

A WORD FROM DELOITTE

Internal controls: A company's not-so-secret weapon

Let's go back in time a few years. It's 2021, company valuations are sky-high, and an incredible amount of funding is being acquired across the board.¹ These types of peak capital-raising times are great, but you know that old saying: "What goes up must come down." Turns out, what's true for gravity is also true for the venture capital (VC) market.

Now back to present day. We're halfway through 2024, and the VC market remains besieged by tough conditions. Initial public offering (IPO) and merger & acquisition (M&A) activity has decreased. The roaring 20s have lost their roar.

Fortunately, we have Deloitte's Heather Gates and Kirsten Vosen, with a combined 60 years of experience in the VC ecosystem. They provide their insights on the many factors that it takes to find capital in this tougher economic climate, including thoughts on the importance of strong internal controls—an integral part of operations that can help mitigate risk and add business value. For companies trying to navigate today's lean economic environment, it can mean the difference between thriving or nosediving. Venture further to learn our insights.

In 2024, it's survival of the financially fittest

The capital-raising market, from venture funds to private equity (PE),

has experienced a roller coaster ride.² Despite abundant dry powder—funds ready for investment—investors have been hesitant to inject money into companies. External factors have come into play too, like global uncertainties, inflation, interest rate fluctuations, and upcoming elections.

However, recent lower valuations are leading to second looks from investors. We're starting to see a slight uptick in M&A activity. Looking ahead, we think the rest of the year could lead to a recalibration of valuations into more typical levels.

Some companies are preparing for potential IPOs, indicating a motivation to capitalize as market conditions begin to stabilize. Debt costs can play a crucial role in these decisions. Companies often pair equity rounds from VC or PE funds with venture debt rounds, a cost-effective way to extend their runway. However, recent banking challenges and rising interest rates have tightened the venture debt arena, making it more difficult for companies to secure additional funding.

Despite the downturn, resilient companies are set to emerge stronger, as we've seen in the past. This is where those internal controls we mentioned become so important. Proper internal controls give a company a clear picture of where it stands financially, while offering a level of financial transparency a cautious VC requires before funding.



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With more than 30 years of financial services experience, Heather serves as the national

Private Growth Leader, with oversight of the Deloitte Private, Emerging Growth Company, and Private Equity businesses within Audit & Assurance.



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With more than 30 years of audit and accounting experience, Kirsten serves as the Audit & Assurance

Private Leader, focused on strategic growth in the private segment. In addition, she serves as the Partner in Charge of Private Company Matters in the National Office Audit Group at Deloitte & Touche LLP.

Internal controls as a competitive advantage

Organizations need accurate information to make effective decisions. With the shift to cloud-based systems, access to data should be more precise and trustworthy. Internal controls provide essential checks and balances. You don't want the wrong data driving your strategic decisions. Properly implemented internal controls could contribute significantly to long-term success.

1: "IPO Process: Accounting and Considerations Guide," Deloitte, August 11, 2023.

2: "Reckoning Looms for Past VC Excesses as Market Forces Valuation Reset," PitchBook, Marina Temkin, May 19, 2022.

Private companies should focus on sound business decisions, not just for IPO prep. A good [Enterprise Risk Management \(ERM\) system](#) can prevent many errors when thoughtfully designed controls are aligned with identified risks.

Tech companies, for example, face complexities in accounting for revenue recognition and stock-based compensation. Industry plays a significant role in determining the requisite controls. A well-established internal control system has the potential to enhance credibility and attractiveness with investors. This might turn the tide in your favor, as it bolsters investor trust, and could pave the way for success.

Misconceptions about internal controls

Many believe that implementing internal controls can slow a business down, but this is a misconception. Rather than advocating for a full Sarbanes-Oxley Act (SOX) Section 404 environment, we suggest a well-executed internal controls risk assessment. When set up correctly, internal controls can help support and enhance business goals without necessarily requiring a large team.

Heather sums it up like this: “If it was up to me, instituting proper controls would be a cause for standing ovations at a company’s quarterly meeting.”

AI and the evolving nature of internal controls

Currently, we find most companies are focusing on AI’s operational impacts. They appear to be gradually moving toward using it for accounting needs,

taking careful baby steps. AI can certainly handle many basic tasks; it’s a big time-saver in a lot of instances. Kirsten says, “Soon we will likely see it assist in the creation of sophisticated models for complex estimates.”

Companies are using AI to analyze data, evaluate budget-to-actual controls, and generate insights that accelerate the close process. The tasks that can be automated will likely keep increasing. Kirsten says, “We think this could happen quickly, ramping up over the next few years.” Get ready for AI to be your best friend at the office. Kirsten adds, “We’ll be engaging in ongoing conversations with companies to help them stay up to date on new developments.”

Deloitte experience with IPO readiness and regulatory compliance

Embarking on the journey from private to public is a complex process. At Deloitte, we’ve worked with more companies going public than any other firm during the boom times of 2021.³ Our unparalleled experience and comprehensive roadmap can prepare you for an IPO. Start with our [IPO Readiness Assessment](#) to take the next step.

We pride ourselves on staying ahead of the curve. Our timely POVs, debriefs, and market insights are designed to inform you about new regulations or industry shifts. As soon as the Public Company Accounting Oversight Board rolls out updated guidelines, we’ll relay this information to you in an easy-to-understand format. We’re available to consistently serve you as you work through what matters. Leverage our deep pool of functional

and subject matter experts throughout your journey.

We’ve only scratched the surface in this article on the topic of internal controls. Journey into our [Private company guide to effective internal controls](#) guide for even more insights.

Harnessing the power of your internal controls could create significant external gains.

[Contact our team today.](#)

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³: “Prepare Now for an IPO or SPAC Merger in the Next 24 Months,” Deloitte, August 2023.