Meaningful, Coherent and Well Positioned Assurance

December 2014
Contents

What is the exam question? 3
Assurance: What is it? 4
What is good practice? 5
Assurance in an Accounting Officer context 6
Assurance in an Audit Committee context 7
Business Assurance: The Key Principles 8
Business Assurance: Choosing the right sources 9
The Key Phases 10
The Delivery Environment 12
Identifying Sources (Phase 1) 14
Analysing Current Sources (Phase 2) 16
Process Mapping (Phase 3) 18
What does an assurance map look like? 19
HM Treasury's view on Assurance Framework 21
Potential risks to achieving "success" in building a coherent assurance map 22
What is the exam question?

How do you seek assurance that services being delivered by you or on your behalf are being delivered effectively?
The risk background?

- Public bodies facing new risks and of a higher scale
- Skills and expertise of officers and members may not be adequate
- Political cycle creates challenges for effective decision making
- Application of risk management techniques is often not sufficiently mature

…It's easier to identify and codify risk than it is to agree a coherent, strategic, organisation wide response to managing and mitigating risk.
Some War stories

It's easy to get 'blinded' by the evolution of governance practices in any organisation:

• Care Plan example – beware of KPIs
• Council internal audit plan example
• NHS Trust deficit example
• The dominant leader

…avoid 'tick box' approaches
…'blank sheet' – forget what you think you know
…be sceptical
…foster a culture of 'no blame' and constructive challenge where possible across your organisation
Why assurance mapping

• Firstly, know your risks
• Focus on what's important in managing those risks
• Understand in detail how you gain assurance in relation to the management of your risks
  …don't assume you know the answer to this, you're probably wrong!

• Avoid duplication of assurances (you'll be surprised how much there is!)
• Identify gaps in knowledge and assurance

If your organisation is facing significant risks which management do not understand or don't manage then it's more likely to lead to service failure.
Assurance: what is it?

1. A statement or indication that inspires confidence

2. A guarantee or pledge

3. Freedom from doubt; certainty
What is good practice?

In order to assess the requirements for resources and funding for assurance purposes, the board should annually prepare or update an assurance map which should as a minimum:

- Document the people to whom assurance is provided (e.g. regulators, investors, customers and so on). The nature of the assurance, how that assurance is to be provided, how the board is going to satisfy itself that the assurance that is being provided is truthful, correct and appropriate in all circumstances.

- Document the manner in which the board will seek and obtain assurance that what they are told is happening in respect of the business is indeed happening in order to discharge the assurance aspects of their Corporate Governance duties to exercise risk management oversight.

- Document the way in which the board is assessing, monitoring and managing the risk management culture, and progress towards becoming a risk intelligent organisation.
Some perceptions from public bodies…

'Assurance feels shallow'… I am not clear on 'what is should feel assured about.'

'It is not a planned activity in the way.. most IA departments prepare an annual plan.'

'There is rarely an overall, documented plan for the totality of assurance that is required at the board level.'

'At the moment there is a sense in which assurance simply happens.'
Assurance in an Audit Committee context: Some perceptions:

- Focussing on the right areas? – too many papers
- complacency?
- Audit vrs Scrutiny – who is responsible for risk?
- Some risk areas receiving duplicate coverage with conflicting messages
- Some assurances not being received
Business Assurance: The Key Principles

• Understand what assurance means:
  - Not just a cosy feeling
  - A real understanding of the strengths and weaknesses which exist regarding risk, control and governance

• Principles of assurance:
  1. Planning to gain assurance
  2. Making explicit the scope of assurance boundaries
  3. Evidence
  4. Evaluation
  5. Reviewing and Reporting
'in no case was it clear exactly how these controls might mitigate the risk effectively. The existence of a policy or strategy is really just a corporate statement of intent …. The committee needs actively to monitor the action plan associated with a particular risk.'

'Sources of assurance should be regularly reviewed to ensure they are still relevant.'

'boards should take a greater lead in improving and assuring themselves about the quality of the data they receive and that their organisation publishes.'
## Business Assurance: Choosing the right sources

<table>
<thead>
<tr>
<th>Risk</th>
<th>Performance Management</th>
<th>Assurance by managers</th>
<th>Risk Management</th>
<th>Other sources of assurance</th>
<th>Regulator</th>
<th>Internal Audit</th>
<th>External Audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk 1</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Risk 2</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Risk 3</td>
<td></td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Risk 4</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

© 2014 Grant Thornton UK LLP. All rights reserved.
The Key Phases...

**Phase 1**

*Identify Sources of Assurance*

- Understand sources of assurance
  - Internal, e.g. Internal Audit, Management
  - External, e.g. Regulators,
- Interview key stakeholders

**Phase 2**

*Analysis of Independent and Internal Assurances*

- Desktop review
  - Understand:
    - Nature/Mechanism e.g. letter, statement, report
    - Provider
    - Timing and frequency
    - Recipient

**Phase 3**

*Presentation of Assurance Map*

- Process map
  - Shows how assurances feed/meet assurance stakeholder needs
  - May show duplication/gaps in assurance

Output is understanding of assurance sources....

Output is a map of assurances....

Output is map demonstrating how assurances feed assurance needs....
Example Case Study (Assurance Map) 1
The Delivery Environment
Context – Scottish Council

• One, significant, pervasive red risk within the Strategic Risk Register

• Difficult political working relationships and concerns expressed about governance

• Lack of clarity about the role and effectiveness of some committees

• Internal audit traditionally focused on financial systems and no convergence with risk management processes
Our approach: three lines of defence model

1st line of defence
- Business management
- Management controls
- Internal control measures

2nd line of defence
- Management oversight
- Risk management
- Financial control
- Policies/Compliance

3rd line of defence
- Independent assurance
- Internal audit
- External audit
- Regulators

Audit Committee/Council

Senior management
Identifying sources of assurance for strategic risks

1st Line
- Service planning
- Performance information system
- Procedures
- Departmental management reporting
- Exception reporting

2nd Line
- Policies
- Senior Management Team
- Strategic Risk Group
- Committee reporting
- Working groups
- Community Planning

3rd Line
- Recent internal audit reviews and level of assurance
- External audit coverage
- Inspection reports
Our assurance map:

description of strategic risk and current assessment

description of current reporting lines / sources of assurance to highlight gaps and potential duplication

our assessment and proposed improvements
Findings

• The existence of a committee is not in itself a control – the Council needs to monitor the effectiveness of mitigating actions associated with each risk

• Duplication of performance reporting – but not clear evidence of effective scrutiny at any level

• Gaps in assurance, and in internal audit coverage to feed into 2015-16 internal audit plan
The Delivery Environment
Identifying Sources (Phase 1)
Analysing Current Sources (Phase 2)
Analysing Current Sources (Phase 2)
Process Mapping (Phase 3)
### What does an assurance map look like?

<table>
<thead>
<tr>
<th>First line of defence: Management control &amp; reporting</th>
<th>Second line of defence: Functional oversight/Governance</th>
<th>Third line of defence: Independent review/Assurance/Regulatory oversight</th>
<th>Internal Audit Coverage</th>
<th>Summary &amp; next steps</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategy</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic business plan</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stakeholder engagement</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Governance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality and availability of management information</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clinical Governance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information Governance / Security</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Governance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Core Quality Commission Standards</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business continuity/Disaster Recovery</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk management process</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health and Safety</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clinical Audit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fraud (fraud risk management, whistleblowing LFT)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local security management service (LMS)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Claims</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Complaints</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and Development</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intellectual Property</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

© 2014 Grant Thornton UK LLP. All rights reserved.
Example Case Study (Assurance Map) 2
HM Treasury's view on Assurance Framework
## Potential risks to achieving "success" in building a coherent assurance map

<table>
<thead>
<tr>
<th>Risk</th>
<th>Mitigating strategy</th>
</tr>
</thead>
</table>
| Output delivered does not meet the Board's expectations             | Agreement of scope, boundaries and nature of output with Board and Executive Sponsor  
Lack of Executive buy in to the process                                  | Sign off that each stage has been appropriately completed                                                                                           |
| Wasted time in undertaking work that duplicates risk information that already exists | Close collaboration and sense check with risk management at each stage of process                                                                                     |
| Undertake project against inappropriate key business risks         | Confirm key business risks through robust consultation with broad stakeholder group                                                                                           |
| No way of distinguishing whether assurance being received is appropriate for each risk | Assurances to be categorised through detailed review together with an initial assessment of whether they are in "first", "second" and "third" line of defence  |
| Assurance sources may be missed                                      | Robust early discussion to identify all key assurance providers. This will be refreshed at each stage to identify gaps.                                                                                   |
| No way of linking assurance to risk                                  | Both risks and controls identified through consultations to enable thorough assessment of available assurance against range of controls                                    |
| Staff below executive management level do not buy into the process and believe it is a box ticking exercise | Engagement of staff below executive team in the risk and control identification process  
Presentation back to staff after completion of process to engage them in agreeing the risk and control assessment outcomes from the process               |
| Process is seen as a one off and one that doesn’t really change anything | Post completion of project, there should be regular top management communication to demonstrate how the process is leading to change  
Internal Audit should follow up to assess the impact                                                                 |

© 2014 Grant Thornton UK LLP. All rights reserved.