



**2020 NATIONAL  
CONFERENCE**  
Virtual Event | 2-3 December 2020



# The Three Lines Model



## Panel Discussion 5

# Three Lines Model : Insight from the Working Group



**Mark Carawan**

Member of the Three Lines  
Working Group



**Francis Nicholson**

VP Global Relation IIA Global HQ



Chair:

**Hari Setianto**

IIA Indonesia

## Mark Carawan, CIA, QIAL, CMIIA

### Member of the Three Lines Working Group



#### Experience:

- Senior Fellow at the New York University School of Law Program for Corporate Compliance and Enforcement (PCCE), 2020 - Now
- Citigroup's Chief Compliance Officer, 2017-2020
- Citigroup's Chief Internal Auditor, 2011-2017
- Barclays Group's Chief Internal Auditor from 2003 to 2011
- Deloitte's Managing Partner
- Andersen's Managing Partner
- London Office of Andersen's accountancy

#### Education:

- B.A. from Rutgers University
- Ph.D. from St. Andrews University in the UK.

#### Certification & Professional Association:

- CFIIA from the Chartered Institute of Internal Auditors, served as President from 2015 to 2016
- CIA and QIAL qualifications from the global IIA, member of the global Board of Directors since 2016,
- previously served as Chairman of the IIA's Financial Services Guidance Committee.



## Francis Nicholson, CIA, QIAL, CRMA

Vice President of Global Relations IIA at The Institute of Internal Auditors Inc.

### Experience:

- Vice President of Global Relations IIA HQ, Jul 2020 – Now
- Managing Director, Global Advocacy, Jan 2019 – Jul 2020
- Managing Director of Certifications and Global Strategic Initiatives, Des 2013 – Jul 2020
- Education Director, Mar 2007 – Des 2013

From September 2018 Mr. Nicholson was the staff liaison to the working group of The IIA that led the review and update of the Three Lines of Defense, launched as the new Three Lines Model in July 2020.

Origin

Strengths

Flaws

Review

2020  
model

Future



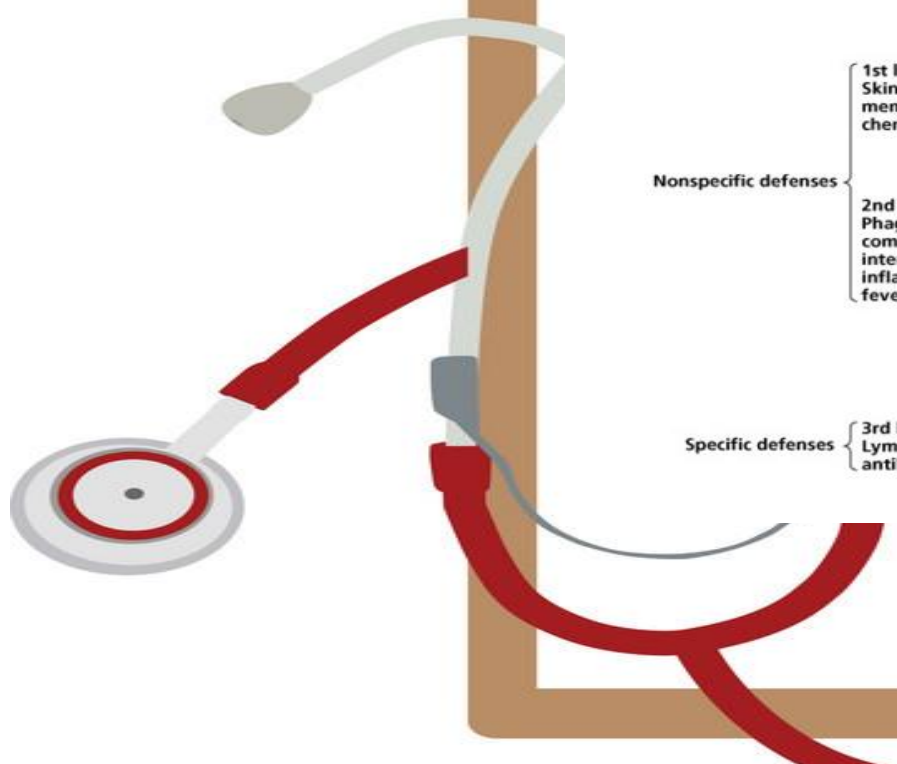
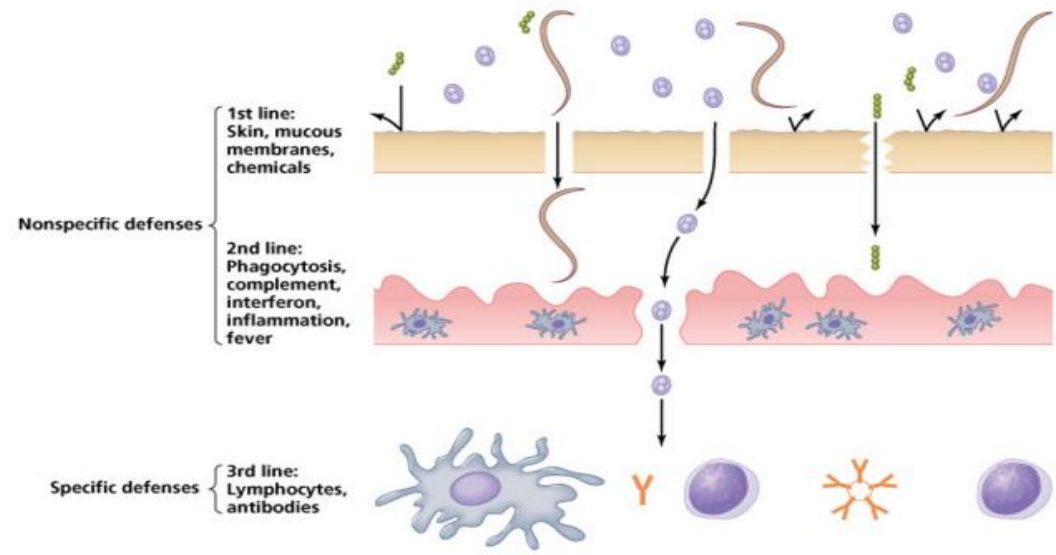
# Polling question no. 1





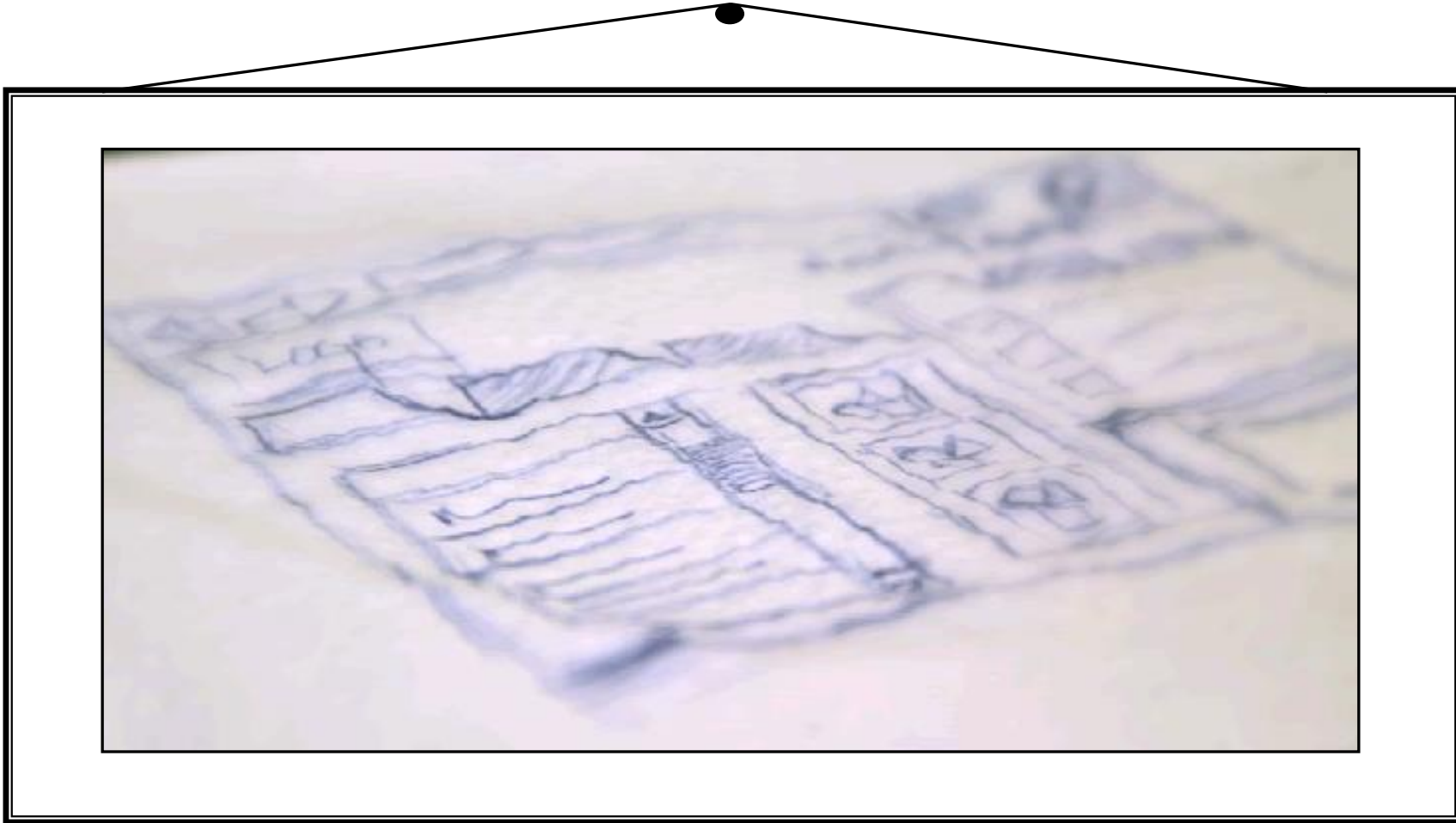
The Three Lines of  
Defense, 1066AD

**SKIN • NON-SPECIFIC • SPECIFIC**  
fence                      foot soldiers                      special forces



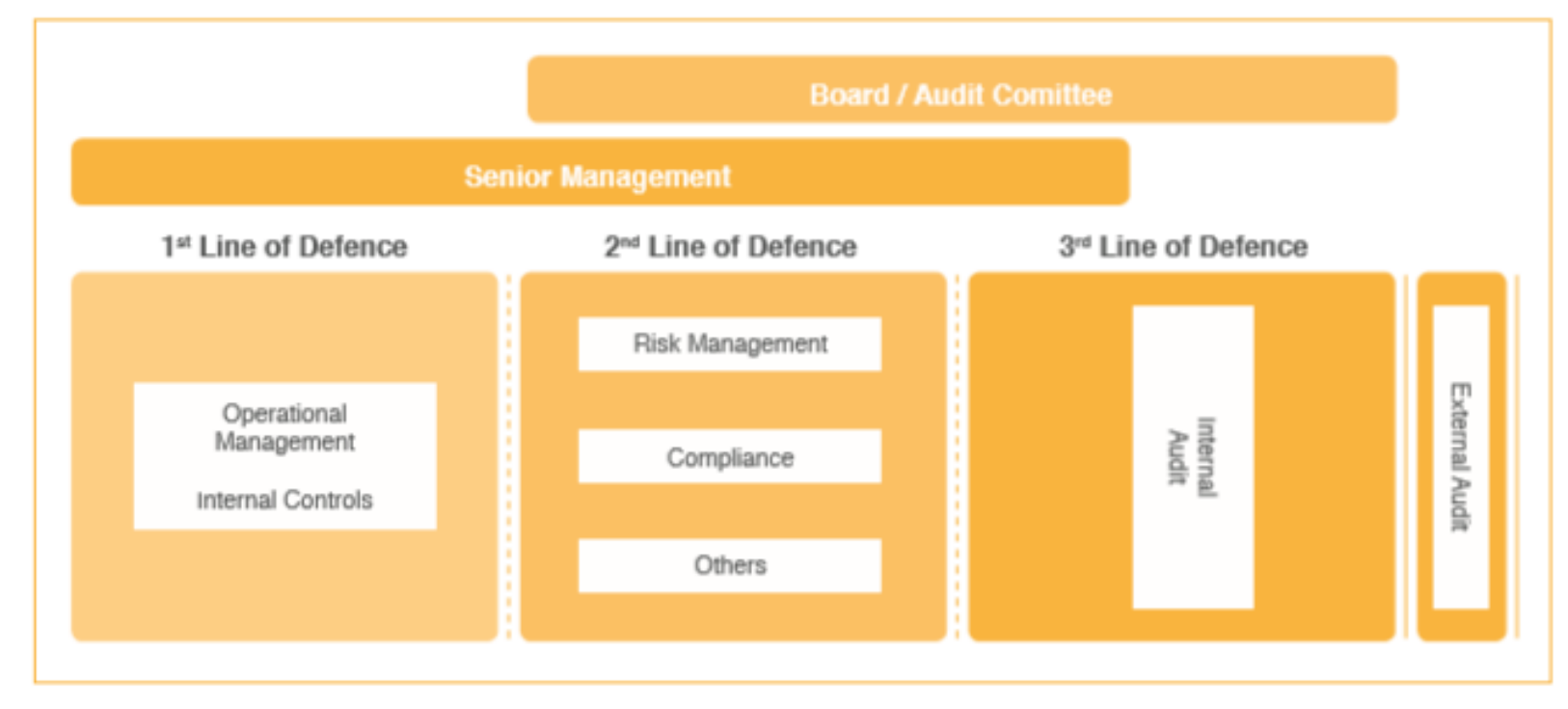


1996



The Three Lines of  
Defense, c1996

*EU Directive 2011*



*ECIIA/FERMA*

# IIA The Three Lines of Defense 2013

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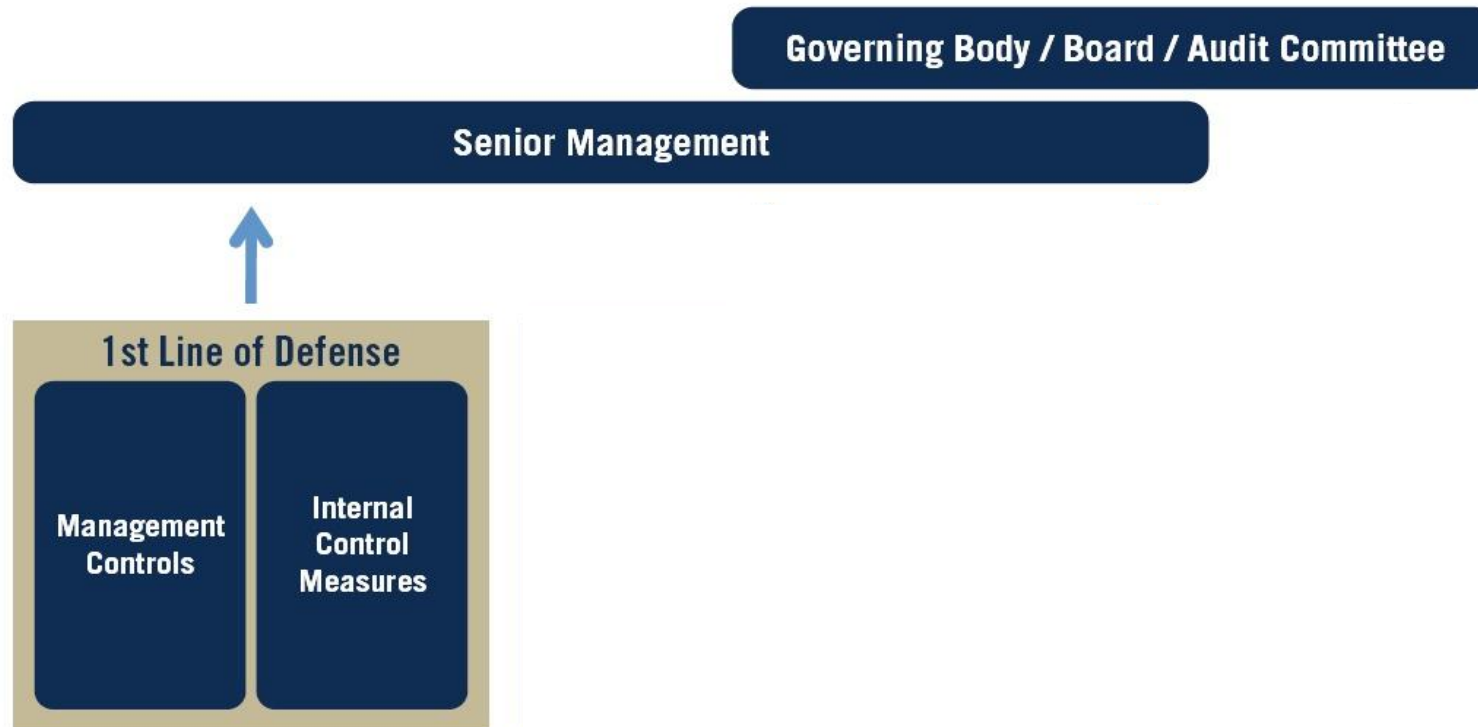
**Governing Body / Board / Audit Committee**

# IIA The Three Lines of Defense 2013

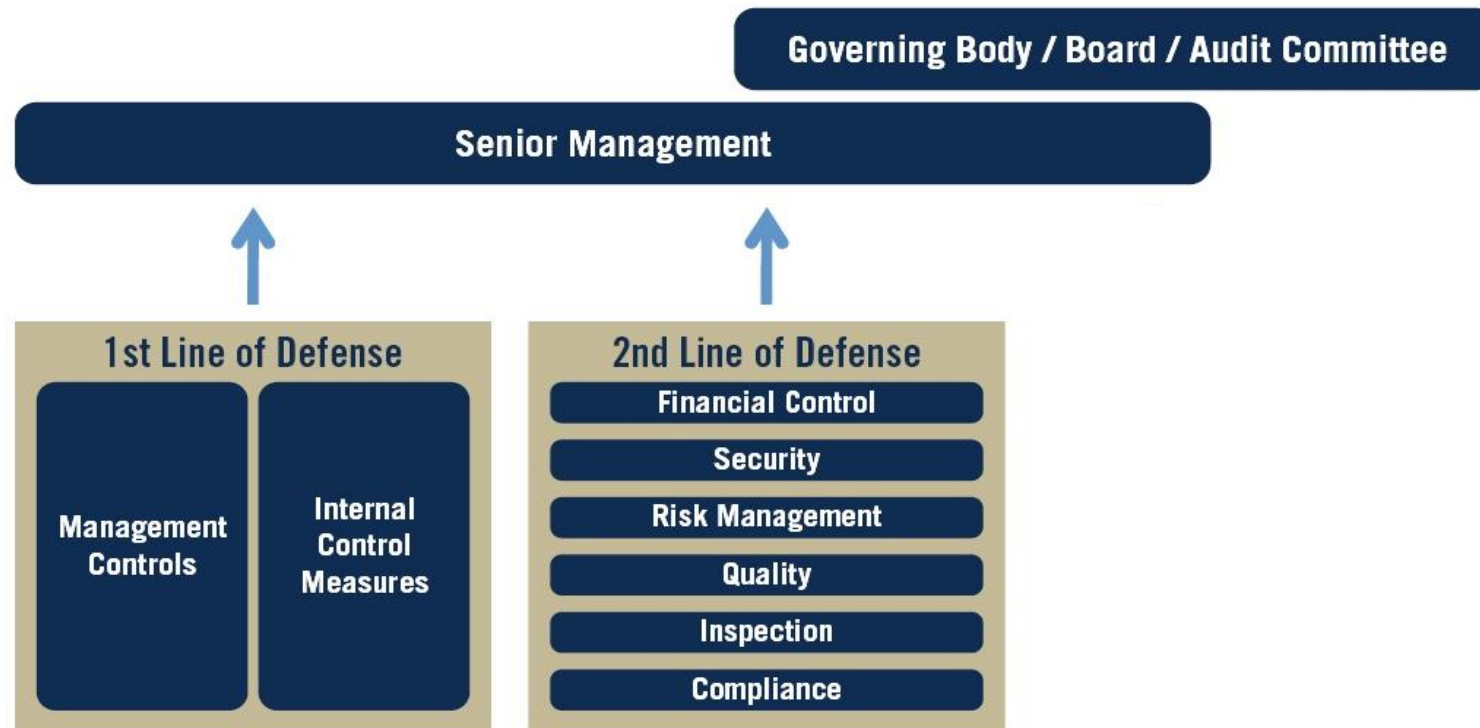
**Governing Body / Board / Audit Committee**

**Senior Management**

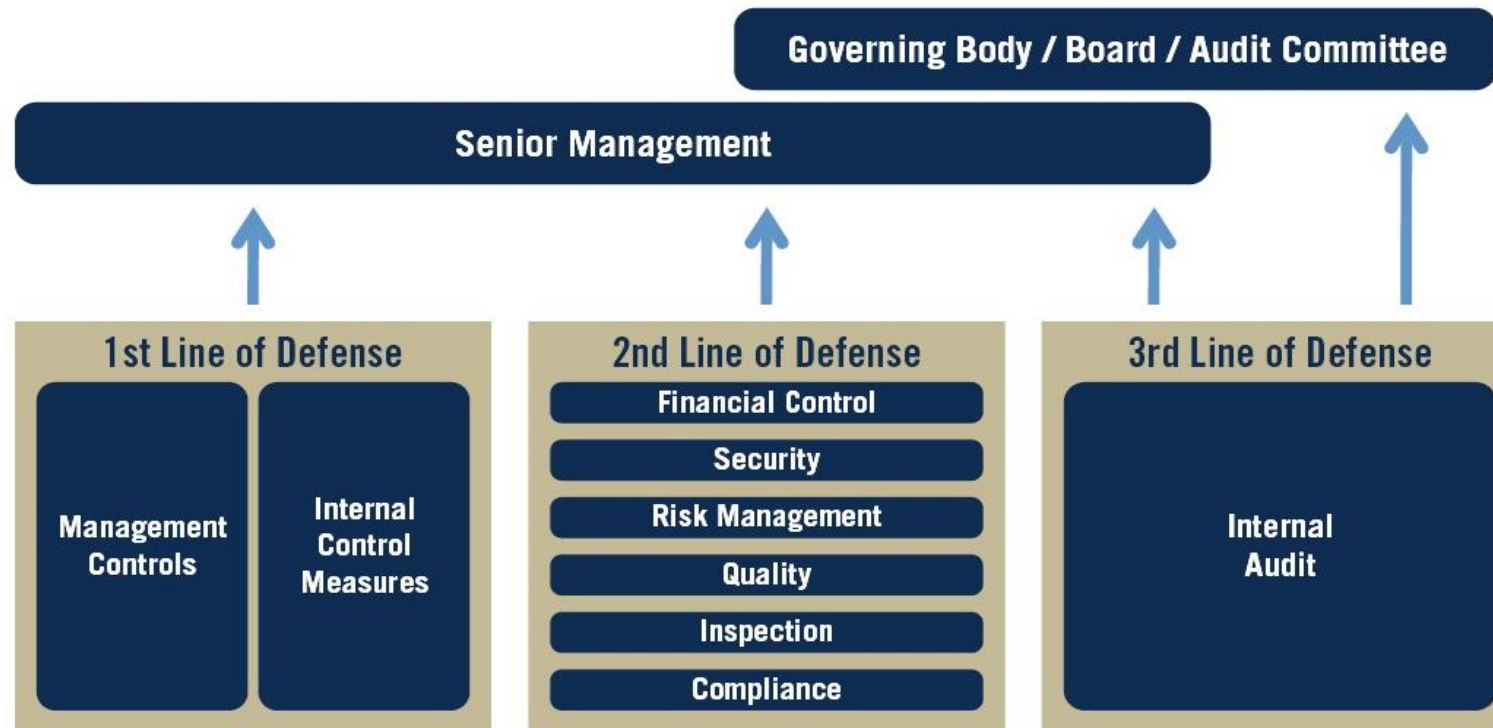
# IIA The Three Lines of Defense 2013



# IIA The Three Lines of Defense 2013

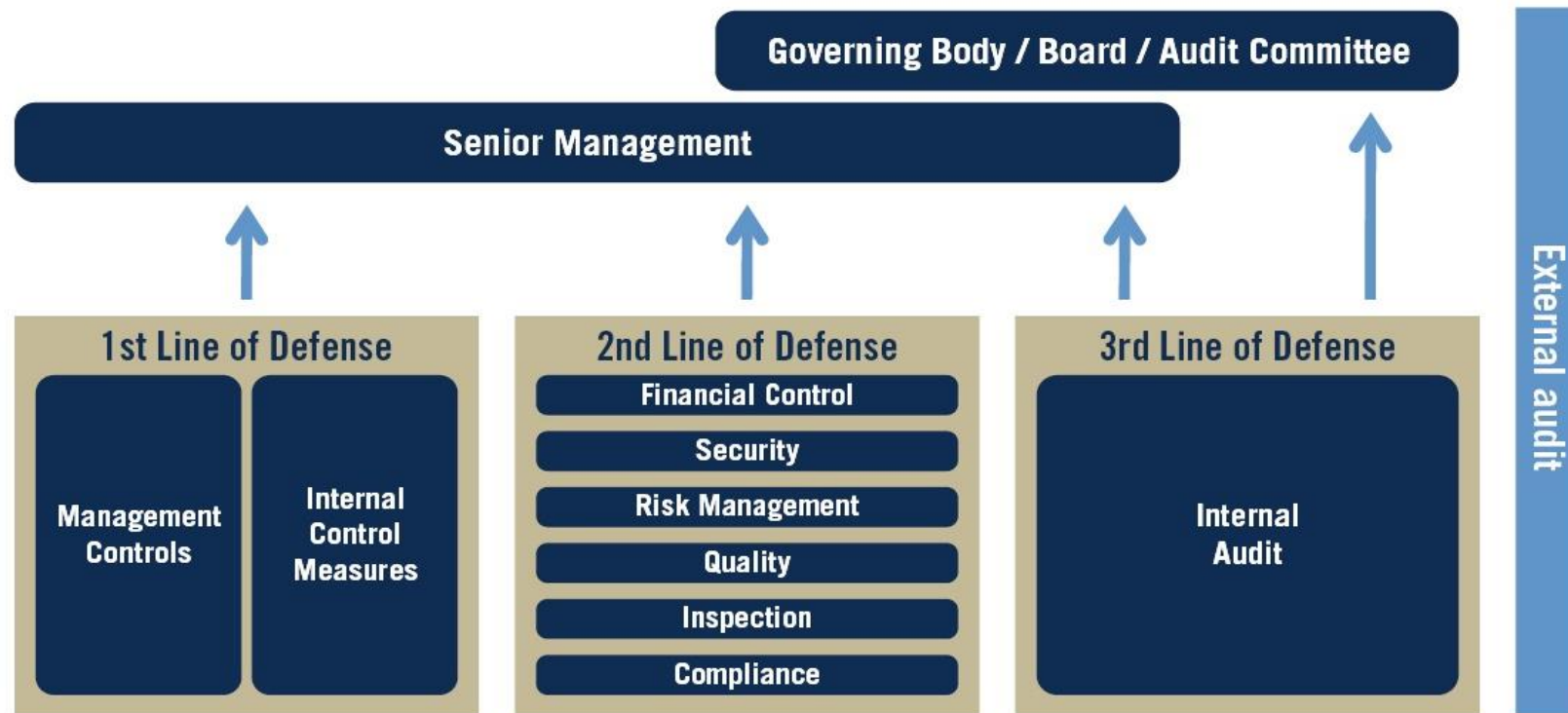


# IIA The Three Lines of Defense 2013

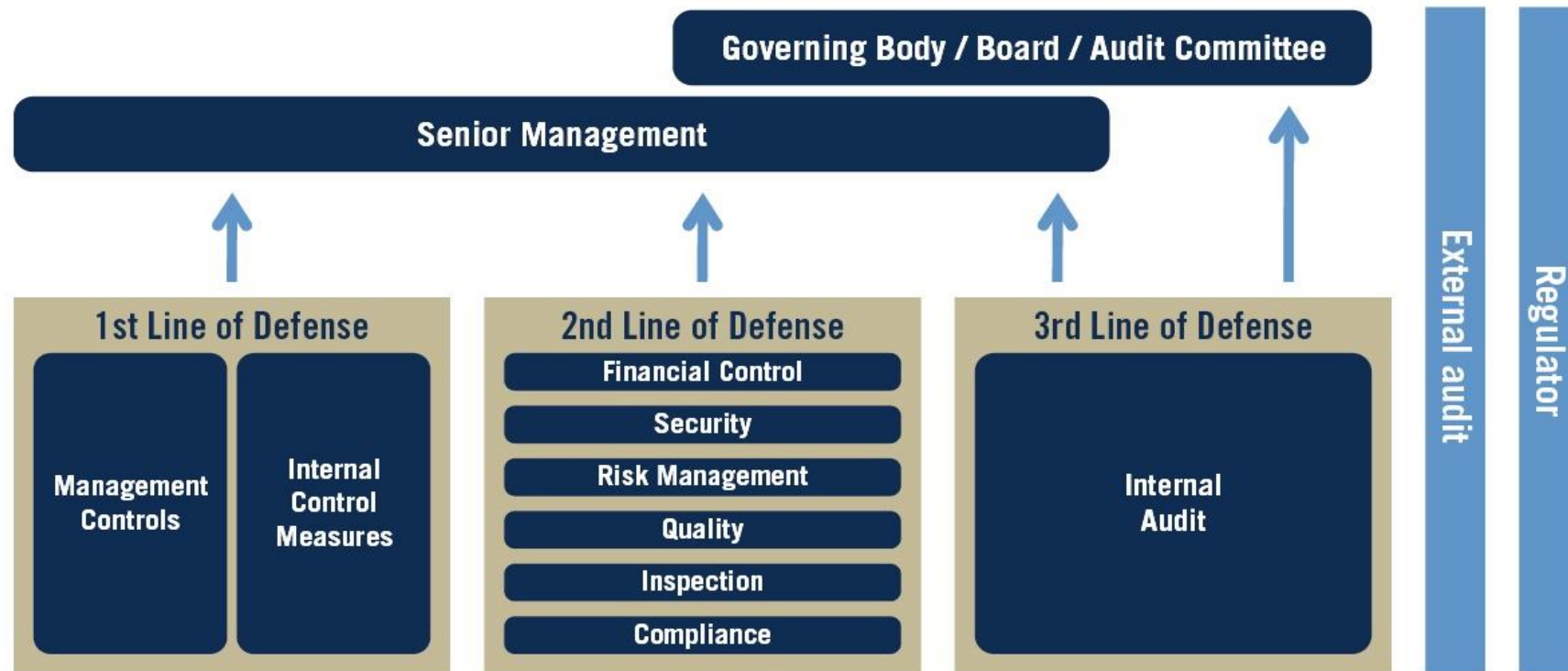


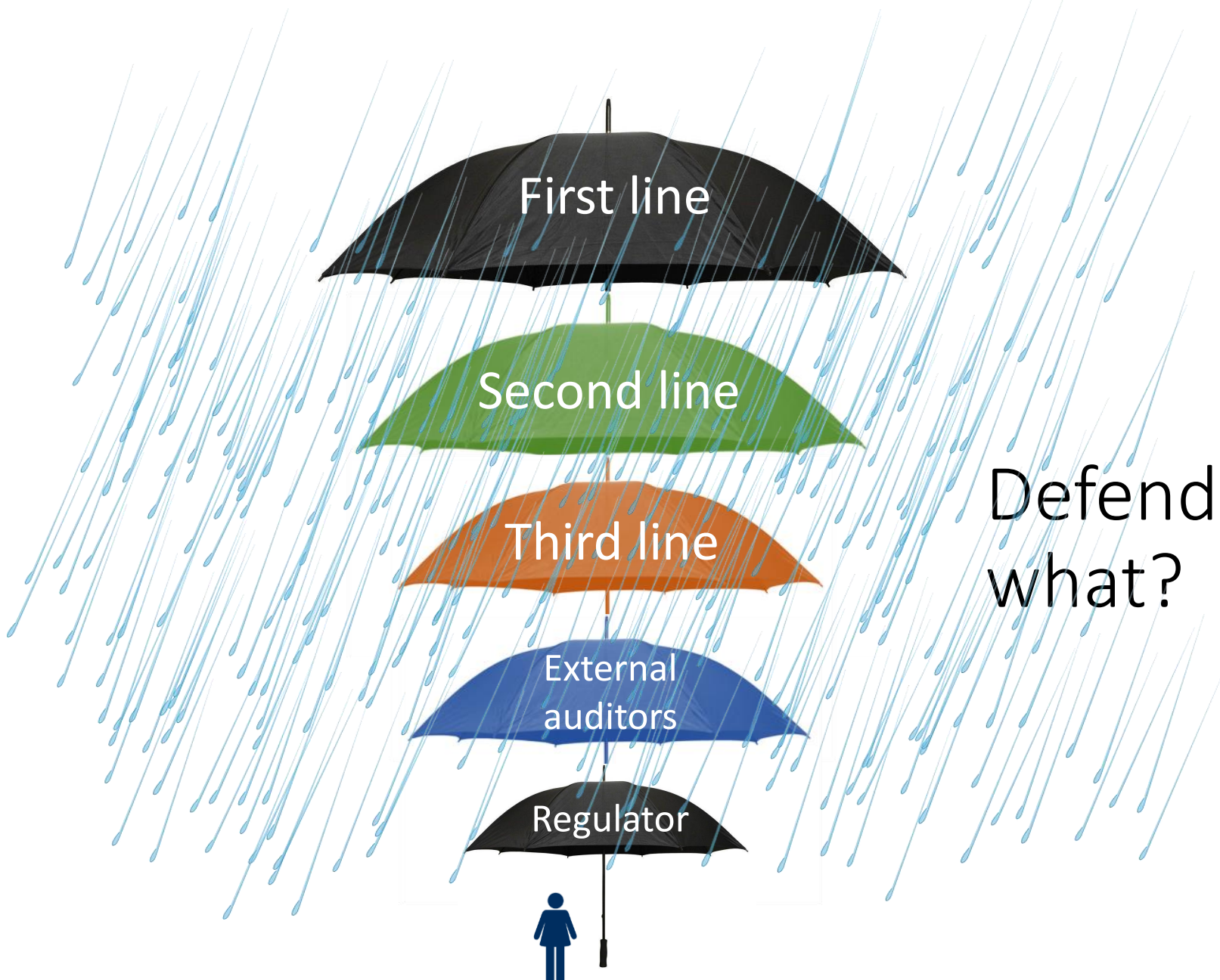


# IIA The Three Lines of Defense 2013



# IIA The Three Lines of Defense 2013





First line

Second line

Third line

External auditors

Regulator



Stakeholder value

Defend who against what?

# One line good, three lines bad?

It's alright – someone else has  
got this

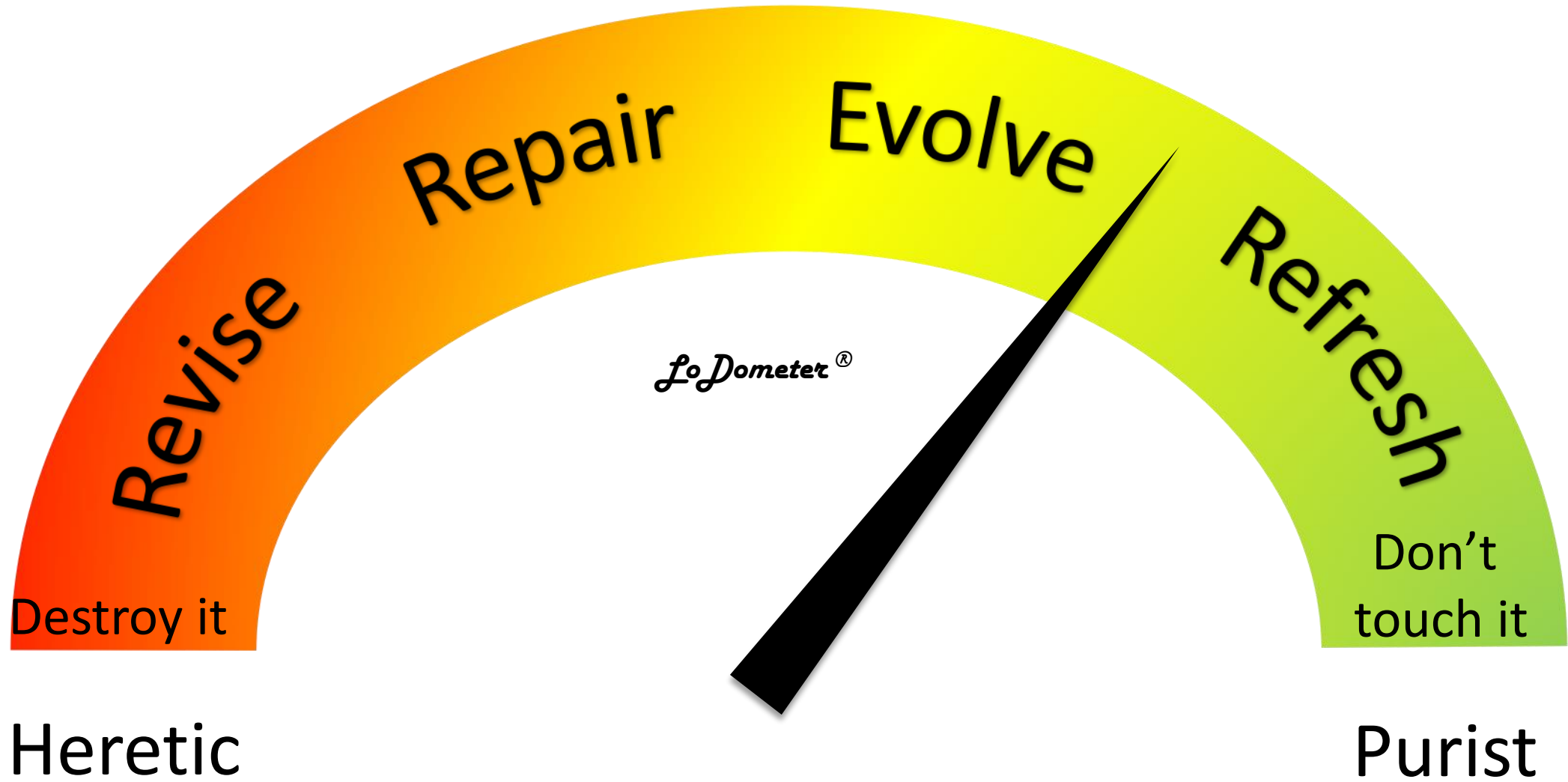


# Polling question no. 2



# Review

# 3 LoDometer



# IIA The Three Lines of Defense 2013





# Fit for purpose?

- Useful for discussions
- Well-known
- Widely adopted
- Easy to explain
- Simple graphic



# But...

- Why three?
- Why these?
- What about
  - “Blurring”?
  - Public Sector?
  - Flexibility, scalability?
  - Unregulated industries?
  - “Independent risk management”?



# Appears/suggests...

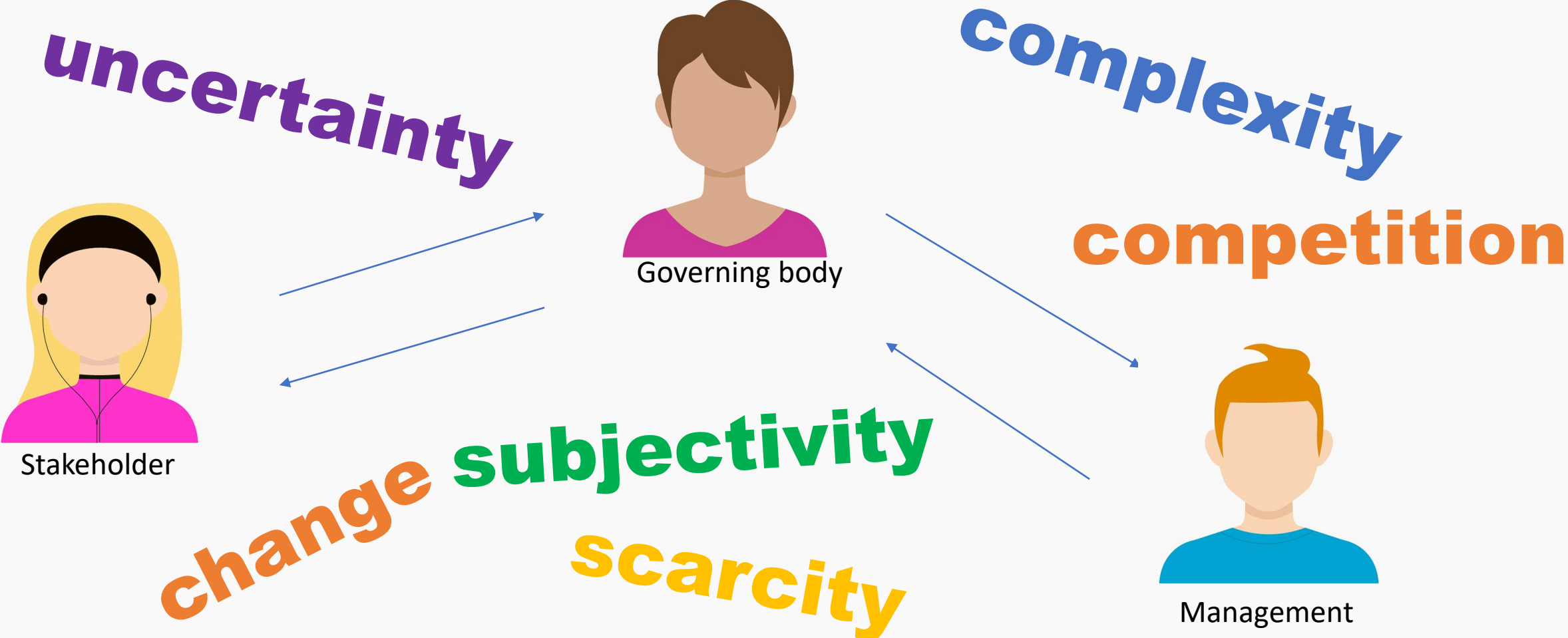
- Reactive, defensive
- Structural
- Prescriptive
- Silos
- Static
- Sequential
- Equal sizes
- Internal audit “boxed in”
- One way communication
- Remote governing body and senior management



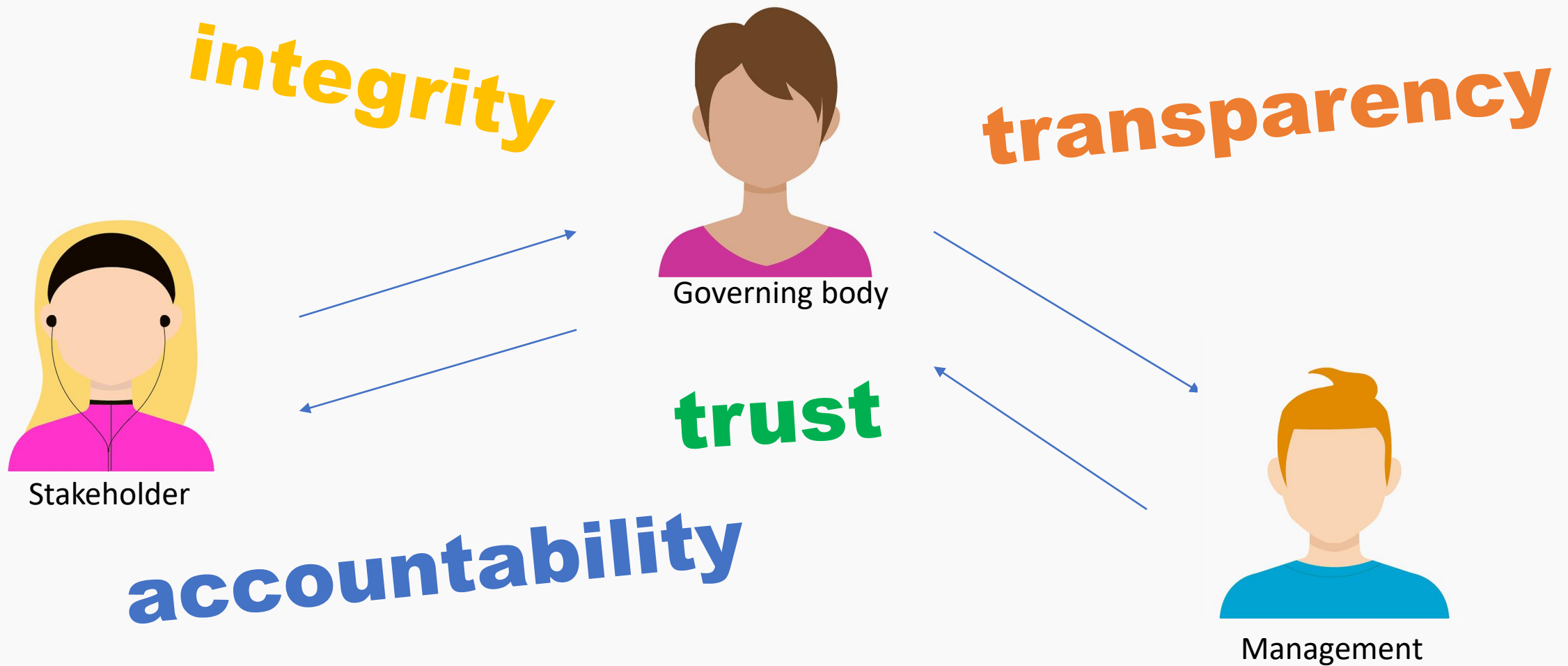
# Starting point

Organizations	Risk management
<ul style="list-style-type: none"><li>• Essential to most things</li><li>• Highly varied</li><li>• Don't exist to manage risk</li><li>• Like organisms (evolve rather than static)</li><li>• Take, manage, mitigate risk</li></ul>	<ul style="list-style-type: none"><li>• Not just about stopping bad things: risk appetite</li><li>• Must be integrated and embedded: risk governance framework</li><li>• Part of management and governance</li></ul>

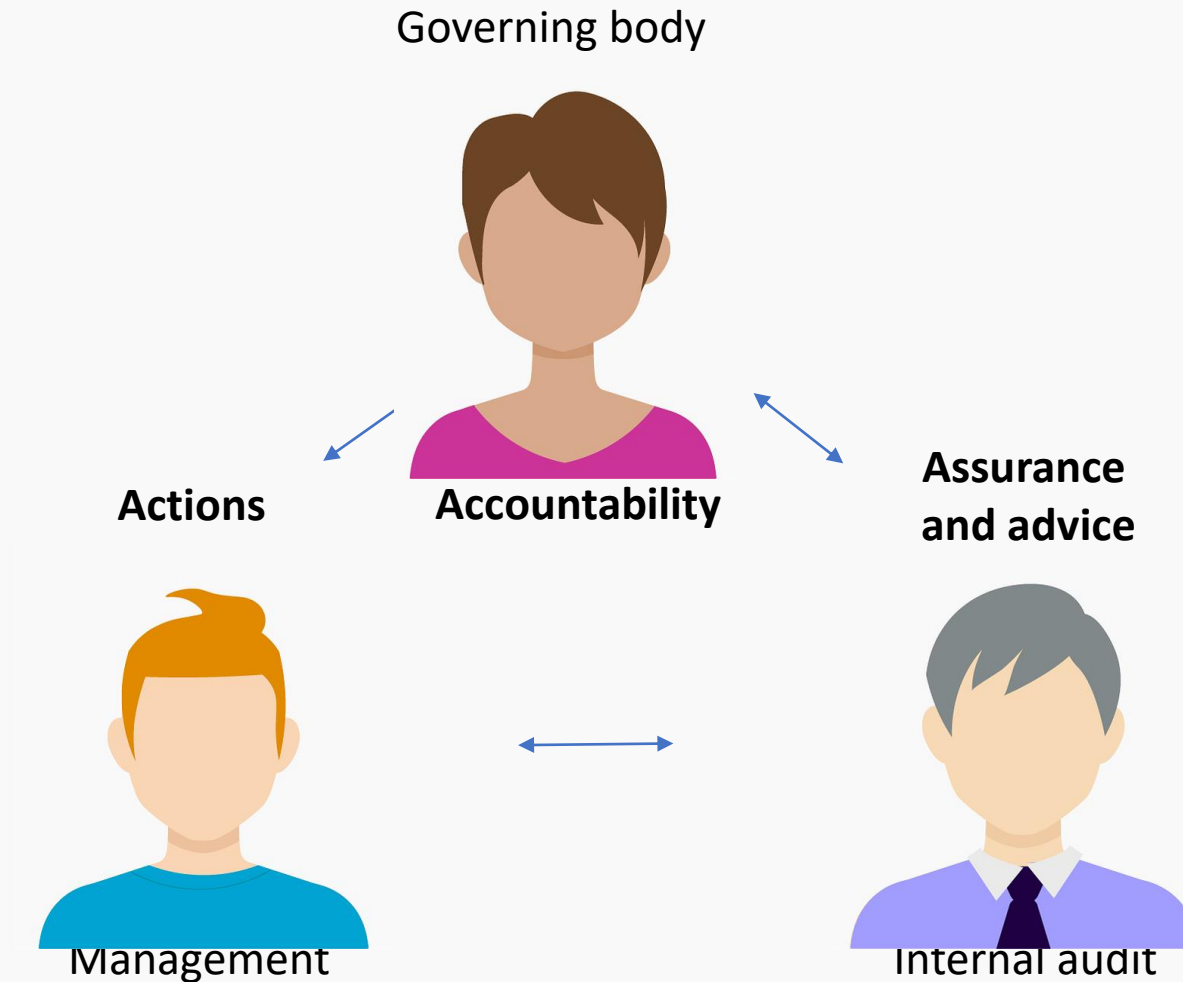
# Why governance?



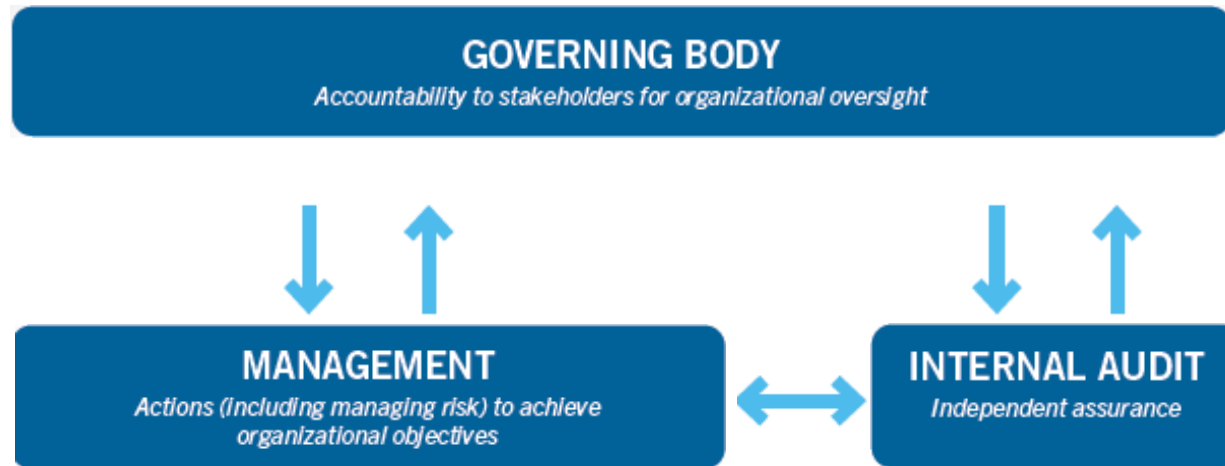
# Governance enables and supports:



# Governance – minimum requirements



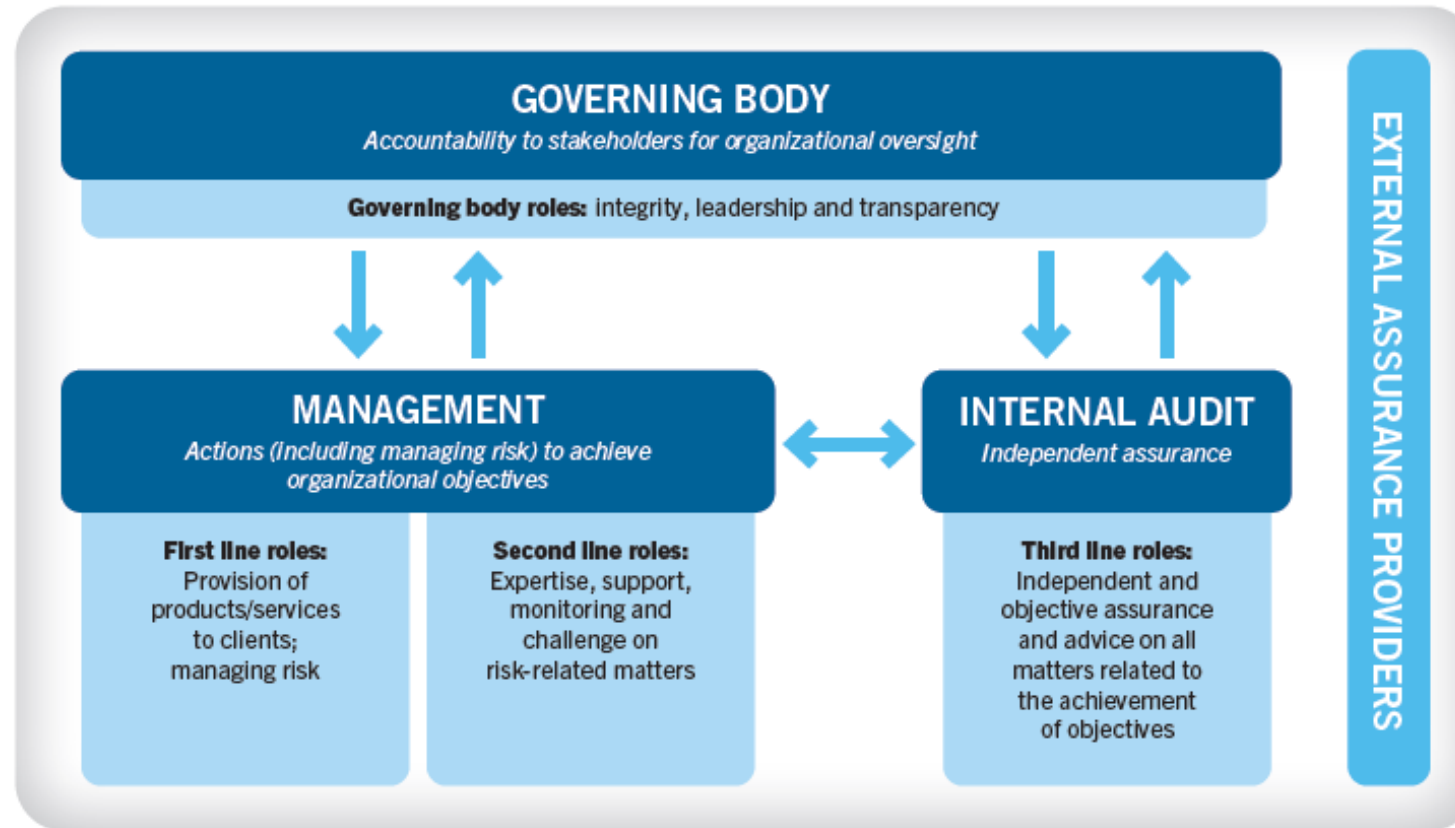
# The Three Lines Model



- Illustrates a relationship between roles (not structural)
- There can be multiple points of interaction between the governing body and management if required:
  - CEO, CRO, CCO, etc.



# The Three Lines Model



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



## Key changes

- Added context
- Principles-based, scalable, flexible
- Use of language
  - Not just defense
  - Roles not structures
  - Separating or “multiple” roles rather than “blending” or “blurring”
- Emphasize collaboration, coordination, communication
- Distinctiveness of internal audit

# Principles of the Three Lines Model

Principle	Summary
1. Governance	Accountability + Actions + Assurance
2. Governing body roles	<ul style="list-style-type: none"> <li>• Governance</li> <li>• Alignment with stakeholders</li> <li>• Delegating to and overseeing management</li> <li>• Effective internal audit</li> </ul>
3. Management roles	<ul style="list-style-type: none"> <li>• First line roles</li> <li>• Second line roles</li> </ul> <p>} Separated or roles in multiple lines</p>
4. Third line roles	<ul style="list-style-type: none"> <li>• Objective assurance and advice on everything</li> </ul>
5. Third line independence	<ul style="list-style-type: none"> <li>• Independent from management responsibilities</li> <li>• Accountable to governing body</li> </ul>
6. Creating and protecting value	<ul style="list-style-type: none"> <li>• Through collaboration and alignment among all roles</li> </ul>



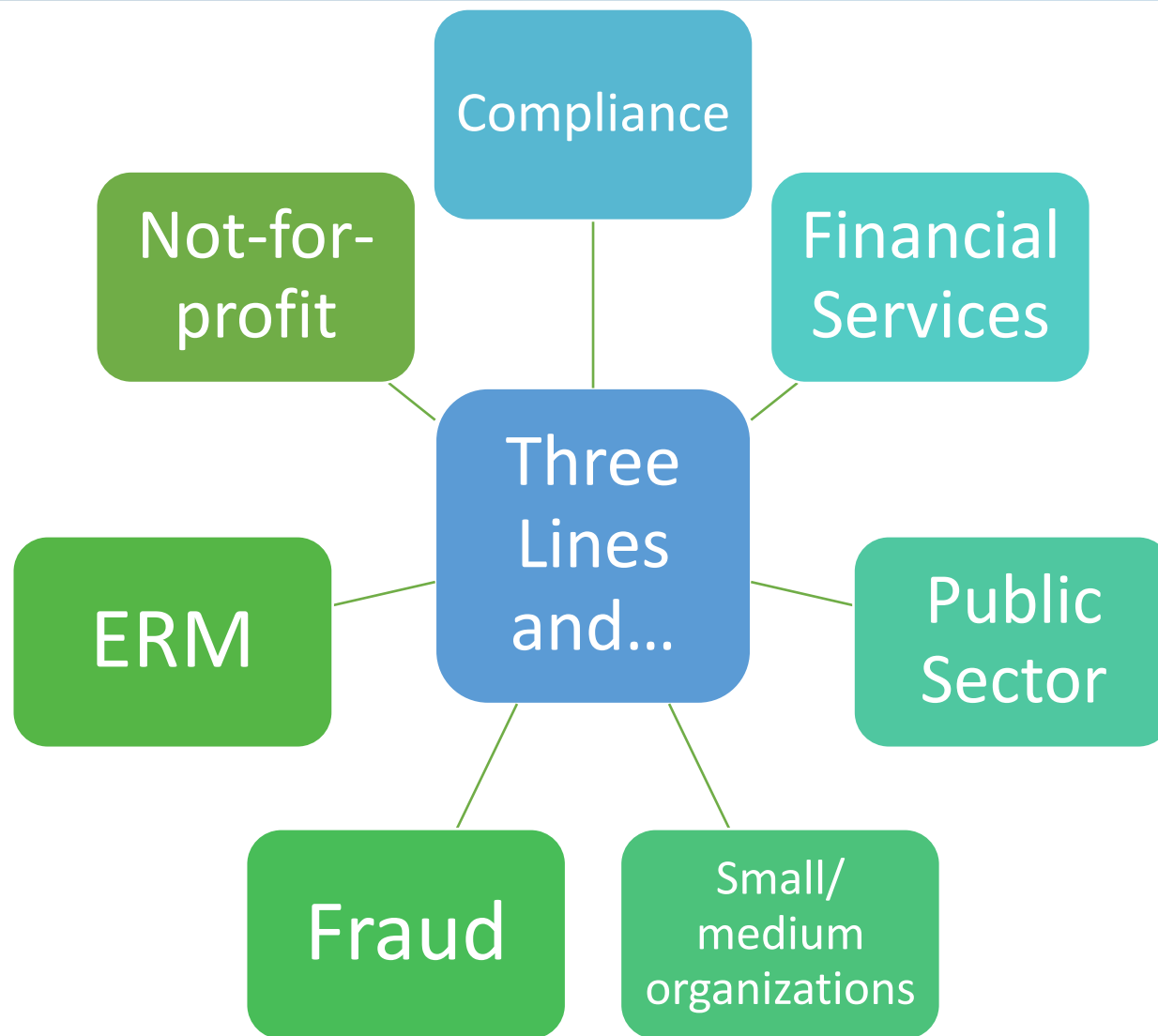
## Key changes

- Not about “blurring” or “crossing the line”
- About compatibility of roles:
  - Independent insight and advice are fully compatible with third line roles
  - Cannot be both responsible for management activities and decisions and also independent (would require another party for assurance)

# Reactions

- Mostly very positive
- Some pushback
  - Too radical
  - Not radical enough
  - What about compliance, legal, etc.?
- Did not directly answer:
  - Is it okay for CAE to lead ERM?

# What's next?



# Polling question no. 3



# Discussion



# Q&A

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