



How to unlock the power of your compliance monitoring and testing program

Three cost-effective keys to efficiently balancing risk



2024

[kpmg.com](https://www.kpmg.com)

Organizations are now confronted with greater regulatory pressures than ever from state, federal, and even international bodies. At the same time, business and economic realities challenge companies with the delicate balance of trimming or even cutting operating costs.

To address these increasingly burdensome and sometimes conflicting regulatory requirements, companies are turning to data and analytics (D&A) and emerging technologies, including generative artificial intelligence (GenAI), as the foundation of their compliance monitoring and testing programs.

KPMG polled chief compliance officers (CCOs) to understand how leaders take advantage of these innovative technologies to both unlock the potential of and strengthen their compliance monitoring and testing programs. Takeaways from our [2023 Chief Compliance Officer Survey](#) can help organizations develop a balanced testing framework.

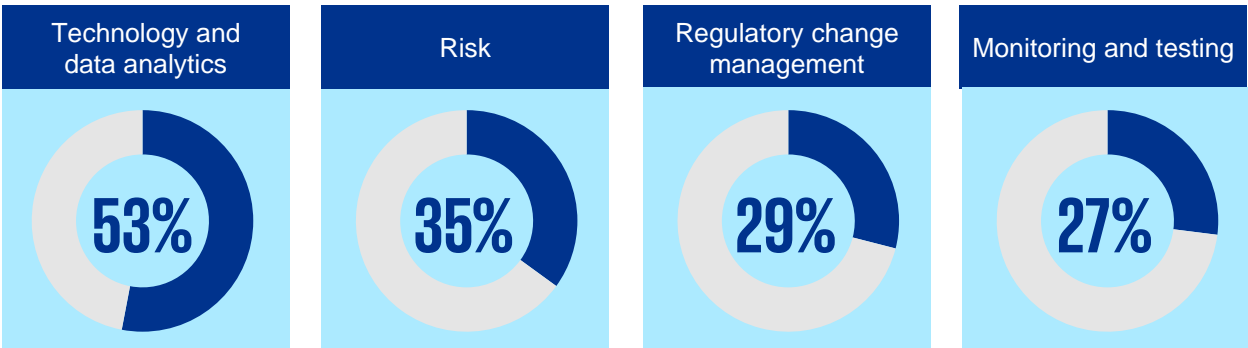
Time for a new approach to compliance

In an era of heightened regulatory requirements and increasing competition, organizations must optimize their monitoring programs to ensure real-time compliance and risk management. The following three-step process forms the framework of a logical testing and monitoring program that enhances your compliance programs, allocates resources more effectively, and mitigates risks while navigating a rapidly changing business environment.

- Step 1: Establish a framework:**
This involves automating and consolidating an organization’s testing, monitoring, data analysis, and surveillance activities through consistent standards, policies, and reporting.
- Step 2: Master the data:**
The availability and reliability of data play a critical role in measuring the effectiveness of compliance programs. Compliance leaders need to collaborate with IT and other key stakeholders to develop a better understanding of infrastructure.
- Step 3: Unlock the potential of data analysis and automation:**
D&A and automation help allocate resources more effectively, target higher-risk areas for mitigation, and streamline the costs and time spent on monitoring and issue management.

Room for improvement

Our survey found that the following ethics and compliance areas were most in need of attention:



Source: KPMG 2023 Chief Compliance Officer Survey

Let's take a closer look at these three key steps.



1: Establishing a balanced testing and monitoring framework

It's important that an organization's testing and monitoring programs are appropriately balanced to demonstrate a comprehensive understanding of compliance risk areas. Optimizing the testing framework is critical to mitigating risk, safeguarding assets, and ensuring financial stability. This, in part, involves automating and consolidating testing, monitoring, data analysis, and surveillance activities through consistent standards, policies, and reporting.

Different areas require different levels of testing, monitoring, and surveillance. For example:

- E-communications may require *heightened* surveillance and monitoring.
- The employee ethics hotline may only require surveillance or monitoring.
- Third-party risk management monitoring for antibribery and anticorruption may only require *periodic* compliance testing.

The specific strategies an organization deploys should be tied to and driven by a thorough risk assessment process.

It's important to keep in mind that the greater the number of testing and monitoring programs an organization maintains, the greater the likelihood of potential inefficiencies. That's why companies are increasingly looking to both automate and consolidate testing, monitoring, D&A, and surveillance activities.

Below are three practices compliance leaders take to better balance their testing and monitoring frameworks.

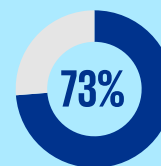
- **Clarify responsibilities between frontline units and compliance:**

Compliance leaders not only need to understand skill deficiencies within their own department, but they must also identify areas in which they're relying on the frontline units. This includes challenging front-line units to acquire the tools, skills, or capacity to properly own and manage risks. Understanding the different responsibilities of frontline units and compliance helps allocate resources (e.g., tools and talent) efficiently and avoid duplicative efforts when it comes to testing and monitoring.

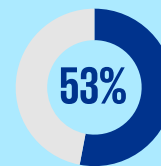
Frontline units require strong knowledge of business products and services along with the ability to test, monitor, and mitigate the organization's compliance risks. Compliance units, on the other hand, require complementary skills as well as a deep understanding of relevant regulations, internal policies, and standards, plus the ability to assess risks across products and processes.

The reality is that frontline units in most organizations typically take a back seat to compliance when it comes to managing risk. So, rather than simply supporting, monitoring, and overseeing the frontline units' risk management activities, compliance ends up primarily responsible for risk mitigation.

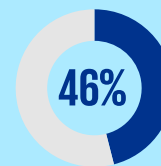
Tougher regulations' top list of concerns



of CCOs expect regulatory expectations to rise going forward.



identified technology and D&A as the top ethics and compliance activities to enhance.



believe that D&A modeling for compliance monitoring will be the biggest challenge in the next two years.

Source: KPMG 2023 Chief Compliance Officer Survey

- **Best practice:**

Compliance leaders should perform a skills assessment within their functions and use the results to:

- Identify upskilling opportunities
- Develop talent management plans so compliance can do its job more efficiently and effectively.

- **Balance control and substantive testing:**

Control testing helps identify inefficiencies and potential weaknesses or failures within an organization while identifying opportunities for process improvements. Substantive testing, on the other hand, is a comprehensive assessment designed to uncover small details of individual transactions (e.g., execution errors, incomplete supporting documentation, inadequate disclosure information, etc.) that may have otherwise gone unnoticed. By validating detailed records against risks, an organization can detect areas of noncompliance and effectively take corrective action.

Why is there the need to take advantage of and balance the two types of testing? If an organization relies too heavily on substantive testing, it may miss control weaknesses that could lead to errors or fraudulent activities. Conversely, if an organization relies too much on control testing, it may overlook execution errors that fall outside of outlined processes and controls.

The correct balance between substantive and control testing is essential to accurately assessing risks and implementing effective controls to mitigate them.

- **Leverage technology:**

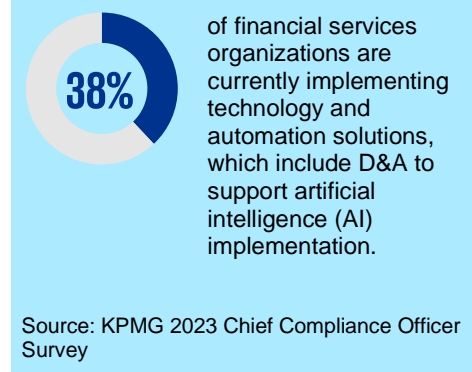
Integrating automation—including D&A and AI—into the testing and monitoring process offers significant benefits, such as cost savings, improved efficiency, and increased accuracy.

Automation and other innovative technologies enable organizations to test in real time without the need for manual processing. These technologies can be integrated into substantive testing activities, allowing organizations to test across full populations rather than just samples. This increases effectiveness while saving time and money.

Thorough substantive testing provides organizations with increased flexibility and the ability to adjust plans as needed. In turn, compliance teams can prioritize areas of concern and allocate resources accordingly, thereby increasing the efficiency of the entire testing program.

While leveraging automation and technology streamlines the substantive testing process, compliance technology is not yet at a point where manual testing can be eliminated entirely. The primary reasons for this include:

- **Obstacles in adoption and implementation.** Implementing compliance technology is often restricted by up-front costs, lack of in-house expertise, and compatibility issues with legacy systems. Even after automation and compliance technology are implemented, making them function as desired often requires *additional* technology, technical skills, and the ability to identify complex situations or unique outputs and translate them into algorithms.



- **Data quality and availability.** The effectiveness of automated testing and monitoring is dependent on the quality and completeness of the underlying data. If the data is incomplete, inconsistent, or inaccurate, testing and monitoring results may not provide accurate results.
- **Risks with new technology.** Emerging technologies, including GenAI, pose significant risks, such as yielding inaccurate and/or biased results. As the technology used in monitoring and testing becomes more sophisticated, the technology used to *manage* the inherent risks introduced by these new technologies must keep up.
- **Best practice:**

Although the potential obstacles posed by technological integration may seem daunting, the potential benefits certainly make it worth exploring. The increased efficiency and effectiveness gained through automation typically far outweigh the challenges. Compliance leaders should be encouraged by the number of organizations that have successfully adapted these technologies and compliance frameworks in recent years.



Step 2: Mastering the data

The availability and reliability of data play a crucial role in measuring the effectiveness of compliance programs. However, many compliance leaders face significant challenges in gathering reliable data from various sources within an organization.

The KPMG 2023 Chief Compliance Officer Survey identified technology and D&A as the top areas to enhance in the next two years. Not surprisingly, compliance leaders predicted that there would be future budget increases within their organizations to focus on D&A, process automation, and AI.

The survey found several common challenges surrounding the availability of data:

- Data may be of questionable integrity or accuracy.
- Gathering data across the enterprise is often challenging, especially in decentralized organizations where information silos exist.
- Compliance functions often don't have the right people—or enough talent—to support their data-intensive needs.
- Monitoring, testing, and data interpretation are often manual tasks, thereby increasing the risk of human error.
- While regulators have adopted heightened risk and compliance standards—particularly around data quality, governance, risk and controls, and lifecycle management—many organizations have failed to keep up with the new standards.

To mitigate these challenges, compliance leaders should collaborate with IT and other appropriate stakeholders to develop a better understanding of data and infrastructure with regard to monitoring, testing, and D&A activities. By collaborating, IT and compliance stand to benefit from enhanced D&A capabilities that consider risk management and oversight needs. It enables them to make more-informed decisions based on reliable data.



In this way, compliance leaders can help their organizations:

- **Develop a better understanding of data and IT infrastructure:**

This enables the organization, including IT and other cross-functional stakeholders, to better:

- Understand the relevancy of the data sources across various systems and silos
- Analyze and understand the quality of the data
- Identify where pockets of data need to be improved (e.g., based on the value of the data and the potential risks)
- Assess gaps or inconsistencies in data feeds or inputs
- Analyze the root causes of issues or potential issues.

- **Build data skills and resources:**

Significant advances have been made in the technology that can be used for compliance monitoring, testing, and D&A. Accordingly, compliance leaders should advocate for the purchase, development, and use of state-of-the-art automation and D&A capabilities. The greater and more effective the use of automation, the more time compliance will have to focus on their oversight role and conduct monitoring and testing from a risk-based perspective.

- **Focus on strengthening the monitoring and testing framework:**

Compliance leaders should obtain an overview and inventory of the data, technology architecture, and solutions that support compliance. This includes the scope of current D&A capabilities and related business requirements. Together, this information can inform the development and enhancement of the framework.

Enhancements may include innovative and advanced solutions in machine learning, predictive analytics, and even disruptive approaches that challenge the existing framework. This also includes merging technologies, such as GenAI, which holds promising potential for developing a robust, efficient, and comprehensive technology infrastructure.

- **Best practice:**

Consider and review these steps prior to, during, and even after your organization establishes advanced data capabilities. This effort for improvement should be a continuous process as there are always new and potentially better innovations around the bend.



Step 3: Unlocking the potential of data analysis, automation, and technology

By building up intelligence capabilities and incorporating advanced analytics and machine learning, compliance leaders can enhance their risk management programs to:

- Allocate resources more effectively
- Target higher-risk areas for mitigation
- Streamline monitoring and issue management.

These advanced technologies enable compliance leaders to proactively identify misconduct (actual and potential) by aggregating disparate data from their internal investigation systems and operational systems (including transactions and product data), as well as HR and training data. They can then analyze the data and provide a comprehensive overview of potential risks.

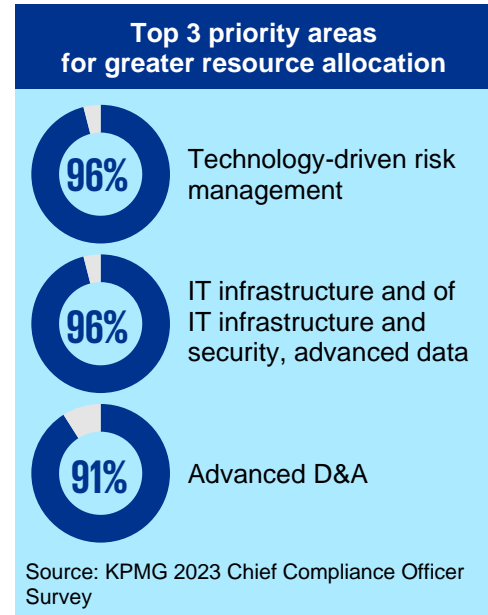
For example, innovative technology enables data aggregation in a variety of ways. The data can be “queried” to better understand employee risk or specific misconduct risks within certain lines of business across jurisdictions.

Aggregating disparate data allows for a deeper and richer analysis. What’s more, the technology can generate visuals of higher-risk areas to target for monitoring, testing, and further analysis. A similar approach can be used for managing third-party risks as well as unfair, deceptive, or abusive acts and practices.

Data aggregation helps to see the big picture of information and avoid missing or underestimating risks. Conversely, aggregating the data can make it easier to connect the dots and discover potential trouble spots.

- **Best practice:**

Compliance leaders must be strategic in incorporating technology into monitoring and testing. The cost to buy or design, implement, and evaluate technology is too high to undertake without a long-term plan. Once a strategy is designed—ideally with the input of key stakeholders in IT and other impacted business areas—start building in intelligence capabilities that continually monitor key performance indicators and key risk indicators to reveal compliance risks.





A matter of priority



Complex regulations aren't going away anytime soon. Smart organizations strive to optimize their monitoring programs for real-time compliance and risk management. Leveraging automation and technology to achieve greater monitoring, testing, and D&A risk coverage is—or certainly will need to be—a priority for many organizations.

Technical solutions require a balanced approach to developing a testing framework and focus on finding the right mix of substantive and control testing. By mastering data and unlocking the potential of automation and emerging technologies, organizations will enhance their compliance programs, allocate resources more effectively, and mitigate risks.



How KPMG can help

KPMG offers a range of services and tools to enhance compliance monitoring, testing, and data analysis. These include regulatory and compliance transformation strategies, intelligent automation, and D&A.

Our strategic technology alliances, extensive resources, and experienced professionals enable our clients to design and implement integrated platforms coupled with AI tools. We facilitate faster, more extensive, and more accurate compliance monitoring, testing, and data analysis. This has the added potential benefit of freeing compliance staff members from repetitive tasks, allowing them to focus on higher-value activities.

Our professionals can assist with the identification, assessment, prioritization, and development of your D&A strategy; selection of appropriate innovative technology; and implementation and maintenance of the strategy. As part of this process, KPMG offers the following services and resources:

- Regulatory and compliance transformation to help organizations enhance compliance integration and automation for a stronger risk management approach
- Intelligent automation that enables organizations to achieve businesswide digital transformation (including within compliance) and leverage emerging technologies
- Innovative intelligent automation technology through our alliance partners, including IBM Watson and Microsoft. This includes open source technology, highly skilled technical resources, and KPMG accelerators to help create value through advanced analytics and machine learning.
- Data analytics that provide a 360-degree view of potential compliance and ethics exposures, allowing holistic evaluations of compliance program effectiveness



Connect with us

For more information on compliance monitoring and testing programs and how we can help design, implement, or enhance your organization's programs, please go to our [website](#) [set link] or contact one of our experienced professionals below:



Todd Semanco

Partner, Financial Services Risk, Regulatory & Compliance

T: 412-232-1601

E: tsemanco@kpmg.com



Hernando Garcia

Director, Financial Services Risk, Regulatory & Compliance

T: 212-954-3287

E: hernandogarcia@kpmg.com



Mike Lamberth

Partner, Financial Services Risk, Regulatory & Compliance

T: 804-241-2795

E: mlamberth@kpmg.com



Learn about us:



[kpmg.com](https://www.kpmg.com)