



Cooperation of defense lines over the fraud prevention and detection

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Purpose and operation of defense lines

Prudence - Operation according to laws and regulations and internal regulations

Safeguarding - Safeguarding assets and wealth of shareholders, owners, and clients

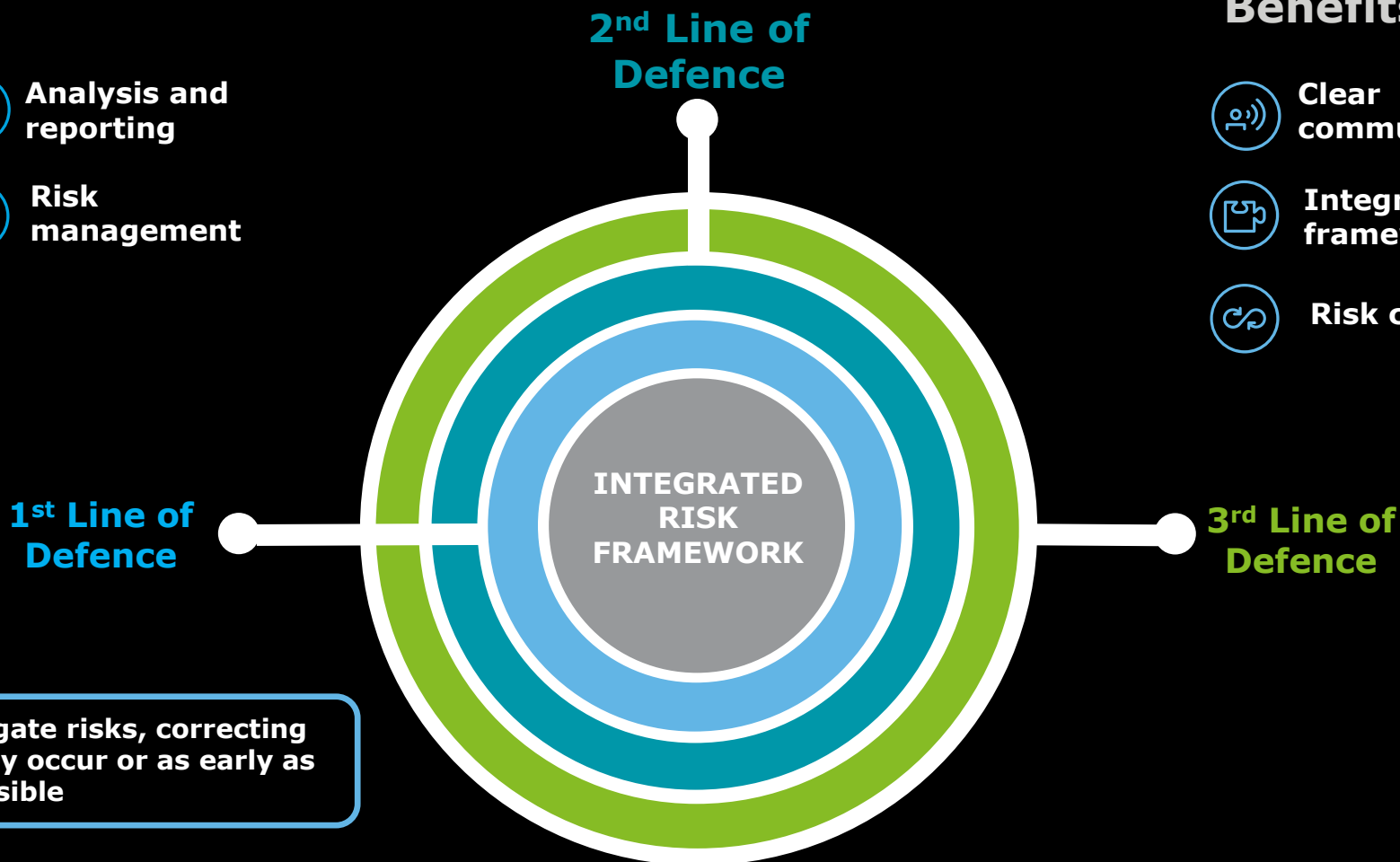
Reputation - Continuity and upholding trust

Challenge

- Functional overlap
- Analysis and reporting
- Assurance functions
- Risk management

Benefits

- Clear communication
- Efficient operation
- Integrated framework
- Better oversight
- Risk culture



Ultimate goal – mitigate risks, correcting deficiencies once they occur or as early as possible

Old model of defense lines

EXECUTE



Business Management
Perform control activities and overall ownership of risk management

ADVISE

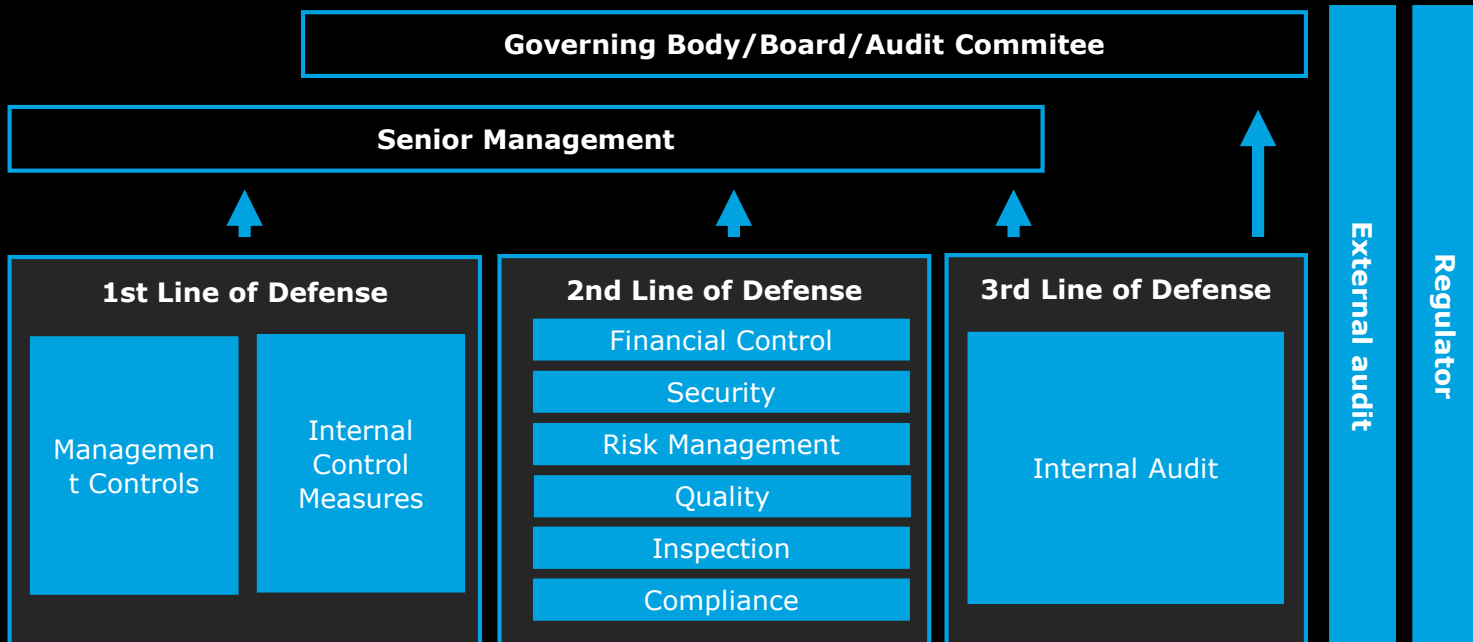


Risk
Own risk policies and framework and advise on control implementation

REVIEW



Audit
Review control effectiveness



1st Line of Defense	2nd Line of Defense	3rd Line of Defense
Risk Owners/Managers	Risk Control and Compliance	Risk Assurance
<ul style="list-style-type: none"> Operating management 	<ul style="list-style-type: none"> Limited independence Report primarily to management 	<ul style="list-style-type: none"> Internal audit Greater independence Reports to governing body

Source: IIA Position Paper: THE THREE LINES OF DEFENSE IN EFFECTIVE RISK MANAGEMENT AND CONTROL JANUARY 2013

New model of defense lines

Line 1

Business Management

Perform control activities and overall ownership of risk management

Risk (Line 1)

Assist with control implementation and review control effectiveness

Line 2

Risk (Line 2) Assurance

Secondary review of control effectiveness

Risk (Line 2) Advisory

Own risk policies and framework, and advise on control implementation

Line 3

Audit

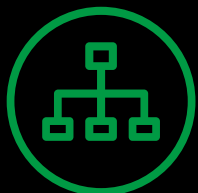
Tertiary review of control effectiveness

Lines of defenses with illustrative responsibilities

Lines of defense	1 st	1 st	2 nd	3 rd
FUNCTION	Business units	Infrastructure Groups (HR, IT, Finance etc.)	Compliance, Risk control, Legal, Controller etc	Internal/External Audit
VIEW	Day-to-day transactional view	Day-to-day & enterprise view	Enterprise view	Independent view
DESCRIPTION	Business unit management and process owners Providers of services and operations Revenue generators	Support functions to facilitate the daily operations of the institution	Designers and overseers of all aspects of the risk framework Data aggregators Monitoring functions of aggregated risk	Independent evaluators Internal audit
ILLUSTRATIVE RESPONSIBILITIES	<ul style="list-style-type: none"> Identify and monitor risks Establish KRIs Monitor performance against KRIs Align strategic, capital and financial operating plans to risk framework Execute within the risk appetite and risk limits Draft and own written policies Etc. 	<ul style="list-style-type: none"> Aggregation of financial data for reporting to regulators Maintenance of tools and technology support Data privacy, integrity, firewalls Oversight of hiring Enforcement of ethics Oversight of compensation Etc. 	<ul style="list-style-type: none"> Identify and monitor aggregate risk Define risk appetite, set and monitor risk limits Provide input and approve policies Prepare and own enterprise-wide policies Design and oversee risk framework Establish appropriate structure, controls and oversight to drive implementation Monitor KRIs across the enterprise Etc. 	<ul style="list-style-type: none"> Maintain independence from first and second line Determine framework is appropriate for organization's size complexity and risk profile Evaluate the adequacy of processes and compliance with policies, procedures, Assess the appropriateness of actions taken by First and Second Lines when deviations occur Etc.

Cooperation between defense lines

Recommended practices by IIA*



Structure

Structure and set up of the separate defense lines



Framework

Support with policies, set the framework



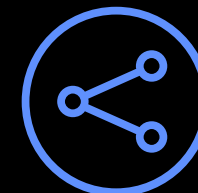
Coordination

Ensure coordination among the separate lines of defense to foster efficiency and effectiveness



Knowledge sharing

Share knowledge and information to assist all functions in better accomplishing their roles in an efficient manner



Separation

Lines of defense should not be combined in a manner that compromises their effectiveness

ULTIMATE GOAL OF COOPERATION

'share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts'

***IIA Position Paper: THE THREE LINES OF DEFENSE IN EFFECTIVE RISK MANAGEMENT AND CONTROL JANUARY 2013**

Cooperation between defense lines over fraud prevention 1/2

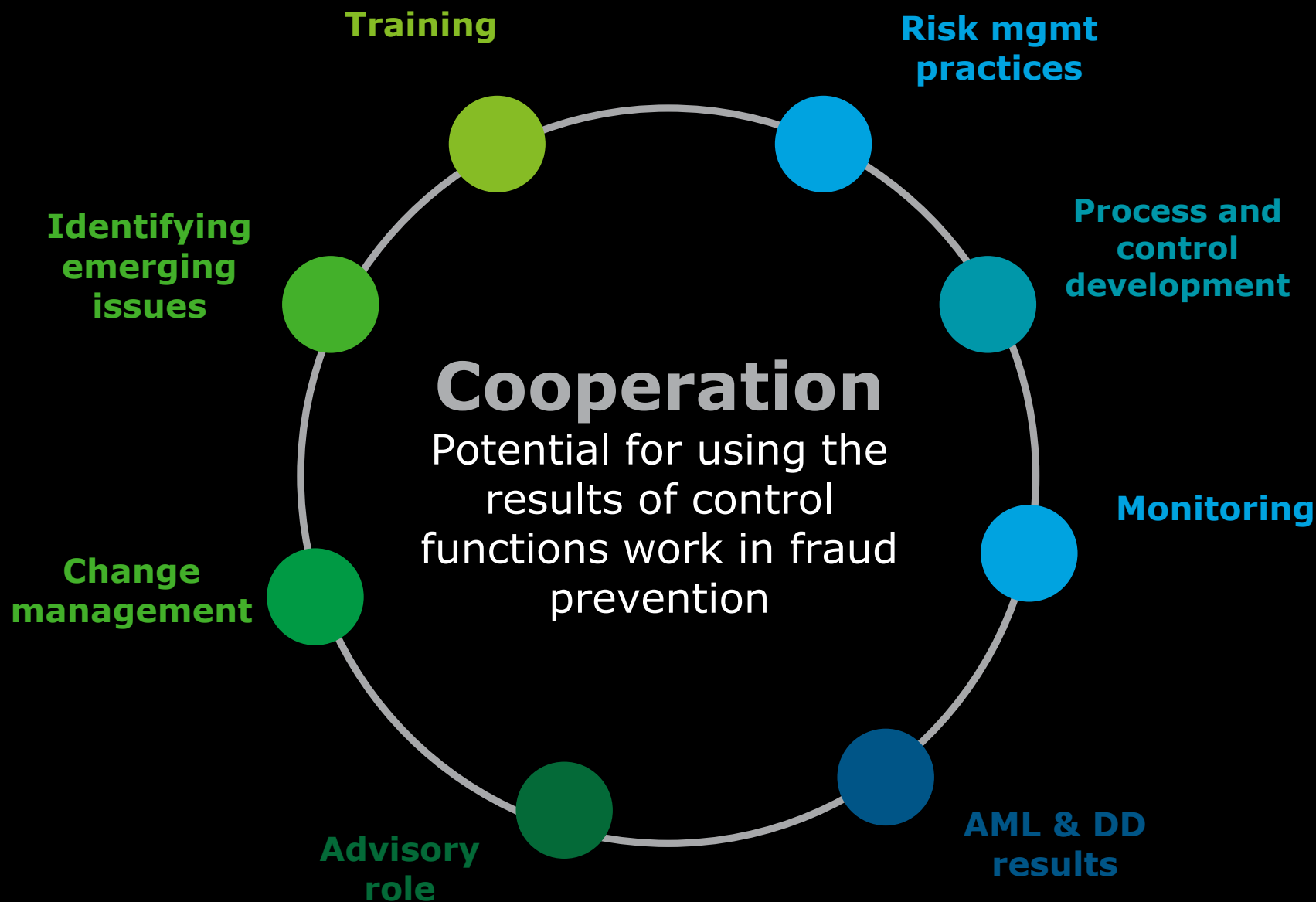
Risk involvement

- Capital
- Liquidity
- Solvency
- Operational risk
- Risk appetite
- Business continuity plan
- Overall and comprehensive risk assessment
- Limit system, active risk management
- Risk framework
- Stress testing

Compliance

- Data protection (GDPR)
- Outsourcing
- Conflict of interest
- Ethics and integrity
- Code of conduct
- Reputation risk
- Confidentiality
- Market abuse
- AML
- Complaints handling

Cooperation between defense lines over fraud prevention 2/2



Cooperation between defense lines over fraud detection 1/2



Occupational fraud

- Corruption > conflict of interest (i.e. procurement schemes), bribery (i.e. kickback, bid rigging), illegal gratuities, economic extortion
- Asset misappropriation (cash and other assets)
- Financial statement fraud (income overstatement and income understatement)

Cooperation between defense lines over fraud detection 2/2

Examples for using synergies in fraud detection



- Background checks and DDs performed by Risk/Compliance or 1st line of defense functions
- Suspicious transactions and personal account dealings identified
- Complaints regarding employee/vendor/third party/other
- Potential conflict of interest discovered
- Unauthorized or excessive physical or IT access discovered
- Limit breaches
- Penalties imposed by regulators
- Limit system, active risk management
- Significant operational loss events
- Lifestyle checks
- Etc.

Conclusions



The defense lines should cooperate



Very important element to mitigate risk of fraud is corporate governance and implementing a culture that does not tolerate fraud



Detections should be managed with due care



Prevention starts with enterprise risk framework



Communication, training and raising awareness is a continuous exercise and defense lines have crucial role on educating the organization



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