



The Three Lines Model

What's your role in ESG compliance?

How the Three Lines Model drives accountability via ethics and compliance

The Three Lines Model¹, a tried-and-true assurance framework, presents an opportunity to drive ESG accountability more holistically while establishing a formal leaders role for ethics and compliance (E&C). Activities spanning across sustainability areas may likely benefit from increased assurance and accountability, specifically from business functions removed from the everyday execution of ESG objectives.

At its core, the model aims to provide clarity on roles that oversee and enhance risk management across the enterprise. The first line directs actions and resources to achieve organizational objectives while the third line (Internal Audit) tests embedded controls. This frees up the second line to provide the guidance, monitoring, and analysis needed to ultimately inform the first line's efforts.

Three lines model

Roles across the organization have a responsibility to manage ESG risk and drive organizational alignment.



Source: Deloitte

Reading between the lines

The first line consists of functional business leaders who oversee the environmental and sustainability obligations pertinent to operations and commercial activities (i.e., executing against corporate strategy and solving real-time challenges). The second line, largely made up of enterprise risk and E&C functions, facilitates threat mitigation, opportunity capture, and commitment follow through. Lastly, the third line houses internal audit and tests the effectiveness of risk management and internal controls.

A barrier to effective collaboration in mitigating risk is a unclear responsibility ownership throughout business functions. For example, the environmental team may have an obligation to satisfy reporting requirements, which could include monitoring new regulations, drafting and maintaining policies, and meeting compliance requirements. Part of enabling the effectiveness of an interwoven three lines model is in instilling a culture of trust in the organization.

Business owners in the first line (e.g., operations) should feel empowered to engage the second line functions while driving actions and fulfilling responsibilities. The second line has a responsibility to provide the first line constructive criticism, ask what should be known, and propose how to conduct risk management analysis. Additionally, the third line can provide in-depth insights on how the first and line second are managing and responding to ESG risks. All three lines should understand the push and pull nature of their roles and ask the effective questions, without necessarily needing to be subject matter experts.

By embracing sustainability challenges, the E&C function has a chance to strengthen its guidance across multiple areas of the organization. E&C leaders can help manage risk and provide guidance on the processes, controls, and policies that drive sustainability commitments. These efforts require the formation of committed governance bodies, bolstered by rigorous internal and external communications, control mechanisms, and strategic committees.

As the sustainability landscape rapidly evolves, a flexible approach can help facilitate an organization's long-term adaptability.



Is your E&C function nimble by design?

The E&C function may serve as a nimble force within the three lines model by providing oversight and guidance. A “nimble role” for E&C practitioners within the three lines model refers to their capacity to dynamically and effectively adapt to the rapidly changing sustainability landscape. There are multiple benefits of leveraging this role:

1. Integrated collaboration: Effective collaboration with business functions enables compliance officers to drive accountability to advance sustainability goals for the enterprise in a coordinated way.

2. Proactive sustainability risk management: By fluidly integrating the first and second lines, compliance officers can promptly respond to emerging challenges, safeguarding the organization from potential pitfalls. This enables the flexibility needed to anticipate and address potential sustainability risks.

3. Enhanced stakeholder trust and reputation: Timely and defined ESG reporting and compliance builds trust among stakeholders—including investors, customers, and regulators. This protects and enhances the organization's brand value in the sustainability domain.

As the sustainability landscape rapidly evolves, a flexible approach can help facilitate an organization's long-term adaptability. With the agility to move between the three lines, compliance officers are poised to offer informed, strategic recommendations at decision-making stages, preparing the enterprise for upcoming shifts in the ESG arena.





The future of compliance: Elevating sustainability integration

E&C functions can provide guidance on the governance and oversight of sustainability activities and drive the development of a broad risk- and control-based ESG framework. Here are specific principles to help accelerate E&C professionals' guidance of sustainability:

 1	 2	 3	 4	 5
Policy management	Adopting governance and accountability frameworks for ESG	Proactive oversight and monitoring	Tone at the top	Cultivating a culture of sustainability
In a shifting landscape with frequent updates to rules and sustainability regulations, E&C functions should consider pioneering the development, review, and iteration of policies. By adopting a nimble approach, they can swiftly respond to emerging challenges, providing clarity in what might seem like a blurry and constantly evolving space.	Such frameworks can provide a clear delineation of roles, proposing that stakeholders understand their responsibilities. The GOES (Govern, Operate, Enable, Support) model and the RACI (Responsible, Accountable, Consulted, Informed) model are particularly adept at delineating responsibilities, determining that business functions, like compliance, are not just a check-the-box exercise, but a genuine value-driver in the sustainability journey.	Implementing and regularly updating control measures moves policies from on-paper concepts into actionable and measurable initiatives. As sustainability performance benchmarks become increasingly nuanced, having broad controls in place facilitates consistent adherence to standards, which can reduce risks.	Executive leadership plays a pivotal role. When senior executives exemplify their commitment to ESG values, it reinforces a purpose of sustainability and inclusivity. Compliance functions should work closely with leadership teams, equipping each with the knowledge and tools to champion sustainability effectively.	Beyond policies and controls, the heart of genuine integration lies in culture. Compliance functions can spearhead initiatives that instill sustainability values across organizational levels. This involves training programs, workshops, and continuous engagement activities that keep sustainability at the forefront of specific business decisions.

From three lines to alignment: Building a collaborative ESG vision

To accelerate their involvement, E&C functions should operate from a principle of **proactiveness**—anticipating challenges, leveraging leading practices, and fostering collaborations. A second guiding principle should be **transparency**—being open about goals, progress, and challenges, which facilitates credibility and trust with stakeholders. Together these principles can help evolve your sustainability goals from aspirations to achievements.



Let's talk

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Endnotes

1. <https://www.theiia.org/en/content/position-papers/2020/the-iias-three-lines-model-an-update-of-the-three-lines-of-defense/>.



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