. We looked at offerings from EMC and IBM, but decided to go with HP, because of the technological advantages of virtualisation, overall support and fit for our business." Several servers were to be connected to this storage and Callcredit decided to use HP for these as well.

Callcredit chose network service provider Energis to manage the technology involved in the service. All access to the service is through the Energis IP data centres and network infrastructure. Using the distributed IP server arrays provides a much faster speed of deployment and the flexibility to swap components in and out to grow as required. To handle all this data, Energis used SANs with HP's new StorageWorks Enterprise Virtual Arrays (EVA). Each holds several terabytes of data. The choice of a distributed HP ProLiant Server architecture was based on technical considerations.

Henry Schofield, Callcredit Account Manager, HP, says: "The HP ProLiant eight-way servers had the fastest performance on the market and were also highly competitive on price given the processing requirements." The solution also uses Microsoft SQL Server 2000 and Microsoft Windows 2000 Servers running Microsoft Internet Information Server.

Lenders subscribing to Callcredit can obtain information about a prospective borrower's credit history and confirm addresses round the clock all year. This means that both borrowers and lenders can benefit from better informed decision making, and it also encourages responsible levels of lending and helps combat fraud. The sheer number of records means there is a need for enormous capacity in the database. Eggleston says: "We have built relational databases using Microsoft SQL Server that are fully compliant from the outset with all first-party data requirements and hold detailed information on 44 million consumers." The core SQL Server 2000 database enables a single view of the customer, and provides access to other data repositories, without the need to migrate existing databases. The online system can cope with several terabytes of data per site, equivalent to hundreds of millions of records. It contains a record on every person on the electoral roll and at least one record on every credit active person in the UK.

With all applications running on Microsoft Windows, the total cost of ownership has been kept low. Eggleston says: "Our customers are benefiting from a very competitive cost per search compared to our established rivals."

## Scalability and compliance

Callcredit's choice of technology has enabled the company to move quickly into new service areas. The company is also well placed to respond quickly to comply with any new consumer credit regulations. Susanna Fieldhouse, marketing manager, Callcredit, comments: "Scalability and compliance are very important to Callcredit, because we're literally building a business from scratch."

The launch of Callcredit's SHARE credit reference service marked the start of a new era for companies providing consumer credit. The biggest names in consumer lending, including banks, building societies, finance houses, mail order, telecoms and utilities companies have endorsed SHARE by contributing their customer data. In many cases, these have supplied up to three years' historical data enabling SHARE to quickly reach competitive levels of assessment and accuracy.


Deploy an adaptable software solution without blowing your budget. Now you can streamline accounting, payroll, project management, financial reporting, budgeting, and human resources processes and get a rapid return on investment.

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# Catalyst or cost?

Paul Hart, Microsoft's UK FD, discusses the pros and cons of compliance and financial regulation with Financial Director

**■ In what ways has the need to comply with financial regulations affected the way in which companies gather information?**

Firstly, regulations such as Sarbanes-Oxley require companies to be able to demonstrate an audit trail for transactions, including information contained in email. Secondly, the definition and testing of financial processes within the company must be clarified, and each process must be understood, documented and tested. If a process fails one test, remediation tests must be designed and executed to demonstrate that the process is working as described. Email archiving, for example, is a requirement for many regulations that many companies have not addressed previously.

**■ Is the need for regulatory compliance improving the quality of information in companies? Are there any other drivers?**

Compliance does improve the quality and timeliness of information but, perhaps more importantly, it also flushes out procedural inconsistencies in the business and creates a culture of greater accountability at all levels in management. At the same time, however, the added regulatory compliance imposes a burden on companies that have to comply and in some cases the extra work required may not necessarily result in an equal reward in terms of the quality of information coming out.

In parallel to achieving compliance is the need to simplify the structure of the business and cut operating costs. In many cases, this has brought about greater centralisation. It has led Microsoft to adopt, where it can, a shared service-centre approach for key functions like payroll, contracts and tax advisory services. On an IT level, our strategy is to use the same end-user tools everywhere. Our expense system, for example, is the same globally for all our 61,000 employees. We have reaped the benefits of having one ERP system worldwide and made huge savings from tools such as msmarket, which enables all our vendor transactions to be paid electronically, providing greater control in how we spend money with our preferred vendors. Even our global email is now managed on a small handful of Exchange servers.

**■ Is the issue of compliance leading companies to re-examine their IT needs?**

Companies need to re-evaluate their IT in the light of compliance because just "making do" with existing systems will not work. The need to achieve compliance with a new regulation can provide the necessary catalyst to upgrade or replace out-of-date systems. Compliance is not a one-off event as new regulations are always around the corner – the goal must be to become a well governed business that can respond to new regulations quickly, not just getting a tick in a box. This kind of business goal must be supported by a long-term strategic mindset from the IT department. Compliance has also resulted in companies having to provide better interpretation of the data within their systems.

**■ What other areas do they need to look at?**

There is no getting away from the cost of compliance – it is painful and expensive but there are business benefits to be gained that sweeten the pill. Companies need to examine how their IT is providing a platform for global applications and how it can be used to streamline processes. Sometimes this is using existing assets better. Microsoft, for example, makes use of Office on the desktop to complement its intranet business applications. Our expense process uses a straight-forward Excel template that carries out most of the validation and checks locally. This is then submitted into the web tool, which verifies the spreadsheet and processes the payment. Investments over the past five or even 10 years in our IT infrastructure have enabled tools like Headtrax and msmarket to be deployed quickly and effectively.

**■ What initiatives are underway at Microsoft to help companies comply with financial regulations and industry regulators?**

In collaboration with partners, Microsoft has developed offerings that help companies put in place the key technology pillars for regulatory compliance. Areas such as document and records management, email archiving and team collaboration solutions are helping customers create business value while improving their standard of governance. We have found these technologies to be critical when it comes to achieving and maintaining compliance with regulations from all industries. Our work with the Ministry of Defence and Statoil are particularly good examples of how, with our partners, we are helping organisations achieve compliance.

**For information on Microsoft's solutions for corporate governance and regulatory compliance, visit www.microsoft.com/uk/compliance**

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