

ARE YOU IN CONTROL?

Business outcomes-focused controls transformation



During these times of significant disruption, many organisations are undergoing transformation to remain competitive, viable and relevant to their customers and stakeholders. This rapidly changing environment presents a myriad of new risks and challenges, and with transformation programs moving at pace, losing control of what is happening internally is easy.

A case for change

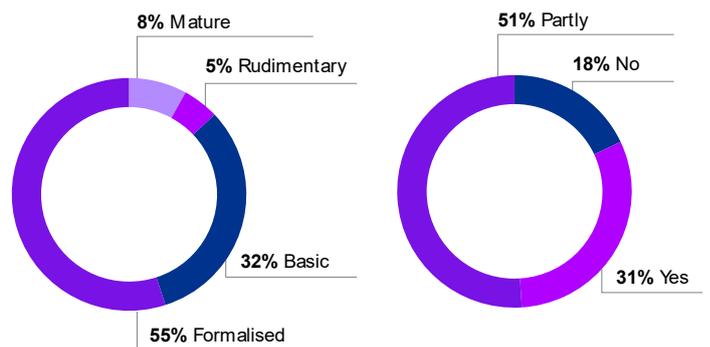
Over the last few years, discussions about controls transformation, standardisation, digitisation and automation have increased substantially. Whether it is because organisations are embarking on major ERP implementations, undergoing structural transformation or working on improving compliance with regulatory obligations, the case for change is clear – controls need to transform in line with business change and there is demand for improved controls maturity.

Controls maturity

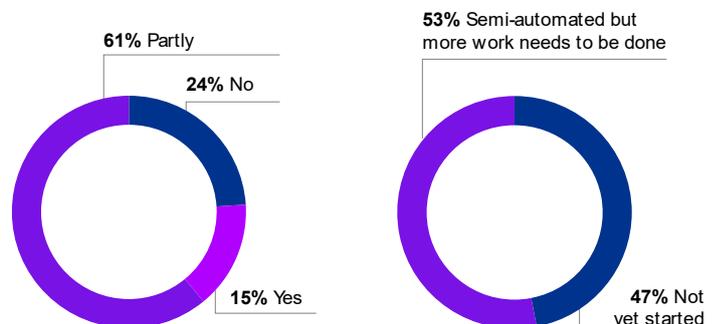
Controls maturity varies between different industries and organisations due to the nature of their operations, size, overall approach to risk management and, not least, culture.

In a KPMG survey¹ (conducted in March 2021) of nearly 300 organisations across Financial Services, Corporates and the Public Sector, results showed that more work needs to be done when it comes to building robust control frameworks and it begs some questions. What is the purpose of a control framework? Is it to satisfy the auditors? Or is it to manage risk effectively and ensure key business outcomes are achieved?

For example, the survey results showed:



1. More than a third thought their control maturity is either basic or rudimentary
2. Only a third of respondents felt that it was clear who is responsible for setting the standards for controls and designing controls within their organisations



3. Nearly a quarter of respondents said the controls were not formally documented with over 60 percent saying that only some controls were documented (e.g. financial)
4. Finally, nearly half of respondents indicated that their organisations have not yet commenced automation of their controls

¹ KPMG Controls Transformation and Automation webinar 24 March 2021

Cost of control

A key factor that often stops organisations from attempting control transformation is cost. However, our analysis shows that it is more costly not to do so. When assessing the cost of control, traditionally the focus has been on direct costs such as costs of execution or annual testing (explicit in the audit fees). But even those costs are sometimes estimated to be between \$2,000 – \$3,000 per control as shown in our recent benchmarking using KPMG's Controls Portfolio Analysis Methodology (CPAM).

And then there are 'hidden costs' such as management review costs, correction of errors or remediation of control failures. With some organisations operating hundreds of controls, costs can quickly add up to millions of dollars. This creates a clear case for control standardisation, digitisation and automation, as long-term efficiency benefits by far outweigh transformation costs.

Control automation

When it comes to control automation, we see this as two-fold:

1. **Automating the control performance** through configuration of ERP systems, introduction of workflows and automated checks, reconciliations and approvals via robotic and algorithm-driven mechanisms.
2. **Automating control monitoring** via continuous monitoring and data mining tools and techniques to enable a more dynamic data-led approach to risk management.

We estimate that the right level automation across those two areas can significantly increase the quality of control environment and help optimise the resource support model (potentially reducing FTEs by up to 40%).

Where to begin

A one size approach doesn't fit controls transformation. It should be tailored, suiting your organisation's needs, culture, ways of working and strategy.

There are several questions to be answered on the journey to building an effective framework.

For instance, **who sets the standards?** Does everyone in the organisation share a common understanding of the importance of controls and what their purpose is? It is essential that the overall tone is set from the top and there is a clear vision for controls and how they help to achieve business outcomes.

The same is true for the design. It must be absolutely clear **who holds the design authority**, and that no changes, additions or deletions are made without the involvement of the design lead. Some organisations have created the role of Chief Controls Officer (CCO) or Centre of Excellence (CoE) for Controls, charging them with that authority.

It is also important to ensure that controls are documented but it is clear **who operates the controls**. The entire organisation must be clear about who operates and owns the end-to-end process and relevant controls.

Who determines how controls are monitored, tested and reported, and who owns this function? There must be end-to-end visibility and assurance that risks are managed to the appropriate standards.

What tooling is going to be used to help with execution, automation and continuous monitoring? These days there are plenty of reliable and cost-effective tools out there to help with this.

Culture and behaviours

There is one final, but critical, component. A robust control framework must be supported by the right culture and behaviours. We have seen plenty of failures in this space recently and there is an imperative to lift the quality of culture across industries. Again, tone from the top is critical and is contingent on involvement of the entire business. At the end of the day, controls must serve not only to 'satisfy the auditors' or give comfort to Boards and Audit Committees but be helpful mechanisms for the organisation to achieve its key objectives and outcomes.

For information on how KPMG can help, visit our [Controls Transformation web page](#).

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