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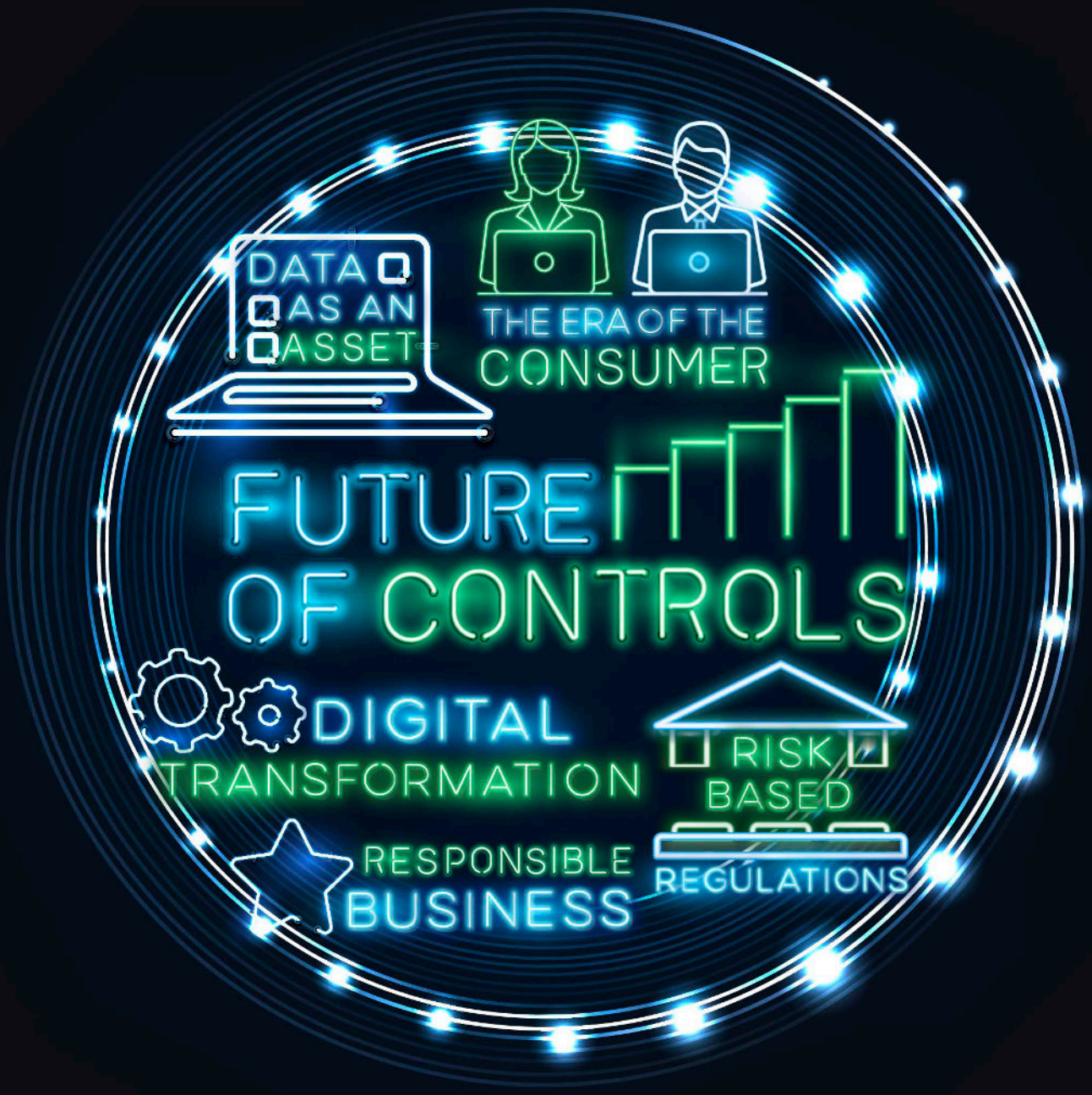

Future of Controls

A bold and positive vision

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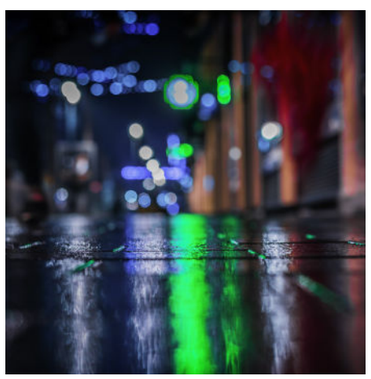

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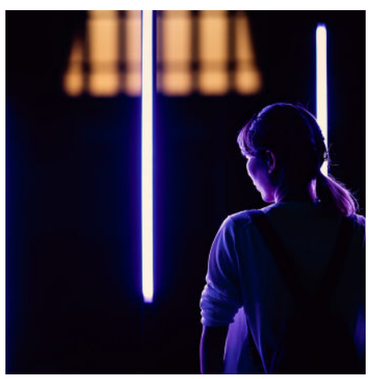

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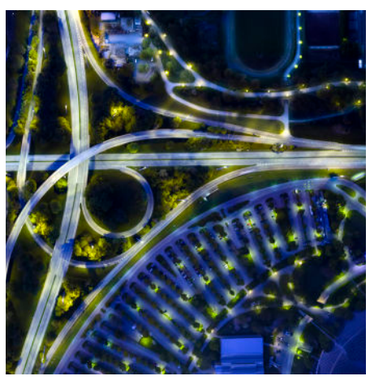

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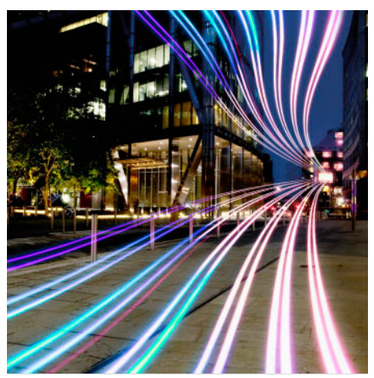


A TYPICAL FUTURE OF CONTROLS JOURNEY

Your Future of Controls journey begins now

In business, nothing happens without risk. The problem is that the risk landscape is in a constant state of flux, making it a moving target for controls efforts. Consequently, addressing risk is never a "one-and-done" job. In fact, it requires constant vigilance to keep organizations safe as they strive to drive value. Existing controls environments are not equipped to respond to the agile landscape they operate in—they are rigid, reactive, and inefficient. Though absolute preparedness is not necessarily possible, to attain or maintain inaction is certainly not a viable alternative.

Global organizations require a bold and positive Future of Controls (FoC) vision to make controls more effective and efficient while also adding value—a true win-win scenario. In taking cues from Deloitte's industry and regional leaders, we have developed a strategic vision and road map for FoC that provides an opportunity to rethink what controls can and should be, both for today and tomorrow. These lessons are informed by industry trends that have assisted us in identifying key levers to help organizations achieve their FoC vision.

Understanding and applying these levers can not only be instructive to the process but can also help organizations create a structured approach to their FoC journey through top-level thinking, key practices, and expected solutions.

While all this content is instructive, moving it to the tactical realm can be challenging for businesses. A little knowledge can go a long way toward overcoming the initial hurdles. This report takes the next step, providing the leading practices and guidance to help make the bold moves required to advance to the next generation of controls.

THREE KEY LEVERS

Reconstructing the internal controls framework – adopting a data-driven approach to ensure risk alignment and a true integration between risk and controls, ultimately resulting in value creation

Designing the next generation controls operating model – using technology, capability, culture, and incentives to embed ownership and accountability within the front line, while integrating the second line

Establishing the controls technology ecosystem – deploying next-generation technologies (e.g., automation/artificial intelligence (AI)) to drive foresight and insights from controls, and moving away from the existing hindsight approach

Future of Controls | Challenges and trends

Challenges and trends influencing the Future of Controls

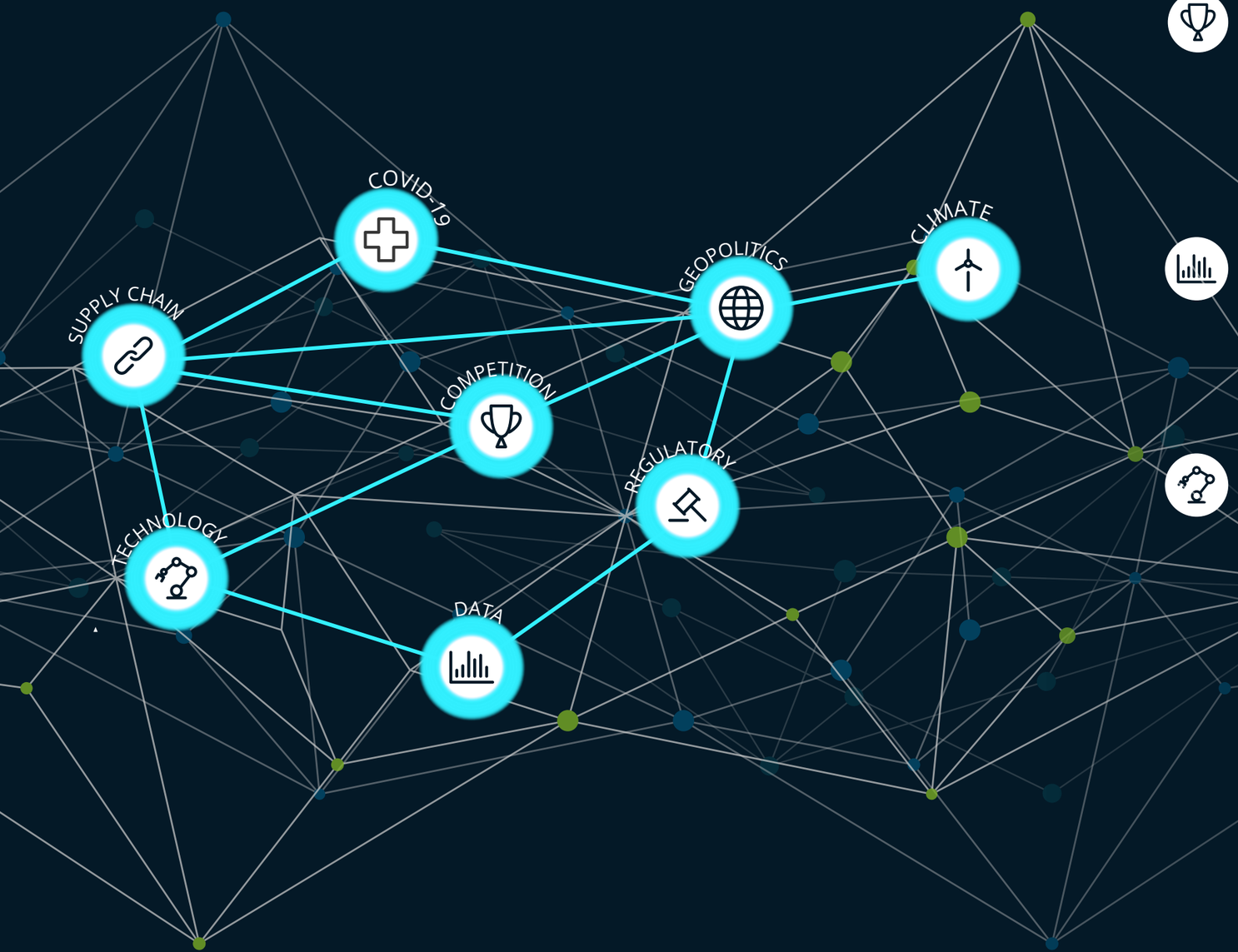
Now more than ever, organizations are operating in a world of unknowns. Understanding the challenges and leveraging the trends can help businesses navigate through these uncertainties, and transform them into opportunities for growth and success.

Future of Controls | Challenges and trends

The evolving risk landscape

What factors influence the Future of Controls

In our rapidly transforming world, acknowledging and addressing the dynamic risk environment is key. A siloed, manual approach to controls with limited considerations to the changing risk landscape is failing organizations. Controls are therefore not always effective and optimized, despite all the investments and efforts. It is time we recognize the evolving risk landscape that is affecting organizations and the Future of Controls journey. As shown below, risks cannot be addressed in isolation—they are often interconnected and require a collaborative approach to mitigate against them.



CLIMATE
Organizations increasingly face risks related to non-compliance with climate regulations. New commitments (e.g., the Paris Agreement), along with a renewed focus on climate change from consumers, make this topic unavoidable. Organizations must manage this risk by balancing the high costs of compliance and controls to operate sustainably.

COMPETITION
Organizations can conduct business anywhere, exposing themselves to high levels of competitive risk. They must innovate to maintain their competitive edge and modernize. Controls are key to help them in that journey (e.g. protecting intellectual property and maintaining cyber hygiene when entering new markets).

DATA
As organizations increase their technological maturity and gather additional operational data, they are exposed to potential cyberattacks that can cause significant and costly long-term consequences from tangible operational disruptions and regulatory fines for data breaches.

TECHNOLOGY
While digital transformation presents great opportunities, it also brings significant, new, and unforeseen risks, such as cyber security, increased competition from innovative market entrants, and potential obsolescence of existing technology. Also, as organizations strive to adopt the newest technologies (e.g., automation/AI), there is a risk of shortages in the supply chain (e.g., unavailability of semiconductor chips affecting industries and their ability to serve customers). Meanwhile, the pace of development may lag the pace of control.

GEOPOLITICS
Instability can cause significant operational disruption (e.g., terrorism/war). While companies themselves may not operate in these regions, the interconnected web of the global supply chain—and the ability to operate internationally effectively due to supply chain, human resources, talent availability, and access to markets—can affect all organizations. Also, the interconnected nature of the internet increases risk to all organizations as you must now defend against bad actors around the world.

REGULATORY
The changing global regulatory and legal landscape creates a complex operating environment. Regulators are extending their reach toward social and economic sustainability, which is increasing compliance costs. Companies must also interpret potentially conflicting laws and regulations in various markets to avoid legal disputes and fines. At the same time, organizations must not allow increased regulation to spur new silos with unique charters to address each emerging initiative.

SUPPLY CHAIN
The use of complex supply chains across the globe is driving new supply chain risk. The pandemic has demonstrated the disruptive impact to the supply chain (e.g., pharmaceuticals) on continued operations. An agile, robust and optimized controls framework is required to manage the complex supply chain risks and help prepare for potential disruptions.

COVID-19
The global pandemic continues to disrupt the global economy, creating an unpredictable future. While some industries have benefited, most have faced heightened risks related to supply chain, operational disruptions, and financing. Risks associated with hybrid and remote-working environments will continue to proliferate and require new ways to monitor the ecosystem.

Future of Controls | Challenges and trends

From our leaders

"We have an environment that is ripe for embracing the Future of Controls—we owe it to our stakeholders and society."

RENE WASLO, ER&I

"In an era where costs are imperative, organizations cannot afford to skimp on controls, or overspend on controls that are not functioning—there is a balance."

J H CALDWELL, FINANCIAL SERVICES

"There is a paradigm shift in how businesses are thinking about their controls environment and how to future-proof it."

HUGO SHARP, UK

"We can't do digital automation without controls automation."

RICARDO MARTINEZ MARTINEZ, CONSUMER

"Governments are introducing controls with their mission in mind."

KRISTIN WULFF, PUBLIC SECTOR

"Future of Controls means integration between controls and business strategies."

FRANCESCA TAGLIAPIETRA, ITALY

"Future of Controls is a technology-enabled controls environment that drives value for the organization."

REBECCA JIANG, CHINA

"Advancements in technology are fueling an entirely new breed of controls."

STUART RUBIN, USA

"We are seeing a command center view of controls through continuous monitoring."

ADAM BERMAN, USA

"The Future of Controls is the core of corporate governance."

HAJIME SATO, JAPAN

"Embedding continuous controls monitoring has played a significant role in changing the culture of controls ownership."

SISA NTLANGO, SOUTH AFRICA

"Controls environments are becoming an asset and differentiator for organizations."

CAMILA BORETTI, BRAZIL

"It's about changing the conversation around controls toward achieving a business outcome."

BENOY SHANKAR, AUSTRALIA

Key trends influecing and reshaping internal controls

Several key trends are impacting the development of internal controls: data as an asset; the era of the consumer; digital transformation; responsible business; and risk-based regulations. Taken separately, each represents important guideposts along the Future of Controls journey. More importantly, when taken together they can help organizations reach their future controls destination.

Due to the reduction in costs to maintain and acquire data, organizations are increasing the volume of data they own. However, insufficient controls over data means they cannot rely on the output. Shifting to a "data as an asset" mindset allows for enhanced integrity, quality, and more robust, value-adding data that can help companies make informed business decisions. The benefits are clear: Data can help predict risks before issues occur and implement controls, reducing the cost of potential non-compliance. Meanwhile, big data focused on velocity, variety, and volume allows companies to monitor their controls in real-time. Quality data can also allow controls to drive business insights such as identifying efficiencies in workflow routing. Those companies that fail to improve their data management risk falling behind their competitors.

"If you can't manage your data, you will fall behind. Organizations need to transform data into an asset, which will be monetized and have a return on investment."

"Consumers are the new regulators ... the fifth line of defense and are demanding organizations to manage risks more holistically ..."

Historically, customers have chosen what is most accessible to them, and accepted limited choices and input to their needs. Going forward, consumers will increasingly expect organizations to anticipate their needs to create new levels of convenience through technology (e.g., AI). Consumers now have a choice, so companies should expect them to shop elsewhere if their needs are not met. Controls should be viewed as a differentiator to improve the consumer journey. Consumers now demand higher standards and quality, and a focus on social consciousness. In the end, consumers are reshaping how organizations behave and run their businesses.

Companies are rapidly adopting emerging technologies to enhance customer experience and capture market share, but we have not seen the same pace of adoption to benefit controls programs. While there remains significant investment due to the highly manual nature of most programs, in part due to limited effectiveness of reporting from legacy systems, companies are not currently seeing the returns. Going forward, companies should utilize technology as an enabler to be more efficient, effective, and impactful in risk, operations, and controls. During the transformation journey, organizations can implement digital assets that go beyond singular purpose controls from the outset to maximize their application and effectiveness across the lines of defense. In the future, we will have the ability to perform controls supported by AI enhanced technology to improve the way we monitor the controls environment and focus efforts in non-compliance areas—moving from "hindsight to foresight".

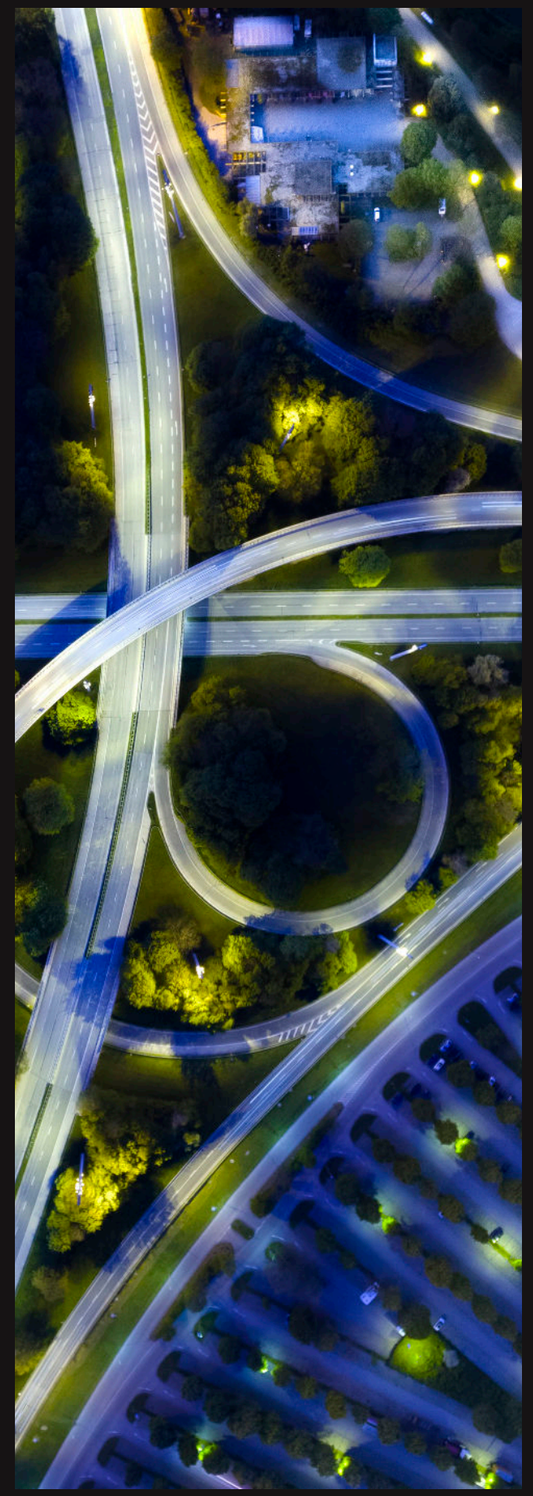
"There is an ever growing expectation on organizations to do the right thing, and controls can be the perfect way to demonstrate this."

"Organizations are tired of only hearing about issues after they have occured. The Future of Controls can help identify issues before they occur–moving from hindsight to foresight."

There are limited ways today to test your commitment to acting as a responsible business. Sustainability is viewed as a competitive advantage to help companies stand out from the crowd. But as a truly responsible business, sustainability is more of an expectation. Companies that ignore this imperative will not survive. In the near future, organizations will be required to report on environmental, social and governance (ESG) factors, and will be governed by regulation and disclosure requirements. Companies must refocus their priorities away from traditional financial risks to a new environment where controls substantiate a company's commitment to sustainability.

Regulators are migrating to a risk-based approach to regulation. This provides organizations with an opportunity to lower the costs of compliance if they can demonstrate a robust risk assessment and prioritization approach supported by a strong controls environment to manage compliance. Data can help ensure real-time regulatory monitoring, and technology can help predict potential indicators of non-compliance even before they occur. Consistency in compliance will be less expensive for mature organizations than responding to one-off instances of non-compliance.

"Regulators are clear that reliance on controls will increase, with an expectation that a robust controls framework will underpin all elements of regulatory compliance."



Future of Controls | The Future of Controls vision

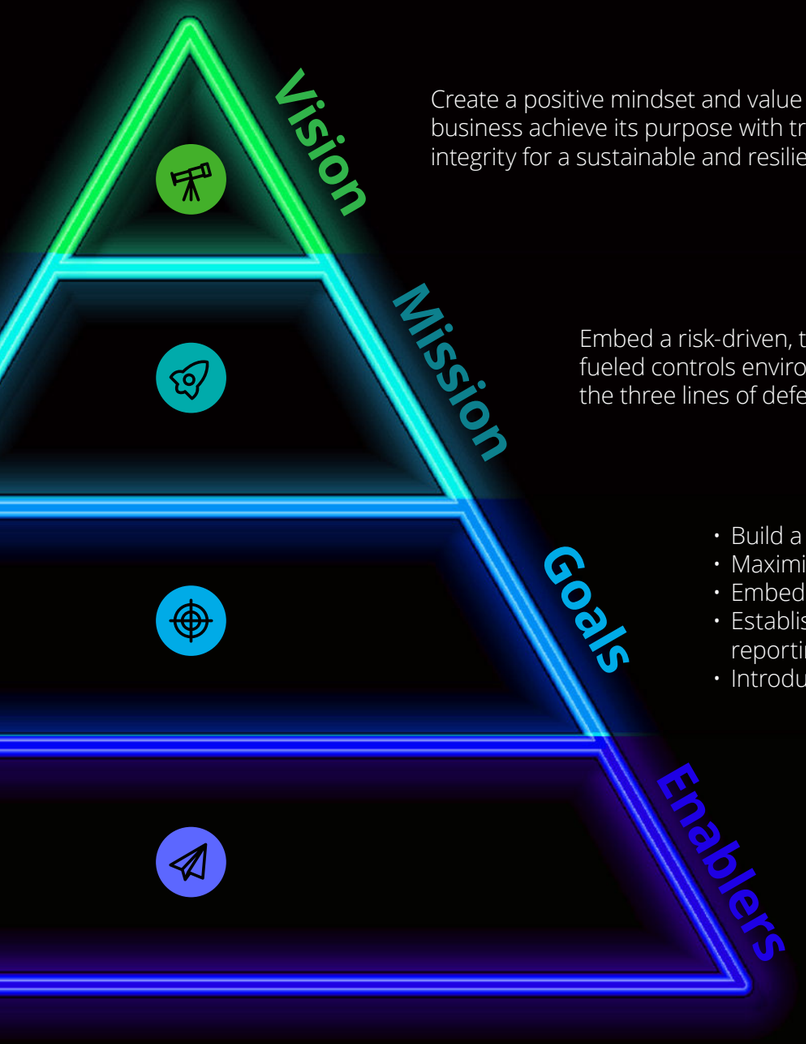
Creating a bold and positive vision

Controls can be challenging for organizations that struggle to get even the basics right. Simultaneously, others are making significant strides to develop more effective and efficient controls, and add value to their companies. There are clear trends and individual cases of creativity and innovation that help us to imagine a bold and positive future for internal controls.

The role that the risk and controls community has played during the pandemic gives us confidence in that bold future. A robust risk and controls environment has helped organizations become more agile and resilient, and supported the accelerated digital transformation. In turn, this has helped them better utilize automation in operating and monitoring their controls.

So, it is time that organizations develop a clear Future of Controls vision to manage the myriad of challenges and build on these positive trends. A clear vision that is aligned to the wider business strategy and links to the underlying business purpose and goals will assist organizations in embedding a robust controls environment, and help them thrive in this volatile and complex business environment.

Building your vision



Create a positive mindset and value to help a business achieve its purpose with trust and integrity for a sustainable and resilient future

Embed a risk-driven, technology fueled controls environment across the three lines of defense

- Build a risk-based controls framework
- Maximize the use of technology
- Embed the controls framework
- Establish an integrated smart reporting framework
- Introduce a positive controls culture

- Technology
- Data
- Culture
- Capabilities

Figure "Building your vision" spells out the vision, mission, goals, and enablers of our FoC mission that we developed over time in consultation with Deloitte leaders and practitioners.

Controls create a positive mindset and build confidence to help organizations succeed. Controls help guide the business through its stated mission and create value for the business, its employees, and society. The key is embedding a risk-driven, technology-fueled controls environment through the interconnected three lines of defense.

We see five key goals that organizations should consider as they move to define their Future of Controls vision: build a risk-based controls framework that is driven by data; maximize the use of technology in operating and monitoring controls; embed the controls framework in the first-line day-to-day business; establish an integrated smart reporting framework; and introduce a positive controls culture to guide the business to achieve its goals.

There is real work to be done on the Future of Controls journey, enabled by technology, data, culture, and capabilities. Even with clear planning, there is more to do. It is important for companies to review and reflect on leading-practice examples and key industry trends as they progress with their Future of Controls journey. This way, they can move forward with confidence that with a bold vision, and the right tools and mindset in place, they can reimagine their Future of Controls landscape.

Reimagining the Future of Controls

There are three key levers that help drive the internal controls journey and achieve the FoC vision. These levers are interrelated and are based on the goals outlined on the previous page. We explore these levers in more detail and provide examples from global organizations that demonstrate the trends and successful business engagements that help achieve the FoC vision.

Lever 1
Reconstructing the internal controls framework

Lever 2
Designing the next generation controls operating model

Lever 3
Establishing the controls technology ecosystem

Lever 1

Reconstructing the internal controls framework

With increasing business complexity and regulatory requirements, organizations face a changing risk environment. The internal controls framework must adapt. This requires more than just standardizing, benchmarking, or rationalizing the controls framework. This is also about building a true data-driven agile framework that mitigates known risks, anticipates and apprises the organization to emerging risks, delivers value and drives focus. Organizations should concentrate on what's required to reconstruct the internal controls framework.

A "data-flow"-based controls framework

Since the introduction of SOX 404, a significant effort has gone into designing a robust controls framework. Recently, organizations have focused on how to optimize and rationalize it. However, these efforts are often built on assumptions, influenced by a few key individuals defining the process. Controls represent the happy path without a real view of the exceptions and process deviations that often represent the biggest risks.

With better access to data, organizations should develop a data-driven view that is free of intuition, bias, or assumptions. This new outlook can provide genuine insights based on the entire population of end-to-end transactions, associated exceptions, alterations, and workarounds. This would not only help identify risks, but it could also prioritize risks based on actual transactions. In addition, the present could inform the future, using AI and other analytical tools to help predict emerging risks.

A robust monitoring system based on this framework can provide meaningful performance insights for decision-making to support the growth agenda and help organizations respond to the pace of change.

Integrating risks and opportunities

Businesses often don't realize the value that controls deliver. The controls framework must mitigate risk, but controls also enhance business performance. An understanding of the organizational risks and opportunities, as well as how they are likely to change over time and their alignment to the overall growth strategy, could help build an optimized set of controls to respond to these changes.

Integrating risks and opportunities into processes can help companies understand and assess the risk appetite while designing controls. Deciding which process elements are critical vs. where businesses can accept risks based on the opportunities can help businesses

A global consumer products company wanted to refresh its make-to-deliver controls framework. The original setup considered controls across the production, inventory, and delivery processes through the inhouse infrastructure. An analysis of the performance data revealed significant processing of transactions through third party-led turnkey and non-turnkey arrangements. The existing controls framework didn't consider the changes in business model and the significant risks associated with the third-party processing of transactions. A data-driven approach allowed the organization to understand the true business activities and the associated risks.

"There is a push to drive value out of everything and pressure to gain return on investment in controls."

design an optimal controls framework. The right combination of manual, digital and AI-enabled controls can help businesses develop a dynamic risk management. Data-driven controls enable faster decision making and provide new operational insights, previously hidden by traditional monitoring. Data-driven controls enable faster decision-making and provide new operational insights, previously hidden by traditional monitoring.

Balancing between rules and principles

Our modern and increasingly digital markets are continuously evolving. Organizations must quickly adapt to manage this change but also need to comply with numerous regulations. The entire organization must operate with agility to balance risks and opportunities to stay ahead of the game. Under these circumstances, an organization can't maintain a static set of controls or a detailed controls framework governed by rules based on historic risks. Controls frameworks must now be comprised of a combination of broad principles supported by detailed rules based on risk appetites and opportunities.

Unfortunately, there is no one-size-fits-all solution. The risk landscape should drive the key principles and standards by which organizations operate. They can provide the flexibility and breadth of applications required by the first line to address emerging risks and maximize performance. These are focused on objectives or outcomes and address the qualitative aspects required to manage the risk landscape.

The overarching principle-based entity-level controls for effective data management are often supplemented by specific rule-based controls embedded within the key processes. They must be monitored continuously to ensure compliance with new and changing regulations– as we see with evolving digital and data management risks. Businesses continuously need to monitor these specific rule-based controls to ensure they are complying with data privacy regulations. This will provide the speed, agility, and dynamism that an organization needs to manage rapid change and succeed in the market.

A global tobacco organization wanted to develop and optimize a comprehensive controls framework across the end-to-end process. Along with developing a process framework (with a true reflection of regular transactions, key deviations, and process-wide activities), the team identified risk domains associated with the processes, including financial, financial reporting, IT, cyber, ethics and compliance, and sustainability. The risk domains were classified under four key buckets: financial and financial reporting, operational, compliance internal, and compliance external. A centralized team was formed with specialist representatives from each of the risk domains to work with this framework and develop a comprehensive risk landscape. Risks were prioritized with an integrated view of what's important to the business. This allowed them to design the required controls and optimize their risk management effort.

Value creation

Business models are changing rapidly from B2B to B2C, coupled with a shift in competition fueled by mergers and acquisitions, a rash of new entrants (disruptors), digital interaction, and a shift to hybrid work environments. As businesses adapt to the new market and evolving expectations, entire value creation models are changing as well. A sound risk and controls framework is fundamental to making these business models work and can help generate value.

A controls framework drives value creation:

Nerve center
It ensures that accurate and complete information is provided across the organization (from the board to all lines of defense) for decision-making and stakeholder reporting

Economic value drivers
It enables business performance improvement through economic value drivers—asset efficiency, operating margin, and revenue growth

Fuel for innovation
It fosters innovation with responsible governance

Sustainability and stability
Controls help build robust, stable, and sustainable end-to-end processes to maximize revenue and profitability

As businesses build and maintain their value-creation model, the assessment and management of risks, uncertainties, and opportunities are key. The controls framework must strengthen innovation, facilitate a client-oriented mindset, enable risk taking and help maximize a company's value to its shareholders, now and in the future.

A multifaceted holistic view of controls

The business and regulatory landscape of the future is growing increasingly complex, and organizations need a comprehensive set of controls to manage and mitigate risks across the end-to-end process. It is inefficient, ineffective, and expensive to take a siloed view with a separate controls framework by individual risk domain, inconsistent language and taxonomy, and different monitoring and assessment regimes. Moreover, the new environmental, social and governance (ESG) reporting requirements demand a more comprehensive view of the risks facing a wide array of stakeholders.

This holistic approach allows organizations to remove the need for maintaining stand-alone risk and controls metrics and their associated exponential maintenance costs, thereby enabling businesses to reallocate the costs to drive shareholder value. Risks and controls can be managed by an integrated function with clear linkage between risk and strategy while allowing for a clear line of sight to the biggest risks. A single, consistent approach to financial, operational, and compliance risks—coupled with an integrated controls framework—could help unlock value and help organizations proactively manage and monitor risks.

A global telecom company reviewed its end-to-end source-to-pay process and defined the critical and non-critical sub-processes. The team ascertained the "vendor master data" sub-process was one of the "zero-tolerance" areas. They co-related the risk appetite with criticality of the risks (impact and likelihood) associated with vendor master data management—additions, changes, and validity of the vendor master data. Based on the criticality, the business designed an automated and preventive control (to ensure that all additions and changes to vendor master data are complete and accurate). It also monitored control to ensure that vendor master data is valid, and the accuracy and completeness elements are validated appropriately. The risk-based approach also allowed the team to design the controls with precision based on the critical elements of the master data (key, mandatory, and critical master data elements).

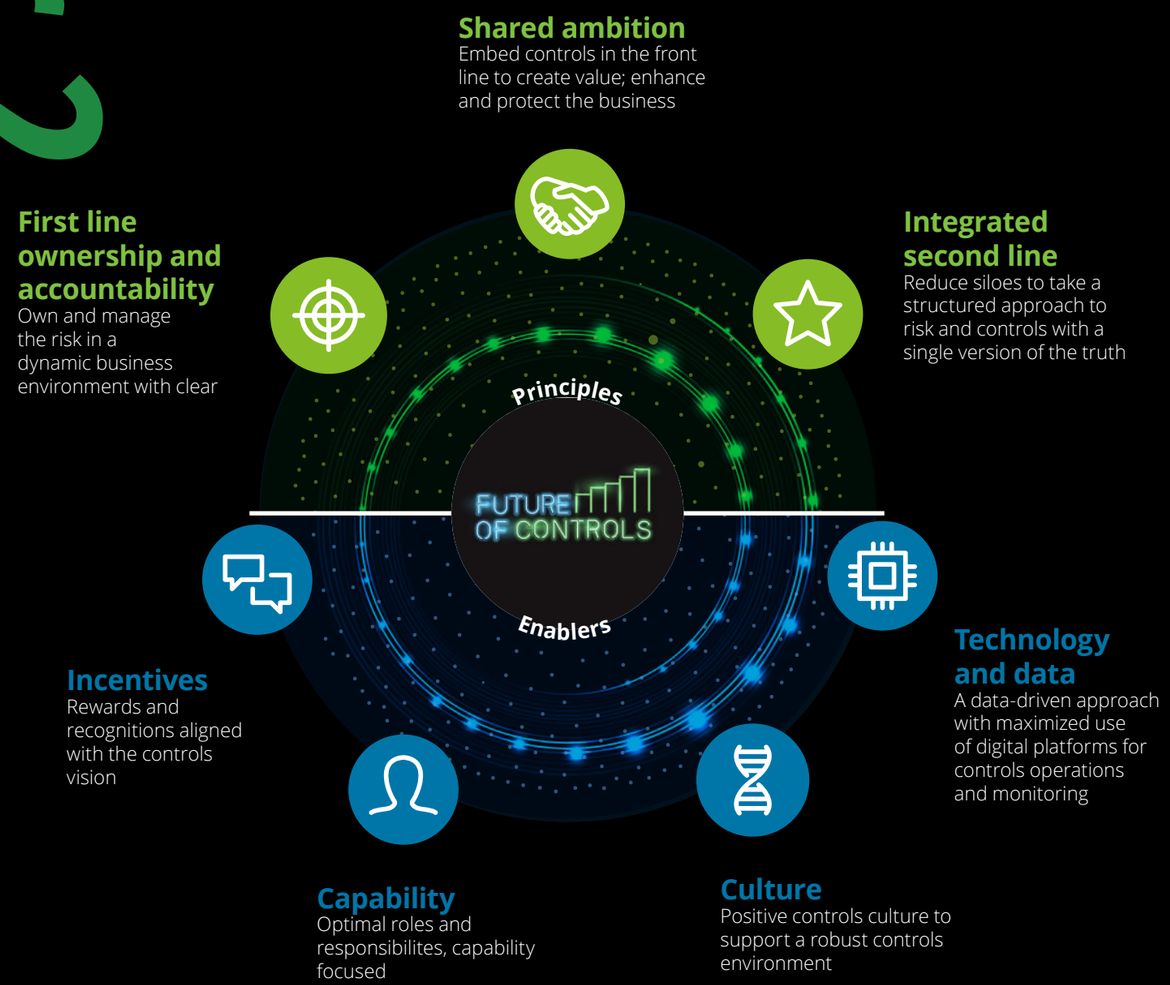
Future of Controls | Reimagine the landscape

Lever 2

Designing the next generation controls operating model

Future of Controls Operating Model Framework

Figure "Future of Controls Operating Model Framework" shows the key **principles** and the related **enablers** that will shape the next generation controls operating model. Taken together, these seven aspects demonstrate how controls deliver value and what enables them.



The complex, uncertain, and evolving risk and business landscape demands reevaluating the controls operating model to thrive and prosper. Organizations need to reimagine the key principles of the operating model and the enablers that will help change mindsets, develop capabilities, and enable businesses to embrace, operate, and embed controls as part of the organization's DNA.

A shared ambition and access to unified data across business units and three lines of defense can help ensure that controls are effectively embedded in the organization. This can help barriers fall and business functions to unite—to exploit insights and unlock value. The first line of defense must demonstrate a clear understanding, ownership, and accountability for the risks and controls they are managing.

Three key principles drive the operating model:

First-line ownership and accountability

The first line runs the day-to-day business activities, and controls and compliance that must be embedded in the business. Increasing regulatory requirements over the years created a second line to build, help implement, and in some cases operate controls for the organizations' immediate benefit. The third line constitutes internal and external audit who are responsible for assessing the quality of the control environment and its ability to mitigate against key risks.

It's clear that organizations realize the value of controls when they are owned and operated by the first line. With first-hand experience of operations, only the first line can understand and manage the actual risks, especially in dynamic business environments where the risk landscape is changing at an exceptional pace, and organizations need to regularly manage new risks. To increase ownership and accountability, organizations must:

- Concentrate the first line of defense risk and control capabilities, and close expertise and skill gaps that might exist
- Reassign and realign responsibility for the management of operational risk to the first line
- Bridge the interaction gap with the second line of defense
- Define accountabilities to ensure clarity around controls responsibility, how this delegation operates, and where overall accountability lies
- Focus on risks that matter to ensure a risk-based approach is undertaken in a pragmatic way
- Pick up wins along the journey to entice followership

Shared ambition

The entire business covering all three lines of defense should share the same mission to embed controls in the front line. This can help create value by focusing on enhancement and protection of the business on a day-to-day basis through the first line. This combined effort will allow the first line to comprehend, own, and operate the controls with speed, precision, and flexibility. This will also help establish a single strategy that is focused on a set of activities to achieve the vision, mission, and goals of the FoC journey. There are three key points for establishing a shared ambition:

- Empower the first line to define the controls vision supported by all lines of business to create a unified vision
- Set a clear tone from the top to drive and support the unified vision
- Redefine company culture to make "front-line successful" an organization-wide motto

Integrated second line

Today, we have multiple second-line functions operating in silos that may not be consistent and integrated. This not only exposes the organization, but businesses also struggle to get to a single version of the truth regarding the controls' status. This exposes the organization to potential risk-management issues that can result in significant cost of control, suboptimal use of their people, loss of business, and margin erosion. Global organizations are increasingly exploring the possibility of integrating risk domains for greater value add, and building the scale and authority for the second line to drive and guide organizations toward their purpose. This will also allow a better and coordinated working relationship with the third line of defense and facilitate implementation of a cost-effective integrated assurance model. Key features of the integrated second line include:

- Identify comprehensive risk across the value chain
- Ensuring a consistent language of risk and controls across the business that is embraced by the front line
- Helping to drive a structured

approach in risk aggregation, assessment, prioritization, monitoring, and response
- Providing a single version of the truth to senior management

The operating model is enabled by:

Capabilities

Organizations must take a holistic view of the capabilities required to manage risks and embrace opportunities. They need to rethink how to combine the right skills and revisit the nature of teams across the three lines of defense to achieve the FoC vision. This can be achieved in a cost-effective manner through on- and off-shore control centers, teaming with third parties and their platforms, as well as through digitization.

Culture

Organizations must empower teams to encourage ownership and accountability. There should be a culture of openness to facilitate a greater understanding of the risks and mitigation strategy, a positive culture to help envision controls as a value creator, and a culture of continuous improvement focused on internal and external customer needs.

Incentives

It is necessary to recognize and encourage positive behaviors across the first line to facilitate greater ownership and operations of controls. Incentives need to strike the right balance between encouraging good and bad behaviors—if incentives are removed based on the inability to achieve targets, this may encourage deception to mask any perceived exceptions. By digitizing and now monitoring complete data sets, organizations will have transparency into exceptions like never before. Rather than focusing on punitive outcomes as many organizations do, there are new opportunities and incentives to get behind the data, learn from, it and convert new insights into fuel for the business to operate better, smarter and faster. Rewards and recognition must be clearly defined and aligned to the desired outcomes to make them meaningful and impactful. Leading companies are increasingly embedding controls performance management into the DNA of an organization, linking controls to KPIs, and including controls priorities into specific metrics for all employees at all levels.

Technology and data

Adopting a technology enabled approach using automation and AI enables businesses to see beyond oversight and move toward foresight, to identify emerging risks before they make an impact.

Organizations can make better use of data to support their view of risk and ultimately controls landscapes. Taking aggregated data from a distinct source and converting it into a machine-readable format can enable businesses to identify emerging risks quickly and respond rapidly. Data-based design and management of the controls environment is key to the success of a next-generation operating model. It helps create a preventive and proactive culture, as well enables the organization to focus on what's truly important. A technology ecosystem is another key aspect of the enabler that can help organizations maximize automation and help deliver a FOC vision, which we discuss in detail later.

"The emergence of analytics and automation needs a shift in the perception that jobs will be replaced. We need to move from an automation 'instead of' mentality to automation 'with' human approach."

A global beverage organization included controls performance as one of the key components of its annual bonus for senior management employees. Clear measurable criteria were set to avoid ambiguity and encourage true acceptance of controls among senior management. This helped drive a positive controls culture across the organization and elevated the importance of controls.

A global telecom company had multiple second line risk functions with significant duplication of efforts and an inefficient risk management process. The company established a new operating model that saw the convergence of several new functions within a single integrated controls framework, driven by near complete automation. Highly skilled resources were re-allocated to support value creation. The new operating model supported a clear delineation of roles and responsibilities between activities completed by "2A" focusing on business partnering and "2B" focusing on assurance and reporting to enable a more coordinated and effective second line of defense. It helped the organization to standardize their approach and taxonomy, avoid duplication of effort and reduce the cost of controls monitoring, provide one version of truth regarding the controls environment, and drive a coordinated controls remediation program across process areas.

"We have overcomplicated our controls environments. There is a need to simplify, synchronize, and harmonize controls landscapes to drive value and minimize costs. In an arena where costs are imperative to organizations, they cannot afford to skimp or overspend on controls—and need to do proper analyses in order to find the happy medium."

Lever 3

Establishing the controls technology ecosystem

Arguably one of the most important outcomes of the shift to remote working is digital acceleration. The use of technology accelerated traditional and innovative digital platforms to build, operate, and manage the day-to-day business. Organizations must leverage this digital transformation and maximize automation in controls operations and monitoring. Automation can help alleviate some of the pressure on the internal controls functions in cost reduction, efficiency drive, and effective management of risks and opportunities. It can also build confidence, intelligence, and performance—three key elements of a successful FoC journey.

To seize opportunities in technological development, a fundamental shift is required in how technology is used to support controls environments, including the operation and monitoring of controls. Organizations must establish their priorities based on their vision, aspirations, and challenges they face. This will help identify what technology solution features would be most beneficial.

Leading global organizations are deploying market-leading risk capabilities, technology solutions, and alliances across risk and control landscapes. They are aligning a technology ecosystem to their controls requirements to bridge gaps where continuous controls improvement, efficiencies, and actionable insights can add real value.

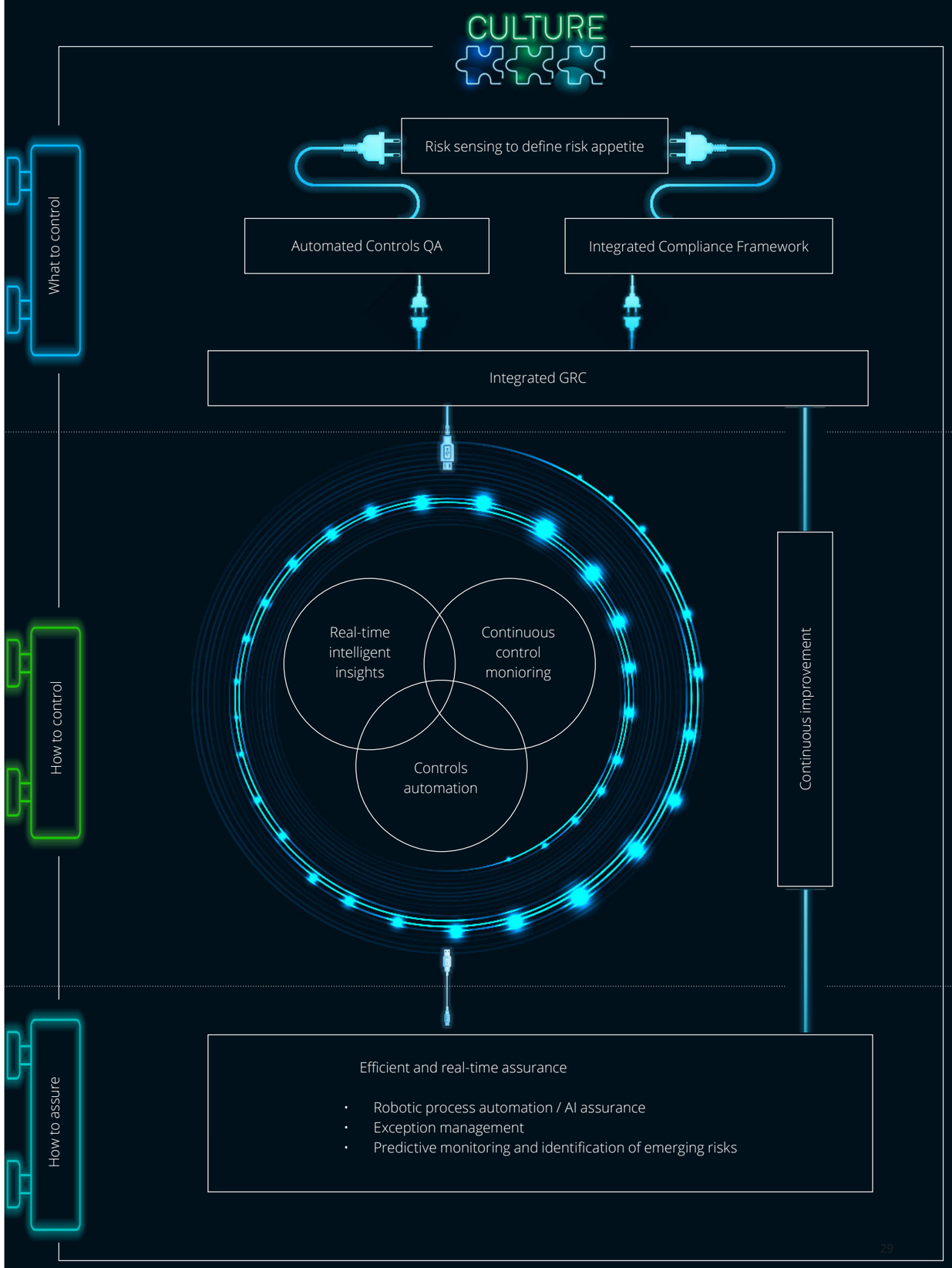
The controls technology ecosystem

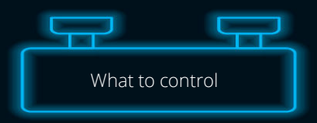
The ecosystem is a hub-and-spoke model that combines different technologies (the spokes) into one central location (the hub), while enabling a company to be asset-centric yet nimble and performance-driven.

To deliver on their objectives, companies must employ various technologies with complementary features and characteristics. Businesses can unify the best thinking from across the organization to build tailored digital assets, creating a harmonized ecosystem capable of enabling intelligent risk management, and providing quality insights into internal controls effectiveness across the organization.

Each technology spoke can have multiple use cases. Each use case demonstrates a new way for organizations to boost productivity, increase accuracy, reduce non-compliance, and better understand financial, regulatory and operational risks—or flag areas of concern. The hub serves as a base to integrate each technology, such as a governance, risk and compliance (GRC) platform.

A global organization spent significant time on reconciliations and was limited in its ability to assess performance in the process. The implementation of AI and machine learning (ML) allowed it to perform 100% testing of key controls during the reconciliation process to predict account reconciliations that would result in required adjustments and/or be delayed. This has enabled insights into inconsistencies in reconciliations, identification of individuals with larger workloads, and support to those who are experiencing delays/errors.



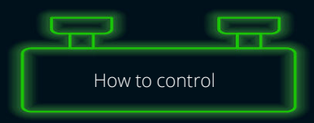


Risk sensing
A fusion of internal and external data can contextualize business direction. It helps identify external events that could harm operations, and proactively identify the regulatory changes on the horizon and the impact on the organization. It also can raise alerts about time-sensitive developments and third parties (suppliers, outsourced service providers) impacting risk and control environments. Finally, it creates a feedback loop to integrate the actions with the risk management framework.

Automated controls quality assurance
Deployment of natural language processing (NLP) uses AI to automatically assess the quality and completeness of controls documentation. NLP also automatically identifies unseen controls gaps and risks (including gaps based on emerging risks and dynamic risk landscape), recognizes target areas for control deep-dive, and provides real-time feedback on controls design.

Governance, Risk and Compliance (GRC)
GRC supports the three lines of defense by managing risks and controls across all areas to meet internal and external compliance requirements with integrity. GRC applications deliver a real-time view of compliance and risk, improve decision-making, and increase performance across organizations and with vendors.

Integrated compliance framework
The unified compliance framework, embedded within GRC, provides a continually updated controls database aligned to regulatory risk and standard business risks.



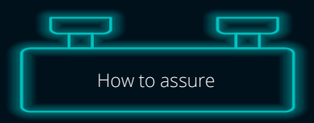
Controls automation
Using a system of solutions and tools, controls automation can conduct a multitude of tasks, reducing the need for human interaction in operating and monitoring controls. Automation is maximized in:

- **Controls configuration –** utilising built-in system configurations to validate business transactions
- **Workflow –** an automated review and authorization flow designed in alignment with the authorization matrix
- **System reports –** user-friendly, meaningful, risk-based reports and visualizations enabling review and validation, specifically generating an understanding of the outliers and trends
- **Controls evidence –** smart ways to evidence controls operations and retain evidence
- **Non-standard developments –** specific bespoke system developments to operate and manage controls, including RPA, AI, and ML

Real-time intelligent insights
This is achieved through advanced analytics, which includes data gathering, interpretation, and manipulation to identify exceptions from standard processes, risk signals, variations to the historic risk patterns through machine learning, etc. Visual AI uses video analytics to turn images into structured data to analyze, visualize, reconstruct, and refine business process and controls across an organization. It is used for automated process mining, process streamlining, control performance analysis, and robotics discovery. Organizations have used these techniques to identify channel-stuffing fraud, millions of dollars' worth of excessive supplier payments, and common theft tied to previously unknown segregation of duties violations. It can optimize workloads across global accounting functions

Continuous controls monitoring
Intelligent technology identifies potential control issues inside and outside the business. Continuous controls monitoring (CCM) applications establish and monitor controls by identifying exceptions to policies, business rules, and built-in application controls (e.g., continuous access monitoring, configurable control monitoring, and IT controls monitoring).

CCM also helps in process monitoring by extracting data from enterprise resource planning (ERP) and financial applications, and applying a set of pre-defined analytic business rules to identify control exceptions (e.g., continuous master data monitoring and continuous transaction monitoring).



Efficient and real-time assurance is about taking near real-time action on issues as they arise using in-moment tailored persona-based intelligent insights. CCM exception management, for example, is the effective workflow and management of issues arising from the continuous monitoring of controls and helping organizations focus on more strategic matters and improvements to processes, by channeling issues back to the first line of defense as they arise. This helps to identify and respond to risks before serious issues arise and cause significant damage to a business (e.g., through significant regulatory fines/impact on continued operations). Emerging risks involves making effective use of information from integrated GRC, continuous controls monitoring, and real-time intelligent nsights to interrogate the areas of greatest risk in the third line of defense. Companies are then able to properly focus energy in the second line to process improvement where common themes are emerging.

Leading-edge technologies help drive behavioral change by facilitating rapid identification and accelerated remediation of control issues. They also drive a positive controls culture by making controls learning effective and efficient, and also promoting a culture in which risk empowers performance. For example, users are pushed bite-sized learning based on their activity in the business. With gamified learning, users engage in bite-sized learning by answering questions, earning points and, where they do not know the answer, they are guided to complete a short learning. This drives completion rates through engagement in the game. In controls-training programs, users engage in bespoke on-demand online classroom training, which includes advanced simulations based on specific business problems, a digital facilitator-led "controls game," and various online courses developed to address hot topics.

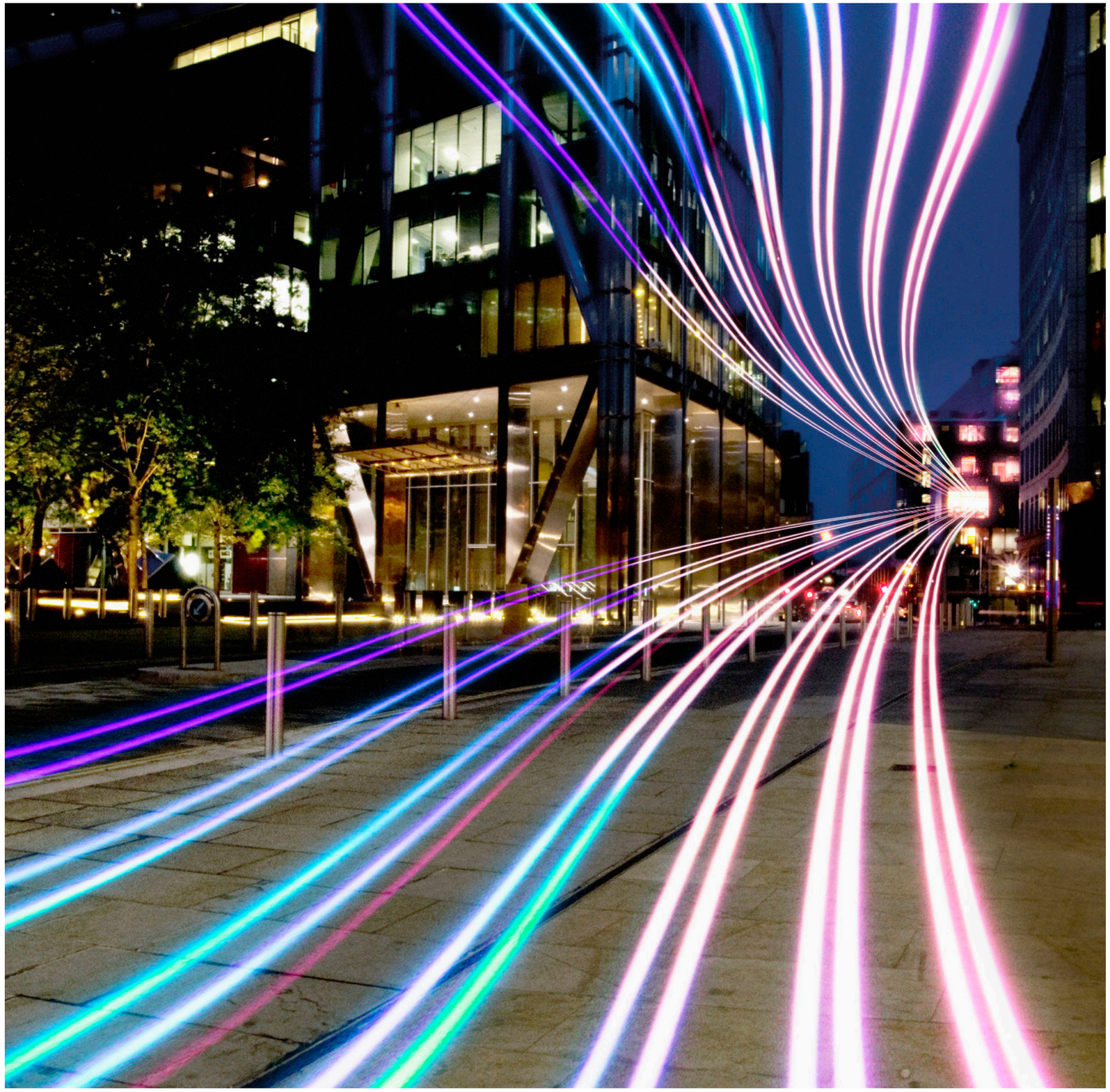
"Automation of controls will help organizations so that they no longer have to constantly respond to instances of regulatory noncompliance, which they cannot afford to continue to do."

Blockchain is increasingly being used by organizations to facilitate transactions with third parties. As an accelerator, blockchain can be used in combination with other technologies (e.g., automation/AI), to develop real-time controls monitoring techniques. For example, automatic reconciliations can be performed on transactions between third parties, without the need for manual confirmations. However, this poses additional security risks, as transactions and the control environment will need to migrate outside of the organization. A strong general IT controls framework is imperative to utilize blockchain with comfort.

Future of Controls | A typical journey

A typical Future of Controls journey

The Future of Controls journey will vary from organization to organization based on the maturity of the controls environment, the level of regulatory compliance pressure they endure, and the specific industry trends they need to manage. However, irrespective of the level of maturity and transformation, the vision, mission, goals, and key levers discussed earlier can help organizations define a six-step road map for a successful FoC journey.



Future of Controls | A typical journey

START

Set the business case
- Define your Future of Controls vision and aspirations
- Define your FOC business case with clear qualitative and quantitative values and effort
- Define your success factors, KPIs and governance mechanism

Redesign/refresh the controls framework
- Design an integrated controls framework covering the key operational, compliance, and financial reporting risks across the end-to-end value chain
- Develop a risk-based framework with due consideration to the risk appetite
- Integrate risks and opportunities linked to business performance

Maximize controls automation
- Leverage the ERP system and maximize controls configuration-based automation
- Establish controls technology ecosystem, utilizing technologies outside the ERP and data harvesting through outlying systems to maximize the benefits of digital transformation
- Focus on preventative and a "hindsight to foresight"-based controls automation journey
- Integrate risks and opportunities linked to business performance

Reengineer the controls operating model
- Establish a clear first-line ownership and accountability
- Integrate the second line, bringing consistency and creating value across the risk domains
- Maintain a shared ambition supported by data, capability, culture, and incentives
- Promote integrated assurance through a risk aligned second and third line of defense

Empower the front line with a positive controls culture
- Create a positive culture by winning hearts and minds
- Provide continuous support to the first line
- Introduce appropriate incentives with strong consequence management

Establish a smart-controls monitoring, reporting and remediation program
- Create an automated continuous-controls monitoring framework
- Document a clear set of controls health indicators supported by smart reports with dashboarding facilities
- Make use of a comprehensive fit for purpose GRC platform for comprehensive controls monitoring

Do's
- Collaborate throughout the business and three lines of defense when defining the FoC vision and strategy
- Develop ambitious yet achievable targets for and throughout the transformation journey
- Reflect on existing technologies, which can be enhanced/adapted to support the controls environment
- Continuously review the progress of the transformation to assess whether adjustments to approach are necessary

Don'ts
- Place accountability on one line of defense for the controls journey
- Wait for something to go wrong before making change
- Attempt to run before you can walk—define a vision and target operating model before getting started
- Be unrealistic about what can be achieved—if necessary, break down the transformation journey into sprints

We are in a period of unprecedented uncertainty with the confluence of technology revolution, global pandemic, merger and acquisitions, private equity funded disrupters, etc. Organizations can't passively search for answers—they must take action now or they will face a chasm so wide and deep, between their pace of customer-facing innovation and their controls programs, that legacy programs will stifle growth and earnings and prevent them from realizing their prospects for growth.

By reading and digesting the insights about developing a bold and positive vision, you can establish a productive path to follow for a successful Future of Controls journey. It all starts with the first step you have just taken. Before you know it, you'll be firmly traveling the right path, and the Future of Controls can become today's reality sooner than you think.

To further explore the key themes and trends, and for more information about how Deloitte can help you succeed with your Future of Controls journey, please contact:

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