

MBHASHE COMBINED ASSURANCE FRAMEWORK



APPROVED BY:

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TABLE OF CONTENTS

Table of Contents

1. PURPOSE OF POLICY.....	2
2. OBJECTIVE OF POLICY.....	2
3. SCOPE.....	3
4. POLICY DEFINITION.....	3
5. LEGISLATIVE FRAMEWORK.....	5
6. POLICY OR PROCEDURE TARGET.....	5
7. GENERAL POLICY PROVISIONS.....	6
8. PROCEDURES FOR IMPLEMENTING POLICY.....	6
9. COMBINED ASSURANCE METHODOLOGY.....	7
10. ROLES AND RESPONSIBILITIES.....	8
11. KEY-ROLE PLAYERS TO THE CA PROCESS.....	10
12. MONITORING, EVALUATION AND REVIEW OF POLICY.....	12
13. APPROVAL AND IMPLEMENTATION.....	13

1. PURPOSE OF POLICY

1.1. This framework sets out to integrate assurance, co-ordinate all assurance providers within the Eastern Cape Local Government Administration and establish a system for the implementation of combined assurance. The legislation, regulations, standards and frameworks referred to above were utilized in the development of this Combined Assurance Framework.

2. OBJECTIVE OF POLICY

- 2.1. The objectives of the combined assurance plan are mainly to:
- (i) Identify and specify the sources of assurance over the Institutions risks;
 - (ii) Provide the Risk Management Committee, the Accounting Authority / Officer and Executive Management with a framework of the various assurance parties;
 - (iii) Link risk management activities with assurance activities. This will also assist the Accounting Authority / Officer to review the effectiveness of the risk management system; and
 - (iv) Provide a basis for identifying any areas of potential assurance gaps.

3. SCOPE

3.1. This policy applies throughout the Municipality, as per the defined roles and responsibilities, becoming effective once approved by Council and will be implemented over time through a phased in approach as detailed and approved in the Combined Assurance Framework and Implementation Plan.

3.2. **Special requirements, providers of combined assurance for effectiveness**

This section focuses on requirements to qualify as an assurance provider
Category Minimum requirements

- (i) Independence/Objectivity Independent reporting lines,
- (ii) no recent direct involvement and/or work done in the area/aspects to be audited
- (iii) Conflict of interest In the areas/aspects in which assurance is to be provided,
- (iv) Skills and experience the assurance provider should have the appropriate skills and experience to effectively conduct the assignment.
- (v) Ideally, a risk-based approach should be followed.
- (vi) The reported findings and opinions should be supported by adequately documented working papers/audit trails.

4. POLICY DEFINITION

4.1 Policy definition:

'Assessment' means the identification, analysis and evaluation of risks when used in a risk management context, as set out in the City's RM Framework and Implementation Plan.

'Assurance' means an objective examination of evidence for the purpose of providing an assessment on governance, risk management and control processes for the organisation;

'Municipality' means the Municipality of Mbhashe Local municipality, a municipality established by the Municipality of Mbhashe as per establishment Notice issued in terms of the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998), or any structure or employee of the Municipality acting in terms of delegated authority.

'Combined Assurance' (CA) means the integration and aligning of assurance processes in the Municipality to maximise risk and governance oversight and control efficiencies, thereby

optimising overall assurance to Council, the AC, Risk-Co and EMT, taking into account the Municipality's risk acceptance level;

'Combined Assurance Plan' (CAP), means the agreed upon plan, setting out activities (risks, SPFs, root causes and controls) on which CA is required, by whom and how often this should be given;

'Controls' means any actions (such as reviews, checks and balances, methods and procedures) taken by personnel, management, Council and other parties to manage risk and increase the likelihood that the established objectives and goals will be achieved.

'Council' means the Municipal Council of the Municipality of Mbhashe Local Municipality;

'Risk Management' means the processes effected by the MM, management and other personnel, across the Municipality, designed to identify potential events that may affect the Municipality and identify ways of managing these, in order to provide reasonable assurance regarding the Municipality being able to achieve its objectives;

'Lines of Defence' means the various levels on which assurance providers provide assurance to various stakeholders. These levels are directly linked to the assurance provider's level of independence from the activity on which assurance is required.

'Management' includes staff of the Municipality who controls or directs any directorate, department, unit, division, process or resources of the Municipality;

'Risk' means uncertain future events (threats and opportunities) that could influence the achievement of the goals and objectives of the Municipality;

'Risk Management' means the systematic approach to setting the best course of action under uncertainty by assessing, understanding, acting on and communicating risk issues and opportunities; and

4.2 Abbreviations

'AC' means the Audit Committee of the Municipality;

'CA' means Combined Assurance;

'CAP' means Combined Assurance Plan;

'CRO' means Chief Risk Officer;

'EMT' means The Executive Management Team of the Municipality, consisting of the MM and all Directors;

'IA' means Internal Audit;

'RM' means Risk Management;

'Mayco' means the Mayoral Committee;

'MM' refers to the Municipality Manager

'Risk-Co' means the Risk Management Committee of the Municipality; and

'SPF' means Single Point of Failure (Business continuity risk).

5. LEGISLATIVE FRAMEWORK

5.1 References/Legislative Mandates

The following documents were used in the development of the Combined Assurance Framework:

5.1.1. Municipal Finance Management Act, Act No. 56 of 2003

5.1.2. Treasury Regulations;

5.1.3. King IV on Corporate Governance;

5.1.4. The Institute of Internal Auditors International Professional Practices Framework; and

5.1.5. The National Treasury Internal Audit Framework.

6. POLICY OR PROCEDURE TARGET

6.1. Combined Assurance has been developed to highlight the overall process and function of all relevant stakeholders (four lines of defence) within the organisation and how it will assist the organisation to achieve its objectives through risk management

6.2. The Policy is established to assist and advise the Accounting officer on the effectiveness of the internal controls and risk management

- 6.3. The mission is a summary of the way in all the relevant stakeholders through involvement in the risk management will provide value to the organisation.

7. GENERAL POLICY PROVISIONS

- 7.1. The purpose of this Combined Assurance Framework is to communicate the progress made and the results on its implementation to the Audit Committee, Council and the management of the municipality.
- 7.2. The Framework has been developed and reviewed for the sole and exclusive use by the Mbashe Local Municipality (council and management).
- 7.3. It may not be made available to anyone other than authorised persons within the Mbashe Local Municipality or relied upon by any third party.
- 7.4. It should not be used for any other purposes for which it was not specifically scoped or designed, and as such, it should not be relied upon as evidence in any disciplinary proceedings involving employees, whether conducted internally or externally.

8. PROCEDURES FOR IMPLEMENTING POLICY

For the effective implementation of the Combined Assurance Framework, all the necessary steps were followed during implementation:

- 8.1. Consultation of all the relevant stakeholders
- 8.2. Obligation of the framework
- 8.3. Realistic of the framework
- 8.4. Publicise of the framework
- 8.5. Training of the relevant staff to the framework
- 8.6. Consistent implementation of the framework and
- 8.7. Periodically review of the framework

9. COMBINED ASSURANCE METHODOLOGY

9.1 Combined assurance is a coordinated approach that ensures that all assurance activities provided by management, internal assurance providers and external assurance providers adequately address significant risks facing the organization and that suitable controls exist to mitigate the risks.

The Combined Assurance Methodology includes:

- 1.1.1 Understanding the risks of the organization;
- 1.1.2 Understanding who the assurance providers are;
- 1.1.3 Aligning risks and assurance;
- 1.1.4 Coordinating assurance; and
- 1.1.5 Reporting.



9.1.1.1 Understanding the Risks of the Organization:

- (i) Risks are informed by management's assessment of risk.
- (ii) This is achieved by Risk Management activities, including the compilation of a Strategic Risk Register.
- (iii) Risk areas are further complemented by various stakeholders' knowledge of the organization, its business activities and exposures.
- (iv) The Strategic Risk Register of the organization may be utilised for the understanding of the risks phase of the process.

9.1.1.2 **Understanding who the Assurance Providers are:**

Assurance providers are categorized in three lines of defence:

9.1.1.3 **Management oversight:** 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.

9.1.1.4 **Management of risk:** Internal functions provide support to line management in executing their duties. These include functions such as risk management, monitoring and evaluation or policy and planning units, financial standing committees, Oversight and Provincial Treasury Oversight.

9.1.1.5 **Independent assurance:** Internal audit, external audit, audit committees and legislature oversight through the Standing Committee on Public Accounts provides independent assurance at various intervals.

10. ROLES AND RESPONSIBILITIES

- (1) Combined assurance in the Municipality is based on a four lines of defence module. Lines of defence should not be combined or coordinated in a manner that compromises their effectiveness.
- (2) The following CA role-players have been identified and should take an active interest in the CA processes, co-ordinating their assurance providing efforts with those of other assurance providers and improving on CA efforts in the Municipality.
- (3) Internal role-players who fail to comply with this policy could face disciplinary action and potential dismissal.
- (4) Guidance with the steps required in order to comply with the requirements set out below are contained in the CA Framework and Implementation Plan.

10.1 First Line of Defence

The following responsibilities are attached to each line of defence for effective combined assurance model in a municipality:

10.1.1 In the 'Four Lines of Defence' model, management (as the first line of defence) will provide assurance on all areas within their span of control.

10.1.2 Management is ultimately responsible for establishing, maintaining and ensuring proper governance, risk management and internal control processes.

10.1.3 Management must assess risks, determine how much risk is acceptable and strive to maintain risk within those levels, using various management tools, including self-assessments.

- 10.1.4** Managements' reports and associated representations should offer the various role-players reasonable assurance. Management needs to assist and play an active part in the compilation of the CAP and ensuring they fulfil their roles and responsibilities as set in the CAP.
- 10.1.5** Management is responsible for ensuring that assurance providers appointed to give them or stakeholders additional assurance have the necessary skills, competencies and comply with required standards.
- 10.1.6** In return CA should provide management with optimal assurance relating to the significant risks they manage.

10.2 Second Line of Defence

The second line of defence is made up of:

- 10.2.1** Risk control and compliance assurance providers reporting primarily to management and oversight bodies, with limited independence in relation to the activity on which assurance is required.
- 10.2.2** In the Municipality the risk control and compliance assurance provider making up the second line of defence includes, but is not limited to Risk-Co, EMT Legal Services, Environmental Resource Management, Occupational Health and Safety (OHS), Municipality Ombudsman, RM, Forensic Services.
- 10.2.3** The second line of defence provides assurance or corroborative assurance, that management is indeed sufficiently in control of the regulatory, statutory, environmental, ethical and quality requirements and the associated risks, critical to the on-going success of the Municipality. Co-ordinating these ensure the elimination of gaps and duplications and the resulting unmanaged risks or waste of resources.
- 10.2.4** These assurance providers should ensure that they apply their specific professional standards and best practices, give inputs into the compilation of the CAP and ensuring they fulfil their roles and responsibilities as set in the CAP.

10.3 Third Line of Defence

The third line of defence includes:

- (i) Risk assurance providers who have greater independence, such as IA, various provincial and national departments, such as Treasury and external audit, who report to Oversight bodies.

- (ii) These assurance providers should ensure that they apply their specific professional standards and best practises, give inputs into the compilation of the CAP and ensuring they fulfil their roles and responsibilities as set in the CAP.

10.4 Fourth Line of Defence

The Municipality has various independent oversight bodies and bodies who advise them, functioning as a fourth line of defence.

These oversight bodies ultimately provide assurance to the inhabitants of the Municipality and Country relating to activities and governance issues of the Municipality. Various oversight bodies would have a vested interest in CA and could request feedback and give inputs into their area of responsibility, in order to ensure that assurance and performance is balanced and maximised.

The oversight bodies and bodies who advise them include, but are not limited to:-

- (i) Municipal Public Accounts Committee (MPAC)
- (ii) Council
- (iii) Audit Committee (AC)
- (iv) Portfolio Committees

11. KEY-ROLE PLAYERS TO THE CA PROCESS

The Municipality identified the following key role-players with specific roles and responsibilities with regards to the implementation of Combined Assurance Processes in the Municipality:

11.1 Management

Management will always be the first line of defence. Management must determine which activities need to be included in the CAP, taking responsibility for identifying and confirming assurance providers and agreeing with them on the objective, scope and timing of assurance required.

Ensuring compliance with all activities as stipulated above.

11.2 RM - Custodian of Combined Assurance

The Chief Risk Officer is the custodian of the CA policy, taking responsibility for the institutionalising of CA.

- (i) While management remains ultimately responsible for unpacking the CAP, RM should facilitate and co-ordinate the process and ensure implementation and roll out in accordance with the CA Framework and Implementation Plan.
- (ii) CAE needs to report to the AC matters.

11.3 IA - Assurance Provider of CA processes

In addition to IA's functions as an assurance provider:

- (i) IA must make an assessment of the adequacy of the adopted combined assurance approach.
- (ii) This assessment includes the adequacy of risk coverage by the different assurance providers and the reliability of the assurance provided
- (iii) Assurance Providers will meet at least four times a year.
- (iv) meetings, as circumstances require. All assurance providers are expected to attend each
- (v) meeting, in person or via tele- or video-conference.
- (vi) If necessary. CAE will hold private meetings with each assurance provider
- (vii) Meeting agendas will be prepared and provided in advance to members, along with
- (viii) appropriate briefing materials. Minutes will be prepared.
- (ix) CAE should develop the Annual Assurance Plan and submit to ac for approval.

11.4 Oversight over CA processes

The following oversight bodies have Municipality-wide responsibility with regards to combined assurance:

11.4.1 Council

- (i) Council is accountable to the public and thus takes an interest in CA to the extent necessary to obtain comfort that properly established and functioning systems of CA and RM are in place to protect the Municipality against significant risks.
- (ii) CA should provide Council with optimal assurance regarding the significant risks facing the Municipality.

11.4.2 Audit Committee (AC)

The AC is an independent committee responsible for:

- (i) Advising Council with regards to the oversight of the Municipality's controls, governance and RM.
- (ii) The AC functions should be applicable in terms of its Council approved terms of reference.
- (iii) The AC's is to ensure that a CA model is applied to provide a co-ordinated approach to all assurance activities as defined in the Municipality's CA Framework and Implementation Plan.
- (iv) In particular the AC should ensure that the CA received addresses the significant risks facing the Municipality. This includes monitoring the effective functioning of IA and monitoring the relationship between the external assurance providers and the Municipality.

11.4.3 Risk Management Committee (Risk-Co)

- (i) Risk-Co is appointed by the Municipality Manager to inter alia assist in the oversight of CA responsibilities. The responsibilities of Risk-Co are formally defined in Risk-Co's Terms of Reference.
- (ii) Risk-Co will need to give guidance on the implementation and roll-out of Combined Assurance, recommend for approval the CAP and monitor and review progress and reports thereon.

12. MONITORING, EVALUATION AND REVIEW OF POLICY

RM is responsible for the monitoring and evaluation of this policy.

The policy shall be revised and approved by Council when operational needs require this, but at least once during every term of Council.

Any queries and/or requests for amendments relating to this policy should be directed to the Chief Risk Officer/Internal Audit Manager Tel No. 047 489 5855

13. APPROVAL AND IMPLEMENTATION

Prepared By:

Chief Audit Executive

Date

Supported By:

Head of Department/Municipal Manager

Date

Approved By:

Audit Committee Chairperson

Date

14. POLICY GOVERNANCE

Mbhashe Combined Framework

Policy Governance

Policy Title		
Policy Version		
<u>Role & Process</u>	<u>Responsible Individual</u>	<u>Responsibility Accepted</u>
	<u>Name and/or Date</u>	<u>Signature</u>
<i>Senior Manager Corporate Services</i>		
Policy Custodian		
Policy Author		
LLF Consultation Date		
LLF Consultation Reference		
Council Approval Date		
Council Approval Reference		
<i>(UNIT) eg. Manager Human Resources</i>		
Policy Approved		
Policy Inception Date		
Review Start Date		
Review Completion Date		
Legislative References		
Policy Review "Triggers"		
Comments		