

## TECHNOLOGY ASSESSMENT

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### Vendor Viewpoint: ACL Services Ltd.

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#### IDC OPINION

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Executives recognize that compliance management demands increased attention and strategic investment in critical business processes, especially internal controls. But manually documenting and testing internal controls to support mounting regulatory requirements, improved operational efficiencies and corporate governance initiatives can be time consuming and expensive. Moreover, the growing volume of transactions spread across disparate software applications compounds the problem. To gauge the effectiveness of their internal controls, organizations need technology that can test financial transactions across the enterprise and flag anomalies for follow-up before problems escalate.

ACL Services is addressing this challenge with its audit analytics and Continuous Controls Monitoring (CCM) suite of software products. The company's 19 years of experience in audit analytics technology have provided it with insight into the ongoing compliance and business assurance needs of its customers. These insights into customer concerns have helped ACL deliver valuable software applications that enable efficient data extraction, analysis and continuous monitoring of operational, regulatory and financial information/transactions to uncover unforeseen risks, potential control breaches and operational improvements.

As companies look to streamline their approach towards regulatory compliance, operational efficiency and good governance, IDC believes vendors such as ACL who provide proactive, ongoing risk and compliance monitoring solutions will be well received by enterprise and government organizations.

While ACL has an established customer base and valuable relationships in the data analytics software market, the company is now aggressively pursuing implementation partners in the compliance space to help with the expansion of its CCM applications. With an increasing number of large companies looking for total solutions from a single vendor, IDC believes leveraging relationships with implementation partners and other brokers will be an effective way for ACL to increase the visibility of its CCM suite of products.

Although IDC believes more companies will begin to view compliance as an ongoing process, ACL has found that some conservatism still exists today. While many organizations understand the importance of adopting software solutions to continuously monitor controls, there are some that are struggling to find the right technology that allows them to give up manual testing processes, spreadsheets and periodic analyses using sampling techniques. ACL will need to help customers understand the importance of managing and measuring compliance as a continuous process and not as a periodic activity.

## IN THIS STUDY

In this study, sponsored by ACL Services Ltd., IDC provides insight into ACL's audit analytics and continuous controls monitoring solutions. IDC studies the capabilities and applications of ACL's technology, the size and trends of the market they are addressing, as well as their challenges and opportunities for growth. All currency figures appearing in this document are in U.S. dollars (US\$) unless otherwise stated.

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### Executive Summary

Vancouver-based ACL Services Ltd. provides enterprise and government organizations worldwide with audit and business assurance analytics software for transactional monitoring and controls assurance. Business assurance analytics is defined by IDC as applications that support detailed, real-time analytics driven by defined business rules to perform proactive analysis at the transactional level to identify compliance and business risk. These solutions provide a transactional view of exceptions based upon prescribed business control processes.

ACL's audit tools and financial transaction monitoring solutions address the market for financial compliance management applications (see Definitions, page 8). This market is forecast to increase at a Compound Average Growth Rate (CAGR) of 17% over the forecast period to almost \$2 billion in 2009. Solutions in these markets provide a proactive approach to identifying potential control breaches and meeting regulatory requirements (*Worldwide Financial Compliance Applications 2005-2009 Forecast*, IDC # 33069).

IDC believes that in the short-term, many companies will invest in business assurance analytics solutions to audit transactions, identify fraud, misuse, or errors and to support evidence gathering to complement compliance management processes and internal control assessments. Companies will then extend those investments into broader enterprise risk management strategies over the long-term.

Unlike newcomers who are entering this market, ACL's well established customer base and partnerships from its experience in the audit analytics market will help the company grow the visibility of its CCM solution worldwide. ACL has established client relationships with large companies including Global and Fortune 1000 companies, a group of customers who are increasingly faced with regulatory and cost control challenges and have the resources and often the will to try innovative solutions. According to a study by IDC in November 2005 of the Fortune 1000 and Global 500 executives, the top trend impacting 18% of companies is "increasingly complex regulatory requirements" (*Global 500 and Fortune 1000 Companies' IT Budget Indicators Survey*, IDC # 201285). The study also found that the leading reason for investing in Information Technology (IT) is "reducing operational costs". As large companies look for solutions that address these challenges, vendors such as ACL will be well positioned to gain their business, provided they can clearly differentiate themselves from the alternatives.

## SITUATION OVERVIEW

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### **Technology Description**

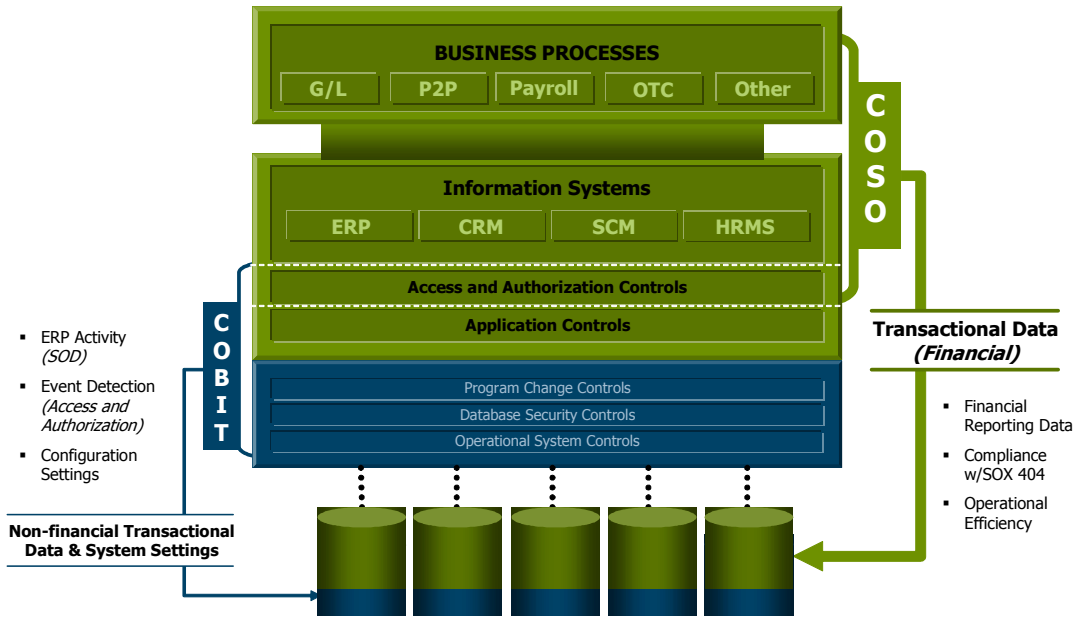
Testing and monitoring the integrity of transactions across the enterprise is becoming more complex as companies are under pressure to support new and changing regulatory requirements, a stronger internal controls environment and good governance practices. Even those companies that have strong controls in place are looking for ways to reduce costs by finding exceptions within their transaction processes without contracting the service to outside firms. Although bundled software applications provide some analysis functions, the information often needs to be manually consolidated to detect potential risks in various transactions. This is due to the disparate nature of the source data, the audit knowledge required to interpret that data, and the limited volume of transactions these products can analyze. Furthermore, point-in-time analyses do not provide the proactive visibility to ensure continual operational excellence. Companies are recognizing the need for a centralized, easy-to-use solution that views compliance as a continuous process of monitoring business activity, not a periodic endeavor.

ACL is addressing this need with its audit analytics and financial transaction monitoring software. ACL delivers its solutions to audit professionals and financial executives worldwide to assure controls compliance, fraud and anomaly detection, as well as overall business process improvement. After 19 years of providing audit and data analysis software to improve data reliability, accuracy and integrity, ACL has developed deep insights into the ongoing compliance and business assurance needs of its customers. ACL has leveraged this experience to offer a suite of Continuous Controls Monitoring (CCM) solutions for business process owners, launched in 2004.

As opposed to ERP-specific solutions, ACL differentiates itself by testing financial transactions within end-to-end business processes and independently testing transactions across systems, including ERP, mainframe systems and custom-built or legacy applications, at the source level (see Figure 1). ACL's technology applies automated, pre-defined analytics to process control points, mapped to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework (see Definitions, page 8). The solution allows business process owners to investigate transactions by reporting - as often as required - exceptions and anomalies and their associated monetary exposure.

**FIGURE 1**

Transactional Monitoring for Controls Assurance



Source: ACL Services Ltd., 2006

**Audit Analytics Solution** - Audit executives, fraud examiners and compliance professionals incorporate ACL's audit analytics technology within their audit processes to reduce costs, and support compliance regulations. The software is available in eight languages and provides:

- ☑ A single view of data across multiple systems, business units and subsidiaries
- ☑ Direct access to data sources and reduced audit reliance on IT departments
- ☑ Ability to automate analytical tasks to run on demand
- ☑ Summary reports of audit findings and integration with existing reporting tools
- ☑ A complete audit trail for peer review which forms a credible body of evidence for attestation purposes

The ACL audit analytics suite includes a Desktop/Network edition, server editions for mainframe, midrange, Unix, Linux and Windows environments, and *Direct Link* to access mySAP™ ERP data. The server editions use the processing capacity of the server to query data housed in Oracle, DB2, SQL, and IMS databases.

**Continuous Controls Monitoring Solutions** - A pre-packaged solution that enables financial managers and business process owners to continuously test the integrity of transactions and address controls exposure within core business areas such as the purchase-to-payment cycle, payroll, travel and entertainment expenses, purchasing card programs, the order-to-cash cycle and the general ledger. The solution provides notification of control breakdowns and allows users to examine specific exceptions and transactions to resolve problems before they escalate. Available in five languages, CCM is designed to provide support for compliance to regulations such as Sarbanes-Oxley 404, as well as performance optimization by automating internal

controls testing and identifying opportunities to contain costs, minimize losses and improve revenue collections.

In summary, the two key value propositions provided by ACL Services are:

1. Audit analytic solutions enable efficient analysis of all data, regardless of the source, thereby reducing audit cycle times and assuring controls compliance.
2. CCM software allows management to determine whether key internal controls are working effectively by independently analyzing financial transaction data, thereby improving business performance and supporting compliance.

ACL has over 170,000 licensed users in 130 countries, including 64% of Global 500 companies, 71% of Fortune 500 companies, 92% of Fortune 100 companies and the four major auditing firms (Deloitte & Touche LLP, KPMG, PricewaterhouseCoopers and Ernst & Young). Additionally, many governments, federal, state and local, are standardized on ACL's offerings for their own internal use. One of ACL's customers, TELUS Communications Inc., has seen significant results since it implemented ACL's CCM solution. According to the Director of Operational Excellence at TELUS, "[ACL's] solution resulted in the identification of duplicate payments which are five times the total cost of implementing the software."

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## MARKET OPPORTUNITY

ACL's audit analytics and continuous controls monitoring tools address the \$1.1 billion market for financial compliance management applications (see Table 1). The market is forecast to increase at a CAGR of 17% over the forecast period to almost \$2 billion in 2009. ACL's technology specifically targets the compliance and business assurance analytics sub-markets, valued at \$406.3 million and \$314.4 million respectively in 2005. Solutions in these markets provide a proactive approach to identifying potential control breaches and meeting regulatory requirements (*Worldwide Financial Compliance Applications 2005-2009 Forecast*, IDC # 33069). In the short-term, IDC believes many companies will invest in solutions to solve immediate internal control compliance management challenges, and then extend those investments into broader enterprise risk management strategies over the long-term. Organizations will also invest in business assurance analytics to audit transactions and identify fraud, misuse, or errors and to support evidence gathering to complement compliance management processes and internal control assessments. Overall, ACL's solutions fall within the Financial Compliance Management market, but specifically deliver on business assurance analytics needs.

**TABLE 1**

Worldwide Financial Compliance Management Applications Revenue, (\$M)

	2005	2009	2005-2009 CAGR %
Financial Reporting and Analysis	392.5	630.7	12.6
Compliance Management Solutions	406.3	860.7	20.6
Business Assurance Analytics	314.4	607.2	17.9
Total	1,113.1	2,098.6	17.2

Source: *Worldwide Financial Compliance Applications 2005-2009 Forecast*, IDC # 33069.

Regulatory requirements are driving investment in Financial Compliance Applications worldwide. According to a study by IDC in November 2005 of the Fortune 1000 and Global 500 executives, the top trend impacting 18% of companies is "increasingly complex regulatory requirements" (*Global 500 and Fortune 1000 Companies' IT Budget Indicators Survey*, IDC # 201285). Regulatory requirements are the leading trend impacting companies across North America and the second leading trend in Western Europe. While Sarbanes-Oxley is driving investments in financial compliance solutions in the United States, regulatory compliance requirements such as the International Financial Reporting Standards (IFRS) are forcing organizations in Europe and worldwide to adopt transparent reporting and documentation practices. As requirements become more prescriptive and more companies seek to adopt a corporate governance mindset, vendors will have ample opportunity to expand their solutions to large customers worldwide.

IDC's study also found that the leading reason large companies are investing in IT is to "reduce operational costs". As large companies look for solutions to address their operational cost challenges, vendors who can help them contain costs and minimize losses by identifying duplicate, late or incorrect payments, as well as improve revenue collection, will be well positioned to gain their business.

## FUTURE OUTLOOK

Historically, risk and compliance management initiatives have been fragmented throughout the organization, resulting in duplication and inconsistency. With no clear view or control over the company's operational, regulatory and financial controls, companies cannot provide the level of transparency demanded by new and changing compliance requirements. Furthermore, it is difficult to reap the business benefits of compliance spending in such an environment. Financial transactions need to be monitored continuously to not only detect, but also prevent fraud, unnecessary costs and potential control breaches. According to a recent IDC survey, 90% of organizations plan to merge internal control monitoring and assessment into day-to-day operations. The next level of COSO will also require organizations to expand their internal controls assessment solutions to include more sophisticated enterprise-wide risk management solutions. These developments will drive further investment in

solutions that have the flexibility and capacity to grow with the organization as new regulations emerge and existing ones change.

Proactive private companies are also beginning to use Sarbanes-Oxley as a guide to build stronger internal corporate governance and risk management practices. These companies will be looking to implement solutions such as business assurance analytics within their organizations and support further adoption of continuous monitoring of critical business processes.

## **Opportunities**

ACL has been providing audit analytics technology for approximately 19 years to audit professionals and financial executives. Over this time, it has developed valuable relationships with clients and partners, and demonstrated its capabilities in the market. Many of these customers are large Fortune and Global 500 companies, a group of customers who have resources to invest in new technologies and are often willing to try innovative solutions. ACL will continue to leverage its credibility to up-sell these clients who already value the company's audit solutions and to obtain testimonials to attract new clients for its CCM suite.

ACL is also aggressively pursuing implementation partners in the compliance market to help with the expansion of its CCM solution. With an increasing number of large companies looking for total solutions from a single vendor, IDC believes leveraging relationships with implementation partners and other brokers will be an effective way for ACL to increase the visibility of its CCM suite of products. ACL has also expanded CCM relevance globally by localizing its products into four additional languages including Spanish, French, Portuguese, and German.

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## **Challenges**

While organizations understand the importance of adopting software solutions to continuously monitor controls, they are struggling to differentiate between systems controls monitoring and financial transaction monitoring. While the former is important, the latter can provide the assurance that those controls are actually working. Choosing the right technology will allow them to reduce manual testing processes, spreadsheets and periodic analyses using sampling techniques. ACL will need to help new customers understand the importance of managing and measuring the integrity of their operations, for compliance as well as improved business performance, as a continuous process and not as a periodic activity.

ACL will also need to help customers distinguish between the different offerings in the market. With many newcomers in the compliance technology space, some customers are finding it difficult to identify the best compliance solution for their company. As ACL introduces its CCM solution worldwide, working closely with its channel network and field presence to clearly communicate its strengths will be important to position itself for success among the competition.

## VENDOR DETAILS

### **ACL Headquarters:**

ACL Services Ltd.  
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### **ACL EMEA Office:**

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**Current Number of Employees:** 196

### **Officers:**

- Harald Will, President & CEO
- Robert Fuller, Vice President, Development
- Heather McKay, Vice President, Human Resources
- Tony Murphy, Vice President, Worldwide Sales
- Blair Simonite, Vice President, Finance & Operations
- John Verver, Vice President, Professional Services Group

**Revenue** - ACL is a privately held company and does not report revenues.

**Distribution** - About 65% of ACL's products and services are sold direct in North America. The remaining 35% are sold direct in parts of Europe and through channel partners worldwide.

**Partnerships and Alliances** - In addition to its many channel partners, ACL has developed implementation and technology partnerships and alliances with the following companies:

*Implementation partners* - Control Solutions International and Hudson Financial

*Implementation alliances* - Deloitte & Touche LLP

*Technology partners* - SAP, Concur Technologies, Inc., OpenPages and Paisley Consulting



**Association Alliances - Within the Audit Community:**

- ☒ The Institute of Internal Auditors (IIA)
- ☒ The Association of College and University Auditors (ACUA)
- ☒ The Association of Healthcare Internal Auditors (AHIA)
- ☒ The National Association of Local Government Auditors (NALGA)
- ☒ America's SAP User Group (ASUG)

**LEARN MORE**

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**Related Research**

*Know Thy Customer: IT Priorities and Business Challenges of the G500/F1000*, IDC Telebriefing, May 11, 2006

*Global 500 and Fortune 1000 Companies' IT Budget Indicators Survey*, April 2006, IDC # 201285

*Worldwide Analytic Solutions Software 2005-2009 Forecast: Build or Buy*, December 2005, IDC # 34511

*ACL's Acquisition of Black Pearl: Powering Business Assurance Analytics*, March 2005, IDC # 33103

*Worldwide Financial Compliance Applications 2005-2009 Forecast*, March 2005, IDC # 33069

COSO, Source: <http://www.coso.org/key.htm>

**DEFINITIONS**

**Committee of Sponsoring Organizations of the Treadway Commission (COSO) -** COSO has established a common definition of internal controls, standards, and criteria against which companies and organizations can assess their control systems.

**International Financial Reporting Standards (IFRS) -** A set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements established by the International Accounting Standards Board (IASB).

**Financial Compliance Management -** Includes three sub-categories:

- ☒ **Financial reporting and analysis** is defined as the applications that support the preparation, analysis and filing of statutory financial reports.
- ☒ **Compliance management applications** are defined as both build and buy applications supporting the process automation and documentation requirements of emerging legislation that requires enterprise-wide assessment and certification of business and internal controls as well as enterprise risk.
- ☒ **Business assurance analytics** refers to applications that support detailed, real-time analytics driven by defined business rules to perform proactive analysis at

the transactional level to identify compliance and business risk. Provides a transactional view of exceptions based upon prescribed business control processes.

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