

INTEGRATED ASSURANCE

Three lines of defence model



Background

The Finance Fit project has been launched with the objective of managing delivery of a modern, fit for purpose, cost efficient, cost effective and customer focused Finance Service.

The project is managing a number of workstreams, one of which under the Assurance Workstream is a review of risk management activities and processes in order to improve the use of risk management as a business driver.

As part of the review, the Corporate Risk Team, working in collaboration with Devon Audit Partnership developed a risk perception questionnaire which was sent out to all 3rd tier managers in July 2016. Assistant Directors were also interviewed to get their views on the current risk management strategy and any areas they would like to see develop.

One of the key areas for improvement that came out of this review was the lack of integration of risk information with other corporate processes such as performance and finance monitoring.

It also became apparent that the collaboration work with DAP could be expanded upon to map sources of assurance over key risks and controls and streamline activities which will also help to ease the burden of lengthy mandatory agenda items at Audit Committee.

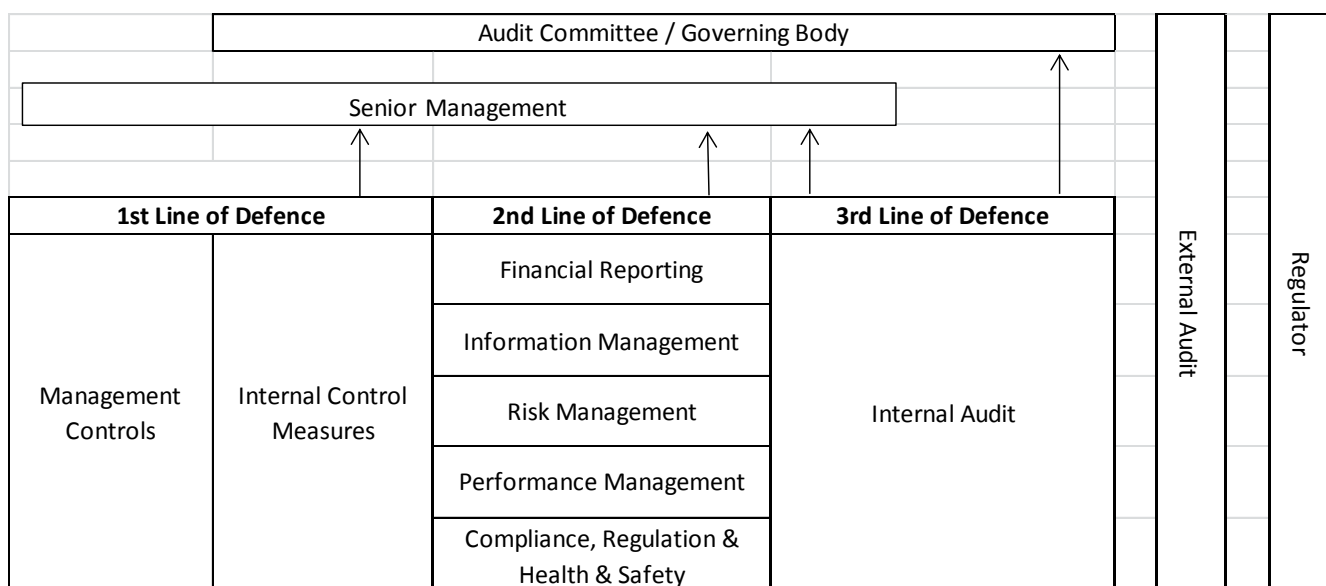
Integrated Assurance

The creation of the new Integrated Assurance Service will result in risk management being formally aligned and working alongside other compliance functions to promote a joined-up approach to all aspects of governance.

The Institute of Internal Auditors released a position paper in 2013 stating that the “Three Lines of Defence” model provides a simple and effective way to enhance communications on risk management and control by clarifying roles and responsibilities.

The Three Lines of Defence

The three lines of defence model can be used as the primary means to demonstrate and structure roles, responsibilities and accountabilities for decision making, risk and control to achieve effective governance and assurance. The diagram below shows the relationship between these functions:-



First Line of Defence – Management Controls and Internal Control Measures

Line management are responsible for ensuring that a risk and control environment is established as part of day to day operations. Line management should be adequately skilled to create risk definitions and make risk assessments. The risk profile needs to be proactively reviewed, updated and modified for changes to the business environment and emerging risk changes. Active risk management and periodic reporting on risk is crucial to quick identification and response.

The first line of defence provides management assurance by identifying risks and business improvement actions, implementing controls and reporting on progress.

Second Line of Defence – Oversight Functions

The second line of defence consists of activities covered by several components of internal governance. This line of defence monitors and facilitates the implementation of effective risk management practices by operational management and assists the risk owners in reporting adequate risk related information up and down the organisation. These are usually management functions that may have some degree of objectivity, but are not entirely independent from the first line. More detail is provided below:-

Financial Reporting

Financial Regulations provide the framework for managing the Council's financial affairs. They apply to every member, committee, school governing body, department, officer, partner, employee of the Council, and anyone acting on behalf of the Council. The Responsible Finance Officer (Section 151 Officer) carries out the statutory duties in relation to the financial administration and stewardship of the Council. Departmental finance managers are required to bring the Responsible Finance Officer's attention to any section 151 issue they are unable to resolve.

Information Management

Like its people, information is a key Council asset. Information management is how our information is collected, used, evaluated, protected and distributed. Information must be obtained, handled, retained and disposed of in line with organisation guidelines.

Information practices must help to improve the efficiency of the services offered by the Council.

Risk Management

Risk and Opportunity Management can be defined as the culture, processes and structures that are key to the effective management of potential opportunities or threats to an organisation in achieving its objectives and delivering services to the community. Good risk management and the actual taking of risks in some cases are critical for a council with an ambitious vision and a difficult financial terrain to negotiate. All members, managers, employees and partners must understand the nature of risk and accept responsibility for managing those risks associated with their area of activity in line with the Risk and Opportunity Management Strategy.

Performance Management

Managing employee or system performance and aligning their objectives facilitates the effective delivery of strategic and operational goals and maintains transparency. Effective performance management can also provide an early warning indicator so that issues can be resolved before they become a risk to the achievement of objectives.

Compliance, Regulation & Health and Safety

Adequate compliance monitoring is required in order to ensure we are working within applicable laws and regulations in areas such as health and safety, supply chain, business continuity, civil protection, statutory complaints, environmental, anti-fraud, legal, safeguarding, HR and equalities.

Third Line of Defence

Internal audit forms the third line of defence. An independent internal audit function will, through a risk-based approach to its work, provide assurance to the organisation's senior management. This assurance will cover how effectively the organisation assesses and manages its risks and will include assurance on the effectiveness of the first and second lines of defence. It encompasses all elements of the council's risk management framework (from risk identification, risk assessment and response, to communication of risk related information) and all categories of organisational objectives.

External Auditors and Regulators

External auditors and regulators reside outside the council structure but have an important role in the overall governance and control structure by providing an independent and objective function to assess the whole, or some part of the first, second or third line of defence.

Audit Committee's Role

All three lines of defence have specific tasks in the internal control governance framework. It is the Audit Committee's role to maintain oversight and to monitor the effectiveness of internal controls and risk management processes, as well as internal audit activities.

Assurance Maturity

The following 5 key areas of assurance can be used to map assurance maturity:-

1. Internal Control Environment

Ensure there are defined policies and practices in place in relation to staff integrity and the ethical values of the council and that they are reviewed, communicated and adhered to. Monitor management philosophy and operating style. Ensure there is defined organisational structure and assignment of authority and responsibility and that staff are adequately trained to fulfil their role.

2. Risk Management & Assessment

Monitor strategic, operational and project risk registers to ensure risks to key objectives have been adequately identified, analysed, ranked and understood either through dedicated risk assessment or continuous program analysis.

3. Control Activities

Monitor the policies, procedures, techniques and mechanisms that help ensure that management response to reduce risks to achievement of objectives is carried out

4. Information & Communication

Ensure all information is accurate, valid, reliable, timely, relevant, comprehensive and complete in delivering, managing, planning and monitoring high quality, safe services.

5. Monitoring Activities

Determine that processes, activities and resources are complicit with standards and procedures that are delivered by the council.

Monitor management procedures which, through information and evidence, provide feedback on performance. Monitor arrangements for assessment of lessons learnt and any subsequent policy changes. Monitor procedures that provide information about the impact of changes in one area on the wider governance arrangements of the council.

The Next Steps

A risk management software scoping exercise has been undertaken as part of the risk management review. The system currently used within the Portfolio Team to record project management risks – Project Server + was considered a viable solution as it can be adapted to store corporate risks which will provide 'one version of the truth', streamline the risk monitoring process and make reporting easier.

A trial of Project Server + will take place once the ICT platform has been enabled.

Further collaboration work will take place with colleagues within DAP to begin gathering information to enable an operating model to be planned to implement the Three Lines of Defence model.

Conclusion

The challenges arising from the current economic situation and potential changes in legislation will increase the pressure on organisations to adopt a robust governance framework and the need to sustain a good relationship and communication between management, internal audit and the audit committee.

The Three Lines of Defence model provides an effective way to enhance communications on risk management and control by clarifying essential roles and duties. It provides a fresh look at operations helping to assure the ongoing success of risk management activities. The key benefits of integrated assurance are:-

- Combined reporting
- Overview of key risks and core assurance providers
- Refocused internal audit plan on the right areas
- Improved relationships with other assurance providers
- Avoidance of duplication of effort through separate audit / controls testing
- Less management time investment through liaising with multiple teams
- Cost synergies
- Improved reporting