



KPMG CFO Real Insights: C-Suite Perspectives

Spotlight on CFO's and Internal Audit

February 2023



Becoming a better collaborative business partner gives CFOs the opportunity to work closely with other departments and add more value to the organization, and to expand into a more strategic role.

The webcast emphasized the critical connection between CFOs, internal audit, and finance leaders to increase collaboration and improve risk and compliance.

The panelists addressed the following topics:



Reflections on the Board agenda



Transforming delivery models



Reflections on the Board agenda

From pivoting to “remote work” and focusing on employee well-being to deepening digital engagement with customers and recalibrating supply chains, the ability to quickly adapt to dramatic disruptions and dislocations has clearly defined the survivors and thrivers in the last two years. The KPMG CEO survey which reflects a good portion of the board agenda draws on the perspectives of more than 1,300 global CEOs across diverse markets to provide insight into their outlook on the business and economic landscapes. The key themes include:

- **Cyber:** With the cyber environment evolving quickly, 44 percent of the U.S. CEOs believe their organizations were underprepared for

a cyber-attack while 81 percent said that geopolitical uncertainty was raising worries over corporate cyber-attack. Now more than ever, internal audit has a critical role to play in assessing cyber strategy and creating a well-defined approach to mitigate cyber threats.

- **Growth and strategy:** CEOs have emerged with new strategies to drive growth and transformation and report growth expectations in 2022. However, about 34 percent of the U.S. CEOs are expecting a short and mild recession, and from a board oversight perspective, this can be seen as an opportunity to have plans in place considering the potential inflationary or recessionary risks.

- **Environmental, social, and governance (ESG):** Discussions of ESG matters have taken hold in every boardroom. CEOs increasingly see reporting and transparency as important to their ESG goals—and this includes insight into their broader supply chain. Recently the European Council approved the Corporate Sustainability Reporting Directive (CSRD) which provided mandatory requirements for ESG reporting that impacts several U.S.-based companies. To integrate ESG strategy to corporate strategy, internal audit and finance sustainability plays a leading role.
- **Talent:** Management and Board Committees are experimenting with new ways of working while changing how they support and attract the right talent. While recession is driving short term hiring freezes, fostering workforce resilience is the top operational priority to achieve growth objectives. Similarly, boards are constantly evaluating their own talent to ensure that they have the appropriate skills to oversee complexities in the entities that they serve.
- **Digital Transformation:** Advancing digitization is critical to secure the first-mover or fast-follower status. Having the appropriate board oversight over the digitization strategy is critical given the importance of this strategy to the long-term resilience of the organizations that they serve. It is imperative for internal audit, finance function, and CIOs to help the board understand governance, progress and challenges related to the company's digitization transformation.



Transforming delivery models

A target operating model (TOM) helps enable a better and more strategic functional transformation. This aligns teams to the business processes, and establishes a more complete relationship providing better visibility into each potential change and their corresponding consequence. The KPMG TOM empowers you to move to a best in class vision, integrating the following six key layers that helps create a highly functional solution:

Functional process involves pre-defined processes and interdependencies of various functions including Finance, HR, IT, Supply Chain, Cyber, and Risk.

People defines the reporting lines, accountability hierarchy, job definitions, roles, and skills, and performance expectations for employees and organizational units.

Service delivery model outlines where and by whom processes should be performed, which includes shared service centers, centers of excellence, and outsourcing operating models to optimize service delivery.

Technology describes the technology stack, cloud architecture, and integrations that supports process and controls and enables automation.

Performance Insight and data constitutes KPIs, process performance indicators, advanced analytics and enhanced reporting strategy that enables informed business decisions.

Governance addresses the risks and security controls and segregation of duties (SoDs) related to the processes.

The KPMG Target Operating Model is a complete and integrated solution that offers a strategic approach to transformation and allows organizations to realize their business objectives faster.



Establishing proactive governance around functional process

- As companies shift to more cloud-based platforms and outsourcing, it is critical to have data governance in place to ensure operational effectiveness of processes and controls.
- Leaders are increasingly investing in process excellence to drive speed to deliver trusted reporting and identify new opportunities for automation. With ESG reporting gaining prominence, it is important to ensure that defined policies help validate the completeness and accuracy of data.
- The area of data governance is becoming increasingly relevant particularly when dealing with SOX compliance. With bots and AI accelerating automation rapidly, it is crucial for organizations to activate governance plans in emerging technology implementations to ensure data accuracy.
- Along with control testing, it is also important to test and improve control design and effectiveness. Companies must review process controls periodically to identify gaps and threats timely and to ensure they are fit for purpose.
- Reaping benefits out of first-time tech implementations is often challenging. For instance, BlackLine is often used more as a workflow tool rather than automating reconciliations, which is part of its core functionality. So it is worthwhile to identify unused functionality in existing applications before investing in new customized solutions.

Managing business risks effectively with technology enablement

- A company's ability to unlock the value of data is crucial for gaining and sustaining or increasing a competitive edge. While data drives transformation, technology is the enabler to get us to the right decisions. How technology can be leveraged to fulfill business objectives is always on the board agenda. There has been a lot of conversations around ERP programs and on building the right business processes for risk management. Cost management and finance data are vital to reporting. Formulating the data models for clarity of reporting strategy is the front-end ingredient for the analysis.

- It is crucial to implement key metrics to identify and measure enterprise and functional goals (such as business risks and ESG initiatives) enabled by digital investments.
- Dealing with unstructured information is complicated. Establishing a governance layer through a global data model puts controls in place and detects built-in biases in data sets, ultimately monetizing your data and accelerating speed of decisions.
- Leading companies are investing more in updating enterprise resource planning (ERP) systems that offer businesses the agility, flexibility, speed, and scalability they need to navigate market complexities. There are three pillars associated with it:
 - Transactions and ledger analysis: Running different analytics provides insights into fluctuations. Visualization helps present data in the graphical format to gain a clarity of information for improved forecasting and planning.
 - Configuration and user access: Continuous monitoring helps in monitoring change configurations in real time. By being able to control "who has access to what," user access reviews enable organizations to improve their overall security posture and prevent inappropriate access from being granted.
 - Report validation: The struggles with data completeness and accuracy is real. Monitoring the report validation process annually is too time-consuming so monitoring tools should be implemented.

These three pillars are supported by the foundation of the data governance layer, which puts controls in place, establishes accountability and ownership, and accommodates evolving data needs of the enterprise.

New talent demands

- Globalization and technological advancements have resulted in significant changes to delivery strategies and organizations. Enterprises understand that evolving requirements and ways of working are increasing the need for emerging skills and competencies to remain competitive. Developing and managing talent strategies effectively is crucial to help attract and retain talent.
- The optimal service delivery model must manage external disruption and enhance finance's value proposition to drive efficiencies better, faster, and cheaper.

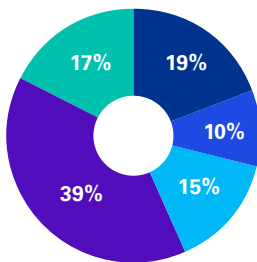
- Strategic thinkers and innovative business leaders are trying to be more empathetic and collaborative. Organizations have redefined their talent management strategies across four key areas:
 - Redeployment to enable new ways of working by realigning workforce and business strategies.
 - Renting capability and capacity to help scale with the business.
 - Upskilling through learning and development and investments in recruiting.
 - Innovation and investing for the future through tailored employee value propositions and employee experiences.



Closing comments

While the economic climate remains a top concern for business leaders, over the past few years, they've learned to navigate the unpredictable, realigning their workforces, untangling supply chain disruptions, and adapting to geopolitical and economic impacts. As the possibility of recession looms, leading companies are focused on planning and agility. A target operating model can help you deliver your transformation vision and take the organization forward in a concerted and purposeful way.

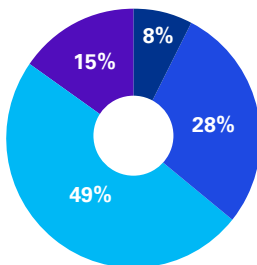
In the last 6 months, what topic has most significantly occupied board agenda time?



1501 responses

- Cyber
- Digital transformation
- ESG
- Inflationary impacts
- Talent management

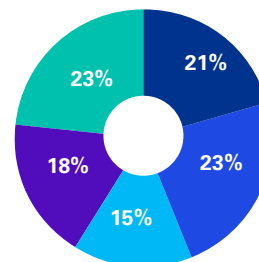
Based on the graphic we just reviewed around the maturity of the 1st line financial processes, how would you rate the maturity of your first line?



1563 responses

- High maturity (continuous monitoring, review of 100% data sets etc.)
- Low maturity (lots of spreadsheets, manual controls etc.)
- Medium maturity
- N/A

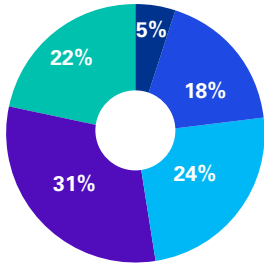
Which strategy are you finding most beneficial to overcome barriers to using data to create insights?



1534 responses

- Actively contributing to enterprise data organization and strategies through engagement with enterprise data team
- Directly accessing and enterprise data lake or other source information
- Investing in department training and upskilling, including hiring data scientists into the department
- Monitoring formal strategy, objectives and tasks to prioritize data and insights
- None of the above, or we are still exploring strategies to overcome the barriers we face

What value has been realized through the expanded use of data?

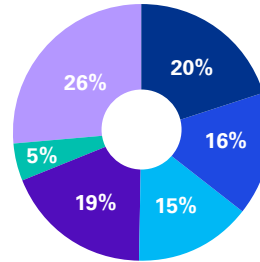


1450 responses

- Adjustments to functional strategies based on KPIs
- Improved risk management
- More efficient use of limited resources
- More insightful observations and ability to make recommendations, both within and outside our of team
- We are still exploring how best to use data for our goals

Note: Percentages may not total 100 percent due to rounding.

What layer of the operating model do you think has the most opportunity for improvement in order to drive better partnership between finance and internal audit?



1492 responses

- Functional Process
- Governance
- People
- Performance Insights & Reporting
- Service Delivery Model
- Technology

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