It's a Risk Based Dinner Gathering – Compliance, ERM & Internal Audit

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Society of Corporate Compliance and Ethics

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Who We Are

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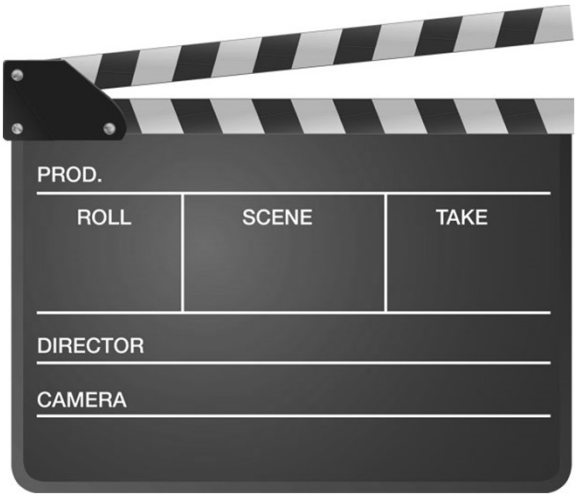
About Our Session

We will illustrate the importance of Compliance, Internal Audit and ERM integration using two versions of the same event:

Scene 1: Dysfunctional

Scene 2: Optimized



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Polling Question #1

Which best describes your industry affiliation?

1. Not-for-Profit
2. Government
3. Financial Services/Banking
4. IT/Communications
5. Other

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Polling Question #2

Which best describes your role?

1. Compliance / Ethics Professional *or equivalent*
2. Internal / External Audit Professional *or equivalent*
3. Risk Management Professional *or equivalent*
4. All three
5. Other

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Polling Question #3

Which one of these best describes Risk Management, Compliance, and Internal Audit at your organization?

1. Integrated

2. Siloed

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Polling Question #4

Which is your favorite?

1. Ice cream
2. Cookies
3. Candy
4. Cocktails

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Scenario Background

- Fictional third-party experiences data breach
- Potential exposure of member/customer data
- Illustration of how Compliance, Internal Audit and ERM interact during a risk event

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- Scene 1 -

Dysfunctional

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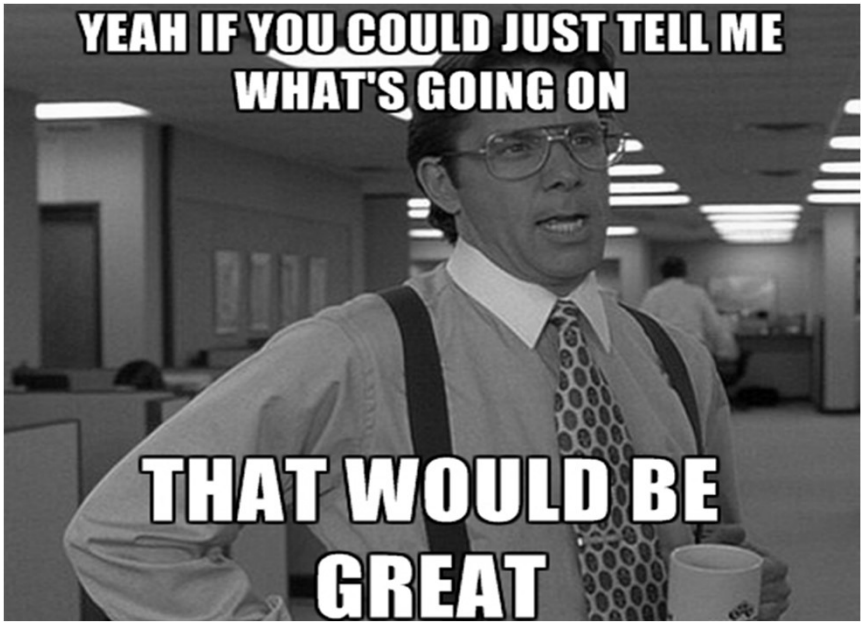

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Poll:

Which line of defense is accountable for this breakdown?

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A Dinner Gathering Requires Coordination
- so does a strategic risk process

- Connecting the dots
- Assessing risk earlier with a cadence
- Multiple inputs
- Formalized touchpoints between functions to enhance collaboration

✗ Risk-listing process

✓ Risk-informed decision making

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Compliance, Audit, and Risk Management
- everyone needs a plate and napkin

- ERM sets the table:
  - ✓ Common risk assessment
  - ✓ Taxonomy
  - ✓ Rating scales
  - ✓ Risk language
- Compliance and Audit have a seat at the table:
  - ✓ Audit – Knowledge of control activities
  - ✓ Compliance – Broad scope and unified view of regulatory risks

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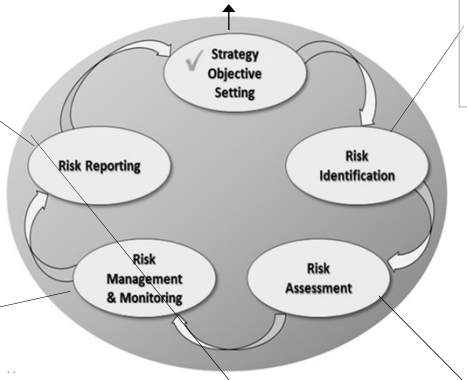
ERM – How it Works

Formal risk **reporting** includes the risk heat map and risk scorecards

Reporting is ongoing to reflect risk changes in the risk profile that are provided to the Executive Team who holistically and routinely discuss results that are reflected on a risk heat map

Board Committees have been assigned jurisdiction for oversight of each of the key risks, and discussions about Tier 1 risks are embedded within the meeting agendas, including the risk scorecards

Including Risk Appetite



Identify using multiple inputs

- Strategy/innovation discussions
- Internal Audit collaboration
- Compliance & IT risk assessments
- Questionnaires/surveys
- Environmental scans
- External sources like Gartner/CEB, KPMG, Grant Thornton, industry networking groups

*Identify risks using **multiple inputs.***

Mitigation efforts are developed by risk owners that are supported by defined plans to reduce risk exposures and **manage** risks

The Executive Team meets routinely to discuss changes in risk (either new emerging risks, or the escalation/recalibration of existing risks) and the mitigating activities

Internal Audit includes the key business processes for mitigating enterprise risks in the annual audit plan

Ongoing, the risks are **monitored** against the top risk areas as reported in the external environment as well as the not-for-profit sector which can influence the organization's risk posture

*Internal Audit **includes** the key business processes for mitigating **enterprise risks** in the annual **audit plan***

Assessment criteria based on:

- Impact -If this risk event were to materialize, what would be the impact on the organization?
- Likelihood-What is the likelihood this risk event will occur?
- Velocity-If this risk event were to materialize, how rapidly would it impact the organization?
- Mitigation Effectiveness – How well the risk is being managed; how much risk remains

Via ongoing and formal annual survey

Risk profile prioritized into Tier 1 and Tier 2 to provide focus

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Enterprise risk

A Buffet Style Risk Menu

[Illustrative Only]

Linked to Compliance

Information Security/Privacy Risk *Category: Information Technology / Compliance*	Residual Risk Impact	Residual Risk Likelihood	Velocity	Mitigation Effectiveness	Risk (threat) Outlook	Risk Owner	Assigned Oversight Committee
Information Security – The organization ...riences a significant and publicized security ...ch ..... *...acy* – Unexpected/unauthorized use or sharing data results in	Major	Likely	Immediate	Basic	Stable	EVP	Audit & Finance

Key Mitigation Efforts

Information Security Efforts

- ✓ Detective controls have been .....
- ✓ Prevention mechanisms have been instituted to reduce the risk of unauthorized access and threats .....
- ✓ Developed programmatic themes to strengthen overall security risk posture and.....
- ✓ ETC.

Privacy Efforts

- ✓ Monitoring potential legislative and regulatory efforts and proposals in a rapidly changing environment.
- ✓ Timely counseling and compliance advice .....
- ✓ ETC.

Key Takeaways

- ✓ During the last quarter, the trend of breaches or material vulnerabilities that may have impacted the global threat landscape have remained steady and consequently, the Risk Outlook rating remains "Stable."
- ✓ One year after new GDPR has been in effect, regulators (European and US) hav... for data breaches (e.g., $5B fine against Faceb... authority (CNIL) fined...

Internal Audit's smorgasbord for control and processes testing

Key Risk Indicators

- ✓ Monitor the degree of .....
- ✓ Measure incident response .....
- ✓ ETC.

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Keys to Better Risk Coordination

- ✓ Starts with strategy
- ✓ Shared risk language/approach/rating criteria
- ✓ Accountability/risk owners
- ✓ Multiple risk inputs to inform the risk profile
- ✓ Coordinated and aligned board reporting
- ✓ Annual audit plan aligns with the risk profile

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Internal Audit Plan – Strategic Risk Alignment

- Compliance and Risk Management are often mentioned in the same breath
- Just because you have structures in place to manage your organization's regulatory compliance, does not necessarily mean you are effectively managing risk, especially at the enterprise level
- High-functioning IA groups are developing forward-looking audit plans that evaluate both current and planned operations
- Internal Audit Plans that do not incorporate ERM inputs are likely not focused on the most significant risks

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Internal Audit Plan – Strategic Risk Alignment

Two of the most important inputs when developing your organization's IA plan:

1) Strategic plans/goals & supporting initiatives

2) Enterprise Risk Assessment results

Where are we trying to go?

What could prevent us from getting there?

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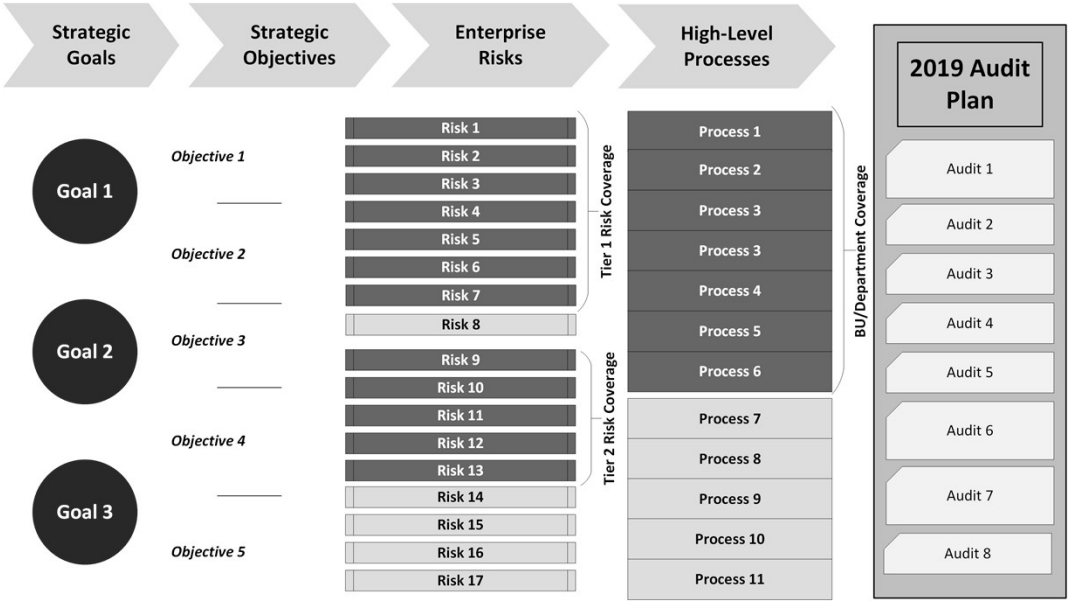
Internal Audit Plan – Strategic Risk Alignment



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Compliance Inputs to Risk Assessment

- How can compliance minimize the risk of failure?
- Recent examples:

- Tone at the top
- Problematic incentives for sales team

- Cost-cutting efforts trump safety
- Potential conflicts of interest

- Failure to monitor 3rd party data

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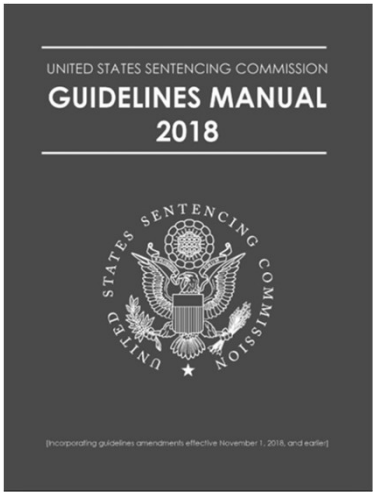
Compliance Inputs to Risk Assessment

- **Federal Sentencing Guidelines – Compliance Risk Assessment**

  "(c) In implementing subsection (b), the organization shall periodically assess the risk of criminal conduct and shall take appropriate steps to design, implement, or modify each requirement set forth in subsection (b) to reduce the risk of criminal conduct identified through this process."



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Compliance Inputs to Risk Assessment

Risk Assessment Focus:

- ❑ Legal and regulatory risks
- ❑ Ethical misconduct risk
- ❑ Policies

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Testing

- ✓ Regular testing and validation of incident response/crisis management plans
- ✓ Perform tabletop exercises
- ✓ Make it engaging and fun!

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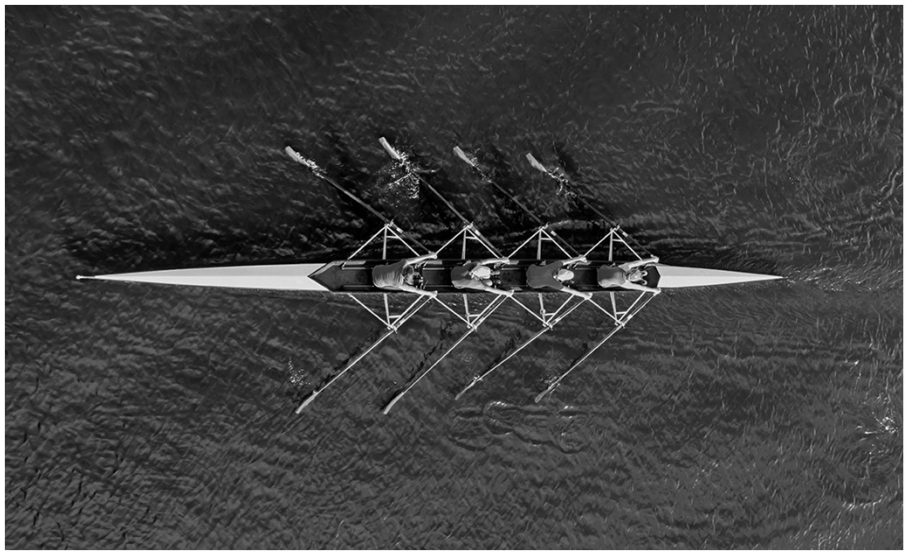
- Scene 2 -

Optimized



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