



Orchestrating Effective Risk Management Across the Lines of Defense

More than a Merger. A Multiplier.

Together, Baker Tilly and Moss Adams create something exponential.

With our combined industry expertise, capabilities, and footprint, we create an outsized impact for our clients.



Objectives

- Understand the Importance of the Three Lines of Defense to your Risk Management
- Understand the Challenges we Face Navigating the Lines of Defense to Achieve Balanced Risk Management
- Understand the Intersection of IRM and Effective Organizational Navigation and the Common Symptoms of Poor Risk Management
- Understand Internal Audit's evolving Role in the Three Lines of Defense

OBJECTIVE 1

The Importance of the Three Lines of Defense to your Risk Management

Overview

- Better understanding the three lines of defense
- Institute of Internal Auditors White Paper
- Harvard Business Review Article
- Post Financial Crisis
- Expanded Expectations of Internal Audit

“Although their impact is the same in economic terms—a dollar not lost is a dollar earned—risk managers don’t treat them equally. They place a greater emphasis on earning profits than they do on avoiding losses. However, a company can be successful by preventing losses while its rivals go bust—and it can then take market share from them”

*“In 1965, physicist Richard Feynman wrote in *The Character of Physical Law* that two mathematically equivalent formulations can be unequal in the sense that they present themselves to the human mind in different ways. Similarly, our research shows that the way a risk is framed influences people’s understanding of it. If you tell investors that, on average, they will lose all their money only every 30 years, they are more likely to invest than if you tell them they have a 3.3% chance of losing a certain amount each year.”*

Talib, Nassim N., Daniel G. Goldstein & Mark W. Spitznagel. "The Six Mistakes Executives Make in Risk Management. *Harvard Business Review*.

Navigating The Lines Of Defense Offense

THE IIA'S THREE LINES MODEL



KEY: ↑ Accountability, reporting | ↓ Delegation, direction, resources, oversight | ↔ Alignment, communication, coordination, collaboration



Strategy is Risk Management

OBJECTIVE 2

Understand the Challenges
we Face Navigating the
Lines of Defense

Intelligent Risk Triage

What is your protocol for managing fires?

- The pace and complexity of risk is so great that we have to let some fires burn
- If we spend all our time fighting fires you risk all reaction, no action
- Navigating which fire to let burn and for how long will define the perception of your risk management performance and your career

Isn't this the essence of risk management?

Adapted from Reid Hoffman, Masters of Scale

Intelligent Risk Triage

When is the last time you were congratulated for a **brilliant punt?**

When was the last time you were congratulated for **taking the right risk?**

Adapted from Reid Hoffman, Masters of Scale

The Front Line Is the Most Critical

In 2008, a group of scientists put Google Maps to good use and identified that cows magnetically aligned to true north.

Unfortunately, our position requires **more complicated methods** to assess our risk culture.

How do we **reposition accountability** in the front line?

The Front Line Is the Most Critical (Cont.)

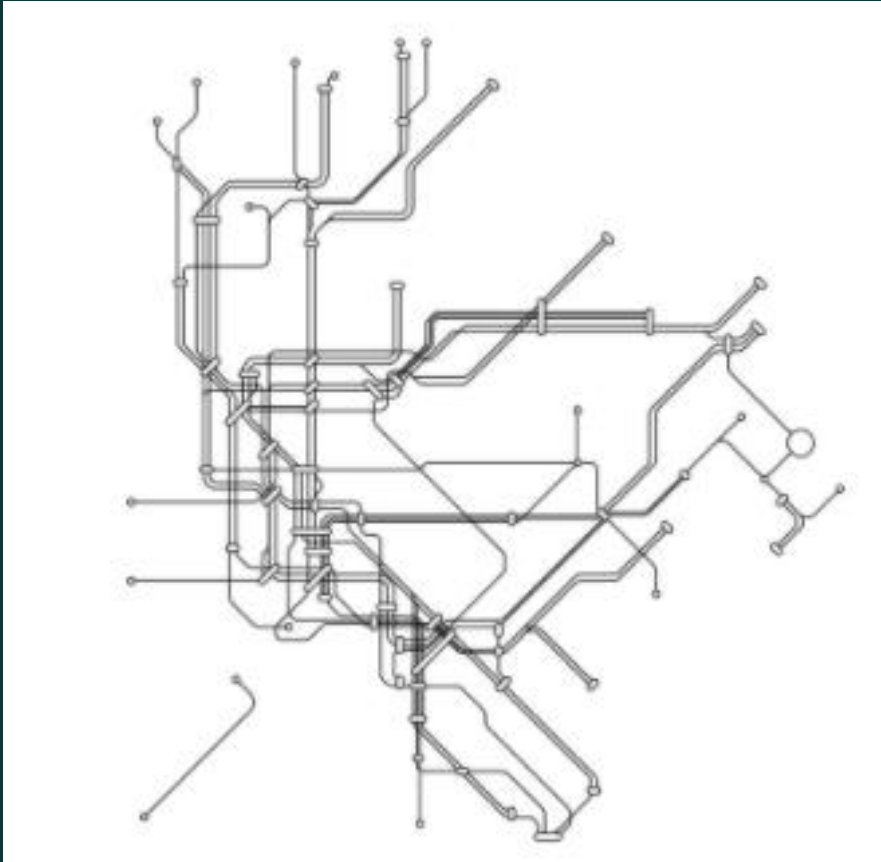
“I also have asked every ... employee to be his or her **own compliance officer.**”

“Are you willing to have any contemplated act appear the next day on the **front page of your local paper?**”

“Lose money for the firm, and I will be understanding; **lose a shred of reputation for the firm,** and I will be ruthless.”

Warren Buffett, 1991 Salomon Testimony

Opportunities in the Middle



- Influence sound risk navigation
- Active state of assessment
- Flexible talent model
- Measure yourself
- Education cycle

Shift the perception from
Cost Center to the **Center for Profit Preservation.**

Board-Level Oversight

IS THE BOARD ENGAGED?

- What is our risk and exposure?
- How much risk is acceptable to our organization?
- How do we compare to our industry peers?
- Do we have the right talent?
- Does the board have a technical expert?

Key Point: Define and anticipate Supervisory Committee needs. Do your homework.

What's In It for You?

- Enabling front line responsibility reduces exposure and noise at each subsequent line of defense
- Resources are unilaterally aligned, leveled and managed to the size of potential and actual risk
- Agility to protect, preserve and enable stakeholder value

Question #1

How do you measure your intelligent risk triage maturity?

- a) High—effective, optimized and transparent process with well-defined roles and responsibilities. We activate an efficient triage process.
- b) Medium—reactive, lacks transparency, inefficient and demonstrates inconsistent triage maneuvers
- c) Low—fully reactive, no transparency, uncertain where the fires are and limited ability to triage

OBJECTIVE 3

Understand the intersection of IRM and effective organizational navigation, and the common symptoms of poor risk management

Friction in the Lines of Defense

- 1) Weak governance
- 2) Siloed and redundant efforts
- 3) Inability to leverage data
- 4) Failure to effectively engage the business

Friction in the Lines of Defense

1) Weak governance

“Culture eats strategy Risk Management for breakfast”

Friction in the Lines of Defense (Cont.)

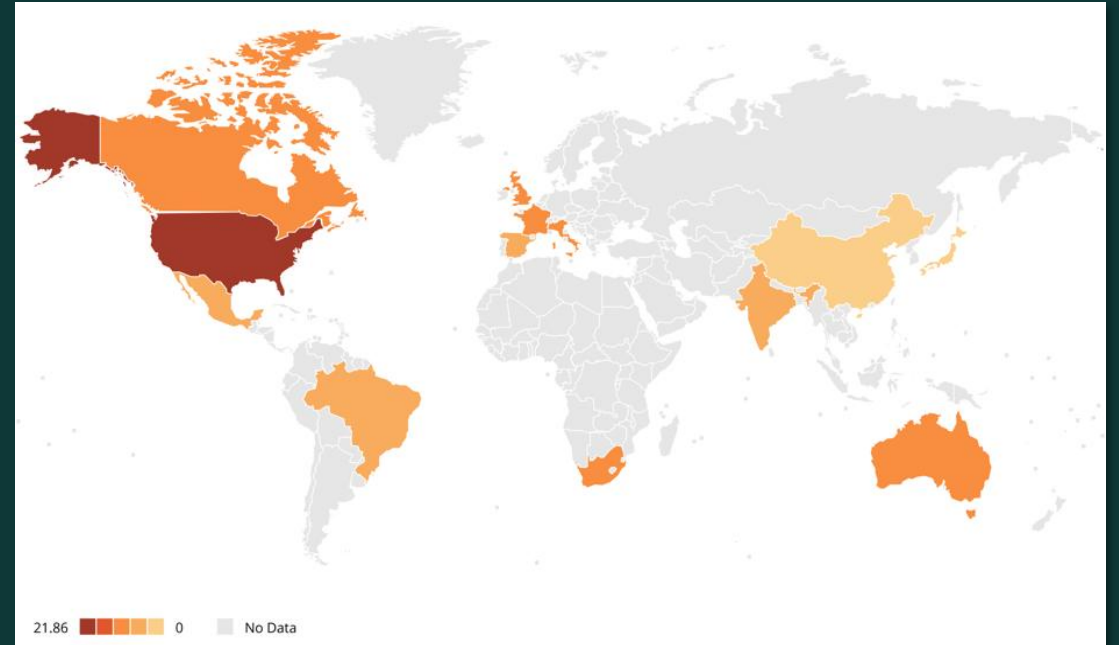
2) Siloed and redundant efforts

- Misalignment of activities
- No single source of truth
- Failure to modernize
- Poorly defined roles and responsibilities

Friction in the Lines of Defense (Cont.)

3) Inability to leverage data

- Immature processes
- Disaggregated docs
- Lack of transparency
- Lack of foresight
- Lack of visualization



Friction in the Lines of Defense (Cont.)

4) Failure to effectively engage the business

- Amp up your anecdotes and align to underlying motivations
- Continuously assess your credibility score
- Know your business, know your customer
- Understand how you are measured and measure up

Question #2

Which item is causing the greatest level of risk management friction across the lines of defense in your organization?

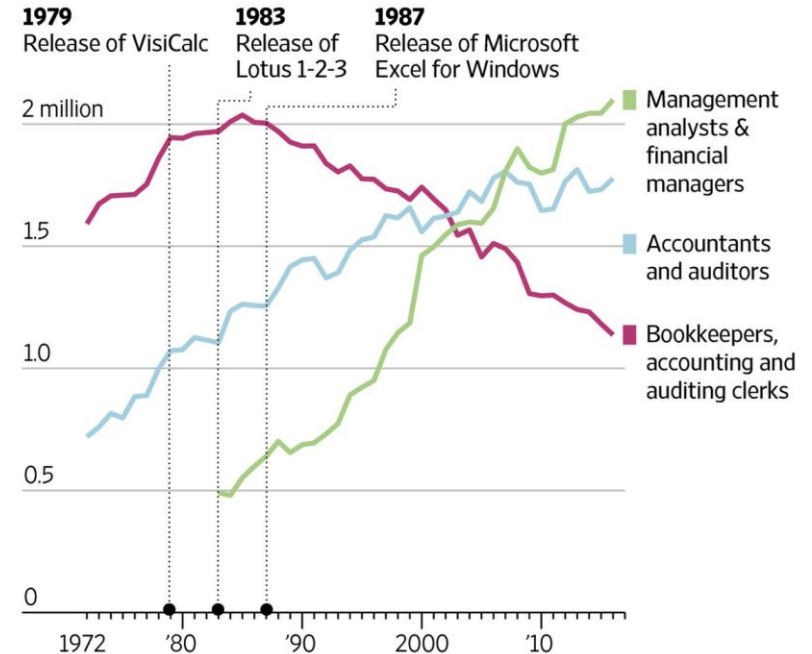
- a) Weak governance
- b) Siloed and redundant efforts
- c) Failure to leverage data
- d) Failure to effectively engage the business

Importance of IRM

- Convergence of emerging technology
- Opportunities to remove human error and judgement
- Enhancing the auditability efficiency quotient
- Shifting the weight of responsibility to experts across the lines

The Spreadsheet Apocalypse, Revisited

Jobs in bookkeeping plummeted after the introduction of spreadsheet software, but jobs in accounting and analysis took off.



THE WALL STREET JOURNAL.

CFO Influence on Risk Management

Forrester reported that 35% of CFOs pointed to a lack of data integration or to organizational silos that make it difficult to get needed insights from other business stakeholders (37%).

Why does the CFO's opinion matter for our risk management objectives?

Data Blockers

What are the biggest obstacles to leveraging data and analytics to drive decisions and strategies?



Multiple responses allowed.

Source: Forrester Consulting survey of 250 CFOs and executive vice presidents of finance. Commissioned by Dun & Bradstreet

Importance of IRM

C-Suite cannot reasonably be expected to achieve greater risk resilience at the speed of digital transformations without:

- An IRM technology that extends across the global enterprise, distributes responsibilities effectively across the lines of defense to enable self-service founded on a maturing automation cycle.

Shift away from the fluff and leverage IRM to achieve transparency, quantify potential, and actual risk events to achieve actionable intelligence.

Risk Management Monitoring



AUDIT & ASSURANCE

Manage vulnerabilities and ensure compliance.



RISK MANAGEMENT

Evaluate and optimize enterprise risk.



INFORMATION SECURITY

Oversee and manage information security.



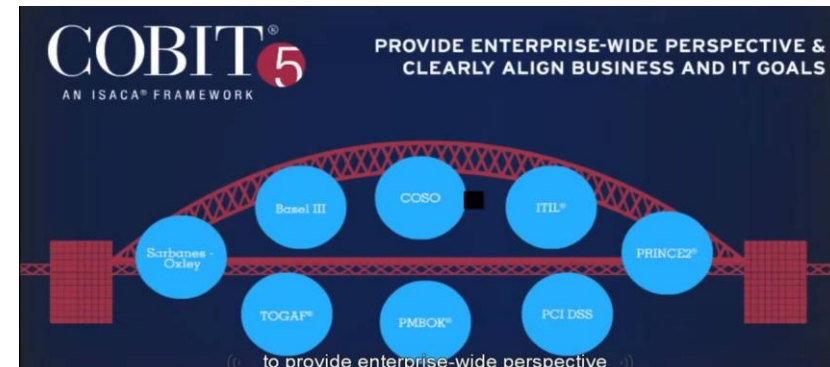
REGULATORY & COMPLIANCE

Keep ahead of rapidly changing regulations.



GOVERNANCE OF ENTERPRISE IT

Align IT goals and strategic business objectives.



Connect the Dots

JULY 17, 2017: FEDEX ISSUES STATEMENT:

“Cyber attack to materially impact full-year results”

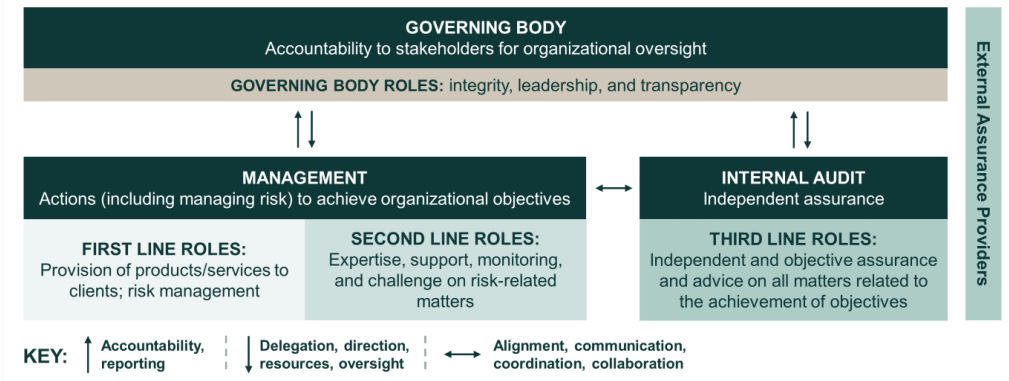
“Widespread operational delays”

“Attack distributed through trusted software”

“Significant incremental costs to execute contingency plans and remediate”

“No insurance in place to cover cyber attack”

THE IIA'S THREE LINES MODEL



What's the Value Proposition for Orchestrating Effective Risk Management?

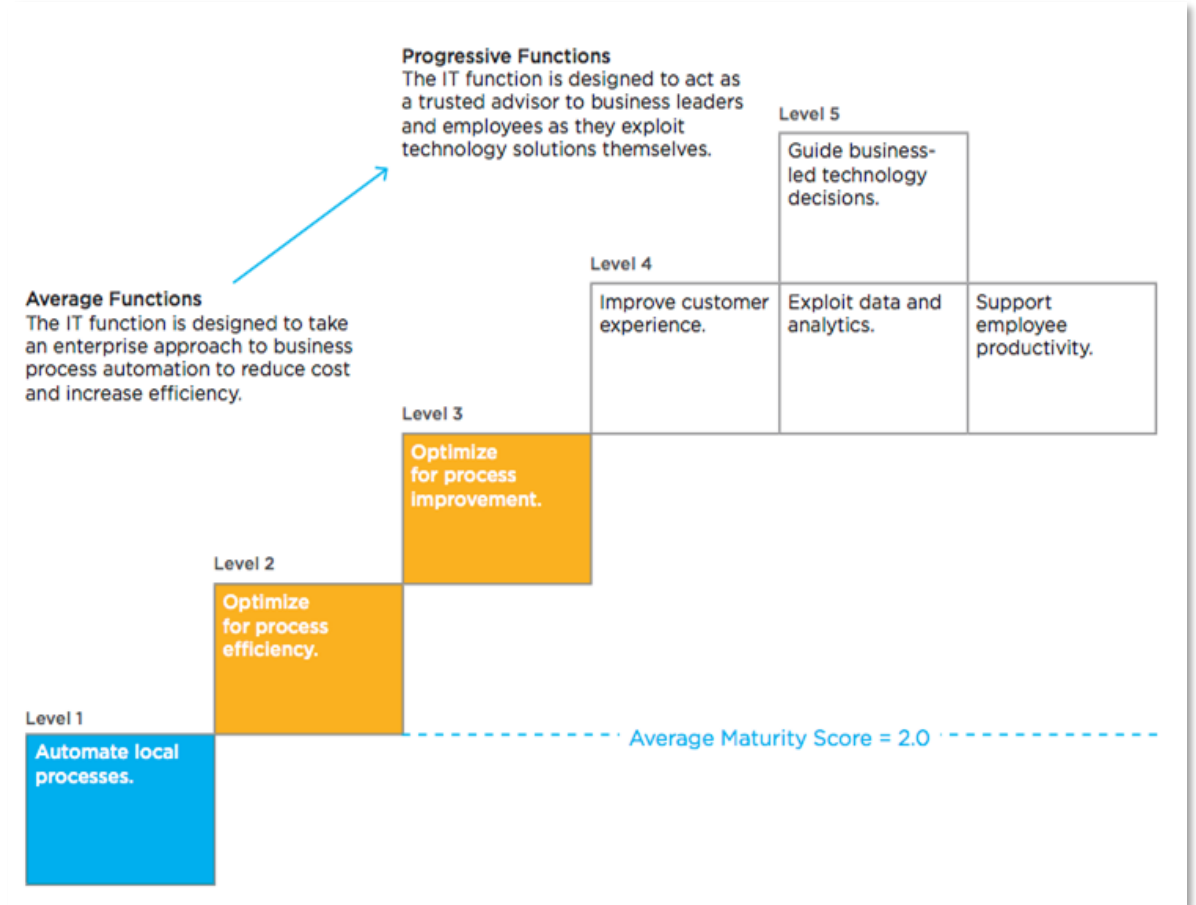
- Optimization
- Cost savings
- Scalability
- Modernize
- Enhanced Decision Making



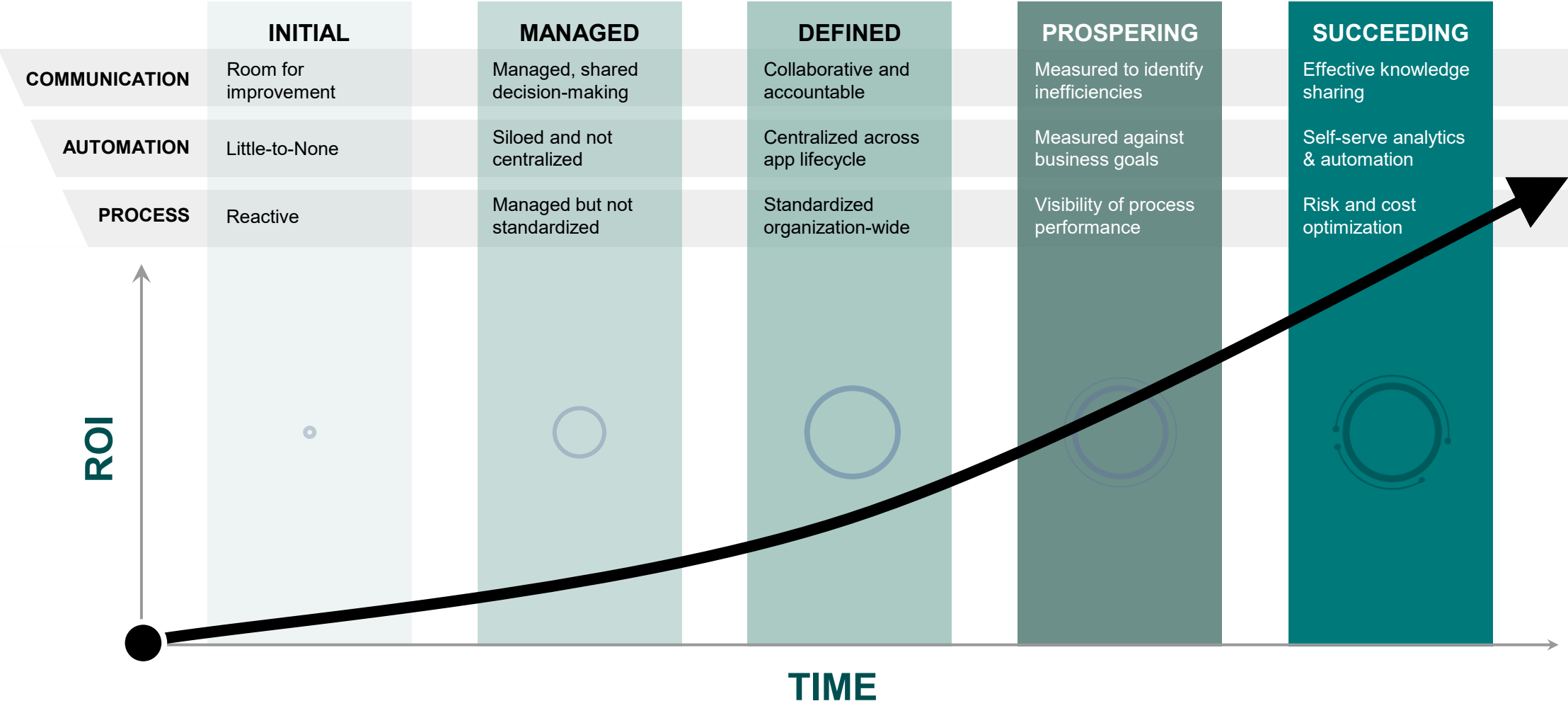
Business Strategy Alignment

Why Does This Maturity Scale Matter?

- Automation creates space to optimize
- Optimizing creates space for increased return on investment and discipline
- Investment returns catapult more favorable internal and external customer experiences while simultaneously building a more risk resilient enterprise



Sustainable ROI Growth Over Time



Question #3

Does your organization have a business case for integrated risk management (IRM) strategy and technology?

- a) Yes
- b) No

OBJECTIVE 4

Internal Audit's Evolving Role in the Three Lines of Defense



Role of Internal Audit

THIRD LINE OF DEFENSE

Attention to detail, completing your audit plans, reporting results

DRIVER OF THE THREE LINES OF DEFENSE

- Helping to drive strong communication between the Three Lines of Defense
- Continually looking for gaps in the Three Lines of Defense
- Helping to ensure each Line is vigilant about their role in risk management
- Help to keep risk management top of mind for all in the organization

Role of Internal Audit (Cont.)

RESOURCE

- “Go to Group” for questions from others in the organization
- Technical information on effective risk management
- IA knows the road map for effective Risk Management

How is the Role Evolving?

- Recent surveys indicate that Internal Audit is increasingly expected to provide more business insight and act as strategic advisors
- Shifting balance between assurance and advisory audits to achieve greater business insights
- Effective data analytics

In Conclusion



Board Briefing Takeaways

- Enterprise priorities should determine reporting structures
- Communication skills, ability to achieve buy-in
- Perform an in-depth and honest current-state analysis and benchmark against the minimum baseline required by regulations—as well as to other enterprises in the same industry



Harvard Business Review Excerpt: Mistakes Executives Make in Risk Management



“

In chess, grand masters focus on avoiding errors; rookies try to win.

”

Takeaways

PROCESS

- Build a cycle of feedback to capture failures, tear down earlier, recover and build resilience
- Intelligently triage; don't be afraid to punt

PEOPLE

- Hire diverse cognitive skillsets and personalities
- Educate and motivate the first line to be their own Compliance Officers

TECHNOLOGY

- Leverage IRM technology to automate, reduce manual exit paths and to aggregate data sources
- Prioritize and visualize data to create opportunities for decision maturity capabilities

Speaker Contact Information



Brian Jaye, CPA
Senior Manager
*Financial Institutions
Group*

brian.jaye@bakertilly.com
707-508-3824



Melissa Paes, CPA
Senior Manager
Financial Institutions Group

melissa.paes@bakertilly.com
415-677-8235

The material appearing in this presentation is for informational purposes only and should not be construed as advice of any kind, including, without limitation, legal, accounting, or investment advice. This information is not intended to create, and receipt does not constitute, a legal relationship, including, but not limited to, an accountant-client relationship. Although this information may have been prepared by professionals, it should not be used as a substitute for professional services. If legal, accounting, investment, or other professional advice is required, the services of a professional should be sought.

Baker Tilly US, LLP, Baker Tilly Advisory Group, LP and Moss Adams LLP and their affiliated entities operate under an alternative practice structure in accordance with the AICPA Code of Professional Conduct and applicable laws, regulations and professional standards. Baker Tilly Advisory Group, LP and its subsidiaries, and Baker Tilly US, LLP and its affiliated entities, trading as Baker Tilly, are members of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities. Baker Tilly US, LLP and Moss Adams LLP are licensed CPA firms that provide assurance services to their clients. Baker Tilly Advisory Group, LP and its subsidiary entities provide tax and consulting services to their clients and are not licensed CPA firms. ISO certification services offered through Moss Adams Certifications LLC. Investment advisory offered through Moss Adams Wealth Advisors LLC and Baker Tilly Wealth Management, LLC. © 2025 Baker Tilly Advisory Group, LP