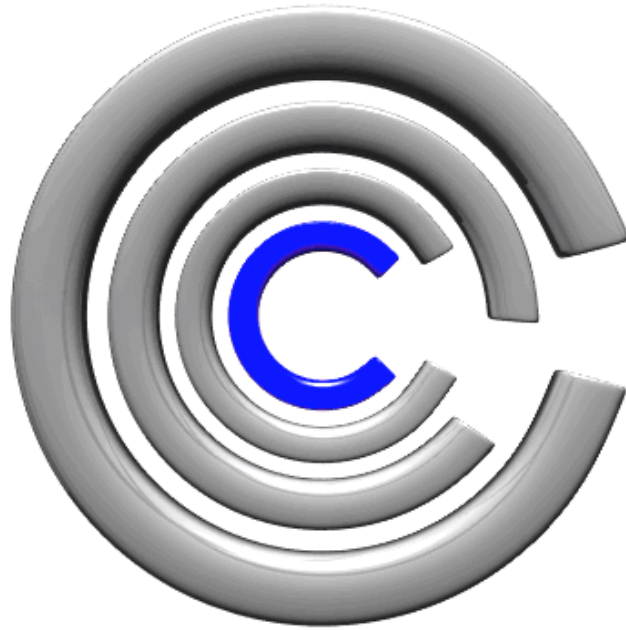


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O N L I N E

FORESIGHT • INSIGHT • CLARITY • FOCUS

16 JUNE 2020



Three Lines (3LOD) revisited Insights IIA Global review

Presented by:
Jenitha John
Senior Vice Chairman - IIA Global

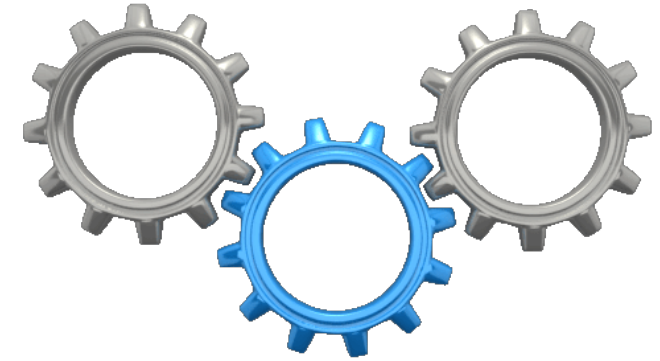
Contents



New Realities



**3 Lines &
Combined
Assurance**



**Realigning Audit
Value**

New Realities



Health Pandemic

Business model rethink against technology disruption (VUCA)

Changing global economic & political conditions

Cybersecurity threats

Competition for talent and workforce demographics

Increased regulatory burden

Consumer spending and behavior

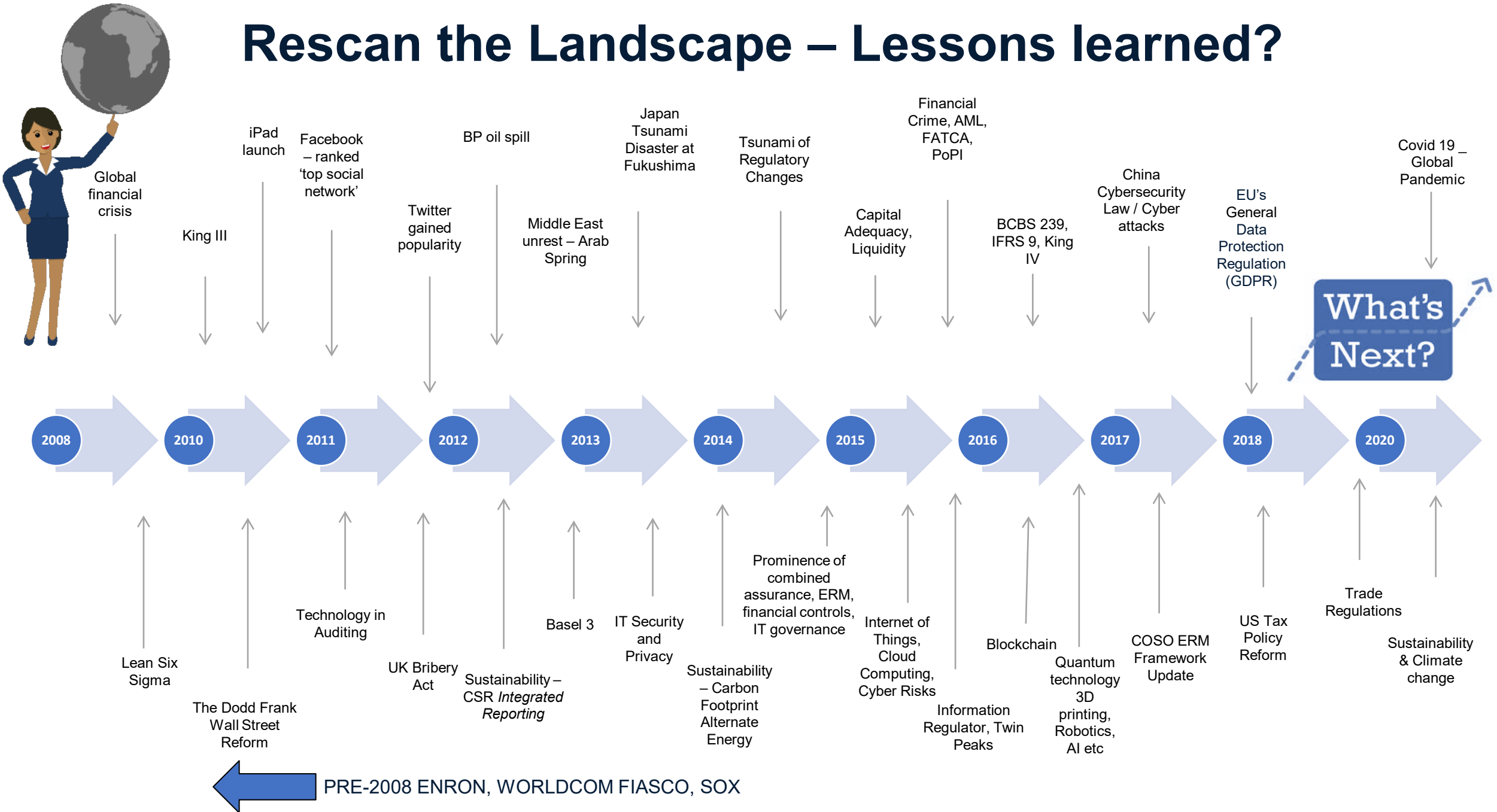
Corporate scandals

Investor activism

Blended value proposition

Public, private partnerships and the role of government

Rescan the Landscape – Lessons learned?

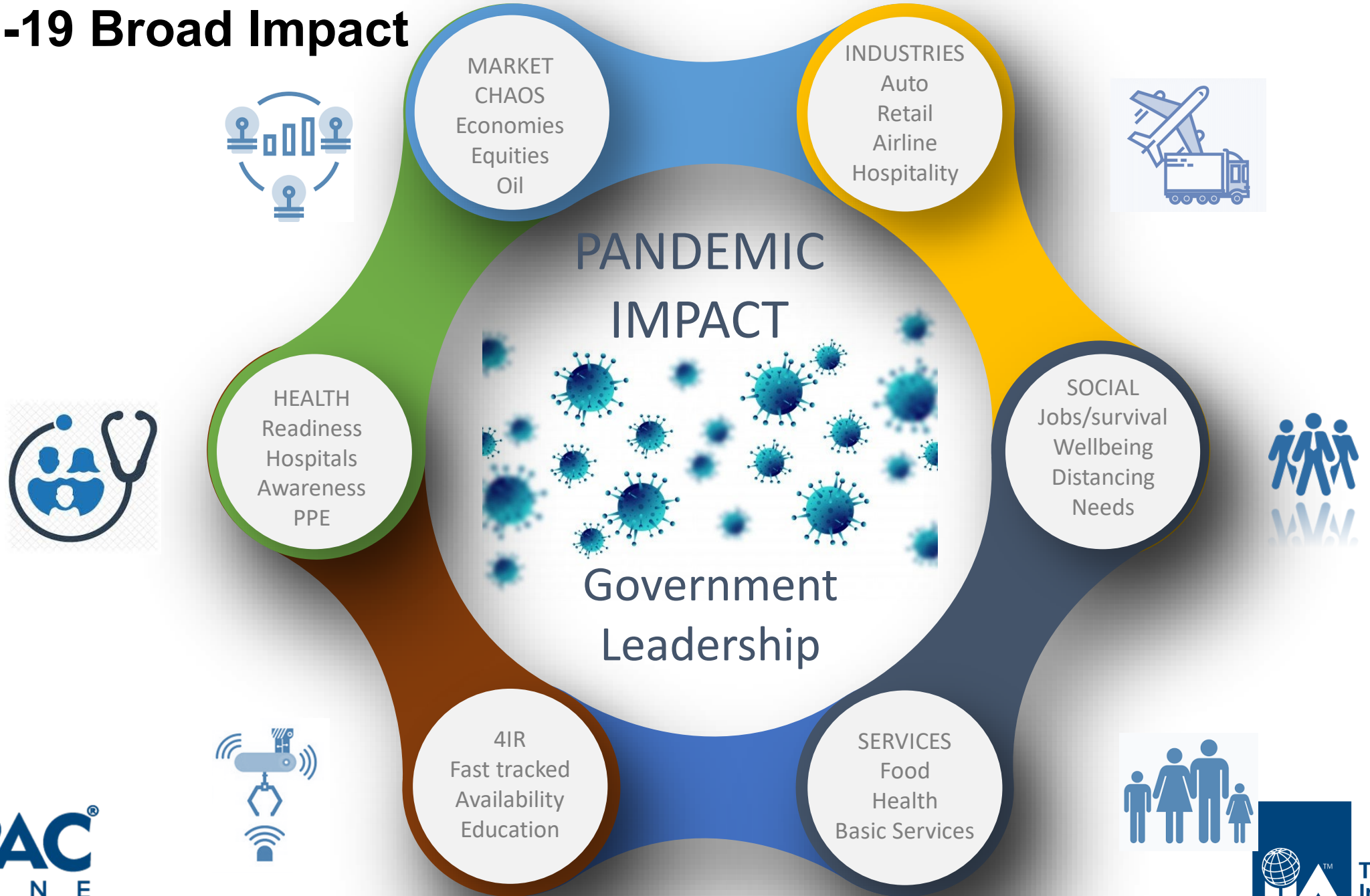


Audit Plan Hotspots Over Time

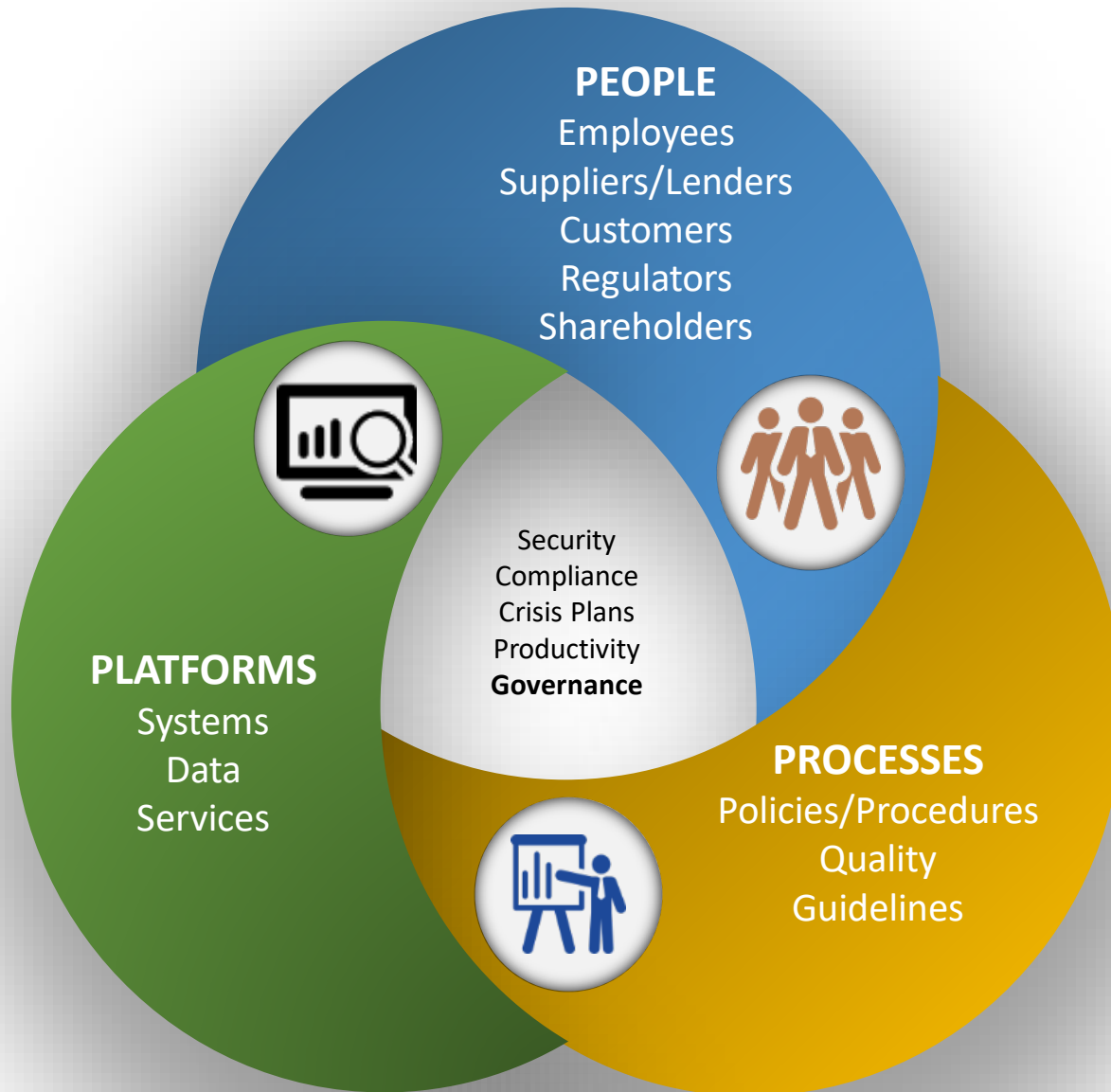
2012	2013	2014	2015	2016	2017	2018	2019	2020
<ul style="list-style-type: none"> •Information Security •International Operations •Excess Cash •Corporate Culture •Regulatory compliance •Strategic Change Management •Third Party Relationships •Cost-Reduction Pressures •Human Resources •Social Media 	<ul style="list-style-type: none"> •Contingency Planning •Strategy Creation and Execution •Corruption and Bribery •Tax Management •Basic Operating Controls •Project Management •Third Party Relationships •Talent Management •Tone at the Middle •Reputation Risk 	<ul style="list-style-type: none"> •Compliance Management •Cybersecurity: Malicious Insiders/ Outsiders •Risk Management •Emerging Markets •IT Governance •Third Party Relationships •Project Management •Intellectual Property •Crisis Response Management 	<ul style="list-style-type: none"> •Information Security •Strategic Change Management •Climate Change and Extreme Weather •Geopolitical Instability •Data Policy •Third Party Relationships •Compliance Management •Risk Culture •Strategic Workforce Planning •Digital Marketing 	<ul style="list-style-type: none"> •Data privacy •Cybersecurity •Third Party Relationships •Strategic Change Management •Continuity and Disaster Recovery •Competitive Environment •Talent management •Macro Volatility •International Tax Planning •Governance •Compliance Management 	<ul style="list-style-type: none"> •Data Privacy •Cybersecurity-External Threats •Pace of Innovation •Sustainability •Third Party Relationships •Political Uncertainty •Budgeting and Forecasting •Strategic Decision Making and Execution •International Tax planning 	<ul style="list-style-type: none"> •Data Privacy •Cloud Vulnerabilities •Information Security •Corporate Culture •Fraud •Geopolitical Uncertainty •Technology Disruptions – business model change •Changing Workforce Demographic •Change in Consumer Behavior •Risk Management Overhaul 	<ul style="list-style-type: none"> •Cybersecurity •Digitalization and technology (AI, RPA) •Cloud computing •Data governance •Third-party risk management •Fraud risk management •Corporate culture •Regulatory burden 	<ul style="list-style-type: none"> •Cybersecurity •Data protection •Regulatory change •Business continuity and crisis response •Data and new technology •Third party •Talent management •Operational Resilience •Sustainability



Covid-19 Broad Impact



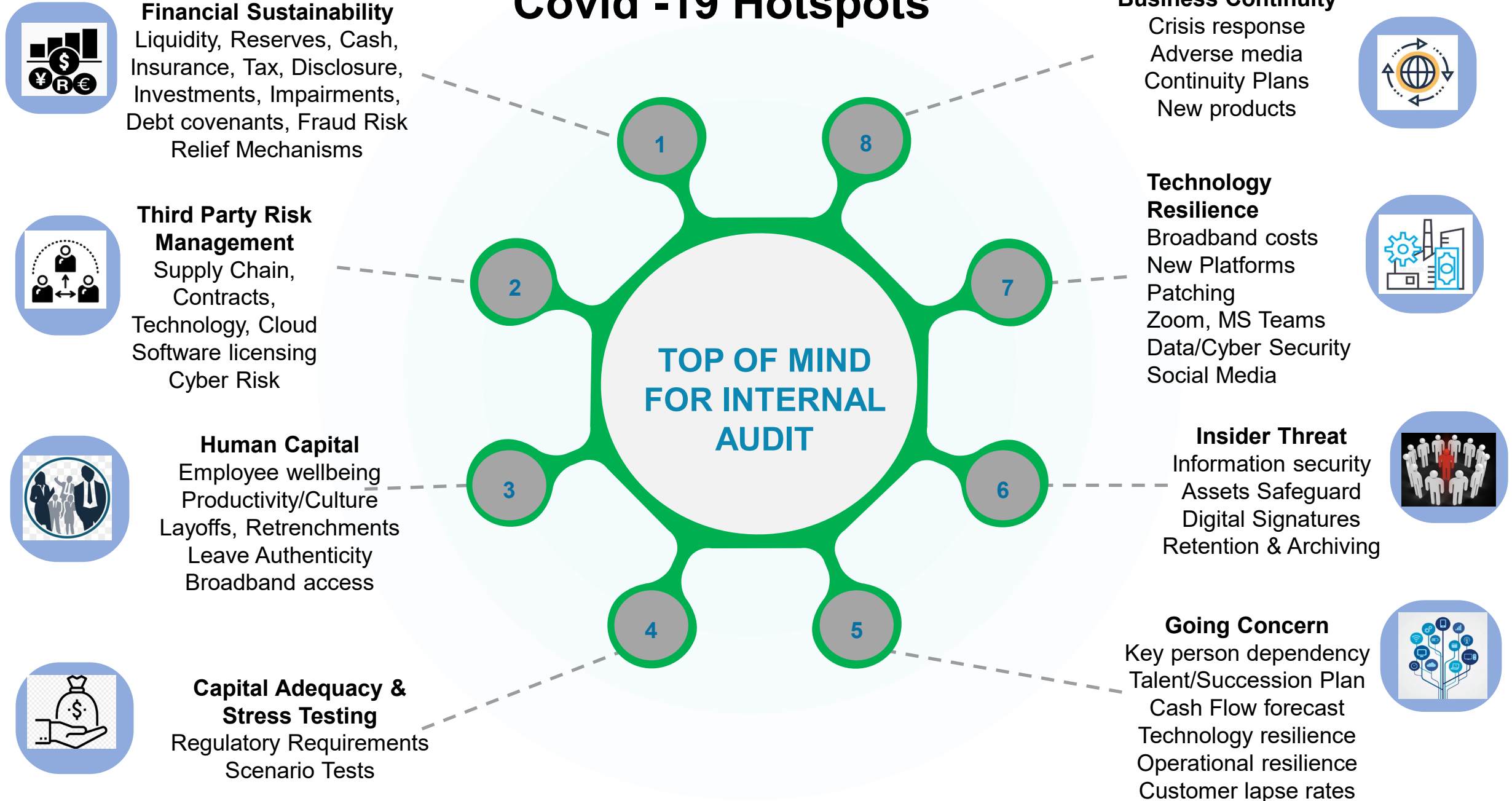
Organisational Impact



Transforming Internal Audit



Covid -19 Hotspots



Regulatory Dividend - Convergence of workplace disciplines



Finance

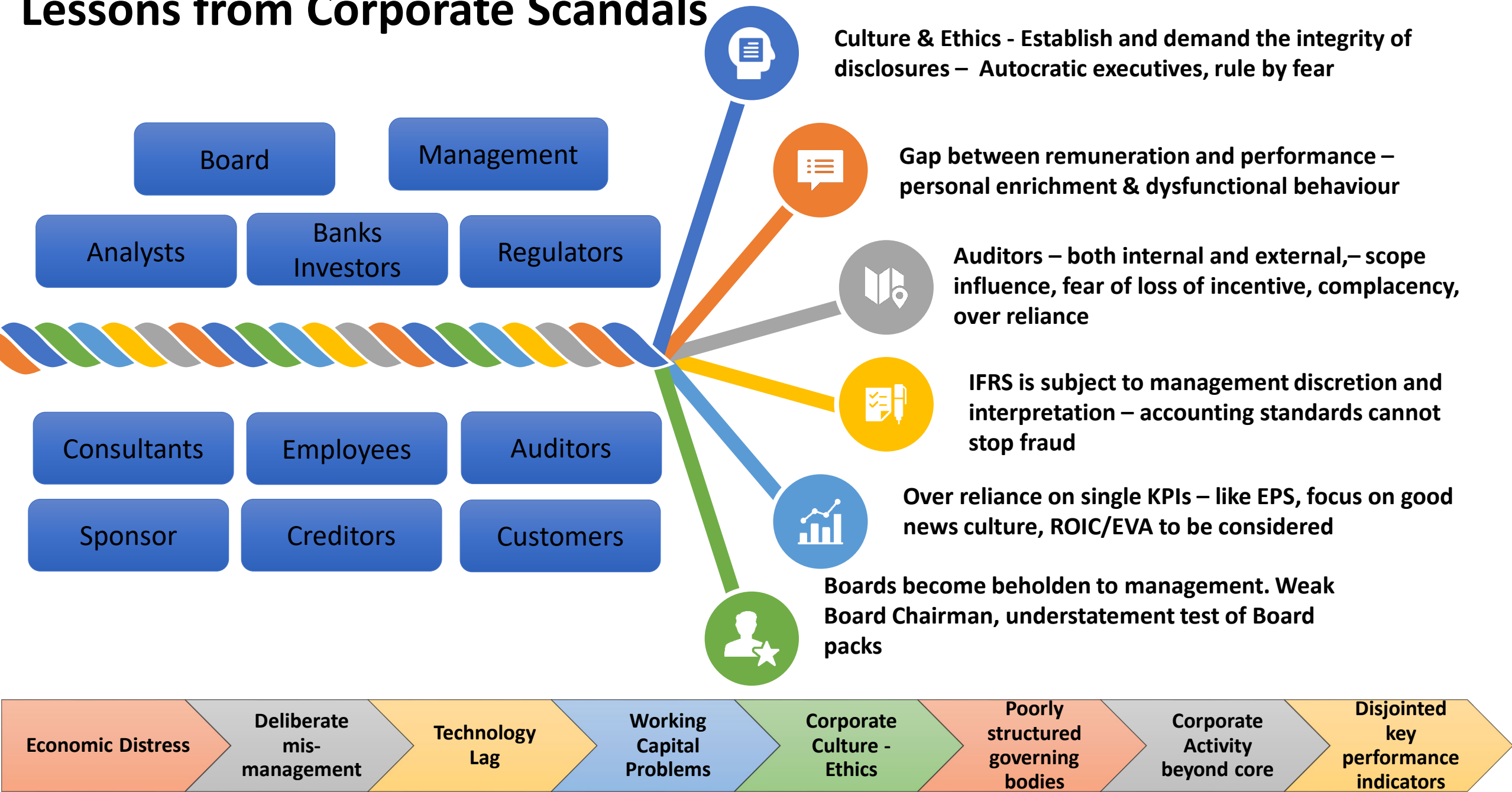


Technology & Information

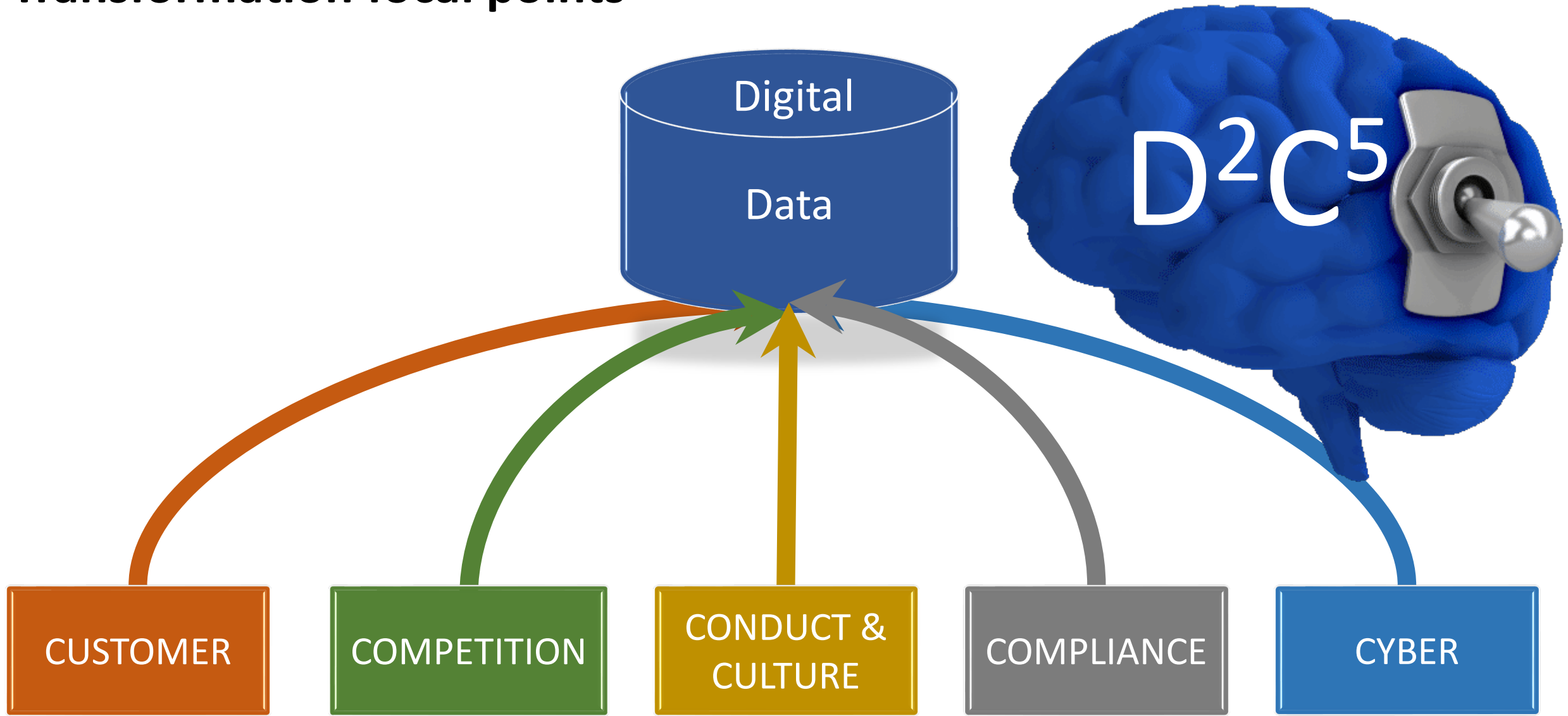


Audit

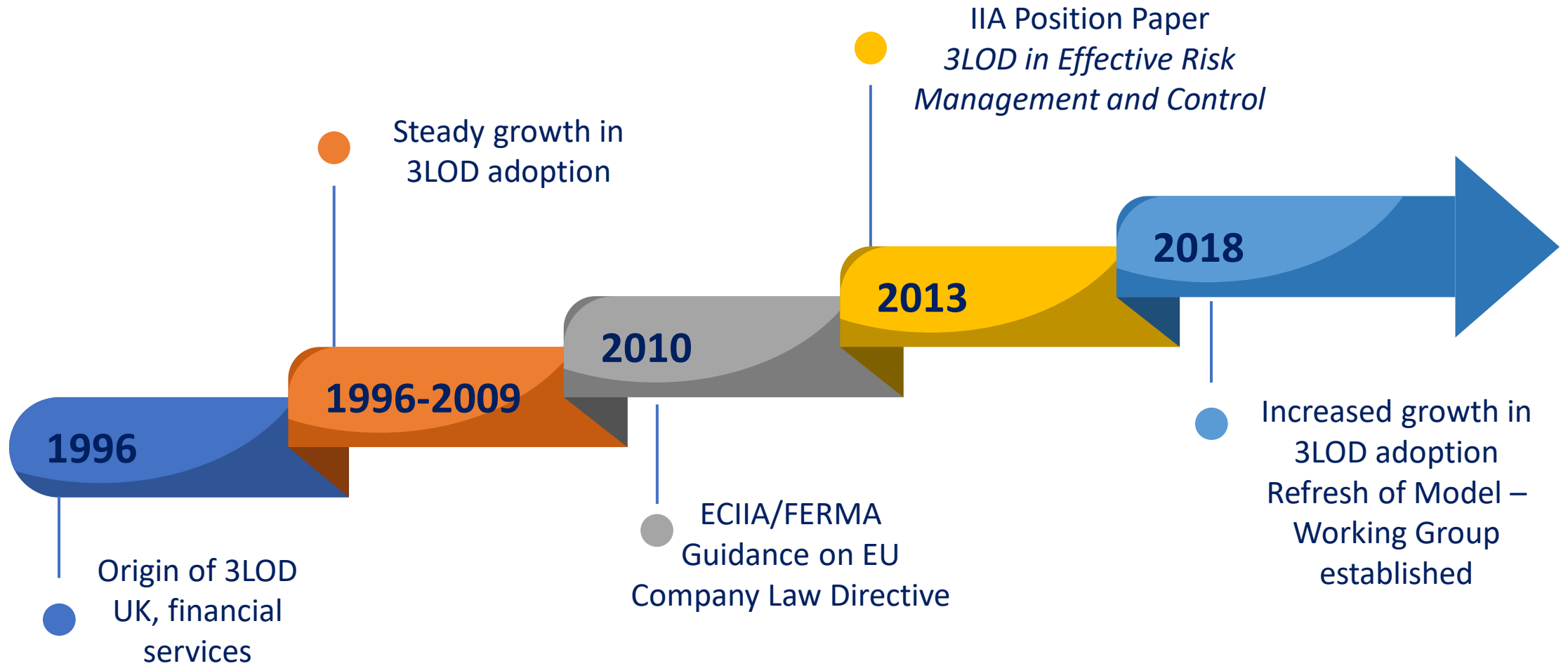
Lessons from Corporate Scandals



Transformation focal points



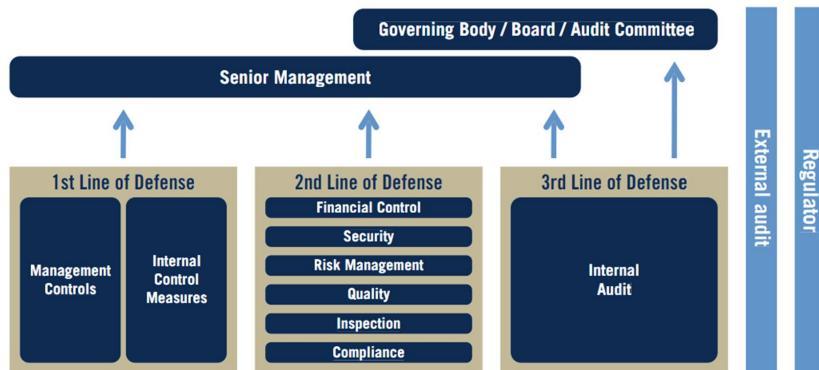
3 LOD - History



Refresh Project Imperatives



The Three Lines of Defense Model



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

Identify how the model has been adopted in laws, regulations, etc.

Analyze strengths and weaknesses of the model

Engage with key stakeholders

Consider how the model may be improved

Share analysis and thinking for public consultation

Prepare recommendations for revisions to the IIA Position Paper

Draft position paper shared with targeted audience for comments

Release and promote new IIA Position Paper and other resources

Consultation Outcomes – Sept 2019

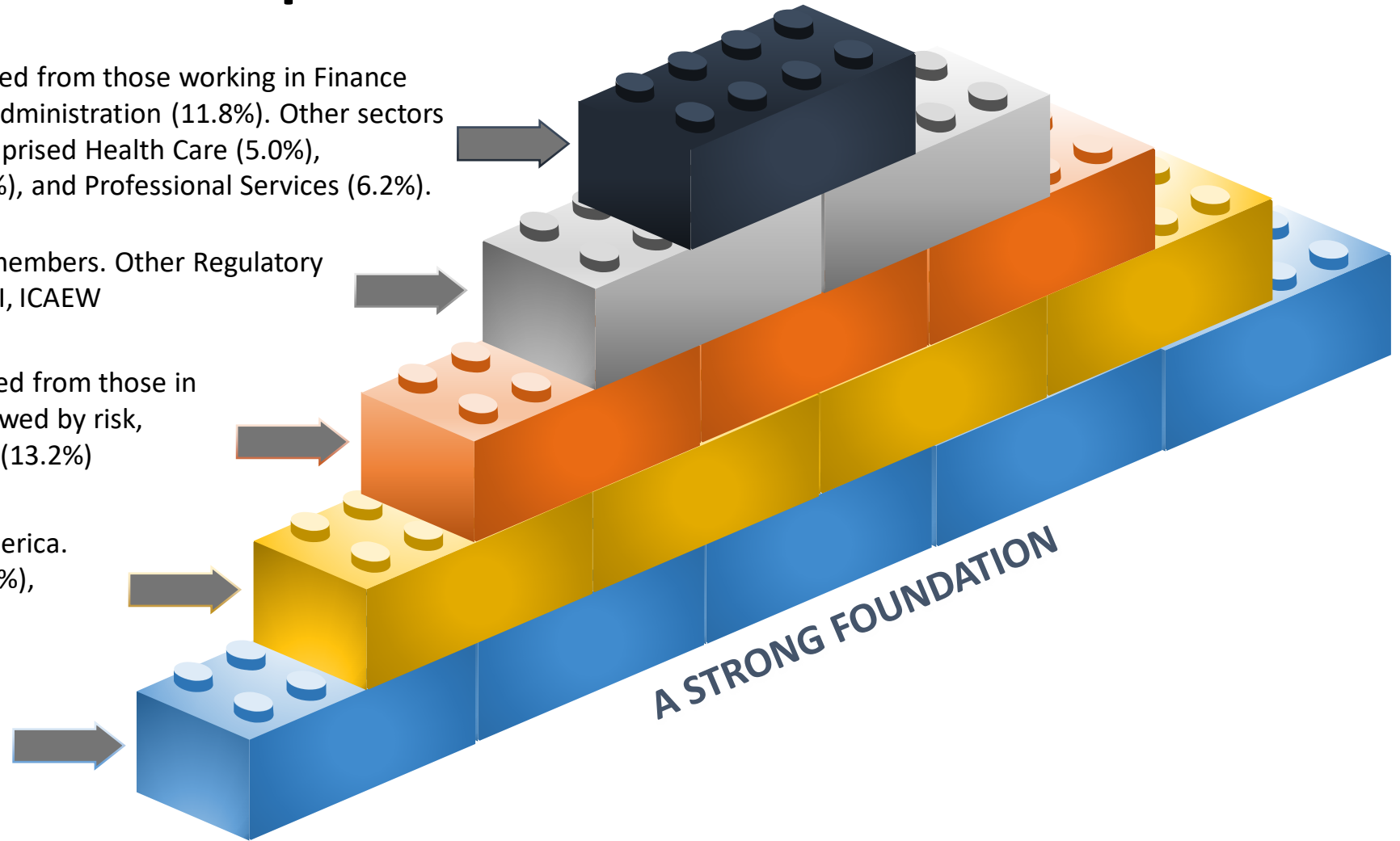
Largest volume of respondents were received from those working in Finance and Insurance (34.5%) followed by Public Administration (11.8%). Other sectors represented by at least 5% of the total comprised Health Care (5.0%), Manufacturing (7.7%), Other Services (6.3%), and Professional Services (6.2%).

Majority of respondents (82.6%) were IIA members. Other Regulatory responses received from FERMA, IIRC, IFACI, ICAEW

Largest volume of respondents were received from those in internal audit (“the third line”) (68.5%) followed by risk, compliance, and control (“the second line”) (13.2%)

32.6% of respondents were from North America. Representation from South America⁶ (23.4%), Europe (17.3%), and Asia (16.6%).

2,004 completed survey responses were received. And received emailed returns from 28 individuals and organizations, including 9 IIA affiliates.



Pros and cons from Initial Consultation

○ Familiar

○ Simple

○ Widely adopted

○ Embedded

○ Successful in promoting internal auditing



○ Restricts internal audit

○ Creates silos

○ "Defense" only

○ Does not explain "blurring"

○ Looks static

○ Inconsistent with trusted advisor role

General Comments from Initial Consultation

The Three Lines of Defense model is recognized, understood, and adopted by a wide range of organizations and stakeholders.

The model has been a very successful tool for advancing awareness and understanding of internal audit.

The current model can be improved by building on the same principles.

The IIA is the organization most closely associated with the model and has the position and stature to influence its future iterations.

The analysis and assessment of the model in the exposure document are valid.

Reframe towards a more proactive role for internal auditing as being a contributor to both value protection and value creation, a strategic partner and trusted advisor, indispensable to governance and organizational success.

The model and the graphic need to be kept simple, easy to understand, and familiar.

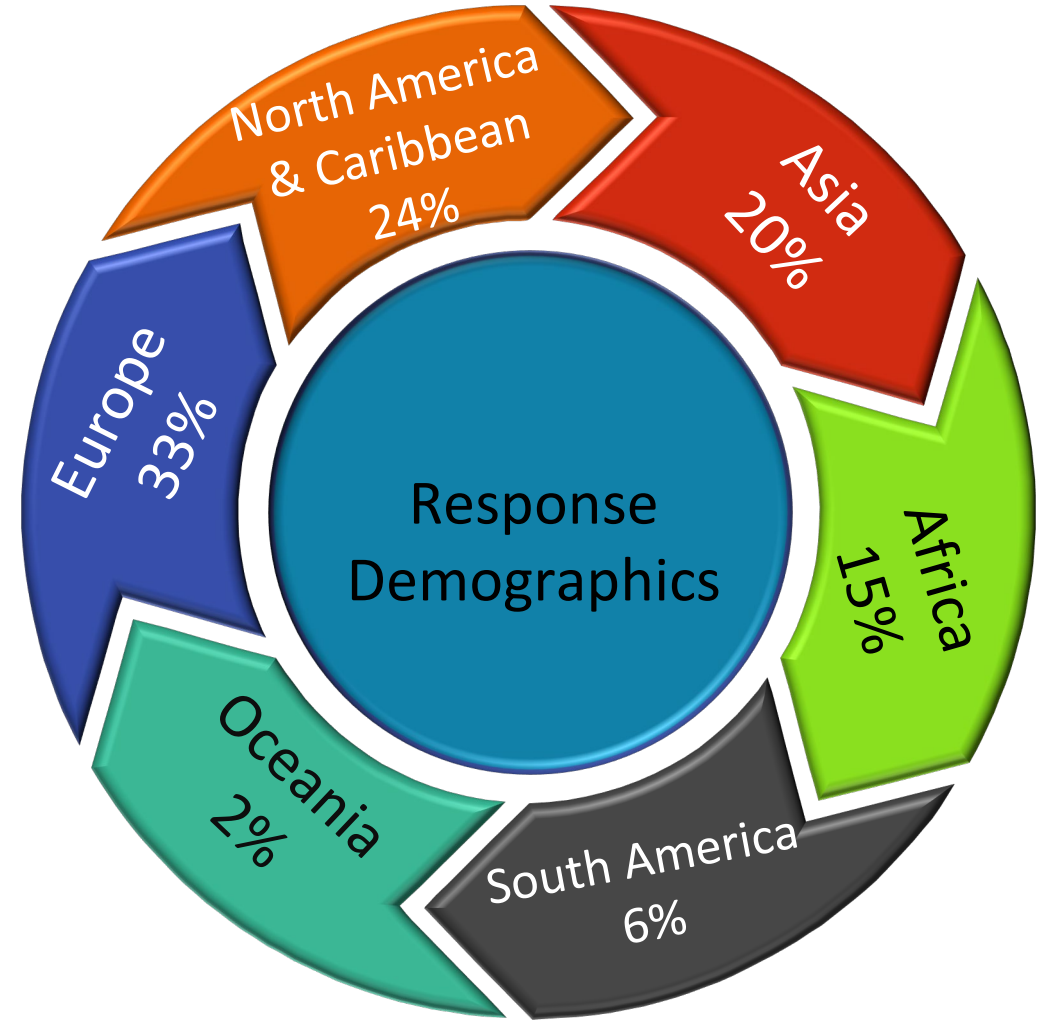
The main areas requiring improvement are:

- The naming of the model to reflect something more than “defense.”
- Encouragement for communication, coordination, and collaboration across the lines to avoid silos.
- Emphasis that the first line remains responsible for risk management and must be held to account for this.
- Emphasis that internal audit must review the effectiveness of the first and second lines.
- Allowance for maturity and scalability.
- Relevance for the not-for-profit sectors.

Exposure Draft Outcomes – Feb 2020



Over 100 respondents
69 affiliates
Advisory Group members
Public & Private sector
Non profit
Private consultants



Comments from Exposure Draft



Connection
with
governance

Role and
positioning
of the
second line

Language,
clarity,
accuracy,
consistency

Blurring &
internal audit
independence

Conflation of
different
sources of
assurance

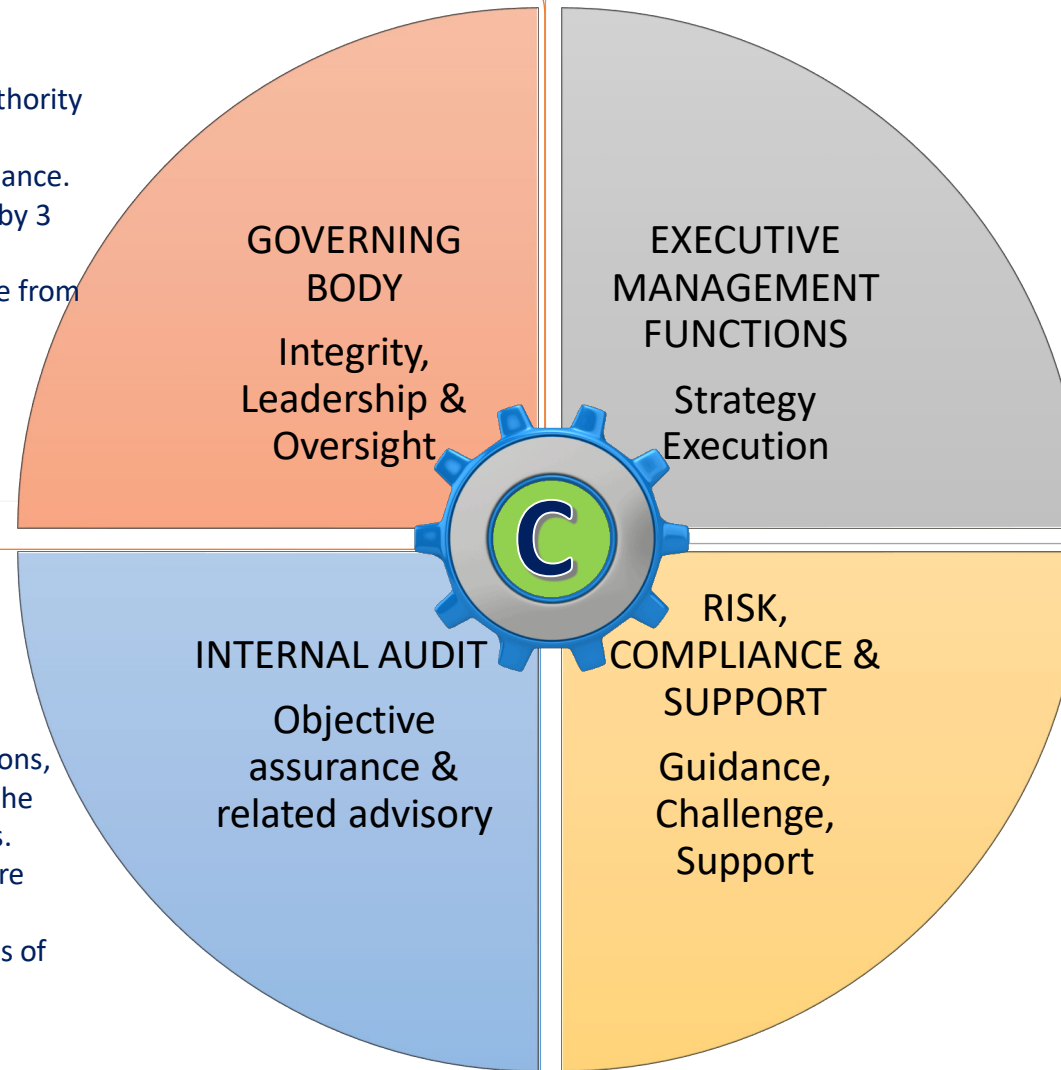
Rationalize
Principles

Align Graphic
to depict
Principles

Roles and responsibilities - 3 Lines

- Ethical culture, and setting the “tone at the top”
- Stakeholder Engagement
- Setting strategic direction
- Delegation to governance committees and authority to 3 lines
- Setting KPI’s and KRIs and monitoring performance.
- Approving governance frameworks designed by 3 lines
- Opining and challenging reports and assurance from all functions.
- Reporting decisions, actions & outcomes to stakeholders/ authorities.
- Performance evaluation

- Providing independent assurance, opinions, insight, and advice
 - On the adequacy and effectiveness of governance, risk management, and internal control.
 - On the efficiency and effectiveness of operations, including the safeguarding of assets, and on the reliability and integrity of reporting processes.
- Assessing the influence of organizational culture and behaviour.
- Contributing to the adequacy and effectiveness of policies.
- Unbiased reporting to the audit committee, governing body and management.



- Delivering outcomes aligned with stakeholders expectations
- Assessing internal and external factors that may impact decisions and outcomes.
- Establishing systems/ procedures that deliver on performance
- Affecting remediation when decisions, actions, behaviors, and outcomes are seen to be wanting
- Own, develop, implement and monitor policies
- Delegating responsibilities to DOA
- Setting tactics, performance and risk indicators.
- Monitoring and analyzing activity.
- Reporting performance, forecasts and outlook to the governing body.

- Analyze known and identifying emerging issues that may impact decisions & outcomes.
- Identifying changes in the organization’s variances and tolerances in performance.
- Assisting management in developing risk frameworks, processes, and controls to align performance with strategic goals.
- Providing guidance and training on governance, risk management, and control processes.
- Facilitating and monitoring the implementation of effective risk management practices by management.
- Monitoring the adequacy and effectiveness of internal control and timely remediation of deficiencies.

3 LOD NEXT STEPS



Combined Assurance – A South African Case Study

**Pre-
2009**

Pre-King III - assurance providers working in silos
Disaggregated and suboptimal risk management and governance
Duplication of effort

KING III
**Combined
Assurance**

“Integrating, coordinating, and aligning the risk management and assurance processes to optimise and maximise the level of risk, governance, and control oversight over the organisation’s risk landscape.” Assurance providers working more closely together to ensure:

- the **right amount** of assurance
- in the **right areas**
- from people with the best and **most relevant skills**
- as **cost effectively** as possible


KING IV
**Combined
Assurance**

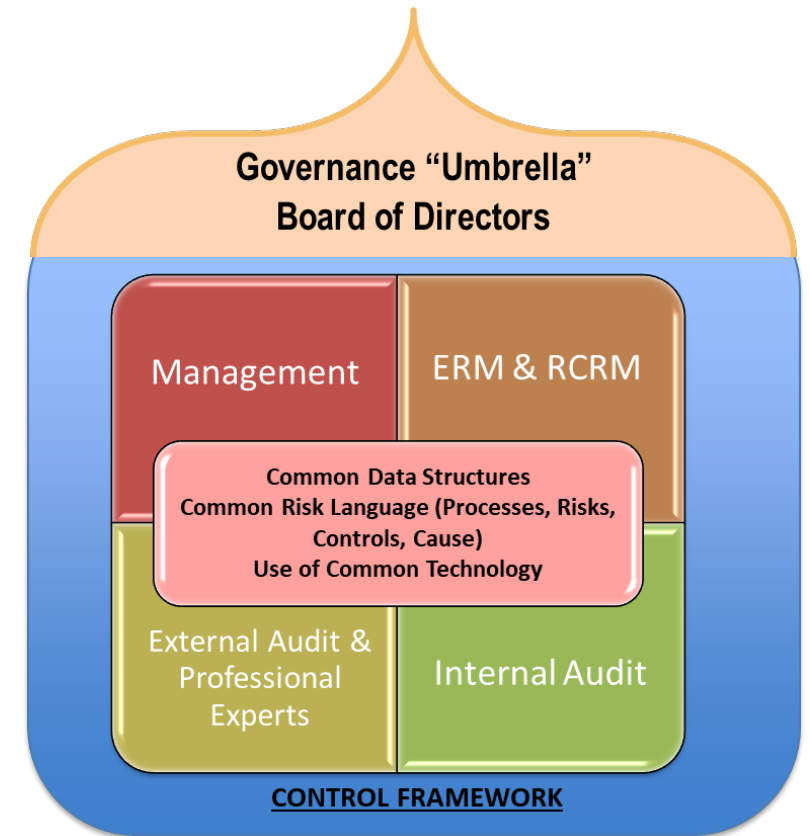
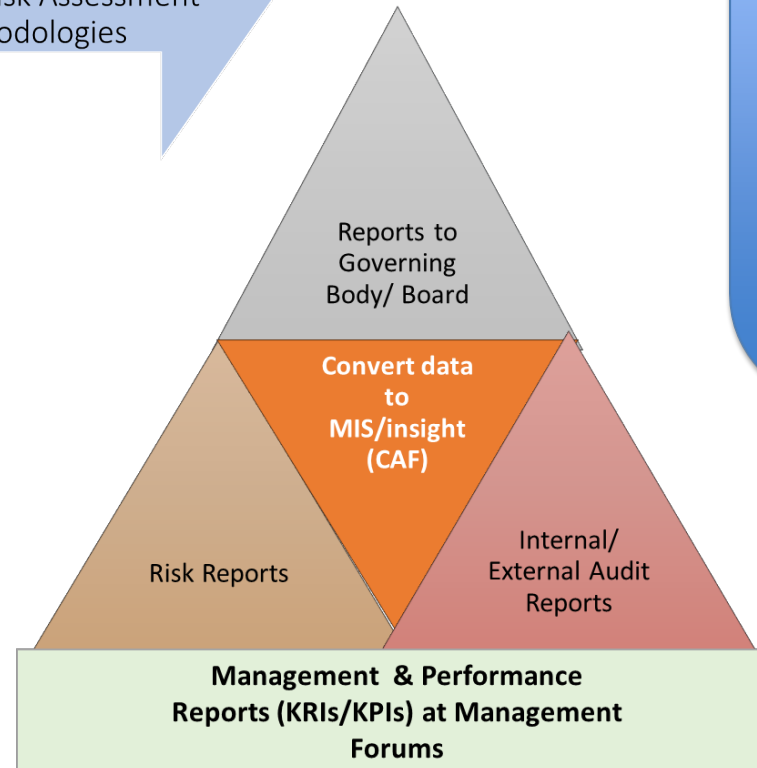
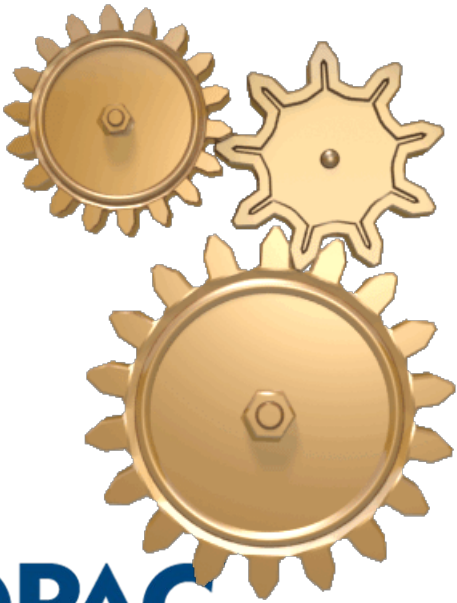
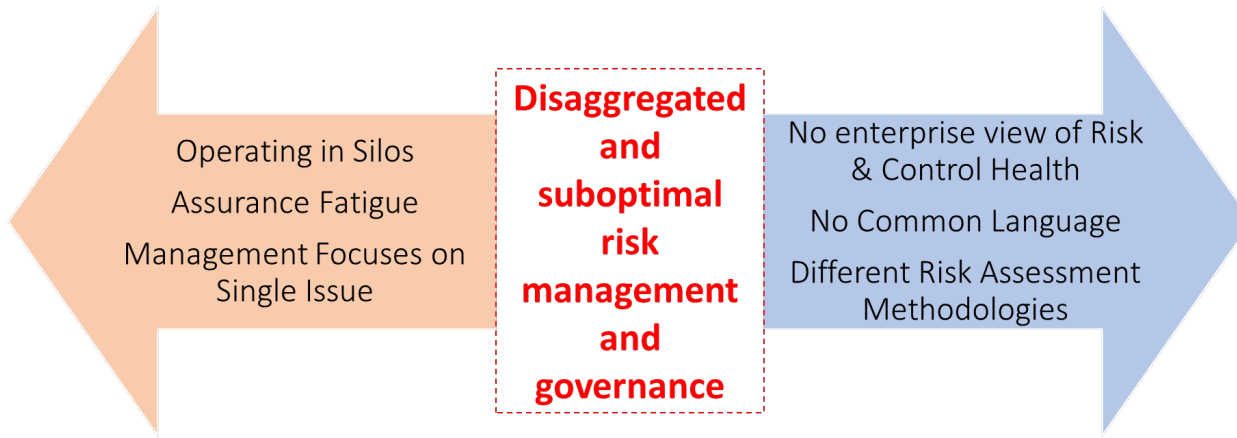
Recommends that the **audit committee establish and oversee** the implementation of the model as informed by material risks and opportunities

The primary objective is to assist the Board in assessing the **adequacy and effectiveness of the internal control environment** and assessing the **integrity of the information** used for **reporting and decision-making**

The refined model aims to **align the internal risk and control** components with greater **emphasis on external stakeholder reporting**



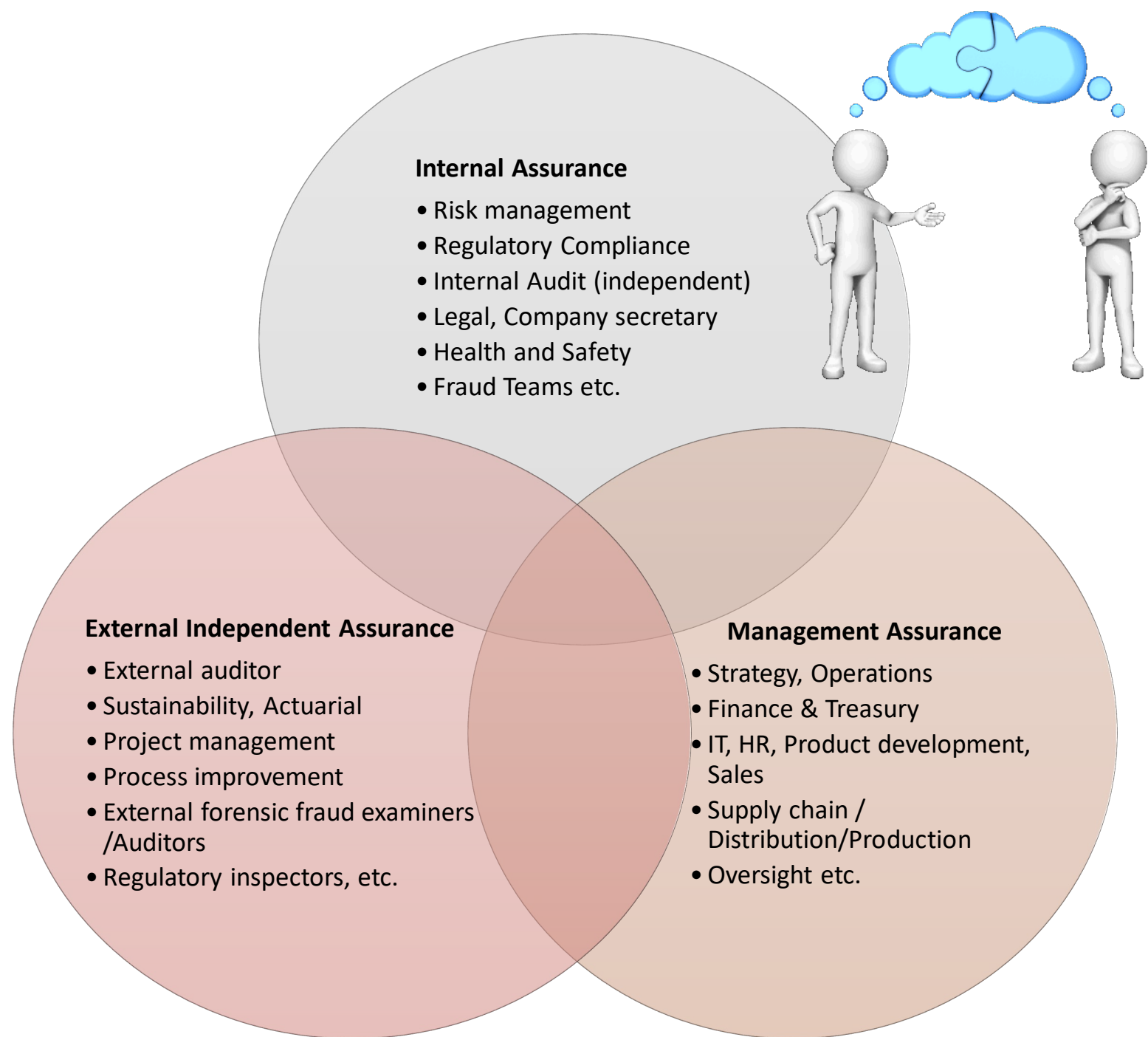
Old Regime Vs Aspirations



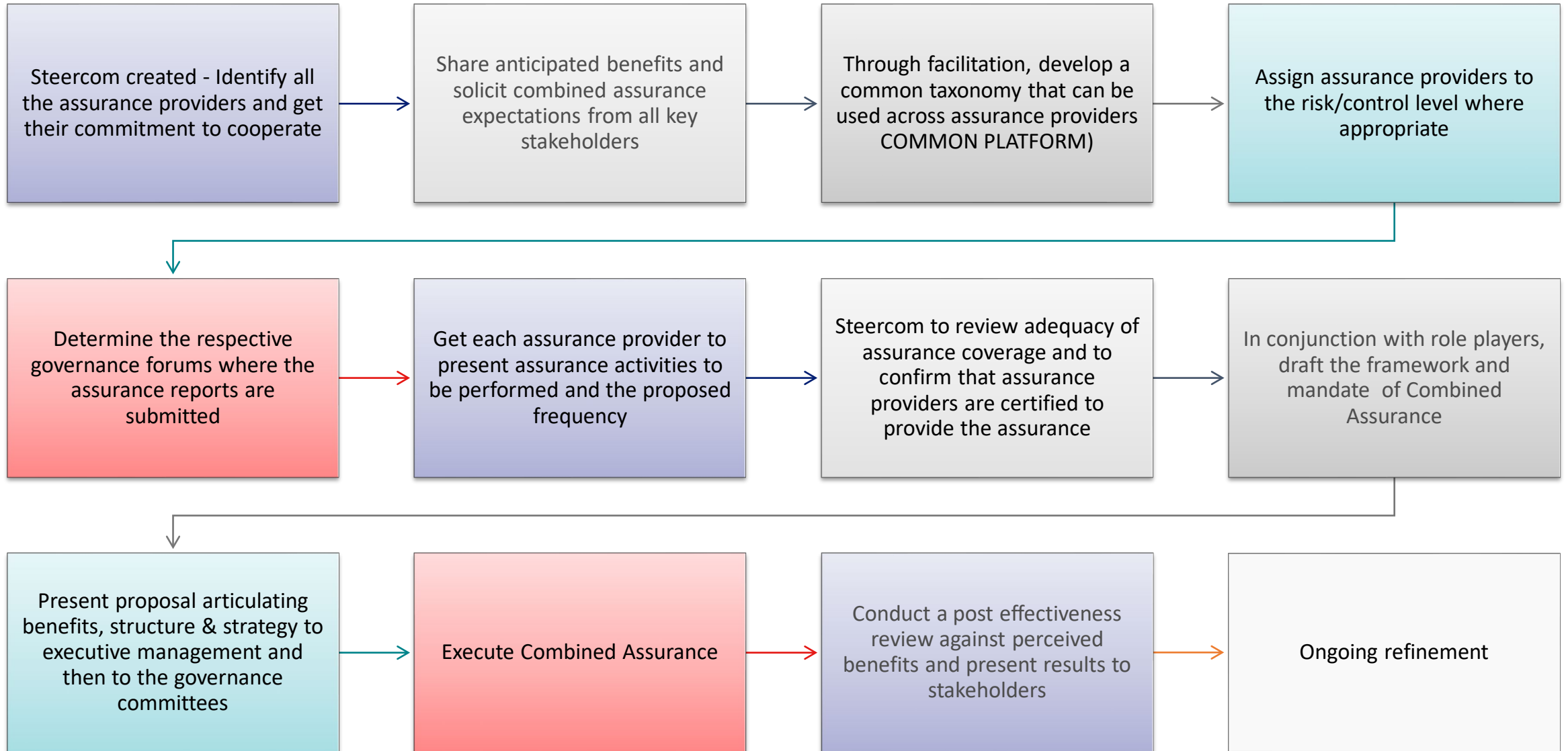
Types of Assurance

- **Management Assurance** - Ultimate responsibility for managing risks & controls
- **Internal & External Assurance** - Objective and independent (dependent on organisational positioning & stature) assurance provided by Internal, External audit and professional experts
- **Combined Assurance** - Leads to continuous improvement, operational excellence, minimises duplication of effort between assurance providers

Underpinned by a robust
Risk Management Framework



Inaugural Combined Assurance Meeting Imperatives

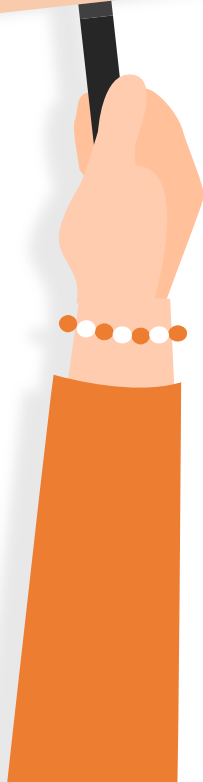


Foundational aspects for combined assurance

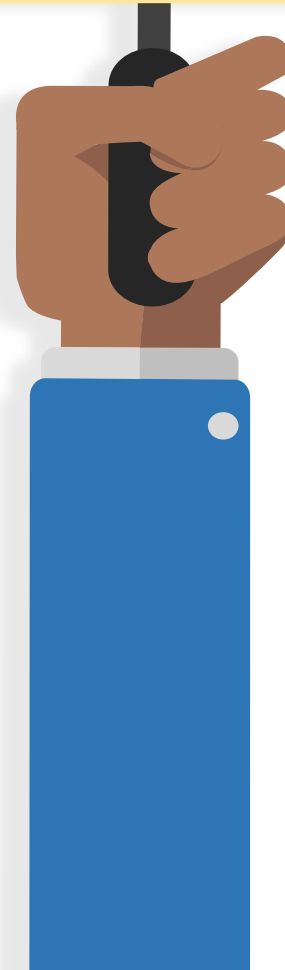
Support from executives and board committees - 'tone at the top'



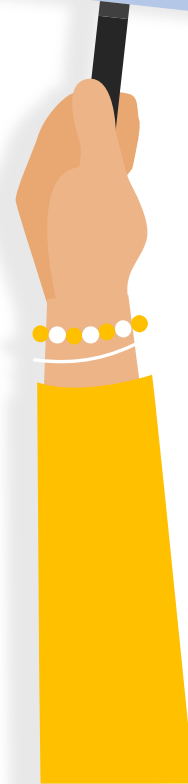
Buy-in from all key role players - "tune in the middle"



Effective corporate governance structures - "rhythm on the dance floor"



Strong risk culture across the company



Benefits of Combined Assurance

Collaboration

- Leverage **common risk assessments**
- Deliver unified, **consistent message**

Efficiencies

- Eradication of **Assurance Fatigue**
- **Cost savings** and **greater coverage**
- Sharing of **lessons learned**



Effective control environment

- Reporting is **more precise and insightful**
- Valuable, relevant data based on collaboration and not silos - facilitates **better decision making**
- Facilitates the **annual assurance statements**
- **Fewer surprises**

Underpinned by a mature **Risk Management framework and function**

Current Demerits

- ✓ Lack of Effective Oversight
- ✓ Unnecessary Complexity and Duplication
- ✓ Organisational and Functional silos
- ✓ Disjointed strategy & disconnected KPIs
- ✓ Wasted Resources & Information
- ✓ Fragmentation
- ✓ Lack of awareness of Interdependencies
- ✓ Increased costs



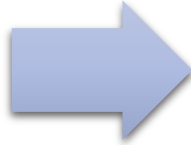
GRC Merits



Challenges to Combined Assurance

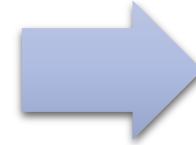
Company Dynamics

- Culture
- Operating model
- Fragmented platforms
- Local vs Global footprint



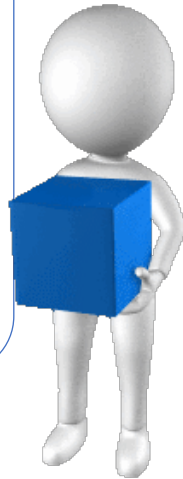
Reliance on Assurance Providers

- Perceived objectivity
- Qualifications, Competencies and Experience
- Conflicts & Profile
- Methodology - Standards
- Affiliation to professional body

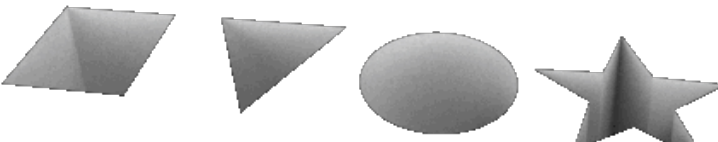


Governance Frameworks

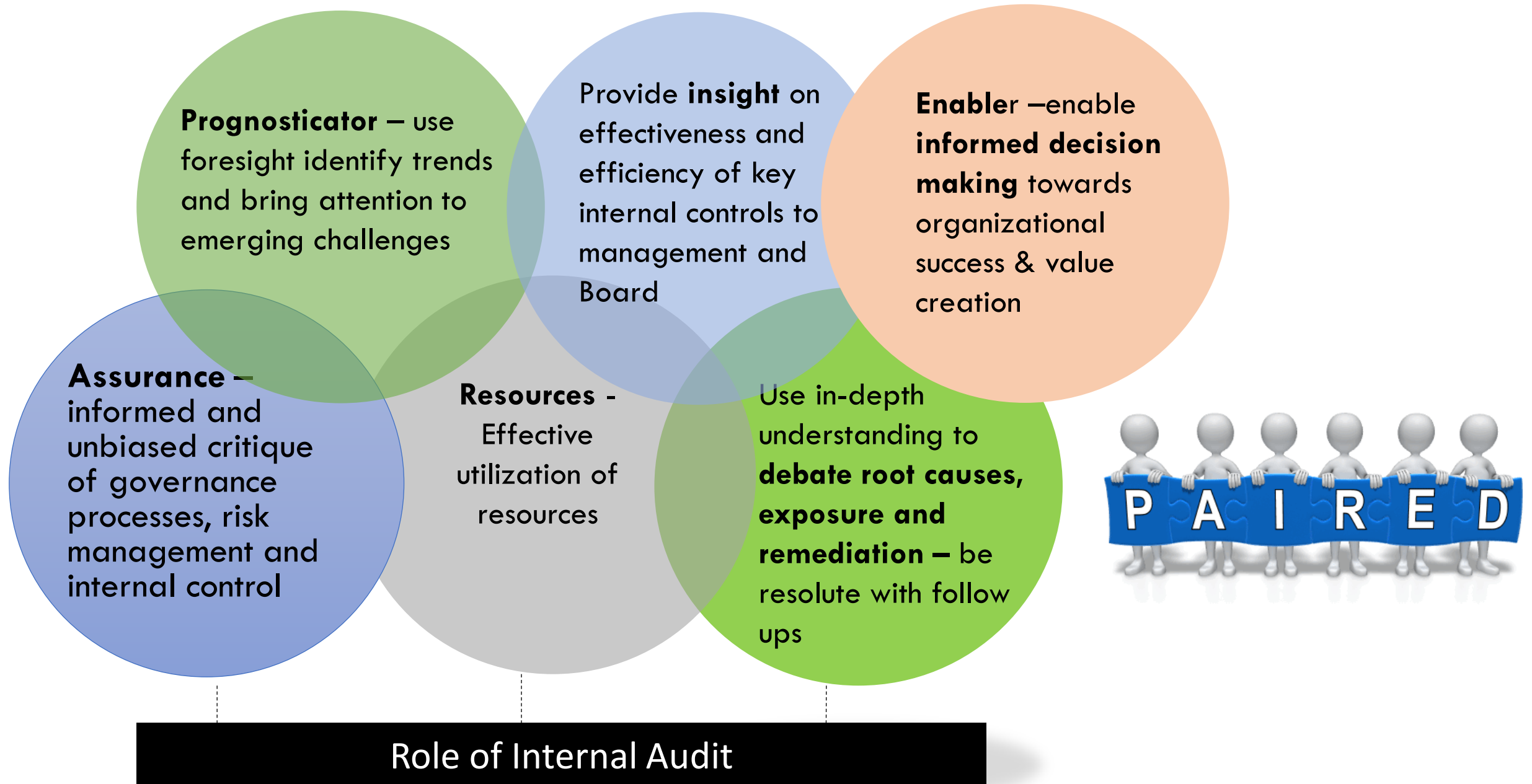
- No distinction between lines of assurance
- Misaligned definition of risk, controls & assurance
- Size of company



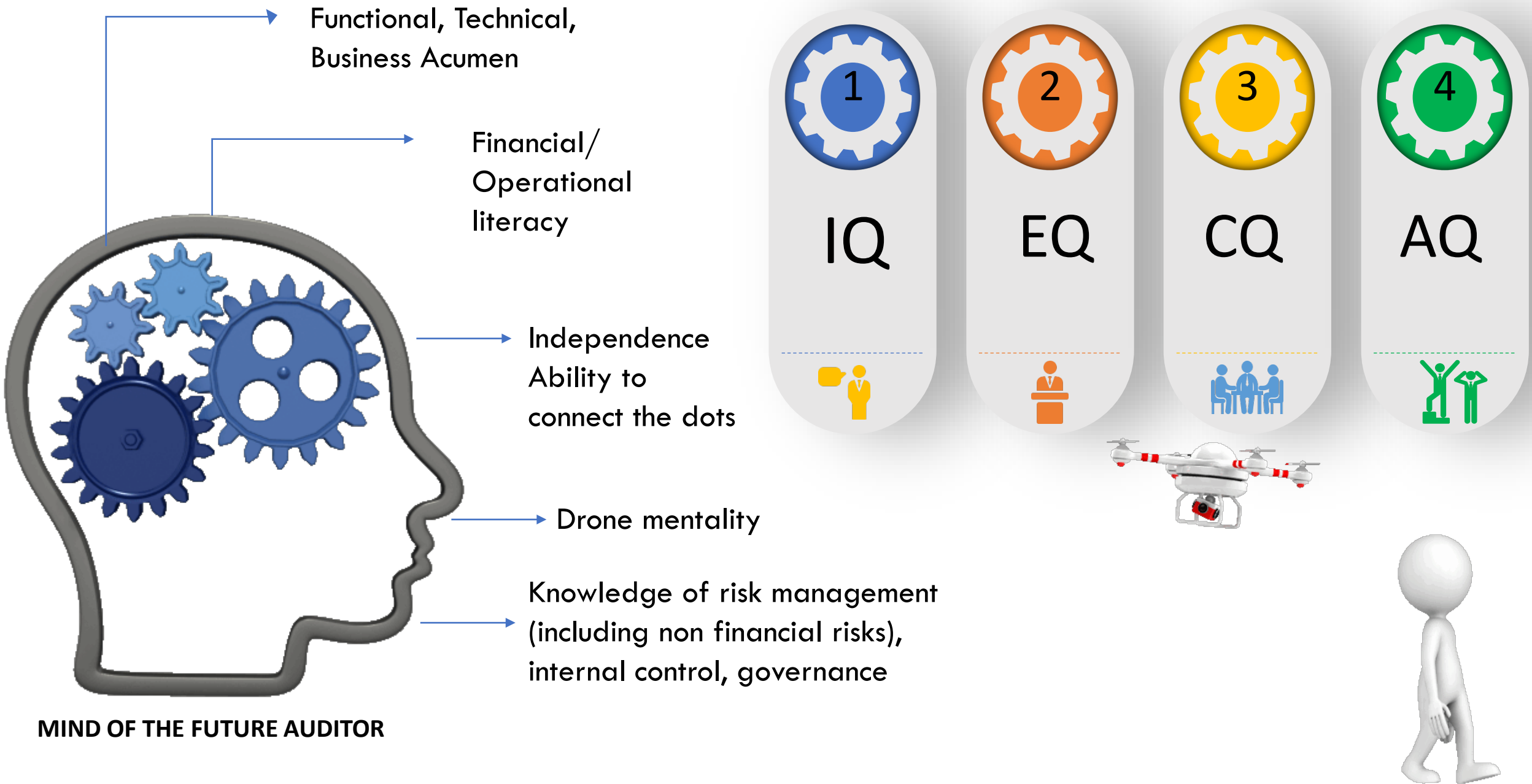
One Size Does Not Fit *All*



Stakeholder Expectations of Internal Audit



Future Internal Auditor



Remain Relevant



Adapting to the “Novel” Tomorrow - nTom



VUCA

Visionary

Use hindsight,
probe changes

Understanding

Challenge
perspectives,
learn

Clarity

Focus,
cultivate
opportunities

Agility

Nimble,
harness
innovation

Global economies will take time to recover – depression and recession on the cards

Healthcare becomes an imperative

Insurance becomes a key priority – risk management and contingency planning is enhanced

Courage will take time – travel & tourism

Work, play, shop online & remote learning a reality

Supply chains come closer to home

Digital divide becomes greater

Culture of preparedness is inculcated

Platform based ecosystems – technologies

Cleaner climate - less carbon emissions



Change is the only constant.
Heraclitus

