ActiveDocs™

Document Excellence through Innovation

GOVERNANCE, RISK MANAGEMENT, AND COMPLIANCE

HOW TO STRENGTHEN YOUR ORGANISATION'S DEFENCES

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Audience: Senior Managers in Large Enterprises, Enterprise Governing Body Members, Process Optimisation Specialists, Internal Audit Managers

Abstract: Organisations can strengthen their three lines of defence, following the ECIIA benchmark for regulatory guidance, with ActiveDocs Opus, and reduce the effort associated with handling Governance, Risk Management, and Compliance.

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1 Summary

The development of the trio of Governance, Risk Management, and Compliance is increasing the demand on the resources of organisations world-wide. It is becoming more difficult to keep up with the growing requirements of legislation and industry-specific regulations. In response, organisations need a system of defenses against the consequences of non-compliance in order to reduce their risk exposure. The European Confederation of Institutes of Internal Auditing (ECIIA) has issued benchmark guidance for regulatory compliance mechanisms recommending a ‘three lines of defense’ model to improve organisations’ governance and reduce overall risk exposure. ActiveDocs Opus is an enterprise-grade tool that strengthens all three lines of defense, and has been used by large global organisations such as Shell, Bayer, ABB, and many others.

2 Global Compliance Requirement Landscape

Increasingly tighter compliance requirements have been imposed on all aspects of running of a business. This has been of particular importance within the realm of both internal and external communication, and reporting within the business. Every piece of outgoing external communication can be subjected to scrutiny under multiple applicable laws and industry-specific regulations. Even internal communication has become increasingly regulated, following the slow-moving wave of accounting audit regulations that started with the Sarbanes-Oxley Act, and has extended into other auditable areas of business.

Examples of both internal and external communication that can be subjected to legal and regulatory scrutiny are shown below.

- Employment contracts
- Insurance policies
- Business contracts
- Contractor agreements
- Promotional emails
- Business emails
- Customer communication
- Helpdesk communication
- Purchase agreements
- RFP responses
- Accounting reports
- Board reports
- Shareholder reporting
- Internal policies and procedures
- Police/security check documentation
- Contracts
- Proposals
- Business correspondence
- Insurance policies
- Financial statements
- Customer communication
- Quotes
- Online statements
- Loyalty/reward program communication

Many of the listed types of communication and documents are required to comply with multiple laws and regulations.

Employment Contracts

USA

Federal Legislation
and Regulations

Fair Labor Standards Act
National Labor Relations Act
Occupational Safety and Health Act
Employee Retirement Income Security Act
Family and Medical Leave Act
Labor Management Reporting and Disclosure Act

State specific employment legislation

Industry specific regulations

UK (England, Wales)

Employment Rights Act
National Minimum Wage Act
National Minimum Wage Regulations
Working Time Regulations
Working Time Directive
Maternity and Parental Leave, etc Regulations
Paternity Leave Regulations
Paternity and Adoption Leave Regulations
Parental Leave Directive
Transfer of Undertakings (Protection of Employment)
Regulations (If a company is taken over)
Health and Safety at Work Act
Trade Union and Labour Relations (Consolidation) Act
Pensions Act
Finance Act
Income Tax (Earnings and Pensions) Act
Equality Act

At least **6** country-level laws, state-specific regulations, industry-specific regulations

At least **16** country-level laws, industry-specific regulations

Penalties for non-compliance†

Up to **$500,000** and **5 years in prison**

Unlimited fine and up to **2 years in prison**

Employment Contract (continued)

New Zealand

Employment Relations Act 2000
Health and Safety in Employment Act 1992
Parental Leave and Employment Protection Act 1987
Parental Leave and Employment Protection Regulations 2002

Industry Specific
Health and Safety in Employment (Adventure Activities) Regulations 2011
Health and Safety in Employment (Asbestos) Regulations 1998
Health and Safety in Employment (Mining Administration) Regulations 1996
Health and Safety in Employment (Mining—Underground) Regulations 1999
Framework for the Accredited Employers Programme

Australia

Fair Work Act 2009
Fair Work Amendment Act 2013
Fair Work Regulations 2009
Fair Work Australia Rules 2010
Small Business Fair Dismissal Code
Fair Work (State Declarations—employers not to be national system employers) Endorsement 2009
Workplace Relations Act 1996
Workplace Relations Regulations 2006

At least **4** country-level laws and regulations, industry-specific regulations

At least **8** country-level laws and regulations, state regulations, industry-specific regulations

Penalties for non-compliance†

Up to **$500,000** and **2 years in prison**

Up to **$51,000** per offence incident

Insurance Policies

USA

Federal Legislation and Regulations

Homeowners Insurance Protection Act of 2013
Competitive Health Insurance Act
Federal Life Insurance Transparency Act
Terrorism Risk Insurance Act of 2002 Reauthorization Act of 2013
Insurance Consumer Protection and Solvency Act of 2013
Access to Insurance for All Americans Act
Small Farm Insurance Act of 2013
Dental Insurance Fairness Act of 2013
Social Security Disability Insurance for the Terminally Ill Act of 2013
Insurance Capital and Accounting Standards Act of 2013
Securities Act

McCarran-Ferguson Act 1945 – Historical de-centralization of regulation of insurance in USA which resulted in State specific Insurance regulation bodies – Insurance Commissioners/Directors of Insurance/Commissioners of Insurance/Superintendents of Insurance

At least **11** country-level laws, state-specific regulations, industry-specific regulations

UK (England, Wales)

Financial Services and Markets Act
Contracts (Applicable Law) Act
Insurance Conduct of Business Sourcebook
Financial Services Authority Regulations
Third Parties (Rights against Insurers) Act

At least **5** country-level laws, industry specific regulations

Penalties for non-compliance†

Unlimited fine and up to **10 years in prison**

Unlimited fine and up to **10 years in prison**

Insurance Policy (continued)

New Zealand

Insurance Law Reform Act 1985
Fair Trading Act 1986
Accident Insurance (Insurer Returns) Regulations 1999
Accident Insurance (Interest on Crown Advances) Regulations 1999
FRS-35: Financial Reporting of Insurance Activities
FRS-34: Life Insurance Business
Insurance Intermediaries Act 1994
Insurance (Prudential Supervision) Act 2010
Insurance (Prudential Supervision) Regulations 2010
NZ IFRS 4: Insurance Contracts
Securities Act

At least **10** country-level laws and regulations, industry-specific regulations

Australia

Insurance Act 1973
Corporations Act 2001
Insurance Contracts Act 1984
Insurance (Agents & Brokers) Act 1984
Financial Services Reform Act 2001

General Insurance Code of Practice (self-regulatory code)

Regulations issued by:
Australian Prudential Regulation Authority
Australian Securities and Investment Commission

At least **5** country-level laws, industry-specific regulations

Penalties for non-compliance†

Unlimited fine

Unlimited fine and up to **10 years in prison**

B2B Contracts – Contractor Agreements etc.

USA

Federal Legislation and Regulations

Uniform Commercial Code

State specific contract regulations

State-specific regulations and conformance to the Uniform Commercial Code

UK (England, Wales)

Sale of Goods Act
Supply of Goods and Services Act
Contracts (Applicable Law) Act
Enterprise Act 2002

At least **3** country-level laws, industry-specific regulations

Penalties for non-compliance†

Unlimited fine

Unlimited fine and up to **2 years in prison**

New Zealand

Fair Trading Act 1986
Sale of Goods Act 1908
Contracts (Privity) Act 1982
Illegal Contracts Act 1970
Construction Contracts Act 2002
Construction Contracts Regulations 2003
Public Bodies Contracts Act 1959

At least **5** country-level laws

Australia

Trade Practices Act 1974
Contracts Review Act
Competition and Consumer Act 2010
Corporations Act 2001

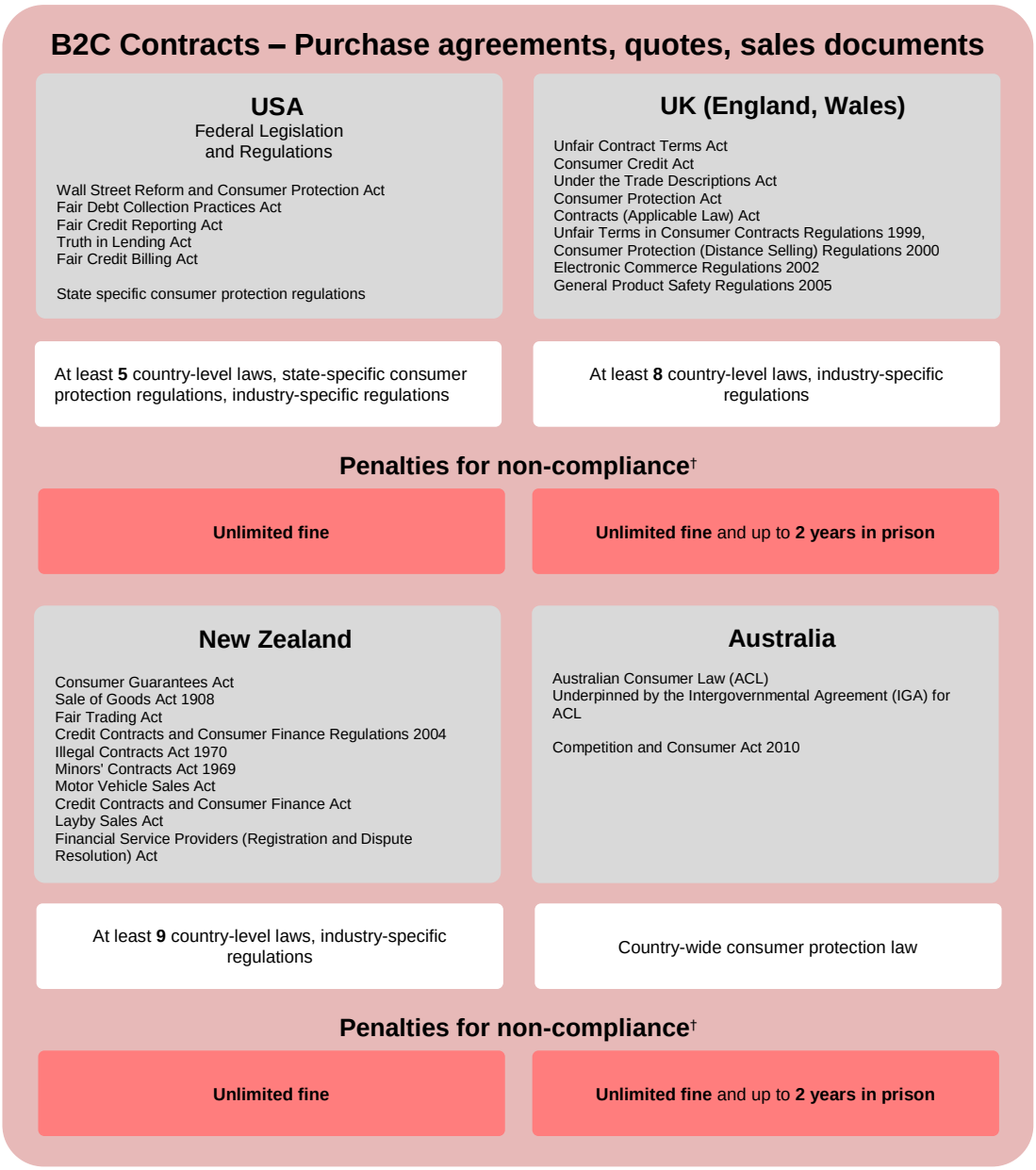
State specific legislation with a number of common law precedents

State-specific legislation with a number of common law precedents and compliant with federal law

Penalties for non-compliance†

Unlimited fine

Unlimited fine and up to **10 years in prison**



† *Note that the indicated penalties are the maximum, and will vary with the severity of the offence, usually up to the amount that is sufficient to compensate for the harm caused by non-compliance. An organisation may be liable to pay fines under multiple legislations.*

Every single piece of communication is typically affected by at least 5 different laws, regulations, ordinances, common law, and industry-specific standards. Communication templates, or “gold standards”, are initially created by individuals and teams who are aware of the legal obligations that are associated with their release. When these “gold standards” become used organisation-wide, and changes to them are necessary, users do not tend to get their modifications approved by the experts. The ad-hoc nature of amendments to the “gold standard” templates may result in legal non-compliance or obligations that the organisation may not wish to make or cannot fulfil. Non-compliance, in most cases, is not caused by malicious intentions, but mere lack of awareness of the specific requirements that are imposed on the content that has been modified.

Organisations decide to implement Governance, Risk Management, and Compliance solutions not only to strengthen their defences against the exposure to litigation, and penalties associated with non-compliance, but also to establish more robust business processes that can be more easily managed and controlled internally.

3 What is Governance, Risk Management, and Compliance (GRC)?

3.1 Definition of GRC

The definitions of these terms vary. However, the widely accepted definition has been provided by Gartner:

3.1.1 Governance

The process by which policy is set and decision making is executed.

3.1.2 Risk Management

The process for preventing an unacceptable level of uncertainty in business objectives with a balance of avoidance through reconsideration of objectives, mitigation through the application of controls, transfer through insurance and acceptance through governance mechanisms. It is also the process to ensure that important business processes and behaviours remain within the tolerances associated with policies and decisions set through the governance process.

3.1.3 Compliance

The process of adherence to policies and decisions. Policies can be derived from internal directives, procedures and requirements, or external laws, regulations, standards and agreements.

3.2 Role of GRC within Large Enterprises

With the growing requirements that organisations face in the fields of governance, risk management, and compliance, GRC software may sometimes be considered, or hoped to be, the plug-and-play solution that will satisfy all GRC needs of the organisation. It is crucial, however, that the organisation is fully aware of the environment it operates in, can identify the compliance requirements that are relevant to its operations, is able to determine which processes are responsible for good governance, which processes make it possible to manage and control the risk that every environment and all business activities carry, and how to achieve compliance with all relevant laws, regulations, and industry standards. Only then can a qualified decision be made as to: (a) whether GRC software can address the issues the organisation encounters or internal process optimisation is needed prior to implementing a software solution, and (b) how requirements can be gathered so that a GRC software solution that meets the requirements can be selected.

The primary goal of every deployment of GRC software should be to strengthen the organisation’s defences against unwanted outcomes of business processes. As an example of the process, let us consider the issuance of an insurance policy with multiple endorsements. The desired outcome of this process is a policy document that accurately reflects the level of risk associated with the specific case, includes the latest terms and conditions, is issued to the parameters specified by the customer, and complies with all relevant laws and regulations. There are, however, multiple possible unwanted outcomes with different degrees of impact on the issuing organisation. The policy may be issued with minor mistakes or omissions that are discovered, and consequently must be corrected. The parameters of the policy may not reflect the risk associated with the endorsements that were issued, thus exposing the organisation to greater degrees of financial risk. The

endorsements that were issued may have not been approved by the relevant regulatory body, thus exposing the insurer to penalties and litigation. GRC software must strengthen the organisation's defences against these undesirable outcomes, and must make it possible to monitor the overall risk exposure by assuring auditability of all relevant processes.

Every organisation is different and has specific GRC needs, and may wish to control and audit disparate processes with a single software solution. It is important that the selected GRC solution can satisfy the requirements set out by the compliance and auditing teams in their entirety. If no single GRC software is found to be able to meet those requirements, then the "best-of-breed" solutions targeted at their respective areas of expertise should be utilised. It is worth noting that some GRC solutions focus on passive monitoring and evaluation of the risks that are known to exist in the business; some are point solutions that reduce exposure in one area of the business; and some combine all aspects of GRC i.e. risk reduction, correct procedure enforcement, risk exposure evaluation, and provision of audit data. GRC software is nearly always required to integrate with existing solutions and data sources, and must be able to do so utilising industry open standards of connectivity.

4 Organisational three lines of defence

The European Confederation of Institutes of Internal Auditing issued the benchmark regulatory guidance for organisational defence. The scheme is based on the three lines of defence that encompass all management activities. This includes the line of business processes, control mechanisms, and internal audit.

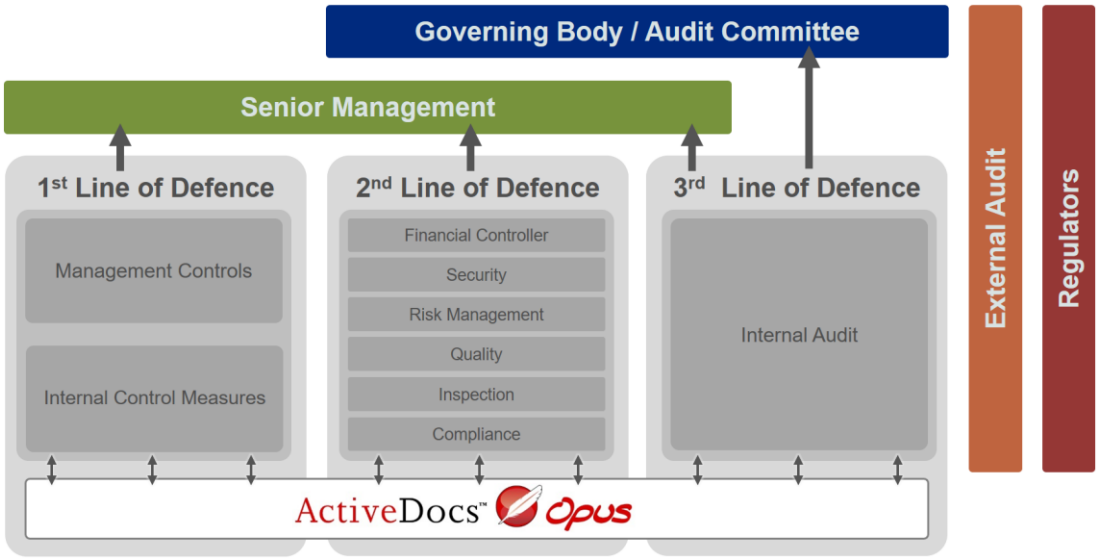


FIGURE 1: BENCHMARK MODEL FOR REGULATORY GUIDANCE (SOURCE: ECIIA, JUNE 2013)

4.1 1st Line of Defence

The 1st Line of Defence involves the mechanisms that touch on line-of-business processes. The business processes must be robust and controllable. The operational management takes ownership of the processes, is accountable for assessment, and proactively takes actions to mitigate risks associated with the activities for which they are responsible.

4.2 2nd Line of Defence

The 2nd Line of Defence in the organisation assists the risk owners, and reports the relevant risk information both up and down the organisation. Appropriate segregation of duties and access control is crucial. This line of defense monitors the implementation of risk management practices by operational management.

4.3 3rd Line of Defence

The 3rd Line of Defence provides assurance to the senior management and the governing body. It provides a representation of the state of the risk management framework implemented throughout the organisation.

4.4 External Audit and Regulators

The external auditor contributes as an outside body, providing assurance regarding compliance with current legislation and regulations that are applicable to operations of the organisation.

The detailed explanation of the Three Lines of Defence model can be downloaded from ECIIA website:
http://eciia.eu/wp-content/uploads/2013/09/OCV-3.2-3LD-Model.pdf

5 Governance, Risk Management, and Compliance with ActiveDocs Opus

ActiveDocs Opus can contribute to all three lines of defence across a range of processes in the organisation. Its unique feature set makes it possible to address all three essential needs of GRC: (1) reduce the level of risk that is inherently associated with business activities, (2) enforce that the correct procedures are followed, and (3) evaluate overall risk exposure and provide auditing data.

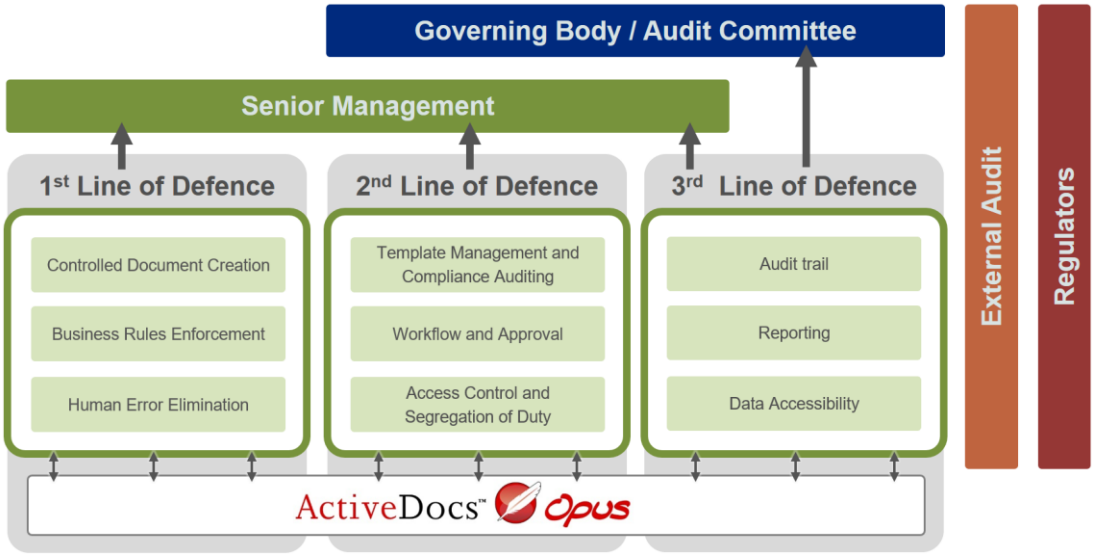
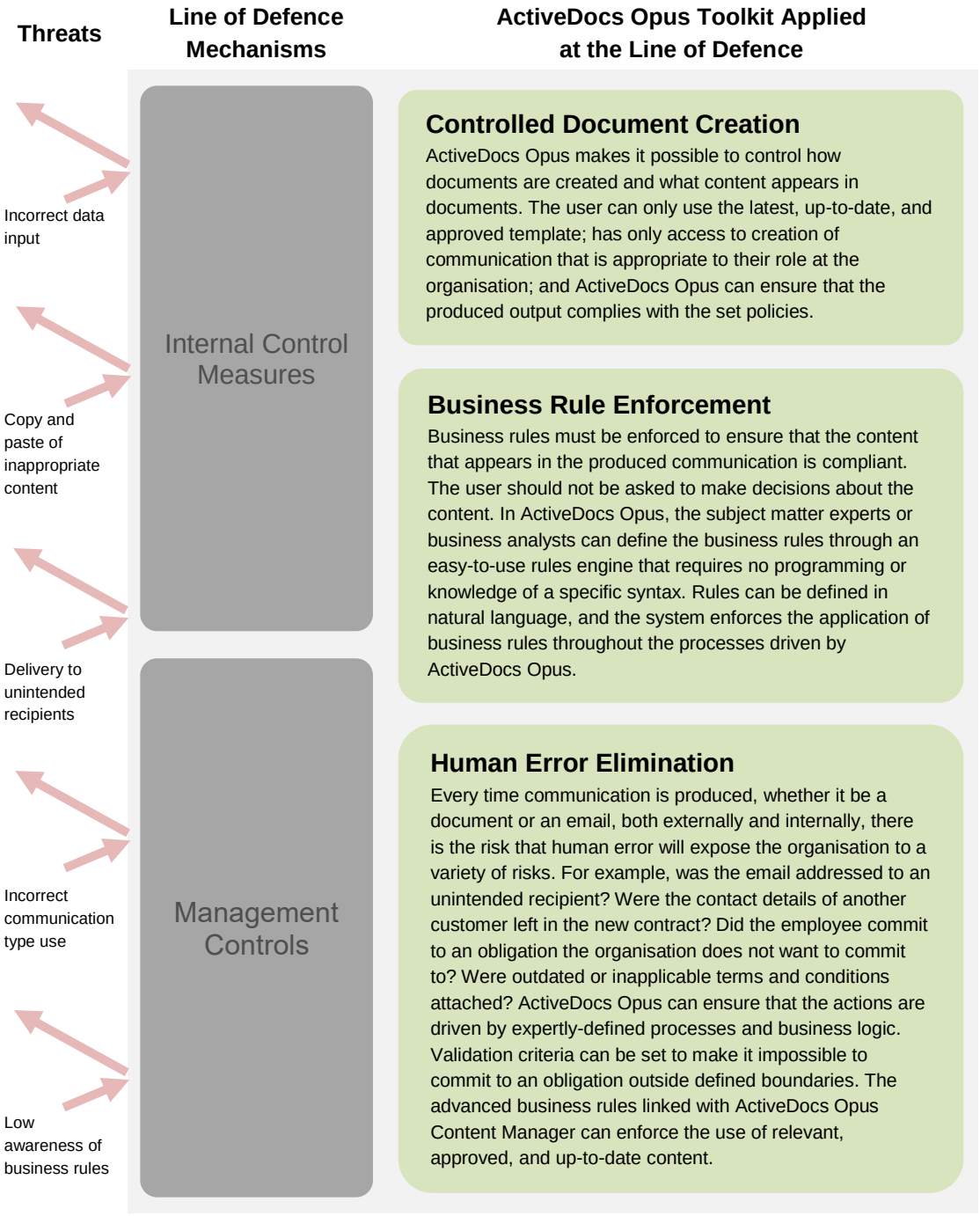


FIGURE 2: ACTIVEDOCS OPUS FUNCTIONALITY MAPPING ONTO ECIIA BENCHMARK MODEL FOR REGULATORY GUIDANCE

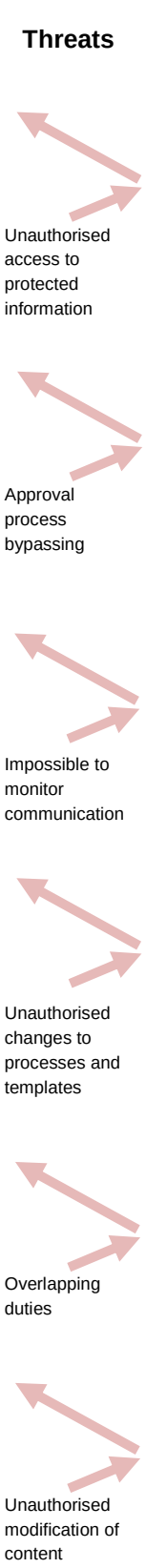
ActiveDocs Opus' functional areas are mapped onto the three lines of defence of the ECIIA model. This can assure that the organisation's defences have been strengthened by the means of making the business processes more robust. Management is fully in control and can assure that the correct procedures are in place. The audit team is empowered by the ability to monitor the business in real-time, and have easy access to audit data.

The following diagrams illustrate how ActiveDocs Opus can be used to strengthen each line of defense. The ability to address all three lines of defense is crucial to every successful enterprise-wide deployment of any GRC solution. ActiveDocs Opus' unparalleled capabilities across all lines of defense make it an essential tool in organisations' overall GRC strategy.

1st Line of Defence



2nd Line of Defence



ActiveDocs Opus Toolkit Applied at the Line of Defence

Template Management and Compliance Auditing

Every change to the business logic that drives the organisation's processes must be auditable. The second line of defence demands that senior management has control over the design of their business processes to ensure compliance with legal and regulatory demands, that the process follows the correct sequence of steps, and it is transparent and auditable. ActiveDocs Opus Template Management and Compliance Auditing module makes it possible to manage individual Design Components of business processes, and to monitor the creation and changes to individual components.

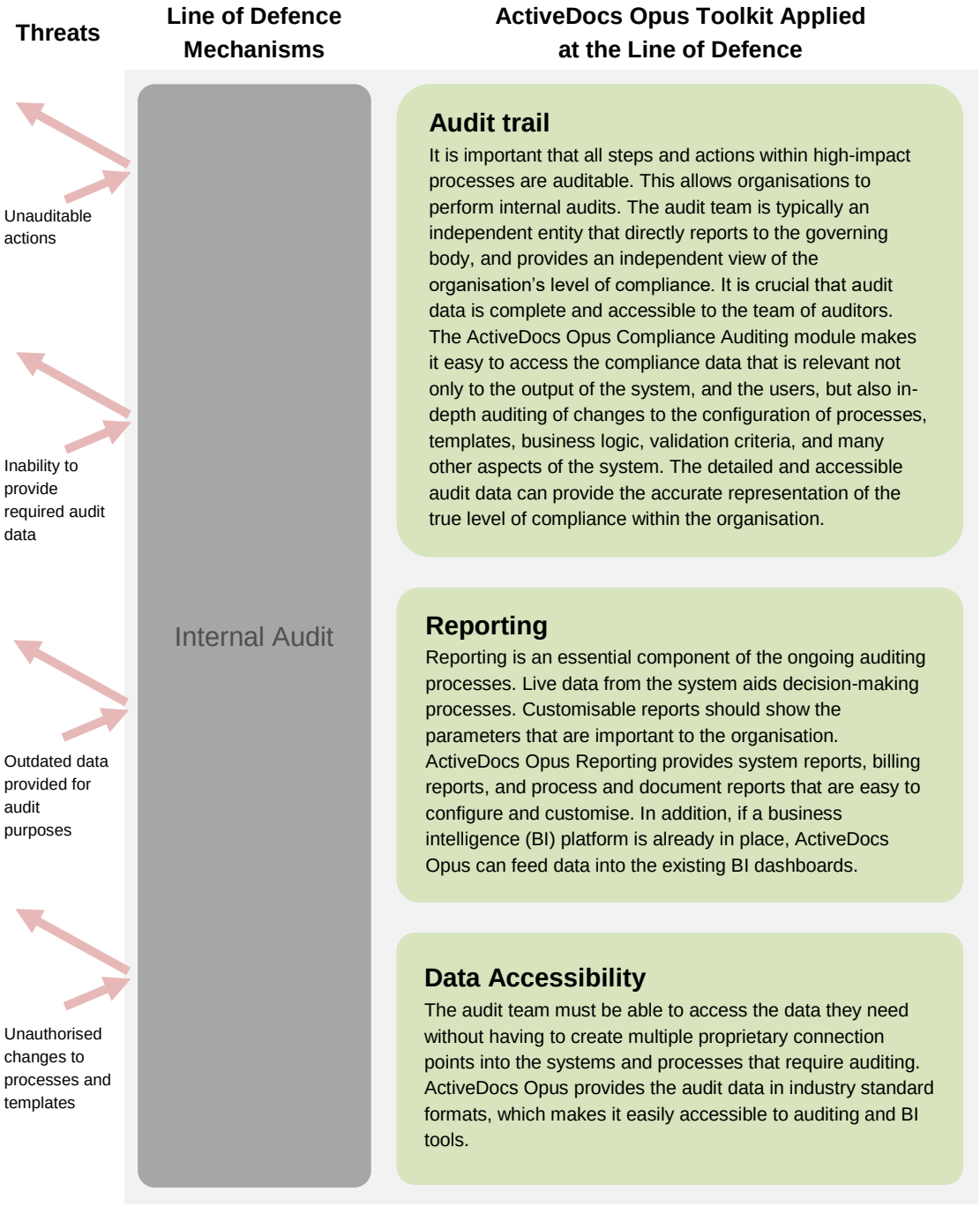
Workflow and Approval

Workflows and approval processes must assure that each and every process, every template, every document or piece of communication, can be reviewed by the people who are accountable for their compliance. ActiveDocs Opus smart workflows make it easy to determine the parameters of the approval process. Does an individual or a group of people need to approve the template, the document, the piece of reusable content or other components of the process? Does the approval process need to start only when a boundary limit is approached? For example, a sales proposal may only need approval if the profit margins on sold goods and services are too low, because the sales person discounted heavily. In addition, ActiveDocs Opus makes it possible to easily integrate with third party BPM and workflow engines.

Access Control and Segregation of Duty

It is crucial that access to actions and content within the system can be defined with high granularity. Subject matter experts should be able to modify the aspects of the process, or communication that is within their area of expertise; however, they should not be able to carry out modifications outside of the area of their expert knowledge. For example, engineers may be able to modify descriptions of the organisation's products, but they should only have read-only access to the terms and conditions documents that are managed by the legal team. In addition, segregation of duties should enforce that, for example, the person who creates the communication is not the person who can approve the communication, if approval is required. Within ActiveDocs Opus, user access rights and privileges with the system can be defined with high granularity. The user can be given access to an individual process or a piece of communication, and they can be assigned only the privileges that their role requires (e.g. document creation, or approval, or editing, etc.).

3rd Line of Defence



6 How ActiveDocs Opus customers solved their GRC issues

Several specific examples of how some ActiveDocs customers solved their GRC issues are presented in tables below. Case studies are available, and can provide more detailed descriptions of the solutions.

6.1 Royal Dutch Shell – GRC in global HR

Shell	1st Line of Defence	2nd Line of Defence	3rd Line of Defence
Line of defence issue	Manual creation of HR documents, business rules implemented as written instructions.	Proliferation of hundreds of templates, users able to use outdated templates. Every document manually reviewed after creation, time consuming, not all errors can be caught.	Difficult to audit templates and instructions due to proliferation of multiple versions of templates with no central repository.
ActiveDocs Opus solution	Single button document creation where the content is determined by business rules, and the data is supplied automatically from the central ERP SAP system.	Templates undergo rigorous approval processes. Central template and content repository. Individual document parameters checked at the time of document creation. Workflows driving post-creation approval processes where required.	Easy access to audit data from a single central location.

For detailed description of ActiveDocs Opus solution at Shell, please refer to:
Royal Dutch Shell Case Study
(http://www.activedocs.com/documents/Case_Study_Shell_Ltr.pdf)

6.2 Ricoh – GRC in Sales

RICOH	1st Line of Defence	2nd Line of Defence	3rd Line of Defence
Line of defence issue	Sales proposals containing inaccurate pricing information and product descriptions.	Difficult to review and change proposal templates. No controlled workflow processes.	No centralised access to proposal data, no auditable link between sales data and the information in proposals.
ActiveDocs Opus solution	Automated creation of sales proposals utilises live pricing and product description data.	Smart workflows determine which proposals need to be approved and by whom.	Central access to data on issued sales proposals with the ability to establish an auditable link with the actual sales.

For detailed description of ActiveDocs Opus solution at RICOH, please refer to:
RICOH Case Study (http://www.activedocs.com/documents/Case_Study_RICOH_Ltr.pdf)

6.3 Bayer – GRC in pharmaceutical industry

	1st Line of Defence	2nd Line of Defence	3rd Line of Defence
Line of defence issue	Manual creation of sensitive multi-legislation contracts was a manual process.	Legal teams have had to be involved throughout the process of contract creation to assure compliance with multiple legislation and regulation environments.	Audit of contract parameters based on manually populated metadata and may have required inspection of individual documents to obtain additional information.
ActiveDocs Opus solution	Creation of documents driven by business rules automatically includes correct wording for the given case and legal environments.	Smart approval workflow processes where ActiveDocs Opus integrates with Bayer's SharePoint platform and Nintex workflows.	Metadata populated automatically, ensuring accuracy. ActiveDocs Opus reporting makes it possible to access document parameters easily in industry-standard formats and via ActiveDocs Opus Reports.

For detailed description of ActiveDocs Opus solution at Bayer, please refer to:
Bayer Pharmaceuticals Case Study
(http://www.activedocs.com/documents/Case_Study_Bayer_Ltr.pdf)

6.4 ABB – GRC in Contract Management

	1st Line of Defence	2nd Line of Defence	3rd Line of Defence
Line of defence issue	Contract content manually copied and pasted from a variety of disparate data sources could cause inaccuracies in the produced contractual documents.	Low transparency of the contract creation process, inaccurate or missing metadata, difficult to review produced contracts, manual filing into contract management software Selectica.	Difficult to perform contract audit, no easy access to data about contract content or the origin of data in the documents.
ActiveDocs Opus solution	ActiveDocs Opus assembles contracts automatically, based on standardised business rules, and utilises the latest, approved, content.	Easy to control contract creation where templates, reusable content, and business rules can be approved prior to being used for contract creation. The contract approval process can be simplified, and the contracts are automatically filed into Selectica, which is used for contract management.	Easy access to data that was used to generate the contract documents.

For detailed description of ActiveDocs Opus solution at ABB, please refer to:
ABB Case Study (http://www.activedocs.com/documents/Case_Study_ABB_Ltr.pdf)

7 Conclusions

Governance, Risk Management, and Compliance demands have been increasing, and the demands on compliance and audit teams within organisations world-wide have been growing. The Three Lines of Defense framework can be adopted to strengthen an organisation's ability to cope with legislation and regulatory pressures.

ActiveDocs Opus is a tool that can provide unparalleled levels of support to all three lines of defence. It can be used to make any organisation's line-of-business processes more robust, to put control mechanisms in place that enforce the correct procedures, and to enable and simplify internal audit practices.