

7.
COMBINED ASSURANCE POLICY FRAMEWORK

2/B

Z Mazuthu

12 June 2020

Chief Risk Officer

(028) 313 5084

1. **Executive Summary**

To obtain Council's approval for the Combined Assurance Policy Framework that has been reviewed by the Fraud and Risk Management Committee (FARMCO).

2. **Service Delivery and Budget Implementation Plan - IGNITE**

Directorate: Municipal Manager
Risk Management Unit

3. **Compliance with Strategic Priority**

The provision of democratic, accountable and ethical governance

4. **Delegated Authority**

None

5. **Legal Requirements**

None

6. **Background**

Combined assurance ensures that a co-ordinated (combined) approach is applied in receiving assurance on whether key risks are being managed appropriately within the municipality

Combined Assurance Policy Framework was reviewed by the FARMCO.

There were no significant changes made to the Combined Assurance Policy since the last review, except for:

- Deletion of [2018/19 financial year] where it is indicated throughout the document.
- Amendment of the wording "Risk Management Committee" to "Fraud and Risk Management Committee" throughout the document.
- Deletion of the wording [on annual basis]; and
- Insertion of "periodically and/ or as and when necessary"

GENERAL EXPLANATORY NOTE:

[] Words in bold type in square brackets indicate omissions from existing enactments.

_____ Words underlined with a solid line indicate insertions in existing enactments.

7. Financial Implications

None

8. Staff Implications

None

9. Comments from other Departments, Divisions and Administrations

None

10. Annexures

Annexure A: Overstrand Municipality Combined Assurance Policy Framework

RECOMMENDATION TO THE COUNCIL:

that the Combined Assurance Policy Framework **be approved**.

RESPONSIBLE OFFICIAL :

Z MAZUTHU

TARGET DATE FOR IMPLEMENTATION :

1 JULY 2020

OVERSTRAND MUNICIPALITY



COMBINED ASSURANCE POLICY FRAMEWORK

GENERAL EXPLANATORY NOTE:

[] Words in bold type in square brackets indicate omissions from existing enactments.

 Words underlined with a solid line indicate insertions in existing enactments.

CHAPTER 1	3
1. Introduction	3
2. Purpose of the Document	3
3. The Definition of Combined Assurance.....	3
4. The Definition of a Combined Assurance Model	3
5. Background Information	4
6. Benefits of Combined Assurance.....	4
7. Role players in Combined Assurance	4
CHAPTER 2	4
8. Approach.....	4
9. Step 1: Identifying the Drivers	5
10. Step 2: Assess Potential for Combined Assurance.....	5
11. Step 3: Test Coverage of Assurance	6
12. Step 4: Risk Focus.....	6
13. Step 5: Combined Assurance Application	6
14. Culmination of the Process	7
15. Roles and Responsibilities	7
16. Review of the Combined Policy Assurance Framework.....	7

CHAPTER 1

1. Introduction

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

2. Purpose of the Document

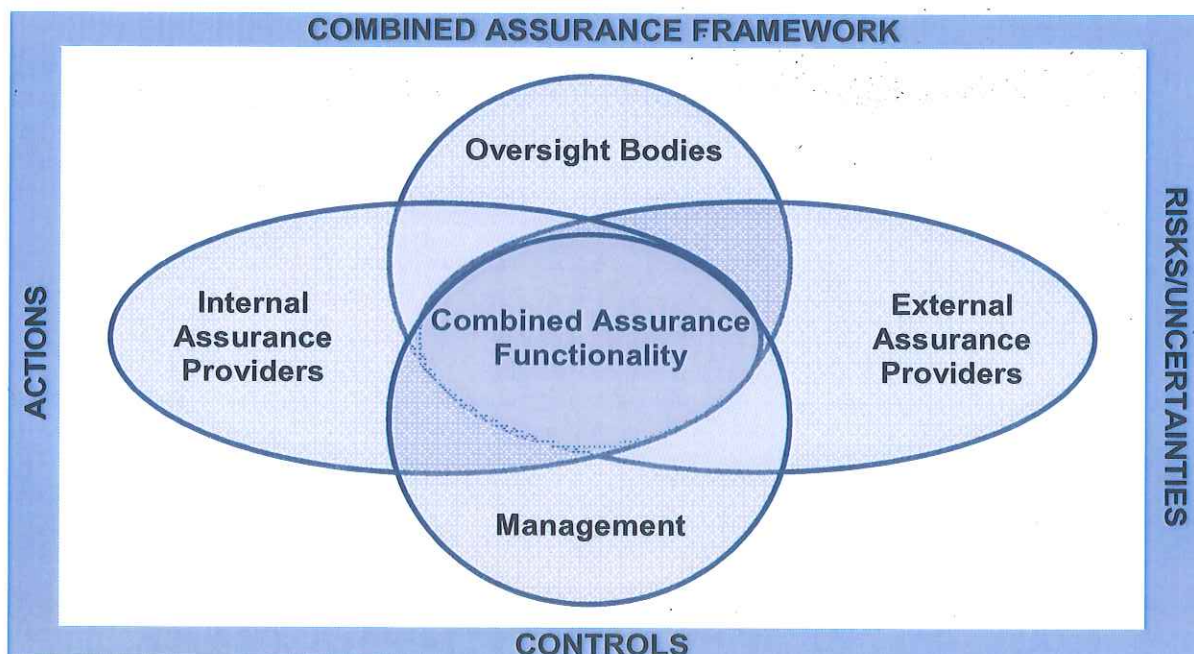
A framework is defined as a conceptual structure intended to serve as a guide for the building of something that expands the structure into something useful. The Combined Assurance Policy Framework is a guide that must be adapted according to the structure, complexity and capability of [each] the municipality.

3. The Definition of Combined Assurance

Combined assurance can be defined as “Integrating, coordinating and aligning the risk management and assurance processes within the municipality to optimise and maximise the level of risk, governance and control oversight over the municipality’s risk landscape.”

4. The Definition of a Combined Assurance Model

The Combined Assurance Model can be defined as “The planned approach to assess the extent and adequacy of assurance coverage on key/ top organisational risks and reporting thereon to the Fraud and Risk Management Committee (FARMCO), Audit Committee and Municipal Council.”



5. Background Information

For each organisation there are various assurance providers that either directly or indirectly provide certain assurances over the effectiveness of the controls that mitigate the risks identified during the risk assessments.

The concept of combined assurance is supported by the King IV Code (principle 15) which states that the governing body should ensure that assurance services and functions enable an effective control environment, supporting the integrity of information for internal decision-making and of the organisation's external reports.

6. Benefits of Combined Assurance

- Identifying all direct and indirect assurance providers;
- Agreement on standards and a coordinated approach by all role players involved in providing assurance;
- Better understanding of the key risks;
- Understanding who provides assurance over key risks;
- Aligning assurance to the key risks, resulting in coordinated and relevant assurance efforts focusing on the key risks;
- Comprehensive and prioritised tracking of remedial actions;
- Reducing repetition of reports reviewed by different committees and overall improved reporting;

7. Role players in Combined Assurance

Some of the role players in combined assurance include the following:

- Fraud and Risk Management Committee (FARMCO)
- Joint Audit and Performance Audit Committee (JAPAC)
- Risk Management Unit
- Internal Audit Services
- External Auditor / Auditor-General
- Performance Management Unit
- Legal Services
- Information and Communication Technology Function
- Management
- Occupational Health and Safety Function
- Government departments, entities and regulators
- Municipal Council

CHAPTER 2

8. Approach

A five-stage process should be employed in ensuring the success of a Combined Assurance Model.

9. Step 1: Identifying the Drivers

Step 1 entails the Municipal Manager identifying and assigning a Combined Assurance Champion.

The Chief Risk Officer will be the Combined Assurance Champion, who will coordinate the process and ensure process continuity.

10. 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, i.e. an assurance profile should be documented.

Ideally, Assurance Providers should be separated in terms of first, second and third lines of defence *i.e.* management-based assurance, risk and compliance-based assurance and independent assurance and oversight respectively.

The three lines of defence are elaborated as follows:

- **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.

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

The second line of defence comprises corporate functions such as Risk Management, Performance Management, Occupational Health and Safety, Legal Services, Information and Communication Technology and other Compliance Officers as per Internal Control Units.

- **Third line of defence: (Independent Assurance and Oversight)**

The third line of defence may be categorised in terms of independent assurance and oversight.

Internal Audit Services and the Auditor-General are independent assurance providers.

Oversight bodies can consist of internal and external bodies.

Internal oversight bodies include the Fraud Risk Management Committee, Joint Audit and Performance Audit Committee and Municipal Council.

External oversight bodies can include National and Provincial government departments and applicable chapter 9 institutions.

11. 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, how often it is being done and for what reasons. This test will ensure coordination of efforts and eradicate duplication.

12. 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 Municipality. This step will allow a detailed 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 Municipality and 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 the residual risk rating. The residual 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.

13. 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 analysis should highlight areas of extensive assurance, adequate assurance, inadequate assurance and no assurance. The assurance coverage is defined as follows:

Coverage	Definition
Extensive assurance	All lines of defence are responding to the risk to the extent that coverage is duplicated.
Adequate assurance	There is a balance between risk severity and assurance coverage.
Inadequate assurance	The assurance coverage is insufficient to ensure effective risk management.
No assurance	The risk has eluded all lines of defence and action is needed to respond to the risk.

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.

The following criteria for the credibility of assurance will apply:

Criteria	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 be no conflict of interest.
Skill and experience	The assurance provider should have the appropriate skills and experience to effectively conduct the assignment.
Qualifications	The assurance provider should hold appropriate qualifications.

An annual process must be developed, to evaluate and report to the Fraud and Risk Management Committee on the *adequacy, effectiveness* and *efficiency* of the development and implementation of the Combined Assurance Policy Framework.

14. Culmination of the Process

The aforementioned process can be documented and reflected in a Combined Assurance Model. The Model details the three lines of defence which is mapped to the risk profile of the municipality. The cross reference will then detail the assurance coverage. Judgement can be made on over or under assurance and adjustments may be made accordingly.

15. Roles and Responsibilities

The table below summarises the roles and responsibilities:

Role player	Roles and responsibilities
Accounting Officer	Appoints the Chief Risk Officer as champion of the combined assurance function.
Combined Assurance Champion	Obtain input from assurance providers; Complete the template in terms of the top risks facing the municipality and identify the assurance provided by each assurance provider.
Internal Audit Services	Verify the capability of the assurance providers. Test for under or over assurance coverage. Recommend the adjustment of coverage. Report to the other independent assurance provider and JAPAC.
<u>FARMCO</u>	Ensure and monitor the application of combined assurance and report to the Accounting Officer and/or Council. Review and approve the Combined Assurance Policy Framework [on an annual basis] periodically; and/ or as and when necessary.
JAPAC	Monitor the coordination and effectiveness of combined assurance activities and provide recommendations for improvement.

16. Review of the Combined Policy Assurance Framework

The Combined Assurance Policy Framework will be reviewed [**on an annual basis**] periodically and/ or as and when necessary, by the Fraud and Risk Management Committee and, approved by Council for implementation.

Review history:

Policy Section	Risk Management Unit
Current update	
Previous review	27 June 2018
	27 September 2017
Approval by Council	29 April 2015