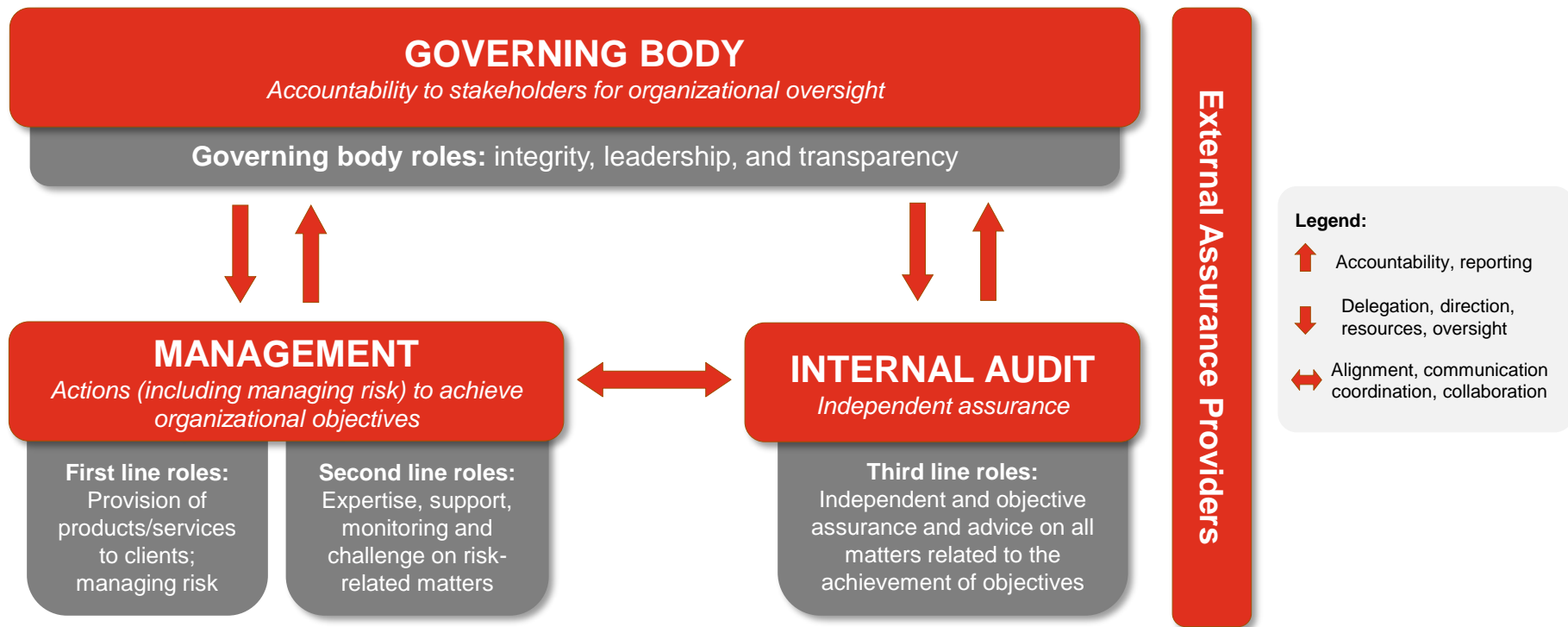


# Impelementing the Three Lines Model

Presentation in IIA-ACFE-IAMI Webinar  
Yuliana Sudjonno  
29 September 2020



# The New IIA 's Three Lines Model



# Principles of the Three Lines Model

The identification of six key principles on which the Three Lines Model is based:

## Principle 1: Governance

Governance of an organization requires appropriate structures and processes that enable accountability, action, and assurance.

## Principle 6: Creating and protecting values

All roles working collectively contribute to the creation and protection of value when they are aligned with each other and with the prioritized interests of stakeholders

## Principle 5: Third line independence

Internal audit's independence from the responsibilities of management is critical to its objectivity, authority, and credibility.

## Principle 2: Governing body roles

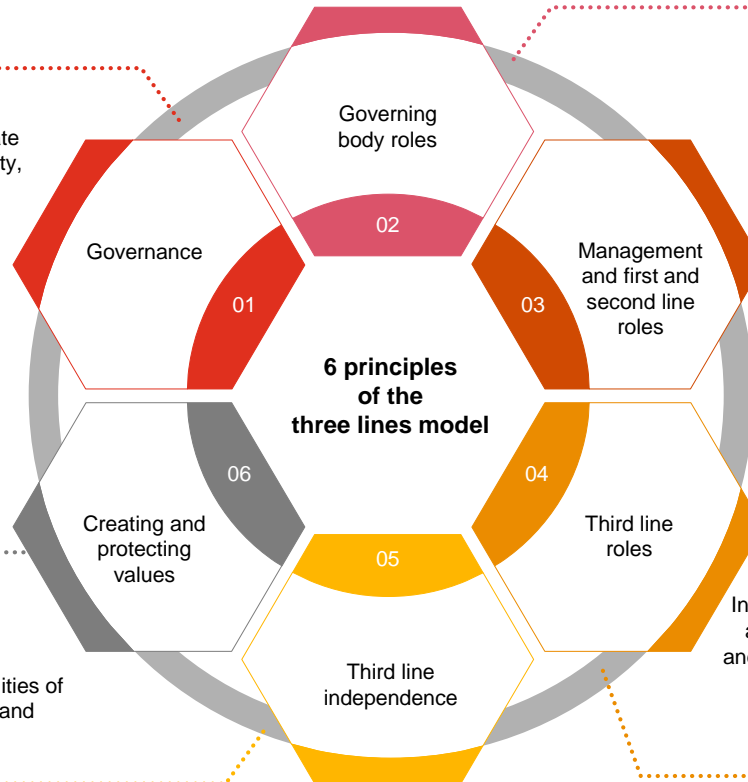
Governing body roles ensure appropriate structures and processes are in place for effective governance.

## Principle 3: Management and first and second line roles

Management's responsibility to achieve organizational objectives comprises both first- and second-line roles. First-line roles are most directly aligned with the delivery of products and/or services to clients of the organization, and include the roles of support functions. Second-line roles provide assistance with managing risk.

## Principle 4: Third Line Roles

In its third-line role, internal audit provides independent and objective assurance and advice on the adequacy and effectiveness of governance and risk management. It achieves this through the competent application of systematic and disciplined processes, expertise, and insight. It may consider assurance from other internal and external providers.



# PwC 2020 Global Risk Study

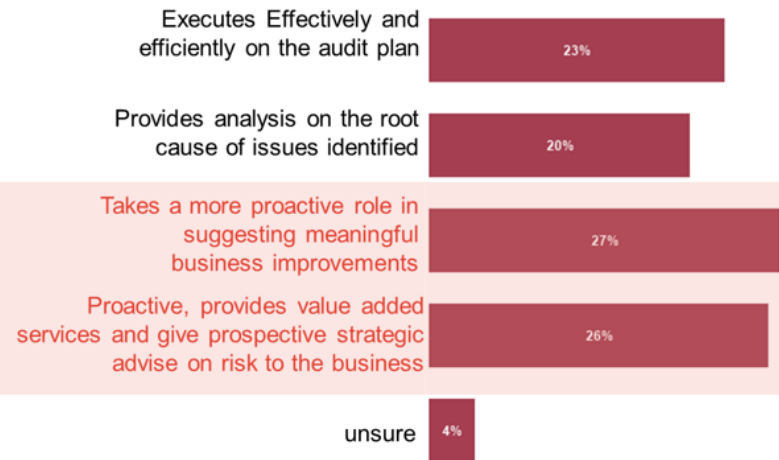
## Executives agree a new level of collaboration is needed

### Risk functions\* collaboration is increasingly imperative

- As businesses become more connected, risks become more connected and complex.
- Studying business risks only in silos can lead to a singular view of risks and a lack of visibility to risk inter-relationships.
- It is more critical than ever for risk functions across the organization to closely collaborate.
- Failure to do so creates blind spots to risk, while close collaboration produces significant gains.

\*Risk functions: 2<sup>nd</sup> and 3<sup>rd</sup> Lines

On the other side, executives expect Internal Audit to take a more proactive role in business improvement and give strategic advice.



Source: PwC 2019 Global Risk Study

# Benefits offered by integrated risk functions



Indonesia and APAC respondents agree that by involving their risk management, internal audit and compliance function in digital initiatives, they do have **better anticipation and mitigation of new and unfamiliar risks.**



# Risk Function's response to the COVID-19 crisis

## COVID-19 Emerging Risks

### Risks

### Risk Function Response



**Activation of BCP arrangements**  
Management and governance structures

- **Review of BCP arrangements:** Critical analysis of BCP plans for weaknesses and unidentified impacts specific to COVID-19 (supply chain, staff availability, customer demand). This could include simulation of various contingency scenarios to 'stress test' continuity plans and assess impact on associated process and controls.



**Fraud**  
Lapse of key fraud controls and management attention

- **Core processes impacted, the potential for fraud and the indicators to look for:** Consider how data analytics (some of the tools in use by Internal Audit or Risk) can be used to look for these indicators and investigate real time. Additionally, as long term staff are forced to work from home and change their normal routine, this may uncover long running fraud practices. Therefore an increased need for urgent investigation and remediation will be required.



**Remote administration & IT Support Capacity**  
Increased use of remote working arrangements

- **Remote worker readiness assessment:** Review organisational readiness for staff and other workers to continue operations from locations outside of office sites. Consider clarity and consistency of technology protocols and communications to staff.
- **Access and communication readiness:** Consider suitable capacity of remote technology, IT support and self-service arrangements, secure remote access via VPN, communications and capacity.



**Privacy & Data Protection**  
Potential exposure of customer personal information

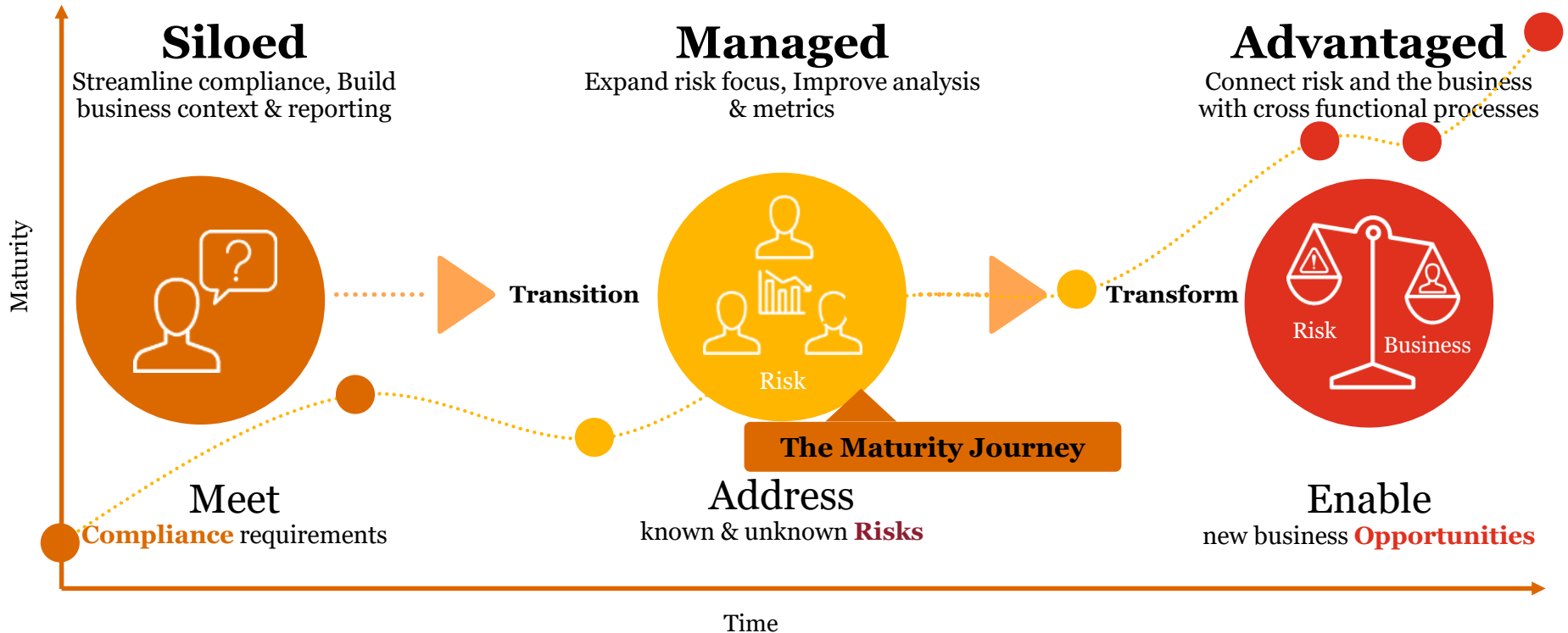
- **Revisiting data breach policy and practices:** Restricting teams (incl third parties) with remote access to personal information on an 'as needs' basis and reiterating privacy obligations for employees, especially during business continuity invocation.



**Third Party**  
Continuity of supply from third party service providers

- **Review arrangements with third party service providers:** Assess risks associated with outsourced arrangements and the robustness of third party controls (e.g. third party business continuity, integrity of reporting, service delivery KPIs, etc). Where organisations are significantly dependent on third parties to deliver core services, consider a 'fit-for-purpose' assurance program over key risks and controls associated with the delivery of services by a third party.
- **Project health checks:** Review of projects to assess the impact of COVID-19, checking contingency arrangements on the critical path for project delivery and assessing the ability of third parties to deliver as per their contract. Internal Audit could also assist in project prioritisation linked to strategy and value creation.

# Integrated GRC – The Maturity Journey



# Three actions to bolster your Risk Functions Collaboration

## #1: Set a collaborative tone

When the board and executives expect risk functions to collaborate, **it naturally drives greater interaction among them.**

## #2: Lay a common foundation

Some elements of a common foundation, such as working from **a shared technology platform and common data**, are necessary for true collaboration but they can take time.

## #3: Optimize the parts

Risk functions need to be able **to take advantage of one another's work** so as to eliminate gaps in risk coverage and increase efficiency.



## Success Story –

# DXC Technology's Internal Audit data lake platform erects a powerful foundation

In such a highly innovative environment, DXC's internal audit function knew it was essential to keep pace with the organisation's digital transformation expertise by harnessing similar digital capabilities and the power of data. The function embarked on an innovative journey to build a data lake that used robotics to pull data efficiently. An effort that began with aggregating data to audit journal entries quickly expanded to resource management, time and expense management, security controls and an ever-expanding audit universe. The data lake adds great insight and efficiency to audits and, beyond the audit, is producing insights of substantial operational value. For instance, internal audit's advanced analytics are generating insights the business can use to better manage hiring controls and the quality of hiring decisions.

John Newstead, former chief audit executive and now head of global shared services and chief risk officer, says internal audit's use of data and analytics is providing greater assurance to the board around the quality of control frameworks. But at the same time it is building a foundation for greater collaboration with the business as it continually strives to operate more effectively. "It's the operational side of the business—helping drive efficient operations—where insights could be game-changing," he said. "Bringing insights to the business as it is going through change can be very powerful."

Innovation has also driven a multiple line-of-defence approach. "The creation of the data lake, the quality of data, the analytics we're undertaking, and the insights we're producing have been powerful for enterprise risk management," said Newstead. "As a function, ERM is able to have much broader insights—driven both inside and outside the organisation. That gives more confidence to leadership and the board, informs the enterprise risk assessment, and better informs the internal audit plan. The benefits radiate in multiple directions."

"The ability of data to be leveraged in multiple ways creates inherent efficiencies. We've built out the data lake, and it's quite powerful. Much-broader insights driven by both inside and outside the organisation inform the enterprise risk assessment and the audit plan and give more confidence to leadership and the board. The benefits radiate in multiple directions."

John Newstead, Head of Global Shared Services  
and Chief Risk Officer, DXC Technology

# “Agile Auditing” –Delivers better alignment and provides real-time assurance

Internal Audit functions that adopt ‘Agile’ can increase their impact **by accelerating the delivery of insight**

## Key Changes on Internal Audit Deliveries

- IA Foundation

- Audit Execution

- Risk Assessment and Audit Plan Development

- Stakeholder Reporting

**Prepared + Adaptive  
= Agile**

*Source: 2017 PwC Internal Audit State of the Profession*



# Actions to transform your 3LM

Go all in on the organization's plan, including digital plan

1

Upskill and inject new talent to move at the speed of the organization

2

Enable the organization to act on risks in real time

3

Align to provide a consolidated view of risks

4

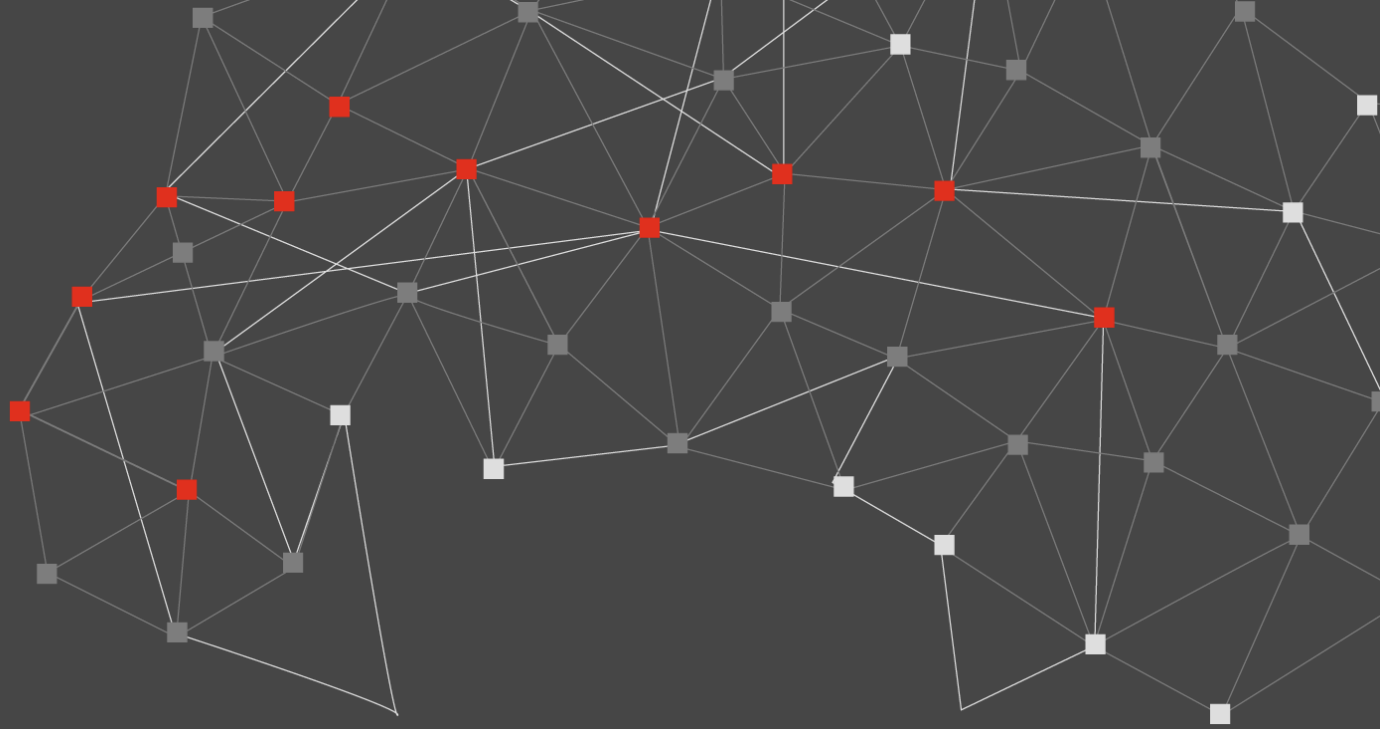
Find the right fit for emerging technologies that enable risk functions collaboration

5

Actively engage decision-makers of key initiatives

6





[pwc.com/id](https://www.pwc.com/id)

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

© 2020 KAP Tanudiredja, Wibisana, Rintis & Rekan. All rights reserved.

PwC refers to the Indonesian member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see [www.pwc.com/structure](https://www.pwc.com/structure) for further details.