

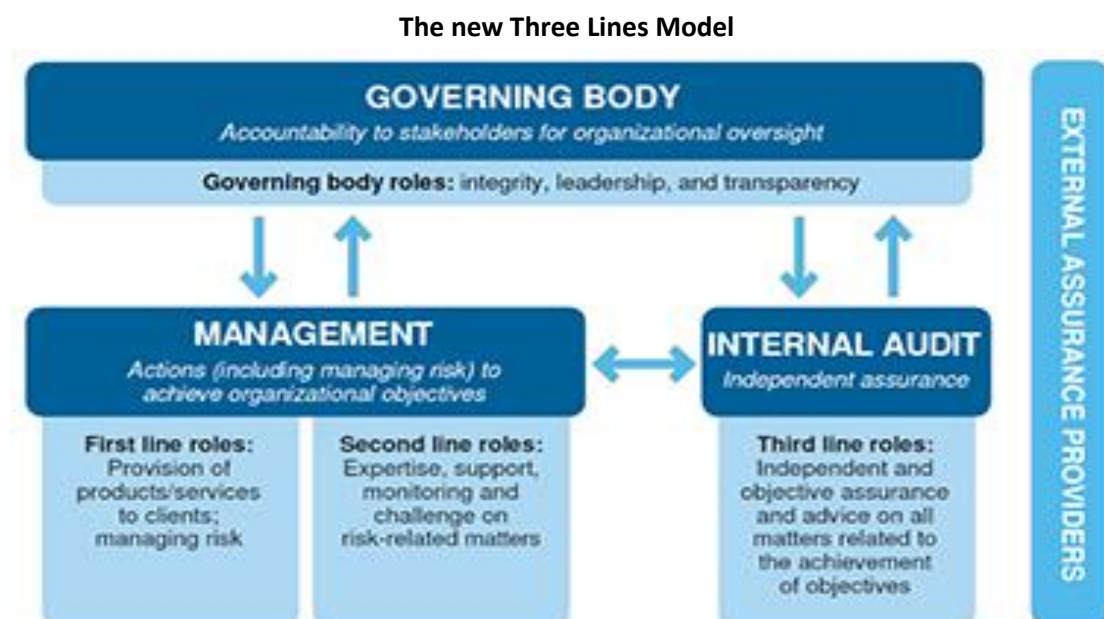
The updated Three Lines of Defense

In the midst of rapid changes in the modern business world, with unprecedented new risks, along with higher stakeholder expectations and the growing complexity of organizations around the world, the Institute of Internal Auditors (IIA) has recently announced (July 2020) a major update to the widely accepted Three Lines of Defense model, which will henceforth be called the Three Lines Model. The Three Lines model first emerged more than 20 years ago and has since become the most common benchmark for assigning control and risk management responsibilities to business functions in an organization, especially in the financial sector, where it originated.

However, the model did not recognize the particularities of specific sectors, such as financial institutions and also gained a lot of criticism in the years following the burst of the global financial crisis of 2008, as it proved inadequate in terms of how the three lines affect the existing corporate governance processes and in dealing with the complexity of business sectors. To address all the above, the updated model helps organizations better identify and structure the interactions and responsibilities of key stakeholders, achieving more effective cooperation, accountability and above all corporate goals. The key features are listed below:

- It clearly describes the roles of the various executives within an organization, including Supervision by the Board of Directors, business managers, including risk management and compliance (first and second line roles) and independent assurance via internal audit (third line)
- It also includes the position of external assurance providers (e.g. regulators, external auditors), emphasizing their significant role in supplementing internal sources of assurance
- The model is now applicable to all organizations, regardless of the size or complexity of their activities.

The graphic representation of the new model is perceived in the following figure:



Source: <https://na.theiia.org/news/Pages/IIA-Issues-Important-Update-to-Three-Lines-Model.aspx>