Preserving the fundamentals of risk management during an age of transformation

Processes, risks, controls and testing
Introduction

Risk management is not a new concept. For decades, organizations across all industries have wrestled with the appropriate approach to handle risk – accept, avoid, transfer or mitigate. These concepts resonate across the three lines of defense, and the combination of processes, risks, controls and testing help provide organizations and stakeholders increased confidence regarding the efficacy and soundness of their internal control environment. While often unbeknownst to and unappreciated by the consumer, these four elements stitched together create the fabric that creates cohesiveness among complementary business units to establish trust.

Process, risk and control libraries cannot be viewed as solely a documentation exercise. With the digital revolution upon us, the velocity, complexity and volume of change are foreign territory for most organizations. New business and technology risks are regularly introduced into organizations (e.g., cloud migration, automation adoption, real-time resiliency expectations and innovative product development) that require thoughtful analysis about how existing process, risk and control libraries may require adaptation. Historically, the default mentality simply has been to create additional controls, but this method has proven to create excessive burdens since every control is accompanied by a monetary cost. Risk and control stagnancy and reactiveness are an unfortunate recipe to topple the credibility and effectiveness of an organization’s internal control structure.

Governance, risk and compliance (GRC) solutions have provided organizations an opportunity to leverage platforms to maintain process, risk, control and testing information. These platforms strive to foster centralization and efficiency, yet most organizations continue to possess an unmanageable quantity of GRC solutions that possess short life spans and untapped potential, often disconnected in terms of vision and operations. To truly maximize the value of a GRC solution, the accuracy and completeness of the inputs are most critical, particularly process, risk and control taxonomy agreement across the three lines of defense. As a result, organizations are focused on addressing these challenges experienced today to determine whether more short-term, lean and nimble technology enablement may ultimately help yield long-term, coordinated success.

27% of companies’ key stakeholders feel that their company’s GRC activities have minimal coordination or no coordination at all.

Source: There’s no reward without risk: EY’s global governance, risk and compliance survey, EYGM Limited.

Do you believe your processes, risks, controls and testing are fit for purpose today?
Organization challenges experienced

Organizations are multifaceted institutions that are challenging to navigate, and business units often possess unique and, at times, conflicting personalities. To execute upon the process, risk, control and testing mandates of both management and regulators, it is vital to recognize the pain points encountered. These obstacles to success often originate from four primary sources: 1) inconsistent viewpoints and territorialism, 2) insufficient communication methods, 3) suboptimal execution models and 4) adversity to technology enablement.

While organizations often isolate the symptoms experienced, they frequently struggle to decipher the root cause that has proliferated the problem throughout the organization. Regardless of the line of defense or the individual's role within the organization (e.g., control owner, risk manager or control tester), these warning signs should be addressed and harnessed to shift the focus toward operational efficiency and improvement. While technology adoption is often viewed as the antidote for historical challenges, an appreciation for the capabilities of the technology is key to managing expectations and outcomes.

Source: There's no reward without risk: EY's global governance, risk and compliance survey, EYGM Limited.

How do you tier the potential organizational challenges that may stifle your ability to move the needle?
“Maximize” and “optimize” are often overused jargon across organizations. More importantly, organizations are encouraged to pinpoint the business problem that requires resolution, rather than leading with a specific technology or solution. This approach minimizes disjointed mindsets and channels the focus to explore a solution in a more cautious and thoughtful manner that is both defined and measurable. Historical solutions often have been siloed within business units, but organizations have begun to accept the necessity of creating a broader ecosystem of reusable assets that operate synergistically. As a result, organizations increasingly face the “buy vs. build” dilemma and product development direct (e.g., labor) and indirect (e.g., maintenance) costs require consideration.

The life cycle of a control varies in terms of tenure, yet opportunities exist to apply various “actions” to a control library. The spectrum of actions ranges based upon the desired degree of change, maturity of the organization and varying event-based catalysts (e.g., change in leadership, new compliance expectations, substantial system implementation and recent regulatory feedback). While human insights are critical to both determine the appropriate controls relative to the risk and derive reasonable test strategies, accelerators and enablers can provide tremendous value at diverse junctures to enhance the risk coverage, recognize cost efficiencies and introduce value-add innovative techniques during the preparation, execution and advancement phases.
Accelerators and enablers often require customization and vary with regard to maturity (e.g., concept, pilot, prototype and sustainable solution). However, the feasibility of tackling previously overwhelming business challenges is now a reality.

**Algorithms** used to drive standardization and quality across risk and control libraries utilizing natural language processing and text analytics to better understand the current state composition and language selection

**Cloud-based digital platform** to manage process, risk, control and testing activities via customizable workflow capabilities

**Suite of dynamic dashboards** utilized to visualize and prioritize operational and technology risk via artificial intelligence-enabled risk profiling and treatment recommendations

**Automated risk and control** monitoring platform to support real-time evaluation of control effectiveness (e.g., segregation of duties, change management, privileged access management)

**Interactive dashboards** to portray control similarities and identify redundancies across business units to determine opportunities to rationalize, converge and streamline

**Digital platform** to align policy and compliance requirements with business strategy to generate expectations and deviations

**Artificial intelligence-enabled** document intelligence platform to transform contract management processes (e.g., create, review, remediate)

**Automated creation** of process and data flows to minimize manual documentation responsibilities and articulate the current state consistently

**Real-time transaction monitoring** system with both journal entry analyzer capabilities and speech recognition features to enable surveillance of sales practices, anti-money laundering and fraud risk

**On-demand mapping** of organizational assets inventory and interdependencies to support resilience management and cloud transformations

*How do you currently apply accelerators and enablers to your process, risk, control and testing objectives?*
Call to action

Process, risk, control and testing will continue to serve as the foundation for organizations across all sectors. Now more than ever, the application of risk management principles during this age of transformation should be adapted to mitigate the risks of today and to prepare for the unforeseen risks of tomorrow. Additionally, organizations are certain to experience future pressures regarding the ability to seamlessly execute their controls remotely. The pace of change will never be as slow as it is today.

To manage the burden that these components potentially present on business units, it is highly recommended to adhere to the following 10 tenets:

1. **Focus on the basics** – Diagnose where control verbiage requires enhancement prior to downstream testing efforts

2. **Appreciate the necessity for documentation** – Recognize that a strong articulation of processes, risks and controls is vital for succession and pandemic planning, and technology enablement

3. **Overengage affected constituents** – Reinforce bedrock concepts and invest in stakeholder education to communicate the value proposition and appease any aversion to change

4. **Synchronize taxonomies to create a common denominator** – Align processes, risk and control libraries relative to regulatory compliance mappings to thoughtfully embark on integrated testing initiatives

5. **Test controls with conviction** – Determine an appropriate model (e.g., offshore, nearshore, center of excellence) to minimize duplication of efforts and maximize reliance organizationally

6. **Foster and embrace technology** – Determine desired business outcomes and understand available tools and automation possibilities wherein maximum return can be achieved (e.g., control automation, control testing automation)

7. **Actively monitor risks on the horizon** – Avoid complacency, explore risk-sensing initiatives and assess the impact of emerging risks on the control library

8. **Invest in talent and diversity** – Hire, train, repurpose and retain individuals who possess deep organization knowledge of process, risk and control

9. **Determine tactical and strategic business objectives** – Appreciate that not every challenge experienced can be remediated quickly and remember that sustainability is most important

10. **Remain nimble and agile** – Nurture a culture that is collaborative across the three lines of defense to minimize unnecessary overhead

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**Do you believe that your controls provide timely confidence amid constant uncertainty and change?**

**Are you satisfied with the return on investment of your processes, risks, controls and testing?**
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