

# COMBINED ASSURANCE FRAMEWORK



## **BREED VALLEY**

MUNICIPALITY • MUNISIPALITEIT • UMASIPALA

**A caring valley of excellence.**

<b>TABLE OF CONTENTS</b>	<b>PAGE</b>
--------------------------	-------------

1. Introduction	3
2. Purpose of the Framework	3
3. Definition of Combined Assurance	3
4. Background	3
5. Approach	4
5.1 Step 1: Identifying Role Players	4
5.2 Step 2: Assess Potential for Combined Assurance	4
5.2.1 The first line of assurance (Management based Assurance)	5
5.2.2 The second line of assurance (Risk & Compliance-based Assurance)	5
5.2.3 The third line of assurance (Independent Assurance)	5
5.3 Step 3: Test Coverage of Assurance	5
5.4 Step 4: Risk Focus	5
5.5 Step 5: Combined Assurance Application	6
6. Requirements to Qualify as Assurance Provider	6
7. Drafting a Combined Assurance Plan	7
8. Roles and Responsibilities	7
9. Glossary of Terms	8

## 1. Introduction

The Combined Assurance Model aims to inform, in a simple manner, on the effectiveness of assurance providers and to create confidence in the assurance provided over key organizational risks.

Combined assurance seeks to reduce duplications in audit processes and prevent any key controls from being missed by assurance providers. This approach to assurance normally has a risk foundation. The contents of risk registers are used to design the annual assurance plans. An assurance plan is one of the primary means by which the Municipal Manager receives confirmation that risk responses and internal controls are appropriately designed and implemented. A risk-based assurance plan follows the outputs of the risk identification, assessment and control evaluation processes.

It is commonly accepted that assurance should be designed on an integrated basis. This means that there is a coordinated plan to provide a spread of assurance providers for the key controls. The principle of integration lies in the arranging of specialist assurance providers based on a rational allocation of resources.

## 2. Purpose of the Framework

A framework is defined as a conceptual structure intended to serve as a guide for the building of something that expands the structure into something useful. The Combined Assurance Framework is a guide that informs the development of the annual Combined Assurance Plan (CAP) for the Breede Valley Municipality. The annual CAP will be based on the annual risk assessment.

## 3. Definition of Combined Assurance

The planned approach to assess the extent and adequacy of assurance coverage on key organizational risks and reporting thereon to Senior Management, the Audit Committee and Council.

*“Integrating and optimising all assurance services and functions, so that taken as a whole, these enable an effective control environment, support the integrity of the information used for decision-making by management, the municipal council and its committees to maximise risk and governance oversight and control efficiencies, and optimise overall assurance to the audit and risk committee, within the municipality’s risk appetite.”*[\[Source: Glossary of Terms - Revised National Treasury Draft Risk Management Framework, 2017\]](#)

## 4. Background

The International Standards for Professional Practice of Internal Auditing (Standard 2050) prescribes that the Chief Audit Executive should share information and co-ordinate activities with other internal and external providers of relevant assurance and consulting services to ensure proper coverage and minimize duplication of efforts.

King III stated that the audit committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities. The internal audit function, through the audit committee, should assure the council that the combined assurance

model embedded within the municipality is coordinated so as to best optimise costs and avoid duplication of effort.

King IV suggests that the Municipal Council should assume responsibility for assurance by setting the direction concerning the arrangements for assurance services. It should also oversee that a combined assurance model is designed and implemented to effectively cover the significant risks and material matters of the municipality through a combination of assurance providers. King IV further recommends that the Municipal Council should delegate the responsibility to the Audit Committee to establish a combined assurance model to achieve the following objectives of:

- The adequacy and effectiveness of the internal control environment; and
- The integrity of information used in decision-making.

Therefore, the custodian of the combined assurance model should be Internal Audit.

## 5. Approach

A five-step process should be employed in ensuring the success of a combined assurance model. This process is depicted as follows:



### 5.1 Identifying Role Players

**Step One** entails the Municipal Manager identifying and appointing a combined assurance champion. The champion will coordinate the process and ensure process continuity. This executive must be appointed to provide the authority, oversee the process and ensure that cooperation is provided throughout the initiative.

## **5.2 Assess Potential for Combined Assurance**

The **second step** entails establishing a high-level understanding of who the assurance providers are for the risk exposures facing the municipality. Ideally, assurance providers should be separated in terms of first, second and third line of assurance, i.e. management-based assurance, risk and compliance-based assurance and independent assurance respectively.

While they have the same objective, each line has its own unique roles and responsibilities. They are separate lines but should not operate in silos. They should share information and coordinate efforts regarding governance, risk and control. In many situations there could be a shared perspective regarding risk and control. Careful coordination is essential to avoid unnecessary duplication of efforts while assuring that all significant risks are addressed appropriately.

### **5.2.1 The first line of assurance (Management based assurance):**

Managers, the risk owners, are responsible for ensuring the managing of the risk and are termed “first line” assurance providers. The first line of assurance is best suited to offer broader assurance coverage.

### **5.2.2 The second line of assurance (Risk and Compliance-based assurance):**

The second line of assurance comprises corporate functions such as risk management, compliance officers, occupational health and safety, legal services and internal control units.

### **5.2.3 The third line of assurance (Independent assurance):**

The third line of assurance may be categorized in terms of audit and oversight. Internal audit and the Auditor-General are examples of independent assurance providers that form the third line of assurance. During **step 2** of the process an assurance profile should be documented. It is recommended that the combined assurance champion be selected from the third line of assurance.

## **5.3 Test Coverage of Assurance**

The **third step** in the process is to test the coverage of assurance provided through interaction with recipients and assessment of reports to establish what is being done and for what reasons. This test will ensure coordination of efforts and eradicate duplication.

The IIA Standard 2110 states that the internal audit activity must coordinate the activities of and communicate information among the council, external and internal auditors and management. The third stage in the process should be assigned to the internal audit activity.

#### **5.4 Risk Focus**

In the **fourth step** a full understanding is established of what assurance is currently being provided and what needs to be provided based on the strategic and operational risk profiles of the municipality. This step will allow a detailed gap analysis to be developed, which will also inform the next step in the process. Here the different lines of assurance will be mapped to the identified risks and detail work performed to provide the expected assurance.

It becomes imperative for the risk profile to be relevant to the business that is managed on a consistent basis. Risk information should be regularly and centrally maintained. It might not be feasible to consider all identified risks in the Combined Assurance Model. It is recommended that the limit is set in terms of risk severity (which should be in line with the risk appetite and tolerance levels of the municipality). The risk rating will therefore be the criteria for incorporation in the Combined Assurance Model. This approach will simultaneously ensure that the assurance is worth the cost.

## 5.5 Combined Assurance Application

The **final step** requires stakeholder acceptance of the approach and respective responsibilities through identifying the recommended areas of assurance and articulating the nature of the assurance activities. The detailed gap analysis should highlight four areas of assurance, i.e. *extensive assurance, moderate assurance, inadequate assurance, or no assurance*. In this instance the municipality must apply its discretion in defining extensive, moderate and inadequate assurance.

Inadequate assurance coverage must be addressed by the Combined Assurance Champion in conjunction with the Municipal Manager. The third line of assurance will then be responsible for reporting on the adequacy of assurance provided by the implementation of combined assurance. Lastly, the assurance provided must be credible. It is recommended that Executive management and Council ensure that both internal and external assurance providers are appropriately skilled and experienced to follow an adequate approach.

## 6 Requirements to Qualify as Assurance Provider

Assurance providers play an important role in effective risk management. The following table provides guidance on the requirements to qualify as an assurance provider:

<b>Independence and Objectivity</b>	Independent reporting lines, no recent direct involvement and/or work done in the area/aspects to provide assurance on/be audited.
<b>Conflict of interest</b>	In the areas/aspects in which assurance is to be provided, there should not be any conflict of interest (could require a declaration in this regard).
<b>Skills and experience</b>	The assurance provider should have the appropriate skills and experience to effectively conduct the assignment.
<b>Qualifications</b>	The assurance provider should hold appropriate qualification(s).
<b>Assurance methodology</b>	A sound audit/review methodology should be adopted by the assurance provider. Ideally, a risk-based approach should be followed. The reported findings and opinions should be supported by adequately documented working papers/audit trails.

## 7 Drafting a Combined Assurance Plan

The culmination of the aforementioned process is documented and reflected in a Combined Assurance Plan (CAP). The CAP details the three lines of assurance which is mapped to the risk profile of the organization. The cross reference will then detail the assurance coverage. Judgement can be made on over or under assurance and adjustments may be made accordingly. The CAP can also be used for reporting processes. An annual process must be developed to evaluate and report to management on the adequacy, effectiveness and efficiency of the development and implementation of the combined assurance framework. The CAP should be approved by the Audit Committee on an annual basis.

A risk-based assurance plan encourages an allocation of assurance resources based on risk priorities. Risk owners have a key role to play in selecting assurance activities for their respective risks.

The co-ordinated approach requires the municipality to provide a spread of assurance providers for each risk, balanced between management, independent functions and external parties.

The CAP template is completed by listing the key risks and their respective controls in the indicated column. The risk owner will then indicate which assurance providers currently review or monitor the controls listed.

This can be indicated by means of a code which indicates the frequency of the particular assurance activity, e.g. 'M' for 'monthly'. Gaps in the assurance program are then considered with input from assurance providers themselves, such as the internal audit function. The desired additional assurance activities, with preferred frequency of activity, are then inserted into the selected template.

## 8 Roles and Responsibilities

The 5 Lines of Assurance (LOA) enhances the understanding of risk management and control by clarifying roles and responsibilities. Its underlying premise is that, under the oversight and direction of council and the municipal manager, three separate groups (or lines of assurance) within the municipality are necessary for effective management of risk and control. The responsibilities of each of the groups (or 'lines') are:

<b>Municipal Council</b>	Steer and set strategic direction, approve policy and planning, oversee, monitor and ensure accountability
<b>Accounting Officer</b>	Executes the strategic direction, policies and oversight responsibilities Appoint the combined assurance champion
<b>Risk Owners</b>	Manage risk and control (front line operating management)

<b>Risk Management</b>	Monitors risk and control in support of management (risk, control, and compliance functions put in place by management)
<b>Champion</b>	Coordinate the combined assurance process and ensure process continuity
<b>Internal Audit</b>	<p>Verify the capability of the assurance providers.</p> <p>Test for under or over assurance coverage.</p> <p>Recommend the adjustment of coverage.</p> <p>Reporting to the other assurance provider and Audit Committee.</p> <p>The assurance provider should have the appropriate skills and experience to effectively conduct the assignment.</p> <p>Independent assurance provided by Internal and External Audit to the Council through its Audit Committee and senior management concerning the effectiveness of the management of risk and control.</p>
<b>Audit Committee</b>	<p>Ensure and monitor the application of combined assurance and report to Council.</p> <p>Approve the Combined Assurance Plan on an annual basis.</p>

## 9 Glossary of Terms

<i>Framework</i>	A conceptual structure intended to serve as a guide for the building of something that expands the structure into something useful
<i>Assurance</i>	A declaration that inspires or is intended to inspire confidence
<i>Combined assurance Champion</i>	The individual appointed to coordinate the combined assurance process and ensure process continuity
<i>First line of assurance</i>	“Risk owners “responsible for ensuring the management of the risk. This line of assurance has direct involvement, as the executing leg, and will therefore offer broader assurance coverage.
<i>Second line of assurance</i>	Internal assurance functions (internal risk and compliance units) such as enterprise Risk

	Management, Health and Safety, Legal services etc.
<i>Third line of assurance</i>	Independent (external or not line function) oversight activities/functions such as Internal Audit, Audit Committee, Auditor-General.
<i>Extensive assurance</i>	All lines of assurance are responding to the risk to the extent that coverage is duplicated.
<i>Moderate assurance</i>	There is a balance between risk severity and assurance coverage.
<i>Inadequate assurance</i>	The assurance coverage is not sufficient to ensure effective risk management
<i>No assurance</i>	The risk has eluded all lines of assurance and action is needed to respond to the risk.