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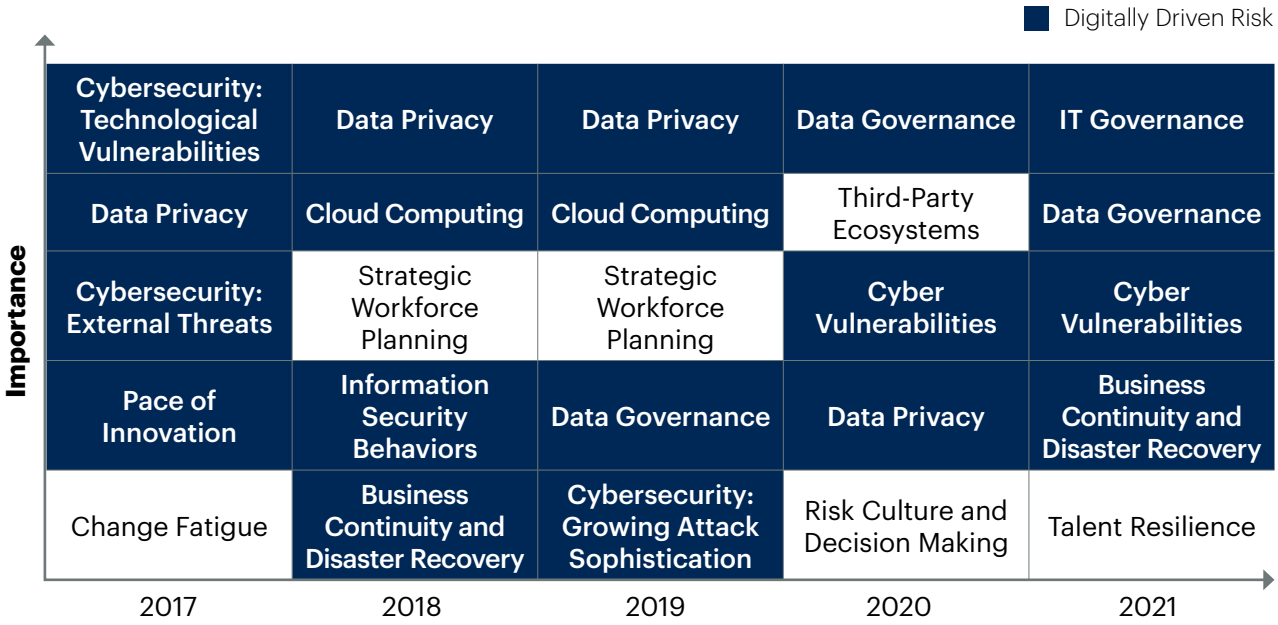
Proven Guidance for C-Suite Action

Dynamic Risk Governance Starts With Shared Data

by Malcolm Murray and Laura Reul

Organizations are still fighting 21st-century threats with 20th-century tools, such as spreadsheets and emails. But functional leaders must move as rapidly as the risks largely driven by technology and data (see Figure 1). To do that, executives building new ways to protect against exposure should move to a more dynamic governance model that requires a different way of working. Wielding digital tools against these digital dangers strengthens high-quality risk management behaviors by 17%.[1, 2]

Figure 1. Top Five Risks Identified by Audit Leaders, 2017 to 2021



Source: Gartner

Jump on the Chance to Make Risk Governance Digital

The window is open right now for sewing software and analytics into the fabric of risk governance.

First, this kind of spending is high on some powerful agendas: 83% of CEOs plan to increase investments in digital capabilities over the next year, and 71% of boards name digital technology initiatives as a top priority coming out of the pandemic.[3, 4] Second, the time is ripe for a major overhaul of the way enterprises defend against risk, and a digital-first mindset is central to the change that's needed.

The predominant model, known as the three lines (3L), divides up risk management responsibilities based on the typical role of a function rather than the actual activities that need to happen and who is best placed to perform them.[5] For more than a decade, organizations have tried to tweak the 3L with aligned assurance — all risk and assurance functions coordinating their work and avoiding duplication while making sure nothing falls through the cracks. Yet organizations still struggle to reap the benefits.

Our alternative framework, which we call dynamic risk governance (DRG), breaks down functional boundaries, assigning authority by risk and activity rather than by role. This model is statistically proven to drive high-quality risk behaviors, such as leadership striking the right balance of opportunities and business managers having the knowledge to make more risk-informed decisions.[6]

To achieve timely, collaborative and efficient risk management, you'll need to build digital solutions at the same time you construct a full DRG framework. It's a virtuous cycle: Sharing is required to go digital; digital is necessary for faster action; and DRG, in turn, begets closer working relationships for handling risks as swiftly as they occur — enabling yet more cooperation.

Companies told us about three methods they've taken to modernize and speed up their risk management processes. Each one involves collaboration between several functions and the sophisticated use of data and automation:

- Using centralized data to create risk analytics for distribution throughout functions
- Bringing in data from multiple functions and external sources to create shared, constantly updated dashboards
- Automating manual processes to gain time for collaboration by removing unnecessary tasks and asks

Kraft Heinz Shared Continuous Risk Analytics From Centrally Stored Data

Functional leaders have made substantial progress in the last few years when it comes to assessing risk in a more systematic and data-driven way. However, separate functions tend to develop their own analytics, relying on their own datasets. Perhaps they are protecting their own turf or perhaps they simply aren't aware of the benefits of exchanging data assets and skills.

To solve for this challenge, the internal audit team at The Kraft Heinz Company created a risk monitoring center of excellence. The goal: Encourage the business to use a tool that tracks more than 100 key risk indicators (KRIs) across four business processes (order-to-cash, procure-to-pay, accounting-to-reporting, and manufacturing-to-inventory).

Timing was critical; the information had to be available when action was required. The tool conducts continuous analysis of data stored in a central ERP system and creates Tableau dashboards that illustrate risk drivers, red flags, control gaps or process inconsistencies.

To launch this tool, the center of excellence served two purposes:

- Overall governance of the risk analytics process
- Guidance on the day-to-day operations of the continuous risk monitoring tool (see Figure 2)

Figure 2. Risk Monitoring Center of Excellence Pillars

Governance	Operations
• Tracking Risk Monitoring KPIs • Continuous Improvement Guidance • Training (for Auditors and Business)	• Data Analytics Audit Support • KRI Monitoring and Continuous Auditing • Ad Hoc Request Management

Source: Adapted From The Kraft Heinz Co.

On the operational side, the center familiarized the business with the tool. The team started by identifying important stakeholders in the business and inviting them to see and use the tool in action.

"We are partnering with the business to ensure KRI monitoring is embedded within the first and second lines of defense," said Fernando Garcia Bueno, VP and global head of internal audit. So, the training didn't stop there. The center also developed risk analytics insights memos with recommendations that demonstrate the relevance and utility of the tool.

With support, business executives now track critical enterprise risks on their own. "The implementation of the risks analytics solution at Kraft Heinz is a very good example of bringing to life our 'digital decisioning' aspiration," said Corrado Azzarita, the global CIO. "I firmly believe that data-driven decision making can become a reality in several business domains, improving both effectiveness and efficiency."

Fernando García Bueno

Vice President,
Internal Audit
The Kraft Heinz Company

Photo courtesy of Fernando Garcia Bueno

Royal Bank of Canada Pulled Risk Information from HR, Finance, IT and the News

The internal audit team at Royal Bank of Canada (RBC) set off on a mission similar to the one at Kraft Heinz: Produce a continuous monitoring tool that provides the entire organization with up-to-date risk information for critical business processes.

But RBC took a slightly more complicated tack. Instead of sending details amassed in one place out to the rest of the business, the bank's internal audit team pulled together company and external datasets. To build this digital solution, internal audit collaborated with the business to define relevant information and metrics to measure KRIs and key performance indicators (see Table 1). They called their creation the Risk Assessment Planning Tool and Organizer, or RaptOR, Kanika Vij, the senior director of data science and automation, told us.

Because RBC's internal audit team worked closely with management from the beginning, the business unit leaders felt comfortable granting access to internal audit for data that could support risk monitoring, according to Vincent Huang, the director of data science and automation.

Once permission was secured, the bank sent more than 38 automatic feeds from capital markets and commercial banking to the portion of the company's data lake that serves only the internal audit team. Data continuously flows to the internal audit portion of the lake, meaning the monitoring is always up to date.

Table 1. Examples of RaptOR Data Sources

Internal Data Sources	External Data Sources
• HR department data related to personnel turnover and tenure • Finance department data related to the performance of the business units • Committee on new business initiatives and projects • Database of loss events associated with operational processes • IT ticketing data that tracks application changes and incidents	• News articles featuring stories on risk and control breakdowns across global financial institutions • Additional risk-focused media articles

Source: Adapted From RBC

Kanika Vij
Senior Director,
Data Science and
Automation
Internal Audit
Royal Bank of Canada

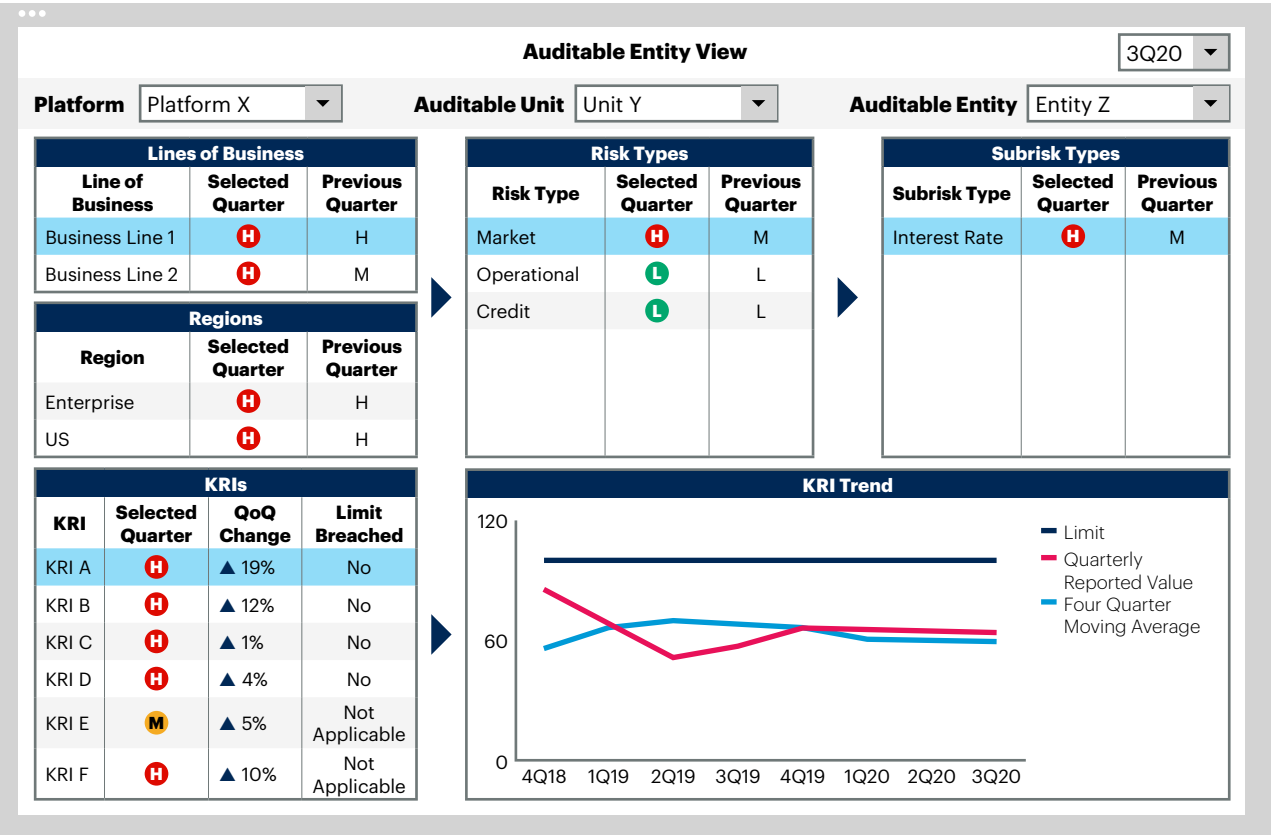
Vincent Huang
Director,
Data Science
Internal Audit
Royal Bank of Canada

Next came dashboard development, which spanned six months. Internal auditors, data scientists/data engineers, DevOps, UX/UI designers, project managers and quality assurance developers combined statistical analyses on the back end and Tableau visualizations on the front end to highlight live risk information (see Figure 3).

With access to this dashboard, functional leaders at RBC enjoy three benefits:

- The business's overall risk awareness rose with visibility into KRI trend data, audit issue status and changes to the priority of certain risks.
- Risk and assurance leaders save time spent manually collecting and assessing information for the annual risk assessment.
- These same executives reallocate their time savings to higher value activities, such as analyzing root causes of elevated risks or adjusting audit plans in the moment.

Figure 3. RaptOR Continuous Risk Monitoring Dashboard



Source: Adapted From RBC

Standard Bank Group Automated Auditing to Save Time and Peer Into the Future

Another example of using a variety of data sources to save time with automation comes from Standard Bank Group, based in South Africa. In this case, the internal audit team named their platform after themselves: Gina (group internal audit).

Hema Chetty

Chief Operating Officer, Internal Audit
Standard Bank Group

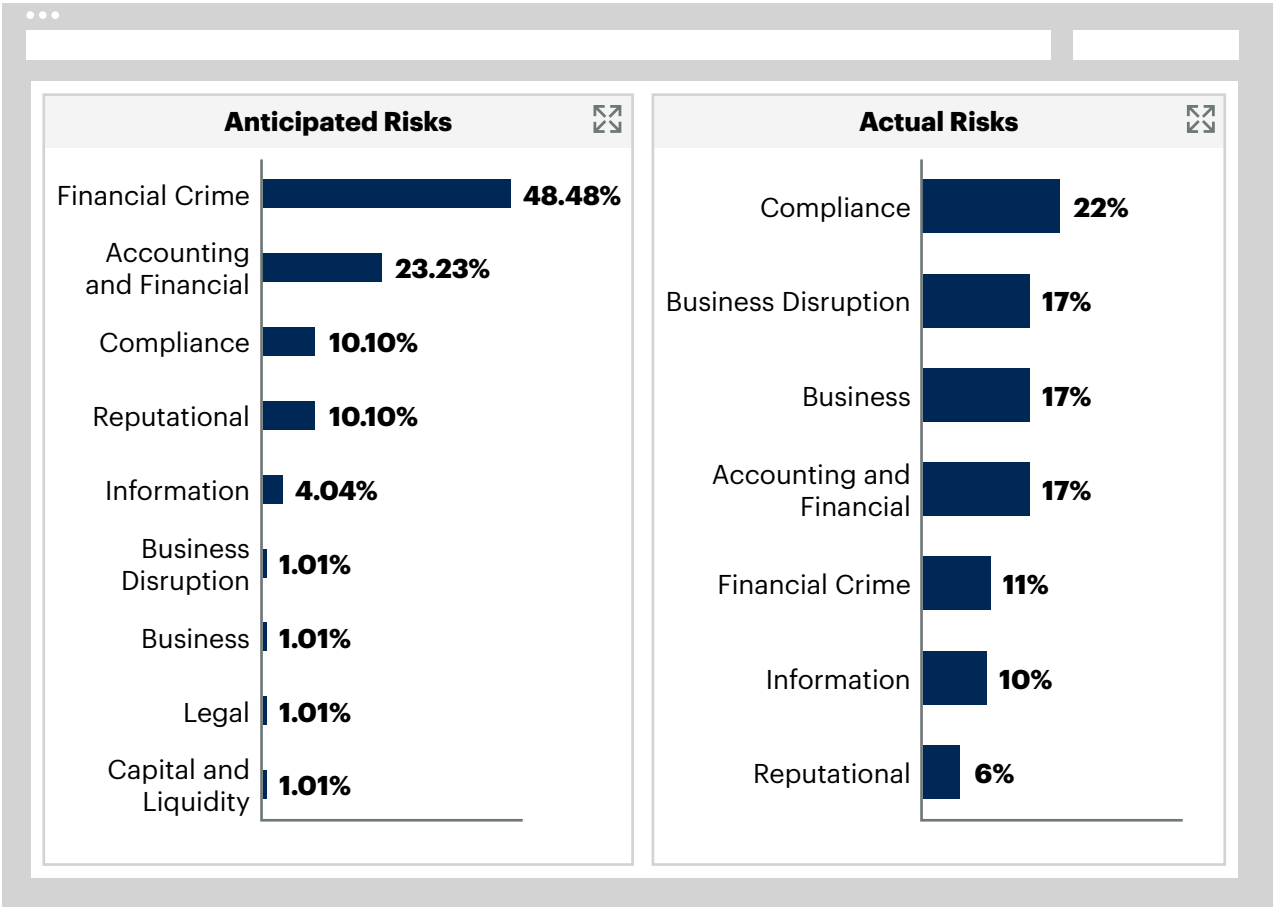
Photo courtesy of Hema Chetty

Along with a complete view of the organization's control environment, Gina can predict future risks based on internal and external data sources.

According to Hema Chetty, the chief operating officer of internal audit, Gina performs daily automated tests for the processes scoped on the bank's South African branch locations (see Figure 4). The charts in the automated audit below contrast the proportion of controls designed for a certain risk (anticipated risks) against the proportion of controls that are failing (actual risks).

Gina runs the tests and uses the results to address disparities between anticipated and actual risks, making swift adjustments to the audit plan. Before Gina arrived on the scene, the audit team would deploy 18 auditors to 40 branch locations — a process that took about three months.

Figure 4. Gina Visualization of Anticipated Versus Actual Risks



Source: Adapted From Standard Bank Group

The business also appreciates how Gina provides greater visibility into the control environment and the decreased number of interruptions poised by manual audits.

And this is only the beginning for automated assurance. As organizations adopt DRG, they will think strategically about automating controls to forge better partnerships. And that increase in collaboration will deliver better risk management.

[1] The Audit Plan Hot Spots series research identifies and analyzes the risk areas that audit departments anticipate focusing on in the subsequent year. This data was pulled from the following surveys: 2017 Gartner Audit Plan Hot Spots and Department Challenges Survey; 2018 Gartner Audit Key Risks and Initiatives Poll; 2019 Gartner Audit Key Risks and Priorities Survey; 2020 Gartner Audit Key Risks and Priorities Survey

[2] 2021 Gartner The Future of Risk Governance Survey; The 2020 Gartner Future of Risk Governance survey was conducted via an online survey between November and December 2020. The purpose of this survey was to understand the challenges shared across corporate functions in managing risks within the organization. In total, 300 business managers qualified and participated. The results of this study are representative of the respondent base and not necessarily business as a whole.

[3] 2021 Gartner CEO and Senior Business Executive Survey; Gartner conducted this research from July through December 2020, with questions about the period 2020 through 2023. One-quarter of the sample was collected in July and August, three-quarters in October through December. In total, 465 actively employed CEOs and other senior executive business leaders participated.

[4] 2021 Gartner View From the Board of Directors Survey; This study was conducted to understand how Board of Directors' view digital business driven business model evolution in their enterprises. It also helps understand the expectations of BoDs from Executive Leaders and how BoDs translate their board focus to actual executive action and overall corporate performance. The primary research was conducted online during May-June among 215 respondents from U.S., Europe and APAC. Companies were screened to be midsize, large or global enterprises.

[5] The IIA's Three Lines Model: An update of the Three Lines of Defense, The Institute of Internal Auditors.

[6] 2020 Gartner Dynamic Risk Governance Quantitative Statistical Model (R^2=0.275); The 3L model — with the business as the first line, risk monitoring functions as the second and audit as the third — is one-size-fits-all, role-based and process-first. DRG, by contrast, is risk-tailored, activity-based and digital-first. For more on DRG, see Dynamic Risk Governance Is the New Risk Mandate.

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