



DRAKENSTEIN

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Paarl | Wellington | Gouda | Saron | Simondium

Combined Assurance Policy

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Signed by the City Manager	Signature Date
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1. PURPOSE

- 1.1** The Combined Assurance (CA) Policy has been developed in terms of the following legislative prescripts:
- 1.1.1** Section 62(1)(c)(i) of the MFMA, which require the Accounting Officer to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.
- 1.2** The Policy also incorporates the requirements of King IV insofar as they concern risk management and combined assurance. King IV has specific guidance for municipalities, included in Part 6.2 – Supplement for municipalities.
- 1.3** The Global Internal Audit Standards, Standard 11.1 (Building Relationships and Communicating with Stakeholders) prescribes that the chief audit executive must develop an approach for the internal audit function to build relationships and trust with key stakeholders, including the board, senior management, operational management, regulators, and internal and external assurance providers and other consultants. The chief audit executive must promote formal and informal communication between the internal audit function and stakeholders, contributing to the mutual understanding of organizational interests and concerns, approaches for identifying and managing risks and providing assurance and roles and responsibilities of relevant parties and opportunities for collaboration.
- 1.4** King IV suggests that the Municipal Council should assume responsibility for assurance by setting the direction concerning the arrangements for assurance services. Council should also oversee the design and implementation of a CA model that effectively covers the significant risks and material matters of the municipality through a combination of assurance providers. King IV further recommends that the Municipal Council should delegate the responsibility to the Audit Committee to oversee the establishment of a CA model to achieve the objectives of:
- 1.4.1** The adequacy and effectiveness of the internal control environment; and
- 1.4.2** The integrity of information used in decision-making and external reporting.

- 1.5 The CA policy aims to improve and sustain performance by enhancing systems of risk management and CA to protect against adverse outcomes and optimise opportunities.
- 1.6 The policy will enable managers to develop a mutual understanding of CA and ensure clarity regarding the various role-players and define commensurate roles and responsibilities.

2. DEFINITION OF COMBINED ASSURANCE

- 2.1 CA 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 Municipality and that suitable controls exist to mitigate these risks.
- 2.2 A CA model aims to optimise the assurance coverage obtained from management, internal assurance providers and external assurance providers on the risk areas affecting the municipality.

3. BACKGROUND

- 3.1 The Global Internal Audit Standards prescribes that the chief audit executive must promote formal and informal communication between the internal audit function and stakeholders, contributing to the mutual understanding of approaches for identifying and managing risks and providing assurance and approaches for identifying and managing risks and providing assurance.
- 3.2 The concept of CA is supported by King IV, (principle 15) which recommends that the governing body (Council) should assume responsibility for assurance by setting the direction concerning the arrangements for assurance services and functions. The governing body should delegate to the Audit Committee the responsibility for overseeing that those arrangements are effective in achieving the following objectives:
 - 3.2.1 Enabling an effective internal control environment;

- 3.2.2 Supporting the integrity of information used for internal decision making by management, the Council and its committees; and
- 3.2.3 Supporting the integrity of external reports.

4. BENEFITS OF COMBINED ASSURANCE

4.1 The benefits of CA include:

- 4.1.1 Assurance activities that produce valuable integrated data and reporting, across different risks, processes and information technology systems;
- 4.1.2 Reduction in repetitive reports to and by different role-players and enhancing improved and efficient reporting and oversight;
- 4.1.3 Reduction in assurance costs through elimination of duplication and improved resource allocations;
- 4.1.4 Minimise business and operational disruptions;
- 4.1.5 Comprehensive and risk-based approach in tracking remedial actions on identified opportunities and risks;
- 4.1.6 Optimised assurance spend, in that auditors are assisted in giving opinions on residual risk status, prevention of assurance fatigue, minimised overlap between the lines of assurance, and the prevention of possible “blind spots”; and
- 4.1.7 The use of CA to support the Audit Committee and Municipal Council in making their control statements in the annual report.

5. PROVIDERS OF ASSURANCE

5.1 Assurance is an examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the municipality.

5.2 There are fundamentally three classes of assurance providers, differentiated by the stakeholders they serve, their level of independence from the activities over which they provide assurance and the robustness of that assurance:

5.2.1 Those who are part of management (management assurance);

5.2.2 Those who report to management including individuals who facilitate risk management, control self-assessments, quality auditors, environmental auditors and other management designated assurance personnel;

5.2.3 Those who report to the Board (Council) and external stakeholders, including Internal Audit (Council), Auditor General of South Africa (external stakeholders), and any other external assurance providers providing assurance on compliance with key non-financial legislation eg. Department of Labour, Department of Public Service and Administration etc.

6. ROLES AND RESPONSIBILITIES

CA in Drakenstein Municipality will be based on a Three Lines of Assurance approach.

6.1 First line of assurance

- 6.1.1 The first line of assurance vests with the process and risk owners whose activities create and/or manage the risks that can facilitate or prevent a municipality's objectives from being achieved. This includes taking the right risks. The first line owns the risk, as well as the design and execution of the municipality's controls to respond to those risks. The first line of assurance is primarily handled by front-line and mid-line managers who develop and implement the municipality's control and risk management.
- 6.1.2 The first line of assurance (risk owners) has primary ownership of risks and the risk response strategies and treatment mechanisms used to manage those risks. These include internal control processes designed to identify and assess significant risks, execute activities as intended, highlight inadequate processes, address control breakdowns, and communicate to key stakeholders of the activity.
- 6.1.3 In practice, the first line of assurance needs to confirm that they have implemented management controls and that they have performed a control and risk self-assessment for the processes within their control.
- 6.1.4 The City Manager and the strategic management team are accountable for the selection, development and evaluation of the system of internal control. Senior management must fully support strong governance, risk management and control.
- 6.1.5 In addition, they have ultimate responsibility for the activities of the first and second lines of assurance. Their engagement is critical for success of the overall model. It is the responsibility of the City Manager and strategic management team to design and implement processes that:
- a. Demonstrate commitment to integrity and ethical values;
 - b. Exercise oversight responsibility and transparency;
 - c. Establish structure, authority and responsibility;

- d. Demonstrate commitment to competence; and
- e. Enforce accountability.

Reporting Lines: - Strategic Management Team

6.2 Second line of assurance

6.2.1 The second line supports management with particular expertise, process excellence and ongoing monitoring processes. It challenges management on risk related matters. It includes various risk management and compliance functions, such as Occupational Health and Safety, and other external compliance assurance providers to management, to monitor whether controls and risk management processes implemented by the first line of assurance are designed appropriately and operating as intended.

6.2.2 Functions in the second line are typically responsible for ongoing monitoring of risk and control. They often work closely with operating management to help define the risk management implementation strategy, provide expertise in risk management, guide the implementation of policies and procedures, and collate information to create a municipal-wide view of risk and control. The responsibilities of the second line of assurance typically include:

- a. Assisting management in design and development of processes and controls to manage risks;
- b. Defining activities on how to monitor and measure success as compared to management expectations;
- c. Monitoring the adequacy and effectiveness of internal control activities;
- d. Escalating critical issues, emerging risks and outliers;
- e. Providing and updating the risk management framework;
- f. Identifying shifts in the municipality's implicit risk appetite and risk tolerance;

- g. Measure and report when residual risk exceeds the risk appetite and risk tolerance levels; and
- h. Providing guidance and training related to risk management and control processes.

Reporting lines: - FARMCO, Health and Safety Forums and regulatory forums.

6.3 Third line of assurance

6.3.1 The third line provides assurance to the City Manager the Municipal Council and other external stakeholders regarding the design, implementation and effectiveness of both risk management and internal controls. The third line of assurance is typically not permitted to perform management functions to protect its objectivity and independence.

6.3.2 The third line has a reporting line to the Municipal Council by reporting to the Audit Committee. The IIA defines internal auditing as *“an independent, objective assurance and consulting activity designed to add value and improve a municipality’s operations. It helps a municipality accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”* Among other roles, internal audit provides assurance regarding the efficiency and effectiveness of governance, risk management, and internal control.

6.3.3 Internal auditors are optimally positioned for providing reliable, independent and objective assurance to the Council and senior management regarding governance, risk, and control. Internal audit actively contributes to effective municipal governance providing certain conditions fostering its independence and professionalism are met.

6.3.4 External auditors provide assurance regarding the financial statements and the corresponding transactions, as well as assurance on compliance with key legislation relating to financial matters, financial management and other related matters and reported performance information against predetermined objectives.

6.3.5 Any other external assurance providers providing assurance from time to time on compliance with key non-financial legislation, eg. Department of Labour (Occupational Health and Safety compliance assessments), Department of Public Service and Administration (ICT Governance Assessments).

Reporting Lines: - Audit Committee and Council

7. KEY ROLE PLAYERS TO COMBINED ASSURANCE

The Municipality has identified the following key role-players with specific roles and responsibilities regarding the implementation of the CA processes in the municipality.

7.1 Management (First Line Assurance)

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

7.2 Risk management (Second Line Assurance)

The Risk Management function facilitates the risk management process. The risk register containing all categories of risks across the municipality will form the basis for the CA assessment.

7.3 Internal Audit (Third Line Assurance)

Internal Audit is responsible to co-ordinate the CA process and ensure its continuity. In addition hereto, Internal Audit form part of the third line assurance providers and provide independent and objective assurance and advice on all matters related to risk management, internal control and governance aimed towards the achievement of municipal objectives.

7.4 Auditor-General (Third Line Assurance)

External auditors reside outside the municipal structure but have an impact in the Municipality's overall governance and control structure through their audit. Key responsibilities of the Auditor-General can be summarized as the following:

7.4.1 Provide independent assurance;

7.4.2 Monitor Compliance;

7.4.3 Provide independent assurance and oversight; and

7.4.4 Obtain agreement on plan and scope to prevent duplication of cost.

7.5 Specialised external auditors (Third Line Assurance)

These are specialised regulatory auditors that express an independent opinion on specific specialised functions that cannot be expressed by the other assurance providers mentioned above.

8. APPROACH TO COMBINED ASSURANCE

8.1 A five-stage process should be employed in ensuring the effective implementation of the CA model:

8.1.1 Identifying Role Players – The City Manager appointed Internal Audit as the combined assurance champion to coordinate the process and its continuity;

8.1.2 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. Ideally, assurance providers should be separated in terms of first, second and third line of assurance i.e. *management-based assurance, risk and compliance-based assurance and independent assurance* respectively;

- 8.1.3 Test Coverage of Assurance - The third step 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 and for what reasons. This test will ensure coordination of efforts and eradicate duplication;
- 8.1.4 Risk Focus - In the fourth step 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 gap analysis to be developed and inform the next step in the process. The different lines of assurance are mapped to the identified risks and detailed work actually performed to provide the expected assurance. Risk information should be regularly and centrally maintained. *It may not be feasible to consider all identified risks in the CA Model.* It is recommended that the limit is set in terms of risk severity (which should be in line with the risk appetite and tolerance levels of the municipality). The risk rating will therefore be the criteria for incorporation in the CA Model. *This approach will simultaneously ensure that the assurance is worth the cost;* and
- 8.1.5 Combined Assurance Application - The final step requires stakeholder acceptance of the approach and respective responsibilities through identifying the recommended areas of assurance and articulating the nature of the assurance activities. The detailed gap analysis should highlight four areas of assurance, i.e. *extensive assurance, moderate assurance, inadequate assurance, or no assurance.*

8.2 Inadequate assurance coverage must be addressed by the CA Champion in conjunction with the City Manager. The third line of assurance will then be responsible for reporting on the adequacy of assurance provided by the implementation of combined assurance. Lastly, the assurance provided must be credible. It is recommended that Executive management and Council ensure that both internal and external assurance providers are appropriately skilled and experienced to follow an adequate approach.

9. CREDIBILITY OF THE COMBINED ASSURANCE PROCESS

The assurance process must be credible and as such, the independence, objectivity, conflict of interest, skills, experience and qualifications of all the assurance providers must be considered holistically to determine whether the assurance provided is credible. The following attributes should be evaluated:

1 Independence and objectivity

Independent reporting lines, no recent direct involvement and/or work done in the area/aspects to provide assurance on.

2 Conflict of interest

In the areas/aspects in which assurance is to be provided, there should not be any conflict of interest (could require a declaration in this regard).

3 Skills and experience

The assurance provider should have the appropriate skills and experience to effectively conduct the assignment.

4 Qualifications

The assurance provider should hold appropriate qualification(s) and should be registered with the relevant professional institution.

5 Assurance methodology

A sound audit/review methodology should be adopted by the assurance provider. Ideally, a risk-based approach should be followed. The reported findings and opinions should be supported by adequately documented working papers/audit trails.

10. OVERSIGHT OF COMBINED ASSURANCE PROCESSES

10.1 Audit Committee

10.1.1 The Audit Committee is an independent committee that is responsible for advising Council regarding the municipality's system of control, risk management and governance. The Audit Committee functions in terms of its approved terms of reference.

10.1.2 The Audit Committee reviews the CA Plan and reporting, and advises management and Council on the functioning of CA.

10.2 Fraud and Risk Management Committee (FARMCO)

The responsibilities of FARMCO is defined in its Terms of Reference and will give guidance on the implementation of CA. FARMCO will monitor and provide input to ensure that the CA model is applied in all management processes, assisting a co-ordinated approach to all assurance activities. FARMCO will review and recommend the CA Plan for approval by the City Manager, and review progress and reports thereon.

10.3 Council

Council reports to the public and therefore takes an interest in CA as necessary to obtain assurance that properly established and functioning systems of CA and risk management are in place to protect the municipality against significant risks. CA should provide Council with optimal assurance regarding significant risks facing the municipality.

11. MONITORING, EVALUATION AND REVIEW OF THE POLICY

This policy must be reviewed by the CA lines of assurance and approved by Council annually.

12. REGULATORY FRAMEWORK

This policy is informed by the following legislation and sector specific standards and frameworks:

- 12.1 Municipal Finance Management Act 56 of 2003 (MFMA);
- 12.2 Global Internal Audit Standards, 2024 (The Institute of Internal Auditors); and
- 12.3 King IV Report on Corporate Governance for South Africa, 2016.

13. GLOSSARY OF TERMS

Accounting Officer	The City Manager
Audit Committee	An independent committee constituted to review the effectiveness of control, governance and risk management within the municipality, established in terms of section 166 of the MFMA.
Chief Audit Executive	A senior official within the municipality responsible for internal audit activities.
Chief Risk Officer	A senior official who is the head of the risk management unit.
Combined assurance	Integrating and optimising all assurance services and functions, so that taken as a whole, these enable an effective control environment, support the integrity of the information used for decision-making by management, the municipal Council and its committees to maximise risk and governance oversight and control efficiencies, and optimise overall assurance to the audit and risk committee, within the municipality's risk appetite.
Framework	The Local Government Risk Management Framework.
Fraud and Risk Management Committee (FARMCO)	A committee appointed by Council to govern (guide, monitor and review) the municipality's system of risk management.
Governance	The act of directing, controlling and evaluating the culture, policies, processes, laws, and mechanisms that define the structure by which municipalities are directed and managed.
IIA	The Institute of Internal Auditors
Integrated risk management (IRM)	A continuous, pro-active and systematic process to understand, manage and communicate risk from a municipal-wide perspective in a cohesive and consistent manner. It requires an ongoing assessment at every level and in every sector of the

	<p>municipality, aggregating these results at the executive level, communicating them and ensuring adequate monitoring and review.</p>
Internal Audit	<p>An independent, objective assurance and advisory service designed to add value and improve a municipality's operations. It helps a municipality accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.</p>
King IV report	<p>King 4 report on corporate governance in South Africa, 2016, and specifically part 6.2: Supplement for municipalities.</p>
Management	<p>Management refers to the group of people responsible for directing, coordinating, and overseeing activities to achieve the municipality's goals. It includes different levels of management, top management (strategic level), middle management (tactical) and first line management (operational level).</p>
MFMA	<p>Municipal Finance Management Act (Act No. 56 of 2003), as amended.</p>
Municipality(s)	<p>A local municipality is governed by a municipal Council elected by voters resident in the area. The Constitution defines the areas and topics for which municipal governments are responsible. National legislation divides this responsibility between the district municipalities and the local municipalities.</p>
Municipal Council	<p>Council of a municipality as referred to in Section 18 of the Municipal Structures Act, as defined in Section 1 of the MFMA.</p>
Risk	<p>Risk is about the uncertainty of events, including the likelihood of such events occurring and its effects, both positive and negative, on the achievement of the municipality's objectives. Risks include uncertain events with a potential positive effect on</p>

	the municipality (i.e. value creation opportunity) not being captured or not materialising.
Risk appetite	Risk appetite can be defined as the amount and type of risk that a municipality is willing to take in order to meet their strategic objectives. Municipalities will have different risk appetites depending on their maturity, location, culture and objectives. A range of appetites exist for different risks and these may change over time.
Risk management	Systematic and formalised processes to identify, assess, manage and monitor risks.
Risk Management Unit	A business unit responsible for coordinating and supporting the overall municipal risk management process, but which does not assume the responsibilities of management for identifying, assessing and managing risk.
Risk Owner	The person accountable for managing a particular risk.