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| RESEARCH ARTICLE

Dissecting Corporate Defense: A Critique of the Three Lines of Defense (3LOD) and the expanded Five Lines of Defense (5LOD) / Five Lines of Assurance (5LOA) Models

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| ABSTRACT
Modern organizational governance demands a relentless dynamic between strict risk control and operational agility. For decades, the Three Lines of Defense (3LOD) framework has served as the standard blueprint for internal audit structures and reporting lines. This literature review evaluates the structural mechanics of both 3LOD and the expanded Five Lines of Defense (5LOD) model, which also is conceptualized by executive leadership as the Five Lines of Assurance (5LOA), and examines their capacity to withstand contemporary corporate pressures. While the 3LOD model provides clear operational boundaries, evidence suggests it can inadvertently isolate executive leadership, treat strategic partners as passive information consumers, and suppress innovation through over-engineered risk avoidance. The 5LOD/5LOA model attempts to resolve these gaps by integrating the governing body and external assurance into a more holistic framework. However, this expansion introduces structural trade-offs, including increased institutional bureaucracy, operational complexity, and the risk of diluted accountability. Fueling this complexity is an accelerating corporate shift from direct reporting lines toward volatile dual-reporting audit frameworks. Ultimately, we demonstrate that choosing an organizational defense structure is a high-stakes strategic decision that requires deep alignment with an organization’s governance maturity, regulatory pressures, and market reality.

| KEYWORDS

Corporate Governance, Risk Strategy, 3LOD vs 5LOD, Five Lines of Assurance (5LOA), Corporate Bureaucracy, Governance Maturity, Innovation Suppressing, Dual-Line Reporting.

| ARTICLE INFORMATION

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Introductory Overview

The literature review and analysis on organizational lines of defense and related organizational structures was conducted in two sections, namely: (i) the key principles and perspectives related to the Three Lines of Defense (3LOD) model; and (ii) the related exploration on the various organizational positioning and functioning of the internal audit department.

Initially, the foundational principles and evolving perspectives of the 3LOD model, a widely adopted governance framework, are explored. Examined is how the model structures organizational risk management by clearly delineating the roles and responsibilities of operational management, compliance functions, and internal audit. Emphasis is placed on the strengths of the 3LOD model, namely enhancing accountability and oversight, as well as the critiques that challenge its relevance in modern, complex organizational environments. Furthermore, the Five Lines of Defense (5LOD) model is also introduced as an evolved alternative that addresses perceived gaps in the traditional framework. Building on the theoretical framework of the 3LOD and its evolution into the 5LOD, the structure and positioning of internal audit functions within an organization become critical considerations in management. Internal audits provide assurance and insight, and their alignment with organizations' reporting structures can influence their effectiveness, independence, and value contribution. Lastly, various organizational configurations for internal audit departments, their reporting relationships, and the implications of these structures are contextually discussed.

Theoretical Aspects of the Three Lines of Defense Model and the Debate on Its Effectiveness

The 3LOD model is a widely recognized framework in organizational governance and risk management. It improves risk management and control by clearly defining and coordinating the roles and responsibilities of various governance functions (Bantleon et al., 2021). Specifically, it clarifies roles and responsibilities related to risk oversight and internal control. The 3LOD model divides organizational functions into risk management and support functions like compliance, legal, human resources, and internal audit (Anderson & Eubanks, 2015; Davies & Zhivitskaya, 2018; Institute of Internal Auditors, 2022a). Each line has a defined role and helps to identify, manage, and report risks, which supports organizations in achieving their objectives while preserving accountability and independence. The model's structured framework is a clear roadmap for responsibility allocation and control assurance.

Various lines in the model serve distinct purposes. The first line of defense, risk management, is for managing risk and implementing internal controls daily (Bewey, 2024; Leech & Hanlon, 2016). Managers in this line are closest to the processes and can actively identify and mitigate risks in real time. The second line includes functions designed to support management by monitoring risks, facilitating compliance with laws and policies, and providing guidance (Muhsyaf et al., 2021; Vousinas, 2021). The roles are intentionally set apart from operational management to preserve objectivity while maintaining a collaborative stance. The third line, internal audit, offers independent assurance to the board and senior management (Muhsyaf et al., 2021; Vousinas, 2021). It evaluates how effectively the organization's governance, risk management, and control processes function, ensuring that the first and second lines operate as intended. Thus, the model ensures organization-wide accountability, oversight, and risk resilience.

Despite its widespread adoption and institutional support, the 3LOD model has been criticized, particularly in light of evolving risk governance demands and organizational complexities. A primary criticism lies in the model's failure to fully recognize and integrate the active role of senior leadership in risk governance because of its rigid hierarchy (Bewey, 2024; Leech & Hanlon, 2016). The traditional 3LOD framework often categorizes these actors as stakeholders who receive risk information rather than as key participants in shaping, evaluating, and driving the organization's risk strategy. Such categorization of executive leadership undermines the concept of integrated risk governance and diminishes the potential for risk management to contribute meaningfully to strategic decision-making.

Another fundamental limitation of the 3LOD model is its emphasis on risk avoidance and defense mechanisms rather than promoting risk as a strategic enabler. By focusing narrowly on protecting against threats, the model perpetuates the outdated notion that risk management is about minimizing losses (Bewey, 2024; Leech & Hanlon, 2016). The view ignores the critical role of risk analysis in supporting intelligent risk-taking, an essential component for innovation, competitive advantage, and stakeholder value creation. Modern governance practices increasingly emphasize the strategic integration of risk management with core business objectives, enabling boards and executive teams to allocate resources more effectively and prioritize opportunities with a clear understanding of associated uncertainties. Thus, the model can be improved by incorporating risk analysis into core business objectives.

In response to the shortcomings, some experts have proposed an enhanced governance structure, the 5LOD model. The new framework extends the original by adding two more lines: the governing body (often the board of trustees or an equivalent) as the first line and external assurance providers as the fifth (Leech & Hanlon, 2016; Vousinas, 2021). The structure positions the board as an active line of defense, assigning it responsibility for setting strategic direction and aligning the remaining lines effectively. The shift underscores the board's integral role in governance and strategic risk management. Meanwhile, the fifth line, external audit and regulatory bodies, adds a layer of independent verification and validation beyond the internal audit function. The arrangement is especially relevant in industries with high regulatory scrutiny or where public accountability is paramount. Proponents of the 5LOD argue that it provides a more holistic, transparent, and realistic model of governance (Leech & Hanlon, 2016; Vousinas, 2021). By explicitly recognizing the role of the board and external auditors, the model helps address oversight gaps in the traditional 3LOD structure. Notably, the terminology varies, with some organizations and literature referring to it as the "Five Lines of Assurance" instead of "Five Lines of Defense" to emphasize its proactive, value-adding nature rather than a purely protective function (Leech & Hanlon, 2016). However, "Five Lines of Defense" remains the more widely used term in industry standards and frameworks due to its alignment with historical usage and regulatory language. The expanded model reflects the interdependence among organizational functions, recognizing that risk management is a shared responsibility that requires the input of governing bodies and the guidance of external assurance agencies.

However, the 5LOD is not without drawbacks. Critics suggest that expanding the model risks increasing bureaucracy and blurring clarity (Leech & Hanlon, 2016; Vousinas, 2021). There is concern that adding more layers could dilute responsibility, making it unclear who is ultimately accountable for risk decisions. Moreover, the practical implementation of the 5LOD requires significant cultural and procedural changes, which may be unrealistic for smaller organizations or those with limited resources. It may also lead to duplication of efforts or inefficiencies in communication, particularly when external auditors or regulators interact with multiple internal functions. Thus, implementation challenges and blurred accountability hinder 5LOD's overall effectiveness.

Internal Audit Structures, Reporting Lines, and Governance Implications from the Perspective of the Board of Trustees

In the traditional 3LOD model, internal audit forms the third line of defense, offering independent assurance to the governing body that the first and second lines are functioning properly. The internal audit profession provides independent assurance of the effectiveness of risk management and helps evaluate the effectiveness of the first and second lines concerning achieving objectives relating to risk control and management (Mohammed et al., 2014; Saud et al., 2015; Tawfik et al., 2023). The structure ensures internal audit independence by placing the function outside operational management and oversight structures, ideally establishing a direct reporting line to the board or its audit committee. However, the reporting relationship varies across organizations based on size, sector, regulatory demands, and governance maturity. An organization's internal audit department uniquely reports to the board or management on the effectiveness of all other lines of defense and collaborates with external auditors to meet their requirements (Mohammed et al., 2014; Sukayri & Terzi, 2016; Tawfik et al., 2023). Broadly, internal audit can report functionally to the board and administratively to senior management, which is dual reporting to the executive leadership, or exclusively to the board in high-governance maturity contexts. Therefore, internal audit ensures independent oversight and strengthens organizational risk management accountability.

The dual reporting structure is the most widely accepted model. According to survey results, a total of 73% of Chief Audit Executives (CAEs) report functionally to either an audit committee (56%) or a board (17%) (Institute of Internal Auditors, 2022b). Widespread use of dual reporting is related to its effectiveness in ensuring independent oversight of internal audit. It provides internal audit with unrestricted access to senior leadership and the governing body while maintaining the logistical and resource support needed from executive management. Internal auditing is most effective when the CAEs report functionally to the board or audit committee and administratively to the CEO rather than being directly accountable to management for the areas they evaluate (John-Oti, 2024; Abdelrahim & Al-Malkawi, 2022; Institute of Internal Auditors, 2024a). A direct reporting relationship between the board and the CAE enables the internal audit function to perform internal audit services and communicate engagement results without interference or undue limitations. In this arrangement, the CAE reports functionally to the board of trustees or the audit committee and administratively to the CEO or another high-ranking executive. Functional reporting includes activities such as approving the audit plan, evaluating audit performance, and hiring or laying off the CAE (Institute of Internal Auditors, 2017). Functional reporting ensures that key decisions are overseen by the governing body, helping to preserve audit independence and accountability. Administrative reporting encompasses day-to-day operational support such as budgeting, HR-related tasks, and resource allocation (Gibson, 2018). It provides the internal audit function with the necessary day-to-day operational support without compromising its independence since strategic oversight remains with the governing body. The structure preserves internal audit's independence while integrating the function into the organization's information and resource networks.

However, there are advantages and disadvantages associated with each internal audit structure. The functional reporting model offers a balanced approach that protects independence while promoting access to necessary resources (Institute of Internal Auditors, 2013; 2024b). It enables the CAE to collaborate with executive leadership without compromising objectivity. Executive management may create tension by attempting to limit the scope or influence of internal audit, particularly when the audit addresses sensitive issues (Aikins et al., 2022; Kustienė & Tjurina, 2019; OCC, 2016; Wang & Liang, 2025). The risk of undue influence from management persists, particularly when the administration disproportionately impacts audit operations. Therefore, balancing access to crucial resources and independence remains essential in internal audit structures.

Alternatively, a direct reporting structure to the board of trustees without any administrative ties to management enhances independence and credibility. The model exists in publicly accountable or heavily regulated organizations, such as those in the public sector, financial institutions, and large healthcare systems (Agarwal & Singh, 2020; Tejedo-Romero et al., 2023; Tumwebaze et al., 2022). Under such a configuration, internal audit is a tool of governance rather than a support function of management. It ensures that audit findings are communicated without filtration or influence, increasing transparency and reinforcing accountability. However, the model can also create operational challenges, including slower decision-making, reduced access to information, and isolation from day-to-day organizational activities (Agarwal & Singh, 2020; Tejedo-Romero et al., 2023). Moreover, if the board lacks audit expertise or is disengaged, the function may become underutilized or ineffective. Thus, greater independence improves transparency but risks operational disconnect and inefficiency.

Poor communication of audit results can cause report lags. According to Lajmi and Yab (2021), audit report lag is defined as the period between a company's fiscal year-end and the date of its auditor's report. The timeliness of financial reporting disclosure is a key aspect of financial information quality. Lajmi and Yab (2021) also state that the audit committee influences the time frame of the audit report because it is responsible for ensuring that the company complies with established regulations. Audit report lag has gained considerable attention from professional organizations since it is an important qualitative characteristic of financial information. Long audit report delays can affect the release of important information to various stakeholders. For instance, they affect the time it takes to prepare financial statements, which can affect operational efficiency in organizations (Lajmi & Yab, 2021). Delays in reporting audit results are detrimental to organizational operations.

In contrast, internal audit functions that are linked to executive structures, such as the Chief Financial Officer, Chief Operating Officer, or CEO, are associated with limited independence. The very leaders whose activities internal audits are meant to assess and hold accountable may influence them (Alander, 2023; KPMG, 2016; Institute of Internal Auditors, 2011). The arrangements exist in smaller organizations where audit maturity is low or governance structures are still evolving. While such models can streamline operations and improve responsiveness, they raise significant concerns about conflict of interest, bias, and suppression of critical findings. Audit results may be selectively communicated or modified to align with management's preferences, weakening the function's assurance role. The negative influence undermines stakeholder trust and increases the risk of undetected control failures.

Conclusion

The 3LOD model serves as a foundational framework in organizational governance by clearly delineating the roles of operational management, compliance functions, and internal audit in managing risk and ensuring accountability. While the model is widely adopted across sectors for its clarity and structured approach, it is criticized for marginalizing the role of senior leadership and promoting a limited, hazard-avoidance perspective on risk. These criticisms led to the development of the 5LOD model, which incorporates the governing body as a strategic actor and introduces external assurance providers to enhance oversight and transparency. The expanded model aims to reflect modern organizations' complex interdependencies and promote risk as a strategic enabler rather than merely a threat to be mitigated. The structural configuration of internal audit functions also influences the independence, authority, and effectiveness of audit processes. In a direct reporting design, audit findings are shared with the board of trustees without alteration to promote transparency and accountability. In the dual reporting framework, CAEs report functionally to the board of trustees or the audit committee and administratively to the CEO, which ensures independent internal audit functions and communication of results without interference or undue limitations. The analysis underscores the importance of aligning internal audit structures with an organization's governance maturity, regulatory environment, and strategic objectives to optimize oversight and operational relevance.

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