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**A call to action on the  
three lines model**

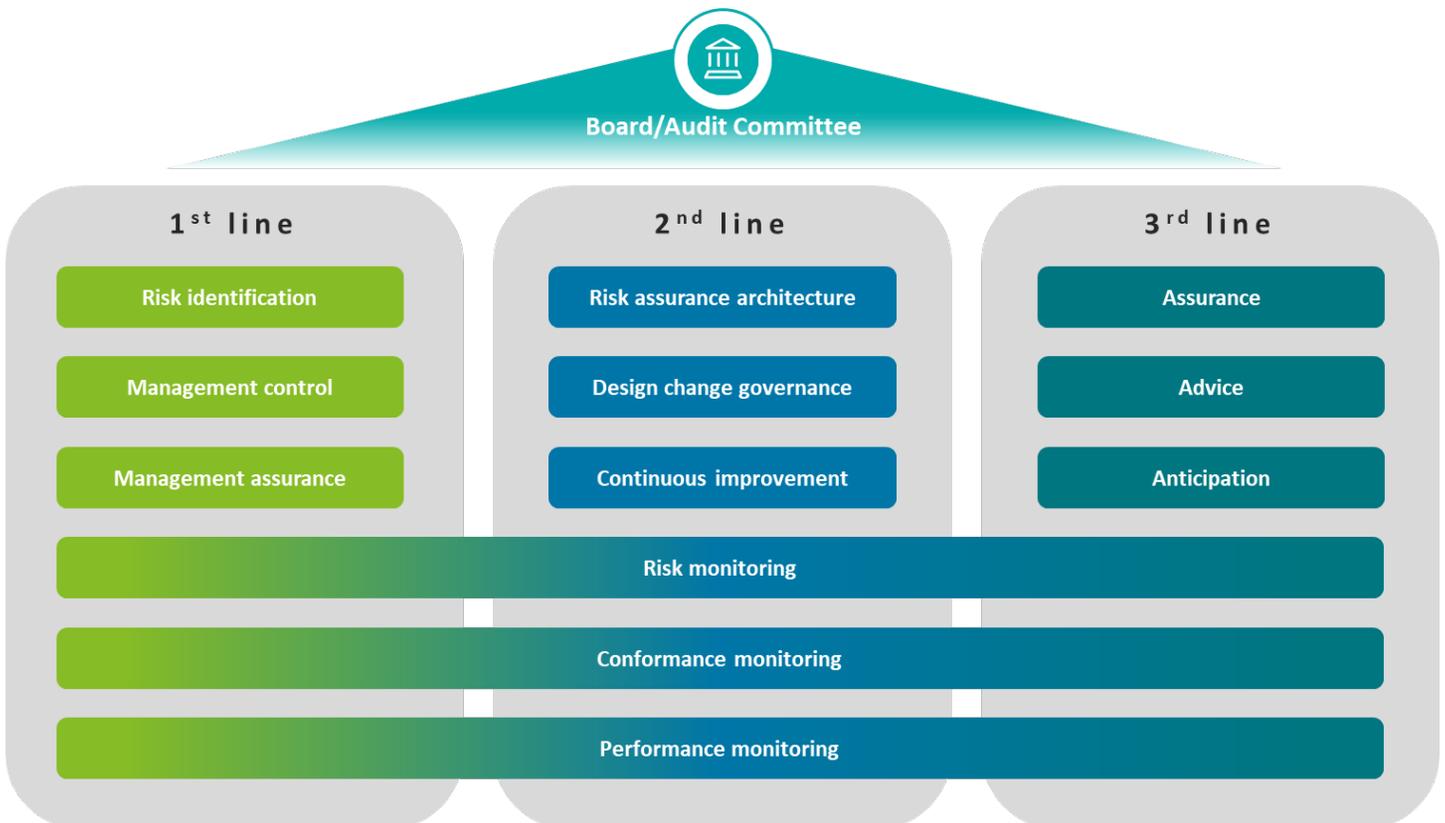
The intent of the 'Three Lines of Defense' was to provide clarity on roles overseeing risk and controls and enhance risk management across the enterprise. Today, many companies are saddled with three autonomous lines of defense each managing risk without strategic coordination. This often leaves the third line, Internal Audit, to play the role of policing the second and first line. As a result of the lack of coordination and alignment on risk and controls, companies fail to achieve their risk management objectives, leading to less than optimal assurance activities and a higher cost of compliance. Furthermore, control functions tend to be over indexed on risk mitigation activities, lacking the time and opportunity to help the company with value creation (controlled risk taking) and what remains is a check the box risk management response.

With the recently updated three lines model introduced by The Institute of Internal Auditors ("IIA") - many of the challenges of the existing approach may be overcome. The new IIA model adopts a six-step, principles-based approach which encourages the governing body (i.e. the Audit Committee, Board of Directors, etc.) to provide delegation and oversight to each line, with the respective lines collaborating, and providing accountability and insightful reporting. The new model offers an opportunity for organization's three lines to align on activities through communication, coordination, cooperation, and collaboration.

In a world where unpredictable economic and geopolitical events have contributed to relentless volatility, it is essential for risk and control functions to extend their capabilities to cut through the silos and develop risk sensing and measurement capabilities. To do so, stakeholders need to adopt an innovative and tech-enabled mindset to rethink how risk management is approached. In its essence, the updated three lines model is truly an aggregated roles and responsibilities construct that could enable achievement of a more risk intelligent organization.

## Illustrative case study

Concerned with the rising cost of regulatory compliance, a leading consumer products company launched an effort to right-size their risk management program. Recognizing that risk and control functions were not aligned and overlapping assurance and enterprise risk management activities were not only less than optimal, but causing confusion, the company used the opportunity to re-imagine risk management. The outcome was stronger alignment on risk and controls across the three lines on several critical factors, including definition of risk appetite, creation of a single enterprise wide auditable entity structure, modernization of controls, and implementation of a common platform for management and reporting. Today, the company is stronger than ever, with the benefit of being better able to integrate new acquisitions while having greater resiliency to weather external shocks and unexpected events.



## The path forward for the three lines

The IIA has laid out the principles as well as introduced the clarified view on Internal Audit independence, which encourages communication, coordination, alignment and collaboration with the business (1st line) and the control functions such as Risk Management and Compliance (2nd line). The structure and the dynamics of the interplay within the three lines in the individual organizations will vary with the nature and complexity of the business, industry, regulatory environment, as well as the maturity of the various lines capabilities.

Some tangible steps to evolve an organization's culture and model include:

### 1. Evaluate the current state



The key objective of this exercise is to understand the current state of the three lines structure within your organization while identifying inefficiencies and opportunities within the operating model. This information can also be used to drive development of a strategic vision to promote and facilitate innovation.

### 2. Perform assurance mapping



Assurance mapping enables a visual representation of assurance activities as they apply to a specific set of risks or compliance requirements. Organizations can visually map out detailed compliance requirements (for example SEC requirements, health and safety requirements, or directors' duties) or to map out the top risks. Activities should be documented across all areas and across the three lines.

### 3. Define strategic vision



Organizations should spend time crafting a strategic vision and cascade the strategy into specific, action-oriented items. Innovation is an ongoing process and not limited to use of technology. It involves fundamental thinking, overhauling operations, and interactions with customers, employees, other stakeholders. A culture shift may be necessary for each line to strategically communicate, coordinate and reduce the silos that may currently exist. With a renewed vision, an organization could be in a better position to strengthen the impact of each line and mobilize itself for future challenges and opportunities.

### 4. Develop single assurance strategy



Although collaborating across the three lines is not a new concept, organizations can do more adopt this practice and incorporate into their risk management framework. Aligning efforts of the three lines will achieve synergy and effectively manage risk. For such collaboration to be effective, a single assurance strategy needs to be defined to streamline risk management processes that would efficiently use resources within the organization.

### 5. Align common technologies and digital assets



With a common technology platform, organizations can more effectively use common data throughout the three lines. Digitization will allow organizations to remove redundancies, simplify and automate tasks, and workflows, introduce efficiencies, freeing up resources to focus on value added risk management activities. In addition, it will facilitate transparency through a clear line of sight and single source of truth. An example of this may include deploying insightful on-demand dashboards and real-time reporting that meet needs of multiple stakeholders and avoid repetitive requests.

## Enablers and accelerators

Deloitte has developed several enablers and accelerators that can be used to operationalize the three lines model, including:

### Workforce of the future:

Consider what type of work should get done, who is going to do the work, and where the work is going to be performed.

### Assurance by design

Design-in and build-in of mechanisms that reduce the amount of assurance that humans typically provide. The goal of assurance by design interlocks with, and supports, and the goals of real-time assurance and reporting, and automated core assurance.

### Connect, modernize and digitize:

Develop and integrate technology such as insightful reporting and real-time dashboards into business as usual.



The time is now for the lines to collaborate, develop roadmaps, and help lead improvement to optimize governance and risk management across the organization. Our point of view represents fulfilling assurance responsibilities with combined core assurance spread throughout the three lines, rather than just through IA, and includes the imminent need for collaboration across the business with anticipation and measurement of risk. These are critical elements of a modernized three lines. The new IIA model is in alignment with Deloitte’s paper “[Modernizing the Three Lines of Defense: An Internal Audit Perspective](#),” and we support the IIA for moving the three lines model, and the IA industry in particular, into the future and forefront of audit.

## Contacts

### **Adam Regelbrugge**

Partner | Risk & Financial Advisory  
Deloitte & Touche LLP  
[aregulbrugge@deloitte.com](mailto:aregulbrugge@deloitte.com)

### **Sarah Fedele**

Principal | Risk & Financial Advisory  
Deloitte & Touche LLP  
[sarahfedele@deloitte.com](mailto:sarahfedele@deloitte.com)

### **Neil White**

Principal | Risk & Financial Advisory  
Deloitte & Touche LLP  
[nwhite@deloitte.com](mailto:nwhite@deloitte.com)

### **Mike Schor**

Partner | Risk & Financial Advisory  
Deloitte & Touche LLP  
[mschor@deloitte.com](mailto:mschor@deloitte.com)

### **Geoff Kovesdy**

Principal | Risk & Financial Advisory  
Deloitte & Touche LLP  
[gkovesdy@deloitte.com](mailto:gkovesdy@deloitte.com)

### **Sandy Pundmann**

Partner | Risk & Financial Advisory  
Deloitte & Touche LLP  
[spundmann@deloitte.com](mailto:spundmann@deloitte.com)

## Contributors

### **Katie Boysen**

Deloitte & Touche LLP  
[kboysen@deloitte.com](mailto:kboysen@deloitte.com)

### **Nilusha Karunaratne**

Deloitte & Touche LLP  
[nikarunaratne@deloitte.com](mailto:nikarunaratne@deloitte.com)

### **Piyush Vora**

Deloitte & Touche LLP  
[pivora@deloitte.com](mailto:pivora@deloitte.com)



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