5 Best Practices for Selecting Compliance Software

Case IQ

Introduction

It has become more critical than ever for companies to have an effective ethics and compliance program, but the challenges and expectations for ethics and compliance officers have also reached unprecedented heights in recent years. Regulators around the world, including the U.S. Department of Justice, have recently indicated that companies should be able to monitor transactions and third-party relationships on an ongoing basis and have a system in place to root out non-compliance proactively. In May 2022, Assistant Attorney General Kenneth A. Polite Jr. further stated that the DOJ expects companies to "have a system that immediately detects" wrongdoing. The need for a comprehensive and effective compliance program—and the limitations of traditional compliance policies and procedures in meeting that need—has never been more apparent.

Traditionally, compliance has been a manual and limited process for most organizations. Companies typically detect non-compliance via tips, such as hotline reports or internal audits. Those tools are invaluable but are also inherently lacking. Tips are commonly only reported months or even years after the non-compliance has occurred (if ever), while internal audits are often subjective and performed on a sample basis, which can cause non-compliance to go undetected. Audits are also typically conducted months or years after any inappropriate conduct may have occurred.

Given rising regulatory expectations and the need to proactively root out risky activity across the enterprise in real-time, companies need to leverage new tools to ensure that their compliance policies and procedures are performing satisfactorily on an ongoing basis.

Compliance software has become an increasingly popular tool for companies seeking to proactively root out non-compliant behavior within the enterprise and meet regulatory expectations. Effective compliance software, for example, can monitor spending across a company on an ongoing basis, ensuring that suspicious activity can be quickly detected and resolved. Data analytics, the foundation of many leading compliance programs, can monitor transactions, approvals, and other business operations to find actionable insights with superior accuracy versus manual or sample-based reviews.

While compliance software is steadily becoming the go-to tool for companies looking to effectively combat non-compliance, such as fraud, corruption, sanctions violations, and conflicts of interest, determining what kind of compliance software is ideally suited for a company can be challenging. When selecting compliance software, several key questions can help your company determine whether a given compliance software vendor is the right fit for your company and its compliance team.

This paper will highlight five best practices for selecting compliance software to help your company make an informed purchase.

Case IQ

1. Will Your Compliance Software Meet Regulatory Expectations?

Regulatory expectations for corporate compliance programs have never been higher. The U.S. Department of Justice updated its guidance surrounding the Evaluation of Corporate Compliance Programs in 2020, which raised expectations on companies to assess risk on an ongoing basis and to test transactions and the overall effectiveness of their compliance programs in real-time. Recent statements have further called for "immediate" detection of non-compliance. It is critical for companies considering compliance software to understand the Department of Justice's compliance expectations and determine whether a given compliance software can meet those expectations.

The Department of Justice expects prosecutors to ask three fundamental questions when evaluating corporate compliance programs:

Is the corporation's compliance program well designed?
A well-designed compliance program should effectively prevent and then immediately detect employee wrongdoing. As previously noted, traditional compliance tools such as audits and hotline reports, while necessary, are insufficient answers to this question. Not only do those tools work too slowly to meet the evolving regulatory expectations, but they are also subjective and prone to human error and self-selection bias.

On the other hand, data-driven transaction monitoring software can continuously monitor transactional data and key metrics on an ongoing basis, ensuring suspicious activity is immediately detected. The software's findings will also provide superior insights to its users, as it can reveal unusual trends and patterns.

Furthermore, the automation provided by data-driven compliance software allows a company's compliance team to assess risk dynamically and on an ongoing basis while focusing on high-value activities that require specialized attention and pre-clearance and approval.

Is the program being applied earnestly and in good faith?

A compliance program needs to be used properly, regardless of its design. This is a problem that traditional compliance programs have commonly struggled with due to a variety of potential behavioral issues. For example, human error, poor judgment, inexperience, or malicious employee behavior can all negatively impact the effectiveness of various compliance controls and processes a company may put in place.

Leveraging data can help companies avoid these issues and prove to regulators that a company is not only relying on the appropriate engagement of their employees with their compliance program but also working to the best of their ability to root out non-compliance independently. Data is objective, and companies that make data a core part of their compliance program will reap the benefits of accurate and holistic insights that more limited methods such as sample-based audits and hotline reports cannot provide.

Does the corporation's compliance program work in practice?

The Department of Justice has emphasized that a company's compliance program needs to produce actionable results rather than simply exist. Compliance programs should be able to provide the Board and management with meaningful data supporting the compliance program's effectiveness and show a proven ability to prevent and detect wrongdoing in real-time.

Case IQ

Most traditional forms of compliance processes and metrics fail to achieve this. For example, companies may have statistics showing that the majority of their employees completed their ethics training, but that statistic doesn't necessarily indicate that the training was understood or is being followed. Similarly, while whistleblower reports may reveal some forms of wrongdoing, employees may be failing to report other instances of unethical behavior, giving the Compliance team, Board, and management a skewed view of the actual effectiveness of the compliance program.

As with the other fundamental questions, data-driven compliance software is perfectly positioned to satisfy this regulatory expectation. For example, data-driven compliance software can automatically track and analyze every transaction in a company and gauge its riskiness based on multi-dimensional risk analyses.

It's no coincidence that data plays a vital role in answering each of the abovementioned questions. Data-driven compliance software allows companies to analyze employee transactions and third-party activity, from the due diligence process through to the third-party's financial transactions, more thoroughly than traditional compliance methods.

Such in-depth analyses do not come at the expense of efficiency—thanks to the power of automation; compliance software can deliver meaningful insights instantaneously and on an ongoing basis. When selecting compliance software, it's important to consider whether the software you choose will be able to satisfy each of these regulatory expectations. Furthermore, it's important to consider whether the software is regularly updated to satisfy the expectations of the ever-shifting regulatory environment.

Regulatory expectations for compliance departments are on the rise. Still, by taking a data-driven approach to compliance, companies are more than capable of meeting those expectations and proactively combating non-compliance.

Case IQ

2. Will your compliance software gather the right data and effectively comprehend and analyze it?

Data is the foundation of every company, regardless of its size or scope. Companies have a wealth of financial data about their day-to-day business operations at their fingertips, but corporate compliance teams have historically not made heavy use of that information when conducting routine compliance activities.

Compliance has not been traditionally viewed as a data-driven discipline, but due to the increasingly sophisticated nature of fraud schemes and rising regulatory expectations, the impetus is on compliance teams to leverage their company's data to bolster their practices and policies.

Leading compliance software offers compliance officers a suite of tools and features that can assist them in leveraging their company's financial data beyond the traditional metrics of training and hotline reports to find important information that is difficult to detect by using traditional compliance procedures. Here are three examples of how compliance software can effectively comprehend and analyze a company's robust data sets:

Continuous Transaction Monitoring

Compliance software is capable of monitoring every employee and third-party transaction all of the time. In many companies, such transactions are only closely analyzed during audits, which are infrequent, subjective, and sample-based, and even then tend to involve limited forensic analyses on each transaction. Third-party monitoring is often also limited to due diligence during onboarding, which can also be subjective and prone to manipulation by bad actors and ongoing sanctions and watchlist screening.

Case IQ

Thanks to the continuous transaction monitoring provided by effective compliance software, companies can track internal and external transactions with more immediacy and accuracy than traditional methods. Compliance software can analyze corporate transactions in significantly greater detail than manual processes: Truly effective compliance software incorporates advanced fraud detection techniques, using multiple simultaneous forensic analytics and machine learning to identify anomalies and high-risk transactions that could adversely impact the enterprise.

Risk Assessments

Compliance software can perform sophisticated risk assessments to identify unusual trends and patterns in a company's data sets that can uncover risky behavior and suspicious activity. While manual reviews of disparate data sets are time-consuming and prone to human error, compliance software can ingest data from ERP, T&E, and HR systems, automatically assign risk scores to transactions and third parties, and flag the data for review. This saves compliance teams time and resources and ensures that compliance officers can dedicate their time to the high-priority issues that the compliance software flags, rather than wasting inordinate amounts of time manually pouring over the data sets themselves.

Transactions aren't the only business operation on which effective software is capable of performing risk assessments. Compliance software can additionally perform risk assessments on specific countries, employees, vendors or individual government officials, customer employees, or healthcare providers, among other entities, allowing compliance teams to avoid relying on subjective analyses, such as risk assessment surveys, and instead use more objective, data-driven risk analyses. These analyses can be highly targeted to aid compliance teams in focusing their resources appropriately.

Case IQ

For example, compliance software can be used to compare the potential risks in Brazil and China with regard to payments for a specific general ledger account, specific company department, or specific category of third party - all based on actual behavior through a transaction review rather than surveys of perceived behavior. Such a targeted risk assessment typically goes much deeper than a traditional risk assessment which may look at countries along a dimension such as the Corruption Perceptions Index or may look at risks in broad buckets, such as anti-corruption and information security.

Dashboarding

Information is power, but compliance officers—and C-Suite executives need to understand the insights provided by their compliance software. Via dashboarding or data visualization, effective compliance software can illustrate the insights from the data in a variety of visually appealing formats, such as graphs and charts. This allows compliance officers, executives, and others to interpret the key findings from their compliance software without needing specialized skills.

Effective compliance software dashboards should cleanly present information such as spend data, key program metrics, patterns, and outliers without skimping on specific data points such as third-party spend or transaction locations. The software should also be able to layer a risk dimension to those visualizations to provide deeper insight. For example, a map of the world by vendor spend in each country can be made even more powerful by adding layers for aggregated average risk scores for vendor transactions in each of those countries. This may reveal that a country with average levels of spend has a very high-risk profile due to the transactional analysis conducted.

Case IQ

3. What kinds of resources will your compliance software require to function effectively? Does your company have those resources?

A key selling point of compliance software is saving companies time and money. With that in mind, considering the kinds of resources that your company will need to use compliance software effectively - and whether your company already has those resources or is willing to invest in them -should be a top priority.

For example, the staffing required to manage your company's compliance software is a crucial resource to consider. Compliance software features are made possible via sophisticated data analytics, algorithms, and machine learning programs. Do these high-tech features mean that your company will need one or multiple data scientists dedicated to the software on payroll to manage the compliance software?

Building compliance software in-house will inevitably require a team of data scientists, data engineers, and data visualization resources to construct, maintain and continually update the software. Off-the-shelf compliance software providers typically manage all of these resource needs while providing a dedicated product support team and managers who can assist your company with integration and maintenance. A compliance software vendor's availability and level of support should be considered early in the decision-making process.

Ideally, off-the-shelf compliance software should offer in-depth data monitoring and analysis tools and be user-friendly for compliance officers who do not have specialized backgrounds in computer science or data analytics.

Case IQ

It's also important to consider transparency in pricing when selecting off-the-shelf compliance software. What is the fee structure of your prospective compliance software? For example, will you be charged hidden fees for parts of the program that need to be customized to suit your company's specific business needs? Will your company be charged additional fees when consulting the vendor's support staff for assistance? Will the compliance software's price change as its vendor updates and iterates the product? Gauging a vendor's transparency and client retention rates can help your company determine if it will be allocating its resources appropriately.

4. How efficiently will your company be able to integrate its workflows and data sets into its new compliance software?

Compliance software offers many beneficial features and tools, but those benefits are moot if integrating the compliance software into your company's workflows and data sets is unduly complicated. Ease of use and integration are top priorities for companies seeking to modernize compliance processes via software. Integrating compliance software into corporate workflows will never be an overnight process. Successful software vendors should be able to provide companies with a clear and transparent timetable for integration.

The initial integration period aside, it's essential to consider how intuitively your compliance software will be able to ingest data from your company's data sets. Many corporate data sets, such as ERP, T&E, and HR systems, are spread across disparate data silos. Traditionally, it can be difficult for companies to consolidate that data, especially when it's required to cross-reference that data and analyze it for trends, patterns, and suspicious activity related to fraud and corruption.

Case IQ

Effective compliance software should pull in data from disparate silos, regardless of your company's scope and size, and generate meaningful insights from that data to allow your company's compliance team to have a holistic view of spend across the enterprise.

Another aspect of integration that should be considered is the compliance software itself: Will your compliance software be accessed through a single, user-friendly app, program, or website, or will your compliance teams be required to learn how to use and manage multiple systems to make full use of the software? Some compliance software vendors offer overlapping and disconnected tools, which can be particularly problematic if there are different contacts for the vendor's support team for different parts of the software. Ideally, your company's off-the-shelf compliance software will be a single product suite that offers monitoring and approval processes, third-party management, and data analyses in a single, unified system.

5. How customizable and flexible will your compliance software be?

Finally, your prospective compliance software's customization features and flexibility are of paramount importance. Effective compliance software is an investment and should be able to fit your company's needs for years to come. That means that the software should be able to be customized and adapted to fit your company's changing needs and ensure ongoing compliance with regulatory expectations. It also means that the software should have breadth and depth that satisfies any immediate needs as well as your long-term program roadmap.

Case IQ

For example, a company that is looking to enhance its third-party onboarding process using automation may assess certain due diligence software providers for a point solution. However, if that company is considering third party transaction monitoring in its near or mid-term future, it should consider choosing a solution provider that can meet both its immediate point solution need as well as its long-term transaction monitoring need in an integrated manner so as not to find itself in a year or two in a new siloed and disconnected controls posture. Finally, as regulatory expectations grow, a deeper software offering provides more comfort that evolving regulatory expectations can continue to be met.

The customization and flexibility of compliance software are related to many of the key considerations previously discussed in this paper. For example, if your company wants your compliance software vendor to update the software with new features, will there be any hidden fees associated with those upgrades? Will you still be able to work with the vendor's same support staff? Will the new features be associated with a time-consuming learning curve, or will they be
smoothly integrated into the compliance software and easy to integrate with your company's workflows? All of these factors are important to consider when selecting compliance software. With all of this in mind, vendors who have retained clients on a long-term basis—and are transparent about who their clients are—tend to offer the most customizable and flexible compliance software.

Conclusion

Technology is never a simple investment, especially concerning a product as impactful as compliance software. The benefits have become increasingly apparent in recent years. Platforms such as Case IQ provide a suite of modules and features that can help companies proactively prevent and detect risky behavior across the enterprise in a way that is highly configurable and continually refined to satisfy regulatory expectations.

If you would like to learn more about how compliance software can be used to prevent and detect non-compliance and mitigate risks such as fraud, corruption, sanctions, and conflicts of interest, or if you would like additional insights on how to choose compliance software, schedule a consultation with Case IQ today.

Case IQ

One-on-One Advice

Our team of experts has implemented Case IQ for compliance teams around the world.

They are available - free of charge - to speak with you and share the best practices we've learned. No pushy salespeople, just a chance for you to learn from our experts.

With our suite of compliance tools, reporting hotline, and case management software, plus a 25-year track record of successful implementations, Case IQ is the global leader for end-to-end compliance risk management. To get a demo please visit www.caseiq.com/request-a-demo.

To book your one-on-one, please contact:

📞 (800) 465-6089

📍 300 March Road
Suite 501 Ottawa,
Ontario K2K 2E2
Canada

✉️ sales@caseiq.com
media@caseiq.com
support@caseiq.com
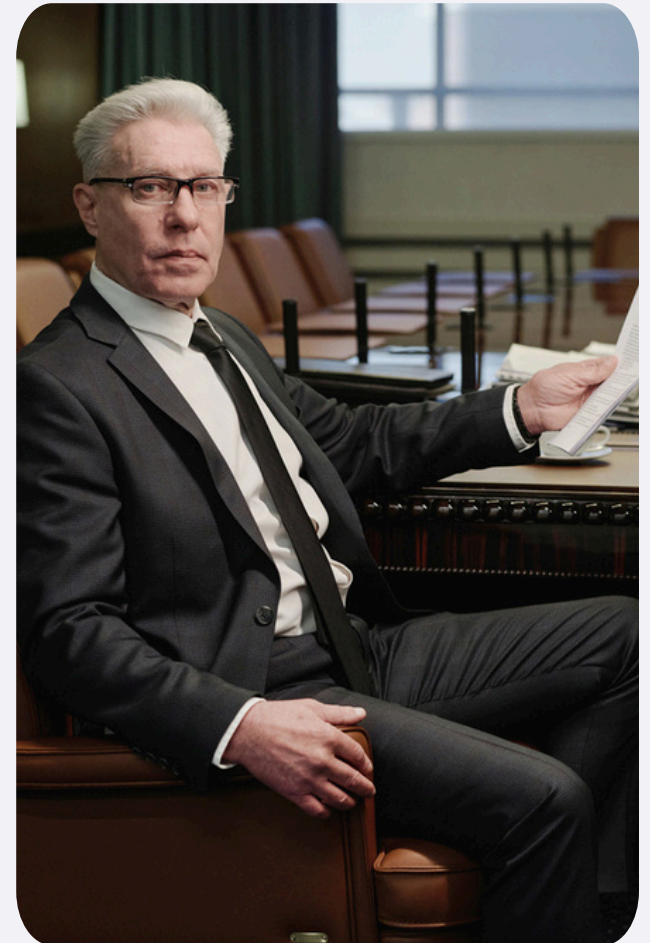
DON'T MISS OUT
Visit CaseIQ.com for more great investigation resources.

Case IQ