Corporate Governance
The role of document management and imaging systems

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Background

Compliance with the welter of corporate governance regulations now coming into force represents one of the most pressing tasks faced by businesses today. And while many of the new regulations specifying greater governance over accounting practices are being originated in the US it is only a question of time before these new requirements become international standards.

In fact, the drive towards more harmonised governance regulations has already become internationalised. A classic example is the Basel II Accord for the financial services sector, with such institutions within OECD countries needing to comply with its specifications for credit and operational risk management within the 2006-2007 time period.

In addition to Basel II we also need to consider the Sarbanes-Oxley Act in the US that came into force in 2002. The aim of Sarbanes-Oxley is to beef up auditing, quality control, ethics and independence factors, along with additional standards relating to audit reporting.

This tough legislation follows the false accounting scandals at Enron and WorldCom in recent years. Yet high ranking CEOs such as Scott McNealy at Sun Microsystems have made statements to the press that Sarbanes-Oxley is too big a stick to wield against the business community and is too intrusive. Yet such governance enforcement will not go away despite criticism even from the highest quarters.

While Sarbanes-Oxley is so far only law in the US, it applies to American subsidiaries overseas and will no doubt be mirrored by comparably tough legislation among other nations in the not too distant future. The Higgs and Turnbull reports both point the way.

Somewhat less publicised regulations are also emerging in the broader international context. One of these is the IFRS, or International Financial Reporting Standards, which UK companies must comply with in 2005. There will be severe penalties for failure to report accounts that are not IFRS compliant. And the IFRS code goes a lot further than the earlier GAAP, or generally accepted accounting principles standard, which sets out the nature of accounting principles within a particular jurisdiction. And one important aspect here is the quality and type of IT required to enable the highest level of governance to be practised.

The Three Pillars of Basel

Basel II is based on three fundamental 'pillars'. The first pillar takes in the need to allocate capital to deal with the credit and operational risks mentioned above, with a revamped method of basis for measuring such risk. This framework extends way beyond the original Basel Accord released in the late 1980s.

The second Basel II pillar relates to corporate governance and what controls are in place to ensure adequate capital is available to cover factors such as probability of default, loss given default, and exposure at default, along with related assessments. And the third pillar of Basel covers compulsory disclosure to ensure and reveal correct practices are taking place.

According to Experian-Storex the evolution of risk management systems is a vital step if banks want to measure true risk when it comes to investment strategies and related decisions. Greater accuracy, as demanded under Basel II, opens the way for banks to make use of an advanced internal ratings based approach, rather than having these imposed from a regulatory standpoint.

If such levels of risk management are achieved then the level of funds held in reserve could be reduced. Another benefit stemming from this practice is that banks will have more funds liberated for investment purposes, as assets held by a bank will be exposed to lower levels of risk.

Documents hold the key

All businesses operate with IT as a fundamental aspect of their strategy. Yet specialised systems are needed to ensure that risk management is adhered to at all times. Clearly risk analysis processes are vital to monitor how credit and loss are managed. Business intelligence linked to online transaction processing systems is essential for banks to manage their business activities. Even so, more specialised software will be required to underpin the analysis of documentation relating to risk management.

This is where information management (IM) systems are essential to guarantee that documents and other sources of information get processed correctly and are made easily available to managers and other key decision-makers.

Yet there are many different types of IM systems and making the right choice will go a long way to determining how agile and accurate an organisation becomes in meeting the demands of compliance. Ifincorrect or incomplete information is stored or indeed retrieved, then the IM system could easily become a cause of failure to comply with the stated regulations.

Compliance with new corporate governance regulations such as Basel II and Sarbanes-Oxley necessitates the implementation of sophisticated IM systems which not only aid compliance but also increase productivity.

A fundamental requirement is for document management solutions that integrate well with crucial enterprise level accounting systems and ERP installations. This is the foundation for using document management technology to achieve the highest level of regulatory compliance. Typically such systems automatically and invisibly archive all outgoing business documents, whilst automatically scanning all incoming business documents.

Getting the management of documents right means that key corporate information is permanently preserved. This is a major enabler for compliance.

Reliance on paper-based documents is replaced by the generation of digital images that cannot be altered, shredded or ‘lost’. Organisations can obtain a document infrastructure based on a repository that persists for all time.

Access to mission-critical documentation will be based on strict levels of authorisation. This all makes document management a vital tool for enabling compliance with governance and public reporting requirements, particularly when integrated into systems that maintain audit trails of associated business processes such as supplier invoice approval.

There are other benefits too. As well as removing printing and paper processes, organisations can achieve ROI on their document management investment within as little as six months. Expensive office space gets freed up as the volume of paper held is radically reduced.

Research from the Computing Suppliers Federation, a not-for-profit trade association, confirms the argument that selecting the correct IM system provides major advantages beyond the compliance imperative. Valerie Cumming, managing director at the CSF stresses such a viewpoint.

"Companies are quite rightly considering the implication of current legislation in order to avoid the serious repercussions of non-compliance. However, it is imperative that a full range of IM needs is taken into account. Introducing an unsuitable system can, ironically, make companies more susceptible to the legal threats that they set out to avoid," she says.

From the CSF point of view, organisations can also in danger of spending significant time and money to rectify decisions made with inadequate or inaccurate information, adds Cumming.

Legal obligations was the most cited reason for introducing an IM system, according to the CSF research. Better decision-making and facilitating different roles within the business also came high up the list of advantages from adopting an IM system. Compliance may be a burden, but selecting the right way to handle information and documents will ease the strain.