Integrated Assurance
Risk Governance Beyond Boundaries

Vicky Kubitscheck
30th January 2014
Police Mutual - who we are

1866
- UK’s largest affinity friendly society
- First established 1866 by Police Officers to provide help and support to fellow colleagues and their families in times of financial hardship
- Reconstituted 1922
- Life, savings & investments, insurance
- Financial education to police and staff

1922

2007
- Acquired GI broker – home, motor, commercial
- Independent Advice

2012
- Mortgage Advice
- Police Mutual Foundation – research & welfare

2013
- Healthcare

2014
- Further plans for responding to the growing needs and welfare of our affinity
1. Scene Setting – early drivers for integrated assurance
2. The case for rethinking assurance
3. Defining Integrated Assurance – A model for joined up, holistic risk governance
4. Case studies/illustrative examples
Different drivers and faces of Integrated Assurance

**Coordinating assurance across the spectrum of risks**
- Major projects involving several parties working together eg Terminal 5
- Proliferation of specialist assurance functions in response to regulation eg risk, compliance, internal audit, health & safety, data security, financial crime, Bribery Act etc
- Minimise risk of gaps, silo-working and disjoint risk management

**Inefficiencies and rising cost of compliance**
- Duplication and overlaps
- Risk of ‘different’ truths, clouding risk oversight in the boardroom

A type or a portfolio of risk → Group wide/enterprise risks

Integrated Assurance – gaining a holistic picture of the effectiveness of risk management
The Case for Rethinking Assurance

1. Corporate governance failures – the dog that didn’t bark?

2. Even more lessons from the financial crisis re: Walker review

3. Effective assurance to restore confidence in the boardroom
   - Risk oversight and excessive risk taking
   - Accountability across all lines of defence
   - Transform assurance from an intuitive to a conscious process
   - Clarity of the ‘assurance food chain’
Rethinking Assurance
No risk-free zone in the boardroom

‘...why all that experience, and so much more, accomplished so little for shareholders of Enron.’

Senator Joe Lieberman, Chairman of the Senate Government Affairs Committee at the inquiry (2002)

"Assurance is often intuitive among experienced non execs, but boards require an effective process to maximise the benefits of their experience"

Glen Moreno, Chairman of Pearson, Deputy Chairman of the FRC, Ex-Chairman UKFI, Director at Fidelity International (2013, on integrated assurance)
Governance in the new order –
What boards want to guard against

- Blind risk taking and/or risk taking exceeding the board’s risk appetite
- Unnecessary distraction from things that really matter such as strategy
- Different *truths* that serve to confuse rather than inform
- Uncoordinated view of risk management and controls
- Silo approach to risk assessment, mitigation, assurance and reporting
- Duplication of effort and costs, assurance overload and fatigue
- Inability to provide consistent reporting to external stakeholders
Assurance over principal risks and core business

- **Principal risks**

  *Threats to the successful delivery of the organisation’s business objectives, strategy or the viability of its business model*

- **Core business processes**

  *Fundamental or essential activities for operating the business, determined by the business model and its operating environment*

Re: resilience/reverse stress tests and FRC proposed changes to the UK Corporate Governance Code and integrated risk and control management
...What this means for mapping risk assurance
Defining Integrated Assurance

Integrated assurance refers to a structured approach for gaining a holistic picture of the principal risks and the level of residual exposure an organisation is required to manage.

It involves aligning and **optimising** the organisation’s assurance over the management of those risks and core business activities in line with the board’s risk appetite and exists to support the board’s risk oversight and risk taking.

It promotes **shared risk intelligence** and **accountability** with a common goal to strengthen the organisation’s risk management and oversight.

Integrated Assurance - Beyond Boundaries (Kubitscheck, Gower)
Integrated risk assurance beyond boundaries – Three main levels of application

**LEVEL 1**
Risk Assurance Planning

To inform risk assurance planning, in particular, internal audit planning

**Coverage**: Assurance mapping identifies gaps and overlaps in the contribution of risk assurance across all lines of defence

**LEVEL 2**
Enhancing Risk Assurance

To improve and gain optimal value from risk assurance activities, which include promoting greater accountability

**Quality**: Assurance mapping determines the quality of assurance contributed from each line of defence in order to assess areas for improving and optimising risk oversight

**LEVEL 3**
Integrated Risk Oversight & Assurance

To harness shared and collective intelligence in order to gain a holistic risk and assurance picture, for challenging and improving the effectiveness of risk management

**Confidence**: Assurance mapping aggregates the results of the risk assurance activity across all lines of defence in order to determine the overall level of confidence the organisation has of its system of risk management and control.

Integrated Assurance - Beyond Boundaries (Kubitscheck, Gower)
Case Studies – Illustrative examples
Case Study 1: Integrated Assurance to support the Assurance Planning process

**Purpose:** To support the Audit Committee’s approval of the internal audit and compliance plans

**Approach:** 5 steps, involving mapping the (level of confidence in) assurance across all lines of defence against the principal risks and core processes

**Where:** Level of Confidence: Quality of the assurance process as well as the controls

<table>
<thead>
<tr>
<th>Key Areas of Assurance</th>
<th>1st Line of Defence</th>
<th>2nd Line of Defence</th>
<th>3rd Line of Defence</th>
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<tbody>
<tr>
<td>T=Top / group risk</td>
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<td>C/Core Process</td>
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<td>F=Financial impact</td>
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<td>Key Areas within Risk Class requiring assurance</td>
<td>Executive Owner</td>
<td>Management</td>
<td>Finance</td>
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<td>1) Outsourced IT risks</td>
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<td>2) Alignment of goals with Strategic Partners</td>
<td>Chief Operating Officer</td>
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<td>3) Contagion risks of Strategic Partners</td>
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<td>4) Procurement risks:</td>
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**Example template**

<table>
<thead>
<tr>
<th>3rd Line</th>
<th>Planned Assurance Activity 2014</th>
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<tbody>
<tr>
<td>Internal Audit</td>
<td>Summary Assessment Confidence in Risk Assurance</td>
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<tr>
<td>Good Internal Audit review last year covered 70% of key controls.</td>
<td>Formal SLA Reporting &amp; Board Update</td>
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<td>Good Annual Board Update &amp; Health Check</td>
<td>Risk KRI</td>
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<tr>
<td>Limited level of confidence due to status of strategic partners. Health Check</td>
<td>Stress Testing and Risk Assessment</td>
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<tr>
<td>High quality of assurance and level of confidence. Specialist review (3rd LoD) of the procurement framework and policy (no testing)</td>
<td>Key Supplier Health Check Report</td>
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Case Study 2: A holistic risk and assurance picture of a subsidiary

**Purpose:** To help the Board at group level to recap the risk and assurance profile of a subsidiary in a holistic way

**Approach:** Integrated Assurance used as a methodical process to pull together the jigsaw pieces: principle risks, controls and confidence in the assurance the Board is receiving
1. Holistic view
2. Outline of business model
3. Principal risks (eg Heat Chart)
4. Mapping of assurance against risks and core processes
5. Summary of confidence in risk assurance

**Outcome:**
- ‘At a glance’, holistic picture of the subsidiary
- Appropriate attention on new areas of development and strategy
- Support confident decision making
Case Study 3: Promoting collective risk intelligence

- **Purpose:** To harness risk intelligence of the organisation and optimise assurance in the process

- **Approach:** 3 year journey for this FS global organisation
  1. Improve skills and expertise particularly in the key assurance functions (risk, internal audit and compliance)
  2. ‘Grey swan’ meetings at group and local levels
  3. Provide joined-up risk and assurance reports to the Audit & Risk Committees

- **Outcome (so far)**
  1. Collaboration across the organisation with shared focus on risks
  2. Increased awareness of risks across the organisation
  3. Increased confidence in the boardroom
Case Study 4: Integrated view of adherence to risk appetite

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**Example:** experimenting with the Assurance Map to include adherence to risk appetite

| Integration Assurance Map - Beyond Boundaries (Kubitscheck, Gower) | 16 |

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**Key**

1. Risk appetite or tolerances has not been exceeded
2. Risk appetite or tolerances exceeded temporarily with limited consequence
3. Risk appetite or tolerances exceeded with potential material consequences
Suggested questions for discussion

To demonstrate effective risk governance ...

1. Are boards spending more time or sufficient time discussing the principal risks and risks/events that could break the business model?
2. Has there been a change in the way risk appetite is being defined eg qualitative as well as quantitative, with appropriate KPI?
3. How is adherence to the board’s risk appetite being assured/reported?
4. How do we help boards ask for better quality assurance over the residual risks?
5. What should we do differently to harness collective risk intelligence across functional boundaries?
Summary –
Integrated Assurance promotes joined up risk governance

- Rethinking assurance – to shift from an intuitive to a more conscious, risk focused process
- Working beyond functional boundaries to harness collective risk intelligence across the organisation and to optimise assurance
- Effective risk oversight of principal risks and core business processes in the business model
- Supports risk-informed decision making
- The assurance map is – not an end – but a tool deployed for different needs to support joined-up risk governance
- Promotes accountability in each line of defence across the assurance food chain
- More efficient use of resources