

# OVERSTRAND MUNICIPALITY



## COMBINED ASSURANCE POLICY FRAMEWORK

2018 – 2019

*Approved by Council  
27 June 2018*

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## 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

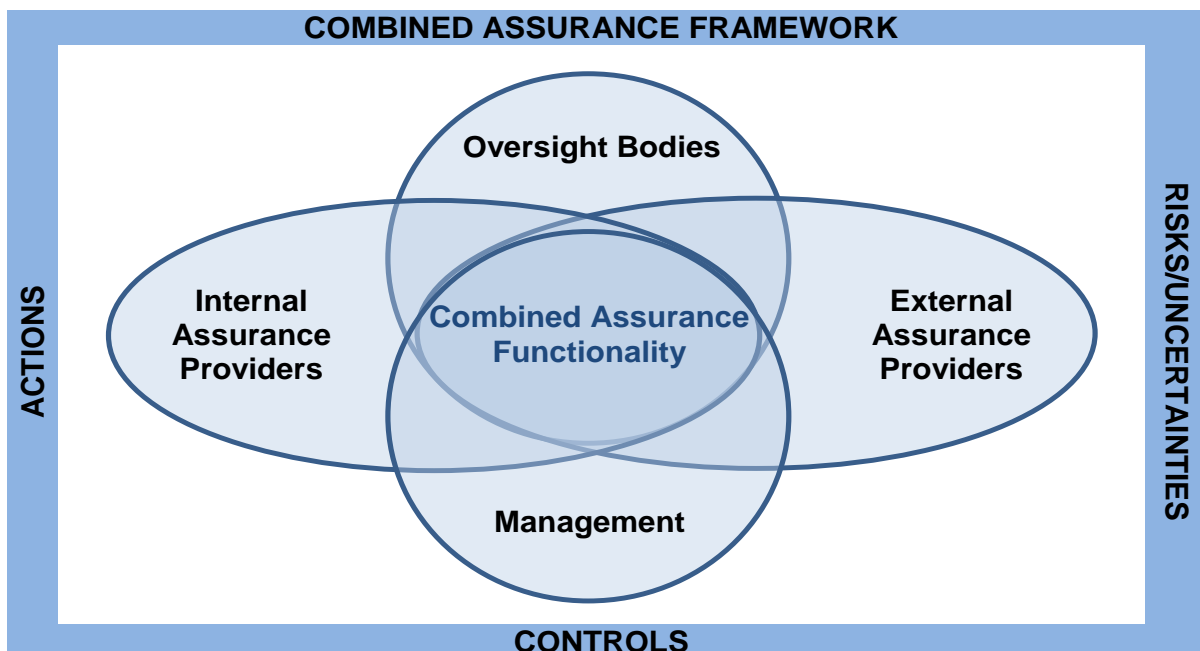
A framework is defined as a conceptual structure intended to serve as a guide for the building of something that expands the structure into something useful. The Combined Assurance Policy Framework is a guide that must be adapted according to the structure, complexity and capability of the Municipality.

## 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 organisational risks and reporting thereon to the Risk Management Committee, 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:

- Risk Management Committee (RMC)
- 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

## 8. Approach

A five-stage process should be employed in ensuring the success of a combined assurance model.

### 8.1. 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.

## 8.2. 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, Strategic Services (IDP), Performance Management (SDBIP), Occupational Health and Safety, Legal Services, Information and Communication Technology, Contract Management and Asset Management (insurance).

The preceding list is currently utilised within the Combined Assurance Model. However, this is not static in nature or fully exhausted, hence the annual review of this policy framework.

- Third line of defence (Independent Assurance and Oversight)

The third line of defence provides independent assurance and oversight on the functioning of the governance, risk and control environment maintained by the first and second lines of defence.

Internal Audit Services and the Auditor-General are independent assurance providers. National, Provincial and District government departments, entities and regulators that independently perform their functions may also be classified as third line assurance providers. (e.g. Blue Drop Certification by Department of Water and Sanitation)

Oversight bodies consist of internal and external bodies. Internal oversight bodies include the Risk Management Committee, Joint Audit and Performance Audit Committee and Municipal Council (including Council committees). External oversight bodies can include National, Provincial and District government departments, entities and regulators and applicable chapter 9 institutions.

The preceding list is currently utilised within the Combined Assurance Model. However, this is not static in nature or fully exhausted, hence the annual review of this policy framework.

### 8.3. Step 3: Application of Residual Risk Exposure

In the third stage a full understanding is established of what assurance is currently being provided and what needs to be provided based on all risk levels (strategic, operational, project, incident, emerging) of the Municipality. This step is informed by a comprehensive risk assessment which informs the next step in the process.

Here, the different lines of defence will respond to the identified risks (as per selection above risk appetite) and detail work actually performed and the expected assurance. It becomes imperative for the risk actions to be relevant to and address the most important risks of the Municipality which should be 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.

### 8.4. Step 4: Determination of the Coverage of Assurance

The fourth stage in the process is to update the coverage of assurance. Although it is formally reported on a quarterly basis, monthly interventions are required 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 will ensure coordination of efforts and eradicate duplication.

### 8.5. 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. The independence, objectivity, conflicts of interest, skills, experience and qualifications of the assurance provider must be considered holistically to determine whether the assurance provided is credible.

Attribute	Description
Independence/ objectivity	Independent reporting lines, no recent involvement and/or work done in the area/aspects requiring assurance.
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.

Management and Council should ensure that both internal and external assurance providers are appropriately skilled and experienced to follow an adequate approach.

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

## 9. Policy Directive

The aforementioned process must be documented and reflected in a Combined Assurance Model. The Model details the three lines of defence which should be responded to in terms of risk actions as per risk formulation and assessment processes. The cross reference will then detail the assurance coverage. The Model will be used for quarterly reporting processes (monthly interventions still required).

The quarterly process institutes the platform to evaluate and report to management on the adequacy, effectiveness and efficiency of the development and implementation of the combined assurance policy framework.

Internal Audit Services must on a bi-annual basis express an opinion on the overall assurance coverage and recommend the adjustment of coverage (in terms of structures and processes of the Combined Assurance Model), if necessary, to the Combined Assurance Champion.

## 10. 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 annual input from assurance providers. Complete the Combined Assurance Model in terms of risks facing the municipality and identifying the assurance providers.
Internal Audit Services	Express an opinion on the overall assurance coverage. Recommend the adjustment of coverage, if necessary, to the Combined Assurance Champion. Report to the JAPAC.
RMC	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.

Role player	Roles and responsibilities
JAPAC	Monitor the coordination and effectiveness of combined assurance activities and provide recommendations for improvement.

### 11. Review of the Combined Policy Assurance Framework

The Combined Assurance Policy Framework must be reviewed and approved by the Risk Management Committee annually. Any significant changes must be approved by the Municipal Council.

Review history:

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