Confirmed Speakers

Conversation with Representative Hill – A Financial Services Perspective
Key Note Speaker: Congressman French Hill (AR)
U.S. House Committee on Financial Services

Lessons Learned From Heightened Standards & SR 13-1 and Key Future Focus Areas – A Panel Discussion
Facilitator: Richard F. Chambers, President & CEO, The IIA
Panelist: Steve Merriett, Chief Accountant, Federal Reserve Board
Panelist: Molly Scherf, Deputy Comptroller Large Banks, OCC

CAE Panel Discussion: Where Do We Go From Here?
Facilitator: David Julian, Executive Vice President, Chief Auditor, Wells Fargo
Panelist: Mark Carawan, Chief Audit Executive, CITI
Panelist: Karl Erhardt, Senior Vice President & General Auditor, MetLife
Panelist: Andy Jackson, CAE Officer, TCF Financial Corporation
Registration

<table>
<thead>
<tr>
<th></th>
<th>Early Savings By July 3*</th>
<th>Regular Rate As of July 4*</th>
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<tbody>
<tr>
<td>Members and Groups up to 3</td>
<td>US$795</td>
<td>US$895</td>
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<tr>
<td>Groups of 4 to 8</td>
<td>US$755</td>
<td>US$850</td>
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<tr>
<td>Groups of 9 or more</td>
<td>US$715</td>
<td>US$805</td>
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<tr>
<td>Non-Members</td>
<td>US$1,010</td>
<td>US$1,110</td>
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*Per person pricing.

Groups of 4 or more please contact IIA Customer Relations to register at +1-407-937-1111 or CustomerRelations@theiia.org.
The mission of the Financial Services Audit Center is to advance the professional practice of auditing in the financial services sector through thought leadership, education, professional guidance and advocacy.
IIA’s Commitment to the Industry

**Advance the Professional Practice of Auditing in the Financial Services Sector**

**Advocate the Value of Auditing in the Financial Services Sector**

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<th>Training</th>
<th>Career Development</th>
<th>Guidance &amp; Resources</th>
<th>Publications &amp; Media</th>
<th>Member Services</th>
<th>Advocacy</th>
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<tr>
<td>Social Media ✓</td>
<td>Conferences ✓</td>
<td>• Conferences ✓</td>
<td>• Career Map ✓</td>
<td>• Guidance ✓</td>
<td>• FSAC Website ✓</td>
<td>• DC Advocacy ✓</td>
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<td>Conferences ✓</td>
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<td>• Knowledge Briefs ✓</td>
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<td>• Virtual Symposia ✓</td>
<td>• Virtual Symposia ✓</td>
<td>• Resource Library ✓</td>
<td>• Press Releases ✓</td>
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<td>• Professional Practices Committee ✓</td>
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<td>LinkedIn Peer Exch. ✓</td>
<td>• eWorkshops ✓</td>
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<td>• Flash Surveys ✓</td>
<td>• Bookstore Discount ✓</td>
<td>• Benchmarking Studies ✓</td>
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<tr>
<td>Leadership Group ✓</td>
<td>• CFSA Review ✓</td>
<td>• CFSA Review ✓</td>
<td>• Audit Comm. Support ✓</td>
<td>• AuditChannel.tv ✓</td>
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<tr>
<td>Forums/Roundtables ✓</td>
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<td>• Ask the Experts ✓</td>
<td>• Tone at the Top ✓</td>
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**Targeted Governance, Knowledge, Member Support, and Resources**

- Industry specific and specialty group support.

- Available at launch
- All others under development
Premium Financial Services Specific Content

Dedicated Website

Knowledge Brief

SmartBrief

Relevant Events

Virtual Symposiums
Agenda

- What are the Three Lines of Defense?
- Why Implement a line of defense approach?
- Who are the players in each line?
- What are the risks and dependencies of each line?
- How do the Three Lines coordinate and collaborate?
3 Lines of Defense

Three Lines of Defense model distinguishes among three groups (or lines) involved in effective risk management:

- Functions that own and manage risks
- Functions that oversee risks
- Functions that provide independent assurance
The Three Lines of Defense Model

1st Line of Defense
- Management Controls
- Internal Control Measures
- Identify, Assess, Monitor & Elevate Possible Risk Events

2nd Line of Defense
- Financial Control
- Security
- Enterprise Risk Management
- Credit Management
- Appraisal
- Compliance

3rd Line of Defense
- Internal Audit

Governing Body / Board / Audit Committee
Senior Management
Front Line
Middle Office
Regulator
External Audit

Assurance
# Three Lines of Defense Model

<table>
<thead>
<tr>
<th>Roles</th>
<th>1&lt;sup&gt;st&lt;/sup&gt; Line</th>
<th>2&lt;sup&gt;nd&lt;/sup&gt; Line</th>
<th>3&lt;sup&gt;rd&lt;/sup&gt; Line</th>
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</thead>
<tbody>
<tr>
<td>Ownership &amp; Responsibilities</td>
<td>Front Line Management</td>
<td>Specialist Departments</td>
<td>Internal Audit</td>
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<tr>
<td></td>
<td>• Ownership, responsibility and accountability for identifying and managing risk and control</td>
<td>• Support in identifying and managing risk and control</td>
<td>• Independent from business</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Independent from design, implementation and execution</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>• Highlight control weaknesses to mgmt and board</td>
</tr>
<tr>
<td>Activities</td>
<td>Own and Operate</td>
<td>Design, Support, &amp; Challenge</td>
<td>Assurance</td>
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<td></td>
<td>• Define requirements for design &amp; control activities</td>
<td>• Design risk and control activities</td>
<td>• Provide assurance on the effectiveness of the 1&lt;sup&gt;st&lt;/sup&gt; and 2&lt;sup&gt;nd&lt;/sup&gt; lines of managing risk and control</td>
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<tr>
<td></td>
<td>• Identify and manage risk and control</td>
<td>• Define procedures for monitoring</td>
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<tr>
<td></td>
<td></td>
<td>• Support 1&lt;sup&gt;st&lt;/sup&gt; line in meeting risk and control responsibilities</td>
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First Line of Defense

- Responsible for managing risks and maintaining effective internal controls
- Identifies, assesses, mitigates, monitors and reports on risks
- Bottom Up Risk Assessments include:
  - Risk Control Self Assessment (RCSA)
  - Key Risk Indicators (KRI’s)
  - Risk Profile
  - Escalation
Second Line of Defense

- Designs and implements risk program
- Provides framework used by 1st line to assess and manage risk
- Connects dots by taking a portfolio view of risks across the enterprise
- Coordinates risk governance process
- Provides top down view relative to strategy and risk appetite
Third Line of Defense

- Internal Audit has been clearly defined as the Third Line of Defense by the IIA, COSO 2013, regulators, and other published guidance
- Internal Audit has to be fully independent and objective
Internal Audit is responsible for assessing and evaluating 1\textsuperscript{st} and 2\textsuperscript{nd} Lines of Defense including:

- **Assessing**
  - Design and effectiveness of risk management framework
  - Adequacy of and testing compliance with policies and standards
  - Design and testing effectiveness of first line controls

- **Testing**
  - Effectiveness of second line functions
  - Completeness and accuracy of information reported to management, the board, and external users

- **Keeping Audit Committee and management informed on issues requiring resolution**
To avoid risk of “assurance silos”, coverage gaps and redundant coverage, IA can:

- Meet with Line 2 groups and share/exchange annual coverage plans, risks assessments, and assurance reports
- Collaboratively develop **Assurance Coverage Maps**

IA should understand coverage provided by Line 2 groups, assess effectiveness, and determine and document level of reliance placed on risk management functions
Internal Audit Reports

- Reports should clearly state level of reliance placed on Line 2 work (areas excluded from audit scope)

- When opining on internal controls, consider:
  - Expanding opinions to include risk management and governance
  - Working with Line 2 groups to create an integrated opinion
    - Key results and trends from testing and assurance
    - Helps senior management, Audit and Risk Committees, and regulators understand aggregate coverage, results and basis for overall opinion
    - Very informative to stakeholders by connecting pieces of assurance puzzle comprising Line 2 and Line 3 coverage
Bank Regulatory Guidance For Risk Management

- Applies to financial services, but potential best practices for other industries
- Large banks required to establish and adhere to written risk governance framework
- Defines roles for three lines of defense including the following responsibilities for Internal Audit:
  - Establishing an audit plan to evaluate adequacy of and compliance with policies, procedures and processes established by front line units (Line 1) and independent risk management (Line 2)
  - Annually assessing design and ongoing effectiveness of framework
  - Reporting to Audit Committee significant instances where front line units or independent risk management are not adhering to framework

Coordinating the 3 Lines: Best Practices

- Risk and control processes should be structured in accordance with Three Lines of Defense model
- Each line should be supported by appropriate policies and role definitions
- Proper coordination should occur among separate lines to foster efficiency and effectiveness
- Risk and control functions operating at the different lines should share knowledge and information to assist all functions in accomplishing their roles efficiently and effectively
- Lines of defense should not be combined or coordinated in a manner that compromises their effectiveness
- When functions at different lines are combined, the governing body should be advised of the structure and its impact
Coordinating the 3 Lines: Best Practices

- Size and complexity will dictate practices
- Generally the smaller the organization, the more coordination between 2\textsuperscript{nd} and 3\textsuperscript{rd} lines can be leveraged:
  - Risk Assessments
  - Risk Management’s span of control
- Defining roles and responsibilities is key
- Clear communication with other lines on risk framework is critical – 1\textsuperscript{st} line has to follow it; 3\textsuperscript{rd} line has to audit it
- Make clear the distinction between 2\textsuperscript{nd} and 3\textsuperscript{rd} lines
- Share risk assessments
- Facilitate conversation with 1\textsuperscript{st} Line
- Coordinate with Board Committees
Know the Risk of Each Line and Dependencies

**1\(^{st}\) Line of Defense**
- Risk management at 1\(^{st}\) line not well defined
- Overall culture counter to strong internal control
- Gaps in responsibility or ownership of key risks exist

**2\(^{nd}\) Line of Defense**
- Risk management / compliance:
  - Not viewed as peers
  - Have no independent reporting lines
  - Organization views risk management / compliance as one or a particular group’s responsibility
  - Not well defined

**3\(^{rd}\) Line of Defense**
- Plan is narrow and only focused on compliance
- Not independent
- Responsible for risk management
- Limited resources
- Not supporting by lines 1 & 2
Questions to Ask About Your Organization

- How clearly are the 3 Lines of Defense understood?
- What are some of the 2nd Lines of Defense?
- Does Internal Audit perform audits of the 2nd Lines of Defense?
- What other coordination exists regarding the 3 Lines of Defense?
Thank You!

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