

# RETHINKING RISK: THE TRENDS SHAPING YOUR CONTROL ENVIRONMENT

Today we will outline trends and strategies for guiding your team's risk management program—to accelerate success and make an impact beyond the most pressing demands of audit season



**WEBINAR**  
**MAY 24, 2023**

# ABOUT RIVERON

## WHO WE ARE

Riveron is a business advisory firm specializing in accounting, finance, technology, and operations. We partner with our clients and their stakeholders to expand possibilities across the transaction and business lifecycle.

**700+**  
advisory  
experts

**12**  
offices across the  
country

**70%**  
of business from  
repeat clients

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[GOVERNANCE, RISK & COMPLIANCE](#) • [TAX ADVISORY](#)  
[TECHNOLOGY ENABLEMENT](#) • [AND MORE](#)

## CLIENTS WE SERVE

We support the [Office of the CFO](#) — including compliance professionals and internal audit teams— in navigating today’s multifaceted challenges and equip accounting and finance teams to make strides before, during, and after the demands of audit season.

Through our cross-functional expertise, Riveron helps CFOs and business leaders elevate performance, manage risks, respond to evolving regulations, and enable their teams through finance modernization.

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## TODAY'S PRESENTERS



**MATT FARRELL**



**MICHELLE PATTEN**



**DREW NIEHAUS**

**Risk & Controls** expertise includes Internal Audit, SOX Readiness & Program Maintenance, Material Weakness Remediation, Enterprise Risk Management, ESG, and more.

## KEY REMINDERS

**Find past and upcoming Riveron webcasts at [www.riveron.com](http://www.riveron.com)**

- ▶ During this session, 4 polling questions must be answered to obtain CPE
- ▶ If you have questions, feel free to ask in Q&A option in Zoom
- ▶ On-demand video is not eligible for CPE

**You will receive a follow-up email including:**

- ▶ CPE certificate & webinar evaluation form
- ▶ Access to this webinar recording and deck
- ▶ The ability to join our Webinars Opt-in list to receive future invites
- ▶ Presenter contact info

# CURRENT FACTORS IMPACTING YOUR CONTROL ENVIRONMENT



# TRENDS OVERVIEW: WHAT'S DIFFERENT THIS YEAR?

## MACRO FACTORS

ECONOMIC  
UNCERTAINTY



EVOLVING COMPLIANCE  
ENVIRONMENT



LABOR MARKET &  
TURNOVER



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## MICRO FACTORS

INTEGRATION OF  
RECORD M&A



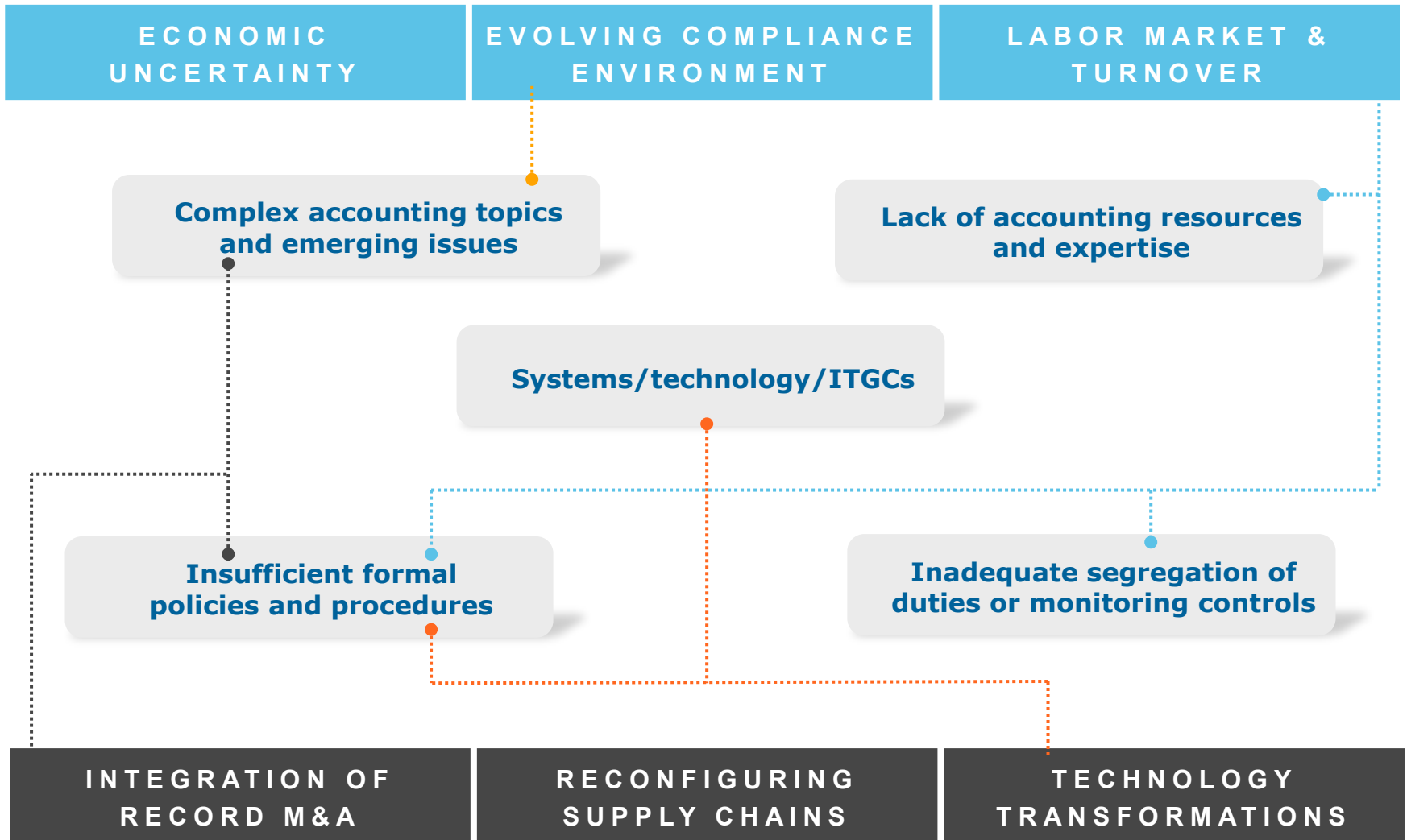
RECONFIGURING  
SUPPLY CHAINS



TECHNOLOGY  
TRANSFORMATIONS



# COMMON SCENARIOS THAT INCREASE LIKELIHOOD OF A SIGNIFICANT DEFICIENCY OR MATERIAL WEAKNESS



# POLLING QUESTION #1

**Based on recent audit results or other common drivers of a material weakness, which is of greatest concern at your organization?**

- A** Inadequate Accounting & Finance Resources
- B** IT General Controls / Segregation of Duties
- C** Insufficient Precision of Management Review Controls (MRCs)
- D** None of the above

# MACRO FACTORS



ECONOMIC  
UNCERTAINTY



EVOLVING COMPLIANCE  
ENVIRONMENT



LABOR MARKET &  
TURNOVER





# MACRO FACTORS: ECONOMIC UNCERTAINTY

## RELEVANT ECONOMIC TRENDS



### **Tightening Credit Market**

Heightened risk of default  
Increased focus on cash management



### **Consumer Demand**

Personal savings rates at all-time lows  
Impact of layoffs on consumer spending



### **Debt Servicing Costs**

Heightened focus around covenant reporting  
Increasing WACC and IRR



### **Profitability & Earnings**

Heightened focus on budgeting process  
Cost cutting measures



### **Geopolitical Risk**

Russia-Ukraine conflict  
Supply chain disruptions



### **Stagflation**

Inflation Higher for Longer  
Rising wages & commodity input prices  
China re-opening



### **Interest Rates**

Rising debt servicing costs  
Increasing WACC and IRR



### **Layoffs/Reductions in Force**

Shifting control ownership  
Expanded responsibilities  
Potential SoD impact



### **Process Automation**

Efficiency enhancement  
Elimination of rote manual tasks



### **Counterparty Risk**

Bank Failures heighten risk of default  
FDIC Deposit Protection up to \$250k

# MACRO FACTORS: ECONOMIC UNCERTAINTY

## IMPACTS OF ECONOMIC UNCERTAINTY ON CONTROL ENVIRONMENTS

### CHALLENGES

- ▶ Reductions in force and employee turnover
- ▶ Recessionary environment
- ▶ Tightening credit markets
- ▶ Process automation
- ▶ Flagging consumer demand
- ▶ Commodity price fluctuations



### SUCCESS FACTORS

- ▶ Proactively identify **future state control ownership and SoD** considerations
- ▶ Focus on impairment testing; revenue recognition; share based compensation
- ▶ Focus on **cash management and cash forecasting controls**
- ▶ **IA involved throughout tech transformation**, providing assurance to stakeholders
- ▶ IA should focus on **controls around demand planning**
- ▶ Increased focus on **forward purchase contracts or hedging**

# MACRO FACTORS

ECONOMIC  
UNCERTAINTY



EVOLVING COMPLIANCE  
ENVIRONMENT



LABOR MARKET &  
TURNOVER



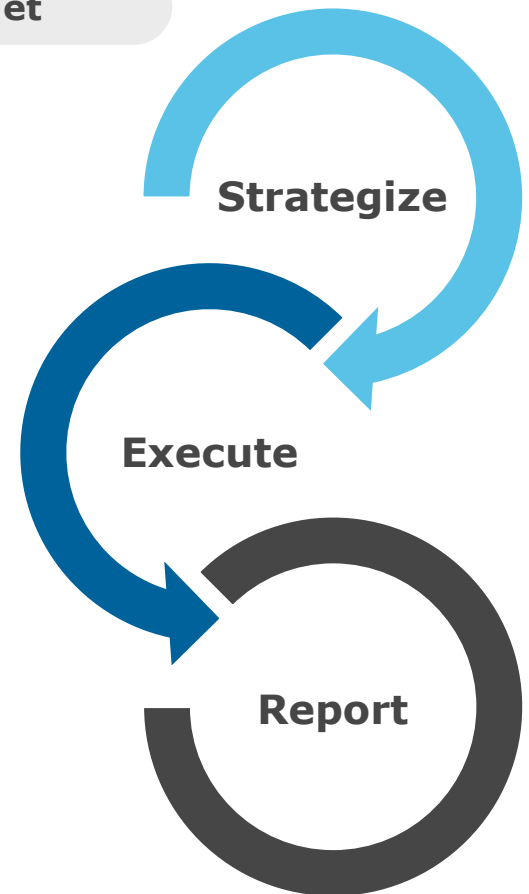
# MACRO FACTORS: EVOLVING COMPLIANCE REQUIREMENTS

## CLIMATE REPORTING DRIVERS



**ESG reporting and disclosures remain a moving target**

- ▶ ESG is one of the most impactful and sweeping initiatives taken on by the corporate world in decades
- ▶ Engaging with ESG represents a unique opportunity to reimagine your organization, redefine your strategy, or modernize your business
- ▶ However you're engaging with ESG, each company will need to report on its goals and related progress
- ▶ Reporting regulations are crystalizing but are a moving target across many standard setters and regulators
- ▶ The SEC's climate disclosure rule represents a major milestone in the United States but is just a first step



# MACRO FACTORS: EVOLVING COMPLIANCE REQUIREMENTS

## CLIMATE REPORTING DRIVERS

As companies embed ESG within their strategies, stakeholders beyond regulators are driving the need for timely, consistent, investor-grade reporting on ESG data.



# MACRO FACTORS: EVOLVING COMPLIANCE REQUIREMENTS

## CLIMATE REPORTING DRIVERS

Consider this...

Inputting processes and controls for ESG will live in the **office of the CFO**

**Finance should be involved** in ESG-focused discussions as they will ultimately own ESG reporting in the future

Pulling on the **muscle memory of financial reporting and SOX disclosures**, ESG reporting will need to be easily digestible by investors

# MACRO FACTORS

ECONOMIC  
UNCERTAINTY



EVOLVING COMPLIANCE  
ENVIRONMENT



LABOR MARKET &  
TURNOVER



## MACRO FACTORS: LABOR MARKET & TURNOVER

**EMPLOYEES DESIRE  
REMOTE WORK AND  
HYBRID ARRANGEMENTS**

**UPSKILLING AND  
RESKILLING TEAMS  
REMAINS A PRIORITY**

**CHAMPIONING CHANGE  
COMES FROM THE TOP**

### **CONSIDER THIS**

- ▶ Pandemic fatigue and employee burnout may leave controls subject to deficiencies. Is management confident that the controls are operating as designed on a consistent basis?
- ▶ Headcount reductions may have an impact on segregation of duties. Do you have the right monitoring controls in place to mitigate the risk?
- ▶ As finance organizations digitize, are the teams keeping up with the appropriate skillset to match these evolving needs?



# POLLING QUESTION #2

**Which of the macro factors do you anticipate will have the greatest impact on your company's operations in the next 6-12 months?**

- A** Economic Uncertainty
- B** Evolving Compliance Requirements
- C** Labor Market & Turnover
- D** None of the Above

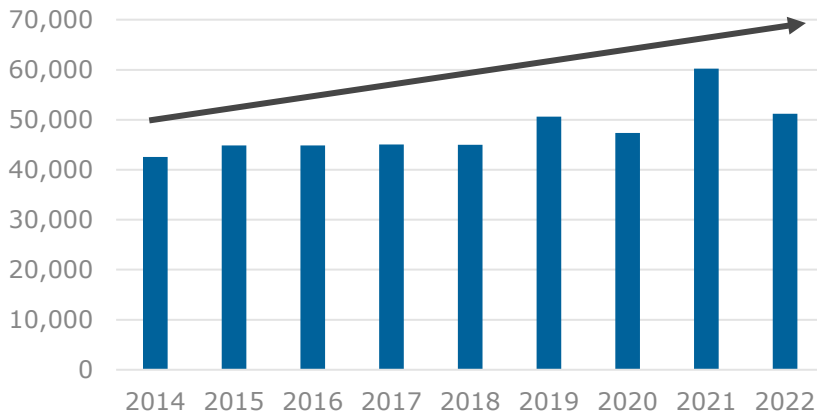
# MICRO FACTORS



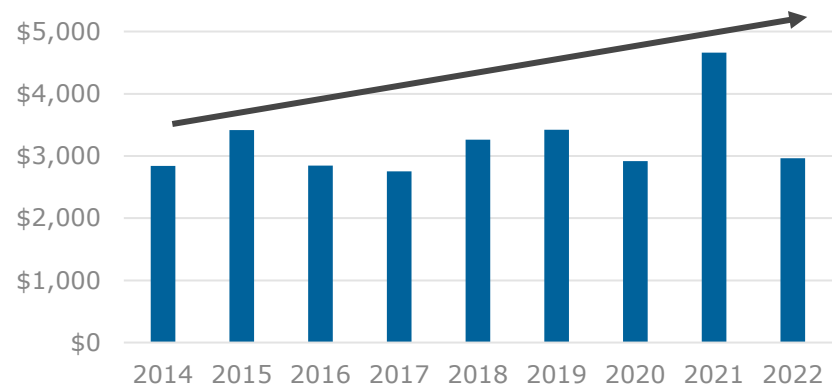
# MICRO FACTORS: INTEGRATION OF RECORD M&A

## RECENT M&A TRENDS IMPACT CONTROL ENVIRONMENTS

Global M&A Deal Volume by Year



Global M&A Transaction Value (in billions \$)



### CONSIDER THIS

When public companies acquire businesses, there is a one-year grace period before the acquired business must be considered as part of the SOX compliance program.

- ▶ Begin by **refreshing your top-down risk assessment** to identify areas of the acquired business that will fall into scope under SOX
- ▶ Proactively work to **document current state, develop requisite remediation plans, and monitor progress**
- ▶ Seek opportunities to **standardize disparate business processes**

# MICRO FACTORS: INTEGRATION OF RECORD M&A

YEAR 1 READINESS

INTERNAL CONTROLS

VALUATIONS

TAX CONSIDERATIONS

INTEGRATION *People, Processes, Technology*

OPERATING MODEL

BUDGET DECISION

SYNERGY CAPTURE



**Complexities  
impacting year-  
end after recent  
M&A activity**

# MICRO FACTORS: INTEGRATION OF RECORD M&A

## KEY M&A INTEGRATION SUCCESS FACTORS



**Plan, Plan, Plan** – Scope out the integration effort early. Understand and plan for impact to people, processes, and technology



Utilize current voluntary disclosures to evaluate what information and processes can be leveraged to comply with the disclosure requirements

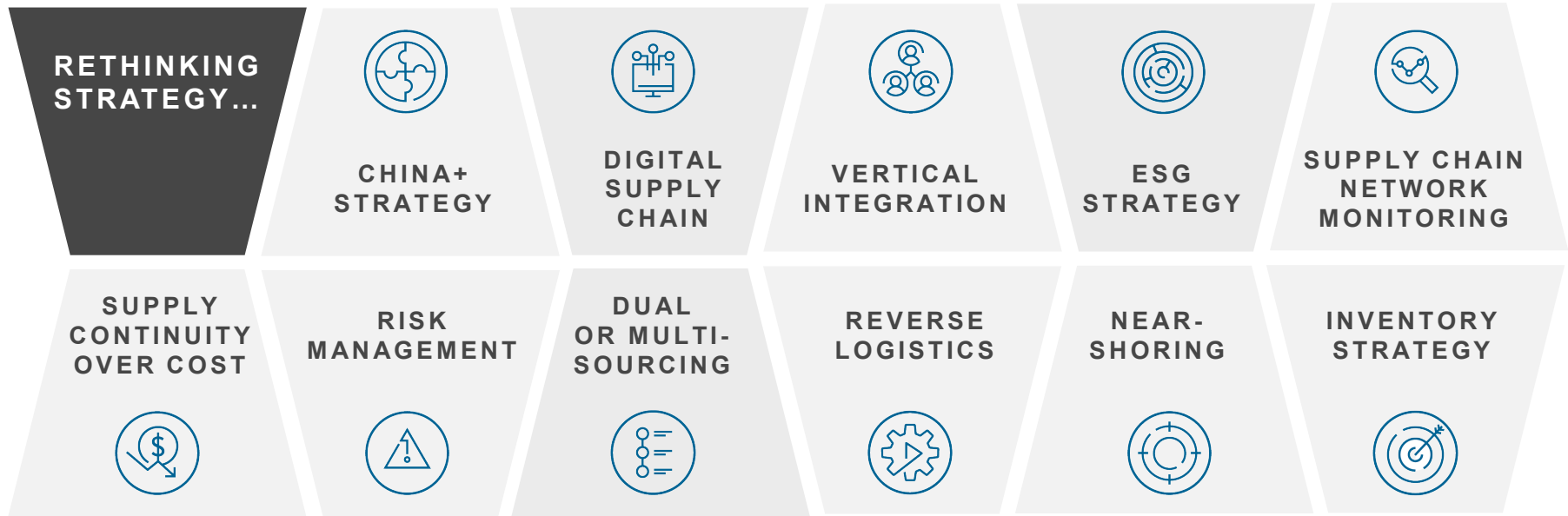


Identify gaps against current disclosures and proposed requirements

# MICRO FACTORS



# MICRO FACTORS: RECONFIGURING SUPPLY CHAINS



## KEY TAKEAWAYS: PARADIGMS ARE SHIFTING

- ▶ Just-in-time (JIT) Inventory -> Comfortable Safety Stock
- ▶ Low-Cost Country Sourcing -> Redundant Supply Chains
- ▶ Low Cost + Minimum Viable Quality -> Multi-Variable Sourcing Decisions (Think ESG)
- ▶ Offshoring -> Re-Shoring

# MICRO FACTORS: RECONFIGURING SUPPLY CHAINS

## THE IMPACTS OF SUPPLY CHAIN RECONFIGURATION ON CONTROL ENVIRONMENTS

### CHALLENGES

- ▶ Overly Reactive to Immediate Term Issues
- ▶ Integrating Sustainability in the Supply Chain
- ▶ Increased Investment in Supply Chain Tech
- ▶ Unrealized Results in Supply Chain Investments
- ▶ Longer Supplier Lead Times

### SUCCESS FACTORS

- ▶ Patch fixes are quick, but **proactive long-term solutions should be the focus**
- ▶ **IA to provide management with assurance** that ESG strategies are being achieved operationally
- ▶ **Cradle to grave involvement of IA on technology transformations**
- ▶ **IA to monitor and provide independent assurance** to key stakeholders on achievement of stated goals related to tech implementations
- ▶ Supply Planning comes into greater focus. IA to **consider coverage of S&OP in Audit Plan**



# POLLING QUESTION

## #3

**Which best describes the supply chain efforts at your organization?**

- A** We have completed efforts to enhance supply chain/S&OP processes in the past two years
- B** We are currently underway with projects to enhance supply chain/S&OP processes
- C** We are planning for supply chain/S&OP enhancements in the near future
- D** We do not currently have plans to address supply chain/S&OP processes at my organization

# MICRO FACTORS

INTEGRATION OF  
RECORD M&A



RECONFIGURING  
SUPPLY CHAINS



TECHNOLOGY  
TRANSFORMATIONS



# MICRO FACTORS: TECHNOLOGY TRANSFORMATION

## IMPACT BY THE NUMBERS

**5.5%**  
**INCREASE**

Growth for 2023 global IT spend trending strong compared to prior year

**TECH SPEND**  
**AMID UNCERTAINTY**

Despite continued global economic turbulence, all regions worldwide are projected to have positive IT spending growth in 2023

**\$5+**  
**TRILLION**

To be invested in workplace technology globally during 2024\*

### ASK YOURSELF

- ▶ Is implementation ad hoc, or is there a comprehensive integration plan?
- ▶ How will processes and controls be impacted by this change?
- ▶ What data inputs and outputs will be relied upon from the new system that could impact financial reporting?

### TAKE ACTION







- ▶ Always engage all relevant parties to develop a **robust project plan**, and consider leveraging a **System Development Life Cycle** approach for tech implementations
- ▶ **Involve IA in project management** to provide transformational assurance to key stakeholders
- ▶ Change management, data migration, and data integrity controls should all be considered

\*Source: [Gartner](#)

# MICRO FACTORS: TECHNOLOGY TRANSFORMATIONS

## THE ROLE OF IA AND RISK MANAGEMENT TEAMS

With the evolving role of Internal Audit, it is uniquely positioned to provide a forward-looking view on transformations—while facing certain challenges in executing these efforts:

 <b>Ability to be forward looking</b>	Anticipate current and future risk factors that could derail transformational timelines.
 <b>Keeping up with new trends</b>	Enhancing existing project audit methodology to consider current techniques and more dynamic application
 <b>Lines of defense</b>	Understanding and leveraging the 'lines of defense' appropriately – involve internal audit throughout transformational efforts
 <b>Right skills</b>	Acquiring the right resources and skill sets to assemble the team to add value to project assurance activities
 <b>Timeliness</b>	Identifying effective methods for communicating and reporting risks in a timely manner to affect decision making
 <b>Striking a balance</b>	It is a balancing act between excessive overhead and value driven audits and assurance

# MICRO FACTORS: TECHNOLOGY TRANSFORMATION

## CHALLENGES

- ▶ Reactive/firefighter approach
- ▶ Identifying the right skills and resources to enable success
- ▶ Project delays and poor accountability and communication
- ▶ Compliance-related tasks are often deprioritized and are not addressed timely
- ▶ Letting perfect be the enemy of good
- ▶ Optimism vs. Reality leads to a rose-colored view



## SUCCESS FACTORS

- ▶ **Proactively assess risk factors** associated with the transformation
- ▶ **Assess skills** needed for each phase of the transformation
- ▶ Develop a **detailed transformation project plan**, and ensure effective monitoring of progress against the plan
- ▶ **Refresh IA/SOX Risk Assessment** to understand impact of transformation on the organization's compliance program
- ▶ Assess transformational steps, **identify critical path**, and prioritize accordingly
- ▶ Leverage IA/GRC to provide **independent monitoring of progress** and provide transformation assurance

# POLLING QUESTION

## #4

**How confident are you in your organization's approach to transformations?**

- A** Very confident
- B** Somewhat confident
- C** Not confident
- D** We are not currently engaged in business transformation

# RETHINKING RISK

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## Q&A, ADDITIONAL RESOURCES, AND RECAP

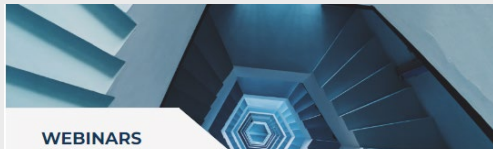


## RELATED RESOURCES



EVENT RECAP

[Quick Guide: Trends Shaping Your Control Environment](#)



WEBINARS

[Webinar Replay: Rethinking Risk](#)



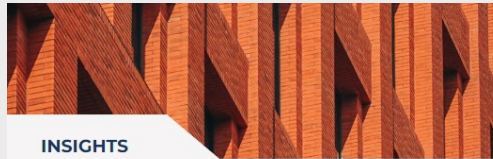
INSIGHTS

[After the Audit: Elevate Your Accounting & Finance Impact](#)



INSIGHTS

[How to Address Risk and Internal Controls in Business Combinations](#)



INSIGHTS

[Modern Finance: Maximizing Operations at Newly Public Companies and SPACs](#)



INSIGHTS

[Three Ways to Prepare for an Internal Controls Audit in a Year of Significant Change](#)



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# RECAP: MACRO FACTORS IMPACTING RISK MANAGEMENT



## ECONOMIC UNCERTAINTY

In an environment of abundant risk and rising debt expense, organizations will seek ways to cut costs and preserve profitability. Process automation will remain a priority, and layoffs will increase.

### KEY TAKEAWAYS

- ▶ Proactively identify **future state control ownership and SoD** considerations
- ▶ **Focus on high risks** such as impairment testing, revenue recognition, and share-based compensation
- ▶ Prioritize controls related to **cash management and cash forecasting** as these matters remain top-of-mind for leadership

## EVOLVING COMPLIANCE ENVIRONMENT

As companies embed ESG within their strategies, stakeholders are driving the need for timely, consistent, investor-grade reporting on ESG data.

### KEY TAKEAWAYS

- ▶ Involve finance teams in ESG-focused discussions as the **office of the CFO will ultimately own ESG reporting in the future**
- ▶ ESG reporting will draw from the muscle memory of financial and SOX disclosures—and will need to be **easily digestible by investors**

## LABOR MARKET & TURNOVER

Companies are smoothing out their hybrid arrangements in response to employees' desire for remote work. Leaders must also prioritize upskilling and reskilling their teams to hedge against dissatisfaction and turnover.

### KEY TAKEAWAYS

- ▶ Remain vigilant of headcount reductions that can impact the organization's ability to achieve **appropriate segregation of duties**
- ▶ Consider whether your organization has the right **monitoring controls** in place to mitigate these risks

# RECAP: MICRO FACTORS IMPACTING RISK MANAGEMENT



## INTEGRATION OF RECORD M&A

After business combinations, companies must reassess scope and coverage of risk and controls programs in order to ensure continuity of compliance.

### KEY TAKEAWAYS

- ▶ Recent M&A activity may have slowed but there's often a lag in integration, which means there's **a backlog of integration-related risks** to manage
- ▶ **Plan, Plan, Plan** – Being proactive results in fewer surprises. Scope out integration efforts early, anticipating the impacts to people, processes, and technology

## RECONFIGURING SUPPLY CHAINS

Since the pandemic, supply chain paradigms have shifted to include considerations for diversifying sources and increasing ownership for environmental responsibilities.

### KEY TAKEAWAYS

- ▶ **IA/GRC should provide assurance to management** that ESG strategies are being achieved operationally
- ▶ Consider leveraging **cradle-to-grave involvement of IA/GRC on any supply chain technology transformations**

## TECHNOLOGY TRANSFORMATIONS

The speed and agility with which new technology is being adopted requires companies to also assess impact on risk and controls.

### KEY TAKEAWAYS

- ▶ **Develop a detailed transformation project plan**, and provide **independent monitoring of progress** and transformation assurance—leveraging IA/GRC resources
- ▶ **Refresh IA/SOX Risk Assessment** to understand impact of transformation on the organization's compliance program