



Orchestrating Effective Risk Management Across the Lines of Defense

ACUIA Region 5
October 3, 2017

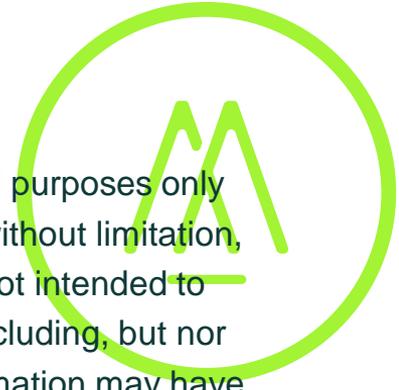




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Today's Speakers

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Objectives

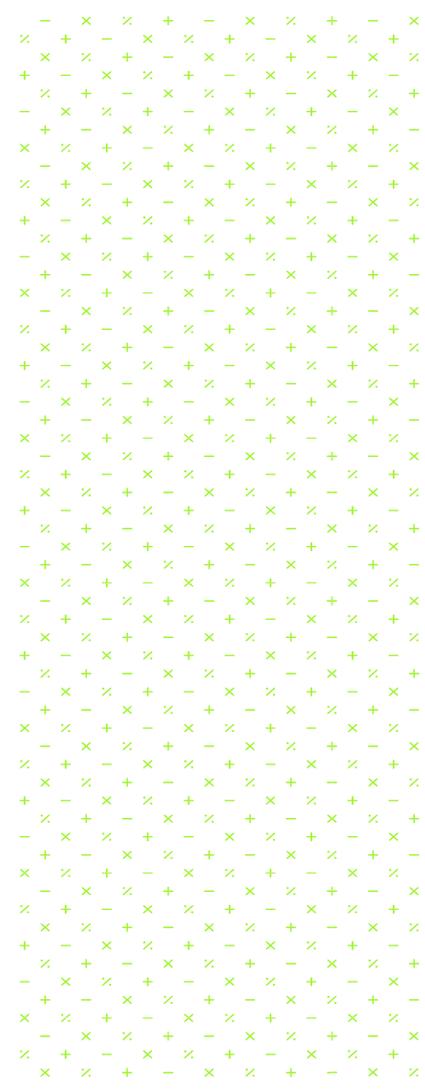
1. Understand the Importance of the Three Lines of Defense to your Risk Management
2. Understand the Challenges we Face Navigating the Lines of Defense to Achieve Balanced Risk Management
3. Understand the Intersection of Integrated Risk Management and Effective Organizational Navigation and the Common Symptoms of Poor Risk Management
4. Understand Internal Audit's evolving Role in the Three Lines of Defense





Objective 1:

The Importance of the *Three Lines of Defense to your Risk Management*



Overview

- Better understanding the three lines of defense
- Institute of Internal Auditors White Paper
- Harvard Business Review Article
- Post Financial Crisis
- Expanded Expectations of Internal Audit



“Although their impact is the same in economic terms—a dollar not lost is a dollar earned—risk managers don’t treat them equally. They place a greater emphasis on earning profits than they do on avoiding losses. However, a company can be successful by preventing losses while its rivals go bust—and it can then take market share from them”

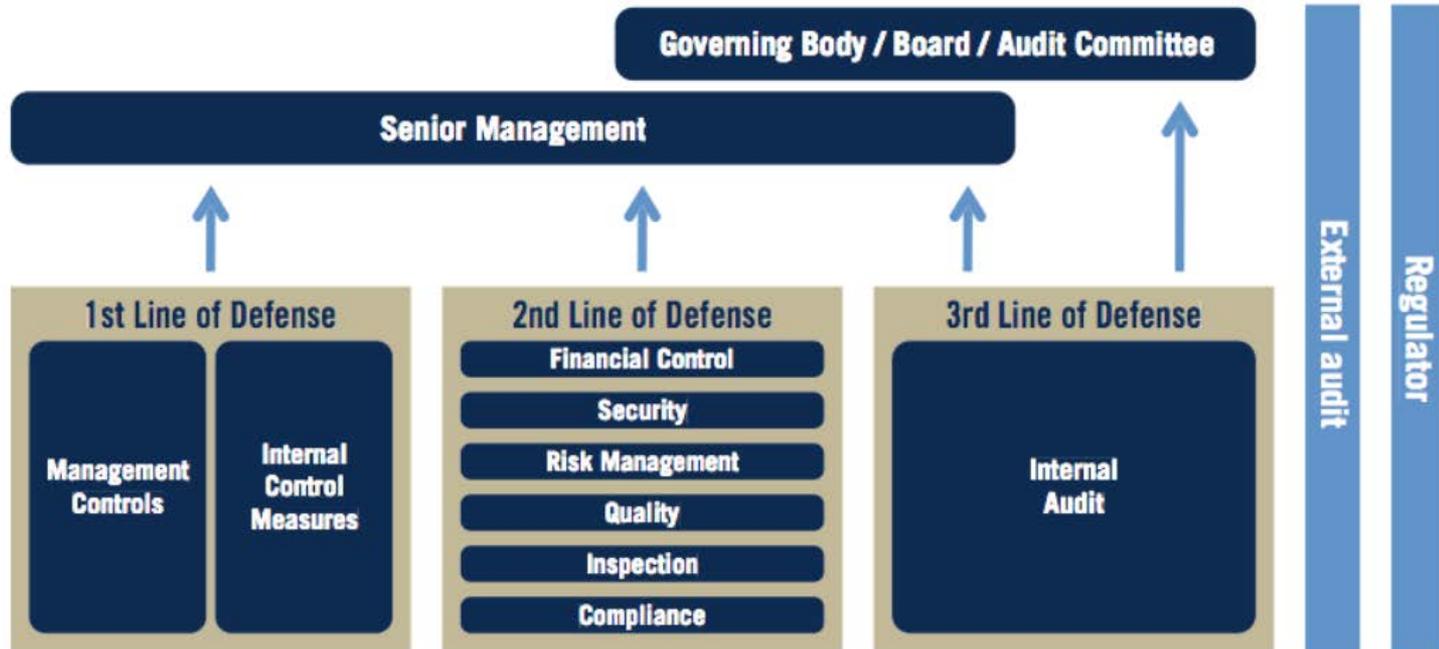
The Six Mistakes Executives Make in Risk Management
by Nassim N. Taleb, Daniel G. Goldstein, and Mark W. Spitznagel -
Harvard Business Review

“In 1965, physicist Richard Feynman wrote in The Character of Physical Law that two mathematically equivalent formulations can be unequal in the sense that they present themselves to the human mind in different ways. Similarly, our research shows that the way a risk is framed influences people’s understanding of it. If you tell investors that, on average, they will lose all their money only every 30 years, they are more likely to invest than if you tell them they have a 3.3% chance of losing a certain amount each year.”

The Six Mistakes Executives Make in Risk Management
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Navigating The Lines Of Defense Offense

The Three Lines of Defense Model

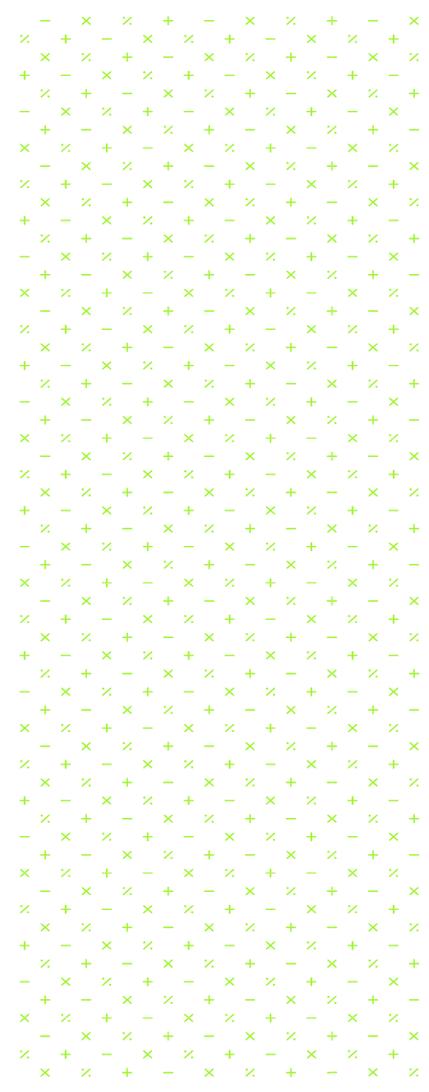


Strategy is Risk Management





Objective 2: Understand the Challenges we Face Navigating the Lines of Defense



Intelligent Risk Triage

What is your protocol for managing fires?

- The pace and complexity of risk is so great that we have to let some fires burn
- If we spend all our time fighting fires you risk all reaction, no action
- Navigating which fire to let burn and for how long will define the perception of your risk management performance and your career



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Isn't this the essence of risk management?

Intelligent Risk Triage

When is the last time you were congratulated for a **brilliant punt**?

When was the last time you were congratulated for **taking the right risk**?



The Front Line Is the Most Critical

In 2008, a group of scientists put Google Maps to good use and identified that cows magnetically aligned to True North.

Unfortunately, our position requires **more complicated methods** to assess our risk culture.

How do we **reposition accountability** in the front line?



The Front Line Is the Most Critical

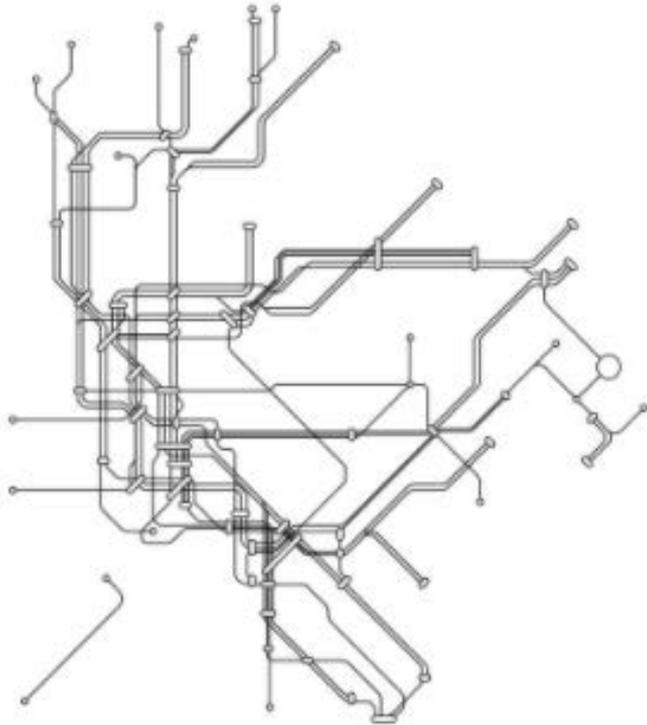
“I also have asked every ... employee to be his or her **own compliance officer.**”

“Are you willing to have any contemplated act appear the next day on the **front page of your local paper?**”

“Lose money for the firm, and I will be understanding; **lose a shred of reputation for the firm,** and I will be ruthless.”



Opportunities in the Middle



- Influence sound risk navigation
- Active state of assessment
- Flexible talent model
- Measure yourself
- Education cycle

Shift the perception from **Cost Center** to the **Center for Profit Preservation**.



Board-Level Oversight

Is your board engaged?

- What is our risk and exposure?
- How much risk is acceptable to our organization?
- How do we compare to our industry peers?
- Do we have the right talent?
- Does the board have a technical expert?



Key Point: Define and anticipate Audit/Supervisory Committee needs. Do your homework.

What's in it for you?

- Enabling front line responsibility reduces exposure and noise at each subsequent line of defense
- Resources are unilaterally aligned, leveled and managed to the size of potential and actual risk
- Agility to protect, preserve and enable stakeholder value



Question #1

How do you measure your intelligent risk triage maturity?

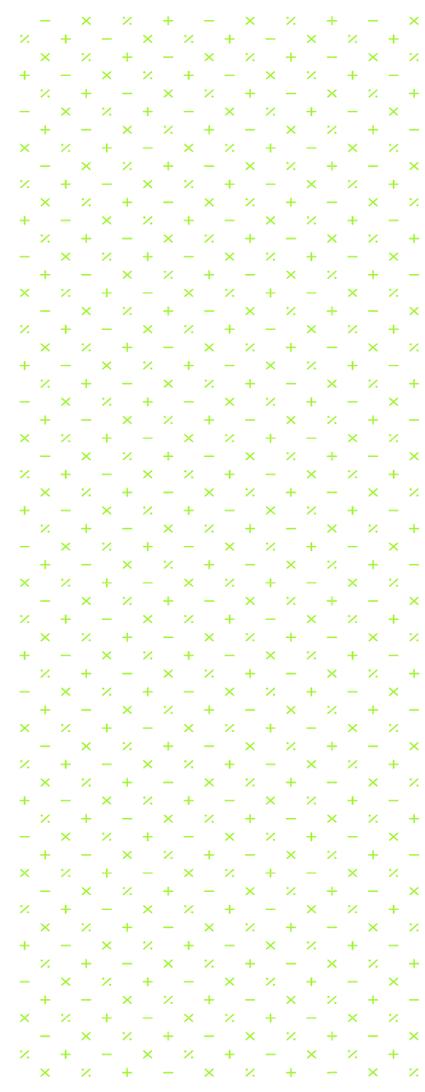
- A. High - effective, optimized and transparent process with well-defined roles and responsibilities. We activate an efficient triage process.
- B. Medium - reactive, lacks transparency, inefficient and demonstrates inconsistent triage maneuvers
- C. Low - fully reactive, no transparency, uncertain where the fires are and limited ability to triage





Objective #3:

Understand the intersection of integrated risk management/effective organizational navigation and the common symptoms of poor risk management



Friction in the Lines of Defense

1. Weak governance
2. Siloed and redundant efforts
3. Inability to leverage data
4. Failure to effectively engage the business



Friction in the Lines of Defense

1. Weak governance

“Culture eats strategy Risk Management for breakfast”



Friction in the Lines of Defense

2. Siloed and redundant efforts

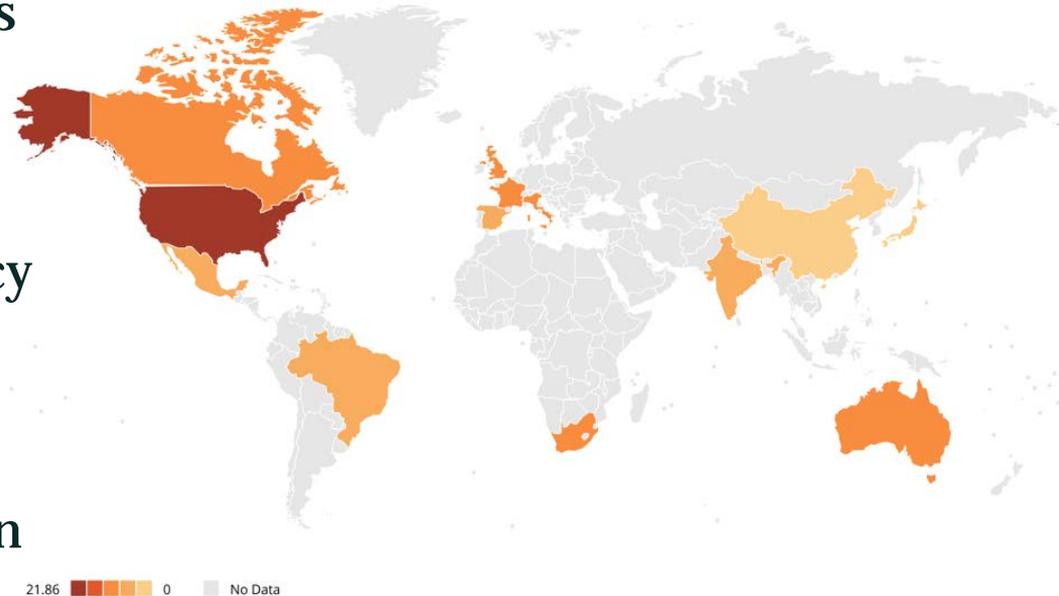
- Misalignment of activities
- No single source of truth
- Failure to modernize
- Poorly defined roles and responsibilities



Friction in the Lines of Defense

3. Inability to Leverage Data

- Immature processes
- Disaggregated docs
- Lack of transparency
- Lack of foresight
- Lack of visualization



Friction in the Lines of Defense

4. Failure to effectively engage the business

- Amp up your anecdotes and align to underlying motivations
- Continuously assess your credibility score
- Know your business, know your customer
- Understand how you are measured and measure up



Question #2

Which item is causing the greatest level of risk management friction across the lines of defense in your organization?

- A. Weak governance
- B. Siloed and Redundant Efforts
- C. Failure to leverage data
- D. Failure to effectively engage the business

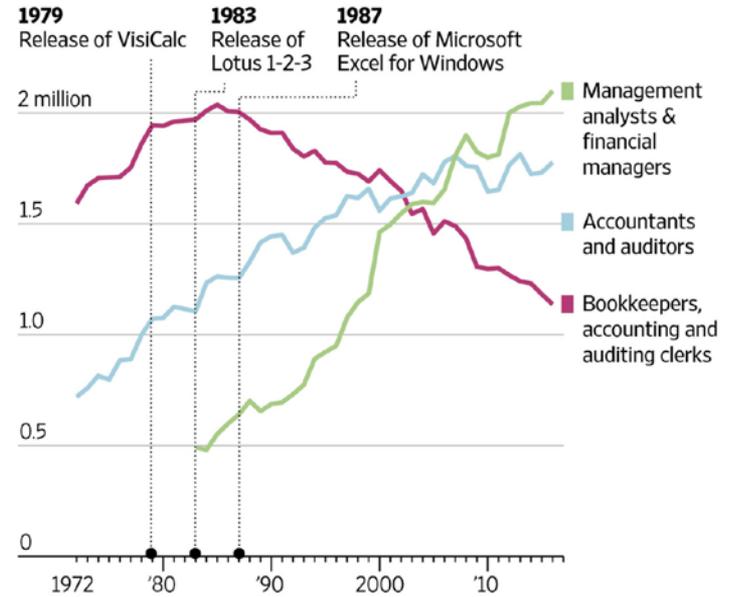


Importance of Integrated Risk Management

- Convergence of emerging technology
- Opportunities to remove human error and judgement
- Enhancing the auditability efficiency quotient
- Shifting the weight of responsibility to experts across the lines

The Spreadsheet Apocalypse, Revisited

Jobs in bookkeeping plummeted after the introduction of spreadsheet software, but jobs in accounting and analysis took off.



THE WALL STREET JOURNAL.



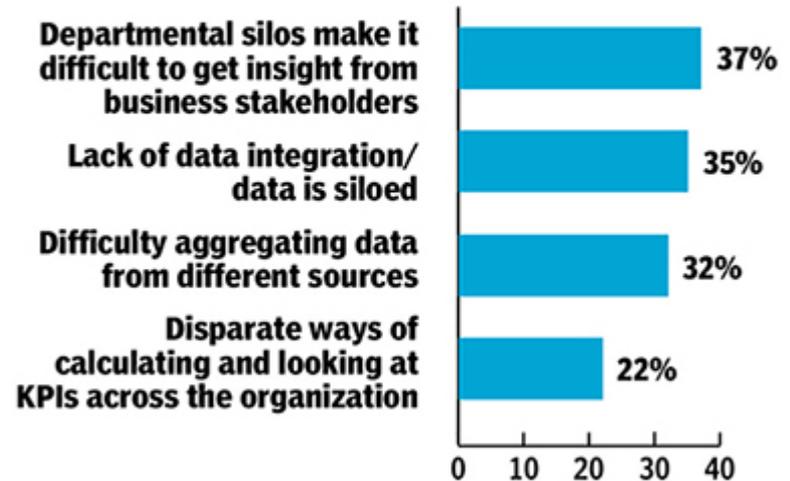
CFO Influence on Risk Management

Forrester recently reported that 35% of CFOs pointed to a lack of data integration or to organizational silos that make it difficult to get needed insights from other business stakeholders (37%).

Why does the CFO's opinion matter for our risk management objectives?

Data Blockers

What are the biggest obstacles to leveraging data and analytics to drive decisions and strategies?



Multiple responses allowed.

Source: Forrester Consulting survey of 250 CFOs and executive vice presidents of finance. Commissioned by Dun & Bradstreet



Importance of Integrated Risk Management

C-Suite cannot reasonably be expected to achieve greater risk resilience at the speed of digital transformations without:

- An IRM technology that extends across the global enterprise, distributes responsibilities effectively across the lines of defense to enable self-service founded on a maturing automation cycle.

Shift away from the fluff and leverage Integrated Risk Management to achieve transparency, quantify potential, and actual risk events to achieve actionable intelligence.



Risk Management Monitoring



AUDIT & ASSURANCE

Manage vulnerabilities and ensure compliance.



RISK MANAGEMENT

Evaluate and optimize enterprise risk.



INFORMATION SECURITY

Oversee and manage information security.



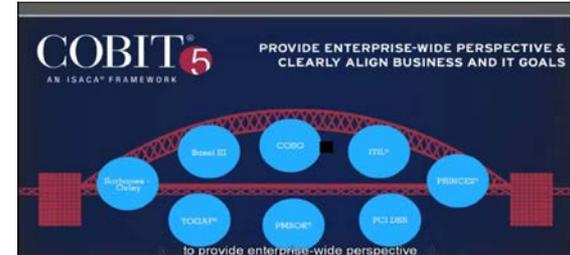
REGULATORY & COMPLIANCE

Keep ahead of rapidly changing regulations.



GOVERNANCE OF ENTERPRISE IT

Align IT goals and strategic business objectives.



Connect the Dots

July 17, 2017: FedEx issues statement:

“Cyber attack to materially impact full-year results”

“Widespread operational delays”

“Attack distributed through trusted software”

“Significant incremental costs to execute contingency plans and remediate”

“No insurance in place to cover cyber attack”

The Three Lines of Defense Model



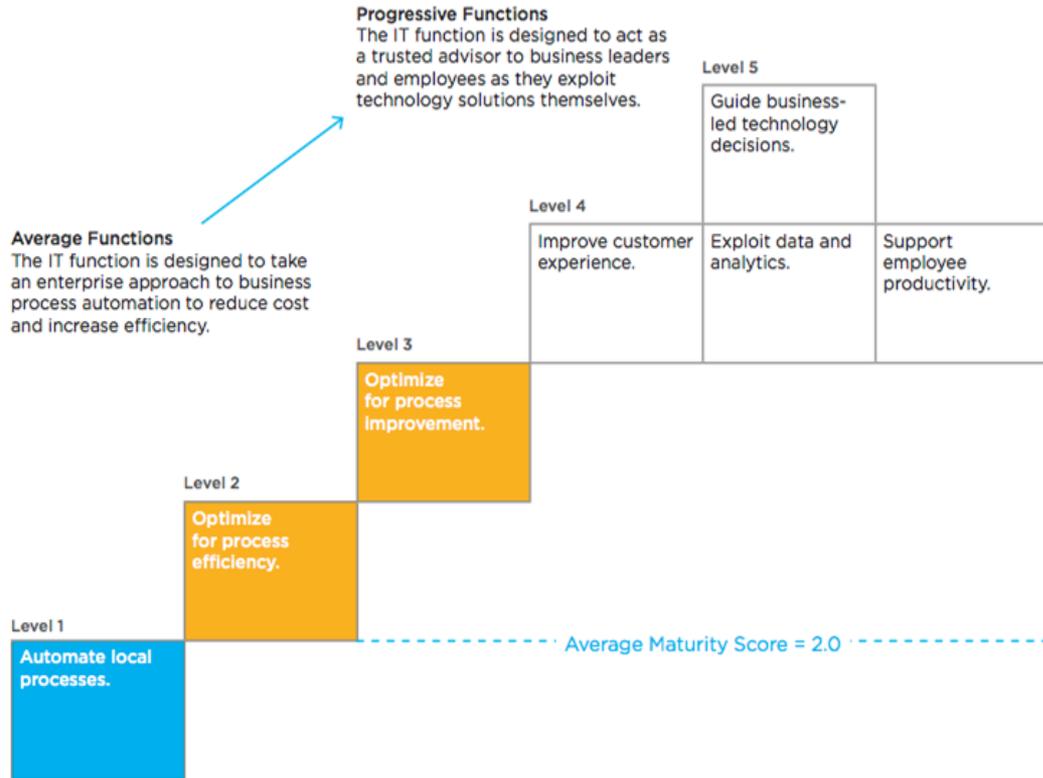
Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*



What is the value proposition for orchestrating effective risk management?

- Optimization
 - Cost savings
 - Scalability
 - Modernize
 - Enhanced Decision Making
- 
- Business Strategy Alignment**

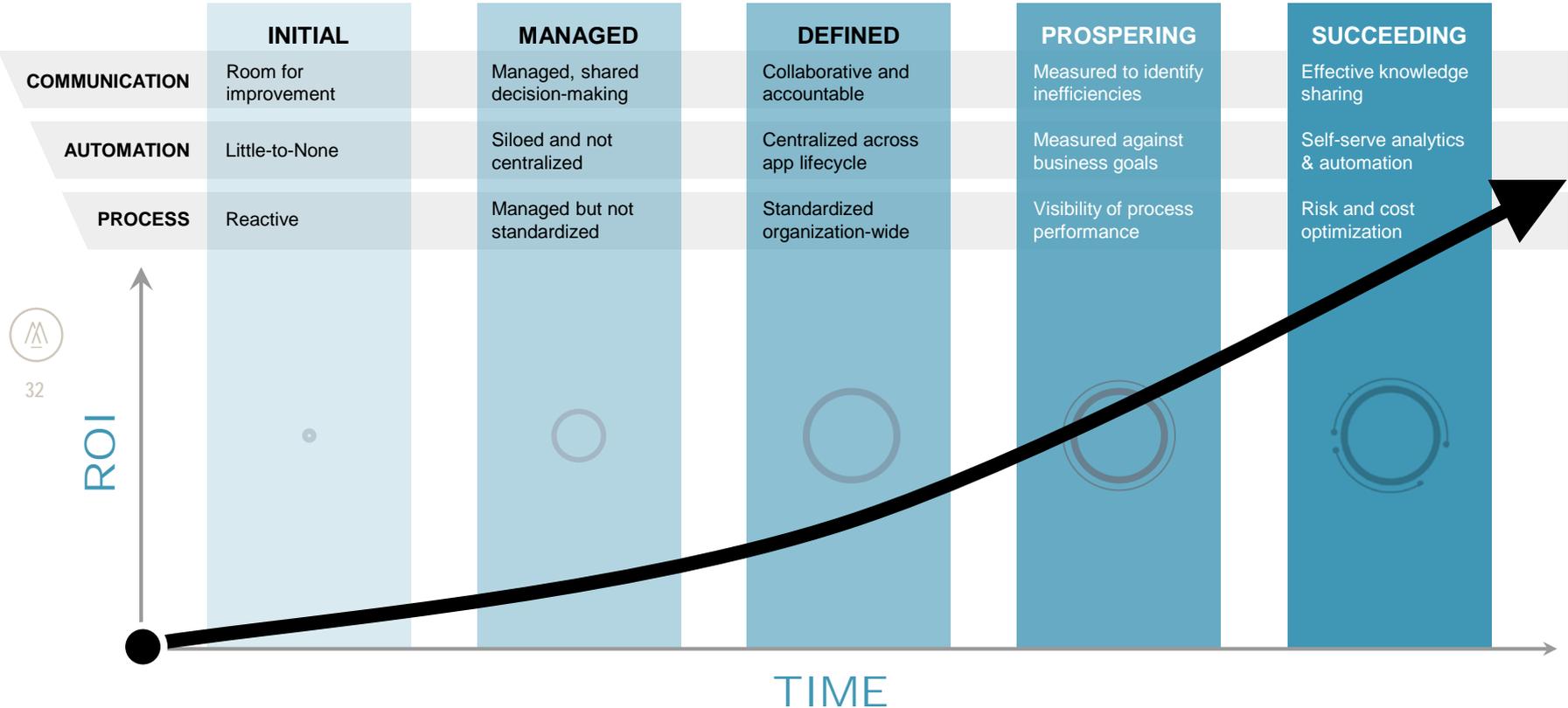




Why does this maturity scale matter?

- Automation creates space to optimize
- Optimizing creates space for increased return on investment and discipline
- Investment returns catapult more favorable internal and external customer experiences while simultaneously building a more risk resilient enterprise

Sustainable ROI Growth Over Time



Question #3

Does your organization have a business case for integrated risk management strategy and technology?

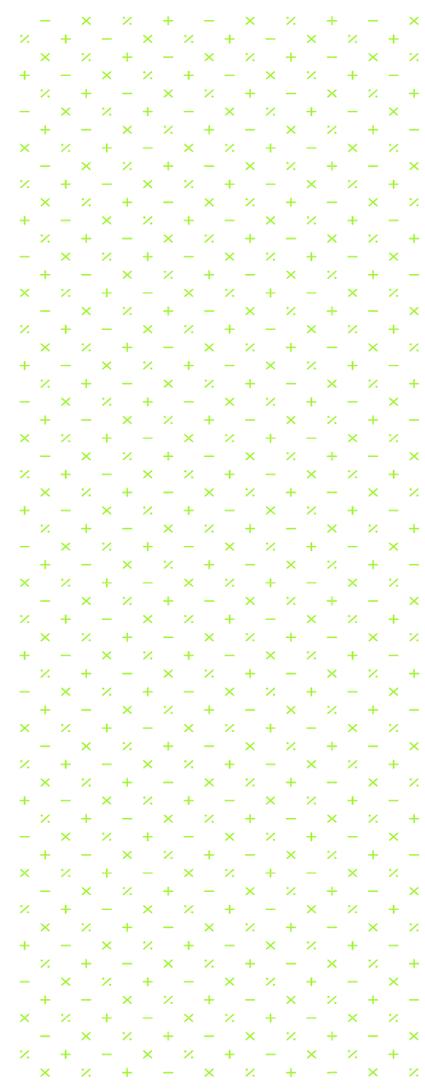
A. Yes

B. No





Objective #4: Internal Audit's evolving role in the three lines of defense



Role of Internal Audit

Third Line of Defense

- Attention to detail, completing your audit plans, reporting results

Driver of the Three Lines of Defense

- Helping to drive strong communication between the Three Lines of Defense
- Continually looking for gaps in the Three Lines of Defense
- Helping to ensure each Line is vigilant about their role in risk management
- Help to keep risk management top of mind for all in the organization



Role of Internal Audit

Resource

- “Go to Group” for questions from others in the organization
- Technical information on effective risk management
- IA knows the road map for effective Risk Management



How is the Role Evolving?

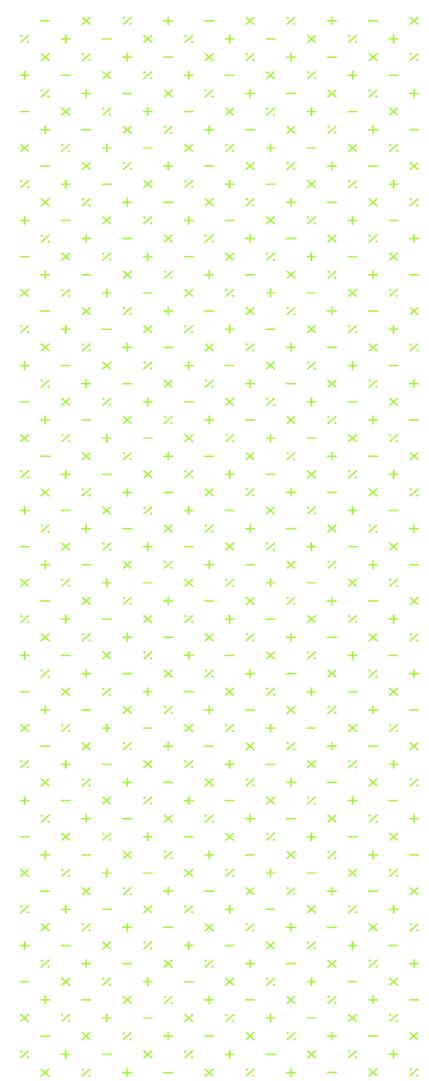
- Recent surveys indicate that Internal Audit is increasingly expected to provide more business insight and act as strategic advisors
- Shifting balance between assurance and advisory audits to achieve greater business insights
- Effective data analytics





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In Conclusion



Board Briefing Takeaways

- Enterprise priorities should determine reporting structures
- Communication skills, ability to achieve buy-in
- Perform an in-depth and honest current-state analysis and benchmark against the minimum baseline required by regulations—as well as to other enterprises in the same industry



Harvard Business Review Excerpt: Mistakes Executives Make in Risk Management



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In chess, grand masters focus on avoiding errors; rookies try to win.

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Takeaways

Process

- Build a cycle of feedback to capture failures, tear down earlier, recover and build resilience
- Intelligently triage; don't be afraid to punt

People

- Hire diverse cognitive skillsets and personalities
- Educate and motivate the first line to be their own Compliance Officers

Technology

- Leverage IRM technology to automate, reduce manual exit paths and to aggregate data sources
- Prioritize and visualize data to create opportunities for decision maturity capabilities



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**THANK
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