3 Ways Automation will Help you Monitor Financial Rules and Regulations

A guide from awareness to execution.

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The accounting industry, historically known as one that moved at a glacial pace, has significantly evolved over the last 13 years. High-profile fraud scandals and globalization have effectively restructured the landscape of financial reporting, bringing ethics (the Sarbanes-Oxley Act) and uniformity (XBRL and IFRS) to the forefront. This movement has ushered in an era where the SEC is introducing more standards, rules and regulations than most companies can comfortably keep up with. When withholding restricted stock to cover for taxes, either upon an 83b election or at vesting, the tax liability for the individual is calculated in dollars and converted to shares. Companies must determine the tax liability due from the participant and divide the taxes due by the stock price as defined in the plan. Some equity compensation management solutions track this for companies automatically and eliminate the risk of over-withholding all together.

This is not going unnoticed by CFOs – a Deloitte survey released last month notes that almost 50% of CFOs counted evolving regulatory requirements as a top three stressor in Q1, second only to high-pressure events like IPOs and M&As.[1]

Fortunately, one thing that's changing faster than disclosure rules are the accounting technologies designed to help companies manage the influx. A pivotal feature of these technologies is automation, an industry buzzword that, according to Protiviti's 2012 Sarbanes-Oxley Compliance Survey "may represent the 'final frontier' for significant improvement opportunities"[2] in regulatory compliance. This paper outlines three stages that can be automated so organizations can keep on top of – and be compliant with – new accounting regulations.

1. Awareness – Get alerts about new regulations

Last year, in its annual risk and compliance survey, PricewaterhouseCoopers asked respondents to identify the top risk driver facing organizations. Just over 87% of financial services companies in the Americas chose increasing regulation as the biggest threat.[3]

Managing this risk requires awareness of all regulatory news and announcements published. Scouring the SEC, IASB and FASB websites regularly requires unnecessary resources, especially when automation can expedite the process. This is why many companies are turning toward automation; this year almost 50% of midsize and large organizations are automating key controls.[4]

With automated disclosure research and filing tools, organizations can schedule alerts for items pertaining to regulations including new standards, exposure drafts/proposals and news releases. Automatic alerts remove the manual labor of regulatory awareness and help prepare companies for the next step: understanding the new rules in context.

2. Understanding – Have examples delivered to you

Approximately 60% of companies surveyed by PwC said that improved data quality and reporting are a primary measure they're taking over the next 18 months to enhance risk management efforts.[5] In order to make these improvements, companies must understand how to properly report and present data.

One way to ensure such accuracy in financial reporting is to understand how the latest disclosure regulations are practiced by early adopters.

Searching for recently issued accounting pronouncements within an industry or peer group not only lets companies see how new regulations look in practice, but also offers insight into the impact new pronouncements have had on peers. This is an excellent way for companies to mitigate risk and prepare for potential obstacles associated with new regulations.

Automation is integral to this phase; companies can keep tabs on how the latest rules are being applied by scheduling automatic alerts to deploy when a filed document mentions that rule. This will quickly foster understanding of new regulations in context and will prepare companies for the final stage in the cycle: execution.

3. Execution – Keep internal auditors in the loop

Companies must integrate new regulations into their filings. The onus first falls on the financial reporting team to apply the new standards, but the internal auditors are ultimately responsible for ensuring compliance before the document is filed.

Here both teams must be aligned, because if errors aren't caught before documents are filed, SEC penalties could ensue. Such alignment requires open, effective communication. According to PwC's risk survey, enhancing cross-departmental communication is the primary action 73% of organizations are taking to reduce financial reporting risk.[6]

Achieving effective cross-departmental communication represents another opportunity for organizations "to automate more of their key controls, which establishes a proactive/ preventative tone to the internal control environment and supports the mission to simplify and streamline business processes."[7]

Fortunately, there are automated disclosure research and filing tools available that foster this communication. When automatic alerts are created, teams can copy internal auditors on the notifications. This will keep auditors abreast of new regulations in theory and practice, equipping them with sufficient background knowledge to reference when assessing compliance later, saving time and mitigating the risk of non-compliance.

1 Deloitte. CFOs Seek to Improve Finance's Strategic Planning Capabilities. Deloitte CFO - WSJ. 06 Feb. 2013. http://deloitte.wsj.com/cfo/2013/02/06/cfos-seek-to-improve-finances-strategic-planning-capabilities
2 Protiviti. 2012 Sarbanes-Oxley Compliance Survey: Where U.S.-Listed Companies Stand – Reviewing Cost, Time, Effort and Process. 2012. http://www.protiviti.com/soxsurvey p. 3
3 PricewaterhouseCoopers. Risk Assurance Services: Key Survey Findings. PwC 2012. http://www.pwc.com/us/en/riskassurance-services/key-survey-results.jhtml
4 PricewaterhouseCoopers. Risk Assurance Services: Key Survey Findings. PwC 2012. http://www.pwc.com/us/en/riskassurance-services/key-survey-results.jhtml
5 PricewaterhouseCoopers. Risk Assurance Services: Key Survey Findings. PwC 2012. http://www.pwc.com/us/en/riskassurance-services/key-survey-results.jhtm
6 PricewaterhouseCoopers. Risk Assurance Services: Key Survey Findings. PwC 2012. http://www.pwc.com/us/en/riskassurance-services/key-survey-results.jhtml
7 Protiviti. 2012 Sarbanes-Oxley Compliance Survey: Where U.S.-Listed Companies Stand – Reviewing Cost, Time, Effort and Process. 2012. http://www.protiviti.com/soxsurvey p. 4

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