

Three Lines of Defense Model

Bishkek
10 June 2015



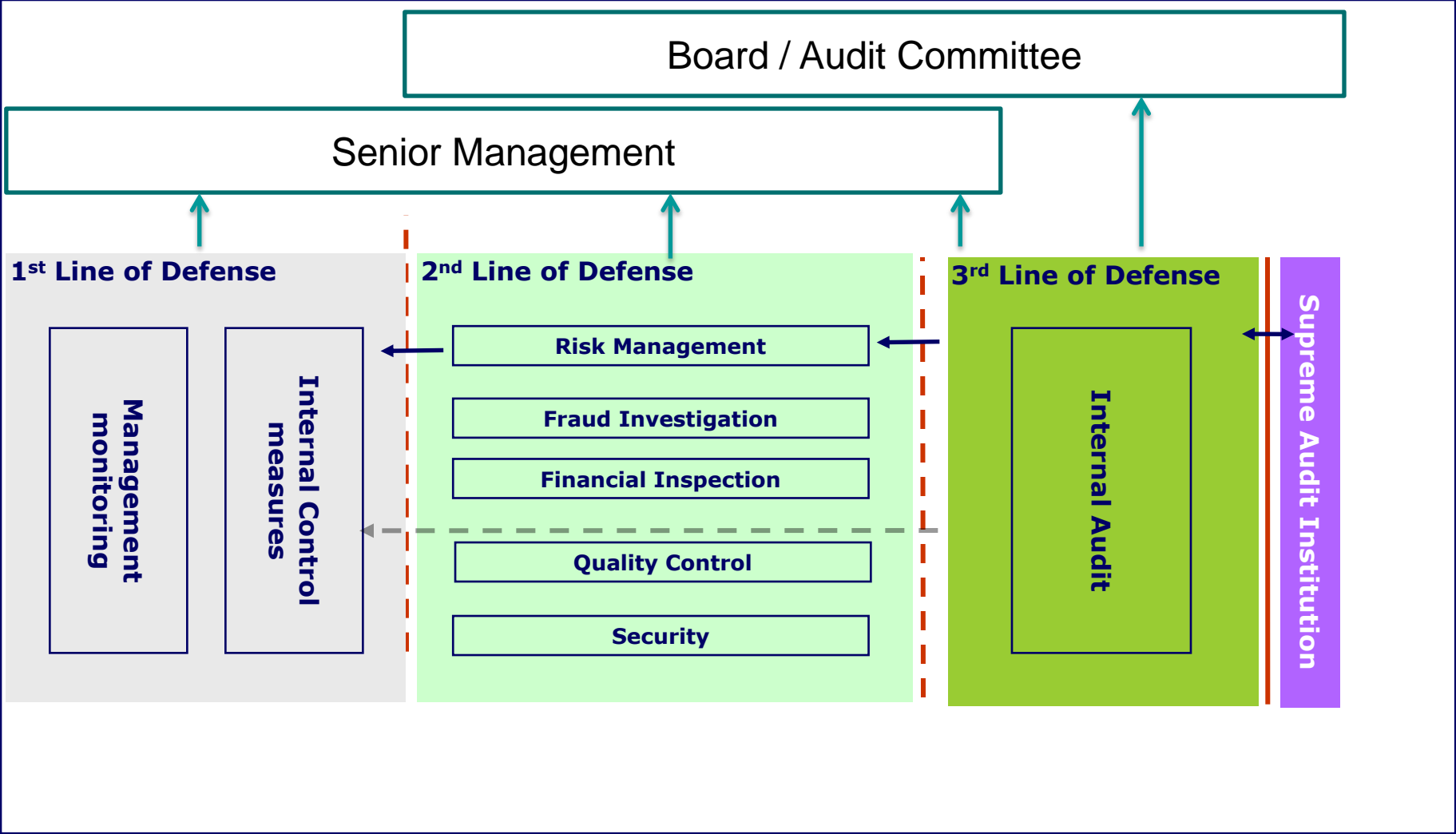
Jean-Pierre Garitte, CIA, CCSA, CISA, CFE, RFA

Past Chairman of the Board IIA

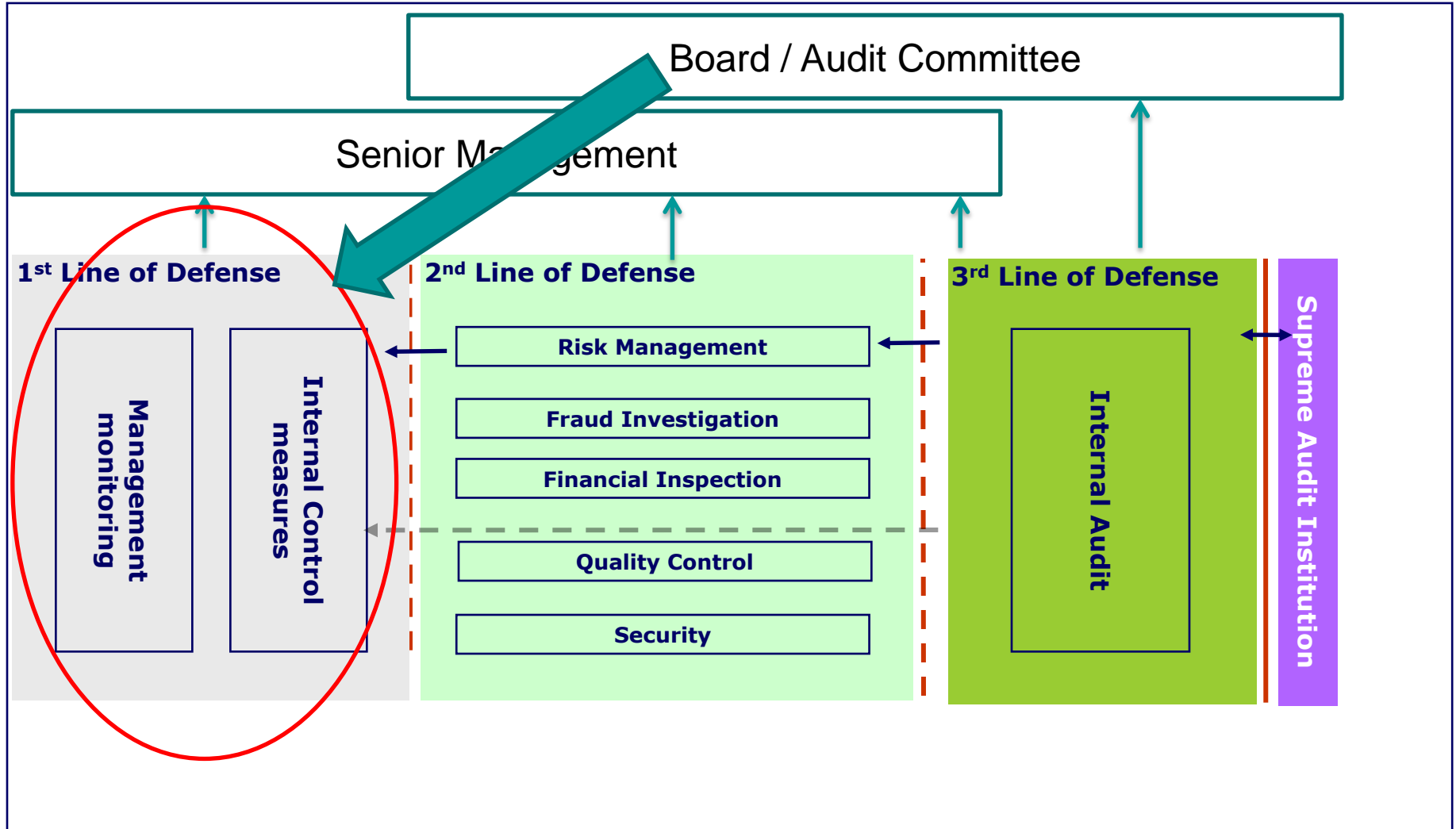
Past President ECIIA

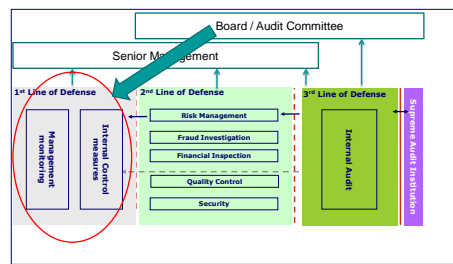
Past President ACIIA

The Three Lines of Defense Model



Oversight of the Internal Control System





1st line Operations Management

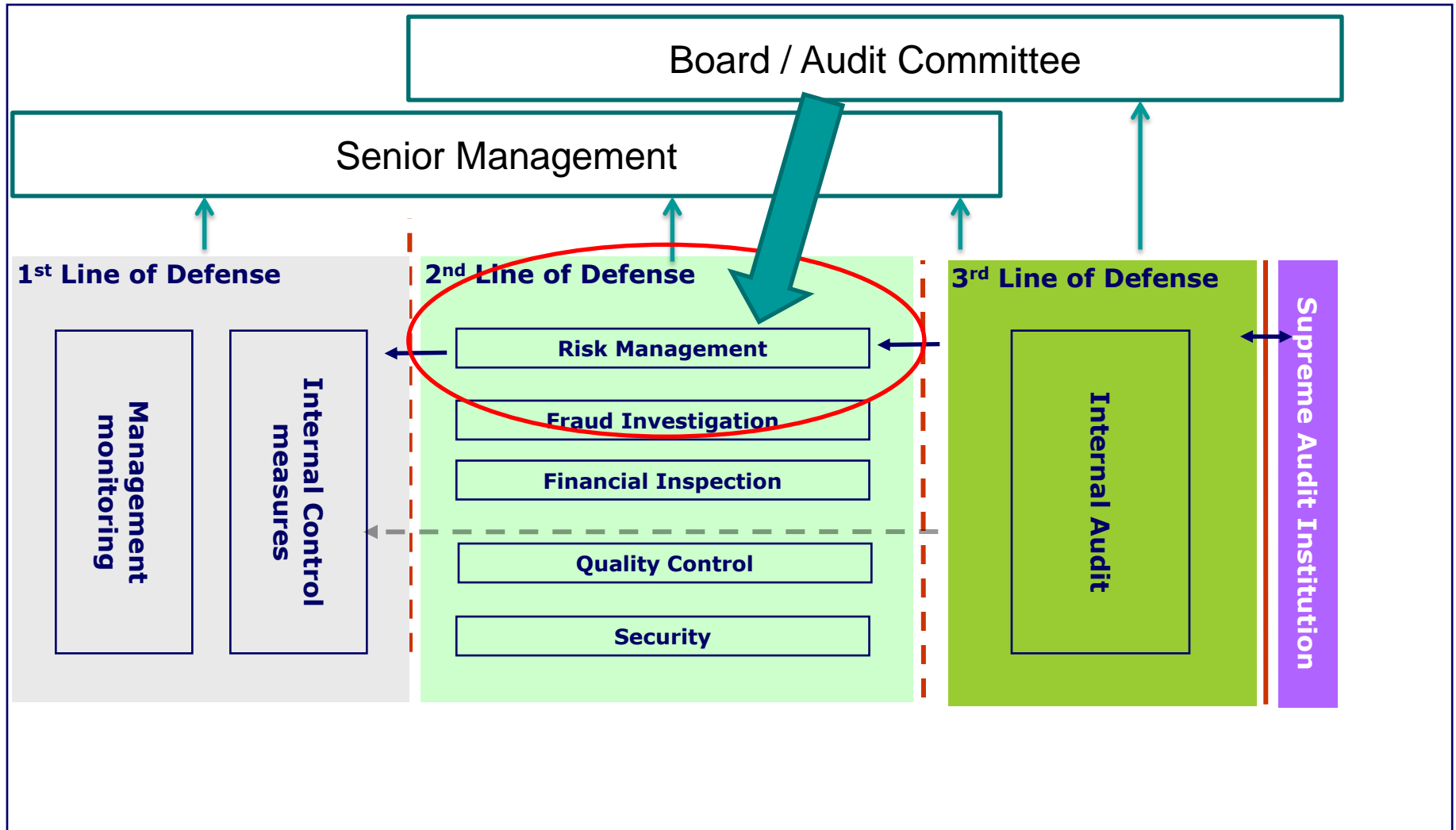
Operations management has ownership, responsibility and accountability for

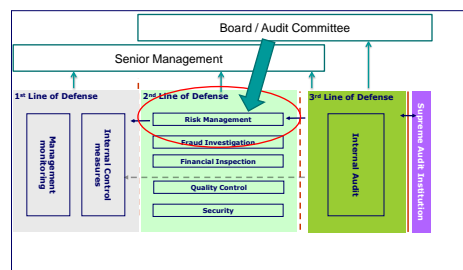
- Assessing risks
- Controlling risks
- Mitigating risks

Oversight of the Internal Control System

1. To what extent are internal control objectives established in a manner consistent with the organization's objectives?
2. How does Senior Management demonstrate a strong control culture (tone at the top)?
3. To what level are the delegation of roles and authorities established?
4. Is the concept of control self-assessment (CSA) embedded in the organization?
5. Who provides assurance on the internal control system?

Oversight of the Risk Management System





2nd line Risk Functions

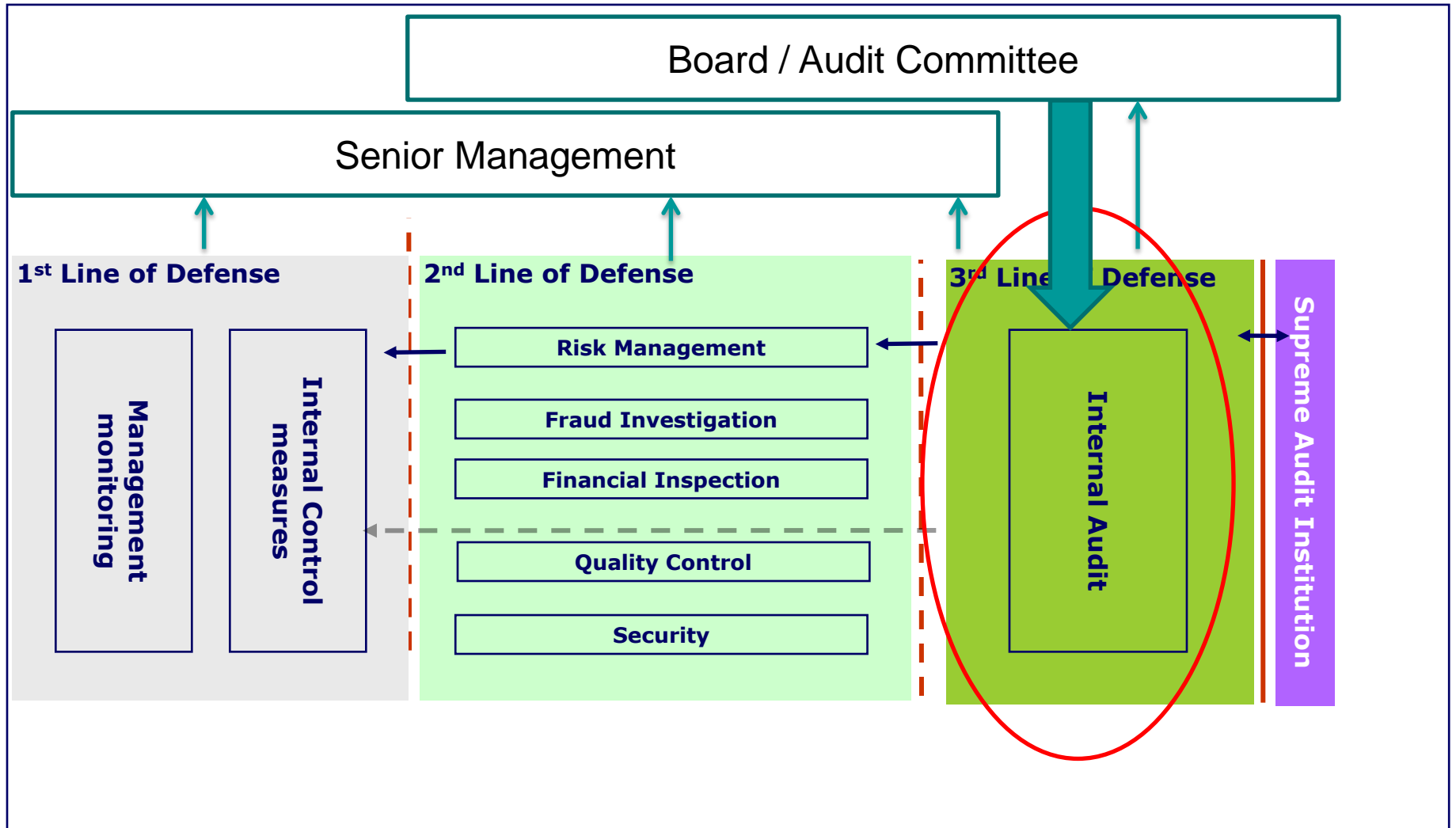
Provide support and independent challenge on

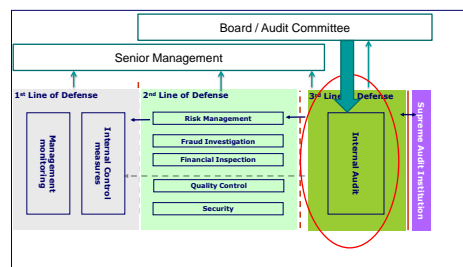
- Risk appetite and strategy
- Risk assessment
- Risk reporting
- Risk mitigating plans

Oversight of the Risk Management System

1. What process is in place for a complete identification of risks, and what process is in place for continuous updating on emerging risks?
2. How does the organization ensure that risk management is an integral part of the operational planning and daily activity of individual business units?
3. To what extent is the principle of risk ownership embedded in the delegation of authority?
4. How is risk management organizationally coordinated across the organization?
5. Who provides assurance on the risk management system?

Oversight of the Internal Audit Function





3rd line Internal Audit

Provides independent assurance on

- 1st and 2d lines of defense
- Appropriateness and effectiveness of internal controls
- Effectiveness of policy implementation

Oversight of the Internal Audit services

1. Does internal audit provide real assurance?
2. Does internal audit review the governance and risk processes?
3. Does internal audit act as a third or second line of defense?
4. Is internal audit considered a partner to senior management?
5. Is internal audit aligned with the strategy of the organization?
6. Does internal audit focus on what needs to be audited?

Efforts by Internal Audit (1)

- Internal audit should be an agent for change:
 - Change the risk and control culture of your organization.
 - Coordinate risk management activities.
 - Develop an assurance map for its organization.

Efforts by Internal Audit (2)

- Internal audit should:
 - Focus on the areas that need to be audited, not what is easy to audit.
 - Audit the second lines of defense and, if OK, rely on the results of their work.
 - Not duplicate second line of defense activities.

Efforts by Internal Audit (3)

- Internal audit should:
 - Develop a comprehensive risk / audit universe.
 - Assess and reassess the risks on a periodical basis.
 - Not adhere to its audit plan in a rigid way.

Efforts by Internal Audit (4)

- Internal audit should:
 - Write reports with impact.
 - Not focus on problems, but offer solutions.
 - Offer pragmatic solutions.
 - Listen to its stakeholders.

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