

OVERSTRAND MUNICIPALITY



COMBINED ASSURANCE POLICY FRAMEWORK

*Approved by Council
30 August 2023*

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1. SECTION 1

Glossary of Terms

Accountability	The obligation to answer for the execution of responsibilities. Accountability cannot be delegated, whereas responsibility can be delegated without abdicating accountability for that delegated responsibility.
Accounting Officer (AO)	As defined in terms of section 1 of the Municipal Finance Management Act (MFMA), it means “a municipal official referred to in section 60 of that Act, a Municipal Manager”.
AGSA	Auditor General of South Africa
Assurance	<p>The diligent application of mind to evidence, resulting in a statement or declaration concerning an identified subject matter or subject matter information, and that is made for the purpose of enhancing confidence in that subject matter or subject matter information.</p> <p>Assurance includes, but is not limited to, assurance engagements performed by independent, external assurance service providers (such as external auditor) in accordance with the relevant International Auditing and Assurance Standards. Such assurance relates to an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation of a subject matter.</p> <p>Assurance furthermore includes, but is not limited to, assurance provided in terms of the International Standards for the Professional Practice of Internal Auditing, “an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation.”</p>
Chief Audit Executive (CAE)	A senior official who is the head of the IAA.
Chief Risk Officer (CRO)	A senior official who is the head of the RMU.
Combined Assurance (CA)	Combined assurance is defined as integrating, coordinating and aligning the risk management and assurance processes within the organisation to optimise and maximise the level of risk, governance and control oversight over the organisation’s key risks.

Combined Assurance Champion (CAC)	A person appointed by the AO as a Champion of the combined assurance function. The Champion coordinates the combined assurance process within the OM.
Combined Assurance Model (CAM)	The CAM is defined as the planned approach to assess the extent and adequacy of assurance coverage on key/ top organisational risks and reporting thereon to the FARMCO, JAPAC and OM Council. As defined by King IV, “a CAM incorporates and optimises all assurance services and functions so that, taken as a whole, these enable an effective control environment; support the integrity of information used for internal decision-making by management, the governing body and its committees; and support the integrity of the organisation’s external reports.”
Council	Council of a municipality as referred to in Section 1 of the Municipal Structures Act, and as defined in Section 1 of the MFMA.
Fraud and Risk Management Committee (FARMCO)	A committee appointed by the AO to govern (guide, monitor and review) the OM’s system of RM.
Governance	The act of directing, controlling and evaluating the culture, policies, processes, laws and mechanisms that define the structure by which an organisation is directed and managed.
ICT	Information and Communication Technology
Internal Audit (IA)	An independent, objective assurance and advisory activity, designed to add value and improve organisation’s operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.
IAA	Internal Audit Activity/ unit
Internal Controls (IC)	Processes designed to provide reasonable assurance on the achievement of objectives.

Independence	Generally, means the exercise of objective, unfettered judgement. The absence of an interest, position, association or relationship which, when judged from the perspective of a reasonable and informed third party, is likely to influence unduly or cause bias in decision-making.
Joint Audit & Performance Audit Committee (JAPAC)	An independent committee constituted to review the effectiveness of governance, risk management and control processes within the municipality, established in terms of section 166 of the MFMA.
King III	King III Report on corporate governance in South Africa, 2009.
King IV	King IV Report on corporate governance in South Africa, 2016, and specifically part 6.2: Supplement for municipalities
Lines of Assurance (LoA)	Different lines of assurance providers, i.e: <ul style="list-style-type: none"> • 1st Line of Assurance - Management based assurance • 2nd Line of Assurance - Risk and compliance based assurance • 3rd Line of Assurance – Independent Assurance and Oversight Boards
MAYCO	Relevant Mayoral Committee
MFMA	Local Government Municipal Finance Management Act, No. 56 of 2003).
MPAC	Municipal Public Accounts
OM	Overstrand Municipality
OHS	Occupational Health and Safety
PMU	Performance Management Unit
Responsibility	Taking ownership of a duty, obligation or liability.
Risk	Risk is about the uncertainty of events; including the likelihood of such events occurring and their effect/ impact, both positive and negative, on the achievement of the organisation's objectives.
Risk Appetite (RA)	The amount and type of risk that a municipality is willing to take in pursuit of its objectives.

Risk Management (RM)	A systematic and formalised process to identify, assess, manage and monitor risks
Risk Management Unit (RMU)	A business unit responsible for coordinating and supporting the overall municipal risk management process, but does not assume the responsibilities of management for identifying, assessing and managing risks.
Risk Owner (RO)	A person accountable for managing a particular risk within the municipality.
Risk Tolerance (RT)	The amount of risk the municipality is capable of bearing (as opposed to the amount of risk it is willing to bear “risk appetite”).
TMT	Top Management Team

2. Introduction

The CA Policy Framework aims to inform and guide, in a simple manner, on how CA will be implemented, to create confidence in the assurance provided over key/ top risks of the OM.

3. Purpose

The purpose of this document is to give effect to the OM's commitment to the implementation of CA, as part of good governance outlined in the King reports. To enable assurance providers to develop a mutual understanding and ensure clarity regarding the roles and responsibilities of each assurance provider, to enhance the system of RM within the OM.

4. 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 CA 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.

5. Regulatory Context

The CA Policy Framework has been developed in terms of Section 62(1)(c)(i) of the MFMA, which requires the AO to ensure that the OM has and maintain effective, efficient and transparent systems of financial, RM and IC.

6. Best practice frameworks

The framework incorporates the requirements of the Local Government: RM Framework (2021) and the King IV report; insofar as they concern RM and CA. King IV has specific guidance for municipalities, included in Part 6.2 - Supplement for municipalities.

The King reports are observed as part of the leading governance codes competing favourably with other international codes, also regarding its reference to RM and how it should be dealt with within municipalities. King IV (Principle 11) addresses the responsibility of risk, mostly as these pertain to the Council and its subcommittees.

7. Benefits of CA

- 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 risk-based approach in tracking remedial actions on identified risks;
- Reducing repetition of reports reviewed by different committees and overall improved efficient reporting;

8. Approach

A five-stage process is employed in ensuring the success of a CAM.

8.1 Step 1: Identifying the Drivers

The AO identifies and assign a CAC.

The CRO is the appointed CAC, who coordinates the process and ensures the process continuity. The JAPAC and FARMCO will oversee the CA process and ensure that coordination and cooperation is provided by all relevant stakeholders.

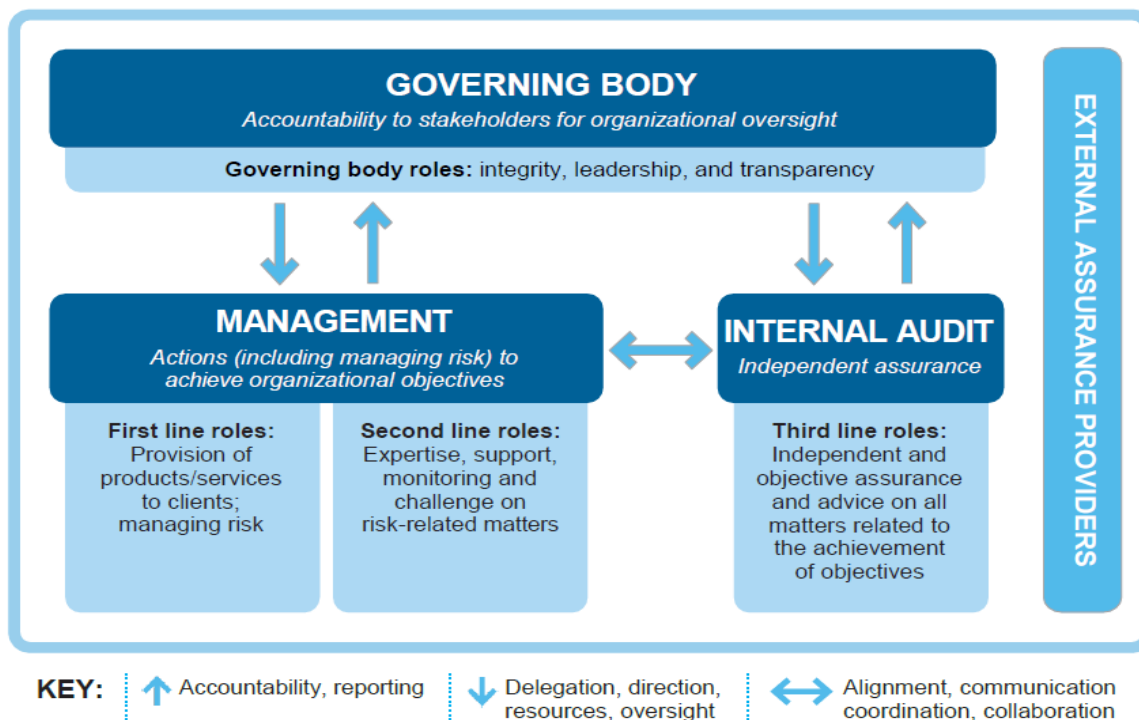
8.2 Step 2: Assess Potential for CA

Establish a high-level understanding of who the assurance providers are for the risk exposures facing the OM, i.e. an assurance profile is documented.

The assurance providers are separated in terms of first, second and third lines of assurance *i.e.* management-based assurance, risk and compliance-based assurance and independent assurance and oversight respectively, with their associated roles.

The OM uses the Institute of Internal Auditors three lines of assurance model and associated roles as its guide in implementing the CA. The model and associated roles are depicted and elaborated as follows:

The IIA’s Three Lines Model



- **First Line of Assurance - Management based assurance:**

Management, which includes the AO, the Senior Management and the process owners, are responsible for ensuring proper control, RM and governance processes. Their role is designed around the provision of municipal services to the public/customers, establishing a system of financial management and IC; and to actively manage risks within their areas of responsibility.

A key element of management's responsibility is the extent of management reviews and the actions that follow. Management reports and associated representations should offer relevant assurance.

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

Reporting lines – TMT. The AO thus reports to the Executive Mayor.

- **Second Line of Assurance – Risk and compliance based assurance:**

The second line of assurance provides risk, control and compliance assurance, reporting primarily to management and oversight bodies. It comprises corporate functions such as, but not limited to, RM, PMU, OHS, Legal Services, Information and Communication Technology, Environmental Services. The list is not static in nature or fully exhausted and may be reviewed, as necessary, in alignment with the context of the organisation.

The role of the second line is designed around their RM, compliance and monitoring expertise, and specifically around ongoing monitoring of risks and to challenge the first line on risk related matters;

Reporting lines – FARMCO, OHS Forums, ICT Steercom and other regulatory forums.

- **Third Line of Assurance – Independent Assurance and Oversight Boards:**

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

IAA provides independent and objective assurance and advice on all matters related to RM, IC and governance aimed towards the achievement of municipal objectives.

- **Additional sources of Assurance:**

External Auditors and Regulators (e.g. AGSA, National and Provincial Treasury, etc) are additional sources of assurance, although their legal mandate positions them outside the organisation. External auditors provide assurance regarding the financial statements and the corresponding transactions, as well as assurance on compliance with key legislation, regulations, policies and procedures.

The independent oversight bodies, Council and JAPAC are also additional sources of assurance. The JAPAC enables Council to fulfil its responsibilities by executing its responsibilities as stated in Section 166(2) of the MFMA

The Relationships between the Lines of Assurance

One key difference is the gearing towards the certainty of the achievement of objectives rather than a primary focus on reducing risk. It includes the following:

- Council delegates responsibility to management, directs the organisation towards the achievement of its objectives, provides resources (assets, human and funding), and provides effective oversight. It also directs, through the JAPAC, the responsibility to IA, to direct their audit plan towards a risk-based audit approach, and provides resources and oversight regarding their effectiveness;
- Management reports to Council on pre-determined times and is held accountable for their responsibilities;
- IA reports to the JAPAC on pre-determined times and is held accountable for their responsibilities; and
- External assurance providers and regulators, who are independent of the organisation, provide assurance to Council as well as senior management.

The CA approach aims to improve coordination and communication of timely and accurate information to Council to aid in better decision-making. This requires collaboration and high correlation to reduce duplication of effort and more cost-effective assurance.

8.3 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 of work.

8.4 Step 4: Risk Focus

Here the different lines of assurance respond to the identified risks (as per selection above risk appetite) and detailed work actually performed and the expected assurance. It is imperative for the risk actions to be relevant and to address the most important risks of the OM which should be managed on a consistent basis. Risk information is updated quarterly and centrally maintained.

It is not feasible to consider all identified risks in the CAM, the limit is set in terms of risk severity. The risk rating is therefore a criteria for incorporation in the CAM.

8.5 Step 5: CA 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 highlight areas of extensive assurance, adequate assurance, inadequate assurance and no assurance. The assurance coverage is defined as follows:

Coverage	Definition
Extensive assurance	All assurance providers 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 assurance providers and action is needed to respond to the risk.

The assurance provided must be credible. Management and the Council must 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.

A process is developed to evaluate and report to FARMCO and JAPAC, the *adequacy*, *effectiveness* and *efficiency* of the development and implementation of the CA Policy Framework.

9. Culmination of the Process

The aforementioned process is documented and reflected in a CAM. The model details the three lines of assurance, which is mapped to the risk profile of the OM. The cross reference details the assurance coverage. Judgment is made on over or under assurance and adjustments are made accordingly.

10. Review of the Combined Policy Assurance Framework

The Combined Assurance Policy Framework will be reviewed periodically and/ or as and when necessary, by FARMCO, Municipal Manager and, approved by Council for implementation.

Review history:

Policy Section	Risk Management Unit
Current update	30 August 2023
Previous review	24 June 2020
	27 June 2018
	27 September 2017
Approval by Council	29 April 2015