

# Three Lines Model May 2022

## Three Lines Model

The *International Standards for the Professional Practice of Internal Auditing* (The Standards) require the Chief Audit Executive to coordinate their activity with other providers of assurance to promote efficient and effective coverage.

### Standard 2050 – Coordination and Reliance

*The chief audit executive should share information, coordinate activities, and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts.*

#### Interpretation:

*In coordinating activities, the chief audit executive may rely on the work of other assurance and consulting service providers. A consistent process for the basis of reliance should be established, and the chief audit executive should consider the competency, objectivity, and due professional care of the assurance and consulting service providers. The chief audit executive should also have a clear understanding of the scope, objectives, and results of the work performed by other providers of assurance and consulting services. Where reliance is placed on the work of others, the chief audit executive is still accountable and responsible for ensuring adequate support for conclusions and opinions reached by the internal audit activity.*

*(International Internal Auditing Standards Board, 2016)*

Similarly, ISO 37000:2021 *Governance of organizations – Guidance* recommends that those charged with governance obtain information from all sources of assurance within the organisation.

The Three Lines model provides a mechanism for organisations to identify and classify these sources of information. This model was initially developed in the financial services industry in the 1990s and has undergone considerable evolution since that time. The latest evolution is the “three lines” model published by the Institute of Internal Auditors in 2020.

The Institute of Internal Auditors – Australia surveyed Chief Audit Executives (CAEs) to explore the uptake and use of the Three Lines model within their organisations. 68 responses were received across a wide section of the economy (Exhibit 1).

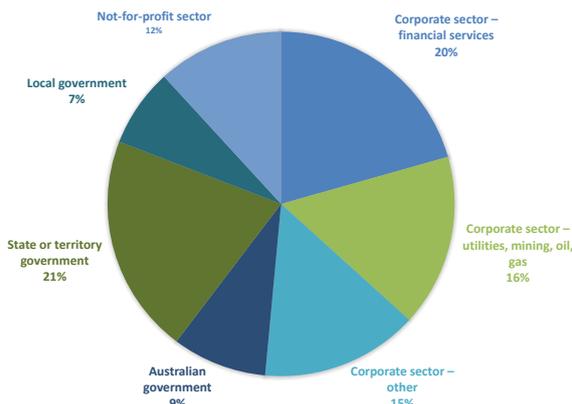


Exhibit 1 – Economic sector of respondents

## Familiarity

CAEs were asked to rate their own and the organisation’s general familiarity with the Three Lines model. As expected, CAEs are better acquainted with the model than general understanding within their organisation. (See Exhibit 2).

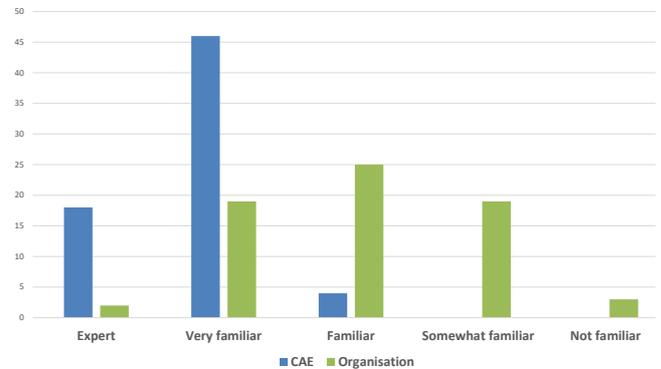


Exhibit 2 – Familiarity with the Three Lines model

## Adoption

A large proportion (88%) of organisations have taken up the Three Lines model to some degree (See Exhibit 3). Not surprisingly, the organisations that are not familiar with the model are amongst those that have not adopted it. What is more interesting are the organisations (6%), assessed by the CAE as being either expert or very familiar with the Three Lines model, that have not adopted it.

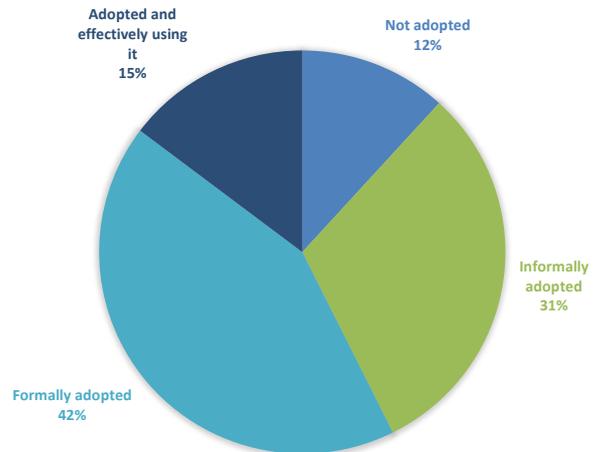


Exhibit 3 – Formal adoption of the Three Lines model

Amongst those who have taken up the Three Lines model, there is considerable variation in the maturity of implementation. As can be seen in Exhibit 4 there is still a significant portion of organisations who have not defined the individual components for the organisation. Only 27% of respondents rank their organisation as having defined and fully implemented the model.

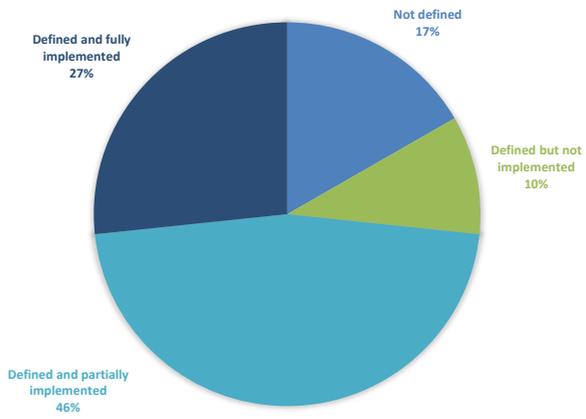


Exhibit 4 – The components of the Three Lines model

Almost half (45%) of respondents indicated that their organisation had either not adopted or had only partially adopted the Three Lines model. Of these, most believe that adopting the model would improve overall assurance in their organisation. See Exhibit 5 (proportions relate to the entire population).

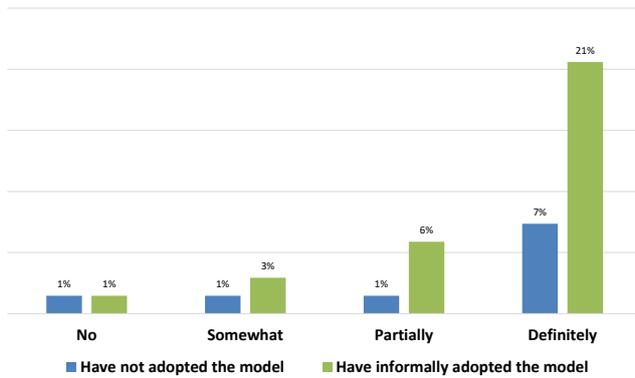


Exhibit 5 – Adoption would improve assurance

### Assurance

CAEs were asked the extent to which their use of the Three Lines model has led to coordinated and embedded assurance. The response of those who had adopted the model is shown in Exhibit 6.

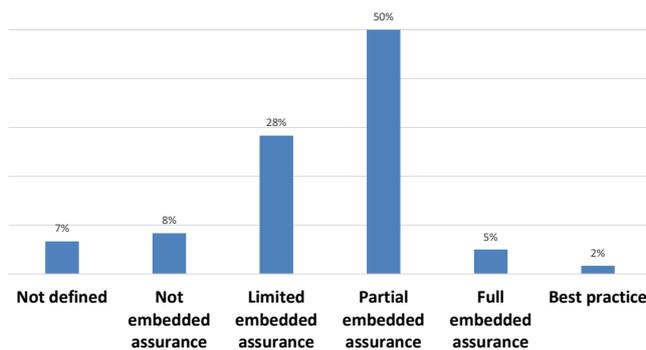


Exhibit 6 – Coordinated and embedded assurance

A question was also asked about whether the schedule for assurance was integrated and coordinated across the organisation in a way that reduces the impost on business and reduces duplication. This question is only relevant to organisations that have used the Three Lines model to embed assurance within their organisations. Exhibit 7 shows partial progress towards fully integrated assurance.

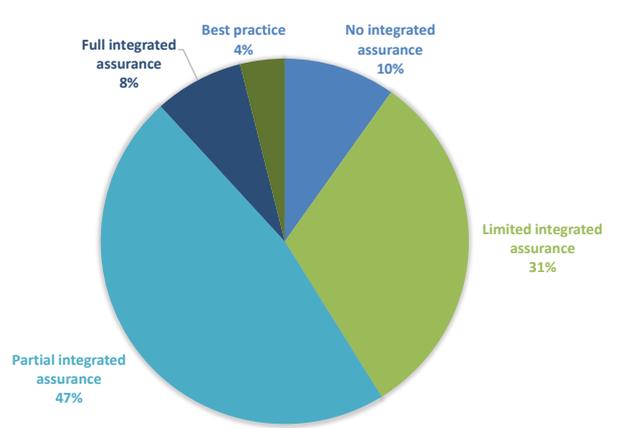


Exhibit 7 – Integrated assurance schedule

### Assurance Map

The Three Lines model is frequently accompanied by an assurance map showing the areas where assurance is required (risks of the organisation) and the relevant assurance providers. Sometimes it goes further to indicate the depth and reliability of assurance information provided. Amongst those organisations that have adopted the Three Lines model, there are still a significant number who do not have an assurance map and some where a formal assurance map is not aligned to the model. (See Exhibit 8).

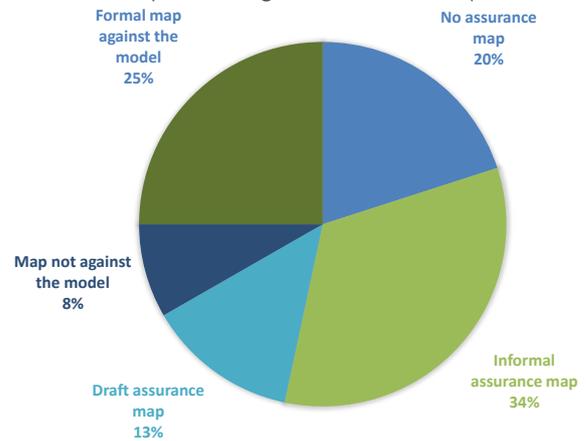


Exhibit 8 – Structure of the Assurance Map

Only one of the organisations that had not adopted the Three Lines model had a formal assurance map and this was not against the model. Two others had informal assurance maps.

### Internal Audit Planning

The Standards require that the CAE develop a risk-based plan to determine the priorities of the internal audit activity. For assurance engagements in particular:

**Standard 2010.A1** – *The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.*

(International Internal Auditing Standards Board, 2016)

The Standards are silent on long range planning but leading organisations are adopting the “Assurance Strategy” as a method of planning for the delivery of the assurance necessary for the organisation as a whole over the long term. Such a strategy may be focused on the design of the internal audit service, or it may incorporate all assurance providers.

Five respondents indicated that they had no assurance

strategy. Of those who indicated that they had an assurance strategy, most (63%) have a formal strategy that incorporates the internal audit plan but only 16% formally include the activities of other assurance providers. Results indicate that the remainder of respondents have informal or draft assurance strategies. Overall results suggest that the inclusion of assurance providers other than internal audit in organisational assurance strategies is only informal.

### Useful References

International Internal Auditing Standards Board. (2016). *International Standards for the Professional Practice of Internal Auditing*. Lake Mary, FL, USA: Internal Audit Foundation. Retrieved from <https://global.theiia.org/standards-guidance/mandatory-guidance/Pages/Standards.aspx>

The Institute of Internal Auditors, Inc. (2020). *The IIA's Three Lines Model: an update of the three lines of defense*. Retrieved from Institute of Internal Auditors - Global: <https://www.theiia.org/en/content/position-papers/2020/the-iias-three-lines-model-an-update-of-the-three-lines-of-defense/>