Strengthening Financial Controls with Strategic Collaboration

A Guide for Financial Services

AUDITBOARD

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Introduction

As the financial services sector navigates an increasingly challenging risk and regulatory landscape, **regulatory compliance pressures will continue to compound in 2024.** The recent failure of several large banks is expected to bring on tougher federal regulations, particularly for small to midsize banks. With new regulations and stricter scrutiny on the horizon, financial institutions must also contend with existing compliance concerns, including environmental, social, and governance (ESG) requirements, crypto assets, and new forms of technology-driven financial fraud.

This whitepaper will discuss the implications of this intensifying risk and compliance landscape, and why now, more than ever, financial institutions must develop a strong, forward-looking internal controls program to stay ahead of potential risk. In particular, **strategic collaboration across the three lines is essential for an effective internal controls environment in the face of increasingly complex requirements.**

Additionally, we will examine areas where the three lines can improve their collaboration and data sharing practices to break through silos and improve overall risk mitigation. While the pace of change in the current landscape may seem daunting, financial institutions that are proactive in developing strong internal controls and collaborating effectively across the three lines can emerge stronger and more resilient than ever before.

2024: A Compliance Pressure Cooker

On the heels of several history-making bank collapses in the first quarter of 2024, **financial institutions must fortify their internal controls programs to respond to greater scrutiny from federal regulators.** As the Department of Justice, Securities and Exchange Commission, and Fed conduct independent reviews, legal and financial experts predict small and midsize banks will likely bear much of the increased scrutiny and oversight that will emerge from their reports and recommendations this year.

Areas where banks are expected to face stricter rules and supervision include:

- Stress test models and contingency planning.
- Interest rate management.
- Asset liability management.
- Bank liquidity requirements.
- Market capital requirements.
- Industries with concentrated, high-value customer bases.
- Regional banks focused on lending to commercial real estate.

"[This] would not have happened if the bank had practiced serious risk management. It would not have happened if supervisors had been on the job [...] There are many different elements of causation. But certainly, this is an important supervisory and regulatory failure."

— Lawrence Summers, former U.S. Treasury Secretary, president emeritus and professor at Harvard

Financial institutions are bracing themselves for what's ahead by assessing new risks and taking a proactive approach to strengthening their internal controls programs.

> "Many of our clients immediately went into 'triage mode' to assess the direct or even tangential impacts of recent bank failures. Both banks had recently undergone a year-end audit, and neither were considered a 'going concern.' While these companies had risk management programs in place, there were clear gaps in the methodologies employed to foresee these market events.
>
> There will be an increased emphasis to ensure risk managers deeply understand the business. This has given the entire risk and compliance community the sense of urgency to transform the tools and methodologies we use to nimbly react to the pace of change. **For example, we are helping companies to implement real-time dynamic risk assessments and to move towards a forward-looking, holistic view of risk through a risk transformation for siloed organizations that can't currently see the big picture across disparate systems."**
>
> — Jill Agudelo, Risk & Compliance Practice Leader at CrossCountry Consulting

As financial institutions prepare for what's ahead, a strategic and proactive approach to managing risk and compliance will be essential to navigating the intensifying landscape of 2024.

On top of new risks and controls coming down the pike, businesses must also not lose sight of existing compliance areas in focus for 2024, including:

- Recent SEC crackdowns on greenwashing and ESG risk in general.
- A new SEC risk alert regarding Investment Adviser Marketing.
- Increased anti-money laundering/financing of terrorism (AML/CFT) regulations, particularly in the crypto space.
- New avenues for financial fraud, e.g., deepfake technology and synthetic identity fraud, especially in the mortgage industry.
- Data privacy, where lack of an overarching federal law can lead to confusion as businesses expand into new locations.

> "We are already seeing heightened communication, sometimes daily, with regulators. As with all new or heighted regulations, we will see an influx of new issues and findings, to which organizations will need to quickly remediate and respond. **A common challenge is the organization's ability to quickly identify the responsible parties and employ the necessary project and change management to quickly address the concerns.** The key to success is to be proactive and strengthen your existing risk management programs in preparation for what is to come rather than to put a band-aid on the problem after it arises."
>
> — Jill Agudelo, Risk & Compliance Practice Leader at CrossCountry Consulting

Strengthening Organizational Risk Management Starts with the Three Lines

To prepare for these challenges in the months ahead, management, risk, compliance, and internal audit must not only be open to, but strive to discover more efficient ways to collaborate on internal controls management activities.

"We're all on the same side and working towards the same goal: to protect the company's assets, customers, and employees. **We — especially internal audit — must find issues before potential 'bad guys' or regulators do, so that we can proactively address them.** If there isn't trust or open communication among the three lines, the opportunity to strengthen the company's internal and external protection is weakened, to the detriment of all three lines."

— Elizabeth McDowell, founder of Audit Forward

Regulators tend to connect risk management failures in one line of business to weaknesses in the other two lines, and will hold individuals and other groups accountable for control failures. Additionally, companies that voluntarily and timely self-disclose identified weaknesses and violations will often receive favorable consideration — and sometimes even credit — from regulatory agencies as they determine the severity of ratings and fines.

It is therefore essential for audit, risk, and compliance teams to work with management to identify, assess, monitor, and resolve known gaps within their internal controls environment — as well as demonstrate effective reporting of issues.

Current Collaboration Challenges Across the Three Lines

Consistent communication and reporting of information is becoming more challenging, especially across management tiers and business units located in different time zones around the world. Many large financial services organizations experience siloed business units or risk teams, where it may be difficult to obtain consensus on a common path or source of truth. Moreover, even though risk, compliance, audit, and management each play different roles in a regulatory compliance program, **there are natural areas of crossover in their responsibilities as each is looking to ensure an effective risk management and internal control program with the activities they perform.**

However, when left unchecked, this crossover becomes counterproductive, leading to duplicative and/or less-than-optimal assurance activities being performed in siloed environments — and a higher cost of compliance. Some signs of this behavior include:

1. Redundant risk and control libraries used across teams.
2. Different issue and risk ranking methodologies used to assess risk, leading to inconsistent reporting that fails to provide a holistic view of the risk environment.
3. Uncoordinated assurance activities across the three lines, leading to stakeholder fatigue.
4. Poor visibility into gaps and issues identified, which can lead to difficulty aggregating the severity of issues, as well as hinder understanding of the entire context surrounding identified issues.
5. Lack of an integrated platform to centralize risk and compliance information and activities across the enterprise.

Activating Collaboration Through Shared Resource Creation

There are different routes audit, governance, risk, and compliance functions can take to begin addressing the collaboration challenges described above. The first step in creating a successful alliance begins with these teams agreeing to invest in improving cross-collaboration methods. **All stakeholders involved should agree and understand that optimizing collaboration is a business imperative to ultimately add more value to the organization.** Translating this collective desire into tangible outputs can help activate the process of enhancing collaboration. Of course, being able to quantify the impact to the overall cost of compliance will always help in fostering additional buy-in.

The act of working together to create shared resources — such as a universal risk library and risk methodology — engages siloed audit, governance, risk, and compliance teams into discussing and ultimately aligning on shared risk definitions and risk ranking criteria. The end result is a universal controls library that simplifies the environment, reduces duplication and overlap in compliance efforts, and will help the organization manage risk more effectively.

Activities that can jump-start collaboration across risk, compliance, and audit teams include:

- Creating an assurance map to highlight gaps and overlaps in assurance activities.
- Developing a single assurance strategy to streamline risk management processes across the three lines.
- Defining a common risk taxonomy, definitions, and risk ranking criteria.
- Establishing a universal risk and controls catalog to standardize information, reduce confusion, and eliminate redundant data.
- Establishing a universal issue and risk assessment methodology for streamlined reporting and analysis.
- Migrating risks, controls, and issues data from siloed systems and legacy tools to a centralized system of record, most notably an integrated mechanism for tracking open issues across the organization.

These shared resources ultimately form the foundation for improved collaboration as compliance stakeholders move forward and take on emerging risks.

Updating Your Issues Management Program for Enhanced Collaboration

How quickly issues are remediated is a sign of how effectively an organization is managing risk, because:

1. This indicates issues identified are relevant to the organization.
2. This indicates how efficiently the business is operating.
3. This demonstrates the business's receptiveness to change and risk tolerance.

THE PROBLEM

Oftentimes, different business functions may be performing duplicate activities around issue tracking using inconsistent methodologies. Multiple issue logs (in varying formats) tracking similar outcomes pose inefficiencies to all stakeholders involved, including issue owners asked to provide consistent information to different groups at various times. Such practices limit the organization's ability to have a holistic view of issues, resulting in inefficiencies such as poor data quality and incomplete organizational impact analysis, lack of issue prioritization and clear accountability, and unclear issue closure processes.

THE SOLUTION

Standardizing your issue management program can help reduce inefficiencies for internal audit and other issue stakeholders, strengthen the organization's ERM program, and improve collaboration across business groups.

Optimizing Collaboration Between the Three Lines

Another way to improve collaboration across the three lines is by clarifying roles and responsibilities. **New risks and controls present an opportunity for compliance stakeholders to clarify, remodel, or redefine roles and responsibilities — as well as test out new collaboration methods.**

7 Critical Risk Areas to Include in Your Audit Plan

1 DATA GOVERNANCE

Recommended Audit Projects:

1. Data Quality
   - Data migration
   - Proper quality standards
2. Data Analytics
   - Policies and procedures
   - Proper storage and ownership controls
   - Self-service platforms and data access controls

2 SUSTAINABILITY

Recommended Audit Projects:

- ESG Disclosures
- Accurate Climate Change Risk Assessment
- Sustainable Procurement Carbon Footprint and Reduction Goals

3 CULTURE AND ETHICS

Recommended Audit Projects:

- Digital Ethics
  - How consumer information is managed and protected across the enterprise.
- Succession Planning
- Gender and Racial Discrimination

4 DATA PRIVACY

Recommended Audit Projects:

- General Data Protection Regulation (GDPR) Enforcement
- Consumer Consent

5 CYBERSECURITY

Recommended Audit Projects:

- Data Encryption
- Access Management Policies and Controls
- Data Penetration Testing with Vendors
- Business Continuity Plan (BCP)
- Patch Management Policies
- Employee Information Security Training

6 AI RISKS

Recommended Audit Projects:

- AI Governance Policies
- Bias Detection and Elimination
- Compliance with AI Regulations
- Model Risk Management

7 THIRD-PARTY RISK

Recommended Audit Projects:

- Background Checks
- Third-Party Risk Management
- Contract Management
- Right-to-Audit Clauses
- Monitoring and Compliance

The following are examples of how the first, second, and third lines can optimize collaboration to identify, understand, quantify, monitor, and mitigate risks in their environment.

Collaboration Opportunity	1st Line: Management	2nd Line: Risk & Compliance	3rd Line: Internal Audit
Step 1: Establish governance structure. Clarify the roles and responsibilities of all three lines.	• Assign appropriate team members to the steering committee and working groups based on subject matter expertise. • Consult with risk and compliance groups on selecting a risk management framework appropriate to the organization's business objectives. • Implement policies, procedures, and monitoring activities to support the selected risk management framework.	• Serve as the Program Management Office. • Identify key parties and corresponding roles and responsibilities among management, risk, compliance, and internal audit. • Establish a steering committee and underlying working groups — e.g., liquidity, credit, and model risk — as necessary. • Advise management on the most appropriate risk management framework to meet business needs and desired outcomes. • Lead and moderate discussions in establishing a standard risk taxonomy and methodology.	• Assign team members to the steering committee and working groups based on subject matter expertise. • Create an enterprise assurance map to identify gaps and overlap in assurance activities across the enterprise; share with both first and second lines. • Provide oversight over the selected risk management framework and confirm it is sufficient for mitigating risks to the organization.
Step 2: Identify emerging risk areas. The organization should develop a listing of potential emerging risks, and periodically — and regularly — revisit this process to identify new changes to the risk landscape.	• Confirm accuracy of emerging regulatory risk areas. • Set risk appetites for each risk category and align with financial budgets.	• Develop initial listing of emerging regulatory risk areas which are not currently applicable to the organization, but may be expected to due to recent events. • Survey management to identify and confirm new risk areas.	• Independently develop emerging risks and share with second line and management for consideration. • Serve as advisor during the risk assessment process.
Step 3: Map and align risks. Identify granular risks for the aforementioned higher-risk areas.	• Identify granular risks applicable to the business.	• Ensure risks identified are aligned with current and future business activities. • Map risks to controls to identify gaps and overlap in coverage.	• Evaluate the risk to control mapping performed by the second line. • Recommend controls to implement based on gaps identified. • Recommend opportunities for increased collaboration across the three lines where overlap is identified.

Collaboration Opportunity	1st Line: Management	2nd Line: Risk & Compliance	3rd Line: Internal Audit
Step 4: Quantify/Prioritize. Perform risk assessment surveys.	• Respond to risk assessment queries and provide input based on business knowledge.	• Facilitate risk assessments to gather input from business owners on the risk level for each risk.	• Ensure risk assessments are performed in accordance with required policies, procedures, and regulations. • Provide effective challenge to the overall results of the risk assessment.
Step 5: Respond to risks. Determine appropriate risk responses.	• Work with the second line to develop and implement appropriate mitigation plans for high-risk areas.	• Determine appropriate risk response.	• Review risk assessment results. • Challenge the first and second lines' responses to not mitigate issues as needed.
Step 6: Mitigate risks. Ensure a plan is in place to reduce the impact of high-risk areas.	• Complete mitigation activities in order to achieve acceptable residual risk levels. • Establish and implement effective controls.	• Work with business owners to implement mitigation plans and controls.	• Evaluate the design and effectiveness of controls. • Ensure mitigation plans are completed within an acceptable time period.
Step 7: Monitor risks. Proactively manage risks to address potential issues before they arise.	• Develop KRIs and share with second and third lines. • Monitor performance against KRIs to ensure the target appetite is achieved.	• Assess business and risk management performance to ensure it is in line with the approved target risk appetite. • Evaluate the accuracy of KRIs.	• Conduct ad-hoc reviews of high-risk areas or areas of unacceptable risk levels. • Evaluate the effectiveness of internal controls and risk response strategies.

Collaboration Opportunity	1st Line: Management	2nd Line: Risk & Compliance	3rd Line: Internal Audit
Step 8: Report. Inform stakeholders of risk management activities and outcomes.	• Report performance against KRIs to the second line.	• Report business and risk management performance to the risk committee, the board risk committee, and other stakeholders.	• Report on the effectiveness of internal controls and risk mitigation activities from the first and second lines to the audit committee and other stakeholders.
Step 9: Continuously improve. Ensure the ongoing achievement of business objectives through continuous improvement of the risk management framework, policies, procedures, and actions across the three lines.	• Investigate the underlying cause of risk events, take appropriate action, and escalate if needed.	• Challenge risk management actions that appear to differ from the approved risk management plan/framework.	• Assess and provide recommendations to improve the design and operation of the risk management framework. • Review and update the assurance map to identify opportunities for further collaboration/optimization between assurance functions across the organization.

Harnessing Technology to Further Synchronize Collaboration

Collaborative risk management can be further optimized and accelerated through the use of technology. **Migrating your risks and controls into a centralized database helps eliminate the confusion of duplicate records and taxonomies used across teams,** while also expediting several major goals of combined assurance:

1. **Synchronized collaboration:** Audit, risk, compliance, and management are managing risk and control activities from the same data source.
2. **Increased efficiency:** Clear visibility into risk and controls ownership helps streamline risk management activities and minimizes duplicate efforts.
3. **Improved visibility into compliance efforts:** A centralized database promotes visibility into compliance efforts, issues management status, and overall compliance status — viewable across audit, risk, compliance, and management.

Connected risk platforms, such as AuditBoard, help integrate risks and controls across the three lines, augmenting an organization's ability to stay on top of increasing regulatory demands. Technology solutions, in particular modern cloud-based solutions that can integrate with existing data sources (business analytics, GRC tools, etc.), can help connect the dots between siloed teams and data sources, empowering the three lines to deliver more value in a synchronized manner.

> "AuditBoard has really streamlined the issue management process for us. We're able to get much more predictive and forward-looking, both within our team and outside of it. Our business partners not only have visibility, they are engaged, empowered, and have true ownership of their control environment."
>
> **— Scott Cronin, Managing Director of SOX Compliance & Controls at BNY Mellon**

97%
of respondents agree new technology will increase the volumes of complex data available to analyze and assess.

96%
of respondents agree new technology will enhance an experienced internal auditor's skills to stay relevant.

93%
of respondents agree new technology will develop better insights for internal audit recommendations.

92%
of respondents agree new technology is key to helping internal audit add more value to their organization.

Source: Internal Audit: Vision 2035 for AI, p.23

The AuditBoard Solution

Whether you're looking to simplify your SOX, FDICIA, MAR, NCUA, or other regulatory compliance program, AuditBoard provides the connectivity, efficiency, and flexibility you need to deliver on today's goals and tomorrow's vision.

AuditBoard Success Metrics	(From customer survey)		
Efficiency	76% Efficiency gains from simplified risk and control environment	66% Reduction in time to complete control testing	50% Time savings on reporting
Partnership	73% Report increase in stakeholder engagement	63% Report gains in understanding control issues	72% Report performing higher-value risk assessments
Team	50% Decrease in audit team attrition	70% Report an increase in eNPS	23% Reduction in new team member "ramp" time

AuditBoard received the highest Satisfaction score among products in **Audit Management.** 99% of users rated it 4 or 5 stars, 97% of users believe it is headed in the right direction, and users said they would be likely to recommend AuditBoard at a rate of 93%.

Source: Grid® Report for Audit Management | Fall 2024, p.7

AuditBoard received the highest Satisfaction score among products in **Enterprise Risk Management (ERM)**. 99% of users rated it 4 or 5 stars, 97% of users believe it is headed in the right direction, and users said they would be likely to recommend AuditBoard at a rate of 94%.

Source: Grid® Report for Enterprise Risk Management (ERM) | Fall 2024, p.8

Objective	Our Solution	Business Outcome
Enable a holistic view of risks and controls across the enterprise to drive better decision-making	• Integrated platform aligning risks, controls, and outcomes across the three lines • Connected risk dashboard to easily prioritize and adjust control test plans • Flexible permissions to provide visibility to internal and external stakeholders as needed	• Break down silos • Easily respond to new and heightened risks
Optimize to elevate team impact	• Configurable early warning indicators and continuous monitoring capabilities to evaluate risks and controls in real time • Automated evidence collection, status updates, and data visualizations that can be configured to meet the needs of various stakeholders to reduce time spent on admin activities • Ecosystem of purpose-built integrations to connect directly to source systems (e.g., AWS, Okta) and preferred workplace applications (e.g., Jira, ServiceNow)	• Increase efficiency • Attract and retain top talent
Modernize with confidence	• Industry-leading, user-friendly design that's optimized for stakeholder collaboration and adoption • Award-winning customer enablement and training to help individuals learn how to use the platform while earning free CPEs • Strategic advisory partnerships with Deloitte, EY, RSM, Protiviti, and more	• Accelerate transformation with minimal disruption to the business

Business Value Highlights

$1 million
average benefits annually

281%
three-year ROI

7-month
payback period

45%
more productive audit and compliance teams

40%
more productive InfoSec and IT compliance teams

34%
more productive risk management teams

39%
more productive ESG teams

Source: the IDC Business Value White Paper, sponsored by AuditBoard, The Business Value of AuditBoard's Connected Risk Platform, doc #US52315024, June 2024.

"A centralized risk and controls library, viewable by all parties, allows the three lines to **clearly see who owns what risks and controls,** and what management attestation and/or testing requirements exist for each line. With AuditBoard, the role of internal audit is also elevated, as team members no longer need to 'nag' management to complete their self-assessments, controls testing, or remediation procedures — the system reminds them when requirements are coming or past due. AuditBoard has helped remove the view that internal audit is the 'police' at the company."

— Elizabeth McDowell, Founder of Audit Forward

Strengthening Risk Management Through Collaboration-Based Solutions

As financial institutions are asked to comply with new requirements with agility and accuracy, management, risk, compliance, and audit **stakeholders must find a way to manage more risks with limited resources.** These and build trust and open communication among the three stakeholders must therefore be open to finding more efficient ways to collaborate on risk management activities lines.

Synchronizing the three lines begins with a collective acknowledgment that improving collaboration can ultimately improve risk management effectiveness. From there, the three lines can work together to improve resource sharing, risk and control ownership, and activity coordination through use of technology and other collaboration techniques.

In doing so, **the three lines can play a major role in helping financial institutions fortify their risk management infrastructure, navigate the intensifying risk and compliance landscape, and avoid potential negative impacts on their business.**

Centralize Your Audit, Risk, and Compliance Data

Using a best-of-breed suite of technologies to perform internal audit tasks, while evolving your solution portfolio to include new technologies, is quickly becoming the standard for success. For audit leaders seeking to start their advanced automation journey, the first step is to centralize your audit, risk, and compliance data in a cloud-based, connected risk platform. Doing so creates a single source of truth for advanced audit analytics — which not only lays the foundation for advanced AI and automation but also benefits and elevates the entire internal audit testing program at virtually every stage.

Specific benefits include:

- Each workflow can be directly connected to the associated audit work step with process documentation stored for reference.
- Audit analytics can be executed directly in the platform with complete run history and an audit trail of each automation run.
- Different versions of the workflow can also be stored as processes and audit analytics evolve over time.
- Audit analytics permissions can be tailored accordingly by teams, roles, and/or workflows for complete user control.
- Eliminates the pain points of ad-hoc audit analytics, such as version control, user permissions, and documentation issues across teams.

About the Authors

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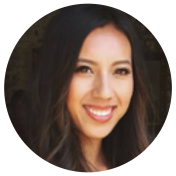
Aaron Lancaster is a Manager of Partner Solutions at AuditBoard, where he serves as a product and industry expert to support AuditBoard's alliance members. Aaron has more than 15 years of experience in internal audit, risk management, organizational controls, compliance, and business process improvement with primary focus on financial services.

Aaron's experience spans financial services organizations of varying size and complexity. Beginning his career with JPMorgan Chase & Co. during the height of the financial crisis, Aaron focused on capital risk management (Basel II) and mortgage banking. Aaron subsequently worked at EY supporting clients in the financial services risk advisory practice, and at Robinhood during the "meme stock" market events.



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Kim Pham, CIA, is a Market Advisor, SOX & Compliance at AuditBoard, with 10 years of experience in external and internal audit. She started her career at Deloitte & Touche LLP., and continued to grow her experience in internal audit focusing on SOX compliance and operational audits at Quiksilver, the California State University Chancellor's Office, and CKE Restaurants. Since joining AuditBoard in 2019, she has advised a number of clients in the financial services industry, including Fortune 100 companies, on design options, workflow configurations, and user adoption strategies to optimize audit team impact and enable more strategic decision making.

About AuditBoard

AuditBoard is the leading cloud-based platform transforming audit, risk, ESG, and InfoSec management. More than 50% of the Fortune 500 leverage AuditBoard to move their businesses forward with greater clarity and agility. AuditBoard is top-rated by customers on G2, Capterra, and Gartner Peer Insights, and was recently ranked for the sixth year in a row as one of the fastest-growing technology companies in North America by Deloitte. To learn more, visit: [AuditBoard.com.](https://www.auditboard.com)