

How the UPDATED Three Lines Model can help organizations in preventing and detecting fraud

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Agenda

Item

Introduction

Principles

Key Roles

Relationship among core roles

Applying the model in preventing and detecting fraud

Introduction

The IIA's Three Lines Model have been launched **July 20, 2020**, and supersedes the **2013 Position Paper The Three Lines of Defense in Effective Risk Management and Control**. The Three Lines Model is The IIA's update of the Three Lines of Defense.

It is intended to serve a very similar purpose (i.e., to help organizations and others understand how various components, including internal audit, contribute to risk management, in order to optimize value creation and avoid confusion, duplication, overlap, and inefficiencies).

Introduction

IIA Global plan is to develop a series of supplementary papers to provide further details on how the Three Lines Model can be adopted, adapted, and applied to particular contexts. These will be developed under the guidance of the Global Advocacy Committee and released over the next two to three years. This will include:

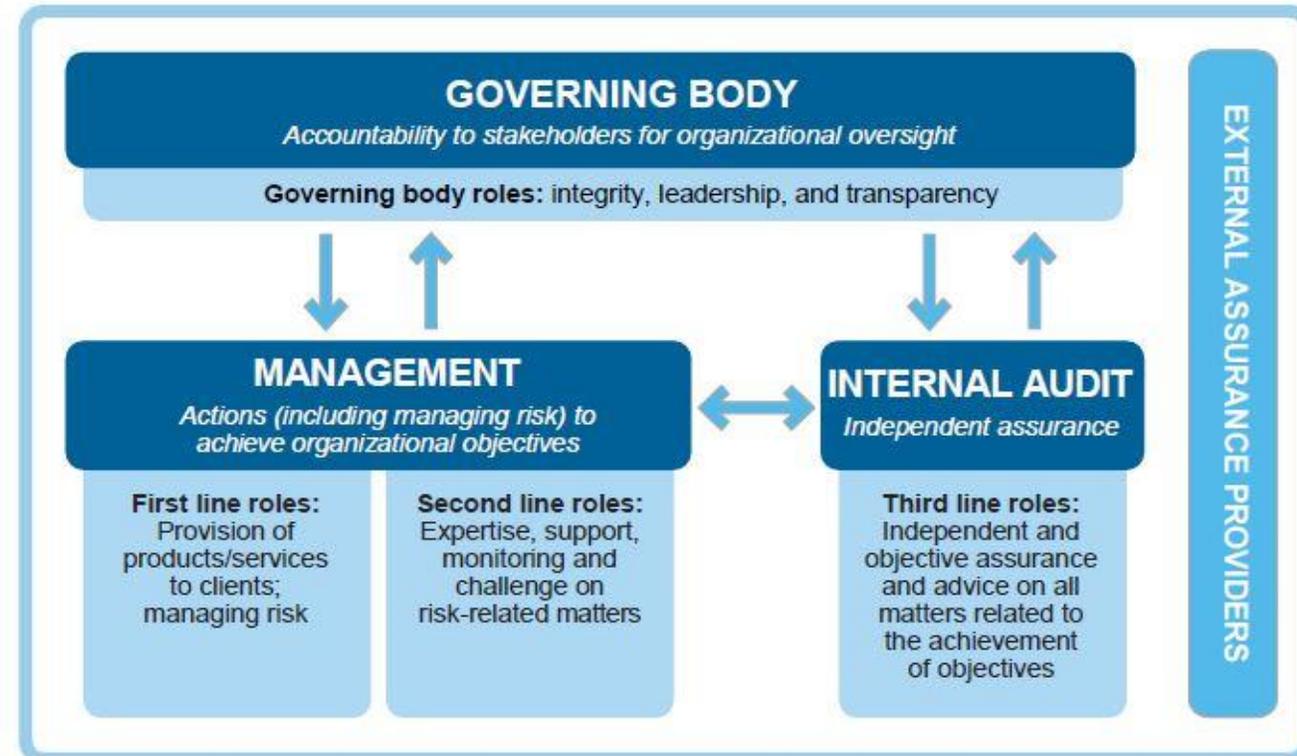
- Fraud and corruption
- Public sector
- ERM
- Small and medium-sized organizations
- Sustainability
- Technology

Introduction

The Three Lines of Defense Model



The IIA's Three Lines Model



KEY: ↑ Accountability, reporting ↓ Delegation, direction, resources, oversight ↔ Alignment, communication coordination, collaboration

Introduction



Similarities

- Consistent with IPPF
- Applicable to all organizations
- Designed to help organizations when planning and structuring resources and activities that support the management of risk to avoid overlap, gaps, and confusion.
- Focus is primarily internal to an organization
- Considers the roles and relationships between the governing body, management (including risk-related functions), and internal audit.
- Maintains the language and numbering of “three lines” in the interests of familiarity.
- The model is simple and is supported by a simple graphic.

Three Lines Model



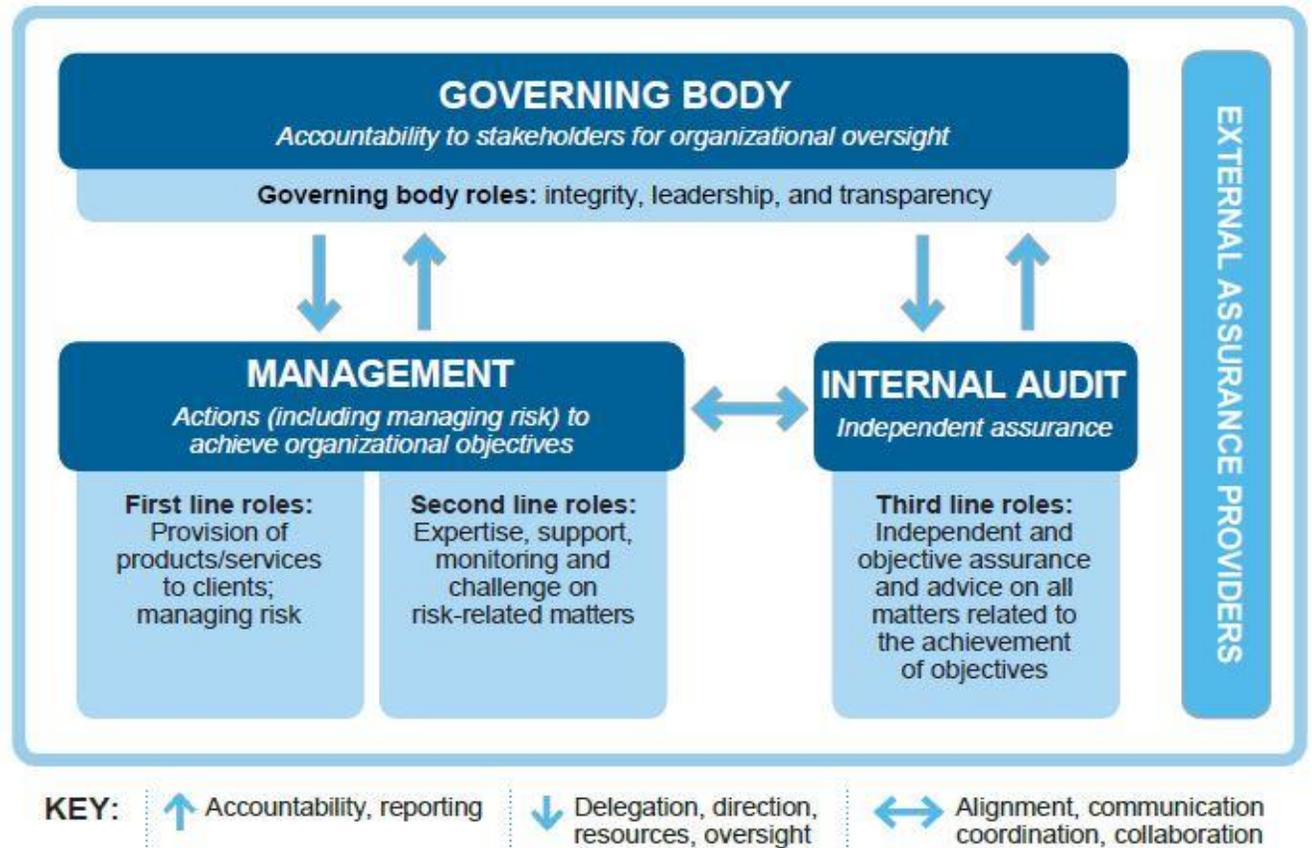
Differences

- “Defense” is omitted to reflect this is not the sole or primary focus of the model or organizations.
- Instead of referring to “the first line” and “the second line” as if they were structural elements, the model describes first, second, and third line roles that may be combined or separated in various ways.
- Defines principles underpinning the model allowing for flexibility.
- Contextualized more broadly as a tool for governance to include value creation and protection, the offensive and the defensive aspects of managing risk.
- Governance is defined as requiring three necessary components:
 - Accountability
 - Actions
 - Assurance and Advice
- Encourages a principles-based approach to match the needs and circumstances of the organization.

Principles



The IIA's Three Lines Model



Key Roles

The governing body

- Accepts accountability to stakeholders for oversight of the organization
- Establishes and oversees an independent, objective, and competent internal audit function
- Determines organizational appetite for risk and exercises oversight of risk management (including internal control)

Management–First line

- Leads and directs actions (including managing risk) and application of resources to achieve the objectives of the organization
- Maintains a continuous dialogue with the governing body
- Establishes and maintains appropriate structures and processes for the management of operations and risk

Management–Second line

- Provides complementary expertise, support, monitoring, and challenge related to the management of risk
- Provides analysis and reports on the adequacy and effectiveness of risk management

Internal audit

- Maintains primary accountability to the governing body and independence from the responsibilities of management
- Communicates independent and objective assurance and advice to management and the governing body
- Reports impairments to independence and objectivity to the governing body and implements safeguards as required.

External assurance providers

- Provide additional assurance to satisfy legislative and regulatory expectations that serve to protect the interests of stakeholders.
- Provide additional assurance to satisfy requests by management and the governing body to complement internal sources of assurance

Relationship among core roles

Between the governing body and management (both first and second line roles)

Between management (both first and second line roles) and internal audit

Between internal audit and the governing body

Among all roles

Applying the model in preventing and detecting fraud

Structure, roles, and responsibilities

Oversight and assurance

Coordination and alignment

Q&A

Thank You

