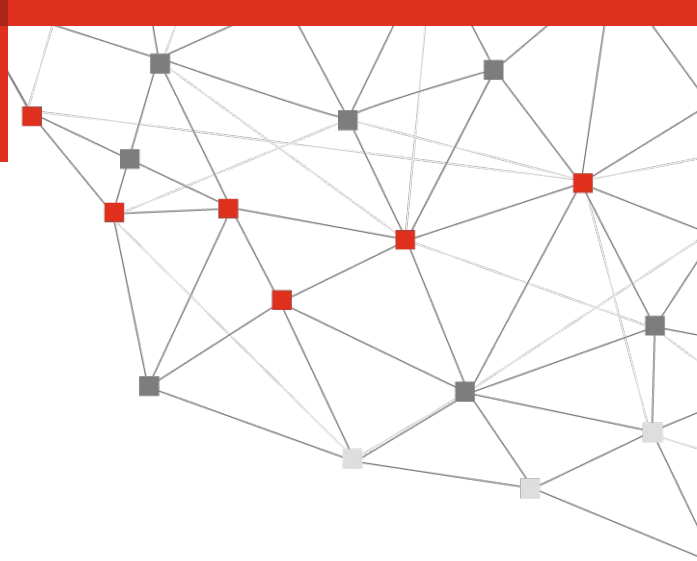


2020 Internal Controls Survey



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1

Foreword



Foreword

In today's society, finding the holy grail of trust is a challenge for many of us, whether we are part of a company or acting as individuals.

Companies seek ways to make their businesses resilient, while making sure their purpose resonates with their customers and employees. While companies are forced to prioritise their resources, an unintended response might be to miss out on critical tasks in the background, such as internal controls. Maintaining normal business operations during unforeseen events takes more than luck. Resilient companies have a strategy and framework to identify and mitigate risk. Both customers and employees will undoubtedly be more vigilant about health and well-being, and increase their demands around quality, safety, transparency and trust. Companies will have to reassure employees about safety and well-being and find ways to motivate them in a post-lockdown world. Responding appropriately to these challenges is a must if your organisation wants to have a competitive advantage. How can internal control help to bring your organisational values to life?

Rethinking your internal controls can help you along the path to becoming a resilient organisation

As PwC Risk and Controls experts, we wondered how COVID-19 impacts the internal controls in our Belgian companies in terms of scope, risk assessment, control design and execution, monitoring, reporting and digital upskilling. We also wanted to investigate how effective and future proof the internal control systems are. That is why we surveyed about 40 companies in Belgium across a wide variety of industries.

A variety of multinationals in the public and private sector with locations in Belgium participated in the survey. The respondents all have responsibilities in the internal control domain.

Enjoy the read!



Wim Rymen

Risk Assurance Partner
PwC Belgium



Kristin De Rudder

Senior Manager Risk Assurance
PwC Belgium



How Belgian Corporates think about internal controls?

Why a survey on internal controls?

Like any organisation, you're striving to build and maintain transparency and trust with your people, clients and stakeholders. This is precisely what internal controls are designed to do.

Implementing the right controls enables organisations to gain valuable insights into the proper functioning of their business processes. An internal control system also helps all your company's stakeholders to develop an understanding of the organisation and ensures that all assets are being used efficiently and accurately.

The importance of internal controls in business decisions has increased as many company structures have become more complex. Despite their importance, not all companies have given top priority to the maintenance of these controls. Additionally, many small businesses do not have an adequate understanding of internal controls and therefore use inferior internal control systems. Many large companies have non-formal processes, which can lead to systems that are not as efficient as hoped for.

Is this the case for our Belgian corporates?

We are glad to say, given the niche topic of the survey, and the small country we live in, that Belgian organisations understand the importance of internal controls.

In total, **76% of the respondents perceive internal controls as valuable but feel that not all levels in the organisation are proactively participating in the internal control journey.**



Why does it take so much effort to get everyone in the organisation on the same page?

Maybe because the added value of the internal control activity is not understood. When you ask control owners, why are you reconciling sheet A with B? Chances are high you'll get the answer, *'I'm doing this because my boss asked me to do.'*

Wouldn't it be much more rewarding for the control owner if they understood how their activity contributed to the trust factor and ultimately the resilience of the organisation? They would be more likely to reach their potential if they knew how much their work matters, and the impact it has! In addition, the auditor can spend less time on substantive audit procedures by applying a control based approach.

With a proper understanding of internal controls, management can design an internal control system that promotes a positive business environment, one that serves its customers most effectively and ultimately provides trust and transparency to all stakeholders, internal and external.

2

Methodology used



Methodology

Methodology used

The goal of the internal control survey was twofold:

- a. provide **quantitative insights** into the way Belgian organisations are dealing with internal control and measuring how COVID-19 impacts its internal control function
- b. obtaining **qualitative insights** about the state of the organisation's internal control culture.

The PwC Belgium Internal Control Survey covered the following seven areas:



Internal control mindset



Internal control maturity



Risk assessment



Control design



Monitoring



Reporting tools



Digital enablement of the internal controls

Each participant who completed our online questionnaire received a detailed insights report where we matched their responses with relevant recommendations for each of the seven topics.

Following this, we had conversations with each of them in order to understand their organisation's internal control culture from a wider perspective. These conversations allowed us to obtain deep insights about the qualitative aspects of the internal control culture—things like mindset, perception, and collaboration between teams.



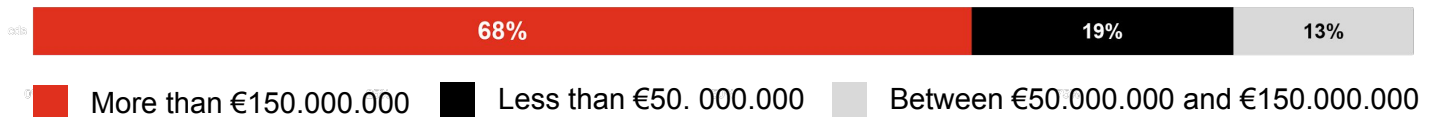
3

Survey demographics



Survey demographics

Total revenue



ERP systems



Listed on the stock exchange



Availability of an internal audit function



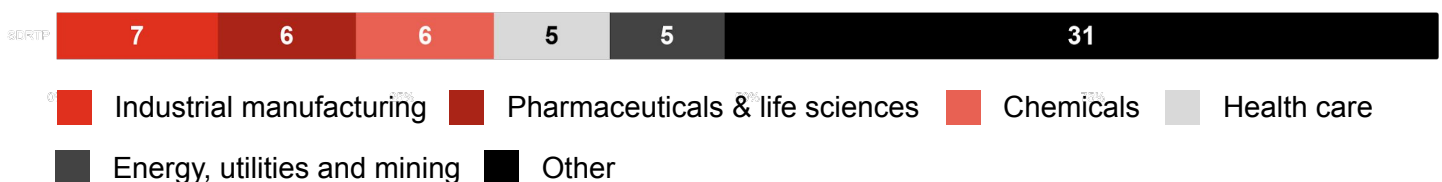
Existence of an internal control framework?



Annual process governing the internal control framework



Sector



Survey demographics

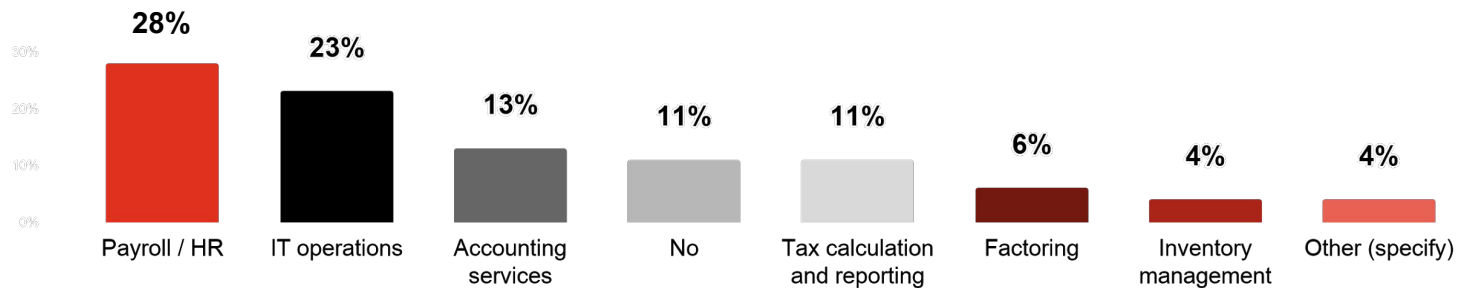
Roles and responsibilities in internal control are defined



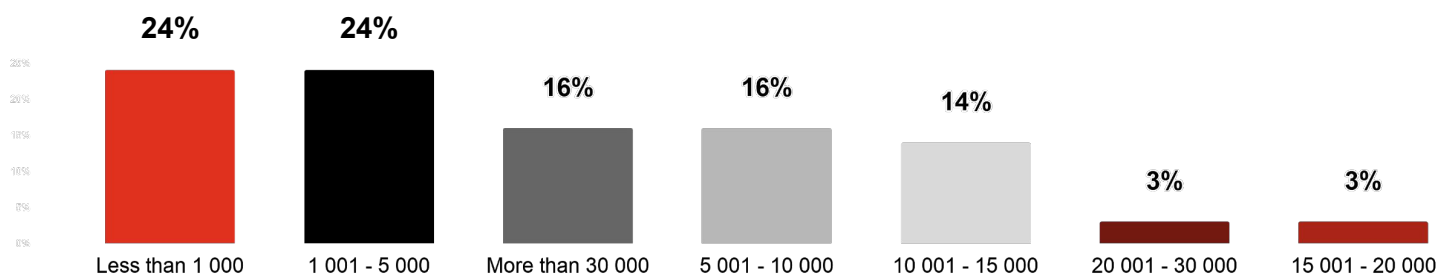
Centralised role for internal controls



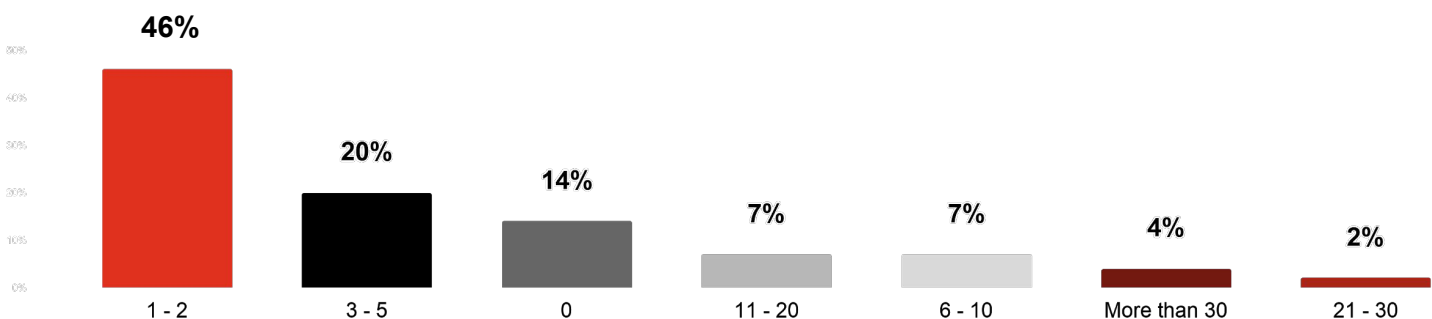
Outsourcing of activities



Number of employees in the group



Number of personnel involved in the internal control function



4

Key survey results



1. Internal control mindset



Regardless of whether the company needs to comply with the Sarbanes-Oxley Act or has a long track record with internal controls, the main challenge is to continue to explain the added value of internal controls to the entire organisation, and to make the added value of their tasks clear to internal control owners.

Perception of internal controls within the company?

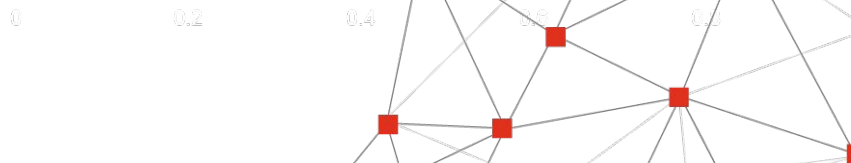
Internal controls are perceived by business owners as valuable but they are not proactively participating in the internal control journey only after a few reminders, they act upon.



Internal controls are perceived by business owners as valuable and control owners approaches the internal control journey initiatives with enthusiasm. It is part of their DNA.



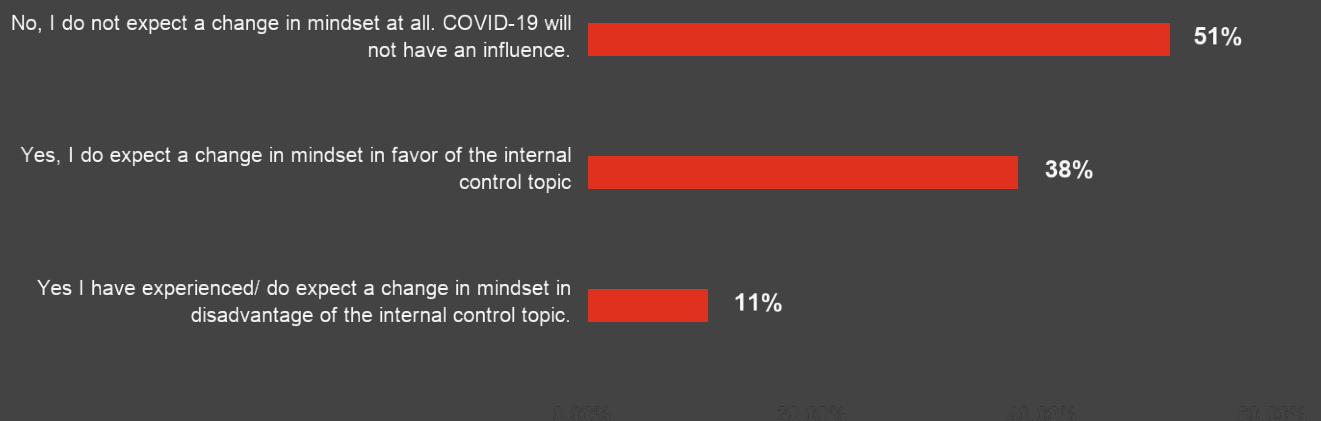
Internal controls are perceived as an impediment by business owners that slows down work processes and it is difficult to engage business owners in the internal control journey.



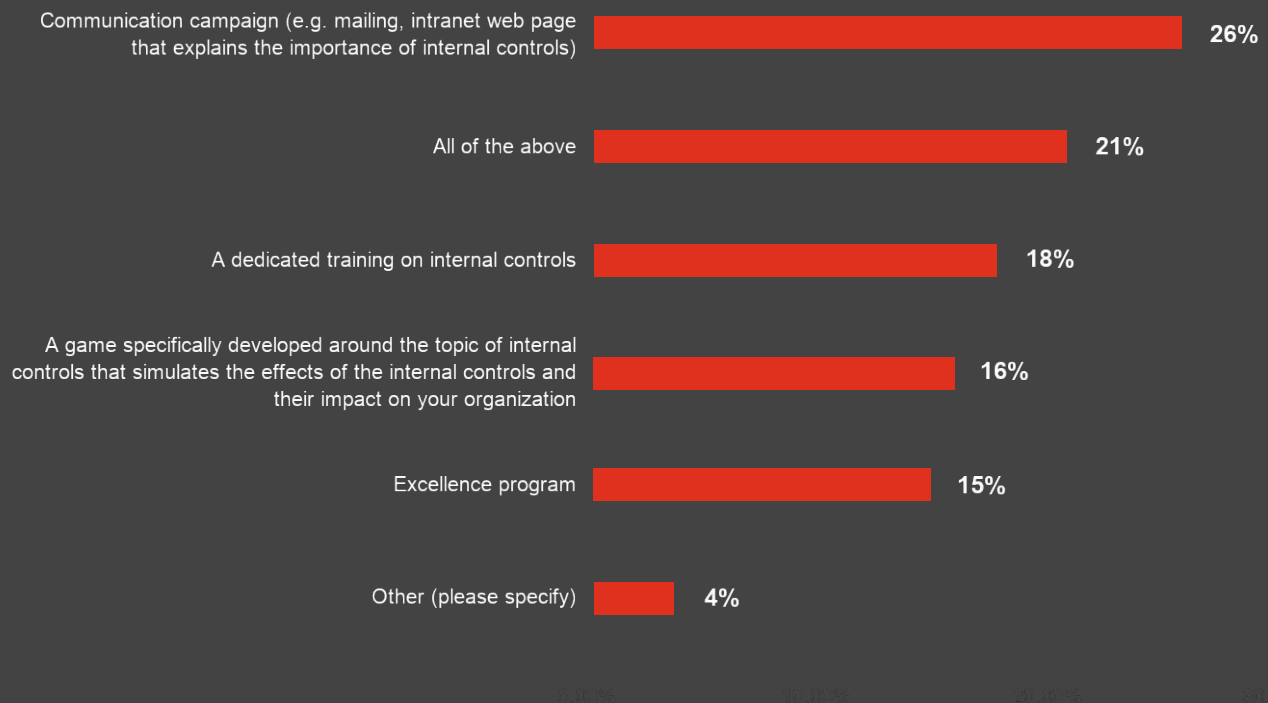
1. Internal control mindset

COVID-19 impact: **51%** do not expect a change in mindset at all on the overall internal control mindset. However, companies are looking for creative ways to build a more positive perception around internal controls. Besides the common choices of internal control training or communications campaign explaining the added value, **15%** considered gamification as an efficient way of keeping internal controls high on the agenda.

Impact of COVID 19 on the internal control mindset?



Activities that can help build a more positive perception about internal controls



1. Internal control mindset



How is the topic of internal controls perceived in your company?

As with any other project, it's important that your internal control scheme is backed by senior management and that control owners get the right support from their superiors. Your organisation's decision-makers define the internal control culture and have a role to play in communicating expectations and cascading the project through all levels of the company.



In our company we have a strong internal control mindset. The execution of internal controls by the control owner is crucial. We, as an internal control and compliance team, need to bring a positive message to the control owners so they understand the added value of what they are doing in order to avoid control owners ending up with the belief they need to execute the control because the compliance team asks them to do so.

Finance Risk and Control Manager in the Pharma sector



At UCB there is a willingness to cooperate on internal controls thanks to team leaders who are very instrumental to their team. The detailed standard operating procedures we have in place facilitate this support.

Alice Farrell - Internal Control and Compliance at UCB



2. Internal control maturity

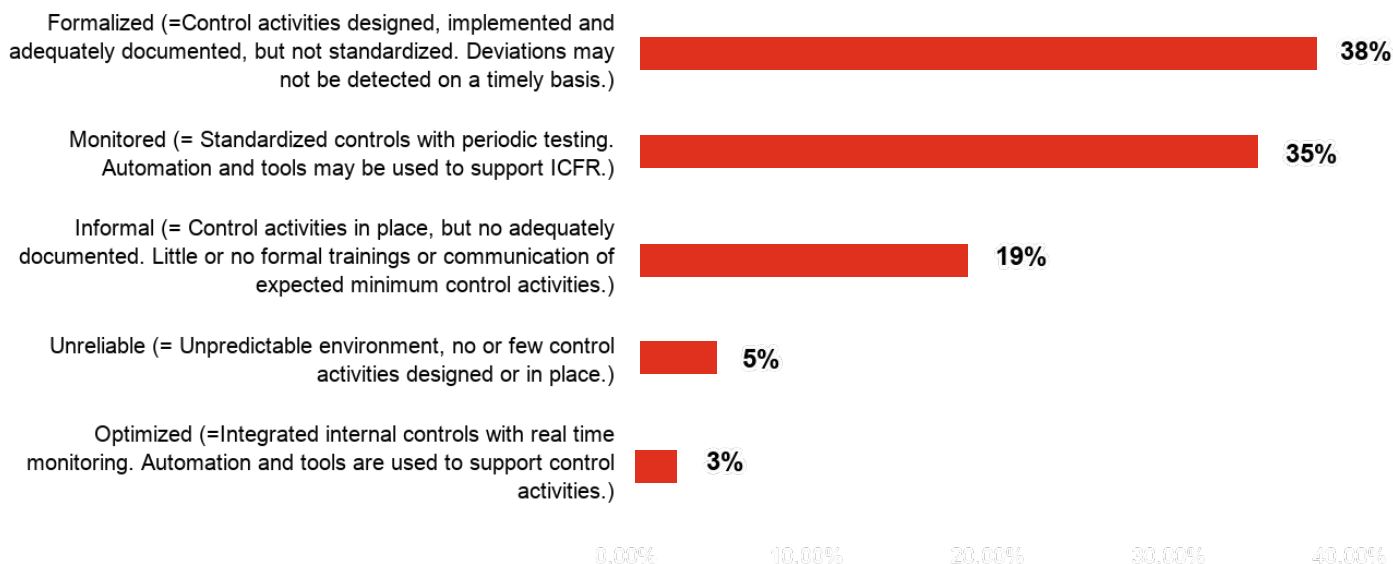


In total, **38%** of the organisations indicate they have **formalised** control activities (control activities designed, implemented and adequately documented, but not standardised). This means that deviations may not be detected on a timely basis.

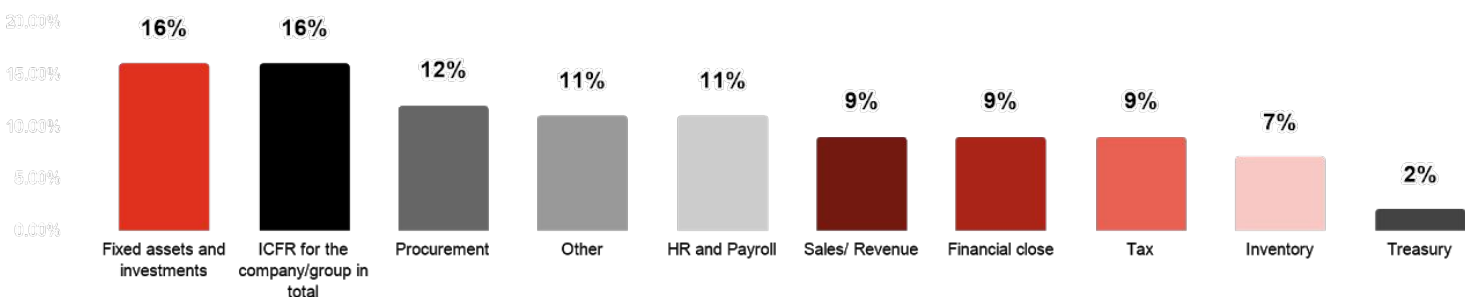
A total of **35%** have already reached a mature level of control **monitoring** level (standardised controls with periodic testing; automation and other tools may be used to support internal controls). Companies consider the **procurement and fixed assets & investments** as a domain where there is room for improvement in terms of formalisation and monitoring!

Technology allows the maturity ladder to be climbed more quickly. Advancements in technology, such as automation, the streamlining of control performance, monitoring and testing, are driving cost efficient internal control improvements. However, the effective use of digital internal control tools often requires the underlying processes and available data to be streamlined and automated. Hence, as companies continue to digitalise their business processes we expect them to rapidly move up the maturity scale.

How would you rate the overall level of internal control maturity within your company?



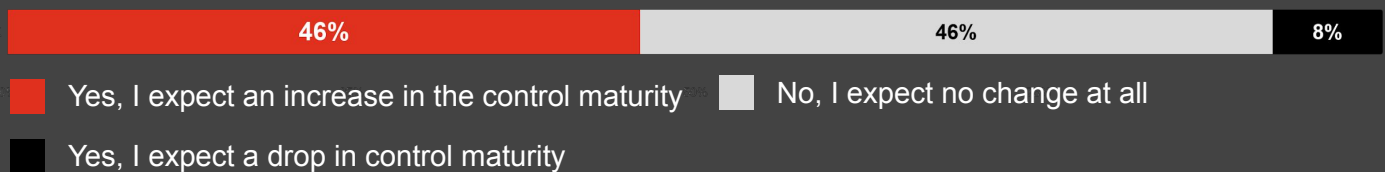
In which of the following processes is the maturity unreliable or informal?



2. Internal control maturity

COVID-19 impact: Only **8%** expect a drop in control maturity due to COVID-19. Either way, companies believe there will be no change at all or an increase in control maturity (a shift to more monitoring controls). The efforts spent responding to COVID-19 in terms of internal control by those responsible, takes up, in **46%** cases, under 25 % of their time. COVID-19 does not have a huge impact overall.

Do you expect that COVID-19 will have an influence on the existing maturity of internal controls in your company?



What percentage of your time is your organisation currently spending in responding to COVID-19 in the domain of internal control?



2. Internal control maturity



COVID-19 continues to affect businesses across the world and has a significant impact on profitability. The new reality of operating your business remotely, potentially understaffed or missing key individuals, changes the way internal controls are performed. Manual paper-based controls won't be effective—either the controls need to be digitised, or a workaround needs to be defined.

An ongoing review of your organisation's internal control environment is imperative to avoid a drop in internal control maturity.



Since internal controls have been implemented in 2019 , the overall quality of the financial closing process has rapidly been improved. Control owners understand the added value of internal controls -

Financial Controller Compliance SOx reporting in the Biotech industry.



As a CFO I consider internal controls as an enabler to take the right decisions. The risks of error and misstatements are reduced to an acceptable level. Within our company, we obtained the buy-in from the internal control owners because, with them, we determined how their control activity could improve their daily routine. They were in the driver's seat.

CFO - Transportation & logistics sector



3. Risk assessment

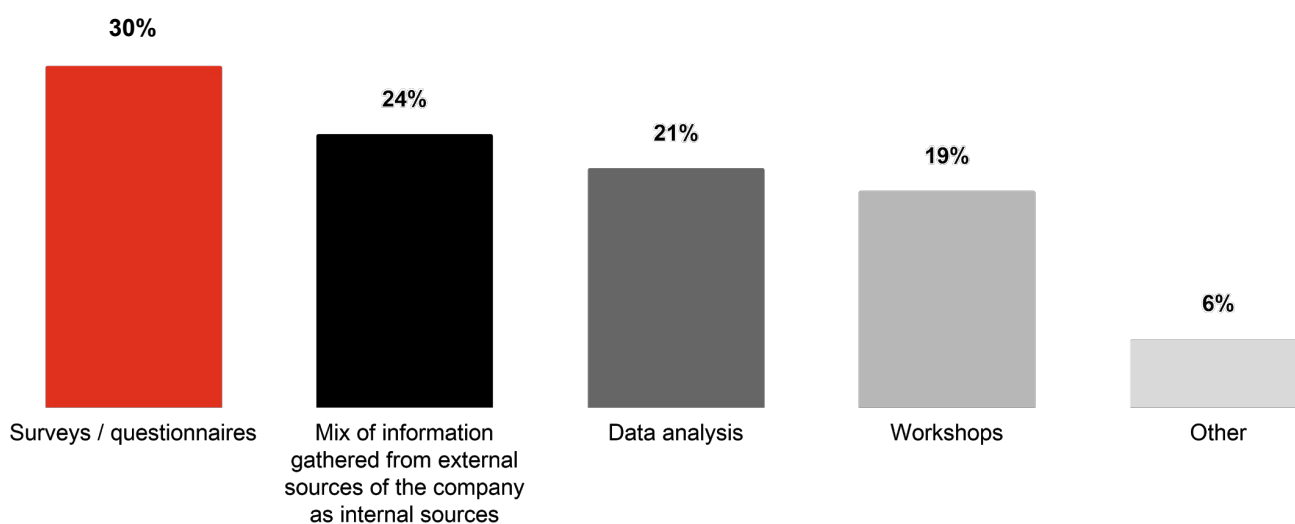


COVID-19 isn't the only threat on the horizon—and organisations are often at their most vulnerable when dealing with a crisis that dominates their attention. The many other risks that businesses face aren't diminished by an epidemic. Given the speed and force of the changing environment, the companies are overextended as it is. We looked at how risk assessment systems are organised, and learned that **46%** revise them on an annual basis. An outside view is incorporated by **24%** of the organisations in their risk assessments: a mix of information gathered from internal and external sources. The traditional survey/questionnaire methodology is used to assess the main risks in the company by **30%**. Only **19%** prefer to use data analytics or traditional workshops for performing their risk assessments.

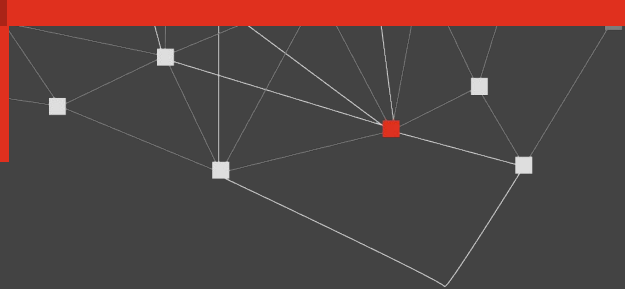
How often are risk assessments revised?



How are the risk assessments being performed and assessed within the company?



3. Risk assessment



COVID-19 impact: Operating risks and security risks are considered in **35%** to be the most important additional risks that organisations need to mitigate (as well as those associated with COVID-19).

What additional risk(s) will your organisation have to mitigate due to COVID-19?

Operating risks  **35%**

Security risks due to remote working,
Financial risks, Operating risks  **35%**

Financial risks, Operating risks  **25%**

No additional risks  **5%**

0.00%

10.00%

20.00%

30.00%

40.00%



3. Risk assessment



As risks are becoming increasingly complex and interconnected, companies are expected to revise risk assessment systems and internal control over financial reporting more frequently.

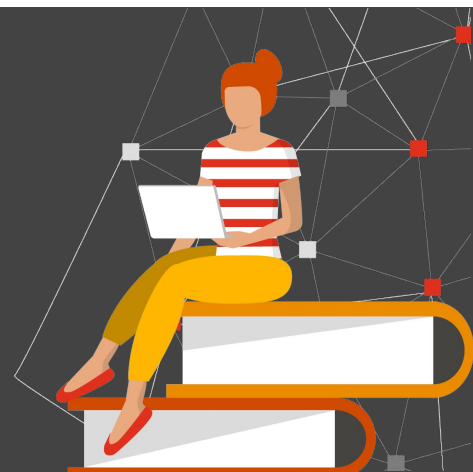
To provide a consolidated view, the data has been generated from businesses and details the IT used for processes for risk management and internal controls. Most companies use a mix of methods to perform risk assessments.

The outcome of the risk assessment also influences the frequency of the scoping of internal controls. Additional risk(s) may have to be mitigated due to COVID-19.



As a Group internal audit and control director with Balta Group, some elements of this internal control survey served as inspiration for our annual risk assessment exercise.

Dominiek Viaene - Group Internal auditor and control director - BALTA Group



4. Control design



Control design is the systematic description of control activities that mitigate risks in relation to error and fraud. An effective control design is essential to the proper running of an organisation, and ensures that it can provide trustworthy processes. Controls can be set up in any type of domain. The most common type of controls that companies are putting in place are **process level controls**. This is followed by entity level controls, and IT general controls. A robust key control framework always includes **IT general controls**. These are the backbone of your business controls. They can be applied to IT systems (such as applications, operating systems, databases, and supporting IT infrastructure).

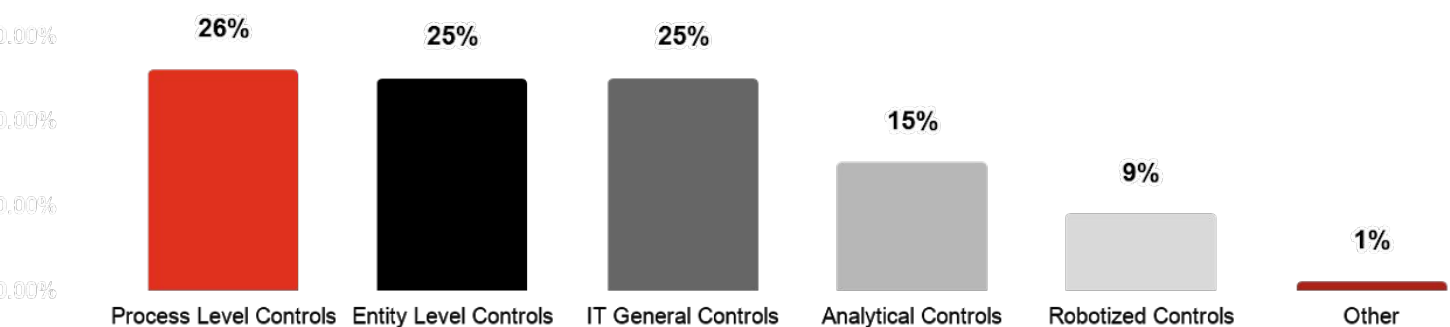
In total, **52%** of companies stated that **security and segregation of duty risks were mitigated by system access controls**.

The objectives of IT general controls are to ensure the integrity of the data and the processes that the systems support. If one of them is not functioning properly, businesses cannot fully rely on the completeness and accuracy of their reports. Only **9%** have put in place **robotised controls**. The main drivers for updating the internal control over financial reporting are **weaknesses reported by the internal and/or external auditor (16%)** and **regulatory changes (16%)**.

Are security and segregation of duty risks mitigated by system access controls?



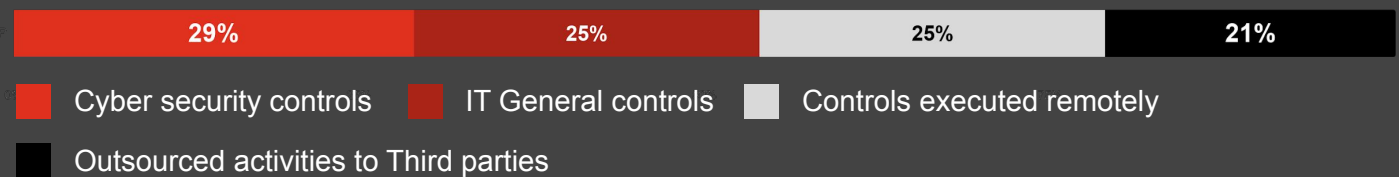
What type of controls has the company utilized?



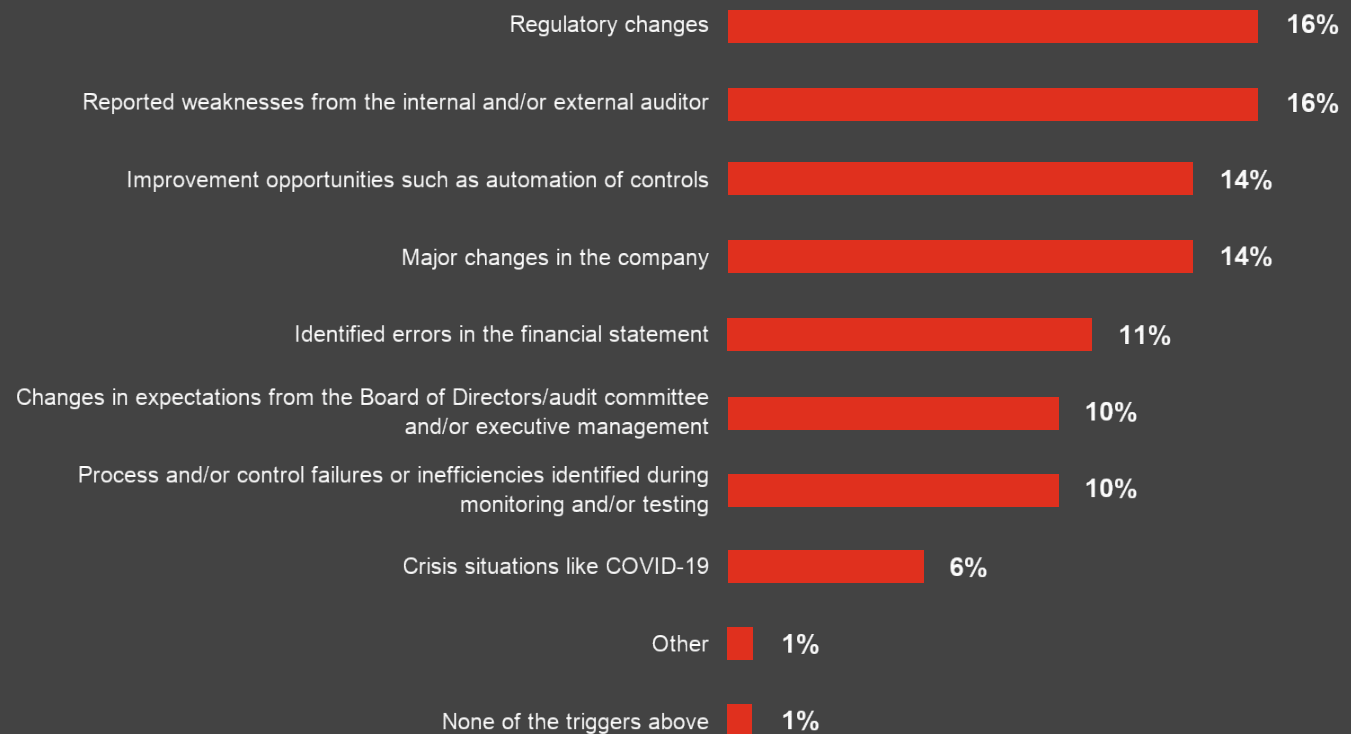
4. Control design

COVID-19 impact: The COVID-19 situation is only a trigger in a minority of the cases (6%) where changes to control design are being made. When it comes to areas that companies are adjusting due to COVID-19, more attention is given to **cyber controls**. Equal weight is given to **IT general controls** and **controls executed remotely**, and these are followed by outsourced activities.

In which areas will your organization adjust controls over financial reporting due to COVID-19?



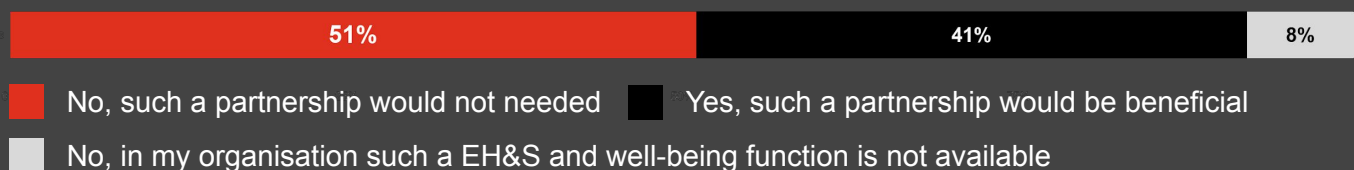
Which events trigger update of the ICFR control design?



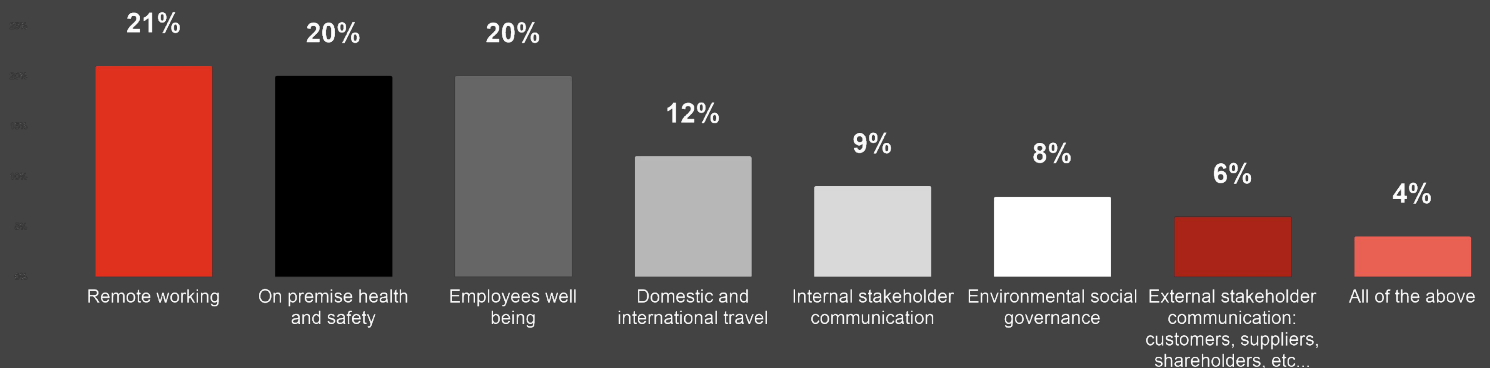
4. Control design

Specific controls designed for working together in the office during pandemic. In response to questions on planned internal control function activities when a company returns to on-site work: **16%** indicate changes to workplace safety measures and requirements (e.g. wearing masks, thermal scanners, testing workers) and **16%** report that work sites have been reconfigured to promote physical distancing. When collaboration is required companies are choosing to do so remotely. A total of 51% stated that a **partnership between internal control functions and environment, health and safety functions** is not needed, but **41%** saw benefits in such a partnership. In addition, **8%** does not have an environment, health and safety programme. Where environment, health and safety and internal control teams are collaborating, they are working remotely.

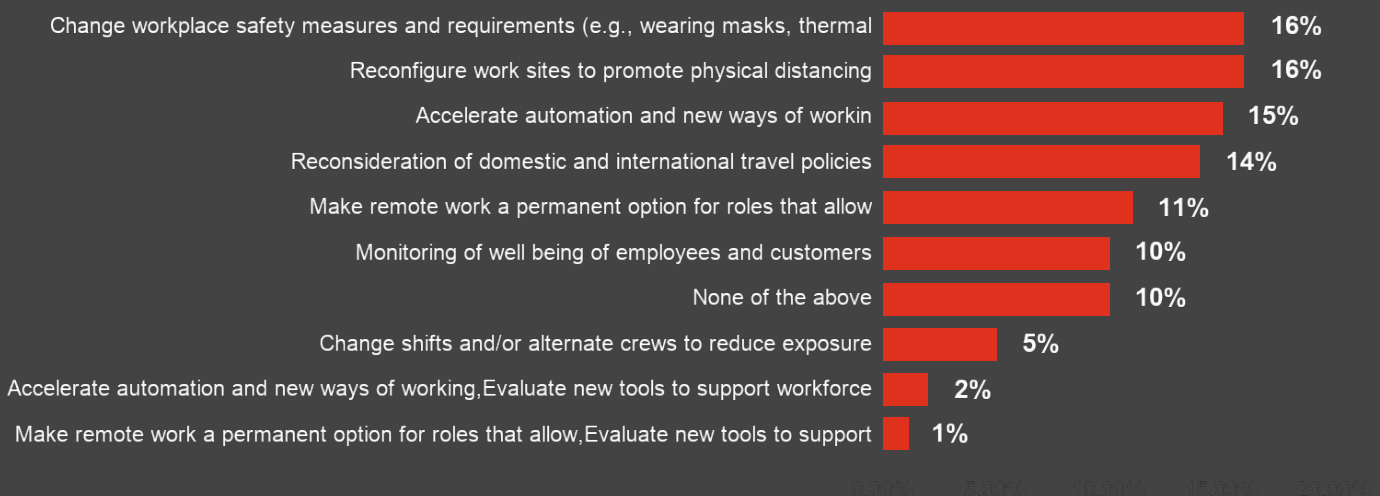
Do you see in the organisation that a partnership between the Internal Control function and the EH&S and well-being be beneficial?



In which areas would your organization like to collaborate with the EH&S well-being team?



In which activities will your organization be involved with the Internal Control function when your company is planning to start to transition back to on-site work?



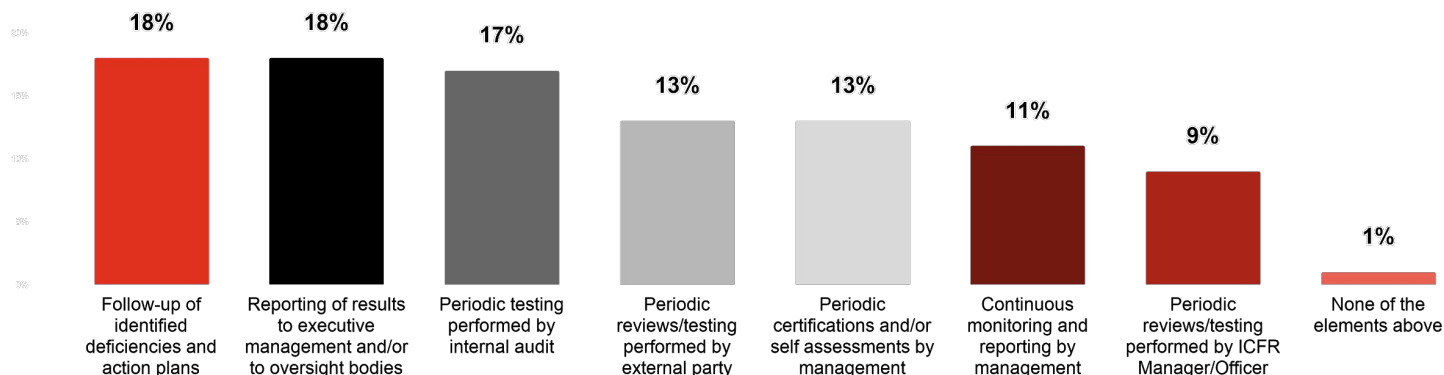
5. Monitoring



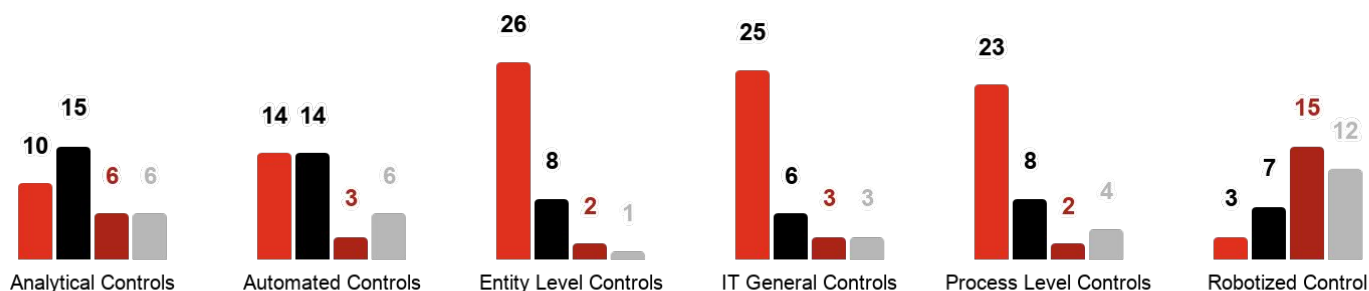
Just as control activities help to ensure that risk management actions are carried out, monitoring helps to ensure that control activities and other planned internal control actions are carried out properly and in a timely manner, and that the end result is effective internal control. Ongoing monitoring activities evaluate and improve the design, execution and effectiveness of internal controls. Separate appraisals, such as self-assessments (done by department employees) and internal audits, are periodic evaluations of internal control components that can be consolidated in a formal report on internal control. Only **11%** of the respondents reported the **use of continuous monitoring and reporting** by management. This figure is surprisingly low, given the several opportunities that can be achieved by implementing continuous monitoring, such as the standardisation of processes, reducing the costs associated with compliance and risk management, centralisation benefits, etc. Monitoring is used to ensure that the control activities are carried out correctly, and in a timely manner. There are several **ways to monitor the effectiveness of controls**. The most common are entity level, IT general and process level controls. Analytical and robotised controls remain unmonitored.

A large majority (86%) indicated that **control testing activities are performed in-house**. The 14% outsource this practice.

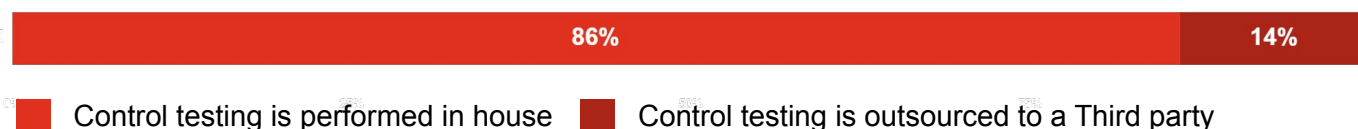
Does the monitoring system include one or more of the following elements?



Are there processes in place to monitor effectiveness of the following control types?



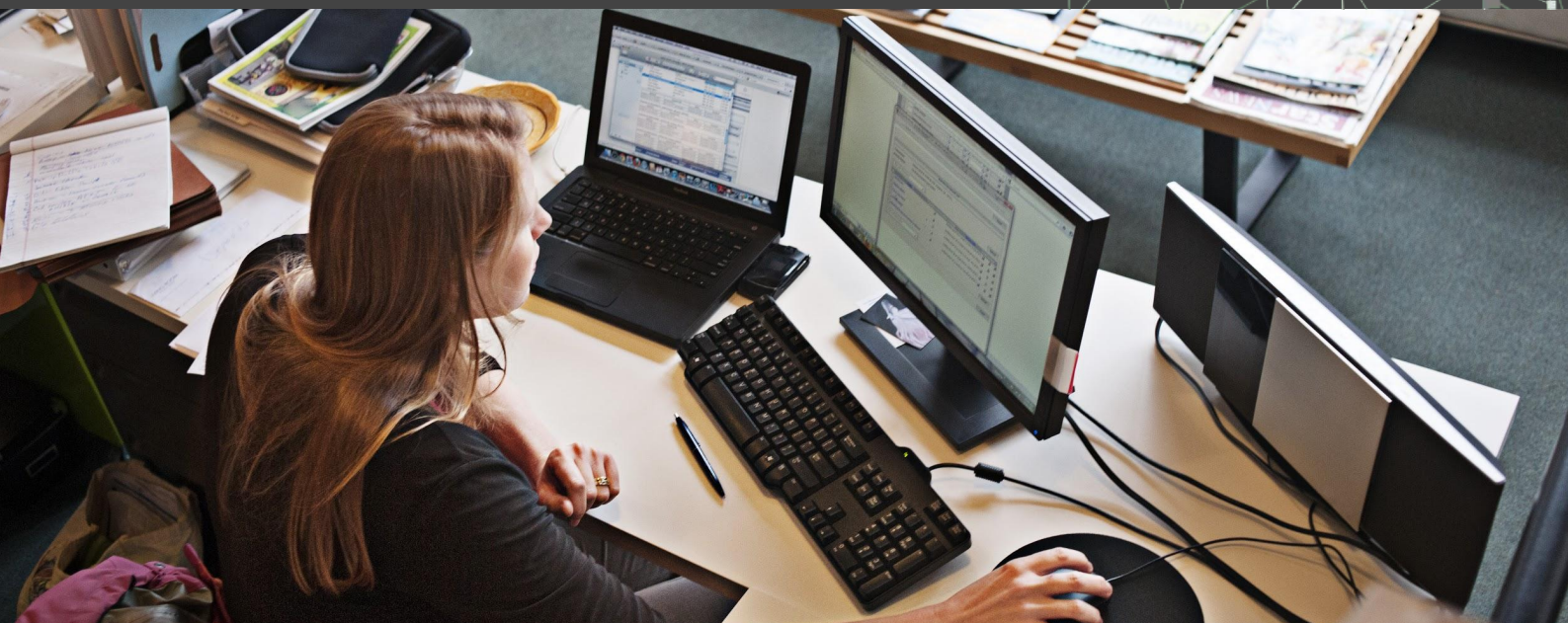
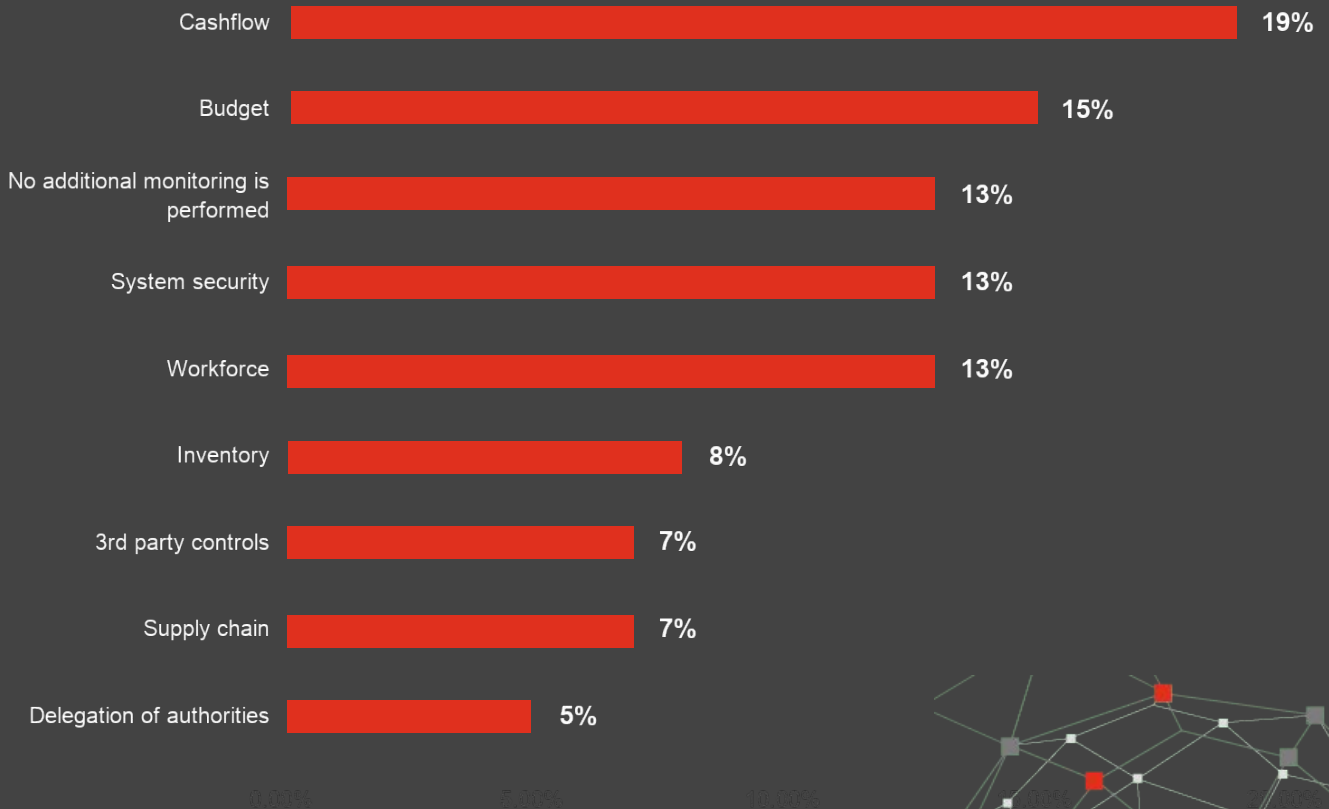
Who performs testing of controls in your organisation?



5. Monitoring

COVID-19 impact: Organisations are mainly performing additional monitoring on: cash flow, budget and system security. No additional monitoring at all is performed by 13.5%.

On what area(s) is your organization performing additional monitoring due to COVID-19?



5. Monitoring and testing



Monitoring is used to ensure that the control activities are carried out correctly, and in a timely manner. With COVID-19, internal audit teams that were used to travel to different entities in their organisation, realise that remote auditing techniques will not fade away.



In these COVID-19 times we have to keep the business more reactive. For our internal auditors it is more time consuming ... more time is spent in the evidence-request process explaining what information is needed. Much more follow-up is done on documentation requests. For us in the Internal Audit team, it is a temporary shift in order to conduct remote auditing.'

Head of Internal Audit from a manufacturing company



We give the courage to people to speak up. When there is a control deficiency, we focus on the 'what went wrong?' rather than the 'who caused the control deficiency?' We share the lessons learned with all control owners. Some deficiencies might be unique to a certain location. Therefore we have set up inspiration calls—kind of review calls—for control owners within the GBS team to share lessons learned with each other, aiming to make the solution visible for everyone.

Controller Global Business Services - Chemical industry



6. Reporting tools



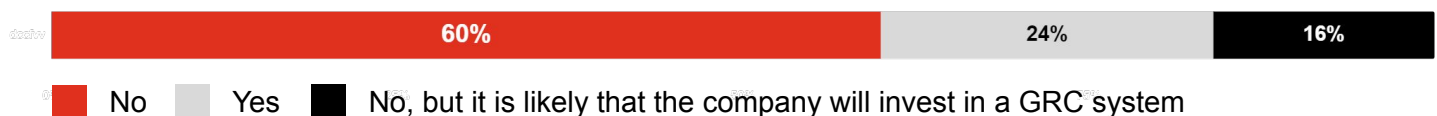
How can you integrate all internal control initiatives taken by the three lines of defense in a visual way, so as to obtain insights into their effective design and operation in your organisation?

Almost **60%** of the respondents declare that they do **not have a specific governance, risk management and compliance system for managing internal controls**. This is due to the cost implications and the belief that their organisation is not mature enough.

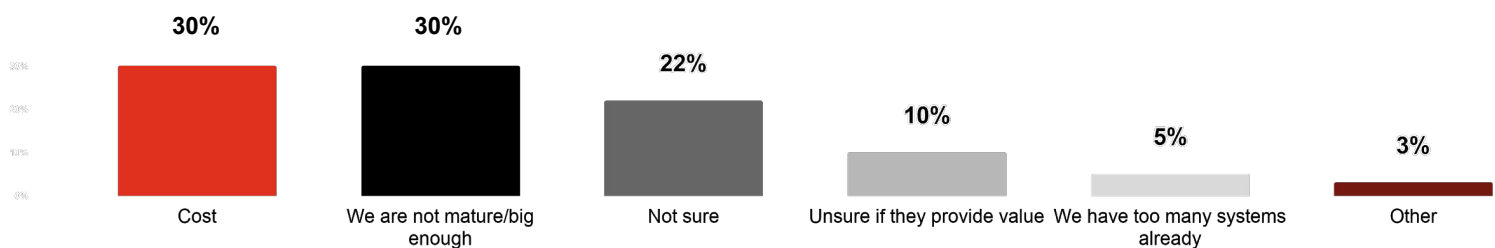
Those companies that invested in governance, risk management and compliance tools have done so in order to have a centralised documentation repository and audit trail. They stated that these tools, which supported things like process automation and workflow enablement, helped with efficiency.

Management can ascertain if the business and IT processes are trustworthy based on a solid report containing all the control results!

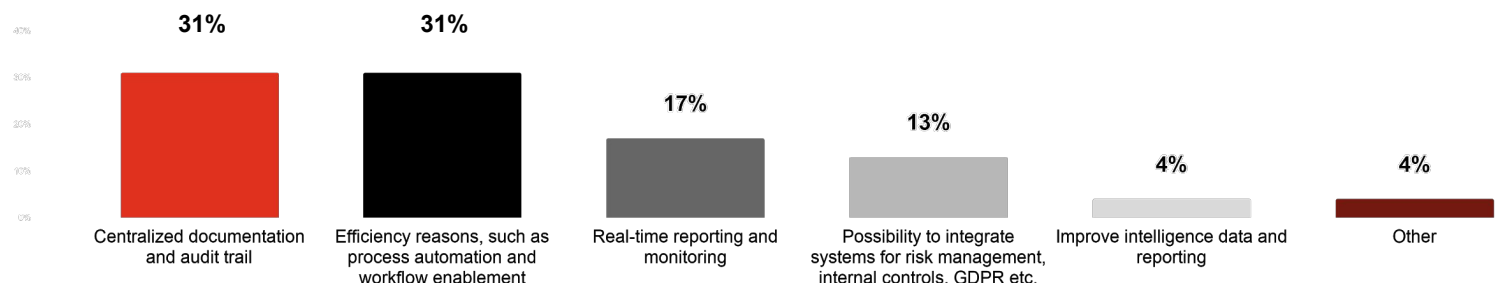
Has the company implemented a Governance, Risk and Compliance (GRC) system for managing ICFR?



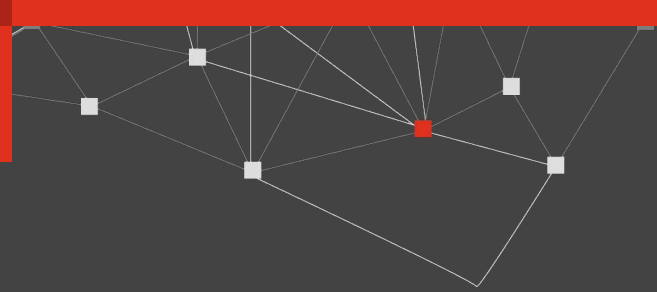
What was the main reason(s) for not using a GRC system?



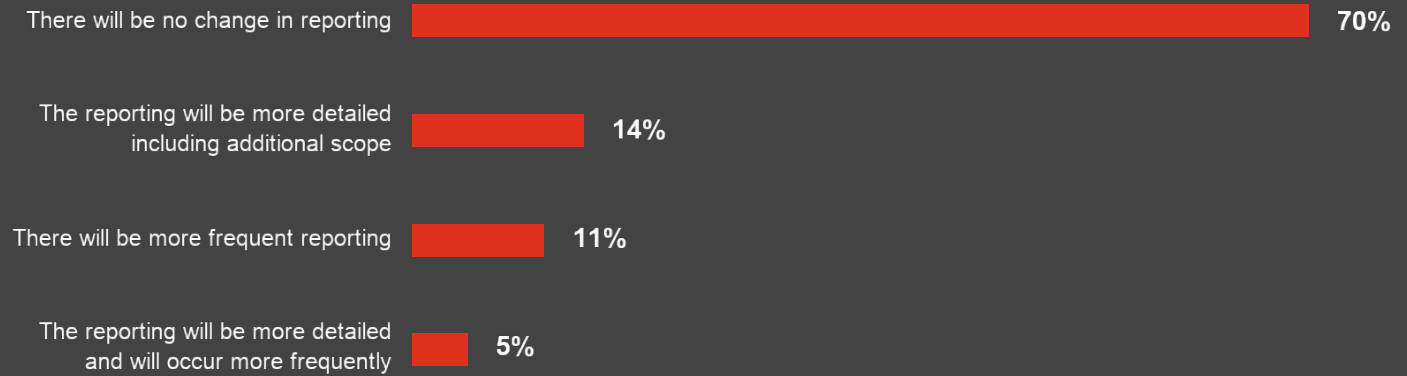
What was the main reason(s) for implementing GRC system(s)?



6. Reporting tools



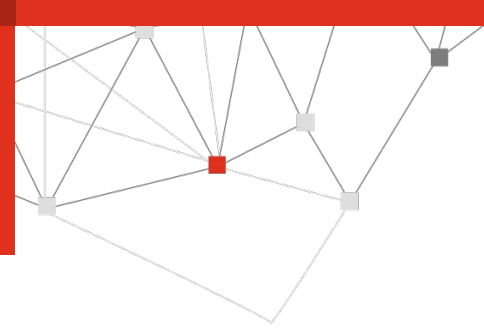
How will COVID-19 impact the controls reporting to the stakeholders and the service organization controls reporting to your company?



Will the COVID-19 situation change the need for a GRC system?



7. Digital enablement of the internal controls



In today's rapidly changing environment, with its huge volumes of very complex business processes, we notice that current internal control systems aren't always covering all risks in an effective and efficient manner.

Although current control systems often have a proven value, their relevance and efficiency can be boosted when used in combination with **a data-driven approach**. The most commonly used digital tools to support internal control activities are data analytic and data visualisation ones like Power BI, Qlik Sense, and Tableau.

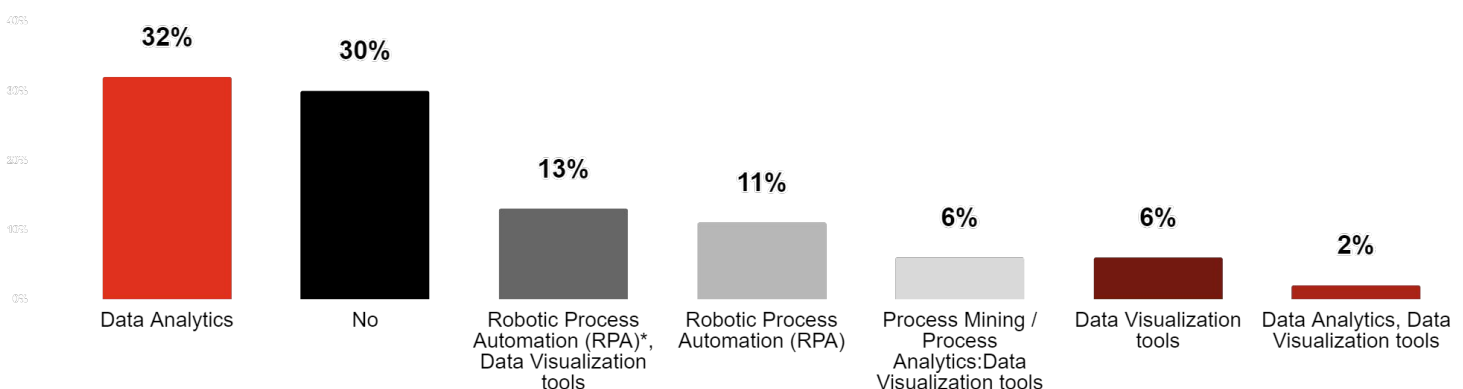
In total, **30%** declare that they do not to use any of the digital tools available (like robotic process automation, data visualisation or process mining). Process mining techniques are actively used to demystify their business processes by **6%**. According to our respondents these digital tools work best for the procurement process. The main reasons for using those data analytic, visualisation and process mining tools are threefold: (1) monitoring controls; 2) understanding the impact of (deficient) controls; 3) assisting detection controls.

A total of **54%** of the surveyed companies are not sure whether they plan to develop and use robotic process automation, data analytics and process mining or data visualisation techniques going forward.

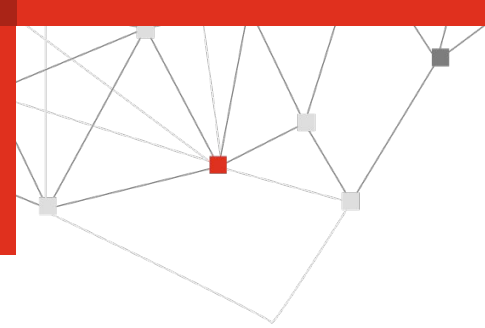
Has the company implemented IT governance over the RPA to ensure data security and system integrity?



Does the company use the following digital tools to support ICFR activities?



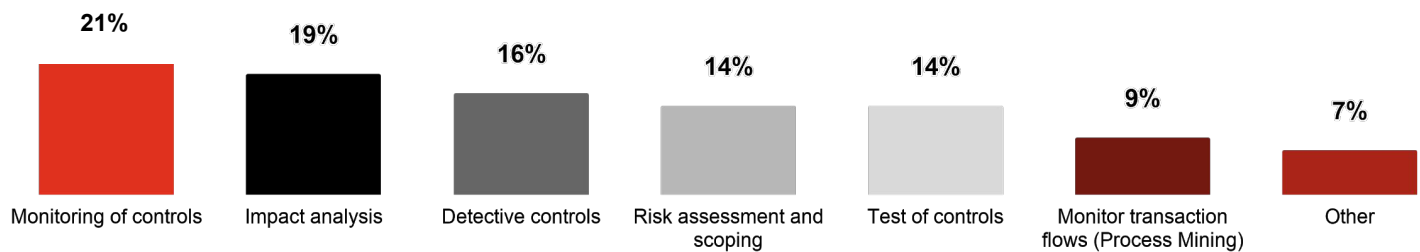
7. Digital enablement of the internal controls



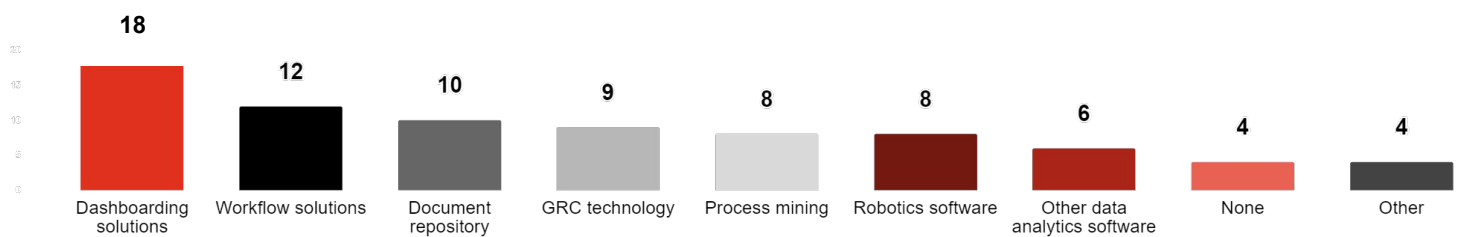
What was the main reason(s) for implementing RPA?



What was the main reason(s) for using Data Analytics, Process Mining tools or Data Visualization tools?



In what technology does your company intend to invest in the coming year(s)? If any.



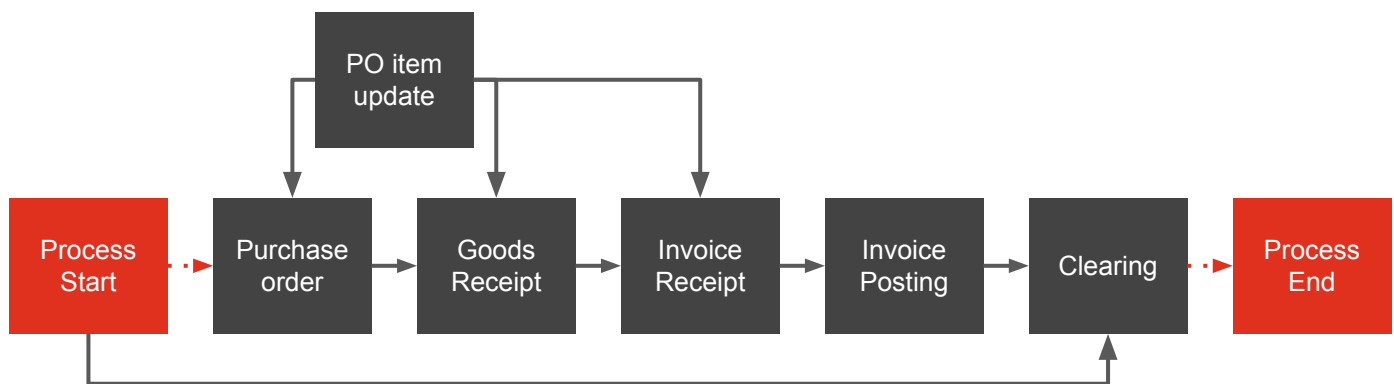
7. Digital enablement of the internal controls



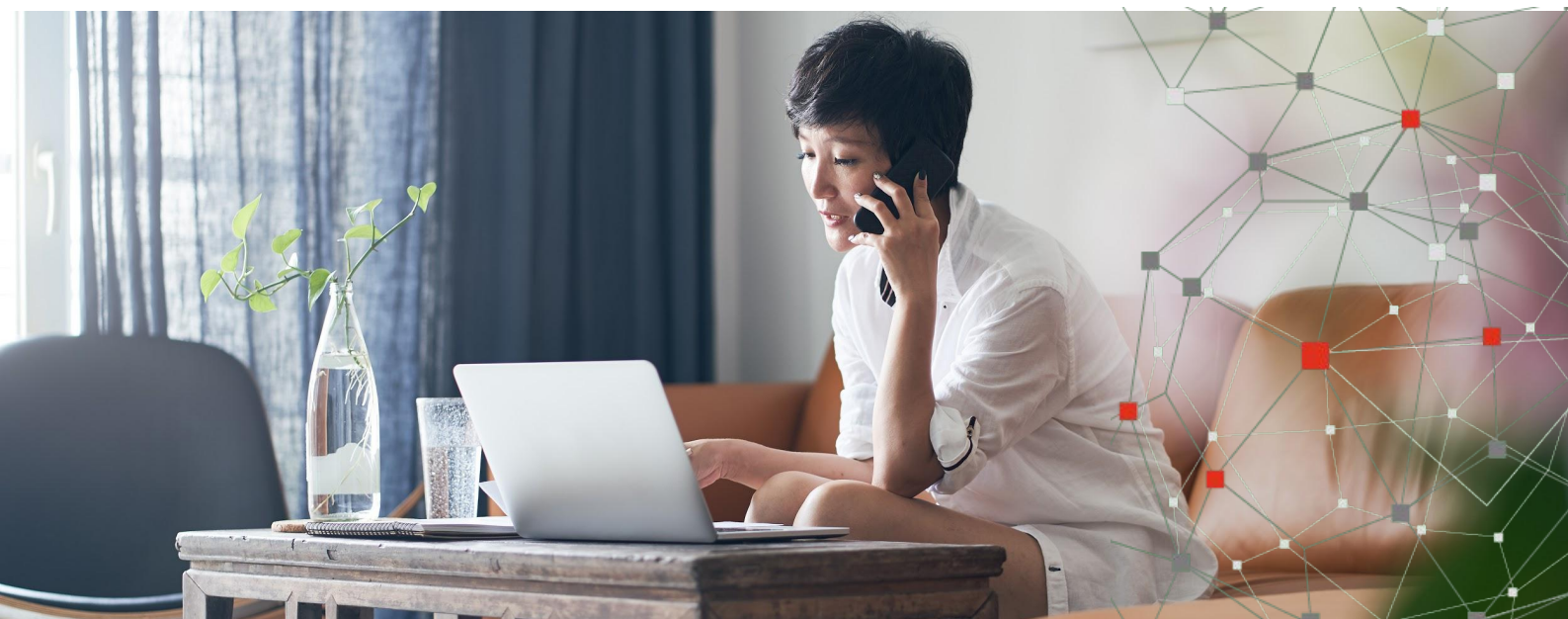
Process Intelligence

Process intelligence is based on process mining technology. When employees perform activities in one of the company's applications, the activities performed, series of events, and user data are logged. Process intelligence tools can be used to visualise the event logs and life-cycles of business processes. Regardless of the business area, there is often a gap between how processes are intended to be and what they are in reality. The most common processes to analyse using process mining tools are purchase-to-pay and order-to-cash. This technology allows organisations to analyse 100% of all the transactions within the process, exposing bottlenecks, compliance issues, segregation of duties, level of automation, cycle times, etc.

Firms continue to invest in internal control technology. Dashboarding solutions, workflow solutions and document repositories are the top three technology investments.



Process flow - the procure to pay process



7. Digital enablement of the internal controls

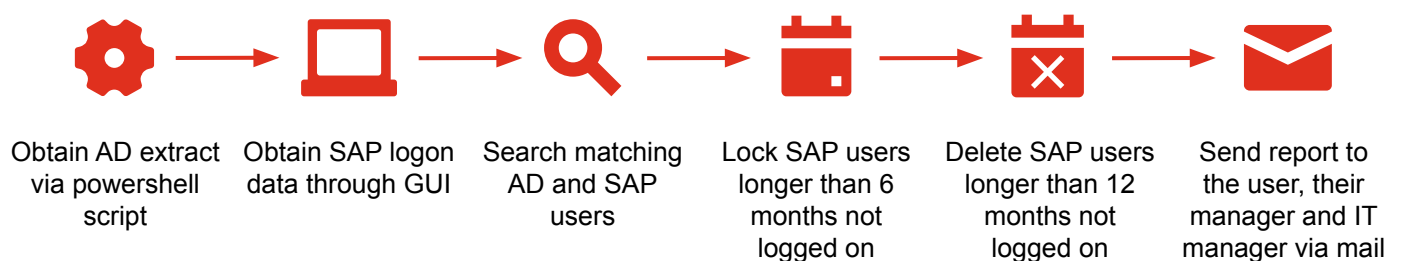


Robotic process automation

Process automation is a leading factor in driving productive growth in organisations, with robotic process automation and intelligent process automation emerging as the next steps.

Similarly to process mining techniques and data analytic techniques, the technology is used in those processes where more standardisation is applicable like in the procure-to-pay, order-to-cash and financial- closing cycles. Tax controls are least suited to the use of robotic process automation technology.

Robotic process automation software follows a rule-based logic to perform manual, time-consuming office tasks more efficiently. It operates on top of existing software, potentially across different systems, mimicking the interactions of users. The application can aggregate data from multiple sources and develop an integrated single view for all business processes, thereby reducing the need for human intervention in complex business processes.

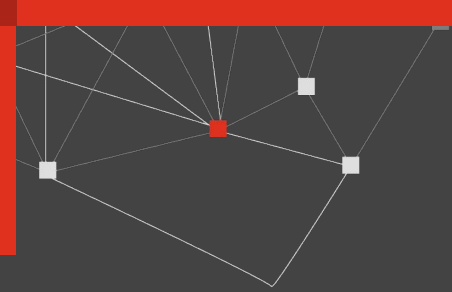


Example of RPA in the leavers process

What are the implications of robotic process automation for the control environment?

Robotic process automation does not exercise judgement, nor can it detect errors or changes to source systems. The robot only acts upon pre-defined rules. It is important that this is taken into consideration when deciding where to apply it. It is also crucial to ensure that the control environment reflects its use. Organisations need to include robotic process automation as part of their IT governance, update process descriptions and routines to follow up on data quality and deficiencies, and perform system validation checks (among other measures). In addition, the ownership of robotic process automation can be a possible pitfall. An important consideration is whether it should be owned by the IT department or by the process owner.

7. Digital enablement of the internal controls

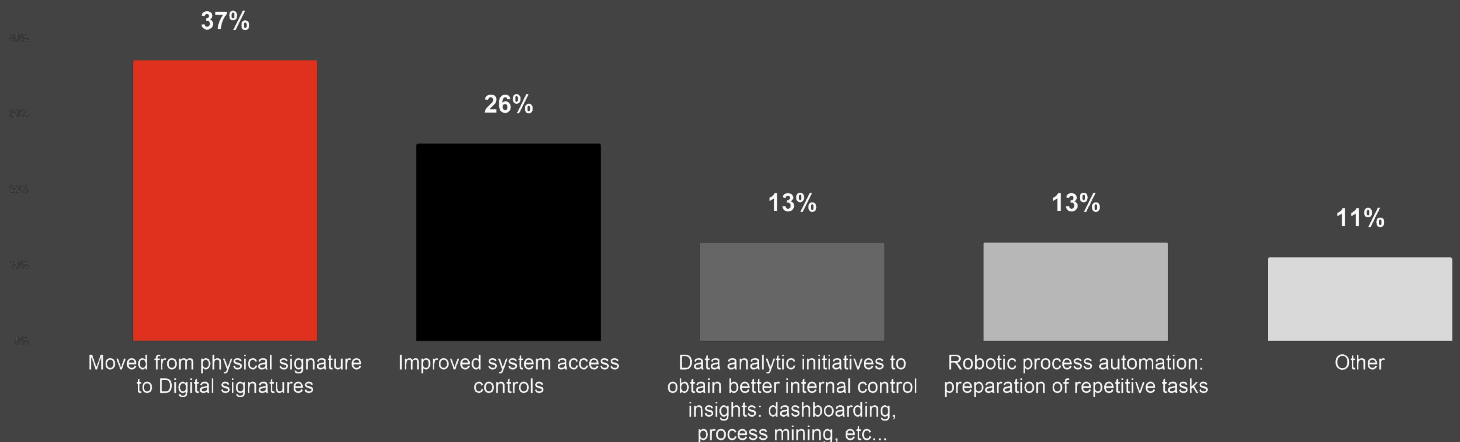


COVID-19 accelerated the digitalisation of internal controls: **26%** improved the access controls and **13%** automated repetitive tasks.

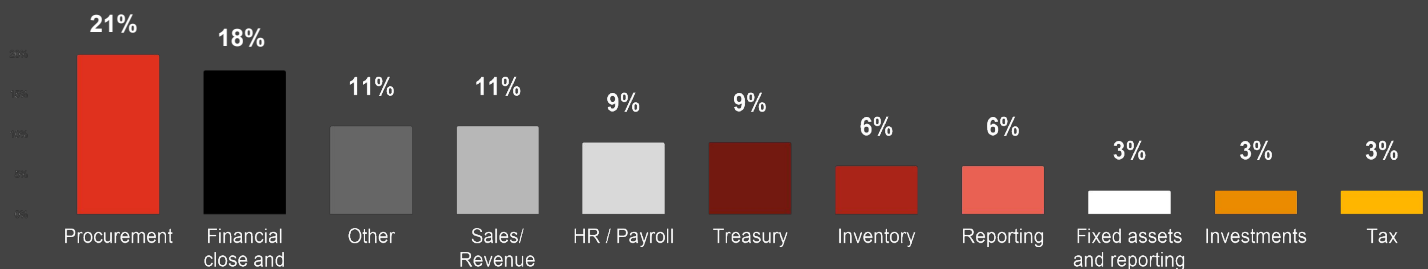
Data analytics is the most commonly used digital method to support internal control because it facilitates the monitoring of control activities and a better understanding of the impact of control deficiencies.

Areas that are right for data analytics are those that allow a high level of insight and impact and are linked to the organisation's strategy and objectives. It is also easy to implement data analytic solutions within processes that are relatively easy to understand, such as the purchase-to-pay and the sales revenue process. Financial closing reporting activities can also be improved.

Which digital upskilling initiatives have your organization taken since COVID-19 in terms of internal controls?



For which business processes does the company use RPA?



At Etex we use COVID-19 as an opportunity to monitor our data and to visualise our data in a digestible way for the purpose of internal controls.

Giulio Pollino, Internal Audit Manager at Etex



5

Conclusion



Conclusion

This survey learned us that COVID-19 has not dramatically changed the way internal controls function. The biggest impact of COVID-19 has been on scoping activities for internal controls. Much more attention is being given to cyber security and remote access controls. Some organisations consider this pandemic as an opportunity to change the way internal controls operate.

Small steps are being taken towards a future-proof internal control function. Digital opportunities to support internal control efficiencies and effectiveness require further attention. A future-proof internal control framework is one that connects to other functions in the company, one that gives full attention to automation opportunities by using the technology available on the market (like process mining, robotic process automation, data visualisation, etc.).

One aspect must not be forgotten when dealing with internal controls—**the human element!** Make sure you have a compelling story ready that **promotes the added value of internal controls in all parts of the company.**

Instead of restating the quantitative aspects we want to take this opportunity to share with you the common denominator that we identified in all the interviews we conducted with those responsible for internal controls. You are all proud of your expertise and believe in the added value of internal controls. Despite all the good results you have achieved, you feel that the internal culture in your organisation could benefit from a revamp.

Tap into the opportunity this pandemic presents—**bring about an internal controls' renaissance by making use of new sales and communication techniques.**

Internal controls grew out of the core activity of the finance department. Different organisations face different types of risk, but when internal control systems are lacking, opportunities for fraud, misuse of the organisation's assets, and employee or workplace corruption arise. Part of an accountant's function is to understand the internal controls of an organisation and assist in its maintenance. But it's not all down to the finance team. Input from other departments is also required. The culture of isolation is changing in the most dynamic and forward-looking risk and control departments. The accountant's biggest challenge is not to obtain missing information, but to prevent the loss from happening again—and to explain the added value of the proper execution of this internal activity to all the different departments in the company. The internal control story needs to **resonate** with those other teams.

A less frequently explored topic is how to effectively build and leverage relationships with other business units in a way that increases the impact of internal controls. In other words, what other resources can you tap into and leverage to help you build your future-proof internal control programme? Typically, risk and internal control functions work closely with departments like procurement, HR, and internal audit. But there's a great deal of untapped opportunity in building a relationship with your organisation's marketing and communication team too. When the internal control function and marketing truly collaborate, the entire company benefits.

The marketing and communication function + the internal control function = powerful pathways to establish the internal control programme.

In these times of crisis, having a strong corporate identity and a transparent story truly makes a difference. Those companies that succeed in creating trust with the outside world are the most attractive for shareholders and consumers.

Resilience and resonance are two trends that are key to survival in these times, both for individuals and for companies. Internal controls can contribute to the resilience of a company, while the proper establishment of an internal control programme inside and outside a company will allow organisations to connect their internal and external stakeholders. This means that the organisation uses its power to impact the emotional states of people around it in a positive way while creating credibility and pulling everyone onto the same upbeat wavelength—building trust in society! That is what a future-proof internal control function stands for!



Kristin De Rudder

Senior Manager Risk Controls and Compliance, PwC Belgium



Wim Rymen

Partner Risk Controls and Compliance, PwC Belgium



Thank you



Risk, control and compliance teams are well positioned to bring the organisational values of their company to life.



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