What do you see as your organization’s biggest challenge with risk management?

- Talent – Lack of specialized skills or skill gaps
- Technology – Lack of tools and capabilities
- Process – Poor design and alignment of risk management processes
- Funding – Lack of investments or resources in risk management capabilities
- Culture – Organization lacks risk awareness
- Don’t know/not applicable
TODAY’S RISK AND ASSURANCE OPERATING MODELS ARE NOT CREATING VALUE

**Kills performance**
- Professionals can’t perform all activities they need
- Slows down innovation
- Data underutilized

**Too expensive**
- Excessive testing
- Untimely results despite high spend
- Increasing costs forecasted given regulatory environment

**False sense of control**
- Systems don’t prevent non-compliant workarounds
- Business do not feel empowered
- Sample based testing is inadequate given exponential amount of data
WHY ARE WE HERE?

OPERATING MODEL

• Management systems have evolved without strategic coordination, becoming uncoupled from business requirements.

• Control frameworks are too rigid, homogenous, and conformance focused.

• Assurance mechanisms have not been consistently, or effectively, built into the design of systems and processes.

• The second and third line have become primary (rather than re-assurance) assurance providers.

CULTURE

• Command and control cultures have slowed decision making.

• Organisations lack the psychological safety to experiment, fail and learn.

• Control functions have become silos, focused on self-protection.

• Collaboration and wider value creation is not sufficiently incentivised.

• Assurance functions have not been forced to improve their ways of working.

APPROACH

• The default risk management response is to 'add more' (bureaucracy and process).

• Fragmented systems and poor governance has limited effective use of data.

• Organisations have been slow to adopt new technologies.

• Control functions focus too much on protection (risk mitigation) rather than value creation (controlled risk taking).
## Challenges Associated with the Current 3LOD Model

### Second and third line functions are immature in their role, remit and capability

These organizations often have:

- **3LOD**: Insufficient, independent, and objective assurance
- **2LOD**: Immature second line oversight functions
- **1LOD**: An over reliance placed on management

### Management places too much reliance on the third line of defense

Leading to an organization where:

- **3LOD**: The last line of defense is the ‘primary’ source of assurance
- **2LOD**: Second line functions are lacking effective compliance monitoring
- **1LOD**: Management lacks ownership for risk and controls; 3LOD seen as the compliance function

### Assurance activities are not coordinated and integrated

Leading to an organization where:

- **3LOD**: Assurance efforts are duplicated
- **2LOD**: The business is overly disrupted from uncoordinated assurance activities and siloed
- **1LOD**: Value is left of the table; potential efficiencies and strategic approaches to digital, integrated assurance models are fragmented

Please use annotation feature in zoom to place a ★ for the model that closely represents your organization.
TOMORROW’S 3 LOD

IA functions need to become more agile, nimble and forward-looking

3rd Line of Defense: Truly Greatest Risks

A strategic and holistic 3 LOD assurance provider, focusing on the design and performance of assurance activities, providing advice on the truly greatest risks, and helping to anticipate new challenges.

2nd/3rd Lines of Defense: Automated Core Assurance

Tech-enabled 2 LOD (Robotics Process Automation, Artificial Intelligence, and Analytics) to automate assurance over the control environment, and enable real time monitoring and remediation of control weaknesses.

1st Line of Defense: Assurance by Design

Greater ownership of assurance within 1 LOD through enhanced controls and embedding self-assurance mechanisms into the design of systems and processes.
A NEW ECOSYSTEM. A REMODELLED THREE LINES OF DEFENCE

BOARD / AUDIT COMMITTEE

**L O D 1**
- RISK IDENTIFICATION
- MANAGEMENT CONTROL
- MANAGEMENT ASSURANCE

**L O D 2**
- RISK ASSURANCE ARCITECTURE
- DESIGN CHANGE GOVERNANCE
- CONTINUOUS IMPROVEMENT

**L O D 3**
- ASSURANCE
- ADVICE
- ANTICIPATION

RISK MONITORING
CONFORMANCE MONITORING
PERFORMANCE MONITORING
THE PATH TO WORLD CLASS RISK ASSURANCE

Current state diagnostic:
Understand the health of your current risk assurance landscape and size the opportunity and benefits which could be gained.

Prioritise:
Develop a clear strategy and roadmap, prioritising change around the opportunities and challenges which will maximise return on investment.

Connect:
Shift the operating model to promote alignment, collaboration, impact and value creation. Reduce the total cost of operation, and enhance operational awareness and employee buy-in.

Modernize:
Re-connect the design of risk and assurance to business requirements and risk appetite. Rationalise controls and optimise for efficiency, quality and agility across the three lines of defence.

Digitise:
Leverage intelligent automation and digitalisation. Create a clear line of sight and single source of truth. Deploy insightful dashboards and real-time reporting to enable controlled risk taking.

Digital Enablement
3LOD Enhanced

Copyright © 2020 Deloitte Development LLC. All rights reserved.
OPPORTUNITIES EXIST FOR BOTH RATIONALIZATION AND MODERNIZATION FOR ALL CONTROLS

Interrupt
Interrupt the cycle and fundamentally change the scope with a fresh look at risks across compliance, operational, and financial domains

Automate
Take advantage of automation to achieve quick wins to upgrade the control environment. Seek out data-driven processes

Expand
Extend the capabilities of automation to rework existing controls and extend the same automation programs for testing

Monitor
Deploy dashboards to analyze control effectiveness and business outcomes

A global consumer product company automated >60% of its controls through better usage of their system configuration and through analytical tools

Performing a controls rationalization and implementing a smart controls operating model helped a client to reduce the cost of controls by >30%

Controls analytics and continuous monitoring helped to improve controls performance and compliance effectiveness
Control automation requires both deep experience and an understanding of critical success factors

A solid foundation
Automation governance coupled with a hybrid agile approach integrated into enterprise digital strategy

A strong automation strategy
The development of an automation strategy and design techniques to identify potential economies of scale with automation candidates

A proof of concept within the first month
An early proof of concept allowing the enterprise to align on the approach around integrated automation

A practical, multi-technology approach
Combining predefined scripts; custom script capability; the strategic use of RPA; and access to data management, analytics, and AI technologies
POLLING QUESTION # 2

Which aspect of assurance transformation do you see driving the most value?

• High-impact operating model
• Controls modernization
• Leveraging and deploying digital capabilities
• Don’t know/not applicable
### Key Skill Sets for Transformation

<table>
<thead>
<tr>
<th>Skill Set</th>
<th>Description</th>
<th>Business-oriented</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analytical</td>
<td>Sees and interprets connections between information</td>
<td>Driven to execute against business objectives, finding the right path to achieve them</td>
</tr>
<tr>
<td>Innovative</td>
<td>Creatively approaches problems, embracing new techniques</td>
<td>Comfortable packaging and presenting information in different ways</td>
</tr>
<tr>
<td>Inquisitive</td>
<td>Asks productive questions and focuses on delivering clear and compelling answers</td>
<td>Works closely with others, particularly with nontechnical backgrounds</td>
</tr>
<tr>
<td>Entrepreneurial</td>
<td>Comfortable working through ambiguity and outside of formal structure</td>
<td>Willing to give and receive difficult feedback and adapt based on feedback received</td>
</tr>
<tr>
<td>Communicative</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collaborative</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Feedback-oriented</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
What is your organization’s biggest barrier to transforming its risk management capabilities?

- Business case or ROI
- Lack of organizational alignment to transform
- Time or resources
- Lack of digital capabilities
- Don’t know/not applicable
HOW TO TAKE COMMAND?

Understand the assurance landscape

Education and training

Understand what is driving the demand

Optimize the assurance layers

Modernize controls

Automate core assurance

Leverage digital assets to drive insight

Develop your internal brand strategy