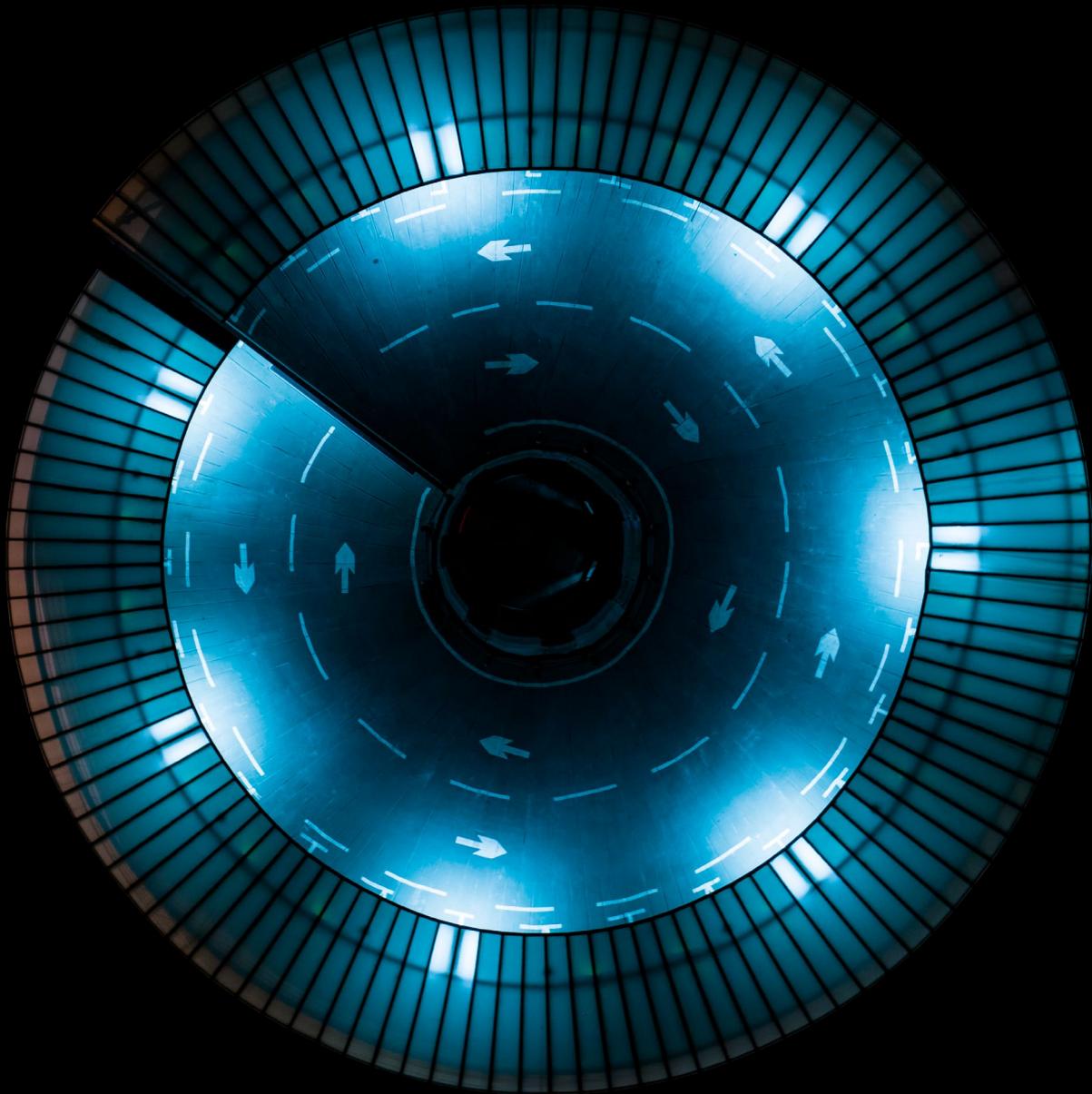


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Taking control:

resetting the internal control agenda in Financial Services





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Introduction

Is the implementation of internal control frameworks, control management processes and control functions in financial institutions helping or hindering wider business objectives?

In 2018 we published our *Mission: control in Financial Services* paper which explored how the industry was responding to an increased focus on management of non-financial risk. We explored the emergence of the Chief Controls Officer (CCO) role at several financial institutions and how they were creating a single leadership position that owns the control narrative across the 1st line.

When we published our last paper, we never imagined entire customer contact centres would be working from home, facilitating large payments and investments for customers, or remotely and digitally completing mortgage journeys. It was made possible by the seismic shift in business processes as organisations grappled with continuing operations in remote environments when the pandemic hit.

In the wake of the pandemic, we can see that further social, economic, and regulatory developments have had an unprecedented effect on business models, customer behaviour and industry ways of working. We are now in an **always on, digital, right now**, and often **hybrid** environment. This profoundly impacted the demands put on 1st line internal control functions.

The external dynamics have led to some financial institutions **adopting** and **evolving** a CCO-type model where internal control resource is brought together in one centralised control function, and some continuing to use a more federated model.

Whatever the chosen route, we see firms tackling a number of similar challenges to mature their capability (centralised or not), as well as organisations who are at an earlier stage in their journey and want to establish an effective 1st line control function. These include:

- How to improve collaboration, and clarify and communicate who is responsible for what across 1st line management teams, internal control teams, and the 2nd line
- Creating capacity so that internal control teams can focus on innovating traditional approaches, while improving frameworks, tools, and processes
- Breaking down operational silos to create a more customer-centric view of risk, that goes beyond satisfying basic requirements of rigid internal control frameworks
- Developing ways to find, attract, develop, and retain talent with a broad range of relevant experience and contemporary skillsets
- Obtaining better access to quality datasets that can be used to derive risk and control insights, while promoting reporting that is consistent and timely
- Integrating advanced analytics into their service offering, underpinned by technology solutions and digital tooling.

In this paper we have shared our insights on how organisations can address these challenges, and focused on 1st line internal control capabilities in financial services organisations.

There are clear parallels and take-aways for those in 2nd and 3rd line functions too.

Key observations and challenges

- Internal control functions need a clearer mandate from leadership that aligns everyone across the three lines of defence
- There is a need to re-examine how internal control services are executed and identify opportunities for process re-engineering and technology enablement
- Internal control practitioners require a tailored, more practical skills development framework that will accelerate their professional development and grow their skills as trusted advisors to the business
- Currently, the 1st line does not have the right management tools and data to help them effectively manage risk in an operational environment
- Wider organisational change often destabilises the roles and responsibilities, team structures and ways of working adopted by internal control teams. Internal control teams must operate using a more dynamic structure so that they can respond to organisational change without having to rethink their own model.

We believe that organisations now have the opportunity to reset their approach to internal control. The question is not if a change is needed, but whether the change required is about transforming existing approaches or a more fundamental level of reform, and who should own it.

Five fundamental questions every organisation must answer to mature their internal control capability



Does the internal control function(s) have a clear mandate and executive sponsor?



How do we keep the internal control service offering relevant to the needs of the organisation?



Is the current workforce's skillset aligned with the needs of the organisation?



Where is there a business case for investment? Is it in talent, tooling, or increased capacity?



How do we best structure internal control resources in the 1st line?

Our vision of success

- 1** Strong 1st line leadership intervention and advocacy
- 2** A deeper understanding of end-to-end processes
- 3** The right operating model
- 4** A technology vision for internal control
- 5** Intentional action on talent

CHALLENGE 1:

Clarity of mandate

A clear mandate is a key marker of success for an internal control function. It provides the platform to respond to the organisational demand for control expertise.

Overview

Many internal control functions need help with maintaining a clear mandate over time. Stakeholders often have very different needs that change rapidly. Requests for controls support are often directed to the “risk team” or the “control team” – who are not usually equipped to manage all these evolving challenges.

The overall driver of stakeholder needs is the same: to establish, implement and maintain adequate internal control mechanisms. In practice, several mandates have emerged that require very different responses. Examples of these different mandates include:

- **An advisory mandate:** e.g., to provide specialist advice about the impact of a new product concept on the control environment
- **A procedural mandate:** e.g., to demonstrate a process or framework has been followed
- **A group-driven mandate:** e.g., to meet the needs of central group function
- **A regulatory mandate:** e.g., to provide specialist advice on how to operationalise specific regulatory requirements
- **An operational mandate:** e.g., to provide a continuous operational control monitoring platform to inform day-to-day decision making
- **An execution mandate:** e.g., to carry out a 1st line management testing programme.

Looking ahead

Internal control leadership roles should lead the narrative on the control agenda at the executive table. This enables them to obtain broad sponsorship, and buy-in for the mandate and future vision from the executive team, not just the SMF24 or SMF4 holder (under the Senior Managers Certification Regime in the UK) – typically the Chief Operating Officer and Chief Risk Officer in most organisations.

When defining the mandate, organisations need to consider:

- **Clarity of scope:** Which risk categories from the organisation’s taxonomy require controls input?
- **Clarity of role and responsibilities:** Which day-to-day scenarios require input from controls specialists and where are the boundaries and touch points with other teams?
- **Clarity of outcomes:** How does an effective and efficient control environment support the wider organisational strategy?
- **Availability of funding and resource:** How much funding is available? Which budget line does it come from? What headcount and skillsets are needed?
- **Data strategy:** What data is required to deliver on the mandate and where does it sit in the organisation? How should this data be used to create insights and reporting that inform decision-making?

Benefits of overcoming the challenge

- **A clear vision:** A clear outcome with the right sponsorship will galvanise the organisation around a common shared goal and create the cultural environment required to achieve it. It will also provide clarity on where the function should prioritise their time
- **Reduced friction:** A well-thought-out mandate for the internal control function clarifies the mandate of the 2nd and 3rd line functions. This in turn reduces inefficiencies caused by confusion regarding who does what
- **A tangible reduction in risk:** A well-defined mandate makes it easier to get things done, and articulates how an organisation’s control strategy has improved the risk profile.

Internal control leadership roles should lead the narrative on the control agenda at the executive table.



CHALLENGE 2:

Maintaining the service model's relevance as organisational needs evolve

Internal controls teams provide a service to the organisation. They must adapt their services as demand changes over time.

Overview

Services typically provided by internal control functions come from a need to embed risk and control frameworks and/or Sarbanes Oxley (SOX) frameworks. Many frameworks were created with the goal of aggregating a view of control effectiveness for senior leaders across an organisation to attest to. This creates a top-down view of risk and the control environment, but financial institutions are now 24/7, tech-driven digital organisations who face constant exposure to non-financial risks and therefore require a much more granular and dynamic view.

This top-down versus bottom-up distinction has created a disconnect. It lies between the risk framework, the industry of activity needed to demonstrate adherence to it and the view of risk needed by operational staff to help them manage risk on daily basis.

Several competing organisational priorities have emerged. These include the need:

- To embed and execute a robust internal control culture and process to evidence the implementation of the risk management framework
- For specialist advice on risk mitigation approaches for specific technical scenarios (e.g., the impact on the control environment of a new product)
- For experienced, credible internal control advisors who can act as a sounding board to provide credible and constructive advice for those in 1st line leadership roles

- To access technology, tools, and solutions that provide continuous insight on the control environment.

Many internal control functions focus on addressing the first two points, as they were the first organisational needs to appear. The nature of these tasks tends to be manual, repetitive, often tactical and the effort involved increases with volume. Many internal control functions do not have the capacity or skillsets to respond to the remaining needs of the organisation – including broader strategic needs.

Looking ahead

Clarity on who the key customers are and how well their needs are being met is vital. A regular assessment of the value created by the services provided, and the resourcing model that supports them, should be the norm.

Executive teams in every organisation should ask their internal control leaders these questions:

- **Are the right foundations in place?**
Clear accountability for internal control, clearly defined minimum expectations in relation to control design, documentation and testing, and a control framework that is integrated with policy and risk frameworks, are key building blocks that should be in place.
- **How well is time being managed, and where are there opportunities to reengineer processes?**
Increased scrutiny over administrative and manual tasks means that there is a need for an open debate on activities that take a disproportionate amount of time for the value they create.

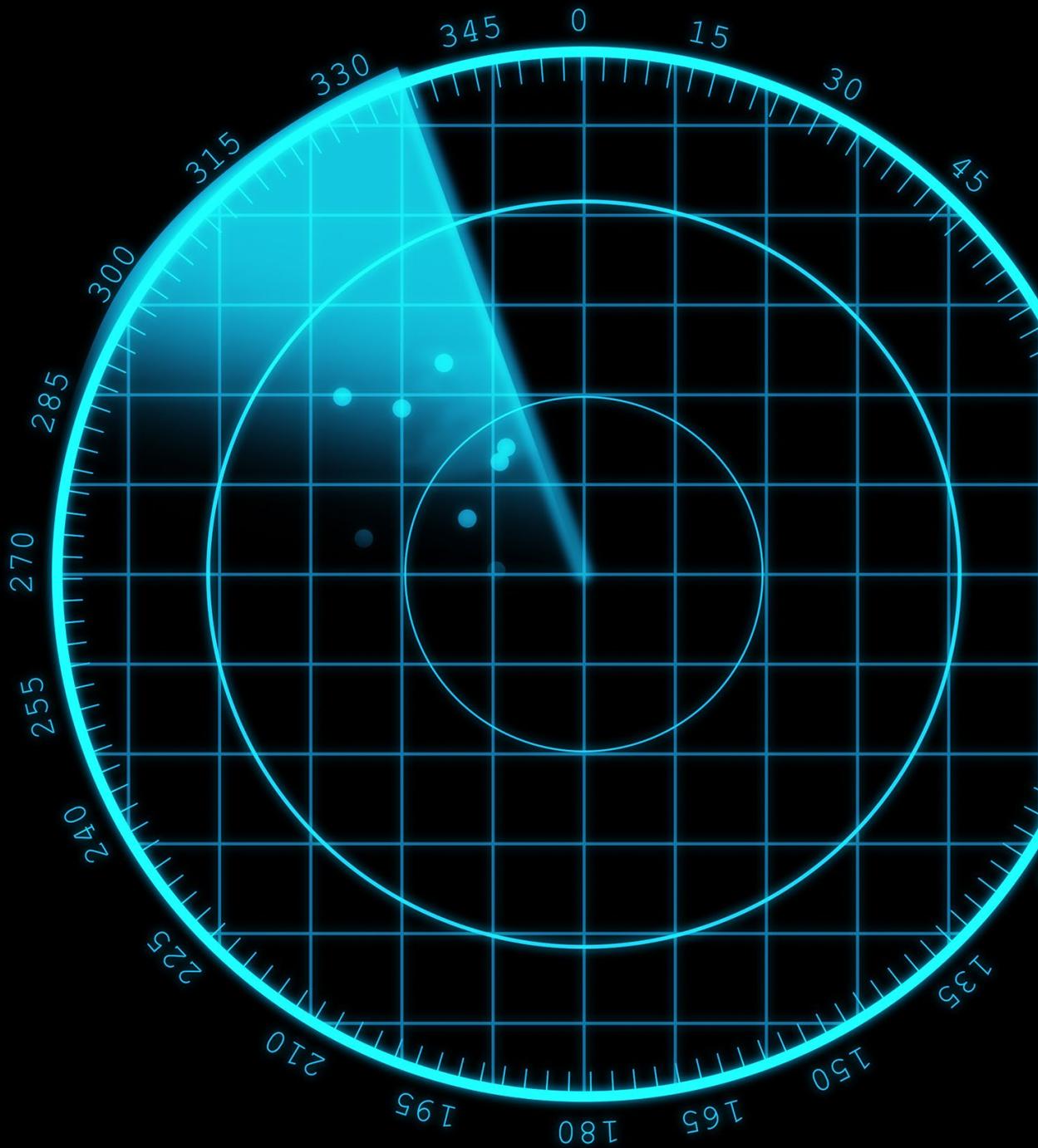
- **Is capability being built outside of the control function for non-material activity?**

As demand outstrips supply, organisations need to renew their focus on materiality. The internal control function plays a crucial role in continually building internal control capability within 1st line teams and giving them greater confidence to manage their own important, but non-material, control issues.

Benefits of overcoming the challenge

- **A clearer value proposition:** However well the internal control function delivers, it will always be outnumbered in size by operational teams. It's critical that the wider organisation understands their own role in the control agenda, as well understanding and valuing the role of the control function.
- **More targeted use of specialist control resource:** As the organisation's control maturity improves, control specialists can spend more of their time focusing on areas of highest risk, rather than being spread too thinly across non-material activity.
- **Increased capacity to innovate:** A reduction in time spent on low value tasks creates greater capacity to think about how services can be refined to be more relevant, more efficient, or provide greater value.

Many internal control functions do not have the capacity or skillset to respond to the emerging needs of an organisation.



CHALLENGE 3:

Alignment of skillsets to needs

Business products and services, and the regulatory guardrails associated with them, have evolved. The skillsets and experience required to design, embed, and monitor controls to mitigate key risks have also advanced.

Overview

Given the extent to which roles have evolved, organisations must acknowledge that there has been an industry-wide underinvestment in professional development activity for internal control staff. This includes limited refreshes of underlying job descriptions and talent development frameworks. Many organisations are likely to have skillset and experience gaps when assessing their current control capabilities against the requirements of operating in a digital world.

Driving an effective talent strategy for internal control is a leadership responsibility. While the breadth of experience required to lead talent transformation in this area is vast, the industry leadership talent pool is small.

Many organisations are likely to have skillset and experience gaps when assessing their current control capabilities against the requirements of operating in a digital world.

Looking ahead

Internal control leadership must champion the need for a workforce that continually improves its skillset and stays relevant. They must set the tone and lead the way and develop the next generation of internal control leaders. They must identify, develop, re-train and retain talent.

Organisations need:

- Structured development frameworks with up-to-date knowledge, skills, and behaviours
- Leaders who promote, incentivise, and reward fluency across multiple domains – not just internal control and risk management. This will drive the development of multi-skilled team members who can convert control expertise into actionable insight
- Updated job descriptions that are engaging to the emerging talent demographic who have the skillsets needed to transform approaches to internal control
- To expand the candidate pool for key roles. Recruitment activity should not be limited to those with a certain number of years' experience in audit, risk management and compliance functions. Instead, there must be a focus on attracting individuals with a balance of technical, operational, and business skills, who can deliver analytical and technical capability and create value.

Benefits of overcoming the challenge

- **Clearer career paths:** Gone are the days when a generic governance, risk and controls role profile is sufficient to outline the extent of controls expertise required. The discipline is now broader with career paths ranging from individual technical specialists to people leaders who run teams of data analysts. The time has come to recognise this difference
- **A more engaged, productive workforce:** Investments made in developing the skillset of the current workforce will have a higher chance of positively impacting its culture, motivation, and productivity levels
- **Lower run cost:** Replacing regretted leavers is a costly and timely process which distracts from delivering value to the organisation. A strong talent development strategy that is well-executed can help reduce attrition and improve retention of top performers.

Today's operating environment has created a need for individuals with skills and experience rarely found together in traditional career paths.



CHALLENGE 4:

Increasing efficiency through tooling and technology

Organisations are searching for technologies that reduce manual automatable tasks, streamline processes, and visualise data in a way that delivers actionable insight.

Overview

There has been significant investment into one or more Governance, Risk and Compliance (GRC) tools, typically owned by the 2nd line. These tools usually implement host data that demonstrates adherence to the risk framework. They have historically suffered from poor data quality and usability issues. As a result, there is a gap in control monitoring tooling that drives risk, control decision-making at an operational level and a reluctance to invest further in what is seen as 'risk and control tooling.'

We see three broad categories of solutions that control functions are exploring to modernise their services:

1. Simple digital tools that improve internal ways of working and flows of information (e.g., workflows, approvals, progress tracking and self-service reporting)
2. Technological enablers that enhance the service offering (e.g., interaction analysis tooling, such as voice analytics platforms) or embed monitoring solutions that drive control optimisation, automation, and real-time reporting
3. Data management solutions that allow datasets to be consolidated quickly and provide the ability to analyse and visualise operational data (e.g., cloud-based platforms linking processes, controls, risks and regulatory obligations.)

These three are often intertwined and can bring about meaningful change in organisations. It does, however, require a multi-disciplinary change team that has

many different skillsets including solution development, data analytics, service design and risk and control.

The critical challenge for organisations is knowing **who should own and fund** closing the gap created by a lack of control tooling in the 1st line.

Looking ahead

When looking for efficiencies through the use of tooling and technology, key considerations include:

- Organisations must agree to their target state vision for control tooling in the 1st line. They must also ensure a consistent understanding of this vision across the organisation. In addition, organisations must avoid stand-alone implementations that have little impact on their overall risk profile and working culture.
- They must agree on how the vision will be achieved and the strategy needed to make it happen. Leaders must then construct teams with the skillsets required to achieve the ambition.
- To avoid wasted effort, organisations must define clear criteria for identifying which use cases are the most valuable for the control function to solve.
- When it comes to data, there are often tools, techniques, and datasets used more widely in the organisation that are not leveraged effectively across control teams, such as data quality management, self-service reporting solutions, automation

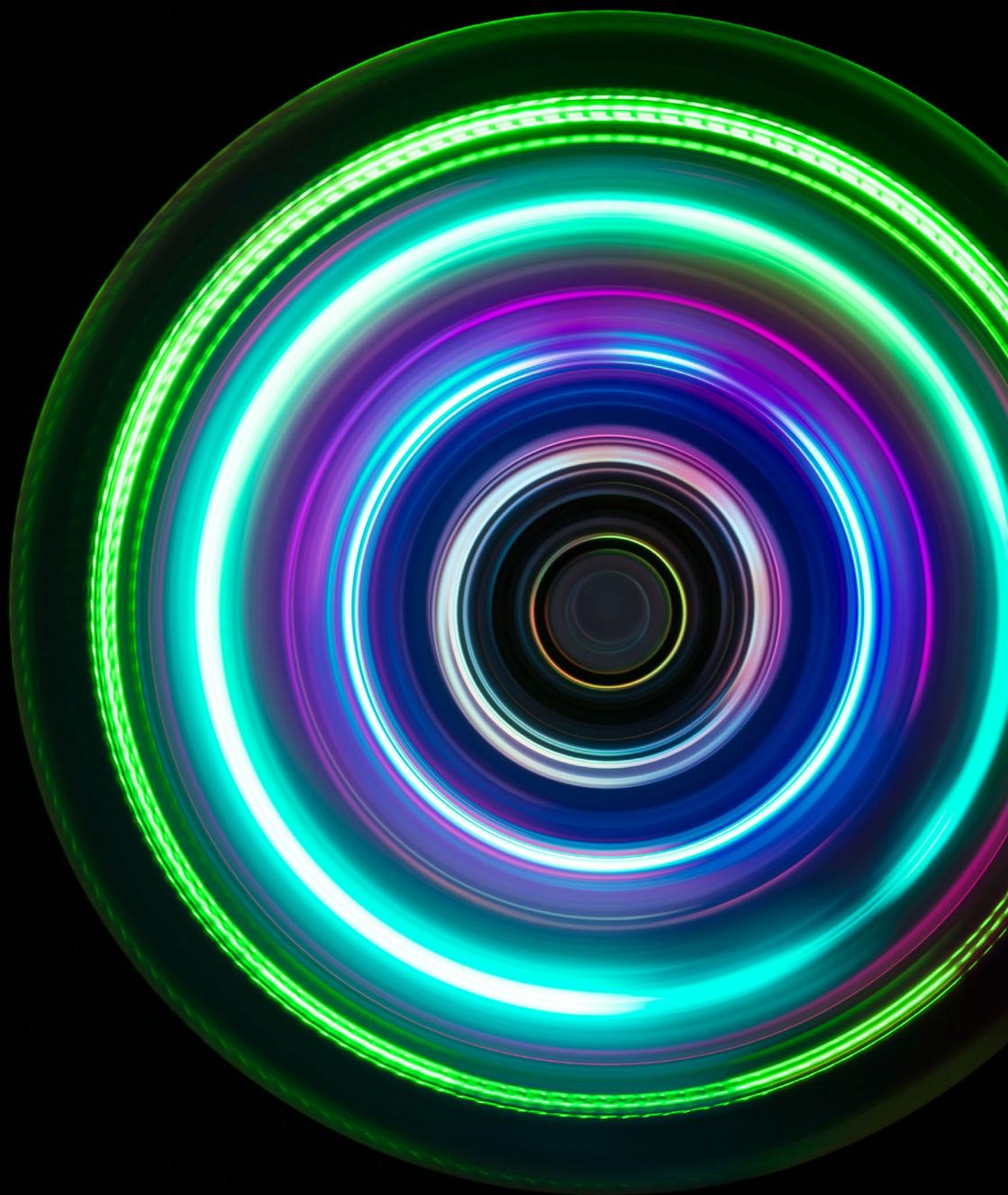
tools (e.g., RPA, AI). Organisations should identify golden data sources and invest in monitoring toolsets that increase staff productivity by removing tasks that are manual and repetitive.

- The digitisation of tooling and technology is not a one-off process. It's essential to focus on its continuous evolution. The organisation needs to plan how and when they will revisit, optimise, and refresh their control technology and relevant data sources over time – and who will be responsible for this.

Benefits of overcoming the challenge

- **Provide timely, actionable insight:** Data-driven control monitoring moves organisations towards a more continuous view of control effectiveness. This speeds up the detection of control weaknesses and empowers operational teams to improve the control environment at a much greater speed
- **Drive innovation:** An increase in knowledge and awareness of what is possible enables the control function to rethink how they deliver control insight to the organisation. They can also begin retiring legacy manual processes which have ceased adding value
- **Better quality reporting with less effort:** Intelligent reporting that combines operational data with a control lens can remove some of the delays associated with traditional MI and reporting and enable the organisation to use real-time insight to accelerate decision-making.

The critical challenge for organisations is knowing who should own and fund closing the gap created by a lack of control tooling in the 1st line.



CHALLENGE 5:

Optimising the structure of internal control teams

The nature of the work required in the internal control space has evolved. Context, knowledge, and expertise from many different teams is needed to get the work done.

Overview

There are a number of factors which influence how organisations are structuring their 1st line internal control teams.

One of those factors, is the work itself. Organisations have gone from needing help with straightforward tasks (e.g., defining a control framework in Excel that a single individual can create) to needing help with tasks that require input from multiple teams or people (e.g., designing and embedding an automated, data-driven control monitoring solution across digital sales and servicing journeys).

Another factor is the wider organisational structure, which often changes frequently. This leaves internal control teams with a dilemma as to whether they should mirror these new structures, or not. Adapting to a new structure can mean disrupting team dynamics, relationships, and ways of working.

Finally, it is not easy to deliver a consistent set of standardised services across multiple lines of business. There is often a drive to standardise services across organisations, but some services lend themselves to this more than others (e.g., those that are more ad hoc or require specific business line knowledge).

The overarching challenge can be summarised as: How do organisations structure teams to get the right people, in the right place, at the right time, with the right relationships, context, knowledge and expertise to help in a meaningful way?

Looking ahead

There must be greater focus on building and maintaining relationships. Organisations will find that the most significant influence on the success of any model, centralised or not, is the strength of relationships between internal control leadership and executive leadership.

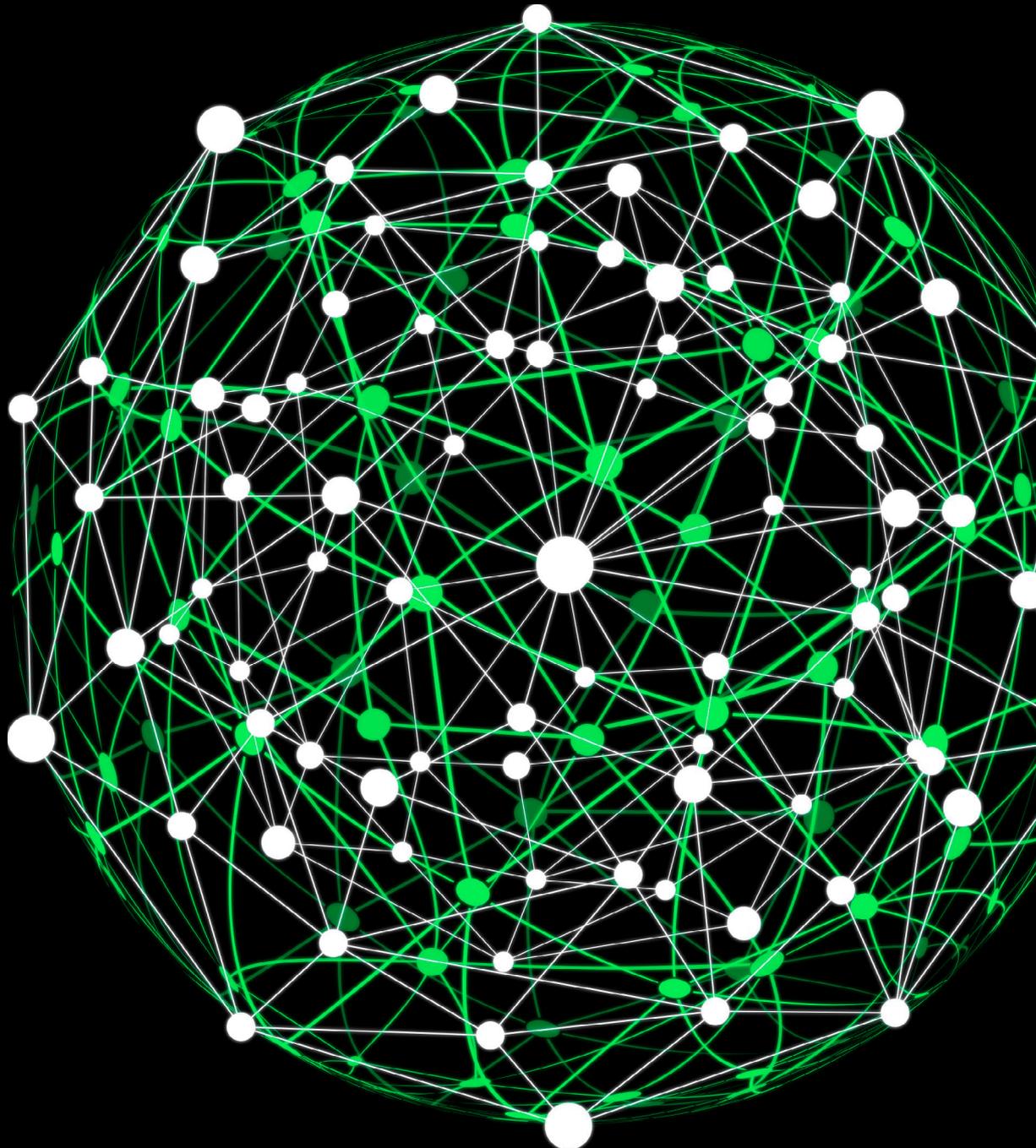
Organisations need to prioritise stability and find a way to separate their engagement model from team structure. By doing this, organisations avoid wholesale change to roles and responsibilities, services and team structures every time a new strategy and/or framework is unveiled.

Standardisation, scale and succession should be key considerations when designing team structures. Standardisation of core activities (e.g., management testing) can drive efficiencies if executed well. A certain level of scale is required to establish and maintain a consistent level of service delivery (i.e. a service that doesn't fall over when one key person leaves). Scale also helps develop a sense of identity, culture, and professional home that a motivated workforce needs.

Benefits of overcoming the challenge

- **Increased stability:** A stable team structure provides stability and the continuity of leadership needed to optimise ways of working and drive out any inefficiencies
- **Better integration:** On a practical level, true integration with the business means being invited to have a seat at the leadership table. When truly integrated, control teams are part of the process, not an addition. This gives them access to information and data that allows them to add value
- **Increased focus on what matters:** Being in the right meetings, at the right time, with the right knowledge to add value creates a clearer picture of where control expertise can make the biggest difference.

How do organisations structure teams to get the right people, in the right place, at the right time, with the right relationships, context, knowledge and expertise to help in a meaningful way?



Conclusion

With continued global economic and political uncertainty, unwavering attention of regulatory bodies and digital agendas at the heart of every strategy, the need to “be in control” has never felt more real.

The spotlight is now on how organisations translate the myriad of risk frameworks, regulatory requirements and methodologies into operational, codified and embedded control management processes and procedures which accelerate the firm’s strategic objectives.

We surmise that the 1st line must now play a much greater role in defining how historical challenges with controls are overcome. The controls agenda must be clearer, simpler and more widely understood, in order to be effectively adopted and embedded across the organisation. Now is the time to reset the internal control agenda, and in doing so realise the efficiency opportunities available, but the 1st line must take the lead.



How we can help

We are uniquely placed to deliver multi-disciplinary expertise to help mature and transform your control capabilities. We help our clients build their internal capability, skillset and tooling for a sustainable and affordable execution of the internal control agenda.

Value to the business and shareholders is not only increased through robust internal control frameworks, but also through teams who simultaneously promote and champion a positive control culture within the business.

Our Financial Services controls advisory offering is our multi-disciplinary approach to designing, building, implementing, embedding, transforming and running internal control capabilities.

We can help your teams become trusted control advisors to your business who not only enable your strategic business outcomes, but drive them.

Our methodologies are built on our expertise and experience across multiple sectors.

Get in touch with our Controls Advisory leaders to find out more about how we can help.

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