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FINANCIAL INTEGRITY THREATENED BY RISKS OF CHANGE

External pressures on businesses in the retailing sector from mergers and acquisitions, organisational change and regulatory compliance are causing 'fault lines' in financial processes that are exposing businesses to potential fraud, mistakes and inefficiencies. According to new research into the financial practices of global retail organisations, the greater the level of change experienced by companies, the higher the chances of financial error and risk exposure.

This independent research commissioned by ACL Services across the UK, North America and Germany surveyed 48 global retail companies. It found that 67 per cent of the companies surveyed had either merged, been acquired or undergone a departmental merger in the past 12 months. Against this backdrop, key findings included:

- *Financial systems undermined by change* – 83 per cent of businesses have undergone some level of change in their financial analysis applications over the past 12 months and almost half of respondents (52 per cent) believe that their financial systems have been undermined by operational change within the business
- *Struggling to control errors* – One in three businesses are exposed to regular finance department errors and three in five are seeking to improve the effectiveness of financial transaction analysis
- *Finding a balance* – 33 per cent of respondents agree that finding a balance between optimal internal controls versus over controlled systems that can't keep pace with the business is an ongoing struggle.

and upheaval. Constant change equals greater risk and businesses need to have much tighter systems and monitoring in place to manage both."

The potential financial pitfalls brought about by change are already being felt by retailers. 13 per cent of companies admitted to experiencing financial loss due to poor risk management, 5 per cent had been asked to improve their processes by regulators and 5 per cent had already been fined for deficient compliance controls.

Harald Will added: "Small gaps and weaknesses create 'fault lines' that potentially destabilise an organisation's financial systems. And while the retail industry seems to agree that continuous auditing is an effective strategy to mitigate these risks and bridge systems, they are still using ad hoc analysis in most cases. As they try to cope with the impact of change, they must invest in early warning systems to continuously monitor the fault lines for fraud, mistakes and inefficiencies that can cost millions in losses, as well as damage a company's reputation and value."

The ACL survey was undertaken by Loudhouse Research, an independent B2B research consultancy, in July 2007. The survey methodology involved Computer Assisted Telephone Interviewing (CATI) with a total of 48 senior finance professionals from large organisations in the UK, Germany and Unites States. Overall, 37 per cent of respondents had turnovers over £500 million, 48 per cent between £250 million and £500 million and 15 per cent between £100 and £250 million.

Commenting on the survey results, Harald Will, president and CEO of ACL Services, said: "It appears that enterprise financial systems and processes within the retail sector are buckling under the pressure of constant change. Even seemingly simple changes to business structures, such as the merger of a department or a move to a shared services centre, can involve massive financial consolidation

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