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The future of controls

Radical change: confidence,
intelligence, performance

Risk Advisory ●

Are today's controls up to the job?

In short, the answer is no.

In our rapidly transforming world, where consequences are far greater, controls are still not working. Despite all the investment and increasing requirements and regulations, controls are not prioritised, and largely focused on financial reporting. The status quo is broken and a new approach required.

While increased challenges have caused some industries to rethink their approach to operational risk and compliance-related controls, others are playing catch-up.

Controls typically only become a priority for organisations when they fail, resulting in increasing costs and a reactive approach. Imagine if controls resulted in better decision-making. This would be a game-changing step for business and would allow you to enable faster and more confident decisions.

Several developments have limited the efficiency and effectiveness of controls:

1. Lack of common taxonomy (definition of terms), resulting in an inability to apply a consistent approach to the measurement, execution and reporting of risks, controls and issues.
2. Creation of controls in silos to address specific regulatory requirements or emerging risks, resulting in redundant and overlapping controls.
3. Misalignment of controls with business and risk objectives, slowing the business down and providing a false sense of security.
4. Limited leverage of technological or digital capabilities to increase efficiency and effectiveness of control aligned with digitisation of core processes.
5. Lack of a coherent approach to monitoring and testing across three lines of defence, resulting in similar or comparable controls being evaluated multiple times.
6. Limited utilisation of monitoring techniques and advanced predictive capabilities to assess effectiveness of control environment and sense emerging risks that might have oversized future impact.
7. Lack of controls expertise, training and education in the 1st line of defence, resulting in poor control data quality. Limited or no focus on building a learning organisation.
8. Lack of focus on creating a control culture supporting effective controls.

Executives are increasingly exposed to risk—a new operating model and enhanced tech are vital to business confidence and will help boards achieve strategic goals. The old, manual and siloed control model and behaviour should end and a new approach to controls should be adopted.

Tomorrow's control function starts today

Imagine: One common language of risk and control that offers absolute clarity; highly automated and real time control environments—allowing real-time identification of issues and rapid course correction; one source of truth aligned with risk appetite, optimising resource allocation and allowing management to focus on driving growth.

A re-invigorated approach will provide:

• Predictive warnings

A proactive model will allow you to sense situations and manage ahead of time, rather than in a reactive model where we often only know something is wrong when things are nearing crisis stage or the damage is done.

• Revitalised risk lens

There will be a clear link between risk and control activities and organisational risk appetite, meaning that we place effort in the right areas.

• Single source of truth

There will be a clear link and consistency of approach across all risk domains—risk appetite will be consistently applied, and resources better deployed to drive down costs and protect shareholder value.

• Revolutionised controls technology

A more effective use of technology, using big data, will significantly increase the efficiency of control environments.

Whilst regulators will typically focus on controls over financial reporting, shareholders and other stakeholders will look at the wider performance and outcomes. We believe that a better controlled business will be a higher performing business!

What will the controls landscape feel like?

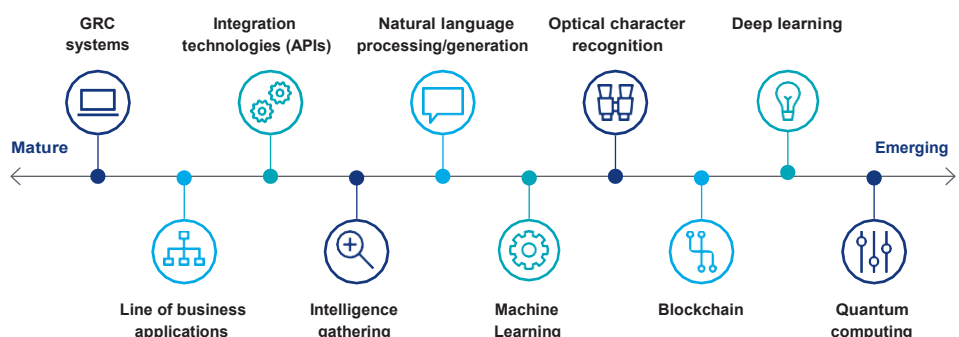
Advanced technologies will drive automation of everything. Resources will move from manual, sometimes tedious, repetitive work to more highly skilled strategic efforts that demand human creativity—a culture change to transform activities from box-ticking exercises to strategic, value-creation endeavours.

Our predictions for the control environment of the future include:

- Matured 1st line of defence, influencing controls design with clear controls ownership, aligned with 2nd line and senior management expectations.
- Standardisation enabling robots to operate, monitor and report on controls in real time.
- Agile controls framework mitigating an ever-changing, complex risk landscape, including management of new risk domains.
- Controls directly leveraging and enhancing business performance indicators.
- Agile and educational control culture ready to handle changes.
- Technology and innovation driving predictive and real-time assurance.
- Continued evolution of dimensions of the control testing operating model.

Controls operating models will change drastically. Traditional 2nd line functions will be charged with a converging number of new functions within a single integrated control framework, driven by near complete automation. Highly skilled resources will be re-allocated to support value creation.

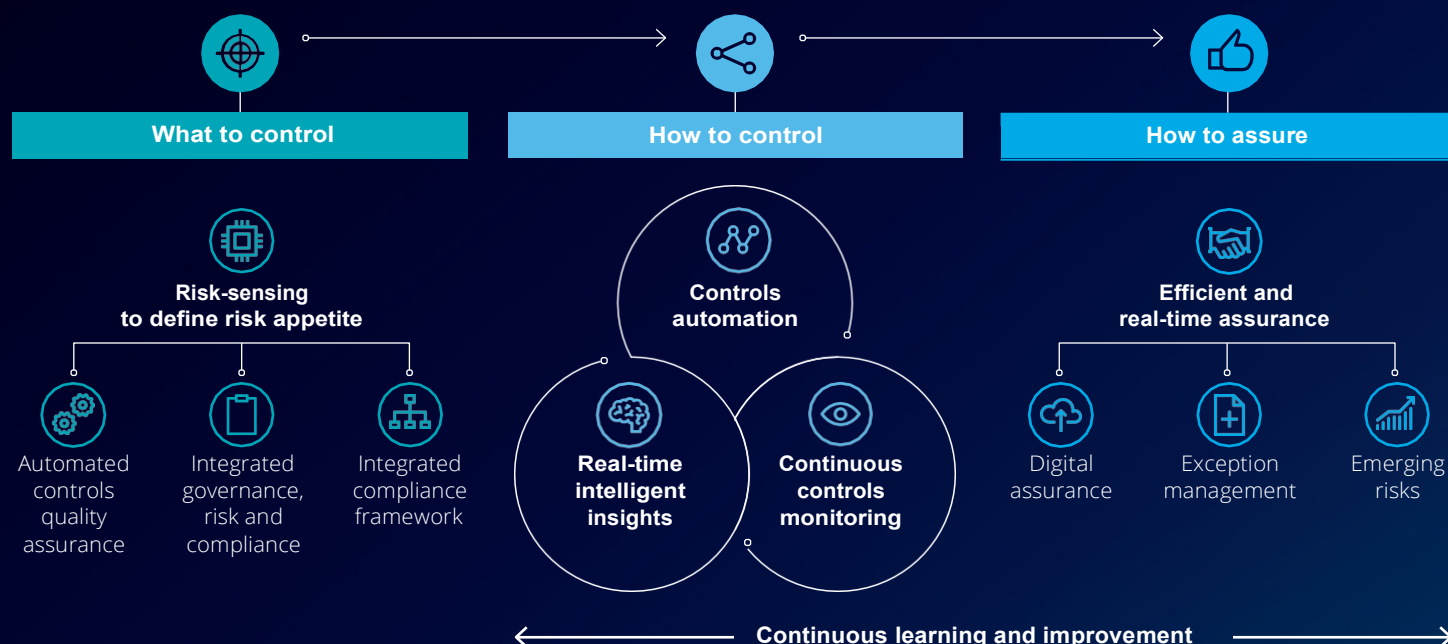
The appetite for automation and emerging technologies continues to grow, providing opportunities to fundamentally advance the controls environment:



Technology-driven controls

There needs to be a fundamental change in the way technology is used in the operation, assurance and monitoring of controls. Whereas today, technology is being used for tactical solutions, technology will be at the heart of the future control environment.

To execute a successful transformation, you need to know what to control, how to control, how to assure and how to enable:



Trends in action today

Use case 1

Control quality assurance and management

Integrated natural language processing and machine learning are being used to read control documents and assess control activities against business requirements. This is performed in real time while analysing the quality of control data against emerging regulatory requirements firing predictive warning signals.

Use case 2

Validation of key reports and review controls

Robotic data extraction and cognitive technologies are being used to automate the validation process of information used in controls (IUC) and to create a centralised database to store IUC and management review controls (MRC) evidence.

Use case 3

Key control monitoring and remediation

Advanced analytics and cognitive technologies are being used to continuously monitor controls of key automated systems to assess and mitigate the impact of control issues. Analytic dashboards provide real-time exception reports of all events and are referred to appropriate parties for action. Whilst these have been around for a while, they now take in more controls and will provide far better insight.

Imagine an instant, real-time panoramic picture of all key risks and controls



What to control

With increasing operational, regulatory and financial complexity, now is the time to have a complete view of all risks and controls, rather than a siloed view.

The business landscape of the future promises increased operational, regulatory and financial complexity. Backward-looking controls are a thing of the past. A sharp focus on anticipating risks and integrating controls across your organisation will drive value. You need a new and standardised control operating model and framework, a better integration between key risks and controls to avoid needless duplication and drive cost efficiency.

In the controls function of the future, we will see that:

The days of standalone risk and controls are in the past:

All risks and controls will be managed by a reduced number of functions to link risk and strategy whilst allowing for resource allocation and a clear line of sight on the biggest risks.

Risk appetites are approached organisation-wide:

A single, consistent approach to financial, operational and compliance risks coupled with an integrated controls framework, helping to unlock value.

There is always one source of truth:

A standardised and integrated control framework will proactively manage and monitor an organisation's key financial, operational and compliance risks. Vitality, this will also eliminate duplication, create value and drive down costs.



How to control

The growing appetite to apply emerging technologies will be extended to your control function. Automation is already redefining monitoring and reporting with increased efficiency. You will need to extend advanced technologies already being used in customer-facing processes to your approach for controls.

New technologies will continue to rapidly emerge in the coming years, enabling new ways to design, implement and report controls. We already see many new technologies being used today for controls, and we would be happy to showcase these to you and help you understand, leverage and implement them within your organisation.

In the controls function of the future, we will see:

Near complete automation

The combination of cognitive technologies, including machine learning, natural language processing and robotics, will drive a transformation from manual monitoring and reporting to a fully automated framework, significantly increasing effectiveness. Automation will drive integration across the controls structure, providing instant understanding rather than waiting for assurance exercises.

Risk-sensing and monitoring will be commonplace

Combining advanced analytics with compliance experts will allow specialists to predict risks and implement controls in advance of issues.

Your existing, traditional 2nd line compliance functions will fundamentally change

They will be charged with a converging number of new functions within a single integrated control framework to drive efficiency. Highly skilled resources will be reallocated to support value creation across your organisation.

Imagine no silos

Key to this shift is demystifying controls across your organisation and clearly aligning day-to-day work with business strategy and the company's risk appetite.

This new sophistication will help people clearly see the value in the new control landscape and will drive behaviours that support your business strategy and priorities.



How to assure

As the new reality continues to shift, emerging technologies and alternative delivery models will drive greater insights and cost efficiencies from control and internal audit functions, as mentioned in our video (use the link on the last page).

In this new environment, you will see:

Traditional assurance methods become ineffective in preventing risk events

Instead, organisations will re-imagine their approach to assurance, enhancing their line of sight into risk management effectiveness. They will rely on real-time technology, outsourced managed services and in-house specialists for improved, actionable assurance and better scalability, driving agility and continuous improvement.

Your 3rd line assurance function will change

Routine risks will be monitored in real time with advanced technology, flagging non-conformance and enabling highly skilled teams to focus on business strategy and emerging risks.



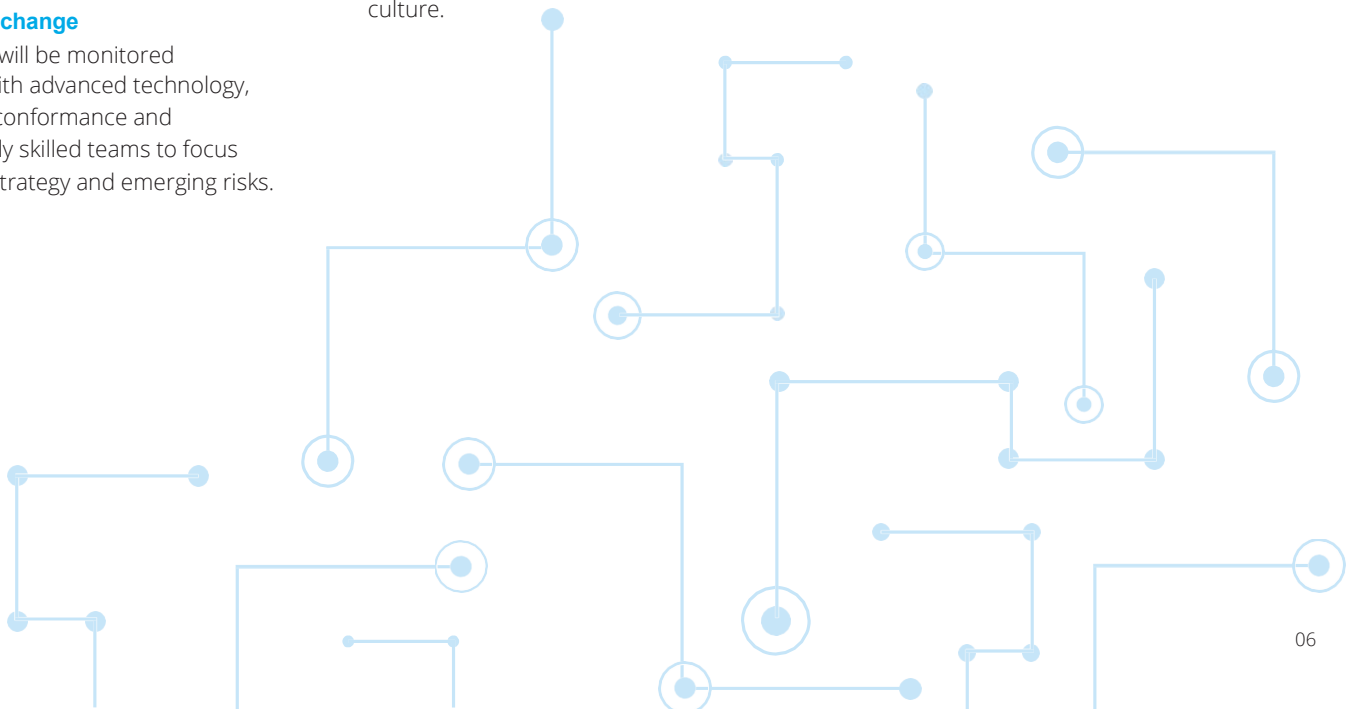
How to enable

Transforming your controls function to a strategic role in this new, integrated, technology-driven environment requires a new set of skills, new training concepts and a cultural shift.

- Experts with a mix of business and technology skills will become the new controls superstars.
- New skills in emerging and advanced technology, such as data mining, cloud robotics and data architecture, will combine with business strategy to free resources and drive value while managing risk.
- Traditional 2nd and 3rd line skill sets will still be critical, but will be largely reduced.
- New training concepts are developed for training employees in new skills and culture, including analysis of control culture.

To be effective, companies will need to remember that:

- Change will be board-driven and a genuine strategic initiative.
- Barriers will fall as 2nd and 3rd line functions come together with the 1st line to exploit technology-enabled insights and unlock value.
- Education, communication and change management plans will mean the realignment of functions and re-purposing of resources.



How we can help you

Ask yourself the following questions to help you explore what the future of controls means for your organisation:

- Do I have absolute confidence in the controls and risk management processes in operation?
- Is my current control environment and culture fit for the future? Does it really help create value and address the challenges I have today?
- Do I understand where I want to get to and do I have a vision and plan for the future of controls?
- Am I able to articulate the benefits of improving the control environment in the way described?
- Have I invested sufficiently in, and do I focus enough on, education, training and control culture?
- What's stopping me from enhancing and innovating the control environment?
- Am I investing enough in advanced technologies for our control and risk management?
- Can I benefit from a more integrated, data-driven, real-time view of controls across the organisation?
- What small steps can I take today to create a highly effective organisation tomorrow?

We have market-leading risk and control capabilities, technology solutions and alliances with key platform vendors covering the end-to-end controls spectrum to help make the future of controls a reality.

If it would be helpful to take you through the thoughts in this article in more detail, then we would be delighted to set up sessions to explore key themes and trends.

Change needs to begin.

Companies are searching for ways to respond to macroeconomic, regulatory and technology challenges. As you seek to make radical changes, to enhance confidence, intelligence and performance, the controls function must transform. The time is now.

Contact us:

We are happy to help you crystallise your controls vision and support you with designing tangible next steps as you embark on this journey. Please contact any of our team.



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Watch our video

<https://www.youtube.com/watch?v=LP5FFVoYBn4>

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