

Continuous Process Monitoring

Your primary processes  
structurally in control

CPM is a concept designed to detect and follow up on process errors and monitor progress.



Discovering a process has been subject to error along the way is frustrating. Naturally, the familiar maxim that 'penny wise pound foolish' applies equally to life as to work. Now, Continuous Process Monitoring (CPM) is here and offers a method to primary process owners bringing together all the tools needed to help reduce errors.

Any where that a process is dependent on large quantities of data, errors are made - even in the most professional of organisations. Management simply does not have the tools at its disposal to prevent the occurrence of errors, which would require taking process control down to the detailed level. And yet errors can lead to financial damage, certainly where client interests are at stake. In cases where it becomes clear that transactions have been incorrectly processed, tracing an error back to its source, let alone rectifying it, is not always easy. Many organisations factor in such setbacks by including a special provision on the balance sheet. But that hardly solves the problem; after all, it is difficult to improve a process if the problem is not addressed at the source. In addition, reducing the margin of error could actually help to reduce costs.

### Integrated process management

CPM places process control back to operational management, as opposed to the recent trend towards having controls performed by Risk Management and Internal Audit. A key feature of CPM is its fundamental emphasis on integrated process management, where components are operated not independently of each other but in coordination between operational management (a combination of business and IT), Risk Management and Internal Audit. Working together, they can use CPM to detect process errors, follow them up and monitor progress. The pyramid to the right illustrates the breakdown of roles.

### Organizational impact

► Roles and responsibilities within an organization in a CPM context in general:



- Responsible for defining and monitoring internal controls and CPM analysis within processes
- Monitoring day-to-day operations via analysis and exception reporting
- Workflow cycle to optimise exception and root cause analysis within the operational processes

- Support management in defining analysis and workflow process
- Exception management (select exceptions for workflow functionality)
- Translation between CPM and risk management (risk measurement)

- Review outcome CPM process based on exception repository
- Possibility for additional data analysis based on both basic data and exception repository
- Translate outcome of total CPM process performed by management and risk functions into assurance on company level

### CPM in practice

CPM uses analyses similar to those carried out on a periodic basis by Internal Audit and Risk Management, but different to that these analyses are aimed at the primary process, and can now be facilitated by the latest technology. Known incidents form the basis for defining a set of business rules that fix maximum and minimum values of tolerance, thereby also defining what is considered to be an exception. The CPM process consists of three steps.

**1. Diagnosis:** Manual checks - and the typically false sense of security they provide - are a thing of the past. CPM flags exceptions early on in the process, immediately after the transaction entry.



**2. Follow-up:** The identified exception is reported to the process owner, where a staff member will follow up and assess whether that exception is in fact an error and takes the necessary steps at the source to resolve it, backed by a comprehensive facilitatory system.

**3. Safeguard:** Based on the sequence of exceptions, Risk Management can now refocus existing business rules at strategic level and define new analyses. Risk weights can furthermore be assigned to exceptions such that the entire range of possible faults can be sequenced for action based on priority. The learning effect of this method results in a structural reduction in the number of process errors and real management of primary process risks.

#### **An example of the CPM application**

A large Dutch financial institution wanted to improve its disbursement process in connection to its integration of a shared service centre. An integration is the kind of process subject to internally diverging and incomplete data registration and the resulting potential for double payments or fraud. In the past, Internal Audit or Risk Management would hand over a catalogue of errors twice yearly for each part of the financial institution's disbursements. While some errors could be rectified, for most it was too late. After implementing CPM, the institution was able to gain control over operational risks arising from the day-to-day processing of large volumes of records. Now the institution has the requisite experience of working with CPM, management can state with assurance that all outgoing payments are correct, timely and complete, adding that the investment needed was minor relative to the ultimate savings.

#### **Why implement CPM?**

Implementing CPM can make sense even at organisations not hampered by major faults, since it provides assurance that processes are running (relatively) free of error. Generally speaking, CPM is a relevant solution when working with large quantities of data, as in the case of financial institutions and organisations in the telecom and energy sectors, or in such areas as pensions and life insurance, which are subject to additional government requirements as regards the quality of transactions processing and data. CPM can

also prove exceptionally useful under special circumstances such as the integration of or conversion between different systems.

#### **What Ernst & Young can do for your organisation**

Ernst & Young can advise you in the implementation of CPM. After diagnosing the current situation, which includes an impact analysis, we explain prospective benefits and investments. We familiarise the relevant departments within your organisation with CPM using a working prototype. This prototype is used solely for instructional purposes, as the organisation is expected to take responsibility for building its own IT infrastructure itself, with Ernst & Young providing necessary support. We also provide the subsequent insight needed to define relevant business rules for detecting exceptions. Given CPM's excellent scalability, these can vary from relatively basic to highly advanced. Our specially designed workshops serve to familiarise all stakeholders with the CPM solution, thereby guiding your organisation to a point where it can successfully implement the tool on its own and be 'in control'.

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