# Fact Sheet

## The ‘3 Lines of Defence’ Combined Assurance Model

<table>
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<th>History</th>
<th>What are the ‘3 Lines of Defence’?</th>
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<td>- The ‘3 Lines of Defence’ combined assurance model was developed for HSBC by KPMG within the United Kingdom in the 1990s.</td>
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<td>- It was later adopted by the Basel Committee on Banking Supervision as a good model for internal control management.</td>
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<td>- The IIA–Global has adopted the ‘3 Lines of Defence’ model.</td>
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<td>- COSO and many other organisations, such as ‘Big 4’ service providers, have published information on the ‘3 Lines of Defence’.</td>
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<td>- Its use is widespread in corporate and public sector organisations.</td>
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<td>- All organisation assurance activities should be visible to the Audit Committee and Senior Management, including assessment of their effectiveness.</td>
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<td>- The ‘3 Lines of Defence’ is a model used to identify the elements of an organisation’s assurance environment.</td>
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<td>- 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.</td>
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## 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 1st 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 2nd Line of Defence centres on risk oversight and involves some degree of real-time activity, with a mandate to review 1st 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 3rd Line of Defence involves independent assurance that evaluates the adequacy and effectiveness of both 1st Line and 2nd 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–Netherlands White Paper ‘Combining Internal Audit and Second Line of Defense Functions’