Agenda

Governance, Risk, and Compliance Landscape
Three Lines of Defense
Leading Practices
Today’s fast-changing business climate...

Coupled with the evolving risk and regulatory landscape make managing your risk and compliance processes efficiently and effectively a real challenge.

1. Increased complexity and intensity of the regulatory landscape
2. Evolving business landscape and the resulting potential risks associated with operating in multiple environments
3. Proliferation of technology which creates great business opportunities, while at the same time increasing compliance vulnerability
4. Complex, interconnected businesses
5. Greater complexity in your operating model and structure

66% of CEO’s see regulatory change as a disruptor within their industries over the next five years.¹

¹PwC’s 18th Annual Global CEO Survey
Three lines of defense
Effective organizations implement three distinct lines of defense into their Governance Risk Compliance platforms.
1st line of defense

Operational management has ownership, responsibility and accountability for assessing, controlling and mitigating risks.

Roles & Responsibilities

- Convert strategy into operational objectives
- Maintain a system of effective internal controls
- Execute risk and control procedures daily
- Assign procedural and operational responsibilities
- Implement corrective actions to address process and control deficiencies
**2nd line of defense**

**Risk Management and Compliance** facilitates and monitors practices by operational management and assists in reporting information up and down the organization.

### Roles & Responsibilities

- Provide positive Tone at the Top
- Establish compliance and risk management policies, roles and responsibilities and implementation goals
- Establish the integrated control and risk framework (common language)
- Promote compliance and risk management competence
- Facilitate development of the risk and control monitoring and reporting process
- Report to senior management and board on progress and recommended actions
3rd line of defense

Internal Audit provides assurance to the board and senior management on the effectiveness of compliance and risk management.

Roles & Responsibilities:

• Provide objective assurance to board and senior management

• Serve as an in-house consultant to second and first line of defense

• Provide a connection with external audit and regulatory bodies

• Coordination of internal audit plan with the inspection activities performed by first and second line of defense
**Board Roles, Size, Committees and Composition**

Risk Management and Compliance facilitates and monitors practices by operational management and assists in reporting information up and down the organization.

**Illustration of Bifurcated Risk and Audit Committee Mandates**

**Board**
- Review and approval of firm’s strategy / strategic plan and associated risk appetite (as recommended by Risk Committee)
- Review and approval of enterprise-wide risk framework, risk limits, policies and methodologies (as recommended by Risk and Audit Committees)
- Oversight of Risk and Audit Committee activities

**Risk Committee**
- Consider and recommend firm’s risk appetite
- Monitor risk profile against approved risk appetite
- Challenge management assessment of likely risks and review mitigation plans
- Make forward looking assessment of key risks and challenge management
- Be responsible for documenting and overseeing the enterprise-wide risk management policies and practices of the regulated entity

**Audit Committee**
- Review basis for financial statements and external auditor’s opinion with respect to financial statements
- Maintain reliability and integrity of accounting policies and financial reporting
- Provide an independent, direct channel of communication between the Board and internal and external auditors
- Conduct or authorize investigations into any matters within the audit committee’s scope of responsibilities
- Ensure that senior management has established and is maintaining an adequate internal control system

**Overlap of membership & interaction to avoid omissions in oversight**

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Aligning GRC efforts?

An incremental, pragmatic approach to driving efficiency and consistency in a fragmented environment, that is enabled through technology.

**Governance** – Provides leadership, consistency and accountability over the entire process. Critical roles (e.g. Internal Audit) are preserved as centers of excellence leveraging shared processes to drive greater effectiveness and efficiency.

**Foundational Components**
- Common Language
- Common Organizational View
- Methodologies

**Core GRC principles**
- Objective setting
  - Risk appetite and tolerance
- Roles and responsibilities
  - Policies and standards
- Risk and control assessment
  - Issues management and remediation
- Monitoring
  - Testing
- Reporting and Analytics
  - Communications and Training

**Analysis & Reporting**
- Data Aggregation
- Data Analysis
- Data Presentation

**Analysis & Reporting**
Metrics-based information enabling effective management response

**Technology** – Supports the entire framework, creating process efficiency and more effective data management and reporting.
Aligning GRC efforts provides a sustainable approach to managing compliance and control requirements in an ongoing, systematic fashion.
**Benefits of Aligning GRC Efforts**

- **Efficient**
  - Coordinated

- **Agile**
  - Strategic

- **Sustainable**

**Shorter Term Benefits**

- **Greater awareness and understanding** of responsibilities for control performers
- **Significant reduction of compliance costs** resulting from centralized governance structure and elimination of duplicate audit/compliance activities
- **Greater transparency and visibility** into the aggregated risk and controls and broader business posture
- **Increased sustainability** leveraging a common technology platform
- **Reallocation of internal resources** to core revenue and operational activities as a result of reduction in controls
- **Reduction of compliance risk** due to greater coordination, awareness and visibility

**Longer Term Benefits**

- Leverage the compliance program to **drive strategic initiatives and operational objectives**
- **Improved executive and Board reporting** leveraging advanced dashboards and real-time reporting
- **Reduce the organizational impact of new regulations** through established compliance change management practices
- **Streamline audit** preparation, design evaluation and execution
- **Gain a competitive advantage** and first mover status by implementing an agile compliance framework, which facilitates the addition of standards in demand by customers
Questions?
Thank you!

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