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UNDERSTANDING THE EVOLVING ROLE OF INTERNAL AUDITING: ASSURANCE, ADVISORY SERVICES, AND THE THIRD LINE OF DEFENSE

In the complex landscape of modern corporate governance, risk management, and internal control, few functions are as critical—and as frequently misunderstood—as internal auditing. Once perceived primarily as a back-office compliance function, internal auditing has undergone a profound transformation. Today, it stands as a dynamic, value-adding partner to the organization, balancing its traditional role of providing independent **assurance** with a growing demand for forward-looking **advisory services**. Central to this evolution is the concept of the **third** line of defense, a model that clarifies responsibilities and strengthens organizational oversight. This article provides a comprehensive exploration of these interconnected elements, offering a clear view of how modern internal audit functions create sustainable value.

The Three Lines of Defense: A Foundational Framework

To fully appreciate the role of internal auditing, one must first understand the framework in which it operates. The "Three Lines of Defense" model, originally developed by the Institute of Internal Auditors (IIA), provides a simple yet powerful structure for coordinating risk management and control activities. This model is not merely a theoretical construct; it is a practical tool used by boards, audit committees, and senior management to clarify duties and prevent gaps or overlaps in the governance system. Each line has a distinct function, and together, they form a cohesive defense against strategic, operational, financial, and compliance risks.

The First Line: Operational Management

The first line of defense consists of the operational managers and staff who own and manage risk on a day-to-day basis. These individuals are responsible for implementing internal controls,

identifying emerging risks, and ensuring that activities align with the organization's policies and objectives. This is where the "rubber meets the road" in risk management. The first line owns the risk and is accountable for taking corrective action when controls fail or when new threats emerge. Without a strong first line, even the most sophisticated internal audit function cannot guarantee effective governance.

The Second Line: Oversight and Risk Management Functions

The second line of defense encompasses the various oversight functions that support and monitor the first line. This includes risk management, compliance, quality assurance, and financial control teams. These functions provide frameworks, policies, and tools to help the first line manage risk effectively. They also monitor risk exposures and report on compliance with laws and regulations. Critically, the second line operates under the direction of management, meaning it is not independent from the operational structure it oversees. This inherent lack of independence is precisely why a **third** line is essential.

THE THIRD LINE OF DEFENSE: THE ROLE OF INTERNAL AUDITING

This brings us to the cornerstone of our discussion: the **third** line of defense, which is internal auditing. What makes the third line unique is its independence and objectivity. Unlike the first and second lines, internal auditing does not own any risk, nor does it implement or manage controls or compliance activities. Instead, internal audit provides an independent, objective assessment of how effectively the first and second lines are performing their duties. This independent perspective is the bedrock of the internal audit profession.

The internal audit function reports functionally to the audit committee of the board of directors and administratively to senior management. This dual reporting structure ensures that auditors can remain objective and free from management pressure when forming their opinions. The third line evaluates the design and operating effectiveness of governance, risk management, and control processes. In essence, internal auditing provides assurance that the entire system of defenses is working as intended. Without a robust third line, the board and senior management would lack a reliable, independent source of information about the true state of the organization's control environment.

Core Internal Audit Services: Assurance

Assurance is the traditional and foundational service provided by internal auditing. When an internal audit function delivers **assurance**, it is providing an independent, evidence-based opinion on

a specific area of the business. This might be an opinion on the adequacy of internal controls over financial reporting, the effectiveness of an operational process, or the compliance of a specific unit with regulatory requirements. The value of assurance lies in its objectivity: a stakeholder can trust the auditor's opinion because the auditor has no personal stake in the outcome of the audit.

Assurance engagements are typically planned based on a risk assessment. The audit committee and senior management identify the areas of highest risk, and the internal audit plan is designed to provide coverage over those areas within a defined audit cycle. The output of an assurance engagement is a report containing findings, conclusions, and recommendations for improvement. Importantly, the internal auditor provides an opinion, not a guarantee. The responsibility for taking action on the findings remains with management. This distinction preserves the independence of the third line while ensuring that accountability rests where it belongs.

Common types of assurance engagements include financial audits, operational audits, compliance audits, and information technology audits. Each of these applies the same core methodology: understanding the business objectives, identifying the risks to those objectives, evaluating the controls designed to mitigate those risks, and testing the effectiveness of those controls. The ultimate goal is to provide a reliable, independent opinion that the board and senior management can use to make informed decisions.

Expanding the Value Proposition: Advisory Services

In recent years, there has been a significant shift in the expectations placed on internal auditing. Organizations are increasingly asking their internal audit functions to go beyond traditional assurance and provide **advisory services**. This demand reflects a broader recognition that internal auditors possess unique skills and insights that can help the organization navigate change, improve performance, and manage emerging risks proactively. Advisory services are consulting-type engagements where the internal auditor acts as a trusted advisor rather than an independent evaluator.

It is critical to understand the boundary between assurance and advisory services. When internal audit provides advisory services, it does not assume management responsibility. The internal auditor does not make decisions for management, implement controls, or become involved in operations in a way that would compromise their objectivity. Instead, the auditor provides insights, analysis, recommendations, and facilitation. Management remains fully accountable for the decisions and actions taken as a result of the advisory engagement. The IIA's International Professional Practices Framework (IPPF) provides clear guidance on how internal

auditors can offer advisory services while preserving their independence for future assurance engagements.

Examples of advisory services include facilitating a risk assessment workshop, advising on the design of a new control framework for a major project, providing training on governance and ethics, and conducting a pre-implementation review of a new system. These engagements allow internal audit to deploy its expertise earlier in the process, potentially preventing problems before they occur. This proactive approach is highly valued by management because it delivers timely, relevant insights that can directly improve business outcomes.

Balancing Assurance and Advisory: The Third Line in Practice

One of the most significant challenges facing modern internal audit functions is finding the right balance between assurance and advisory services. Both are valuable, but they require different mindsets and approaches. Assurance requires detachment and objectivity; advisory requires engagement and collaboration. A function that focuses too heavily on assurance may be seen as a "police officer" that only identifies problems after they have occurred. Conversely, a function that focuses too heavily on advisory risks losing its objectivity and becoming too closely aligned with management, potentially compromising its ability to provide independent assurance in the future.

The key to success lies in clear governance and robust quality assurance. The audit committee should approve the overall internal audit plan, which should include both assurance and advisory engagements. For each advisory engagement, the scope, objectives, and expectations should be clearly documented to ensure that independence is maintained. The internal audit function should also have a policy that prohibits it from providing advisory services on areas for which it has previously provided assurance, unless an appropriate cooling-off period is observed. By managing these boundaries carefully, the third line can deliver maximum value without compromising its core mandate.

Another practical consideration is the allocation of resources. Many internal audit functions are resource-constrained and must prioritize their activities. Assurance engagements typically take priority because they address the highest-risk areas and provide the independent opinions that the board and regulators require. Advisory services are often allocated to a separate pool of resources or are conducted during periods when the audit plan is less demanding. Some functions also use a "co-sourcing" model, where external specialists are brought in to deliver advisory services, freeing up internal resources for core assurance work.

Technology is also reshaping how the third line delivers both assurance and advisory services. The rise of data analytics, continuous auditing, and artificial intelligence is enabling internal auditors to test entire populations of transactions rather than relying on

samples. This enhances the quality of assurance opinions and allows auditors to identify anomalies and trends that would have been invisible with traditional techniques. For advisory services, data-driven insights allow internal auditors to provide more precise and actionable recommendations. As organizations become more data-centric, the internal audit function must evolve its capabilities to remain relevant and effective.

STRENGTHENING THE THIRD LINE: BUILDING A BEST-IN-CLASS INTERNAL AUDIT FUNCTION

Organizations that truly understand the value of the third line invest in building a best-in-class internal audit function. This requires more than just hiring competent auditors; it demands a strategic approach to talent, technology, and governance. The modern internal audit function is a magnet for diverse talent, including specialists in data analytics, cybersecurity, regulatory compliance, and business strategy. The audit team must be able to speak the language of the business and understand the organization's strategic priorities. This allows them to align their assurance and advisory services with what matters most to the board and senior management.

Effective communication is another hallmark of a strong third line. Internal auditors must be able to translate complex technical findings into clear, actionable insights that non-experts can understand. The days of lengthy, jargon-filled audit reports are fading. Today's leading internal audit functions produce concise, visually engaging reports that focus on root causes and business impact. They also engage in continuous dialogue with stakeholders, providing real-time updates and insights rather than waiting for the formal report. This collaborative approach builds trust and ensures that audit recommendations are implemented promptly.

Quality assurance is a non-negotiable component of a professional internal audit function. The IIA requires internal audit functions to undergo an external quality assessment every five years. This assessment evaluates the function's compliance with the IPPF and benchmarks it against best practices. Functions that achieve a high rating in these assessments demonstrate a genuine commitment to excellence and continuous improvement. This commitment reinforces the credibility of the third line and strengthens the confidence that the board, management, and external stakeholders place in its work.

The Future of the Third Line: Emerging Trends and Challenges

Looking ahead, the role of the third line is likely to continue evolving in response to a rapidly changing business environment. Cybersecurity and data privacy are becoming central concerns for every organization, and internal audit must develop the expertise to provide assurance and advisory services in these domains. Environmental, social, and governance (ESG) factors are also rising up the agenda, with investors and regulators demanding greater

transparency and accountability. Internal auditors are being asked to provide assurance over ESG reporting and to advise on the governance structures needed to manage ESG risks effectively.

Another emerging trend is the integration of internal audit with other assurance providers within the organization. This "combined assurance" approach seeks to break down silos between internal audit, risk management, compliance, and external audit. By coordinating their activities, these functions can provide a holistic view of the organization's risk and control environment, reducing duplication and improving efficiency. The internal audit function often plays a central role in facilitating this coordination, leveraging its independent perspective to identify gaps and overlaps in the overall assurance landscape.

Artificial intelligence and automation present both opportunities and challenges for the third line. While these technologies can significantly enhance audit efficiency and effectiveness, they also introduce new risks that must be evaluated. Internal auditors must understand how AI models are developed, trained, and deployed, and they must be able to assess the risks of bias, error, and ethical failure. Providing advisory services on AI governance is an emerging area where internal audit can add immense value, helping organizations navigate the complex ethical and regulatory terrain of algorithmic decision-making.

CONCLUSION

The third line of defense, embodied by the internal audit function, occupies a unique and indispensable position in modern organizational governance. By providing independent **assurance** on the effectiveness of internal controls, risk management, and governance processes, internal audit gives the board and senior management the confidence they need to make sound decisions. Simultaneously, by offering strategic **advisory services**, internal audit demonstrates its commitment to creating value and supporting the organization's long-term success. Balancing these two roles—assurance and advisory—requires careful governance, professional judgment, and a steadfast commitment to objectivity. Organizations that invest in a robust, forward-looking internal audit function will be better equipped to navigate the uncertainties of the future and build a foundation of trust and resilience. The third line is not merely a compliance necessity; it is a strategic asset capable of driving meaningful, sustainable performance improvement across the enterprise.