



# Combined Assurance Model for Public Sector

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# Presenter

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# Agenda

- ▶ **Introduction**
- ▶ **Risk Management**
- ▶ **Combined assurance model**



# Introduction

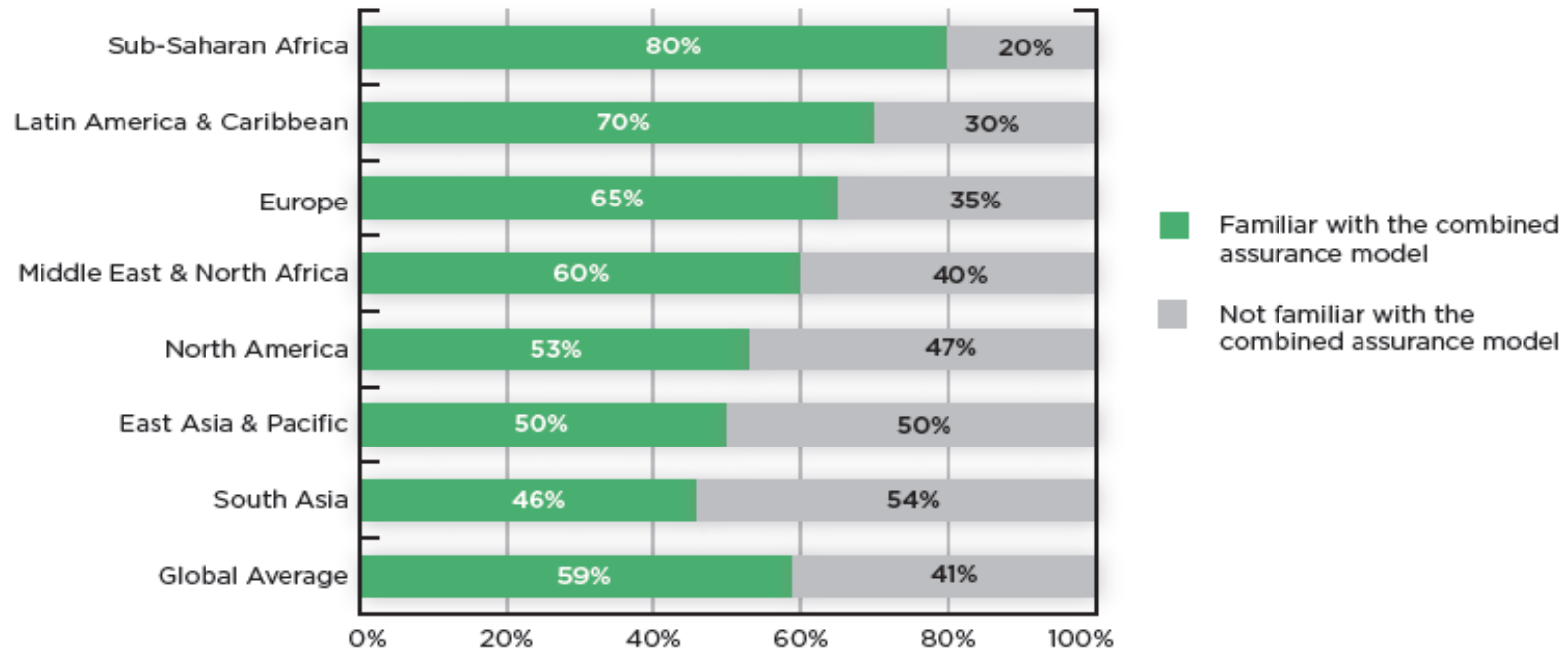


## Why are we seeing corporate failures

Reasons for significant value destruction across a number of industries over the past 3 years, globally and in South Africa highlighted several ***apparent failures*** in terms of:

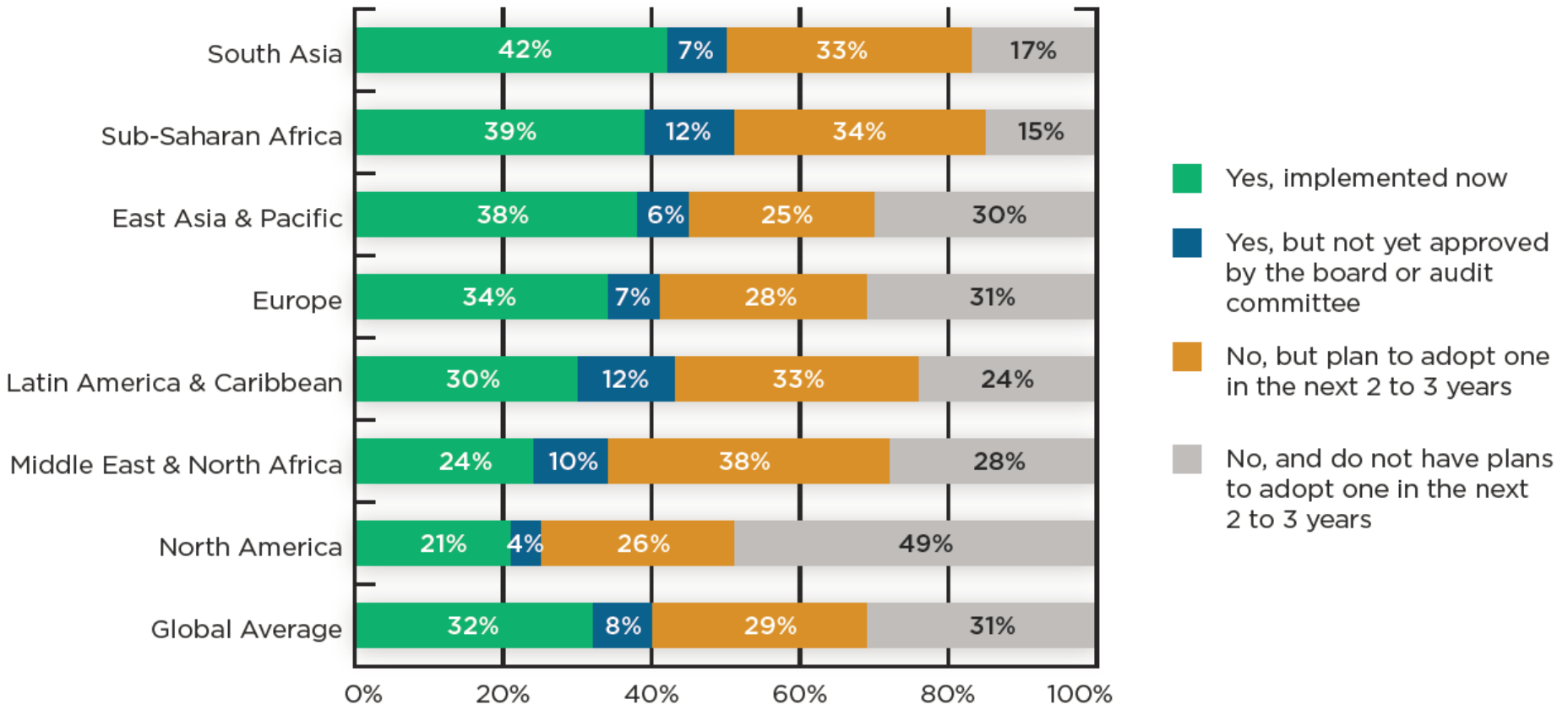
- Understanding the nature and quantum of risk,
- Appropriate involvement in risk assurance oversight at Board level,
- Strategy and operating models that are able to appropriately respond to declining market conditions,
- Understanding relationships with key stakeholders,
- Regulatory compliance strategies that are unable to deal with onerous and ever-changing laws, and
- Risk assurance strategies that provide not only appropriate levels of assurance, but also sufficient personal protection for the Board/Council and Executive management.

# Introduction



CBOK (The Global Internal Audit Common Body of Knowledge) 2015 survey results show that knowledge and implementation of the combined assurance concept is not yet widespread.

# Introduction



# Introduction

## CONSOLIDATED GENERAL REPORT on the local government audit outcomes

**MFMA**  
2018-19

### OVERALL AUDIT OUTCOMES

OVERALL  
REGRESSION  
IN AUDIT  
OUTCOMES



**46** Regressed  
**33** Improved



#### Outstanding audits

The audits of **28** municipalities were not finalised by 31 January 2020

#### Clean audits



**8%**   
(2017-18: 7%)

#### Quality financial statements



**48%**   
(2017-18: 52%)

**18% (43)**

Municipalities submitted financial statements without material misstatements

Cost of consultants to assist in financial statement preparation

**R1,26 billion \***

**59% (134)**

Financial statements submitted for auditing included **material misstatements in areas in which consultants did work**

\* Consultant costs include **R741 million** for audits completed by 31 January 2020 and **R522 million** relating to outstanding audits or audits subsequently finalised

#### No findings on performance reports



**33%**   
(2017-18: 37%)

**48% (109)**

Achievement reported not reliable

#### No findings on compliance with legislation



**9%**   
(2017-18: 8%)

#### Irregular expenditure



**R32,06 billion \*\***   
(2017-18: R24,38 billion)

\*\*Irregular expenditure includes **R21,46 billion** (2017-18: R16,63 billion) for audits completed by 31 January 2020 and **R10,60 billion** (2017-18: R7,75 billion) relating to outstanding audits or audits subsequently finalised

# Introduction

The **assurance provided** by the different role players in local government **regressed overall**.

## ASSURANCE PROVIDERS

Senior management,  
municipal managers and  
mayors **slightly regressed**

Internal audit units  
and audit committees  
**slightly regressed**

National and  
provincial role players  
**slightly regressed**

Municipal public  
accounts committees  
**regressed**

## STATUS OF CONTROLS

**19%**

Overall internal controls  
**regressed**

**12%**

Basic financial and  
performance management  
controls **regressed**

**27%**

Human resource  
management controls  
**slightly regressed**

**2%**

Information technology  
controls **slightly regressed**



# Understanding Combine Assurance

- ▶ **Risk management** is the **foundation** of the combined assurance process and should establish risk-based criteria for dealing with control failures on a consistent and strategically aligned basis to ensure strategic and organisational objectives and goals are achieved.
- ▶ All significant risks relating to each activity should be listed and evaluated (assured) by each assurance provider.
- ▶ **Assurance** over **effective implementation risk** mitigation factors should be given.
- ▶ The '**right amount of assurance**' depends on the risk appetite of the organisation.



# Understanding the Risk Management Process

- ▶ The integrated / combine assurance process and associated output should provide the executive and the board with the necessary comfort that the enhanced performance will be achieved. If not, where are the gaps?



# Definition of risk

Risk is an uncertain event, which could influence the achievement of the organisation's objectives (strategy). These could include strategic, operational, financial and compliance objectives. Some risks must be taken in pursuing opportunity, but the organisation should be protected against avoidable losses.

# How can you manage risks?

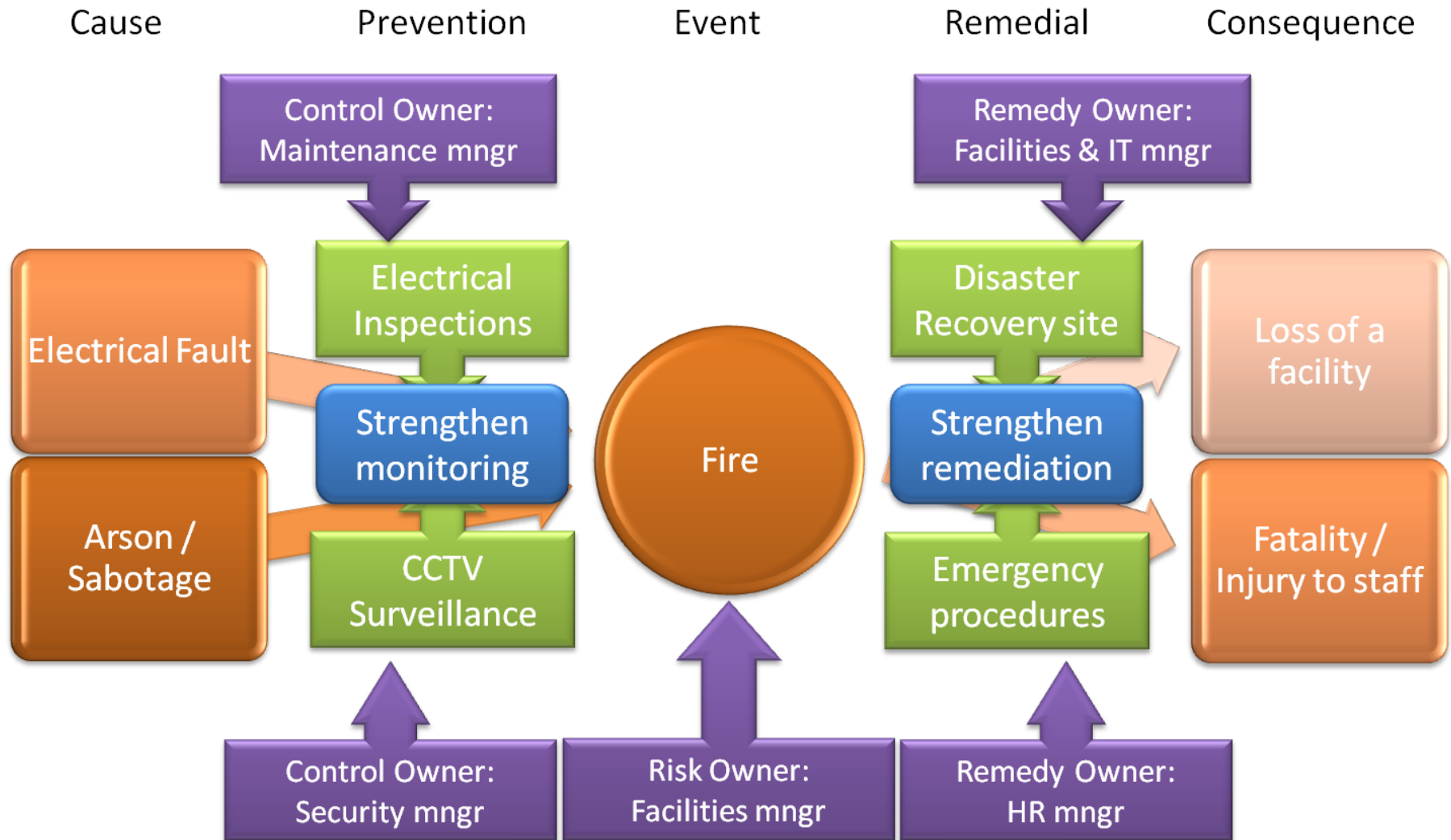
- ▶ It may not be possible to prevent all risks from occurring, but we may be able to reduce, avoid or transfer some of the risks and in some instances we have to accept the risk.

Risk	Consequence	Risk Response	Controls
Accidents	Injury, death, loss of vehicle	Reduce / transfer	Insurance, seatbelts, adhere to the speed limit.
Traffic jams	Being late for work, meetings	Avoid	Identify alternative routes to work. Make use of Public Transport
Road closures	Being late for work, meetings	Avoid	Identify alternative routes to work. Make use of Public Transport
Road blocks	Being late for work, meetings	Accept	Communicate and inform people of potential delays.
Public transport delays	Being late for work, meetings	Avoid	Make use of alternative means of transport.
Bad weather	Accidents, being late for work and meetings, injury, death	Reduce, avoid, accept	Insurance, Leave for work earlier, be more vigilant.
Being high-jacked	Injury, death, loss of vehicle	Reduce	Insurance, smash and grab, vehicle tracking.

# Purpose of controls

- Internal controls are processes put into place by management to help organisation operate efficiently and effectively to achieve its objectives.
- The purpose of internal controls are to:
  - Protect assets;
  - Ensure that records are accurate;
  - Promote operational efficiency;
  - Achieve organizational mission and goals; and
  - Ensure compliance with policies, rules, regulations, and laws.
- Control activities relate to the policies, procedures, processes and controls implemented to respond to specified future events. Risk treatment involves a cyclical process of:
  - Assessing a risk response
  - Deciding whether residual risk levels are tolerable
  - If not tolerable, generating a new risk treatment
  - Assessing the effectiveness of that treatment

# Practical application



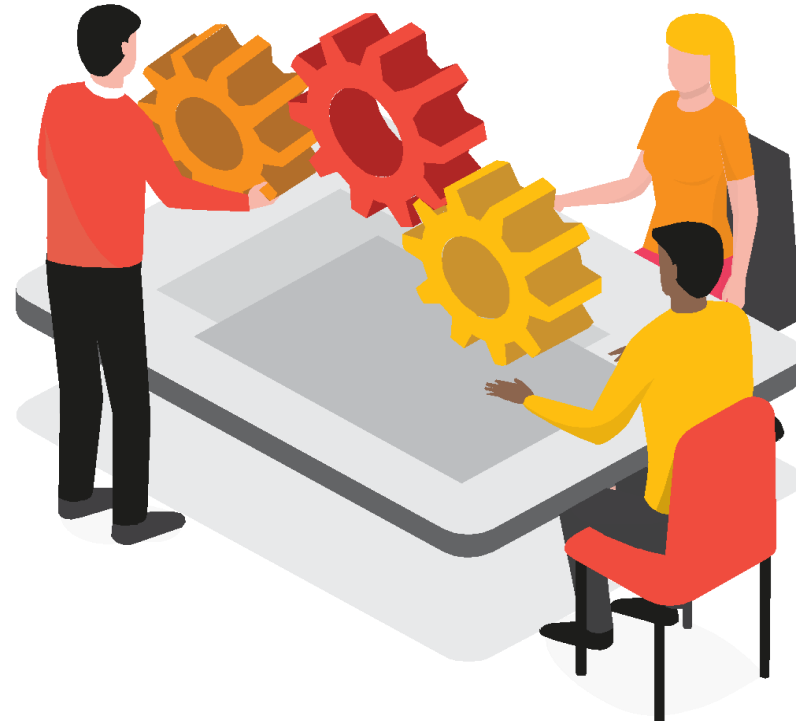
# Control activities

## Control Activities

- The policies and procedures that help ensure that management directives are carried out.

## Key Control

- A control typically providing the most effective mitigating evidence to diminish the risk to an acceptable level.



# Assurance process



Understand the Control Environment

Understand the Control Activities

Develop Testing Approach

Perform Testing (focusing on key controls)



# Effectiveness of controls

- Operating effectiveness of the control is tested by making selections and obtaining sufficient and appropriate evidence.
- **Inquiry alone will not provide sufficient evidence** to support a conclusion about the effectiveness of a specific control.
- **Consider** the need to **get further support** by examining reports, manuals or other documents used in or generated by the performance of the control.
- We need to develop an understanding of what the control operator (i.e., the 1<sup>st</sup> line) does and how the 1<sup>st</sup> line (management) executes the control in order to assess the level of precision and effectiveness:
- First and foremost, we need to understand the intended purpose of the control – without this understanding we cannot effectively evaluate the control.
- Consistency of performance
- Obtain a sufficient understanding of the controls in place – the aggregation of controls
- Use **professional skepticism** to assess if the control activities are sufficient to address the related risk
- Evaluate the **severity of control deficiencies**, individually and in the aggregate, in order to appropriately determine whether internal controls are effective or not

# What is combined assurance?

Principle 3.5 of the King Report introduced combined assurance as a recommended governance practice. King III defines combined assurance as integrating and aligning assurance processes in an organisation to maximise risk and governance oversight and control efficiencies, and optimise overall assurance to the audit and risk committee, considering the organisations risk appetite.

King IV expands on this concept by indicating that a combined assurance model 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 decision-making by management, the governing body and its committees; and support the integrity of the organisation external reports.

“The audit committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance providers”



# What is combined assurance?

Combined assurance is about assurance providers (internal and external) working more closely together to ensure the following:

- Assurance in the **right areas** is obtained,
- Assurance is obtained from the **right resources**,
- Assurance is obtained in the **most effective way possible**.

It is the process that merges and organises the hard work of assurance providers to provide a more detailed, effective, independent and complete assessment of risk, control and governance.



# Assurance obtained from the right resources

- Combined assurance's objective is to use the **different skills** of the individual assurance providers to mitigate the organisation's risk exposure.
- Each assurance provider has its own **field of responsibility pertaining to risk**, compliance and management.
- Each assurance provider has to **provide their insight** as to how the controls/processes within the organisation are functioning and give diverse perspective on key risks they have all identified.
- There should be **alignment of control validation/ assurance approaches** and efforts across the organisation, driving efficiency and the right levels of comfort.
- All assurance providers should **work together** to present an effective combined assurance outcome. Assurance providers need to be responsible for the assurance they supply.

# Integrated assurance is obtained in the most effective way possible

- The sum of assurance given by each assurance providers (based on assessment performed) should **identify any gaps** in the individual assurance processes.
- Assurance regarding the **effective implementation of risk mitigation** should be given on each of the key organisational risks by all assurance providers.
- The assurance by each assurance provider should be collated and given as a single document to the board/council and audit committee.



# What are Municipalities' requirements?

The Council, APC and EXCO want **confidence** that:

- **Risks** that may prevent the municipality from achieving its service delivery objectives are identified
- Reliable **assurance** that risks are adequately mitigated
- Relevant regulations and standards are **complied** with
- **Efficiencies** capitalised - more effective governance, risk and control oversight
- Strategic **objectives** are achieved



# What is required for implementation of combined assurance

One taxonomy across all governance bodies and functions in the organisation.

1

One Language

Breaking down silos and more efficient collection and reporting of information.

2

One Voice

A common view of risks and issues across the organisation.

3

One View

# Combined Assurance Approach





# Lines of Defence or Levels of Assurance

## 1st line of defence

Primary responsibility for **establishing** effective governance and risk and control environment

Own and manage risks and are responsible for implementing corrective actions to address process and control deficiencies



## 2nd line of defence

Provides **confidence** that risk and control environment is in place, fit for purpose and working as intended

## 3rd line of defence

**Independent** challenge – **justifies** that confidence

# Understanding Assurance – the Lines of Defence

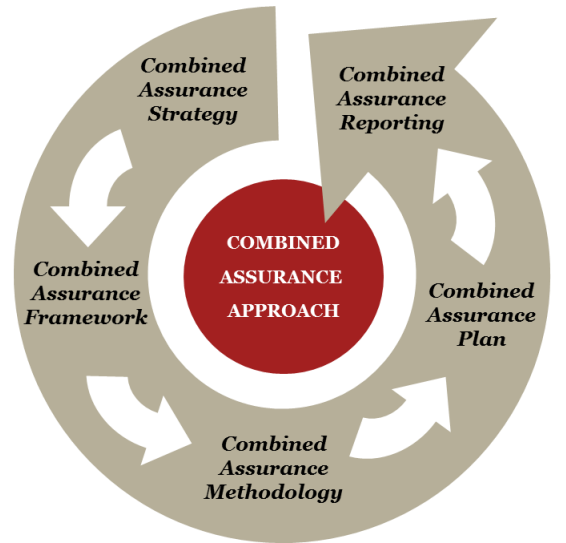
First Line of Defense	Second Line of Defense	Third Line of Defense
Management Oversight	Management of Risk	Independent Assurance
<b>Nature of Assurance:</b> Line management is accountable and responsible for the management of risk and performance. A key element of this activity is the extent of management reviews and the actions that follow. Management can establish a system of self assessment/ audits to inform them on the adequacy of risk management activities	<b>Nature of Assurance:</b> Corporate functions provide support to line management in executing their duties. These include functions such as HR, procurement, compliance, risk management, quality assurance, Health and Safety, SOX, Tax, Engineering, Forensic (Fraud Risk Management), OEMs, Insurance, Actuaries.	<b>Nature of Assurance:</b> Internal audit, Certifications, Regulator reviews, External Audit, Technical Audit, Forensic Investigations, external asset management reviews, valuers, culture climate surveys
<b>Reporting lines:</b> Executive Management Committees and Operational Committees providing direction, guidance and oversight over the focus the areas.	<b>Reporting lines:</b> Risk Committees, Compliance Committee, Audit Committees, Regulatory Forums, HR Forums, Health and Safety briefings.	<b>Reporting lines:</b> Regulators, Board and Audit Committees, (objectivity is a key criteria), C Suite
<b>Assurance Provided:</b> Management as evidenced through the management review meetings and forums. Reporting on the results of self assessments. Special projects that assess the operating effectiveness/efficiencies – that can be internally sourced. The assurance is reported to line management.	<b>Assurance Provided:</b> Reports to Audit and Risk Committees, Health and Safety Committees, Sustainability Committee, Management meetings, Reports to regulators and external agencies, equipment status reports. Risk management profiles.	<b>Assurance Provided:</b> Reports to Board Committees, Management meetings, Insurers, Regulators, ISO Certifications. Special projects that assess the operating effectiveness/ efficiencies – that can be externally sourced. The assurance is reported to line management.

# Combined Assurance Overview

Combined Assurance brings together the business' lines of assurance to most effectively and efficiently identify, manage and monitor key business risks, while **aligning to strategy** and **enabling with technology**; resulting in **risk informed business decision making**.

Effectiveness of Combined Assurance is dependent and enhanced by:

- ✓ Mature **Lines of Assurance Model**
- ✓ Mature and effective **Risk Management System**
- ✓ Effective, clearly defined, established and well-functioning **Governance Model**
- ✓ Maturity of the organization's **risk and control culture**



Lines of Assurance

## Components of the Combined Assurance Approach:



**The Combined Assurance Approach** integrates with and leverage off your ERM processes, systems and data



**The Combined Assurance Strategy** is aligned to your company's overall business strategy and risk strategy



**A Combined Assurance Framework** that governs and defines the roles, responsibilities and accountability for the Combined Assurance process within your business



**Combined Assurance Methodology** practically sets out the minimum guidelines to be applied in the combined assurance process stages (planning, execution and reporting)

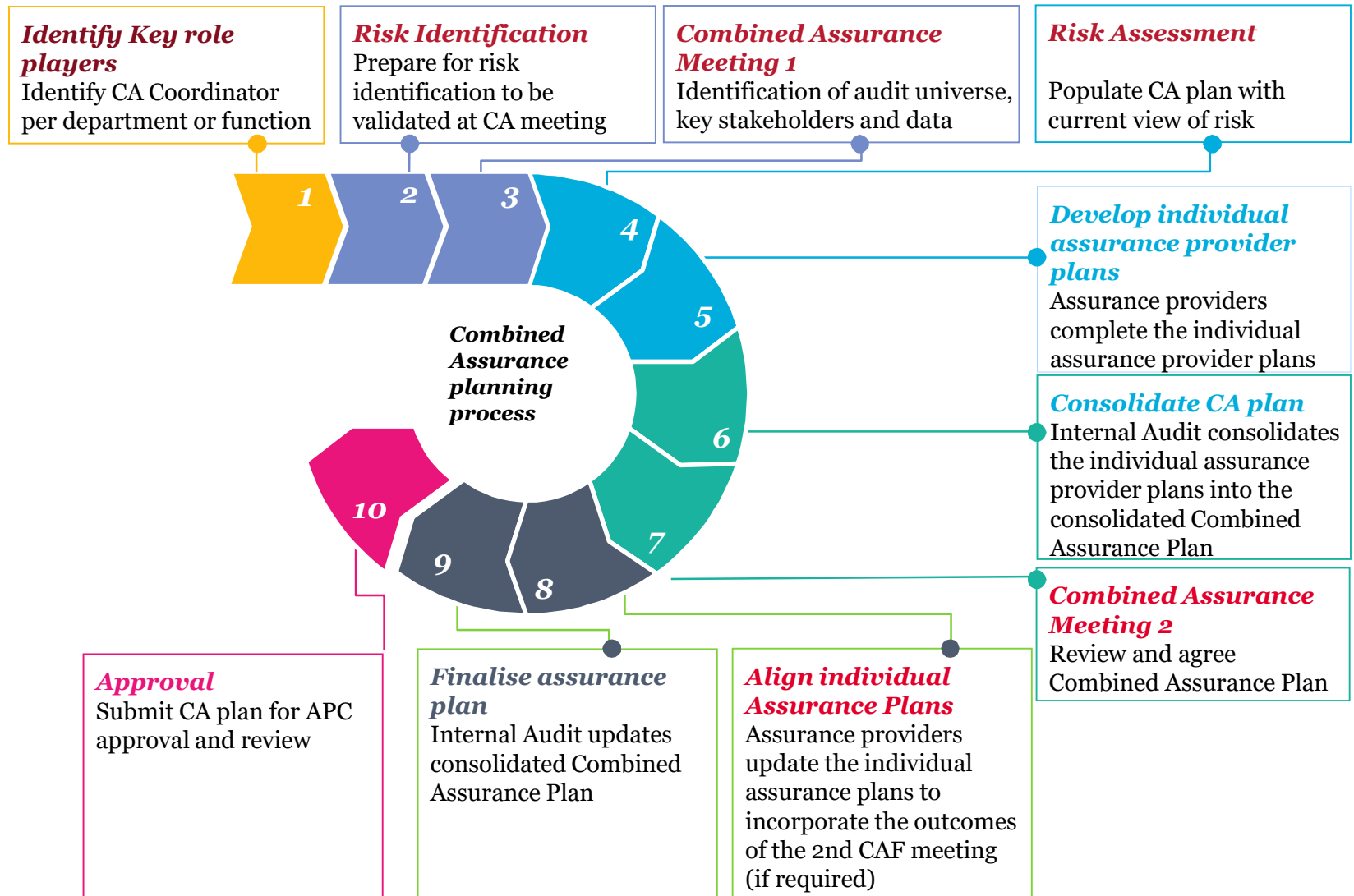


**A Combined Assurance Plan** which clearly and directly link top risks with key mitigating controls, and the planned assurance reviews (by assurance provider) to gain comfort over the adequacy and effectiveness of the indicated key controls



**Combined Assurance Dashboard Reporting** which provides insights into assurance of top risks and key mitigating controls, and their impact on achieving your business' strategic objectives and performance goals and supports your Audit and Risk Committee in their responsibility for assessing the effectiveness and efficiency of the control environment

# Combined Assurance Planning Process



# The value of Combined Assurance

*Working off a common risk landscape and relevant assurance efforts are directed to the risks that matter most*

**1**

*A better understanding of the assurance focus of the organisation's issues achieved through assurance providers*

**2**

*Reduces the likelihood of assurance risks "falling through the cracks"*

**3**

*Better coordination between assurance providers result in better planning of the timing of assurance on the business*

**4**

*Better utilisation and deployment of assurance resources which could ultimately result in cost-savings*

**5**

*Enhanced control environment, awareness and discipline – reports reach the right levels*

**6**

*Increased executive management and Audit Committee confidence*

**7**

*Single picture of assurance is formed*

**8**

# Key questions should you be asking?

- Have you defined a governance framework which include a risk and combined assurance framework?
- Do all assurance providers understand their roles and responsibilities?
- Have you established a mechanism for regular engagement?
- Are risks contained in the Combined Assurance Plan the key top risks of the organisation? Does it adequately reflect the risk profile of the organisation?
- Are all areas of King IV addressed?
- How did management arrive at the view to include these risks in the Combined Assurance Plan?
- What has changed in the organization's environment (internal and external) which could affect the top risks included in the Combined Assurance Plan?
- How did management arrive at their view of the level of assurance needed and planned for each key risk included on the Plan?
- How does the results of assurance affect the assessment of the control environment and risk?
- Will the plan support the AC disclosures with respect to control effectiveness?



# Thank you!

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