



# Today's objectives

*We have three primary objectives for today's discussion. During this presentation, you can expect to:*

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**1**

**Deepen understanding on the three lines model**

**2**

**Discuss leading practices to help strengthen and sustain collaboration across lines model**

**3**

**Learn from practical examples with key takeaways**

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# Today's business imperative

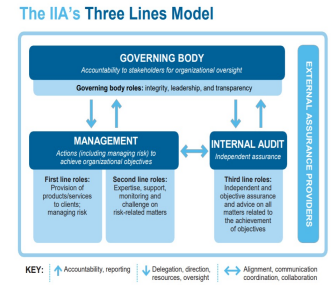
Transforming your organization into a proactive, data-driven, and risk-intelligent organization

In today's world, with unpredictable economic and geopolitical events that have contributed to relentless volatility, it is essential for risk and compliance functions to extend their capabilities to help cut through the silos and develop risk sensing and measurement capabilities.

**What is the three  
lines model?**

# The Three Lines Model

A model offering an opportunity for organization's three lines to align on activities through communication, coordination, cooperation, and collaboration

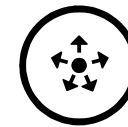


## What is the Three Lines Model?

The Three Lines Model is comprised of the governing body, management, and internal audit, with differing levels and perspectives in confirming risks are appropriately managed within the enterprise.

## Three Line goals:

- **Risk-based decision-making** – A considered process that includes analysis, planning, action, monitoring, and review, and takes account of potential impacts of uncertainty on objectives
- **Assurance** – Independent confirmation and confidence



## Objectives of the Three Lines Model

Provide clarity on roles overseeing risk and controls within the Three Lines Model



Alignment on risk management objectives to help achieve optimal assurance activities and a lower cost of compliance

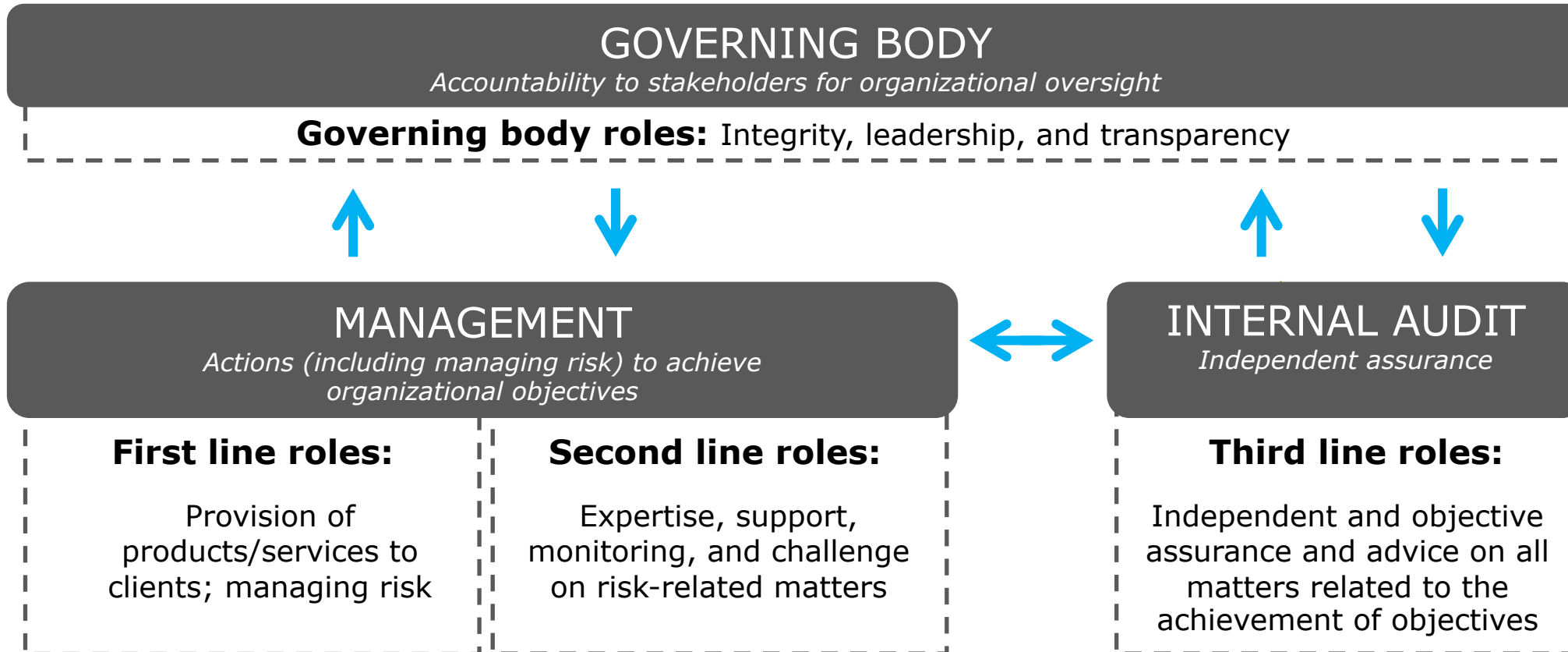
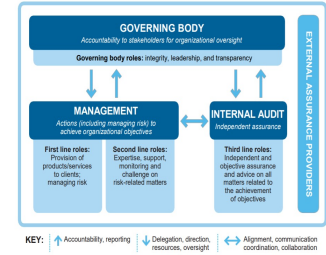


Help prevent over indexing on risk mitigation activities and focusing on value creation of controlled risk taking

# The Three Lines Model visualization

The Three Lines Model is comprised of the governing body, management (first and second lines of defense), and internal audit (third line of defense), with differing levels and perspectives in confirming risks are managed within the enterprise.

The IIA's Three Lines Model



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

External Assurance Providers

# The Three Lines Model – 2020 updates by The Institute of Internal Auditors (IIA) 2020

## What happened?

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- The IIA has shortened the name to the **“Three Lines Model”** to de-emphasize the **defensive approach (formerly known as Three Lines of Defense)**
- This acknowledges that risk-based decision-making is as much about **seizing opportunities** as it is about **defensive moves**

## Key points:

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- Better identifies and structures **interactions and responsibilities** of those charged with governance (management, internal audit (IA))
- Emphasizes that the role of management, the board and the internal auditors is to **enhance the value of organizations, not just protect it**
- Recognizes **emerging risks far enough out to prepare** the organization to mitigate or address them
- Highlights the importance of **communication and collaboration**
- Confirms Internal Audit’s work is **relevant** and helps the organization both **strategically and operationally**

# Roles of Three Lines

## 1<sup>st</sup> and 2<sup>nd</sup> line – Management (Compliance)

- Leads and directs actions (including managing risk) and application of resources to help **achieve the objectives of the organization**.
  - Maintains a continuous dialogue with the governing body, and **reports on planned, actual, and expected outcomes** linked to the objectives of the organization; and risk.
  - Establishes and maintains appropriate structures and processes for the **management of operations and risk (including internal control)**.
  - **Confirms alignment** with legal, regulatory, and ethical expectations.
- Provides **complementary experience, support, monitoring, and challenge** related to the management of risk, including:
    - The **development, implementation, and continuous improvement** of risk management practices (including internal control) at a process, systems, and entity level.
    - The **achievement of risk management objectives**, such as: compliance with laws, regulations, and acceptable ethical behavior; internal control; information and technology security; sustainability; and quality assurance.
  - Provides **analysis and reports on adequacy and effectiveness** of risk management (including internal control).

## 3<sup>rd</sup> line – 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 on the adequacy and effectiveness of governance and risk management (including internal control) to **support the achievement of organizational objectives** and to promote and facilitate continuous improvement.
- Reports impairments to independence and objectivity to the governing body and **implements safeguards** as required.



# **Collaboration in practice – Practical considerations for internal audit and compliance**

# Changing risk universe – Emerging risks

In today's landscape of uncertainty, some **hot emerging risk topics include:**



# Opportunity areas for internal audit and compliance collaboration

*Based on the current roles and responsibilities for IA and Compliance, below are examples of areas where we typically see significant coordination/collaboration between these functions across the industry.*



## **Planning risk assessment/universe**

Coordinating key stakeholders to be included in risk assessment discussions to incorporate perspective, e.g., previous audits/issues



## **Conducting risk assessment**

Collaboration in identifying priority risks to include in yearly workplans based on external (trends) and internal (interviews) perspective



## **Developing workplan(s)**

Collaboration in developing the scopes for audits / assessments for identified risks / focus areas; identifying possible "joint audits"



## **Conducting audit(s)**

Ongoing collaboration and communication during audits to provide feedback and guidance to both teams; shared resourcing of selected audits



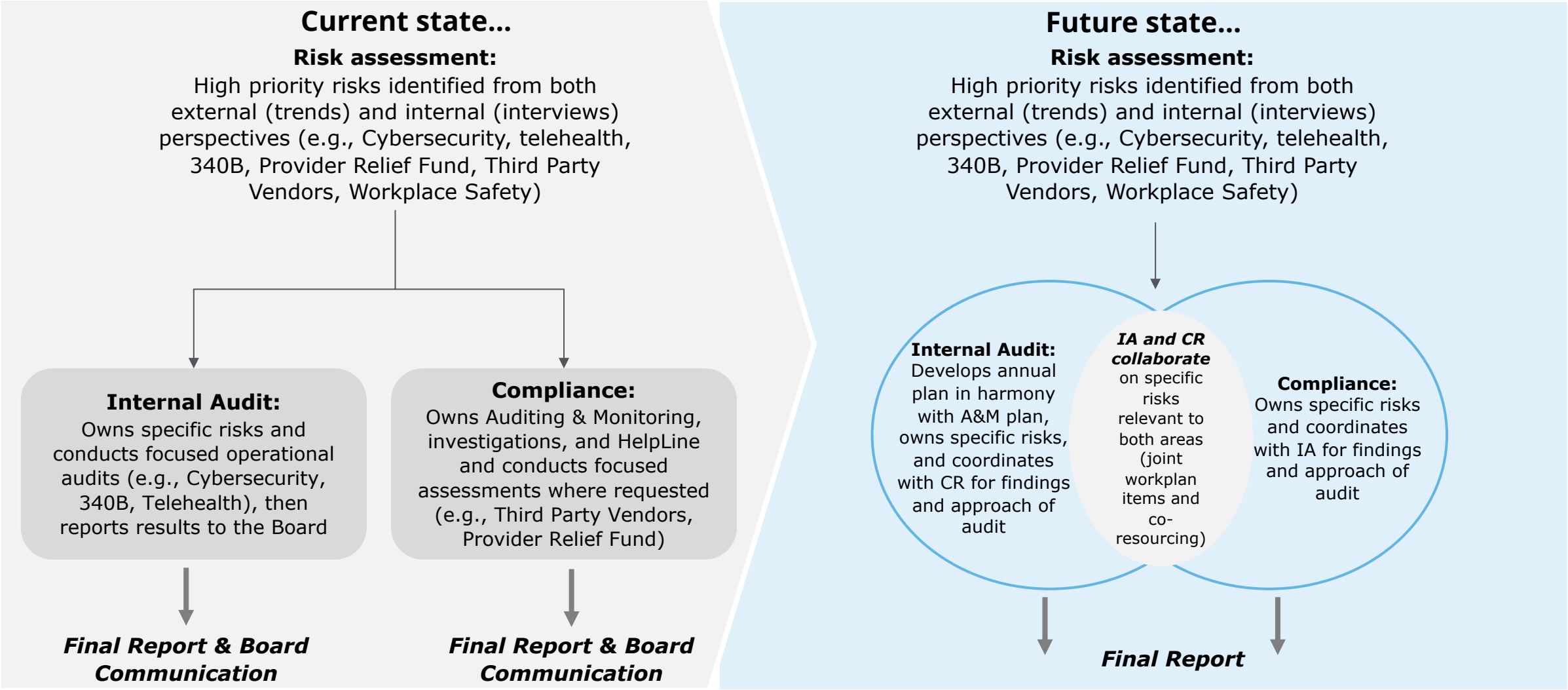
## **Monitoring & analytics**

Coordination in monitoring and tracking status of management action plans until completion; Opportunity for teams to leverage data analytics for efficient monitoring

***Increased coordination between IA and Compliance can often assist in increasing overall efficiency and evolving the capabilities of both teams.***

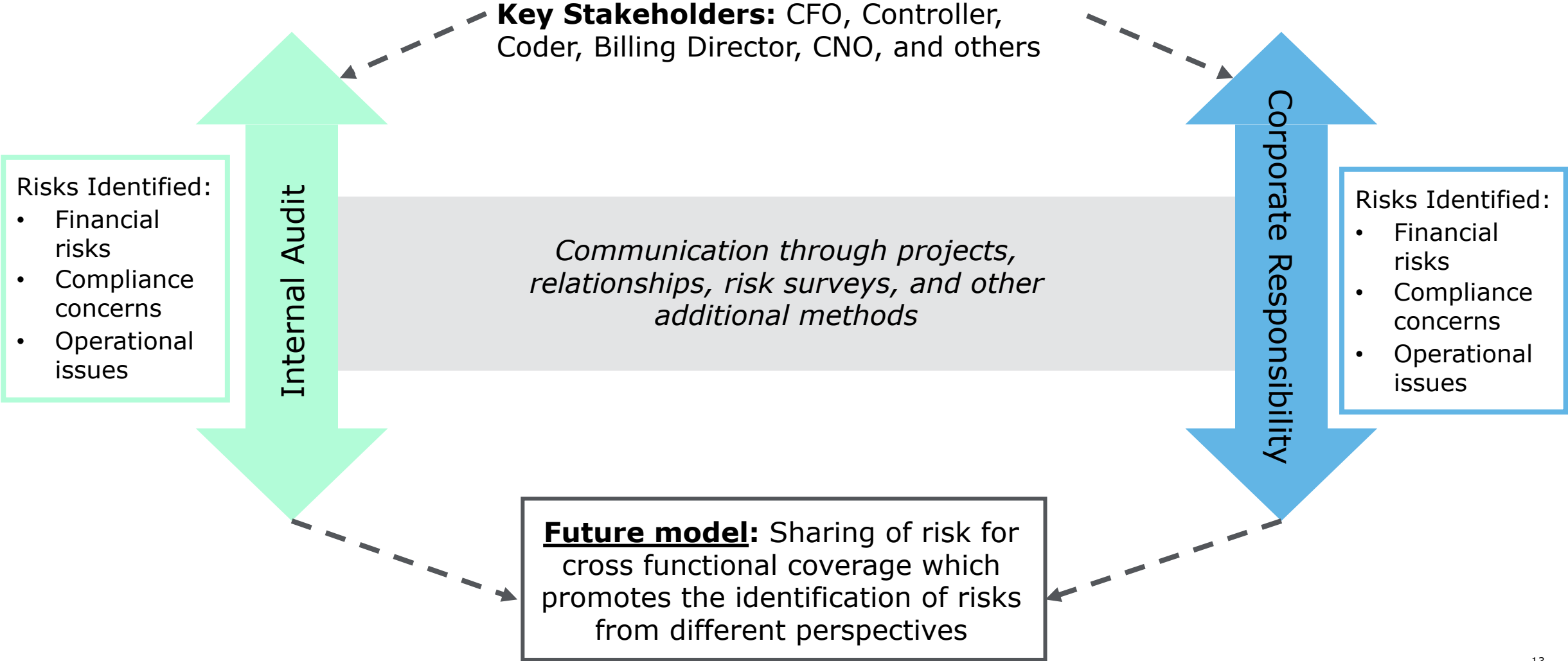
# Harmonizing and operationalizing between internal audit and compliance

## Illustrative Example



# Illustrative risk identification/intake process

**Current model:** Each team “intakes” and addresses what is applicable to them



# **Leading practices to help strengthen and sustain collaboration across Three Lines Model**



*The governing body, management, and internal audit have their distinct responsibilities, but **all activities need to be aligned with the objectives** of the organization. The basis for successful coherence is regular and effective coordination, collaboration, and communication.*



# Leading practices and common pitfalls

*As organizations move to implement or advance the Three Lines Model within their functions, keeping in mind the leading practices and common pitfalls can help further access the value of the model.*



## Leading practices

- “One team” culture and common understanding of risk, compliance and audit
- Dynamic talent and experience, with innovative mindset
- Unified approach and guiding principles
- Effective stakeholder management, collaboration, and timely communication
- Tools, digital assets, analytics, and automation
- Knowledge sharing



## Common pitfalls

- Silo mentality, leading to a lack of coordination and duplication of risk areas and gaps
- Misaligned or conflicting assurance opinions
- Duplication of assurance activities between Three Lines
- Duplicative testing, resulting in less time to focus on the business at hand
- Over-fitting or over-strengthening of the second line



# Transforming risk and audits

Today we covered...

- Today's business imperative and the value of the Three Lines Model
- Elevating the Three Lines Model through collaboration and cooperation
- Leading practices and common pitfalls

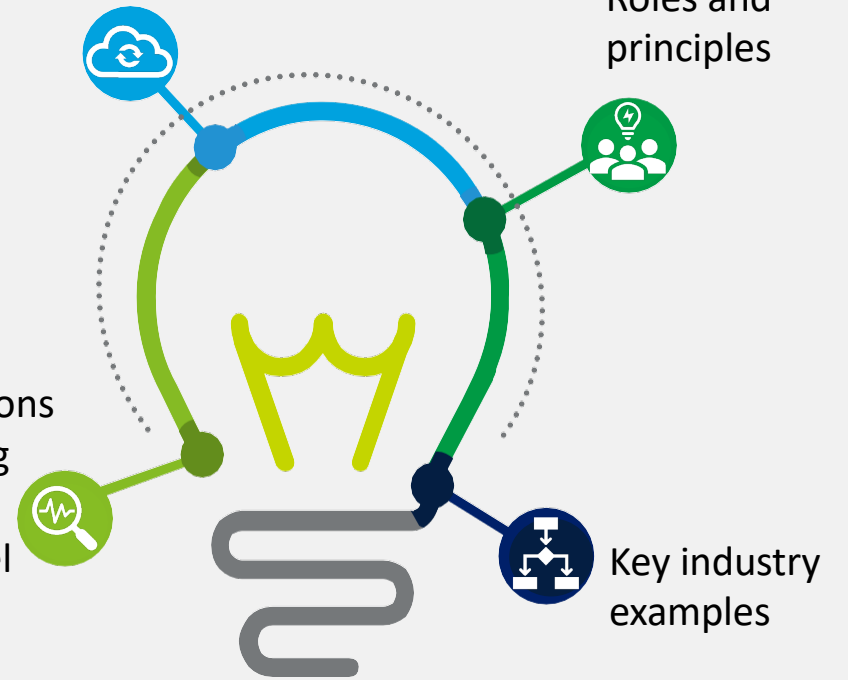
## Together, we explored

The value of the Three Lines Model

Roles and principles

Practical considerations for enabling the Three Lines Model

Key industry examples





Questions?



Questions?



Questions?



Questions?

**Thank you!**

# Presenter bios



**Amber Fecik, CPA,  
CIA, CSX**  
Senior Manager  
Deloitte & Touche LLP  
860-519-2110  
[afecik@deloitte.com](mailto:afecik@deloitte.com)

Amber is a senior manager in Deloitte's Risk & Financial Advisory practice with more than ten years of internal controls experience. Amber's primary focus is providing internal audit, enterprise risk management, regulatory compliance, and project management services to clients in the healthcare, health plan, and life sciences industries. Amber has served clients in both the commercial and governmental sectors. Outside of client service, Amber facilitates Deloitte's quarterly Healthcare Regulatory Compliance Hot Topics call series and serves on the Board for New England Healthcare Internal Auditors.



**Destin Harcus, CPA,  
PMP**  
Executive Director of  
Internal Audit  
AdventHealth  
407-357-1243  
[destin.harcus@adventhealth.com](mailto:destin.harcus@adventhealth.com)

Destin is an Executive Director with AdventHealth, a healthcare system with over 40 hospitals in nine states. He leads the Internal Audit function, a team of 15, to develop audits to address organizational risk. In his role, he actively works with several key stakeholders, such as Corporate Compliance, in taking a holistic approach to managing risk. Prior to joining AdventHealth, Destin was a Senior Manager with Deloitte, where he provided outsourced and co-sourced internal audit services to healthcare organizations.



**Dhara Satija, CHC, CFE, CRCR**  
Director, Healthcare Consulting  
Life Sciences Consulting Group  
Paul Hastings, LLP  
978-604-9939  
[dhara.satija@paulhastings.com](mailto:dhara.satija@paulhastings.com)

Dhara Satija is the Director of Healthcare Consulting in the Life Sciences Consulting Group of Paul Hastings. Dhara has nearly 15 years of consulting experience serving healthcare and life sciences clients across an array of issues, including projects ranging from strategy and operations to regulatory and corporate compliance, risk management, and investigation and litigation support. In particular, Dhara has led projects related to: development and implementation of compliance programs; design and delivery of internal compliance audits, investigations, and corrective action plans; support for provider self-disclosures/voluntary refunds; government-initiated audits; litigation support services; and Corporate Integrity Agreement (CIA) requirements.



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