

8. APPROVAL/ ADOPTION OF NEWLY COMPILED FRAMEWORK FOR COMBINED ASSURANCE

5/14/3

DC Van Der Heever
10 April 2015

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Internal Audit Services

1. Executive Summary

The purpose of the report is to present Council with the newly compiled Framework for Combined Assurance, pursuant to it being reviewed by the Audit Committee on 25 March 2015, for approval and adoption with effect from 01 May 2015.

2. Service Delivery and Budget Implementation Plan - IGNITE

Office of the Municipal Manager
Internal Audit Services

3. Compliance with Strategic Priority

Provision of democratic, accountable and ethical governance

4. Delegated Authority

None

5. Legal Requirements

The International Standards for the Professional Practice of Internal Auditing.
King 111

6. Background/Discussion

The International Standards for the 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 minimise duplication of efforts.

The concept of combined assurance is supported by the King Report (King III) (principle 3.5) which recommends that the audit committee should ensure that a combined assurance model is applied to provide a co-ordinated approach to all assurance activities. Audit committees in the public sector are required to review coordination between internal and external audit, reports of significant investigations, as well as management responses to specific recommendations.

7. Financial Implications

None

8. Staff Implications

None

9. Comments from other Departments, Divisions and Administrations

None

10. Annexures

Annexure A: Framework for Combined Assurance

RECOMMENDATION TO THE COUNCIL:

that the newly compiled/ reviewed Framework for Combined Assurance of Overstrand Municipality **be approved** and implemented with effect from 01 May 2015.

RESPONSIBLE OFFICIAL :**D C VAN DER HEEVER****TARGET DATE FOR IMPLEMENTATION :****01 MAY 2015**

FRAMEWORK FOR COMBINED ASSURANCE



INTERNAL AUDIT SERVICES

**OVERSTRAND MUNICIPALITY
FRAMEWORK FOR COMBINED ASSURANCE**

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**OVERSTRAND MUNICIPALITY
FRAMEWORK FOR COMBINED ASSURANCE**

CHAPTER 1

1. Introduction

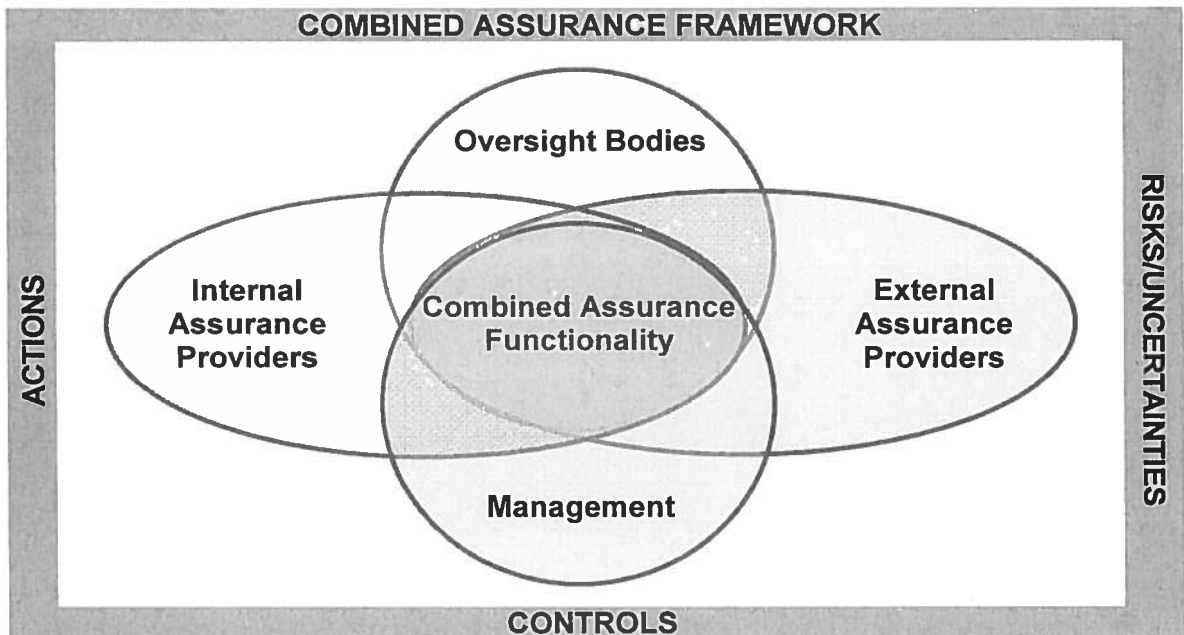
The Combined Assurance Model aims to inform, in a simple manner, on the effectiveness of assurance providers and to create confidence in the assurance provided over key organisational risks

2. Purpose of the Document

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 must be adapted according to the structure, complexity and capability of each municipality.

3. The Definition of Combined Assurance

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



4. Background information

The International Standards for the 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 minimise duplication of efforts.

The concept of combined assurance is supported by the King Report (King III) (principle 3.5) which recommends that the audit committee should ensure that a combined assurance model is applied to provide a co-ordinated approach to all assurance activities. Audit committees in the public sector are required to review coordination between internal and

external audit, reports of significant investigations, as well as management responses to specific recommendations.

5. Role players in Combined Assurance

Some of the role players in Combined Assurance include the following

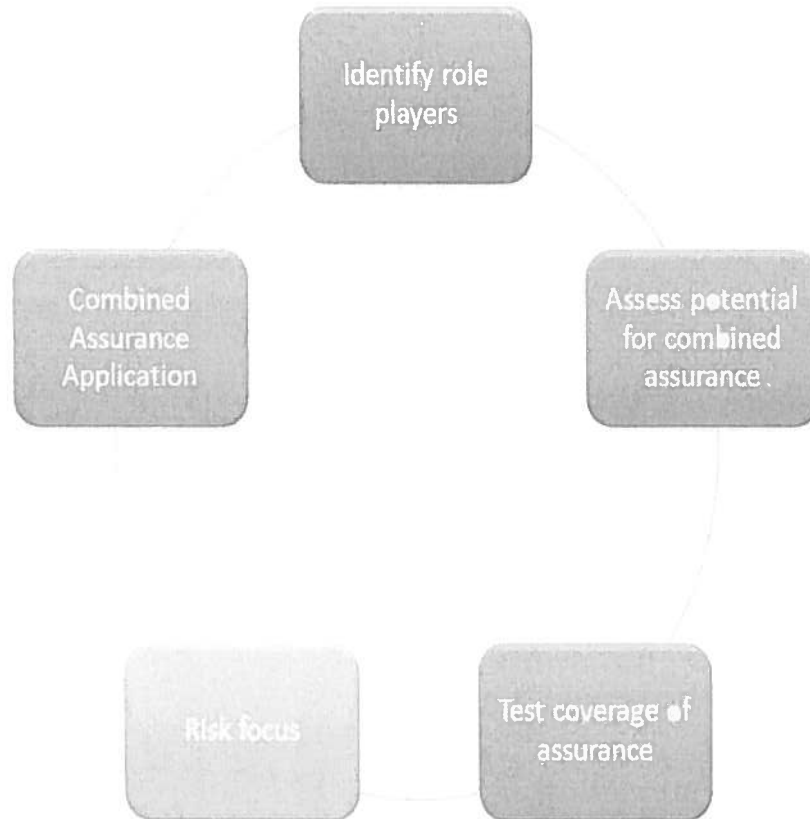
- Audit and Performance Committee
- Municipal Public Accounts Committee (MPAC)
- Risk Management Committee
- Internal Audit
- External Audit
- Legal Services
- Management
- Budget Steering Committee
- Ombudsman
- Occupational Health Function and Structures

It should be noted that the above-mentioned list of role players involved in Combined Assurance are not exhausted and may include other role players as well.

CHAPTER 2

6. Approach

A five-stage process should be employed in ensuring the success of a combined assurance model. This approach is depicted as follows (read clockwise):



7. Step 1: Identifying the Drivers

Step 1 entails the Municipal Manager identifying and appointing a Combined Assurance Champion and an Executive Sponsor

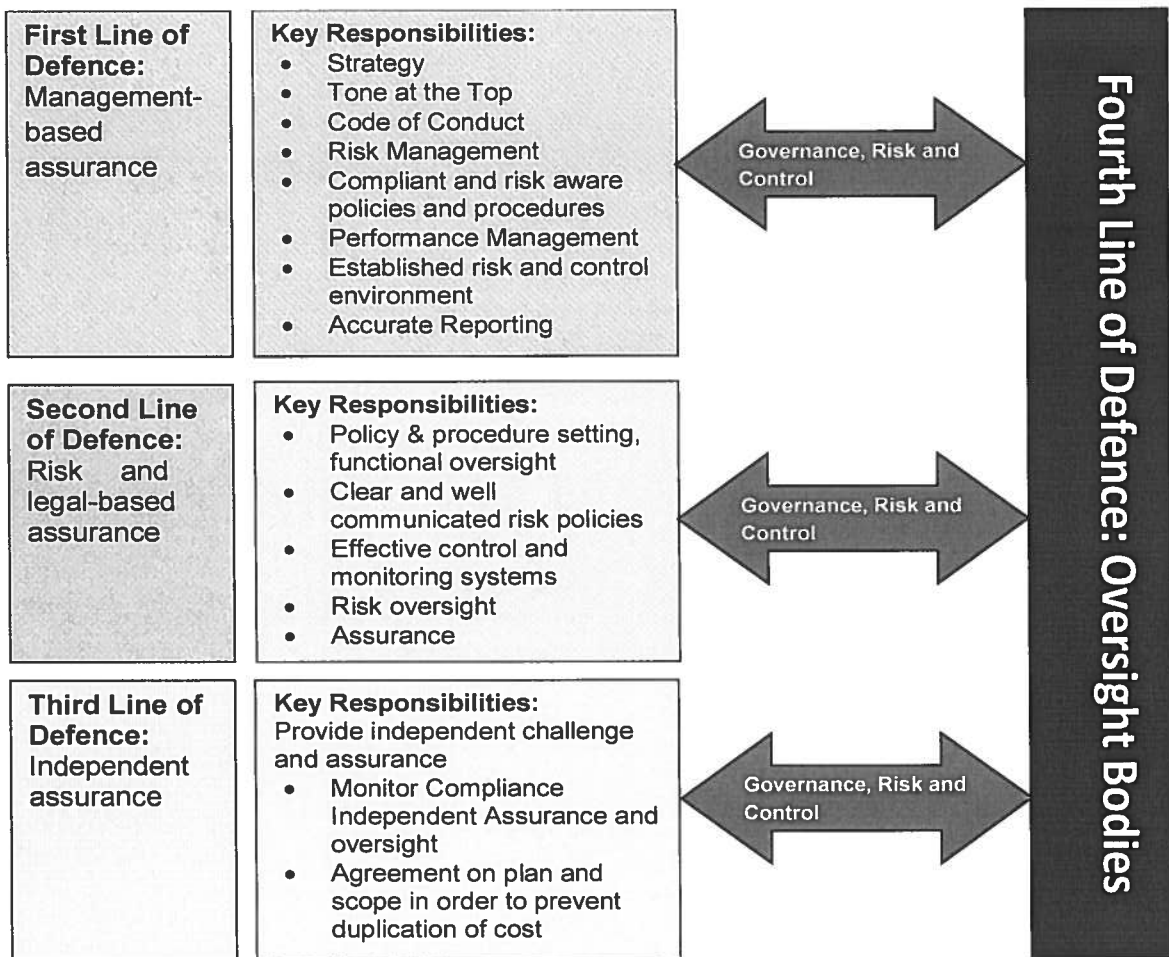
The champion will coordinate the process and ensure process continuity. The executive must be appointed to provide the authority, oversee the process and ensure that co-operation is provided throughout the initiative.

8. Step 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 lines of defense *i.e.* management-based assurance, risk and compliance-based assurance and independent assurance respectively.

The “Defence Concepts” are as follows:



The three lines of defence are elaborated as follows:

- **The first line of defence (Management based assurance):**

Managers, the risk owners, are responsible for ensuring the managing of the risk and are termed the "first line" assurance providers.

The first line of defence is best suited to offer broader assurance coverage

- **The second line of defence (Risk and compliance based assurance):**

The second line of defence comprises corporate functions such as Risk Management, Compliance Officers, Occupational Health and Safety, Legal Services and Internal Control Units

Note: It is recommended that the Combined Assurance Champion be selected from the second line of defence.

- **The third line of defence: (Independent Assurance)**

The third line of defence may be categorised in terms of Audit and Oversight. Internal Audit, Audit Committee, Auditor-General are examples of independent assurance providers that form the third line of defence.

Note: During step 2 of the process an assurance profile should be documented.

9. Step 3: Test Coverage of Assurance

The third stage 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 co-ordinate the activities of and communicate information among the board, external and internal auditors and management. Accordingly, the third stage in the process should be assigned to the Internal Audit activity.

10. Step 4: Risk Focus

In the fourth stage 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 organisation. This step will allow a detailed gap analysis to be developed and to inform the next step in the process.

Here, the different lines of defence will be mapped to the identified risks and detail work actually performed and 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 is not feasible to consider all identified risks in the Combined Assurance Model. It is recommended that the limit is set in terms of risk severity. 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.

11. Step 5: Combined Assurance Application

The final stage requires stakeholder acceptance of the approach and respective responsibilities through identifying the recommended area of assurance and articulating the nature of the assurance activities.

The detailed gap analysis should highlight areas of extensive assurance, moderate assurance, inadequate assurance, no assurance. In this instance, the municipality must apply its discretion in defining extensive, moderate and inadequate assurance.

Note: *Inadequate assurance coverage must be addressed by the Combined Assurance Champion in conjunction with the Executive Sponsor. The third line of defence 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 management and Council ensure that both internal and external assurance providers are appropriately skilled and experienced to follow an adequate approach.

An example of assessment criteria is illustrated in *Table 1* as follows:

Table 1

Category	Minimum requirements
Independence / objectivity	Independent reporting lines, no recent involvement and / or work done in the area / aspects to be audited
Conflict of interest	In the areas / aspects in which assurance is to be provided, there should not be any conflict of interest
Skill and experience	The assurance provider should have the appropriate skills and experience to effectively conduct the assignment
Qualification	The assurance provider should hold appropriate qualifications
Assurance methodology	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
Accreditation body / registration	Ideally, the assurance provider should be accredited or registered with a recognised accreditation body for the areas / aspect over which he/she is providing assurance

12. CULMINATION OF THE PROCESS

The aforementioned process can be documented and reflected on the attached template (Please refer to **Annexure "A"** in this regard). The template details the three lines of defence which is mapped to the risk profile of the organisation. 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 template can also be used for reporting purposes. An annual process must be developed to evaluate and report to the Audit Committee on the *adequacy, effectiveness* and *efficiency* of the development and implementation of the combined assurance framework.

13. ROLES AND RESPONSIBILITIES

Table 2 below summarises the roles and responsibilities as discussed throughout the framework.

Table 2

	Roleplayer	Roles and responsibilities
1.	Accounting Officer	Appoint the champion and executive sponsor
2.	Champion	<ul style="list-style-type: none"> • It is recommended that the champion be selected from the 2nd line of defence (eg Risk Officer). • Obtain annual input from assurance providers. • Complete the template in terms of risks facing the municipality and identifying the assurance providers.
3.	Internal Audit	<ul style="list-style-type: none"> • Verify the capability of the assurance providers. • Test for under or over assurance coverage. • Recommend the adjustment of coverage. • Reporting to the other assurance providers.
4.	Audit Committee	Ensure and monitor the application of combined assurance

14. Glossary of Terms

Framework	A conceptual structure intended to serve as a guide for the building of something that expands the structure into something useful
Assurance	A declaration that inspires or is intended to inspire confidence
Combined assurance champion	The individual appointed to co-ordinate the combined assurance process and ensure process continuity
Executive sponsor	The senior individual appointed to provide authority, oversee the combined assurance process and ensure cooperation throughout the initiative
First line of defence	"Risk owners", responsible for ensuring the managing of the risk. This line of defence has direct involvement, as the executing leg, and will therefore offer broader assurance coverage.
Second line of defence	Internal assurance functions (internal risk and compliance units) such as Enterprise Risk Management, Health and Safety, Legal Service etc.
Third line of defence	Independent (external or not line function) oversight activities / functions such as Internal Audit, Audit Committee, Auditor-General
Extensive assurance	All lines of defence are responding to the risk to the extent that coverage is duplicated.
Moderate assurance	There is a balance between risk severity and assurance coverage
Inadequate assurance	The assurance coverage is not sufficient to ensure effective risk management
No assurance	The risk has eluded all lines of defence and action is needed to respond to the risk.

**OVERSTRAND MUNICIPALITY
FRAMEWORK FOR COMBINED ASSURANCE**

Annexure A Audit Universe by Key Process/Function	Ref	First line of defence: manage			Second line of defence: monitor			Third line of defence: measure			Notes & Key Deliverables	
		Management-based assurance			Risk & Compliance-Based Assurance			Independent assurance				
		Control Assessment	Self Project	Management review	Risk Management	Health and Safety	Compliance Officer	External audit	Internal audit	Audit Committee		Other
Strategic												
	1											
	2											
Operational												
Finance:												
	3											
	4											
Management Services												
	5											
	6											
Infrastructure & Planning												
	7											
	8											
Extensive Assurance												
Moderate Assurance												
Limited Assurance												