



THE FOUR LINES OF DEFENCE

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The concept of the lines of defence has been around for a number of decades. While some refer to it as the three lines of defence and others refer to it as the four lines of defence, for the purposes of this helpsheet, it is referred to as the four lines of defence.

The underlying idea is that in any organisation, management seeks to achieve its aims by establishing systems and processes to manage its main risks. Depending on the organisation and its objectives, these systems and processes can be developed in different ways and the level of evidence of the operation of the controls will vary. This means that the level of assurance derived by management from the operation of the controls will also vary. Ideally the various controls combine together to provide management with sufficient (quantity) and appropriate (quality) evidence of controls in place to manage the organisation's main risks.

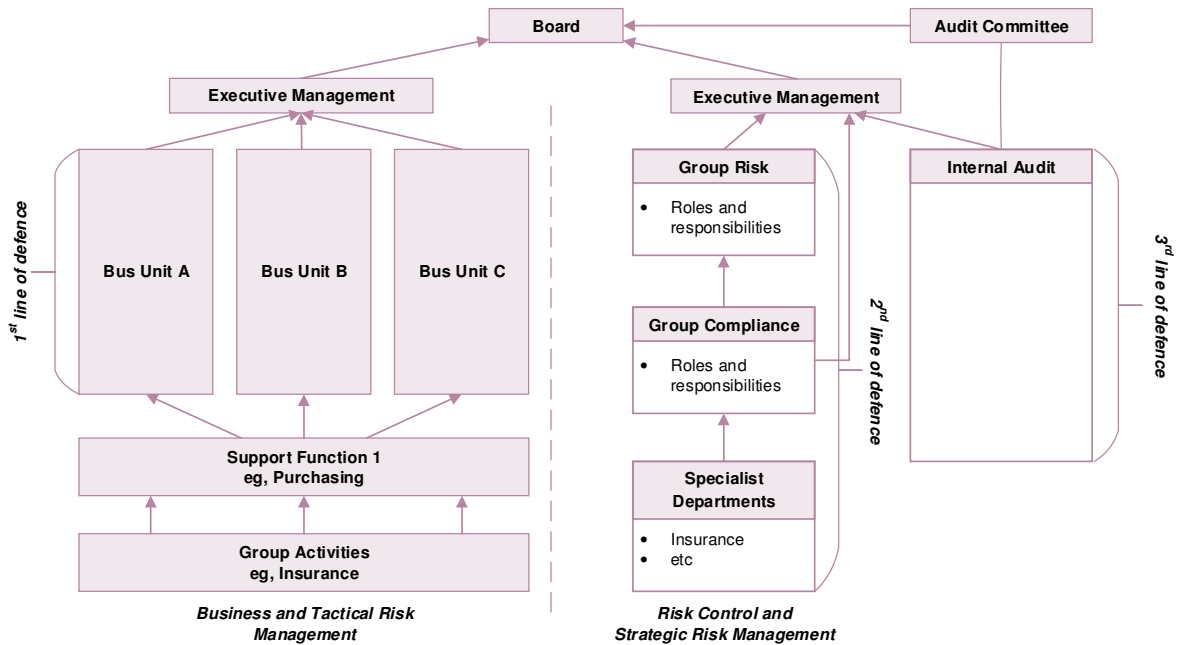
FOUR LINES OF DEFENCE

The four lines of defence are:

Line	Consists of:
1	Management policies Control frameworks and controls Management review processes
2	Control self-assessment mechanisms, ie independent of management review processes Risk reviews Compliance reviews Group legal Group insurance Board review processes
3	Internal audit
4	External audit Other independent assurance

In an owned-managed business there may only be controls in one line of defence, however, in a major global corporation, there may be numerous controls in each of the lines of defence. What works best for the organisation depends on its size, complexity and risk profile.

The concept can be displayed graphically as follows:



The broad content that is normally found in each of the four lines of defence is as follows:

FIRST LINE

Management establishes structures to manage risks which include the top level policies of the organisation, control frameworks and controls and management supervisory processes.

While the policies may have been established by management, they and the control frameworks and controls are operated by staff, which means that the assurance is not objective.

Focus	Will be on processes, but may also include outputs and end results
Timing	Likely to be continuing or periodic, eg at month or quarter ends
Objectivity	Low as mainly the result of self-review by line management
Strength	Variable from weak to strong

SECOND LINE

The second line includes exercises such as control risk self-assessment, risk and compliance reviews and board supervisory processes. These tend to be operated or overseen by specialists within the organisation who are more separate from line management, which increases the level of confidence in the assurance.

Focus	Likely to include processes but will also include outputs and end results
Timing	Likely to remain continuing or periodic, but may also focus on specific items
Objectivity	Moderate as mainly the result of the improved level of separation from line management
Strength	Moderate to strong

THIRD LINE

The third line often only comprises internal auditors.

The third line is the most separate internal line of defence from line management, which further increases the level of confidence in the assurance.

Internal audit may better target its resources through the use of an assurance map. For further information on assurance maps, refer to [ICAEW webpages on assurance mapping](#).

Focus	Will include processes, outputs, end results and specific risks, as well as prospective concerns
Timing	Will focus on specific items
Objectivity	Strong as the result of the level of separation from line management
Strength	Strong as the last internal line of defence

It is worth noting that these first three lines of defence should comprise the core of any management information about its state of internal control. This may be supplemented by further external assurance that is categorised in the fourth line.

FOURTH LINE

The fourth line comprises external assurers, the most significant of which is often the external auditor.

The fourth line is independent of the organisation itself, with external assurers being required to comply with the Code of Ethics.

External assurance may include an assessment of internal controls in the first three lines of defence.

Focus	May include processes, outputs end results and specific risks
Timing	May focus on the financial year end, eg the audit may start before the year end, but finish after the year end
Objectivity	Strong as the result of the level of independence from the organisation
Strength	Strong as an external line of defence

AGGREGATING ASSURANCES

It is only when the contribution made by all the controls and assurances are collated and evaluated that a proper picture can be created of the balance of risks and controls together with their associated costs and benefits. Every element is likely to have its own profile of controls and assurances available from each line including the key features of focus, timing, objectivity and strength. From this profile it is possible to seek gaps and overlaps in assurance.

EFFICIENCY AND EFFECTIVENESS OF CONTROL ALLOCATION

The allocation of controls by line of defence impacts their efficiency and effectiveness.

It is generally more efficient and effective to build more controls into the earlier lines of defence and less controls into the later lines of defence. This is because there is likely to be:

- Less mistakes, with closer to real-time monitoring;
- Easier rectification of any mistakes, as they should be detected more promptly;
- Lower costs of compliance and internal auditors; and
- Better information for external assurers.

This is illustrated as follows:



CONCLUSION

Each organisation will have its own set of controls and related assurances. Useful as it is to map the controls and related assurances to each line of defence, the assurance itself, and its focus, timing, objectivity and strength, is more important than the precise allocation of controls and related assurances, and this needs to remain the priority for organisations.

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