



Food and Agriculture Organization
of the United Nations

*Office of the Inspector General
Internal Audit services*

The Three Lines of Defense Model:

A framework for risk management and internal control

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Date: December 2016



The Three Lines of Defense Model - A framework for risk management and internal control¹

Risk management and internal control may sound to some like two buzzwords far from their day-to-day activities and not particularly relevant to their work. Well, nothing could be further from the truth. Indeed all of us, consciously or inadvertently, are frequently managing risks and implementing or using controls in our everyday activities.

When we develop a project document, when we sign an HR form, when we negotiate the budget for a Letter of Agreement, or when we draft a consultant's Terms of Reference and identify deliverables, we are all practising risk management and control. Of course, there is also the formal risk assessment and related control plan that internal auditors request from time to time during the course of an audit, but that is a different story.

In FAO there are several different players exercising risk management and control functions. From the point of view of the efficiency and effectiveness in the use of Organizational resources, having too many, repetitive

or overlapping controls can be as negative as having too few controls.

In other words, it is not enough to have the various risk and control functions in place — the challenge is to assign specific roles and to coordinate effectively and efficiently among these groups so that there are neither gaps in controls nor unnecessary duplications of coverage. To achieve this goal, it is necessary to define clear responsibilities so that each group understands the boundaries of their responsibilities and how their positions fit into the Organization's overall risk and control structure.

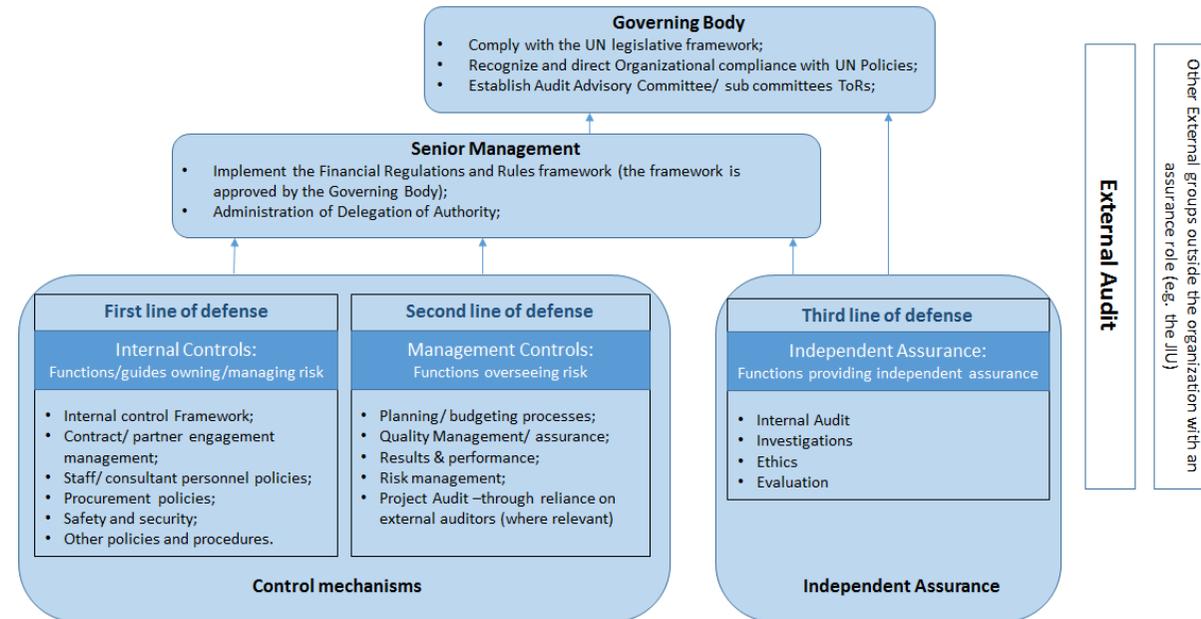
In order to articulate these roles and responsibilities, the High Level Committee on Management (HLCM) approved the adoption of the Three Lines of Defense Model (3LOD) as a standard framework for risk management and internal control in United Nations organizations. This model addresses the need to effectively manage risks and controls with a cohesive and coordinated approach, in a manner that ensures the clear definition of roles and responsibilities.

The 3LOD model adopted by the HLCM was largely based on a concept developed by the Institute of Internal Auditors. According to this model, to be efficient and effective, risk management and control activities in an organization should be articulated in three lines or levels:

¹ This article includes excerpts from documentation issued by the Institute of Internal Auditors and the Joint Inspection Unit.

- **First Line:** Regular management functions that implement controls (including policies, procedures, delegations of authority) designed to achieve objectives and manage risk;
- **Second Line:** Functions that oversee risks (including enterprise risk management, internal control frameworks, results-based or performance management, as well as other organization-specific management oversight processes) and ensure that first line controls are operating as intended;
- **Third Line:** Independent oversight functions (including internal audit, investigations, inspection, evaluation and ethics) that provide objective assurance and other advice on the effectiveness of governance, risk management and internal controls.

The following chart summarizes the framework endorsed by the HLCM, depicting the different roles and relations between the relevant stakeholders.



To understand how this works in practice, let's think of a practical example, relating to budget management.

In the first line, all budget holders are responsible for ensuring compliance with the relevant policies in their respective units. This may require establishing certain controls (e.g. budget monitoring) and complying with relevant provisions (e.g. periodic reporting).



In the second line, the Office of Strategy, Planning and Resources Management (OSP) facilitates and monitors compliance by budget holders (i.e. the first line) with relevant policies. This function includes taking action with the relevant budget holder when deviations (e.g. a projected overspend) beyond certain tolerances are identified.

In the third line, the Office of the Inspector General (as one of the internal entities which provide independent assurance) assesses the overall risk to the Organization in the budget management process and may conduct an assurance review to verify the efficiency and effectiveness of risk management and control activities at both the first and second lines.

“the Three Lines of Defense Model (3LOD) is a standard framework for risk management and internal control in United Nations organizations”



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