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## Risk and Investment Conference 2013

Brighton, 17 – 19 June



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## Drawing the Boundaries between Risk and Internal Audit

Debbie MacDonald and Martin Galloway

18<sup>th</sup> June 2013

Sponsorship  
 Thought leadership  
 Progress  
 Community  
 Sessional Meetings  
 Education  
 Working parties  
 Volunteering  
 Research  
 Shaping the future  
 Networking  
 Professional support  
 Enterprise and risk  
 Learned society  
 Opportunity  
 International profile  
 Journals  
 Support

# Objectives

- 1 Introduction
- 2 3 lines of defence model
- 3 How companies operate in practice
- 4 What good looks like

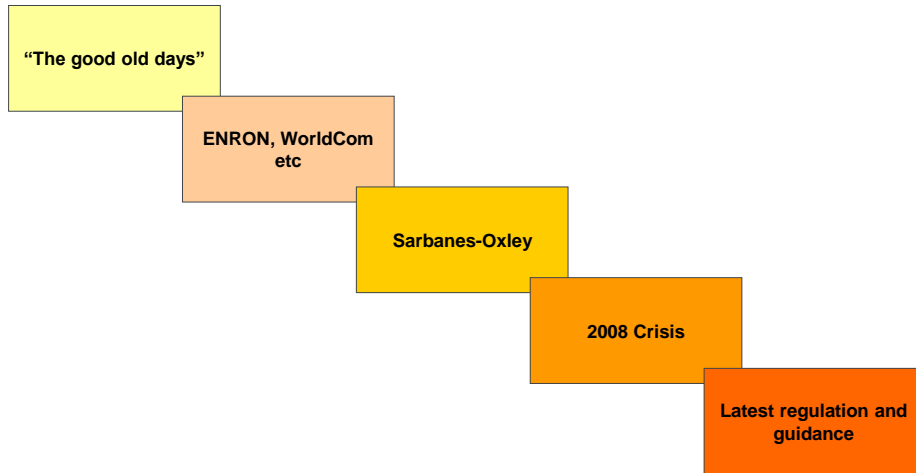


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# Introduction

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## Timeline



## Regulations

Regulations for 3 lines of defence model	
Existing	Coming soon
<ul style="list-style-type: none"> <li>FCA Guidance and PS 10/15</li> </ul>	<ul style="list-style-type: none"> <li>Solvency II – CP33, CP13/008</li> <li>Code of conduct for internal audit</li> </ul>



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## 3 Lines of Defence Model

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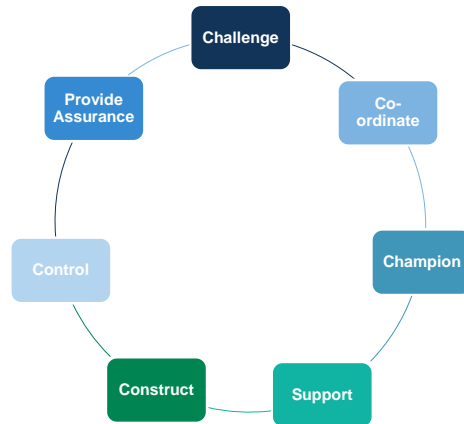
## Overview of the 3 lines of defence model



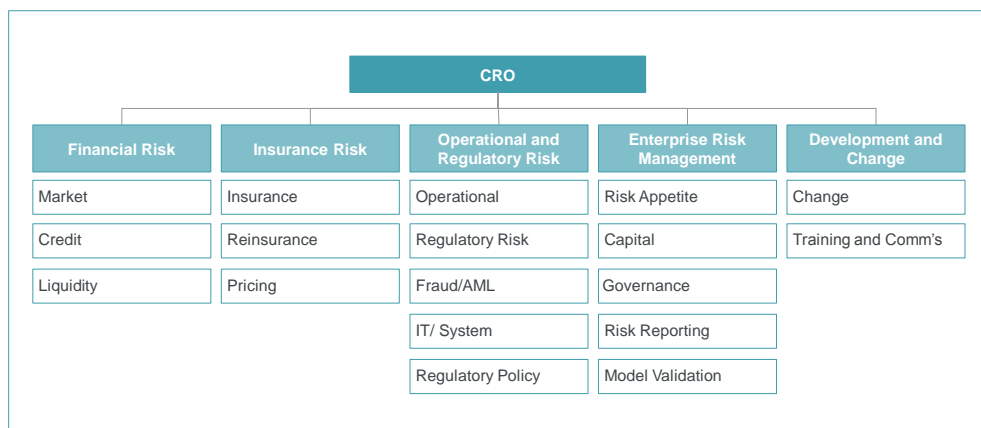
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## Risk function role

The primary responsibility of the CRO and the Risk function is to provide robust challenge to business management of all material risks. However, in practice the role covers a range of aspects including those shown below.



## Risk Function Organisation



## The first line

**Business and functions****What do they do?**

- Own and manage the risks involved in running their business

**What does this give us?**

- Expertise
- Efficiency

**Key accountabilities**

- Application of Risk appetite
- Implementation of processes and tools to manage risks
- attesting to controls and compliance with risk policies
- Ownership, identification, management and mitigation of the risks



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## The third line

**Internal audit****What do they do?**

- Independent, objective assurance
- Focus on areas of higher risk
- Special investigations

**What does this give us?**

- Assurance

**Key accountabilities**

- Independent assurance on the effectiveness of the system of internal control
- Broad coverage focussing on high risk areas
- Special investigations



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## How Companies Operate in Practice

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### Key issues

Duplication of effort

Gaps

Confusion about roles

Compromising independence



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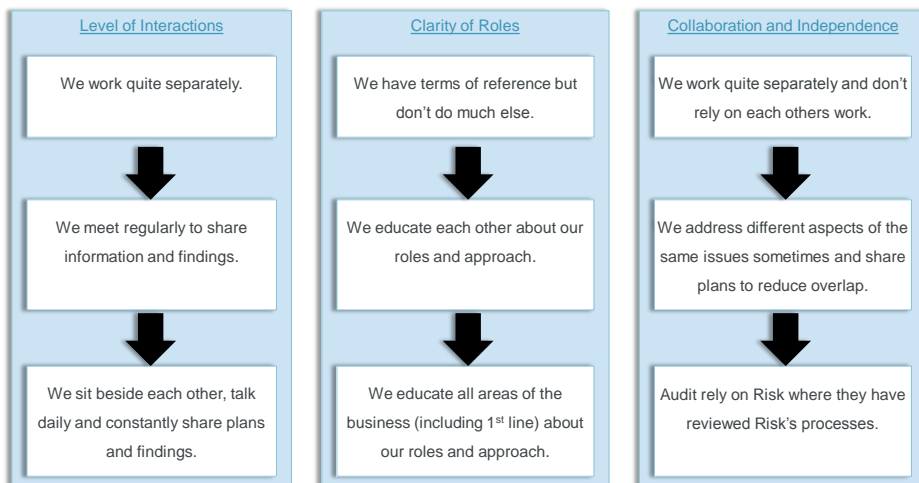
## Key questions



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## Range of approaches to Risk/Audit relationship



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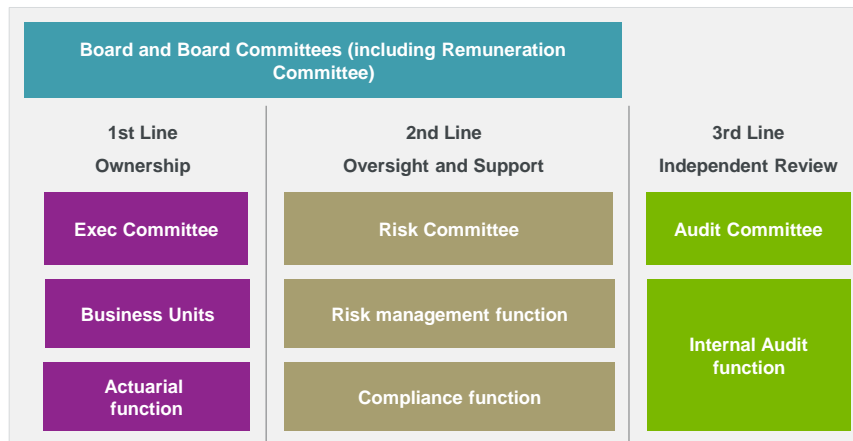


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## What Good Looks Like

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## Operating the 3 lines of defence model effectively



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## Clarity of role

There are no negatives to making this clear to everyone (including 1<sup>st</sup> line)

Terms of reference are probably not enough (who reads these?)

Written information is more likely to be read if it is short – they can read the terms of reference if they want chapter and verse

Some companies actively educate other areas of the business on their role:



- Easy to read information on intranet – ‘What do we do?’
- Presentations at company-wide/departmental or team meetings
- Sharing of summarised plans and findings
- Ongoing explanation of objectives and outcomes

## Level of interactions

There's no right answer here.... but interaction needs to be enough to achieve:

Awareness of (and understanding of) each others plans

Understanding each others viewpoints, angles of review and areas of focus

Understanding key findings and issues promptly

## Collaboration and independence

- Clarity about what independence means
- Consistent with the terms of reference/operating model.
- Sharing plans does not breach independence!
- Consider if some form of collaboration is appropriate when going through plans
- Maintain and justify independence

## Questions

