

## Fact Sheet

### The '3 Lines of Defence' Combined Assurance Model

#### History

- ❑ The '3 Lines of Defence' combined assurance model was developed for HSBC by KPMG within the United Kingdom in the 1990s.
- ❑ It was later adopted by the Basel Committee on Banking Supervision as a good model for internal control management.
- ❑ The IIA-Global has adopted the '3 Lines of Defence' model.
- ❑ COSO and many other organisations, such as 'Big 4' service providers, have published information on the '3 Lines of Defence'.
- ❑ Its use is widespread in corporate and public sector organisations.

#### What are the '3 Lines of Defence'?

- ❑ All organisation assurance activities should be visible to the Audit Committee and Senior Management, including assessment of their effectiveness.
- ❑ The '3 Lines of Defence' is a model used to identify the elements of an organisation's assurance environment.
- ❑ When used in conjunction with assurance maps, a documented '3 Lines of Defence' model can help inform the Board of Directors, Audit Committee and Senior Management how well the organisation's assurance functions are operating.

#### What does the '3 Lines of Defence' look like?



#### Rationale for the '3 Lines of Defence'

- ❑ Assurance is expensive. For this reason, it is important for entities to get it right when determining the make-up of their assurance environment. Typically, a wide range of specialist risk and control areas undertake assurance activities, as illustrated at right.
- ❑ It is easy to expend more effort and money than necessary when there is no co-ordinated approach to assurance. The '3 Lines of Defence' is a concept used by organisations to define their assurance environment to:
  - Establish boundaries and assign responsibilities to each risk and control group.
  - Avoid gaps in controls and unnecessary duplication of coverage.
  - Deliver strong, integrated and cost-effective organisation-wide assurance activities.



#### The '3 Lines of Defence' explained

- ❑ The 1<sup>st</sup> Line of Defence is concerned with **management controls** and generally has a real-time focus.
- ❑ It is aimed at review of governance and compliance arrangements to demonstrate 'checks and balances' are working effectively.
- ❑ The 2<sup>nd</sup> Line of Defence centres on **risk oversight** and involves some degree of real-time activity, with a mandate to review 1<sup>st</sup> Line of Defence activities.
- ❑ This encompasses the work of specialist areas like risk management, technical and regulatory compliance, and safety.
- ❑ This aims to confirm the effectiveness of governance and compliance arrangements, and to identify and action improvements.
- ❑ The 3<sup>rd</sup> Line of Defence involves **independent assurance** that evaluates the adequacy and effectiveness of both 1<sup>st</sup> Line and 2<sup>nd</sup> Line risk management approaches.
- ❑ This is typically undertaken by Internal Auditors, to independently confirm governance and compliance effectiveness, and to recommend improvements.

#### Why is the '3 Lines of Defence' model useful?

- ❑ Coverage – Ensures assurance coverage against key risks.
- ❑ Comprehensiveness – Ensures there is a comprehensive risk management and assurance process.
- ❑ Gap analysis – Identifies assurance gaps and implement remediation actions.
- ❑ Effort – Minimises duplication of assurance effort.
- ❑ Cost – Minimises assurance cost.
- ❑ Stakeholders – Provides comfort to stakeholders there is the right amount of assurance activities – and they're working.
- ❑ Understanding – Helps to understand where risk management and assurance roles and accountabilities reside.
- ❑ Skills – Identifies skills required to deliver required assurance as a guide to resourcing.

#### Guidance

IIA-Global Position Paper 'The Three Lines of Defense in Effective Risk Management and Control'  
 IIA-Global Practice Guide 'Internal Audit and the Second Line of Defense'  
 IIA-Netherlands White Paper 'Combining Internal Audit and Second Line of Defense Functions'  
 IIA-Global GTAG 'Assessing Cybersecurity Risk – Roles of the Three Lines of Defense'